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HSBC UAE PMI™

PMI hit series record high in October, signalling solid improvement in operating conditions.

Key findings:

- Output and new order growth accelerated.
- Employment rose at moderate pace.
- Charges increased slightly.

Business conditions faced by UAE companies in the non-oil producing private sector improved further at the start of the final quarter of 2010. Output and new order growth both accelerated since September, the former more noticeably, while firms continued hiring additional staff. With regard to prices, charges increased only slightly and at a slower rate than input costs.

Reaching a new series record peak of 53.8 in October, from 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 non-oil producing private sector – signalled a solid gain in the health of the economy. The headline index has now risen in each of the past five months.

For the ninth month in succession, UAE private sector firms registered higher output in October. Moreover, the latest increase was sharp and the fastest in the survey history. Underpinning the rise in activity levels was a faster expansion of new business, as well as a more pronounced depletion of backlogs.

Incoming new work increased markedly in October, which panellists linked to stronger demand, a better economic climate, successful advertising campaigns and improved competitiveness. Data indicated that domestic demand was

firmer than external demand, as new export order growth moderated slightly since September.

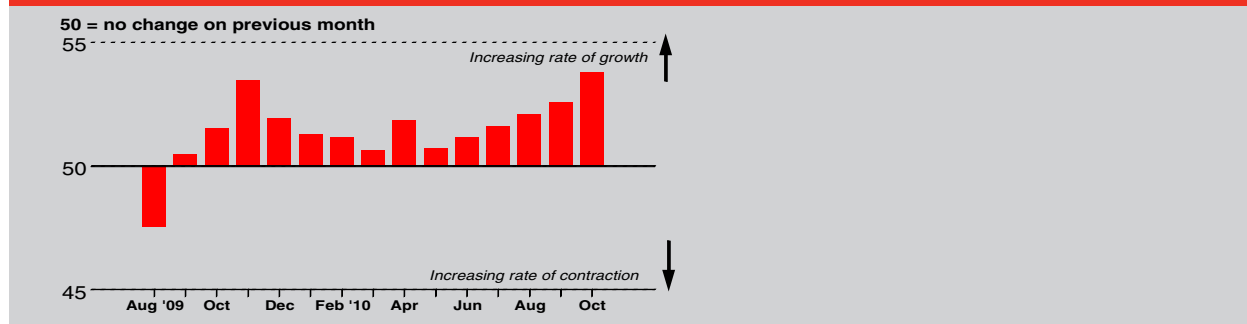
Despite sharper gains in new orders, work-in-hand at UAE private sector companies continued to fall during the latest survey period. The latest reduction was solid and the fastest for three months. Reports suggested that efforts to improve efficiency were the main reason for lower outstanding business.

To accommodate higher demand for their goods and services, UAE private sector companies hired extra workers and acquired additional inputs in October. Employment and buying activity both rose at moderate rates as a result. However, job creation slowed on the month. Growth of purchasing was not sufficient to build up input stocks, which fell modestly on the month.

Lead times on deliveries of raw materials and semi-finished goods to UAE private sector firms continued to shorten in October. However, the rate of improvement eased to a series record low, reflecting a sharper pick-up in demand for inputs.

Input price pressures built further in October, largely driven by rising raw material costs, although wage inflation also accelerated slightly. UAE private sector companies passed on part of the growth in their cost burdens to customers by way of higher charges. That said, output price inflation was only slight.

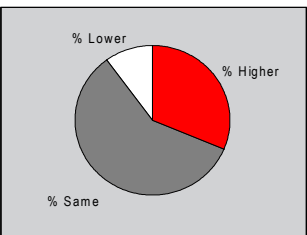
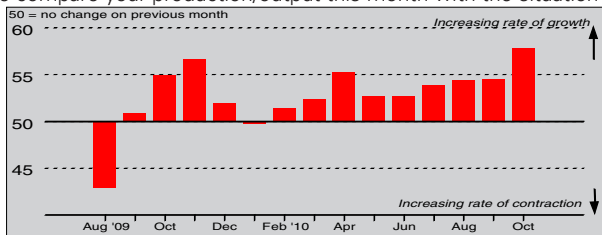
HSBC UAE PMI



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.

