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SABB HSBC Saudi Arabia PMI™

Sharpest rise in new orders for 11 months supports continued growth in May.

Key findings:

- · Continued improvement in market conditions led to further marked rise in new business
- Cost pressures remained elevated

The Saudi British Bank "SABB" has published the results of the headline SABB HSBC Saudi Arabia Purchasing Managers' Index™ (PMI™) for May 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.

Demand for Saudi Arabian private sector goods and services remained strong in May, with new orders rising at the fastest rate for almost a year. Output and employment levels were increased over the month as a result, though rates of growth in each case were slightly slower than in April. Inevitably, cost pressures remained strong as demand pressures filtered through into both the materials and labour markets.

Saudi Arabia's non-oil private sector economy continued to expand at a robust pace during May. This was highlighted by the headline PMI posting at 60.4, unchanged since April's ninemonth high and above the historical series trend.

May saw new business placed at Saudi Arabian non-oil private sector firms increase at a marked and accelerated rate - the fastest in 11 months. Data showed that, while international sales continued to increase, the domestic market remained the predominant factor driving growth.

In line with a rise in new orders, KSA non-oil private sector

companies expanded production levels and recruited additional staff during May. In both cases, however, growth was slightly weaker than during the previous survey period. Anecdotal evidence suggested that job creation, in a number cases, also reflected expectations of increasing workloads in the coming months.

Despite a rise in staffing capacities, backlogs of work increased for the eighth month in a row during May. The rate of growth was broadly unchanged since April, and faster than the series average.

Slowing only slightly on April's series-record high, cost inflation facing Saudi Arabian non-oil private sector firms remained sharp in May. Both purchase prices and staff costs increased over the month, the former again at the faster rate. Inputs reported to be up in price included food, oil and steel.

With demand remaining strong, KSA non-oil private sector firms were able to pass on at least part of the burden of higher costs to clients. Charge inflation rose to the strongest for 11 months.

Further highlighting expectations for growth in the near term, businesses stepped up their purchasing activity and accumulated stocks of inputs at the sharpest rate for a year. Despite this, competition among vendors ensured that their delivery performance improved, with lead times shortening for a tenth successive month in May.



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' IndexTM and PMITM 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.



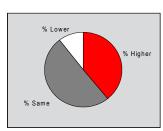




Output Index

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



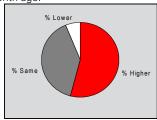


May saw a below-trend expansion in Saudi Arabian non-oil private sector output, with growth slowing slightly since the previous survey period. Still, around four times as many survey respondents registered higher output levels than recorded a fall. Anecdotal evidence associated the latest rise in output with growth in incoming new business.

New Orders Index

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

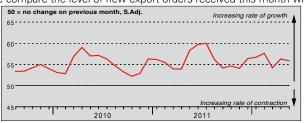


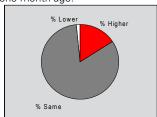


Latest data pointed to a marked and firmer rise in new work placed at KSA non-oil private sector businesses. The increase was the strongest for 11 months, and faster than the average recorded throughout the series history. Where new order inflows increased since April, this was commonly linked by panel members to a general improvement in market conditions.

New Export Orders Index

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



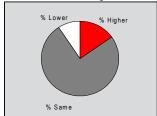


Demand for Saudi Arabian non-oil private sector goods in international markets continued to grow during May, with new export orders up on the month. Growth was marginally weaker than in April, though still broadly in line with the series average. Respondents indicated that new business had been in won in Bahrain and Qatar.

Backlogs of Work Index

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





Backlogs of work at KSA non-oil private sector companies increased again during May, extending the current sequence of accumulation to eight months. The seasonally adjusted index was little changed since the previous survey period, and above the average recorded over the series to date. Higher levels of work-in-hand were generally the consequence of rising new order inflows, according to anecdotal evidence.

