

# Saudi Business Optimism Index

## 2Q2013 Saudi Business Optimism Index (BOI)

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### Executive Summary

- Composite BOI for the hydrocarbon sector declines marginally to 31 in Q2 2013 from 33 in the previous quarter
- Composite BOI for the non-hydrocarbon sector remains constant at 55 in Q2 2013
- Majority of respondents in the non-hydrocarbon sector (51%) and hydrocarbon sector (48%) cite that there are no negative factors that will impact business in this quarter

Said A. Al Shaikh  
Group Chief Economist  
s.alshaikh@alahli.com

Sharihan Al-Manzalawi  
MIS/Finance Officer  
s.almanzalawi@alahli.com

Prepared by:



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## Hydrocarbon sector

According to the IMF, the global economy grew by 3.2% in 2012 compared to 3.9% in 2011, with the Euro zone double dip recession, a softer Chinese landing, and sub-par numbers in North America weighing on overall growth. Global growth is projected to increase to 3.3% during 2013, as the factors underlying soft global activity are expected to subside. The US economy is set to grow by 1.9% in 2013, with 2014 chalking up a sturdier 3.0%, owing primarily to a relatively stronger trend in consumer and housing activity, strengthening job growth, improved household finances, pent-up demand and near-record housing affordability underpinning household spending gains. In Japan, real GDP declined for a third consecutive quarter during the last three months of 2012. However, recently announced fiscal stimulus measures and a looser monetary stance should boost economic activity in the coming quarters. In the Euro zone, economic activity is expected to stabilize at depressed levels in the first half of 2013, and a slow recovery is set for the second half. Rising unemployment and private sector de-leveraging will continue to hinder credit demand, offsetting the accommodative monetary stance of the European Central Bank. Real Euro zone GDP will contract around 0.3% in 2013.

Internationally, there appears to be greater resiliency to the myriad of economic and financial problems that have conspired to restrain growth over the past couple of years. Nevertheless, recurring Euro zone debt strains highlighted by the recent surfacing of Cyprus' banking sector troubles, the continuing deleveraging of highly indebted household sectors in a number of advanced countries, ongoing structural adjustments to improve efficiencies in some emerging market economies, in addition to lingering geopolitical problems around the world, underscore the numerous headwinds that the global economy must still overcome to reach a path of sustained growth.

During the first half of Q1 2013, crude was supported by restored optimism about the state of the world economy, after strong data from major economies boosted the outlook for oil demand and lifted global oil prices. Financial optimism coupled with geopolitical concerns spurred a large wave of speculative buying in the oil futures market, helping accelerate the price move upward. However, towards the end of February, the market's upward momentum was hampered by a loss in confidence in the global economy, after an unexpected dip in US industrial production spurred concern about lagging economic activity. Political uncertainty in Italy added to bearishness along with lacklustre GDP data out of Europe, raising questions about oil demand. Oil prices, while slipping slightly have held up at relatively high levels. Going forward, crude oil prices in the second quarter of 2013 are likely to exhibit a mostly sideways trend. Supply and demand conditions are expected to be balanced. Demand from OECD countries continues to decline, while demand from emerging markets lead by China and the Middle East continuously offsets any OECD decreases. Barring negative macro surprises, oil market sentiment is expected to turn more positive again. A gradual tightening of the market is expected in the second half of the year as Q2 is the seasonal low point for oil demand.

Saudi Arabia continued its role as the world's leading swing producer, maintaining historically high production of near 10 million bpd in support of the global oil market over much of 2012. However, a dramatic cut-back towards the end of the year, send global prices higher just as sentiment turned bullish with regard to demand over 2013 from key crude importers in Asia. OPEC data shows that Saudi production declined from 10 million bpd in Q2 2012 to 9.76 million bpd in Q3 and 9.41 million bpd in Q4. Production further declined to 9.05 million bpd in January 2013 in response to reduced demand at home and abroad.

**Hydrocarbon sector - Composite BOI**



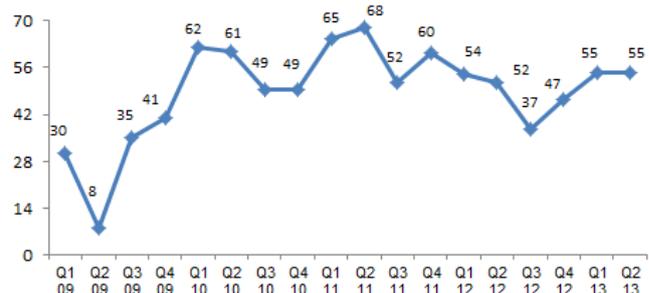
The BOI survey reveals that Saudi Arabia's hydrocarbon sector composite index has turned down slightly in Q2 2013 as two out of the three parameters displayed a weakening trend. The BOI for Net Profits has witnessed a fall of 21 points to 37 in Q2 2013 compared to 58 in the previous quarter as businesses feel that the change in government policies and increase in cost of raw material will negatively pressure margins. The index for the New Employees parameter has descended to 40 in the second quarter from 47 in the preceding quarter. But hydrocarbon businesses have an optimistic outlook regarding selling prices as the parameter gained 10 points to reach 23 in Q2 2013 compared to 13 in Q1. 60% of the hydrocarbon businesses expect sales volume to increase in Q2 2013, while 37% do not expect any change and only 3% have said that they expect a decline, due to plant shut down for maintenance purposes. 48% of the businesses in the hydrocarbon sector have indicated that they do not foresee any negative factors that could impact business in the second quarter and 20% have responded that availability of skilled labor is the key challenge that will impact business. 13% are concerned about government regulations (time consuming procedures related to business licensing and challenges in getting labor visas) whereas 8% anticipate low demand for products/services to be major concern for their business.

### Non-Hydrocarbon sector

Saudi Arabia's growth outlook remains broadly positive, with high oil prices, heavy government spending and buoyant consumer confidence driving robust economic growth. Also, with oil prices continuing to trade at historically high levels, there are few risks to the country's positive near-term outlook. The government's continued commitment to an expansionary fiscal policy is underlined in the 2013 budget, which shows a 19% rise in budgeted expenditure. The government's priorities lie in education and health. Projected spending on education show a 21% rise on the previous year's budget, to SAR 204 bn, and makes up a full 25% of the total budget. Infrastructure and transport spending were allocated 8% of the budget, enabling the construction of large highways and the upgrading of seaports and airports.

