HSBC Purchasing Managers' Index™ 2010

compiled by markit

Embargoed until: 09:30 (DUBAI) 5 October 2010

HSBC UAE PMI™

PMI rose to ten-month high in September, pointing to faster improvement in business conditions.

Key findings:

- Both new order and production growth picked up slightly.
- Employment increased at solid rate.
- Rising purchasing costs remained key driver of input price inflation.

Registering 52.6 in September, the headline seasonally adjusted HSBC UAE PMI™ – a composite indicator designed to provide a single-figure snapshot of the performance of the private sector – ended the third quarter of 2010 at a ten-month high. Up from 52.1 in August, the latest reading signalled a faster (though still modest) improvement in the health of the United Arab Emirates private sector economy.

Driving the rise in the headline index were improvements in all five of its component indices (the suppliers' delivery times index is inverted to create the PMI).

Output growth at UAE private sector companies picked up again during September, reaching a robust rate that was the fastest since April. Driving the latest rise in activity was a faster inflow of new business. Total new order receipts increased solidly and at the sharpest rate for nine months, which panellists linked to better economic conditions. Data suggested that both domestic and external demand for the region's goods and services remained firm during the latest survey period, as the indices monitoring trends in total new work and new export orders each registered above the neutral level of 50.0. Companies stated that demand from trading partners had improved, particularly from Saudi Arabia and Qatar.

Despite further gains in new orders, work-in-hand in the UAE private sector continued to fall during September. Respondents indicated that activity growth had outpaced the rise in new business and backlogs had been depleted as a result. That said, the rate of reduction was the mildest for seven months.

Firms hired extra staff and raised buying activity in September to accommodate greater business requirements and company expansions. Job creation picked up to a solid rate as a result. Purchasing also rose faster, but growth remained weak.

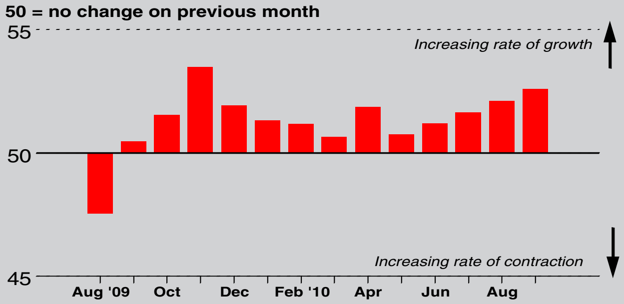
Reflecting a faster increase in input acquisitions, holdings of raw materials and semi-finished goods at UAE private sector companies rose in September. This followed four months of depletion. However, the rate of expansion was only marginal.

Despite stronger demand for inputs, average vendor performance continued to improve at the end of Q3. Lead times shortened modestly, albeit to a lesser extent than seen over the previous six months. Anecdotal evidence indicated that prompt payment for goods and strong relationships with suppliers underlay the latest improvement.

Overall input price inflation accelerated during September, driven by a steeper increase in purchasing costs (which firms linked to higher raw material prices, greater transportation costs and unfavourable exchange rates). Even so, total input price inflation remained modest by the historical standards of the series. Meanwhile, personnel cost inflation remained extremely weak, losing strength marginally since August.

Intense competition kept firms' pricing power in check during September. Charges were largely unchanged on the month as a result. Where tariffs were raised, this was commonly attributed to favourable demand conditions and higher input costs.

HSBC UAE PMI



The HSBC UAE Purchasing Managers' Index™ (PMI™) is a composite indicator designed to provide an overall view of activity in the United Arab Emirates 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 manufacturing 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.

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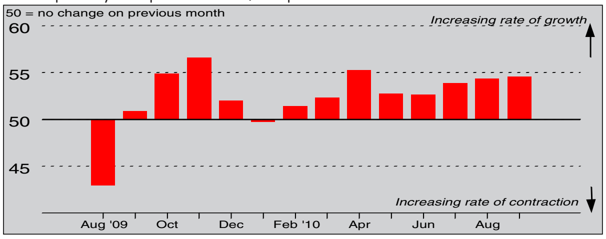
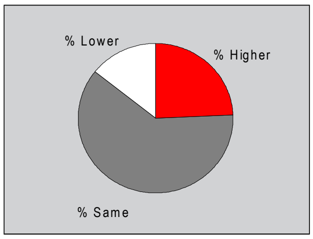
Output Index