Suppliers' Delivery Times Index

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



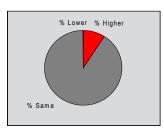


Businesses operating in Saudi Arabia's non-oil private sector reported an overall reduction in the time taken for suppliers to deliver inputs in May, and widely linked this to competition among vendors. Over 11% of respondents registered quicker vendor lead times, against roughly only 3% that recorded a deterioration. The rate of improvement in supplier performance was, however, slower than in April.

Employment Index

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



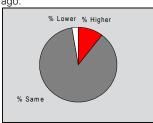


Employment at KSA non-oil private sector companies increased for the eighth month running in May. The overall rate of job creation was slower than in April, but still faster than the average recorded throughout 2012 so far. Firms generally increased payroll numbers in line with expanding workloads, although there were also reports of net staff hiring in anticipation of continued growth.

Output Prices Index

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



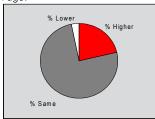


Prices charged by Saudi Arabian non-oil private sector companies increased again in May, with the overall rate of output price inflation the fastest since last June. Where charges were raised since April, this was attributed by panel members to both demand-pull factors and sustained input price pressures.

Overall Input Prices Index

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



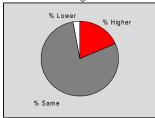


Overall input price pressures facing KSA non-oil private sector companies increased in May. Although slightly weaker than April's series-record high, total input price inflation remained comfortably above trend. As has been the case throughout the survey history, the rising cost of materials was the primary driver of cost inflation.

Input Costs: Purchase Prices Index

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



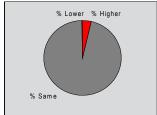


May data pointed a further increase in purchasing costs facing Saudi Arabian non-oil private sector companies, though the rate of inflation weakened since April to the slowest so far this year. Underpinning the latest increase in average purchase prices were rises in the cost of food, steel, oil and oil-related products, according to panel members.

Input Costs: Staff Costs Index

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



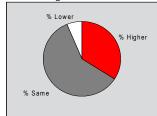


Maintaining the trend in purchase prices, staff costs increased at a slower rate in May. That said, the seasonally adjusted index still remained roughly in line with the historical series average. Firms that raised their average salaries over the month associated this with rising business volumes and corresponding increases in profitability.

Quantity of Purchases Index

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



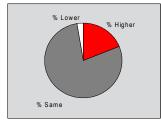


Purchasing activity across the Saudi Arabian non-oil private sector expanded further during May, reflecting increases in current output requirements and efforts to build stocks of purchased goods. That said, the rate of growth eased since April's high to the slowest since last December.

Stocks of Purchases Index

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

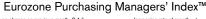




Pre-production inventories held by Saudi Arabian non-oil private sector companies accumulated at an accelerated rate during May, and one that was the fastest for 12 months. Close to 19% of respondents reported stocking greater volumes of inputs compared with the previous month, and associated this with a sustained improvement in business conditions and expectations of larger workloads in coming months.

International PMI summary

UAE Purchasing Managers' IndexTM 50 = no change on previous month, S.Adj. Increasing rate of growth 60 Increasing rate of contraction 45 2010 2011 2012





Source: Markit.

US Purchasing Managers' Index



Climbing to 53.5 in April, from 52.3 in March, the HSBC United Arab Emirates PMI™ reached a ten-month high. The latest reading signalled a solid and faster improvement in the health of the country's non-oil private sector. Sharper expansions were recorded in output, total new business, buying activity and employment, pointing to an improved business environment.

At 46.7 in April, down from 49.1 in March, the Markit Eurozone PMI® Composite Output Index signalled the fastest rate of decline since last October and one of the steepest contractions since mid-2009. Deeper downturns in output were signalled in both the manufacturing and service sectors, as the rates of contraction accelerated in both cases. Both sectors were hit by marked declines in new business.

The ISM US Manufacturing PMI improved for a second successive month in April, reaching a level of 54.8 from 53.4 in March. Growth has now been registered for 33 months in a row. Meanwhile, the Non-Manufacturing Index remained above the 50.0 no-change mark in April, but slipped to a four-month low of 53.5, down from March's 56.0.

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

Source: Markit.

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