Saudi Arabia's HSBC manufacturing PMI for the month of March pointed to a further solid improvement in overall business conditions for the non-oil producing private sector companies in Saudi Arabia. The seasonally adjusted headline PMI posted 58.9 in March, up slightly from February's 58.5. March data signalled a further rise in employment levels at non-oil producing private sector companies in Saudi Arabia. New work grew at the sharpest rate in five months, with more than half of respondents indicating a rise in incoming business. New export business also increased at a marked rate.

**Non Hydrocarbon sector - Composite BOI**



The BOI survey continues to display healthy optimism levels for non-hydrocarbon businesses in Q2 2013. The composite BOI for the non-hydrocarbon sector for Q2 2013 has remained unchanged from the previous quarter's level of 55. The BOI for the Level of Selling Prices parameter has witnessed an increase of 2 points from 34 in Q1 2013 to 36 in the second quarter. Profitability expectations have remained stable with the BOI for Net Profits parameter gaining 1 point to stand at 56 in Q2 2013 from 55 in the preceding quarter. Similarly the score for Number of Employees and Level of Stock parameters have gained 1 point each and stand at 54 and 34 respectively in Q2 2013. The BOI for the Volume of Sales parameter remains high, unchanged from the previous quarter's level of 65. While the index for the New Orders parameter has declined 4 points as compared to the previous quarter, yet new orders optimism remains high with a score of 62 in Q2 2013.

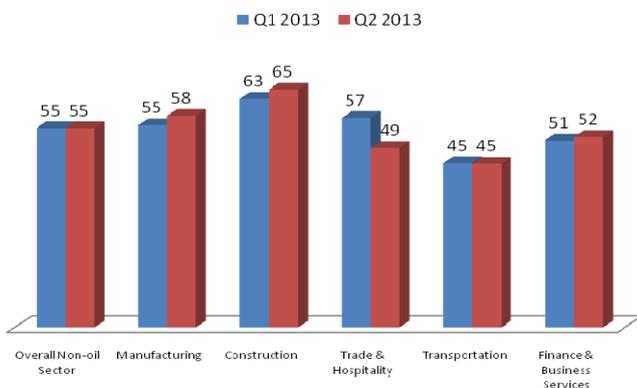
54% of the non-hydrocarbon sector respondents have responded that they do not anticipate any negative factor to affect business operations in the second quarter of 2013. 11% are concerned about availability of skilled labor, while 10% each anticipate low demand for their products/services. 8% of the businesses have highlighted government regulations as a key challenge that will impact their business operations. 6% of the respondents have cited inflationary factors as a major concern while a similar percentage have indicated market competition as a cause of concern.

### Sector Analysis

#### **Manufacturing sector**

The JPMorgan Global Manufacturing PMI rose to 51.2 in March from 50.9 in February, holding above the 50 mark that divides growth and decline for a third month. Higher manufacturing output was underpinned by a further increase in new order inflows and work on existing contracts. International trade volumes also rose during the latest survey period. The US led the global manufacturing output growth league table in March. The rate of expansion accelerated in China, while growth was recorded in Japan for the first time in ten months. Europe remained the main drag on the global manufacturing sector, with output declining in both the Euro zone and the UK. According to recent statistics from CDSI, Saudi Manufacturing sector GDP at constant prices grew at 7.59% in 2012, however year-on-year comparison shows a slowdown from the double digit growth rates observed in 2011 (13.69% growth in 2011).

**Sector-wise Optimism Levels**



Three among the five business sectors in the non-hydrocarbon sector have witnessed an improvement in optimism levels, these include Manufacturing, Construction and Business Services. BOI score for Transportation sector remained unchanged, however Trade & Hospitality BOI recorded a sharp decline. The 8 point decline in Trade & Hospitality was led by lower optimism levels among wholesale & retail trade companies while the outlook for hospitality has improved. The construction sector continues to be the most optimistic amongst all the non-hydrocarbon sectors for Q2 2013.

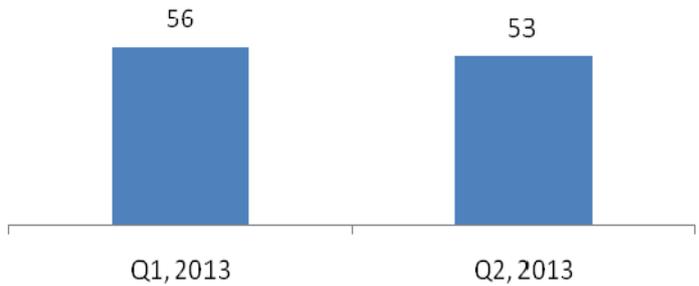
The current BOI survey reveals that the manufacturing sector outlook continued to improve for the second consecutive quarter as the composite BOI shows an improvement of 3 points to 58 in Q2 2013 from 55 in the first quarter. This increase is led by the stronger expectations of non-petrochemical manufacturing com-

panies, while outlook of petrochemical companies has observed a marginal decrease. The BOI for the Volume of Sales parameter is up from 69 in the previous quarter to 73 in Q2 2013. Manufacturing businesses also display an increased optimism about new orders as the index for the New Orders parameter came in at 75 compared to 73 in Q1 2013. The BOI for the Level of Selling Prices parameter too has ascended from 25 in the previous quarter to 27 in Q2 2013. Profitability expectations have also shown an improvement with the index gaining 3 points from 52 in the first quarter to 55 in Q2 2013. With an overall improvement in business activity, businesses in the sector anticipate hiring to pick up, which is reflected in the BOI for Number of Employees going up to 60 in Q2 2013 compared to 58 in the previous quarter.

invest in business expansion in Q2 2013. Only 14% have responded that they do not plan to invest in business expansion, while 20% are undecided.

