HSBC *Purchasing Managers' Index*™ 2012

compiled by markit

Embargoed until: 08:30 (RIYADH) 5 August 2012

SABB HSBC Saudi Arabia PMI™

July sees PMI dip to lowest level since December 2011

Key findings:

- Headline index down on slower growth in output and new orders
- Rate of job creation unchanged since June
- Inflationary pressures soften

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

July data signalled a slight slowdown in the rate of expansion of Saudi Arabia's non-oil private sector economy. Output and new orders both grew at weaker rates, though job creation was maintained at a pace that was unchanged since the previous survey period. Meanwhile, rates of input and output price inflation were the weakest in 2012 so far.

Business conditions facing KSA private sector firms continued to improve during July, as signalled by the seasonally adjusted SABB HSBC Saudi Arabia Purchasing Managers' Index™ (PMI™) posting 58.1. However, down from 59.7 in June, the index was the lowest since last December and below the average recorded since data collection started three years ago.

Output levels and new order intakes both increased at slower rates in July – the weakest for nine and seven months respectively. Nevertheless, rates of growth in each case were still marked overall, with businesses continuing to add to their payroll numbers as a result.

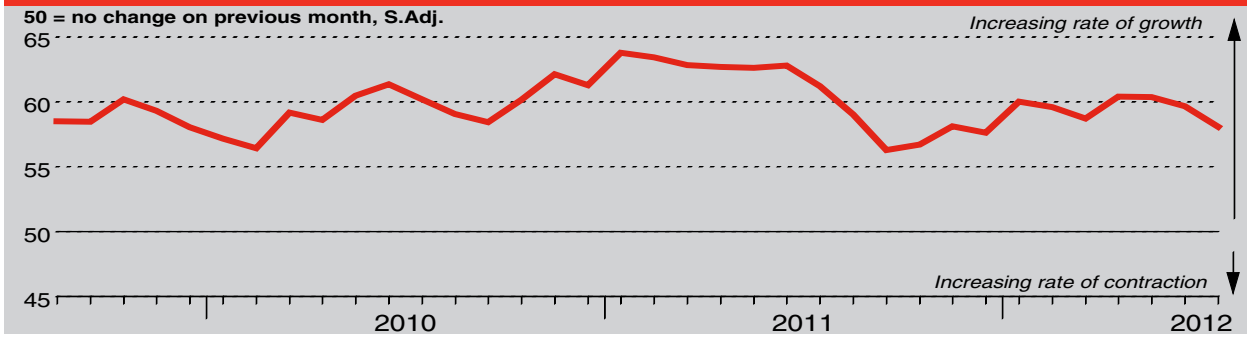
New orders placed with KSA private sector businesses from international clients increased again during July. However, growth was at a four-month low and down on the rate of expansion of total new business, implying the domestic economy remained a key factor behind ongoing expansion.

July saw backlogs of work decrease for the first time since last September, and for only the second month in a period that stretches back over two-and-a-half years. That said, the rate of decline was only marginal overall.

In line with the trends in activity and new business, purchasing activity and pre-production inventory levels at Saudi Arabia non-oil private sector firms both increased at slower rates during July. Meanwhile, data showed that suppliers' delivery times shortened for the twelfth consecutive month, and at a rate that was the steepest since April. Reports from survey respondents suggested that a combination of competition among vendors, buyer demands and improved payment practises had led to faster lead times.

Input price inflation eased in July to the slowest since last December, as both purchase prices and labour costs grew at slower rates. In fact, salaries and wages increased only slightly on average over the month. Output price inflation also eased to a seven-month low in July, and was only modest compared to the historical trend.

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



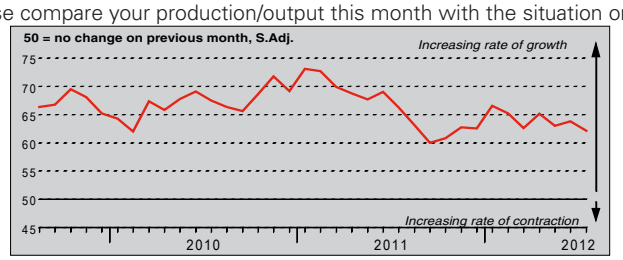
The SABB HSBC Saudi Arabia Purchasing Managers' Index (PMI) is a composite indicator designed to provide an overall view of activity in the Saudi Arabia non-oil private sector economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, 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.