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

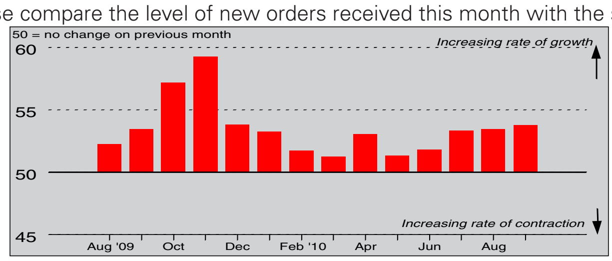


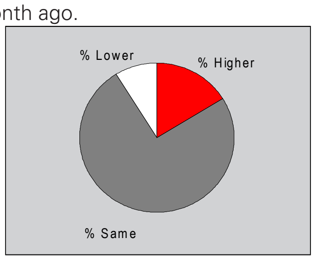


Further gains in new business spurred private sector companies in the United Arab Emirates to raise activity levels during September. Output in the sector rose at a robust rate as a result, with 24% of the survey panel noting an increase. Moreover, the latest expansion was the sharpest since April. Activity has now risen continuously for eight months.

New Orders Index

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

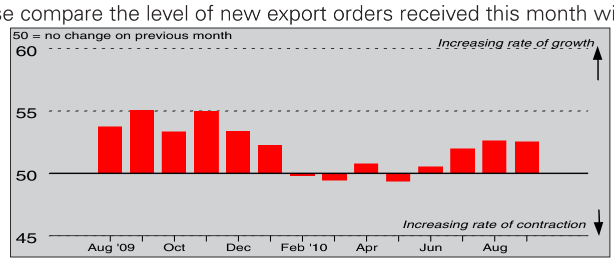


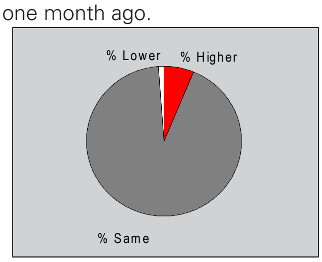


The seasonally adjusted New Orders Index continued to climb at the end of Q3. The latest reading was the highest for nine months and signalled a solid inflow of new work to the UAE private sector. Panel members stated that improving economic conditions was the primary factor underlying the rise in new business.

New Export Orders Index

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

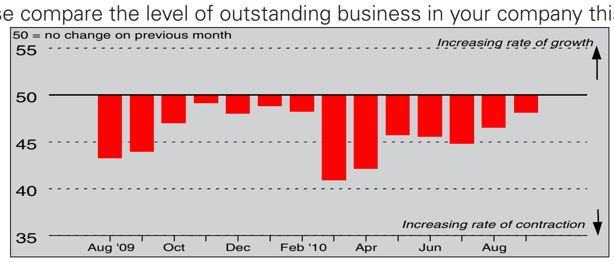


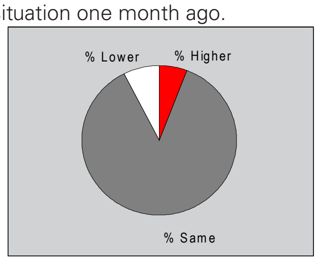


Unmoved from August, the seasonally adjusted New Export Orders Index signalled another moderate expansion in new external sales at UAE private sector companies in September. Anecdotal evidence suggested that demand in export markets had improved, particularly Saudi Arabia and Qatar.

Backlogs of Work Index

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

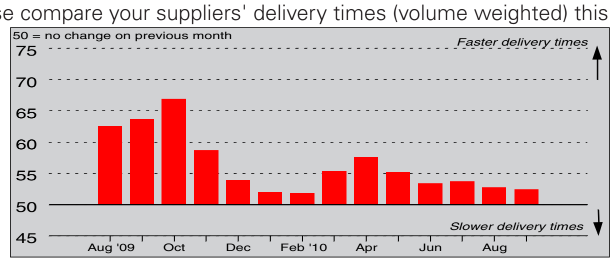


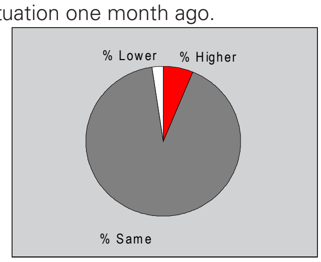


Outstanding business at UAE private sector companies fell during the latest survey period, as has been the case throughout the survey's fourteen-month history. However, the rate of decline in September was the slowest since February. Panellists indicated that the rate of activity growth outstripped the pace of increase in new business, resulting in a depletion of backlogs.

Suppliers' Delivery Times Index

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

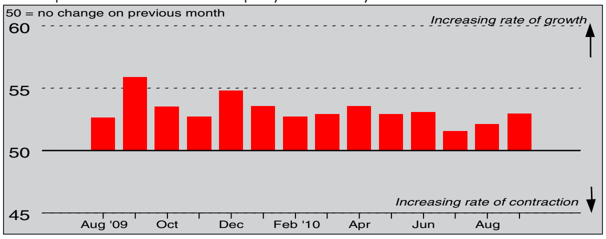


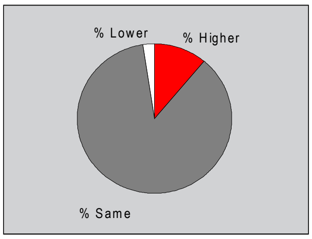


UAE private sector firms recorded another improvement in vendor performance in September. Lead times on deliveries of raw materials and semi-finished goods shortened at a moderate rate, which respondents mostly linked to swift payments and good relations with their suppliers. However, the rate of improvement eased to the mildest for seven months.