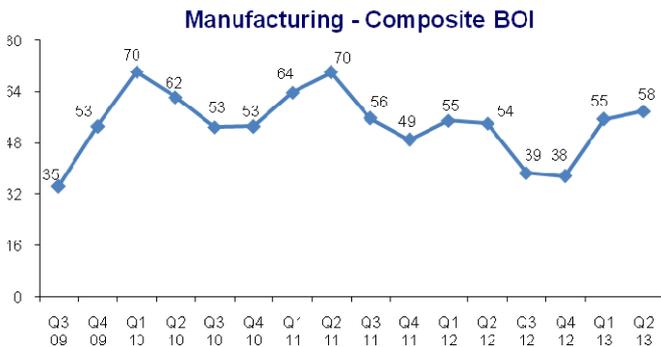
**Petrochemical Manufacturing**

**Petrochemical Manufacturing - BOI Score**



The Composite BOI score for the petrochemical sub sector has marginally declined to 53 in the current quarter compared to 56 in the previous quarter. The BOI for the Volume of Sales parameter for the petrochemical sub sector stands at 68 in Q2 2013, down from the score of 72 in the previous quarter. The index of earnings outlook has also witnessed a similar decline, dropping in Q2 2013 to 55 compared to 59 in the previous quarter. Sales price expectations too have declined marginally as the score for the Level of Selling Price parameter is at 29 in Q2 2013 compared to 31 in the previous quarter. The BOI for the Level of Stock parameter stands at 35 in Q2 2013, down from 41 in the previous quarter while the Number of Employees parameter is recorded at 42 in the current quarter compared to 52 in Q1 2013. Only the BOI for new orders has witnessed a marginal increase, standing at 77 in Q2 2013 compared to 76 in Q1.

Approximately 42% of the respondents in this sub sector expect no impact from negative factors on their business in Q2 2013, the corresponding figure in the previous quarter was 35%. Decreased demand for products is seen as a major concern by 23% of the respondents. 10% of the businesses have cited availability of skilled labour as an influential factor while a



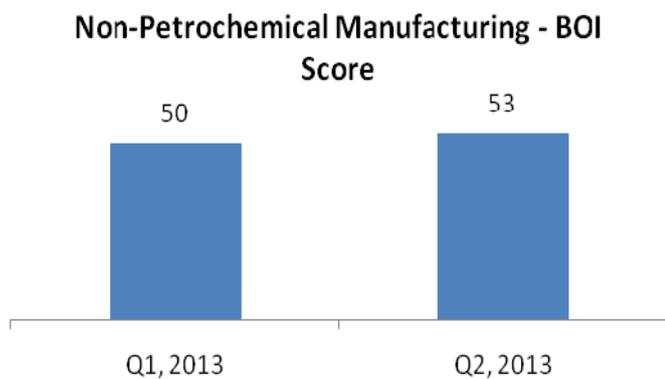
A majority of the manufacturing respondents (52%) do not anticipate any negative factor to impact their business, while 13% have cited decreased demand for products as an influential factor. 9% of the manufacturing businesses feel that government regulations will affect business in Q2. 7% of the respondents have indicated availability of skilled labor as the key challenge while a similar proportion have cited inflationary factors as the main hindrance. 5% of the businesses expect competition to affect business the most. 4% of the businesses have highlighted availability of finance as a major concern for their business.

Manufacturing businesses are the most optimistic compared to other sectors as 66% of businesses plan to

similar percentage have indicated government regulations as a key hindrance to the growth of their business.

Only 61% of petrochemical manufacturers to invest in business expansion in Q2 2013 compared to 72% in Q1 2013.

**Non-petrochemical Manufacturing**



The Composite BOI score for the non-petrochemical sub sector has improved to 53 in the current quarter compared to 50 in the previous quarter. The BOI for the Volume of Sales parameter for the non-petrochemical sub sector has witnessed an improvement, standing at 74 in Q2 2013, as compared to 68 in the previous quarter. The index of earnings outlook has also witnessed a similar increase, up to 56 in Q2 2013 as compared to 50 in the previous quarter. The BOI for new orders has witnessed a marginal increase, standing at 74 in Q2 2013 compared to 72 in Q1. Sales price expectations are also up, as the score for the Level of Selling Price parameter is at 26 in Q2 2013 compared to 23 in the previous quarter. The BOI for the Level of Stock parameter, 35 in Q2 2013, is similar to that recorded in Q1 2013 while the Number of Employees parameter is recorded at 64 in the current quarter compared to 59 in Q1 2013.

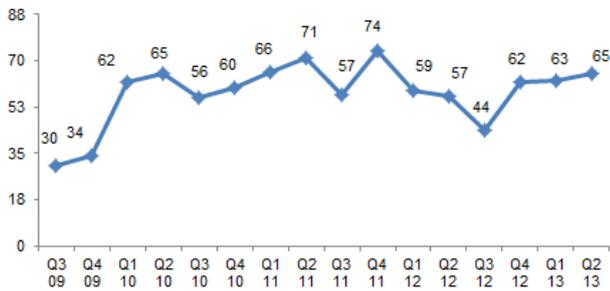
A majority 54% of the respondents in this sub sector expect no impact from negative factors on their business in Q2 2013, the corresponding figure in the previous quarter was 41%. 10% are concerned regarding the fluctuating demand for products while 9% expect government regulations to affect their business operations in Q2 2013. 7% of the sector respondents have highlighted inflationary factors as the key business challenge.

In terms of business expansion, 67% of the non-petrochemical manufacturing business plan to invest in expansion in Q2 2013 compared to 61% in Q1 2013.

**Construction sector**

Over the last few years the world's construction industry has faced dramatic changes. In the mature markets the global recession has led to a sharp downsizing of the construction sector, which currently struggles to start its recovery phase. On the contrary, in most emerging markets, construction investments kept growing during the global crisis, although at a more moderate rate, and the industry has now fully regained its strong and steady growth path. In the MENA region, the infrastructure sector is the main component of the construction industry and enjoys the best forecast; this is due to the ability to attract investments for the development of the energy and transportation systems. Investments in the non-residential sector should also increase, due to the relocation of production plants from mature economies to some countries of the area. Given the significant spending on construction & infrastructure projects in Saudi, the construction sector continued to witness high rates of growth with GDP growth recorded at 10.26% in 2012 compared with 9.87% in 2011.

