HSBC *Purchasing Managers' Index*™ 2012

compiled by markit

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SABB HSBC Saudi Arabia PMI™

PMI indicates strongest improvement in health of non-oil economy for nine months

Key findings:

- PMI highest since July 2011 as growth rates of both new orders and output improves
- Purchasing activity joint-strongest in survey history
- Headcounts rise at fastest pace for 11 months

The Saudi British Bank "SABB" has published the results of the headline SABB HSBC Saudi Arabia Purchasing Managers' Index™ (PMI™) for April 2012 – a monthly report issued by the bank and HSBC. It reflects the economic performance of Saudi Arabian non-oil producing private sector companies through monitoring a number of variables, including output, orders, prices, stocks and employment.

April PMI data was reflective of strong demand conditions in the Saudi Arabian non-oil private sector economy. Growth of both output and new business accelerated from March readings, taking the latter above its series trend. Furthermore, firms demonstrated their confidence in current and future business conditions by taking on new staff, increasing purchasing activity and accumulating stocks. Greater demand did push prices higher, however, with purchasing costs and salaries increasing on the month.

Rising from March's reading of 58.7, the headline PMI posted 60.4 in April. Registering above the series trend, it was the highest reading for nine months, and signalled another marked improvement of operating conditions across the KSA non-oil private sector.

New business rose markedly during the latest survey period, and at an accelerated rate. Respondents commented on improved demand conditions and more business from Government contracts. Data suggested that the domestic market remained a key driver of new order growth.

To accommodate gains in new business, KSA non-oil private sector firms raised output during April. The rate of growth was sharp and above the trend for 2012 so far.

With new order growth continuing to outstrip the expansion in output, levels of unfinished business continued to build at KSA non-oil private sector companies. The accumulation of backlogs was solid, and the seventh in as many months.

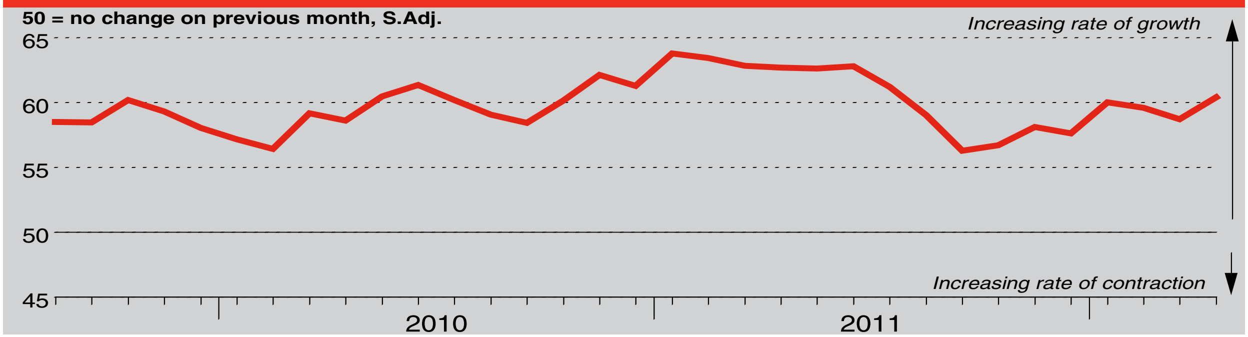
In order to keep up with rising business requirements, companies raised both employment and purchases during April. Job creation was the most marked for nearly a year, while buying activity increased at a joint series-record pace.

Despite greater pressure on suppliers, average vendor performance improved at a strong pace in April. Delivery times were reduced for the ninth consecutive month.

As a result of higher acquisitions, input stocks at Saudi Arabian non-oil private sector firms accumulated at a steeper pace. Panellists stated that holdings were increased as expectations of new order growth were positive.

Cost inflation accelerated during April to a new survey record, pushed up by higher purchasing prices for raw materials and fuel, as well as higher staff costs. To protect profit margins, and in light of strong demand, non-oil private sector firms increased their own tariffs at a solid pace.