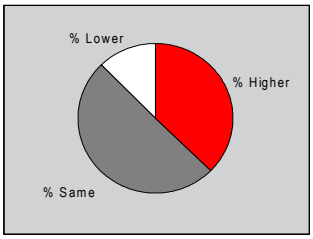
markit™ SABB سـاب HSBC

Local vision, international expertise

Output Index

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

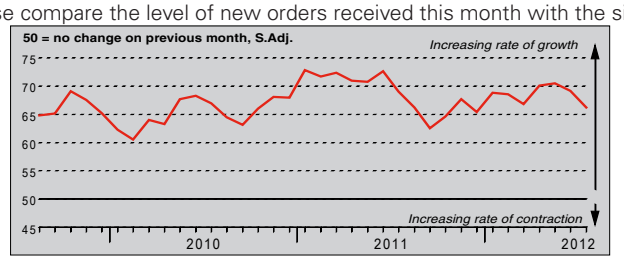


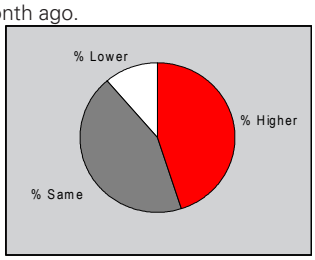


The rate of growth of activity in Saudi Arabia's non-oil private sector economy slowed in July to the weakest since October 2011. Still, around three times as many respondents reported a rise in output levels at their units than those that registered a decline. Anecdotal evidence suggested that activity had generally increased as a consequence of improving economic conditions and a corresponding rise in new orders.

New Orders Index

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

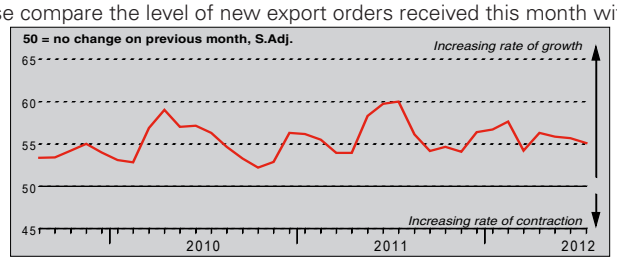


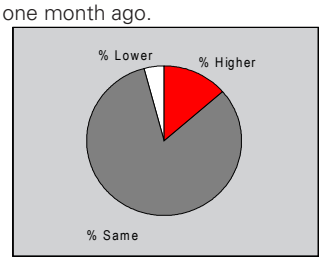


The seasonally adjusted New Orders Index dipped to its lowest level for seven months in July, and was also below the average recorded over the three-year series history (67.3). That said, the index remained comfortably above the 50.0 mark separating growth from contraction. A number of firms that registered higher new order intakes attributed this to increased marketing and sales efforts.

New Export Orders Index

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

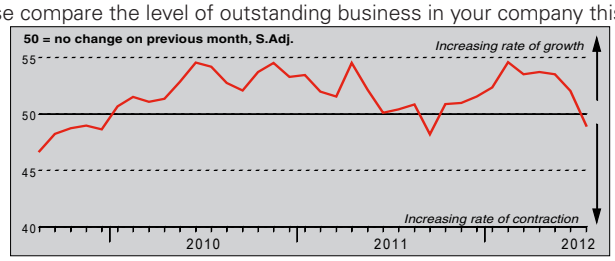


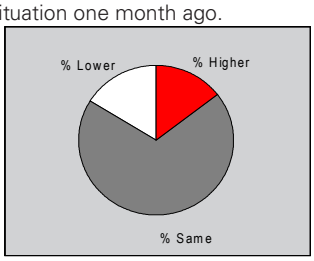


Saudi Arabia non-oil private sector businesses recorded a further increase in international new business inflows in July. The rate of growth was the slowest since March, but still solid overall. Almost 13% of surveyed firms registered a rise in new export orders over the month, against only 4% that recorded a reduction.