**Construction - Composite BOI**



Optimism level in the construction sector continues to remain high for Q2 2013; the composite BOI has improved by 2 points to 65 in Q2 2013 from 63 in Q1 2013. The score for the Level of Selling Prices parameter has witnessed a significant jump of 11 points from 41 in Q1 2013 to 52 in Q2 2013. Profitability expectations reflected in the BOI for the Net Profits parameter also show an improvement to 70 in Q2 2013 compared to 67 in the previous quarter. The BOI for Volume of Sales and New Orders parameters have remained unchanged at the previous quarter's level at 75 and 67 respectively. Hiring outlook has also remained stable as the score for the Number of Employees parameter moved sideways by a point from 63 in the previous quarter to 62 in Q2 2013.

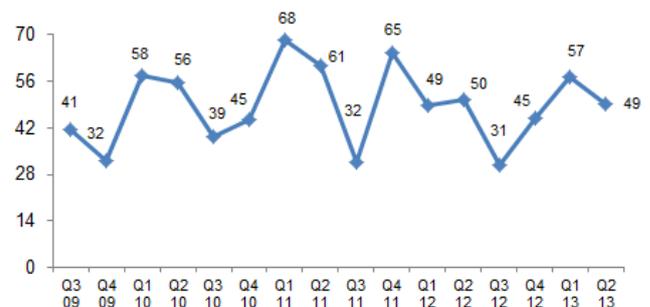
59% of construction businesses do not foresee any negative factor affecting business operations, which is significantly higher than the previous quarter (36%). 9% of construction businesses have indicated availability of skilled labor as a key challenge while a similar percentage have cited that availability of finance will affect business operations the most. 7% have indicated fluctuating demand for products/services and government regulations to affect business operations in Q2 2013. 6% of the businesses have stated inflationary factors to impact business the most while 4% have indicated competition to be a chief concern for their business.

40% of the respondents plan to invest in business expansion and an equal number are undecided about the same for the current quarter. The balance 20% has stated that they will not invest in business expansion in Q2 2013.

**Trade and Hospitality sector**

The significant differences in the pace and nature of the rebound of economic activity across different countries is reflected in the retail industry. Recovery in retail in most advanced economies remains sluggish, due to weak consumer demand. In contrast, many emerging economies are seeing strong growth, mainly because they did not experience major financial excesses prior to the recession. The shift in the distribution of global output and wealth continues. In fact, the much stronger performance of key emerging economies through the crisis and stronger growth prospects are likely to accelerate the shift in global economic dynamics. The Middle East is one of the world's fastest growing retail environments. It has witnessed a rapid transformation on the back of changing socioeconomic factors, infrastructure investment, rising purchasing power, large oil-wealth, and growing tourism. As per data from CDSI, trade & hospitality sector growth was around 8.33% in 2012 reflecting a slight improvement from the 7.29% growth observed in 2011.

**Trade & Hospitality - Composite BOI**



The composite BOI for the trade & hospitality sector has weakened in Q2 2013, after two consecutive quarters of showing strength, as the scores for most parameters have witnessed a decline. The sector scores declined due to lower optimism levels among wholesale & retail trade companies while the outlook for hospitality has improved. The major factor affecting businesses in Trading is increasing competition from local and international players. The composite BOI for Q2 2013 stands at 49, 8 points lower than the Q1 2013 level of 57. Businesses in the trade and hospitality sector are concerned about the new orders outlook as this parameter has dipped from 68 in Q1 2013 to 45 in Q2 2013. Sales expectations too display a weak trend with the score for the Volume of Sales parameter declining to 65 in Q2 2013 from 72 in the first quarter. The index for the Level of Selling Prices parameter stands at 37 in the second quarter compared to 45 in Q1 2013. The overall weakness in expectations of sales and new orders has also dampened the hiring outlook, the index for Number of Employees parameter came in at 39 in Q2 2013 compared to 45 in the preceding quarter. But businesses are more optimistic about profitability compared to the previous quarter; the BOI for the Net Profits parameter was recorded at 60 in Q2 2013, while the corresponding figure was 57 in Q1. The score for the Level of Stock parameter too has ascended from 25 in Q1 2013 to 32 in the second quarter.

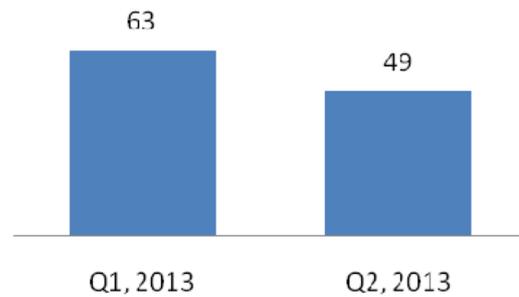
59% of businesses in the trade & hospitality sector do not foresee any negative factors to impact business operations in the second quarter of 2013, which is higher than the previous quarter's proportion of 53%. Competition is seen to be the biggest factor affecting business operations with 10% of businesses indicating that factor. 8% of the respondents cite government regulations to be a key challenge. Availability of skilled labor is cited as a key hindrance by 6% of the businesses, while a similar percentage anticipate low demand for their products/services to be a major concern for their business. 5% of the businesses have indicated

availability of finance and inflationary factors as the main factors affecting business operations.

31% of the surveyed firms in the trade and hospitality sector plan to undertake business expansion in Q2 2013, which is a sharp decline from 58% in the previous quarter. 40% have responded that they are undecided on business expansion and 29% have indicated that are not planning investment in Q2.

**Wholesale & Retail Trade**

**Wholesale & Retail Trade - BOI**



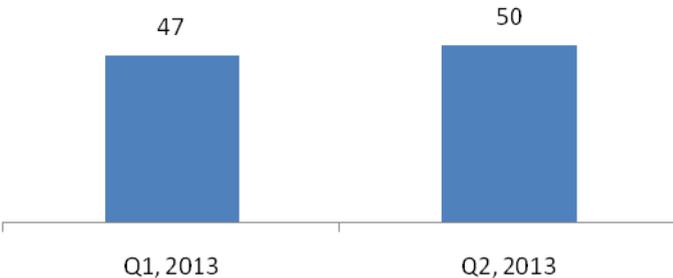
The Composite BOI score for the wholesale & retail sub sector has declined to 49 in the current quarter compared to 63 in the previous quarter. The BOI for the Volume of Sales parameter for the wholesale & retail trade sub sector stands at 69 in Q2 2013, down from the score of 78 in the previous quarter. The BOI for new orders has witnessed a sharp decline to 41 in Q2 2013 compared to 78 in Q1. Sales price expectations too have declined as the score for the Level of Selling Price parameter came in at 31 in Q2 2013 compared to 42 in the previous quarter. The index of earnings outlook of wholesale & retail trade businesses has marginally dropped in Q2 2013 to 61 compared to 64 in the previous quarter. The BOI for the Level of Stock parameter stands at 42 in Q2 2013 up from 34 in the previous quarter while the Number of Employees parameter is recorded at 42 in the current quarter compared to 54 in Q1 2013.