SABB HSBC Saudi Arabia *Purchasing Managers' Index*™ *(PMI™)*

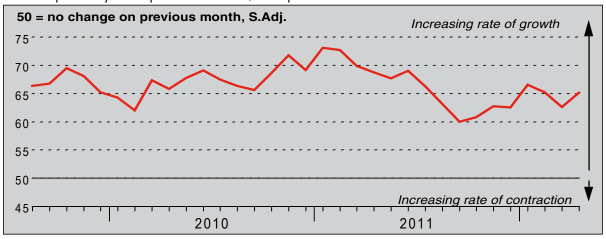


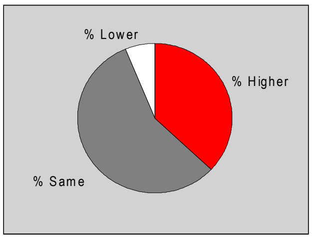
The SABB HSBC Saudi Arabia Purchasing Managers' Index (PMI) is a composite indicator designed to provide an overall view of activity in the Saudi Arabia non-oil private sector economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery times and stocks of goods purchased. A reading of the PMI below 50.0 indicates that the economy is generally declining; above 50.0, that it is generally expanding. A reading of 50.0 signals no change. The greater the divergence from 50.0, the greater the rate of change signalled by the index. *Purchasing Managers' Index*™ and *PMI*™ are trade marks of Markit Economics Limited, HSBC use the above marks under licence. Markit and the Markit logo are registered trade marks of Markit Group Limited.

SABB ساب Local vision, international expertise HSBC

Output Index

Q. Please compare your production/output this month with the situation one month ago.

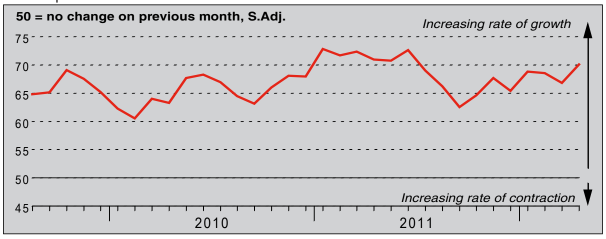


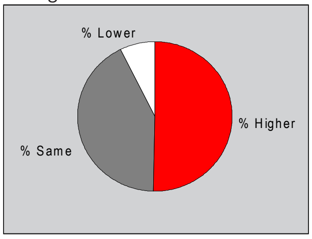


Saudi Arabian non-oil private sector output continued to rise at the start of Q2, with panellists linking growth to gains in new work. Although still below the series trend, the rate of increase accelerated notably from March, with 37% of monitored firms reporting higher output Anecdotal evidence also attributed the rise in output to positive expectations of economic conditions.

New Orders Index

Q. Please compare the level of new orders received this month with the situation of one month ago.

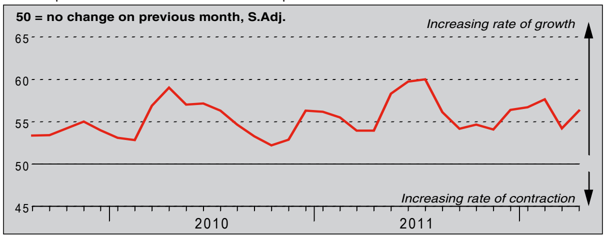


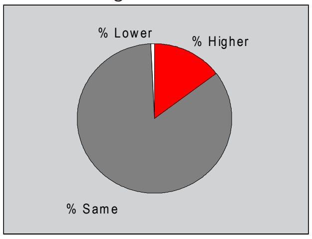


New business received by KSA non-oil private sector firms rose at a quicker pace in April. The rate of growth was above the series trend, with over half of all respondents noting an increase. Panellists mostly linked inflows of new work to an improved economic environment, marketing activities and a rise in government spending.

New Export Orders Index

Q. Please compare the level of new export orders received this month with the situation of one month ago.

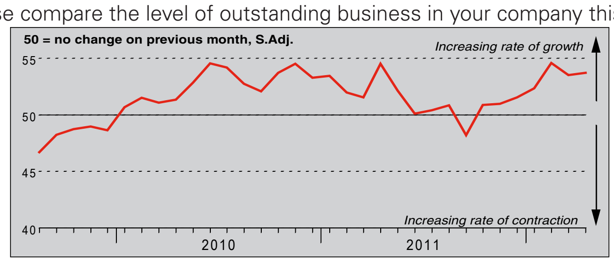


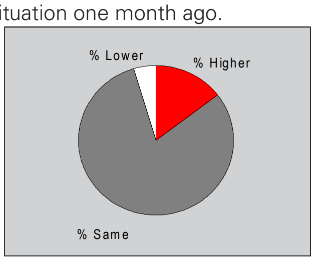


Latest data suggest that foreign demand for Saudi Arabian non-oil private sector goods and services was strong in April. The seasonally adjusted New Export Orders Index rose from March, signalling a robust and faster rate of increase in new business from abroad. Reports indicate that sales for some companies were particularly strong in Bahrain and China, supported by marketing and favourable business conditions.