Backlogs of Work Index

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

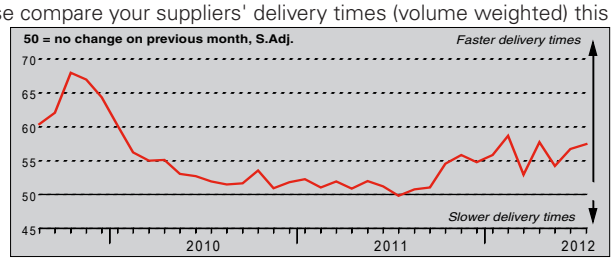


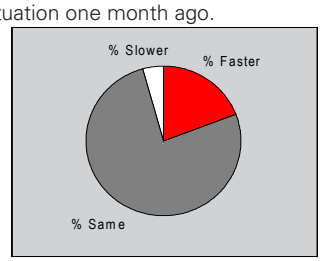


Work-in-hand in the KSA non-oil private sector decreased during July, thereby ending a nine-month sequence of accumulation. Anecdotal evidence suggested that a number of firms had made conscious efforts to complete outstanding orders at a faster pace. The overall rate of decline was, nevertheless, only marginal.

Suppliers' Delivery Times Index

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

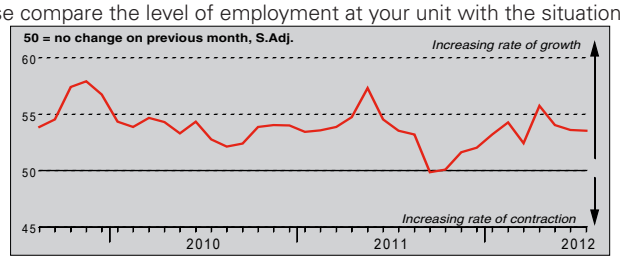


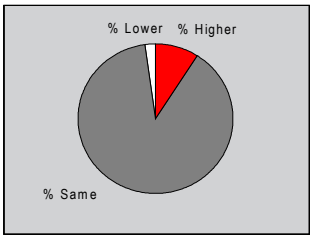


Latest data signalled that suppliers' delivery times continued to shorten during July. Moreover, the overall rate of improvement in vendor performance was the sharpest in three months, and steeper than the average recorded since data collection started three years ago. Reasons suggested for faster delivery times included competition among suppliers, improved payment procedures and stronger buyer demands.

Employment Index

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

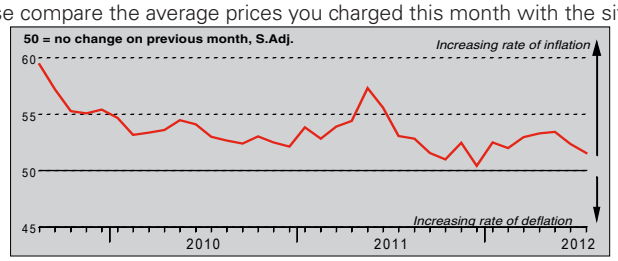


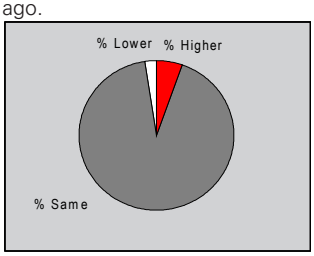


Adjusted for seasonal factors, the Employment Index was unchanged since the preceding survey period, signalling a further solid increase in payroll numbers across the KSA non-oil private sector during July. The rise in staffing levels was the tenth in successive months, and attributed by panel members to improving economic conditions and higher production requirements.