A majority 61% of the respondents in this sub sector expect no impact from negative factors on their business in Q2 2013, the corresponding figure in the previous quarter was 44%. 13% of the businesses have cited market competition as a key hindrance to the growth of their business while 9% expect government regulations to affect their business operations in Q2 2013. Only 28% wholesale & retail trade businesses plan to invest in business expansion in Q2 2013 compared to 70% in Q1 2013.

Only 28% wholesale & retail trade business plan to invest in business expansion in Q2 2013 compared to 70% in Q1 2013.

**Hospitality**

**Hotel & Restuarants - BOI Score**



The Composite BOI for the restaurants & hotels sub sector was recorded at 50 in Q2 2013 up from 47 in the previous quarter, indicating a stable trend. The BOI for sales volume is down to 57 in Q2 2013 from 60 in Q1. There is a slight improvement in new orders outlook from 50 in Q1 2013 to 54 in the second quarter. The index for Net Profit improved to 57 compared to 43 in the previous quarter. The Level of Selling Price parameter remains unchanged at 50 while the Number of Employees parameter has inched up a point to 31 in Q2 2013.

54% of respondents have indicated that there are no negative factors affecting their business this quarter compared to 67% in Q1. 12% of businesses have indi-

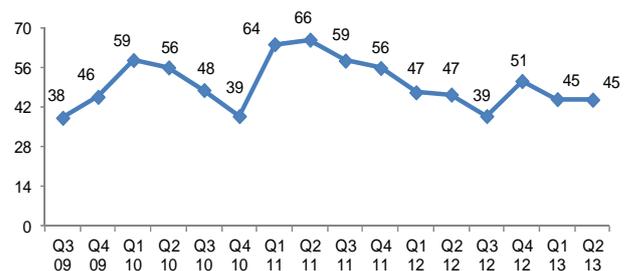
cated availability of skilled labour and inflationary factors each as the key challenges impacting their business operations. 8% of the sector respondents have cited fluctuating demand for products/services as a chief concern for their business.

In Q2 2013, 38% of respondents plan to invest in business expansion, similar to the figure (37%) seen in the previous quarter.

**Transportation Sector**

The world transportation industry has also been badly affected by the slump in global economic growth and trade. Lacklustre consumer and business demand for goods and services has translated into slower growth in demand for transport and logistics services. World trade volume growth decelerated during 2012, alongside slowing real activity in advanced economies. According to IMF data, world trade volume (goods and services) grew at 2.8% in 2012 compared to 5.9% in 2011. The slowdown in trade volumes resulted in 2012 being another stormy year for the global shipping industry, when growth in fleet capacity far outstripped demand for shipping. Looking forward, the expected improvement in OECD output in the first half of 2013 combined with continued growth in non-OECD economies should be reflected in a pick-up in trade volumes in 2013. World trade volume growth is expected to pick up to 3.8% in the current year. Also, the rate of fleet growth should moderate across the sector during 2013.

**Transportation - Composite BOI**



The BOI for the transportation sector for Q2 2013 has remained unchanged from the previous quarter with the parameters displaying a mixed trend. The score for the Volume of Sales parameter has ascended four points from 44 in the preceding quarter to 48 in Q2 2013. Hiring outlook too has improved with the BOI for the Number of Employees parameter standing at 45 in Q2 2013 compared to 40 in Q1. The BOI for the Level of Selling Prices parameter has declined 6 points from 43 in Q1 to 37 in Q2 2013 as businesses are doubtful about the market scenario. The BOI for the Net Profits parameter has moved down 3 notches to 42 in Q2 2013 from the previous quarter. New Orders expectations have declined marginally from 53 in Q1 2013 to 52 in the second quarter. Businesses have quoted lower demand expectations (from private and government sectors) and changing government rules and regulations as reasons for the decline.

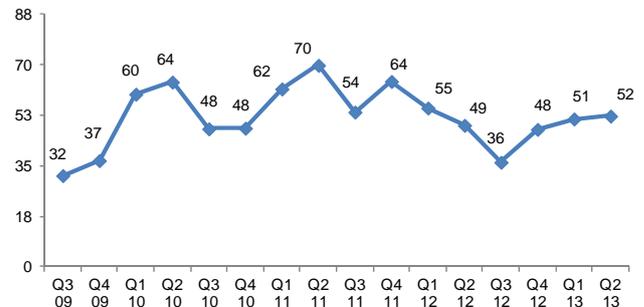
57% of the businesses in this sector do not foresee any negative factors impacting their business operations in Q2 2013. 18% of the respondents have cited availability of skilled labour as the major factor impacting business. 8% of the respondents have indicated low demand for their products/services to be the key challenge for their business while 7% of the businesses have indicated government regulations as the main factor affecting business in the second quarter. 3% each have indicated inflationary factors, competition and availability of finance as major factors expected to impact business operations in the second quarter.

48% of the respondents said that they will invest in business expansion in the current quarter, 27% quoted that they were unsure while the remaining said that they will not.

### Finance & Business Services sector

The downside risks to the global growth scenario diminished in late 2012 and early 2013 as a result of actions taken to tackle the fiscal cliff in the US and the European Central Bank announcing its Outright Monetary Transactions program. This shift in the balance of risks, together with abundant liquidity, has been an important factor behind the marked strengthening of financial markets in recent months. Equity prices in OECD economies have surged, corporate bond spreads have narrowed and, despite a number of negative shocks, sovereign spreads in the Euro area periphery moved down substantially in the last quarter of 2012 and have declined further in 2013. The global services sector signalled expansion for the forty-fourth month in a row. At 53.4 in March, the JPMorgan Global Services Business Activity Index increased marginally from February's four-month low of 53.2.