Backlogs of Work Index

Q. Please compare the level of outstanding business in your company this month with the situation one month ago.

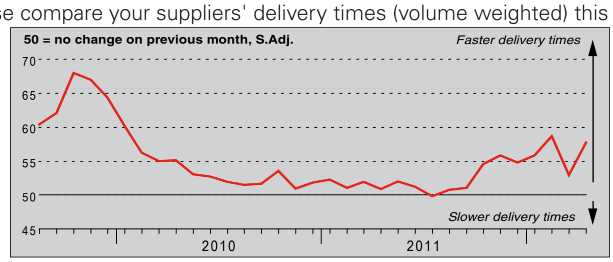


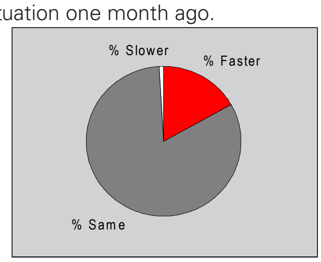


As new order growth continued to outstrip the expansion in output, another build-up of unfinished business was recorded at KSA non-oil private sector companies in April. Work-in-hand was accumulated for the seventh month running, and at a solid pace. Approximately 15% of monitored businesses noted higher backlogs of work than in March, while less than 5% registered lower levels.

Suppliers' Delivery Times Index

Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.

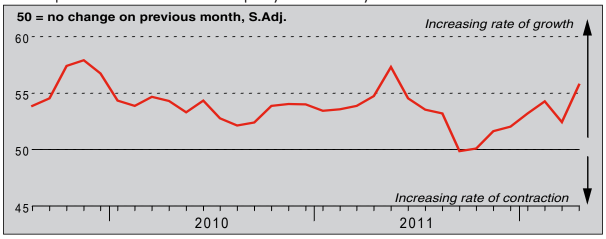


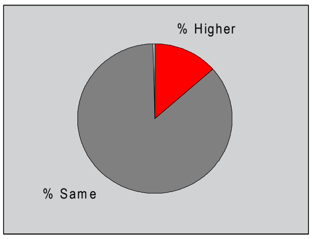


Vendor performance continued to improve during the latest survey period. Furthermore, lead times shortened at the second-sharpest rate for 27 months. According to the latest anecdotal evidence, the quickening in the rate of improvement reflected stronger competition amongst vendors efficient service, implementation of new technology and good relationships with suppliers.

Employment Index

Q. Please compare the level of employment at your unit with the situation one month ago.

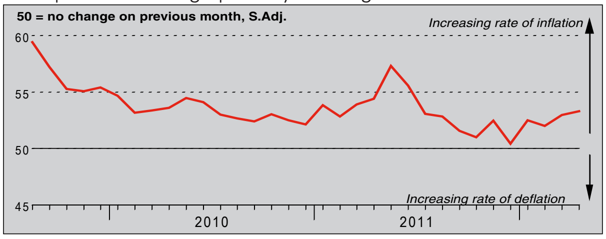


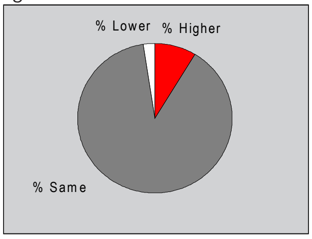


Job creation at Saudi Arabian non-oil private sector companies picked up during April. The latest increase was strong, and the most marked since May 2011. Survey participants indicated that the continued rise in business requirements and Saudization policies were the key factors behind employment growth. Approximately 14% of businesses registered a rise in headcounts, while less than half a percent recorded a fall.