Employment Index

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

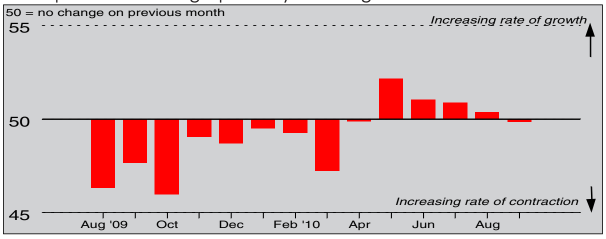


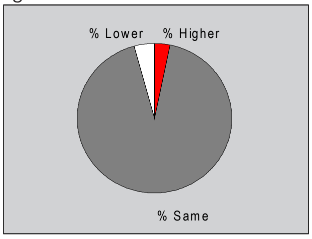


Job creation across the United Arab Emirates private sector economy picked up to a solid rate in September. The latest increase was the fastest since June and was broadly in line with the series trend. Companies monitored by the survey commented on increased workloads and business expansions.

Output Prices Index

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

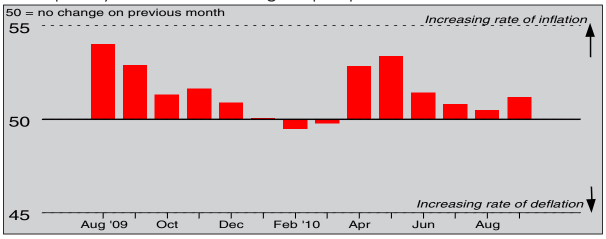


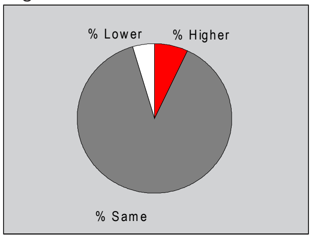


Prices charged for UAE private sector goods and services were largely unchanged in September. Firms that raised their tariffs primarily did so to take advantage of strong demand conditions and to pass on higher input costs to customers. In contrast, lower output prices were mainly linked to intense competition.

Overall Input Prices Index

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

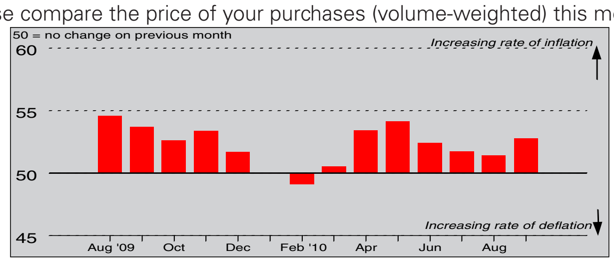


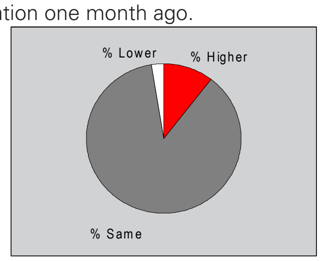


Overall input price inflation in the UAE private sector economy accelerated to a moderate pace during the latest survey period. The latest increase was the sharpest since June, primarily reflecting a faster rise in purchasing costs. However, the rate of inflation remained weaker than the long-run series average.

Input Costs: Purchase Prices Index

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

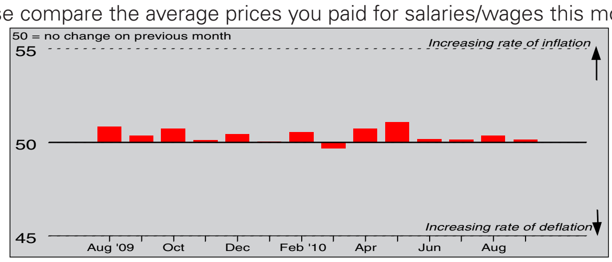


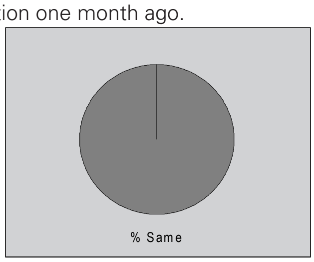


Purchasing costs faced by UAE private sector firms continued to rise in September. Moreover, the rate of increase accelerated to a four-month peak, with more than one-in-ten panellists noting inflation. Respondents commented on higher raw material prices, greater transportation costs and unfavourable exchange rates.