Finance & Business Services - Composite BOI



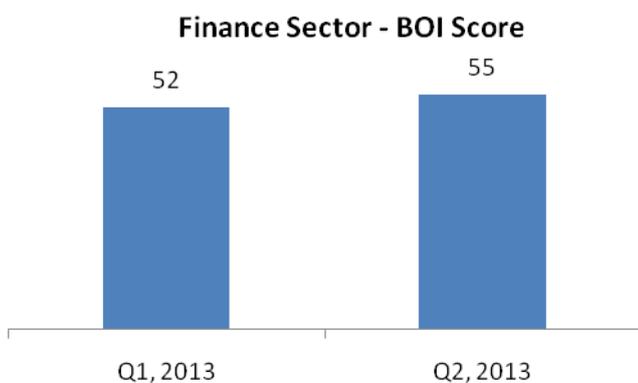
Businesses in the financial & business services sector have indicated an improved outlook for Q2 2013 compared to the first quarter. The composite BOI for Q2 2013 stands at 52, slightly up from 51 in Q1 2013. The positive outlook of this sector is driven by a relatively higher optimism of Finance sector. The index for the Volume of Sales parameter has moved back three points to 58 in Q2 2013 from 61 in the first quarter due to an expected slowdown in market conditions. However, businesses anticipate a moderate pick-up in new opportunities, reflected in the BOI for the New Orders

parameter which has gained two notches to 61 in Q2 2013. The outlook for level of selling prices is on an uptrend with the score gaining seven points to 35 in Q2 2013 from 28 in the first quarter. The BOI for the Net Profits parameter has moderated by 4 points from 53 in Q1 2013 to 49 in Q2 amid expectations of a tough market scenario. The hiring outlook shows an improvement with the Number of Employees parameter up by 3 points from 55 in Q1 to 58 in Q2 2013.

50% of the businesses in the financial & business services sector do not foresee any negative factors impacting business operations in Q2 2013. 17% of the respondents have quoted availability of skilled labor as the major factor affecting business operations, while 10% have cited low demand for their products/services to be the chief concern for their business. 9% anticipate inflationary factors while 8% cite government regulations to be the major factors impacting business. 6% of the respondents indicated market competition as a major concern for their business.

56% of the sector respondents said that they will invest in business expansion in the current quarter, 25% quoted that they will not while the balance said that they were unsure of expansion investment.

**Finance**



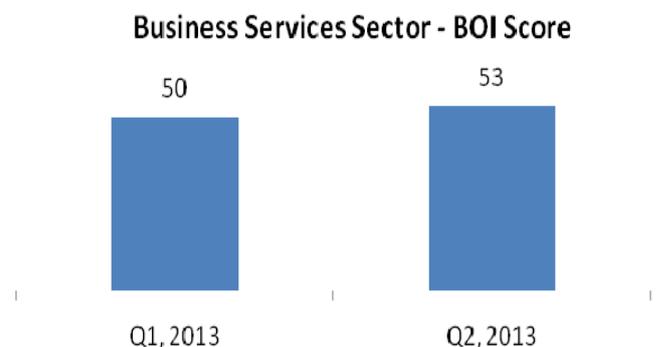
The composite BOI for finance and insurance businesses is up 3 points from 52 in Q1 2013 to 55 in the

second quarter. The BOI for the Volume of Sales parameter stands at 62 for Q2 2013 compared to 61 in the previous quarter. The majority in the finance sector expect a pick-up in new orders, as the index stands at 75 for Q2 2013, while that for the previous quarter was 69. The Level of Selling Prices parameter has gained significantly as it stands at 63 for Q2 compared to 23 in Q1 2013. The BOI for the Net profits parameter has witnessed a major drop from 61 in Q1 2013 to 25 in Q2 2013. The score for the Number of Employees parameter has gained 4 points to 50 in Q2 2013 from 46 in the previous quarter.

75% of the respondents have stated that they do not anticipate any negative factors to impact business operations in Q2 2013. 13% each have quoted fluctuating demand for products/services and availability of skilled labour as major factors affecting business.

63% of the finance businesses have affirmed that they plan to invest in business expansion in Q2 2013, 13% are not planning to invest while the remaining 24% are unsure.

**Business services**



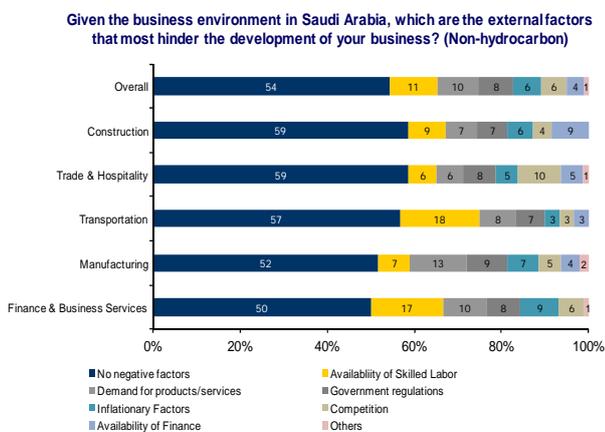
Business services sector has a composite BOI of 53 for Q2 2013, up from 50 in the preceding quarter. The BOI for the Volume of Sales parameter remains unchanged at 59 while the New Orders parameter stands at 61 in Q2 2013 compared to 57 in the previous quarter. The

BOI for the Level of Selling Prices has gained 6 points to stand at 33 in the current quarter. The Net Profits parameter too has witnessed a slight upward movement from a level of 50 in Q1 to 52 in Q2, while the Number of Employees parameter has marginally moved from 58 in the previous quarter to 61 in Q2 2013.

45% of the business in this sub-sector have quoted that they do not anticipate any negative factor to impact business in the second quarter. Availability of skilled labour is quoted as a concern by 16% of the respondents. 9% each have said that inflationary factors and fluctuating demand for products/services to be the major factors affecting business operations. Government regulations and competition are the key concerns for 8% and 6% of the respondents respectively. Availability of finance is cited by 6% of the sector respondents as a negative factor hindering the business growth.