Output Prices Index

Q. Please compare the average prices you charged this month with the situation one month ago.

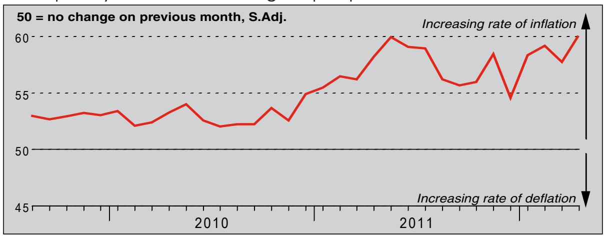


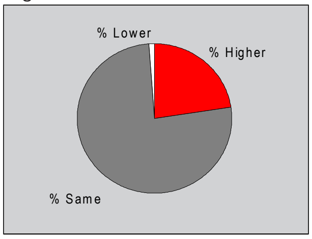


KSA non-oil private sector companies raised their charges in April, maintaining the series trend. Furthermore, the rate of inflation continued to gain pace, reaching the fastest for ten months. The principal reason for higher output prices, according to respondents, was increased input costs. Greater demand was also noted as an inflationary factor.

Overall Input Prices Index

Q. Please compare your overall average input prices this month with the situation one month ago.

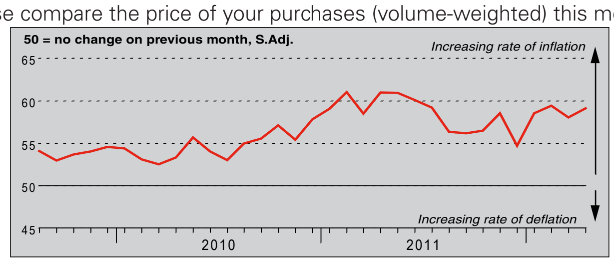


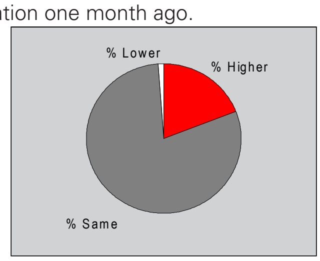


Reflecting sharper rises in both purchasing and staff costs, overall input price inflation in the Saudi Arabian non-oil private sector accelerated to a series record pace in April. The former remained the main driver of increases in total input costs. Approximately 23% of monitored companies recorded higher overall input prices, while just 1% registered a reduction.

Input Costs: Purchase Prices Index

Q. Please compare the price of your purchases (volume-weighted) this month with the situation one month ago.

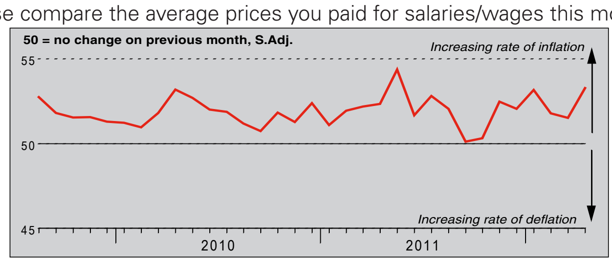


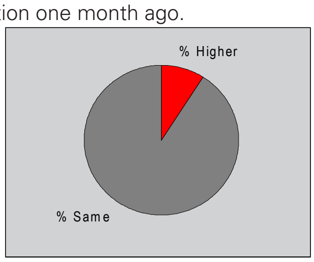


The seasonally adjusted Purchase Prices Index rose in April, to indicate a stronger rate of inflation. KSA non-oil private sector firms reported that greater raw material and fuel costs – partly resulting from political tensions in major oil-producing countries in the Middle East, as well as unfavourable exchange rate movements – pushed up average input prices during the latest survey period.

Input Costs: Staff Costs Index

Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.

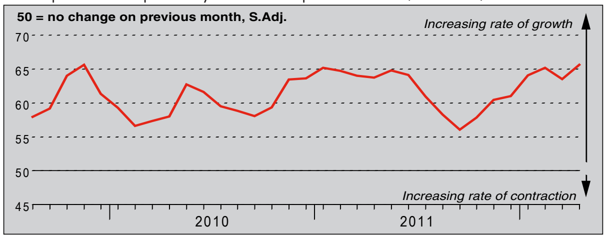


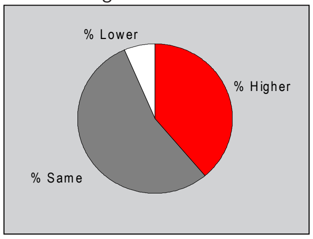


Staff cost inflation across the Saudi Arabian non-oil private sector picked up during April, reaching an 11-month high. The rate of increase was also above the series trend. Reports show that good business performance was the main reason for increased wages and salaries. Just over 9% of respondents signalled inflation of staff costs in April.

