

HSBC UAE PMI™

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

Summary

Registering 52.6 in September, the headline seasonally adjusted HSBC UAE PMI™ 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.

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. Firms stated that demand from trading partners had improved, particularly from Saudi Arabia and Qatar.

Despite further gains in new orders, work-in-hand 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 cater for 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 and charges were largely unchanged.

Comment

Commenting on the UAE PMI survey, Simon Williams, Chief Economist for MENA at HSBC said:

"The headline index is at its highest since November 2009 and it is encouraging that the gains in the score are being driven by growth in both current output and in new orders. Recovery has come late to the UAE and the pace still looks muted, but the survey strongly suggests that the economic environment has normalised and growth is underway."

"The September readings also support our view that, despite the Ramadan-related pick up in consumer prices, the underlying inflationary dynamic in the UAE is weak. Although input costs picked up modestly, output prices were stagnant, wages remained flat and the economy continued to show signs of carrying significant spare capacity."

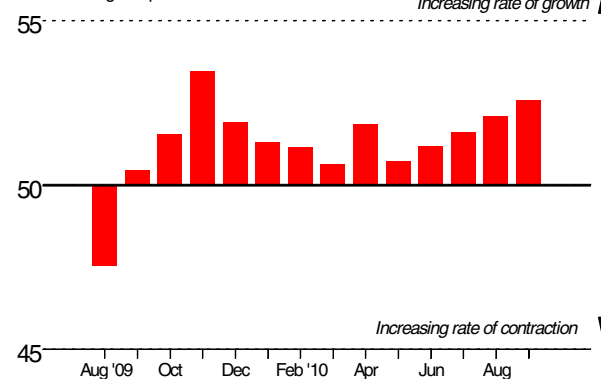
Key points

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

Historical Overview

HSBC UAE PMI

50 = no change on previous month



For further information, please contact:

HSBC

Simon Williams, Chief Economist, HSBC MENA

Telephone +971-4-423-6925

Email simon.williams@hsbc.com

Aimee Peters, Senior Manager, Corporate Communications

Telephone +971-4-423-5608

Email aimeepeters@hsbc.com

Charles Clarke, Senior Manager, Corporate Communications

Telephone +971-4-423-5640

Email charleswclarke@hsbc.com

Markit

Gemma Wallace, Economist

Telephone +44-1491-461-075

Email gemma.wallace@markit.com

Caroline Lumley, Corporate Communications

Telephone +44-20-7260-2047

Email caroline.lumley@markit.com

Notes to Editors:

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 derived from the Chartered Institute of Purchasing & Supply's survey of the UK economy: 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. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

HSBC:

Headquartered in London, HSBC is one of the largest banking and financial services organisations in the world. Its international network comprises some 8,000 offices in 87 countries and territories in Europe; Hong Kong; Rest of Asia-Pacific; the Middle East; North America and Latin America. With assets of US\$2,418 billion at 30 June 2010, HSBC is one of the world's largest banking and financial services organisations. HSBC is marketed worldwide as 'the world's local bank'.

About Markit:

Markit is a leading, global financial information services company with over 1,900 employees. The company provides independent data, valuations and trade processing across all asset classes in order to enhance transparency, reduce risk and improve operational efficiency. Its client base includes the most significant institutional participants in the financial market place. For more information please see www.markit.com.

About PMIs:

Now available for 26 countries and key regions including the Eurozone and BRIC, Purchasing Managers' Indexes™ (PMIs™) have become the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to www.markit.com/economics.

The intellectual property rights to the HSBC UAE PMI provided herein is owned by Markit Group Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Markit, PMI and Purchasing Managers' Index are all trademarks owned by The Markit Group.