Output Prices Index

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

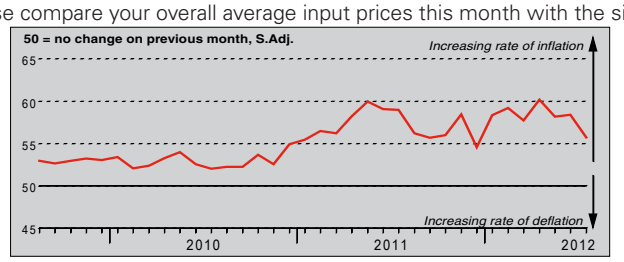


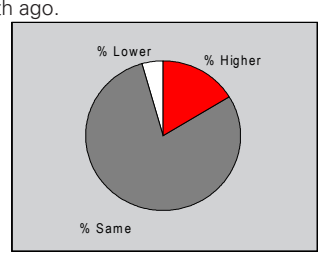


Charge inflation eased for the second consecutive month in July to the slowest in 2012 so far. Anecdotal evidence suggested that, while a number of firms had raised output prices in line with higher costs and strengthening demand, there were several instances where other businesses had offered discounts as part of efforts to improve their competitiveness and boost sales.

Overall Input Prices Index

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

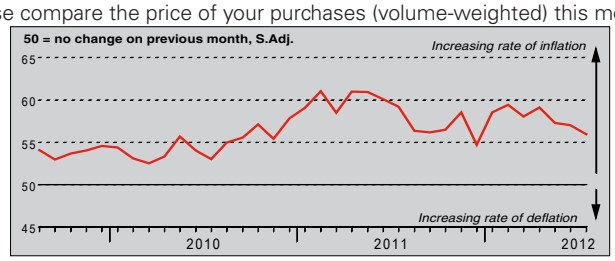


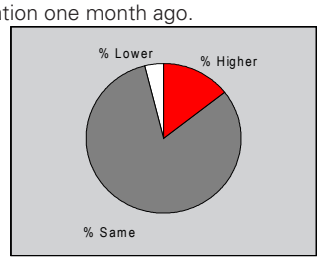


Overall input prices facing businesses operating in the Saudi Arabia non-oil private sector economy continued to increase during July, with both purchase prices and staff costs up on average over the month. That said, the rate of inflation slowed since the previous survey period to the weakest for seven months.

Input Costs: Purchase Prices Index

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

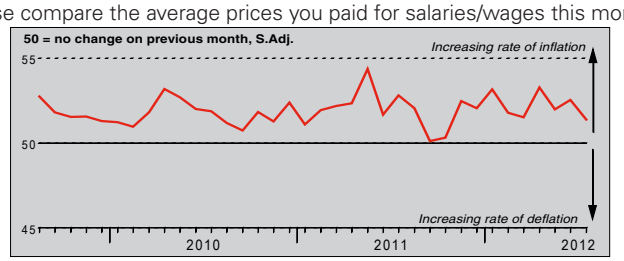


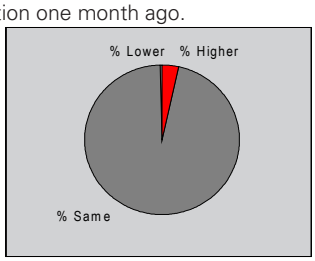


July saw the rate of growth of purchasing costs ease for the third time is many months to the weakest since last December. The rate of inflation of purchase prices, nevertheless, remained solid relative to the historical trend, and was still comparatively stronger than the modest growth in labour costs. Firms paying more for inputs than one month previously linked inflation to higher demand.

Input Costs: Staff Costs Index

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

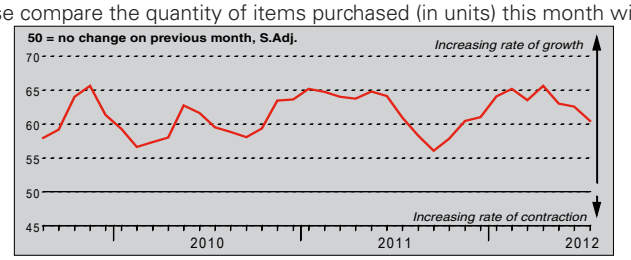


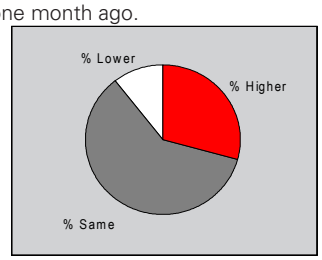


In line with the trend in purchase prices, staff costs also increased at a slower rate in July. In fact, the seasonally adjusted index posted its lowest mark since last October, and at a level indicative of only modest labour cost pressures. Where salaries or wages increased over the month, this was often linked by respondents to increased workloads.