57% of the respondents have said that they will invest in business expansion in Q2, 25% do not plan any investments, while the remaining 18% are undecided.

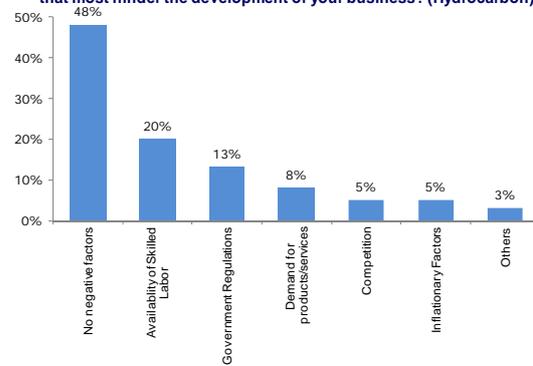
**Business Challenges**



In the non-hydrocarbon sector, 54% of the respondents have indicated that there are no negative factors affecting their business operations in Q2 2013. Availability of skilled labour has been cited as a concern by

11% of the respondents while 10% have indicated fluctuating demand for products/services to be the major challenges for their business. 8% of the respondents have cited government regulations to be their chief concern while 6% each have responded that competition and inflationary factors are the key challenges affecting their business. 4% of the businesses have highlighted availability of finance as a factor hampering business.

**Given the business environment in Saudi Arabia, which are the external factors that most hinder the development of your business? (Hydrocarbon)**

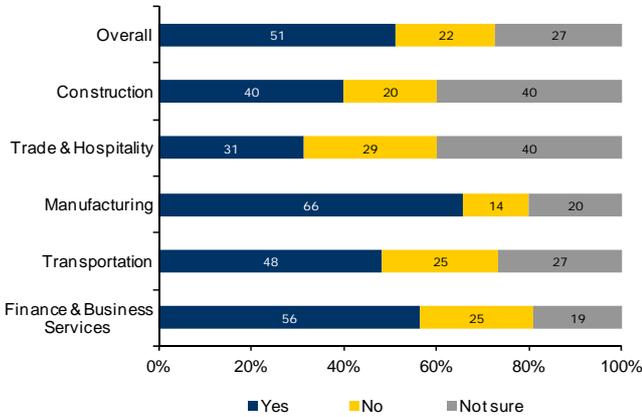


48% of the respondents in the hydrocarbon sector highlighted that there are no negative factors affecting business operations in Q2 2013. Availability of skilled labour has been quoted as a concern by 20% of the sector respondents. While 13% have cited government regulations as a key challenge, 8% anticipate low demand for products/services to be a chief concern for their business. Competition and inflationary factors each are the leading concerns for 5% sector respondents

**Investment plans**

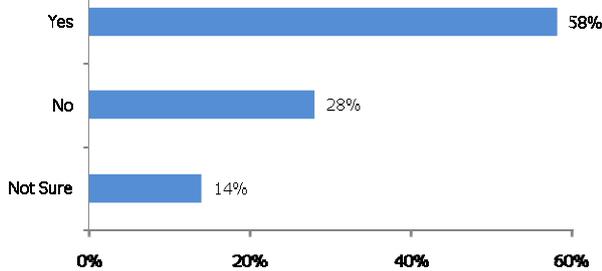
A majority (51%) of the companies in the non-hydrocarbon sector have said that they would invest in business expansions in Q2 2013. 22% have said that they will not, while the remaining 27% are unsure about business expansion plans in Q2 2013. When compared to the previous quarter, the manufacturing sector continues to be the most optimistic with reference to business expansion plans.

**Does your company plan to invest in business expansion? (Non-hydrocarbon)**



58% of the respondents in the hydrocarbon sector have plans for investments for business expansion in Q2 2013 while 28% said they will not while 14% are unsure.

**Does your company plan to invest in business expansion? (Hydrocarbon sector)**



**APPENDIX**

**Hydrocarbon Sector**

**Volume of Sales**

The BOI for the Volume of Sales parameter stands at 57 in Q2 2013 down from 62 in the previous quarter. A majority (60%) of the sector respondents expect an increase in the sales volume, 37% foresee no change while 3% expect a decline.

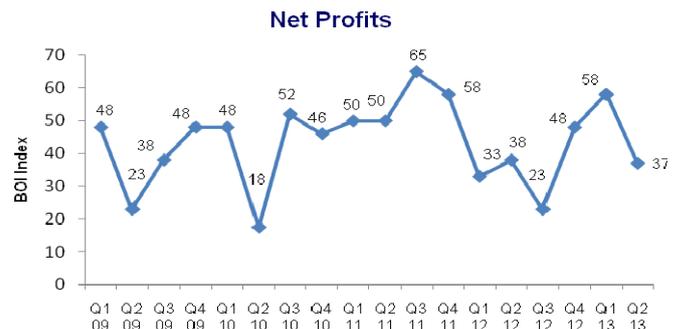
**Level of Selling Prices**



The BOI for the Level of Selling Prices parameter has climbed 10 points to stand at 23 in Q2 2013 from 13 in the previous quarter. 67% of the respondents foresee no change in the selling price level, 28% expect prices to increase while 5% anticipate a decline.

**Net Profits**

•



The Net Profits BOI for the hydrocarbon sector has declined 21 points to 37 from 58 in the previous quarter. 50% of the respondents foresee an improvement in the profit levels, 37% expect no change while 13% of the companies in the hydrocarbon sector anticipate a decrease.

The BOI for the Volume of Sales parameter stands unchanged at the previous quarter's level of 65 points. Overall, 71% of the respondents in the non-hydrocarbon sector expect sales volumes to increase, 23% foresee no change while 6% anticipate a decline in Q2 2013.