Quantity of Purchases Index

Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.

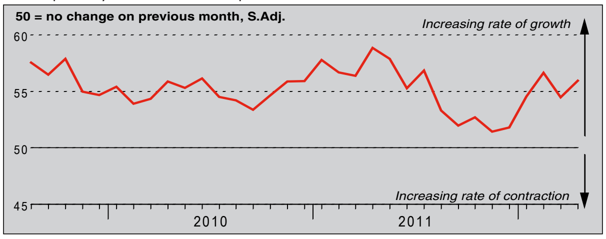


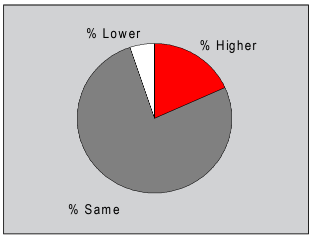


Saudi Arabian non-oil private sector companies continued to raise their buying activity during the latest survey period. Around 39% of the survey panel recorded an increase, stating good business conditions and expectations of further new order growth in the near future. Furthermore, the rate of expansion was a joint series-record high.

Stocks of Purchases Index

Q. Please compare your stocks of purchases (in units) with the situation one month ago.

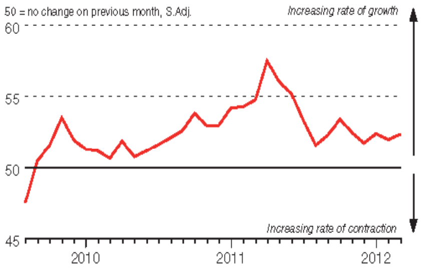




Input stocks at KSA non-oil private sector companies rose at a robust pace in April. While the rate of growth accelerated from March, it remained below March's seven-month high. Panellists indicated that higher inventories were necessary to accommodate current business requirements and expectations of increased new work in the next 12 months.

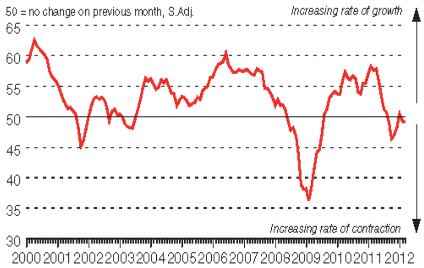
International PMI summary

UAE Purchasing Managers' Index™



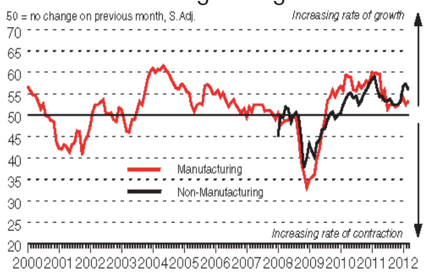
Source: Markit.

Eurozone Purchasing Managers' Index™



Source: Markit.

US Purchasing Managers' Index



March saw another moderate improvement in UAE non-oil private sector operating conditions, rounding off a positive start to the first quarter of 2012. Output and new orders both continued to increase, while jobs growth picked up to a five-month high. The HSBC United Arab Emirates PMI™ climbed slightly from 52.0 in February, to 52.3.

At 49.1 in March, the Markit Eurozone PMI® Composite Output Index fell to a three-month low. The average reading of 49.6 in the first quarter was nonetheless an improvement on the average of 47.2 seen in the final quarter of last year. Service sector business activity fell for the second month running in March, while manufacturing output contracted for the first time in three months.

The ISM US Manufacturing PMI rose to 53.4 in March from 52.4 in February, signalling a solid improvement in manufacturing operating conditions. Completing a strong first quarter, the Non-Manufacturing Index posted 56.0 in March. While business activity growth eased on the month, it remained marked, supported by a sharp rise in new orders

Notes on the Data and Method of Presentation

The Purchasing Managers' Index is based on data compiled from monthly replies to questionnaires sent to purchasing executives in approximately 400 private sector companies, which have been carefully selected to accurately represent the true structure of the Saudi Arabia economy, including manufacturing, services, construction and retail. The panel is stratified by Standard Industrial Classification (SIC) group, based on industry contribution to GDP. Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

The *Purchasing Managers' Index™ (PMI™)* is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times index inverted so that it moves in a comparable direction.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease. Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

Warning