Quantity of Purchases Index

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

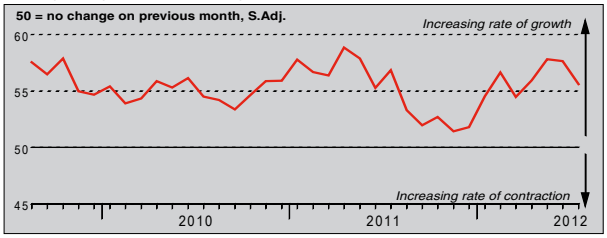


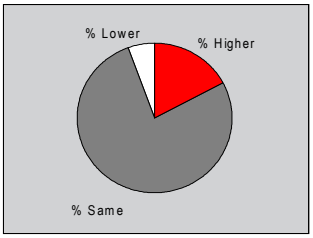


Purchasing activity among KSA non-oil private sector businesses increased in July, in accordance with higher output and incoming new orders. Although remaining at a level implying a marked rate of growth, the seasonally adjusted index was the lowest since last November and below the series average of 61.5.

Stocks of Purchases Index

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

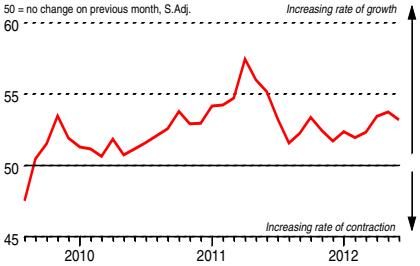




Latest data showed that stocks of purchases continued to accumulate at Saudi Arabia non-oil private sector companies during July. Firms mostly linked inventory building with greater production requirements and expectations of higher workloads in coming months. The rate of increase was solid, albeit the slowest since March.

International PMI summary

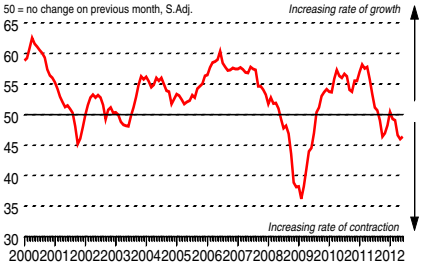
UAE Purchasing Managers' Index™



Source: Markit.

The seasonally adjusted HSBC United Arab Emirates PMI™ registered 53.2 in June. That was fractionally down on May's 11-month high of 53.8 and a three-month low, though still indicative of a solid improvement in operating conditions. Output and new orders rose again, albeit at fractionally slower rates than in May, while companies added to their payrolls in a bid to keep on top of rising workloads.

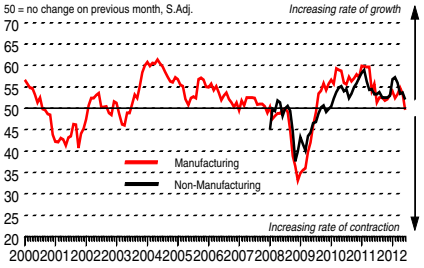
Eurozone Purchasing Managers' Index™



Source: Markit.

At 46.4 in June, the Markit Eurozone PMI™ Composite Output Index was higher than May's reading of 46.0, but still remained deep in contraction territory. The average reading for Q2 2012 was the lowest for three years as a result. Rates of decline eased marginally in both services and manufacturing, but both sectors have seen the strongest quarterly contractions for three years in the second quarter.

US Purchasing Managers' Index



The ISM US Manufacturing PMI fell from May's mark of 53.5 to a 35-month low of 49.7 in June, signalling a slight deterioration in overall operating conditions facing US goods producers. The Non-Manufacturing Index meanwhile dropped from 53.7 to 52.1, its lowest mark since the start of 2010. Data showed that the index fell primarily on slower growth of activity and new business.

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