**Number of Employees**



**New Orders**

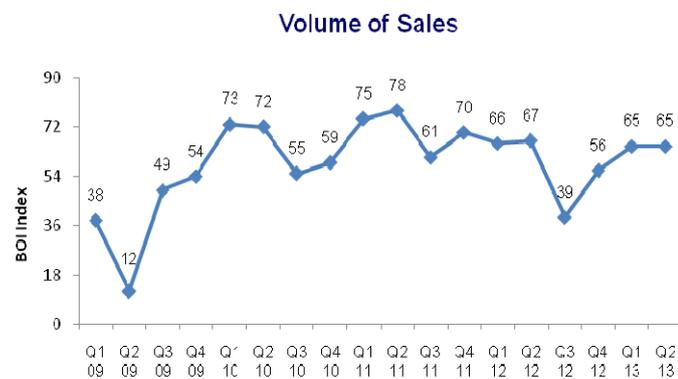


The BOI for the Number of Employees parameter has slipped 7 points to 40 in Q2 2013 from 47 in the previous quarter. 50% of the sector respondents expect no change in the head count figure, 45% anticipate an increase while 5% foresee the employee numbers to decrease.

The BOI of the New Orders parameter for the sector is down by 4 points to 62 in Q2 2013 from 66 in the previous quarter. A majority (67%) of the respondents anticipate an increase in their order book status, 28% foresee no change while the remaining 5% expect new orders to decline in Q2 2013.

**Non-hydrocarbon sector**

**Volume of Sales**



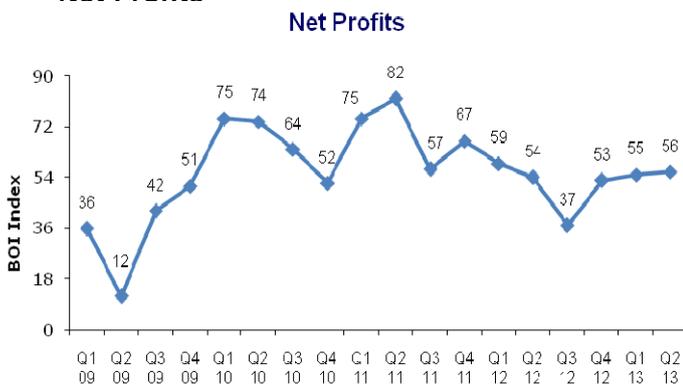
**Level of Selling Prices**



The BOI for the Level of Selling Prices parameter has increased by 2 points to 36 in Q2 2013 from the previous quarter's score of 34. Out of the total respondents in the sector, 54% foresee selling prices to remain intact, 41% anticipate prices to increase while 5% expect it to decrease.

The BOI for the Number of Employees parameter inched up to 54 in Q2 2013. 56% of the respondents will up their head count, 42% said that they will not add to the employee count, while 2% expect numbers to decrease.

**• Net Profits**



The BOI for the Net Profits parameter has gained a point this quarter to stand at 56. 64% of the sector respondents anticipate profitability to improve, 28% foresee no change while 8% expect profitability to decline in Q2 2013.

**• Level of Stock**



The BOI of the Level of Stock parameter stands at 34, up by a point from the previous quarter's score. Most of the sector respondents (52%) expect no change in their inventory levels, 41% anticipate an increase while 7% foresee a decline in stock levels in Q2 2013.



The BOI for the Number of Employees parameter inched up to 54 in Q2 2013. 56% of the respondents will up their head count, 42% said that they will not add to the employee count, while 2% expect numbers to decrease.

## Methodology

### The D&B Business Optimism Index

The D&B Business Optimism Index is recognized as a product that measures the pulse of the business community and serves as a reliable benchmark for investors. The D&B Business Optimism Index is arrived at on the basis of a quarterly survey of business expectations. It is conducted in various countries that D&B operates in. Over time, the quarterly survey has emerged as a leading indicator of turning points in economic activities in these countries.

A random sample is selected from Dun & Bradstreet's commercial database for conducting this survey. This sample is divided into hydrocarbon and non-hydrocarbon segments to eliminate the dominance of the former over the latter and understand their dynamics individually. The hydrocarbon segment includes Saudi Arabia's mining, oil and gas companies whereas the non-hydrocarbon segment encapsulates in its purview the following sectors:

- Manufacturing (140 units)
- Construction (70 units)
- Trade, restaurants & hotels (80 units)
- Transport & communications (60 units)
- Finance, insurance, real estate & business services (110 units)

The sample is a microcosmic representation of Saudi Arabia's business community. The survey respondents

are asked if they expect an increase, decrease or no change regarding the following parameters: Volume of Sales, Net Profits, Level of Selling Prices, New Orders received, Level of Stock, and Number of Employees.

The individual indices for each of the above parameters are then calculated by subtracting the percentage of respondents expecting decrease from those expecting increase.

Additional poll questions are asked relating to the current economic scenario and are aimed at gauging the business sentiments with regards to several key current issues.

For the purpose of the survey, Q1 is the period between January and March, Q2 is the period between April and June, Q3 is the period between July and September, and Q4 is the period between October and December each year.

### Composite Business Optimism Index

The purpose of the Composite Business Optimism Index is to capture the aggregate weighted behavior of all the six individual indices in the non-hydrocarbon sector. Beginning in Q3 2010, D&B has further introduced composite indices for all sub-sectors in the non-hydrocarbon sector to allow one indicator to summarize optimism levels in each of these sub-sectors.



## Economics Department

### The Economics Department Research Team

#### Head of Research

**Said A. Al Shaikh, Ph.D**

*Group Chief Economist*  
s.alshaikh@alahli.com

#### Macroeconomic Analysis

**Tamer El Zayat, Ph.D**

*Senior Economist/Editor*  
t.zayat@alahli.com

**Majed A. Al-Ghalib**

*Senior Economist*  
m.alghalib@alahli.com

#### Sector Analysis/Saudi Arabia

**Albara'a Alwazir**

*Senior Economist*  
a.alwazir@alahli.com

**Lama Kiyasseh**

*Economist*  
l.kiyasseh@alahli.com

**Yasser Al-Dawood**

*Economist*  
y.aldawood@alahli.com

**Mai AlSwayan**

*Economist*  
m.swayan@alahli.com

#### Management Information System

**Sharihan Al-Manzalawi**

*Financial Planning & Performance*  
s.almanzalawi@alahli.com

### To be added to the NCB Economics Department Distribution List:

**Please contact: Mr. Noel Rotap**

Tel.: +966-2-646-3232

Fax: +966-2-644-9783

Email: n.rotap@alahli.com

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