Input Costs: Staff Costs Index

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

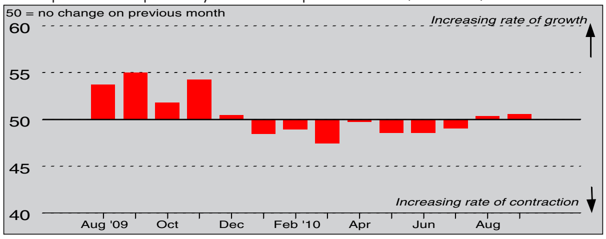


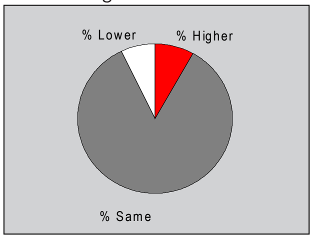


For the fourth month running in September, the seasonally adjusted Staff Costs Index registered close to the no-change threshold of 50.0 to signal another fractional rise in prices paid for salaries. Wages at United Arab Emirates private sector companies have now increased for six straight months.

Quantity of Purchases Index

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

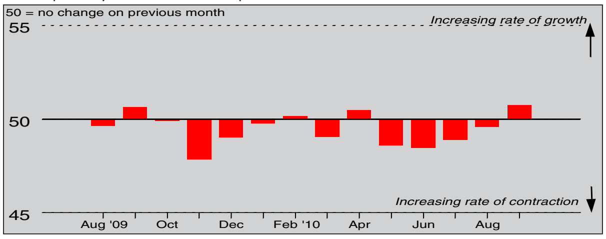


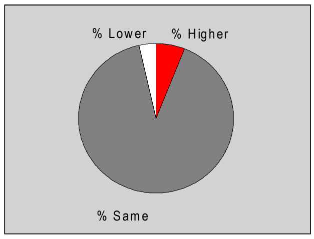


As business requirements increased during September, alongside expectations of future demand growth, UAE private sector companies raised buying activity. Purchasing rose for the second straight month and at a slightly accelerated pace that was the fastest since November 2009. That said, the rate of expansion remained only marginal.

Stocks of Purchases Index

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



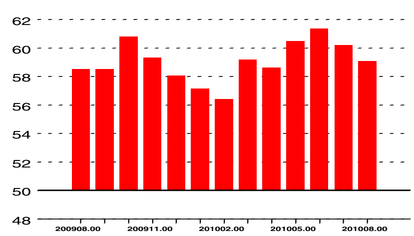


Ending a four-month run of depletion, input holdings at UAE private sector companies rose during September. Panel members linked larger inventories to growth of buying activity. However, with 6% of respondents noting an increase against around 4% posting a contraction, the rate of expansion was only mild.

International PMI summary

Saudi Arabia Purchasing Managers' Index™

50.0 = no change on previous month

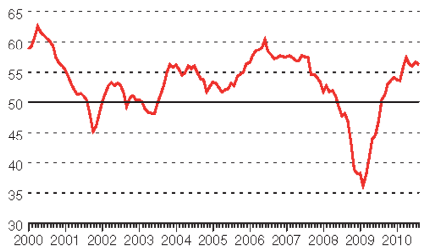


Source: Markit.

Falling further from June's series record peak, the seasonally adjusted headline HSBC Saudi Arabia PMI signalled a weaker improvement in operating conditions during August. Nevertheless, at 59.1, the index remained at a level consistent with a considerable strengthening in the sector's health.

Eurozone Purchasing Managers' Index™

50.0 = no change on previous month

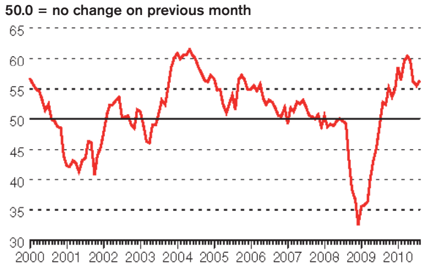


Source: Markit.

The Markit Eurozone Composite Output Index posted 56.2 in August, down from 56.7 in July. Business activity has now risen throughout the past thirteen months, with the rate of growth so far in Q3 2010 broadly in line with the second quarter's three-year high.

US Purchasing Managers' Index

50.0 = no change on previous month



Source: Institute for Supply Management (ISM).

At 56.3 in August, up from 55.5 in July, the headline ISM US Manufacturing PMI registered its highest reading for three months to signal a faster improvement in operating conditions across the sector. Underlying the rise in the headline index were sharper expansions in output, employment and input stocks.

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 United Arab Emirates economy, including manufacturing, services 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 July be revised from time to time as appropriate which will affect the seasonally adjusted data series.

Warning