Output Index

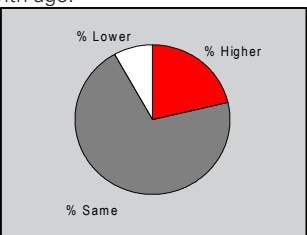
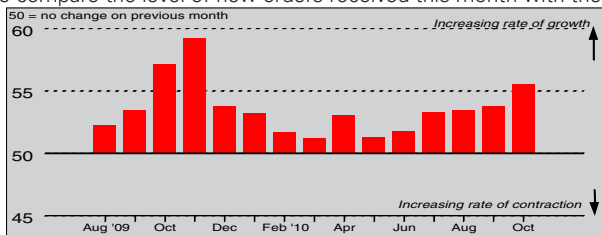
Q. Please compare your production/output this month with the situation one month ago.



Output from the UAE's non-oil producing private sector rose at a series record rate at the start of Q4. Growth was sharp and noticeably faster than in September, with over 31% of the survey panel recording an increase. Respondents indicated that activity was raised in response to higher new order levels, although PMI data suggest that further backlog depletion also played a part.

New Orders Index

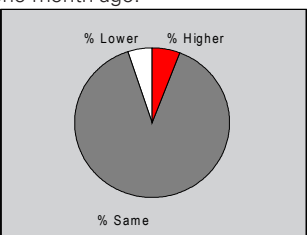
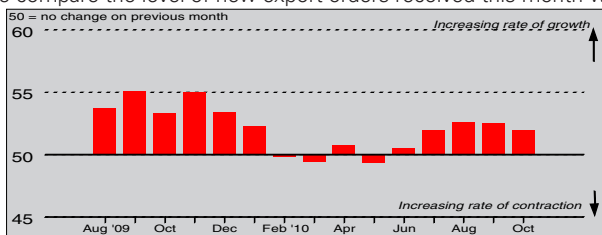
Q. Please compare the level of new orders received this month with the situation of one month ago.



Growth of incoming new work to United Arab Emirates private sector firms gained pace in October. The latest expansion was marked and the fastest for nearly a year. Reports indicated that stronger market demand, favourable economic conditions, promotional activities and efforts to improve competitiveness all underpinned the rise in new business.

New Export Orders Index

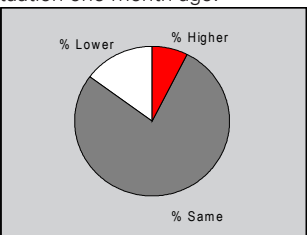
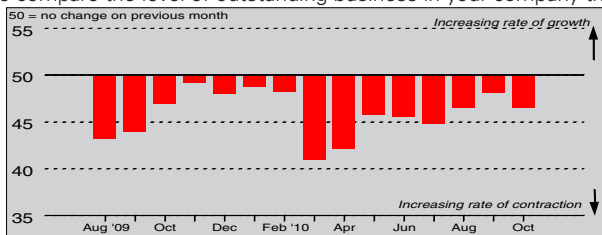
Q. Please compare the level of new export orders received this month with the situation of one month ago.



The seasonally adjusted New Export Orders Index slipped slightly in October, but continued to signal a moderate rise in new work from abroad at UAE private sector firms. Successful international advertising campaigns, good company reputations and favourable market demand were all reasons for new export order growth, according to respondents.

Backlogs of Work Index

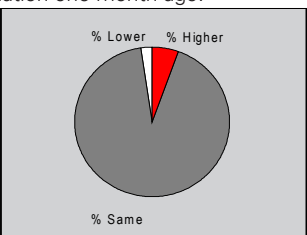
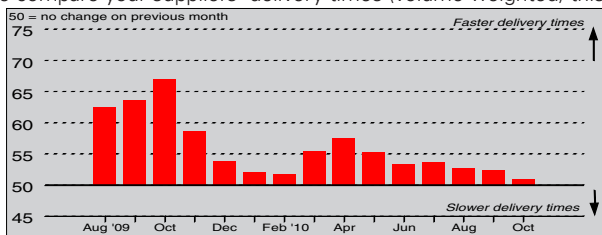
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Survey reports highlighted improved efficiency as the predominant reason for October's reduction of backlogs at UAE private sector firms. Unfinished business fell at a solid rate that was the sharpest for three months. Companies have recorded falling outstanding business throughout the fifteen-month history of the survey.

Suppliers' Delivery Times Index

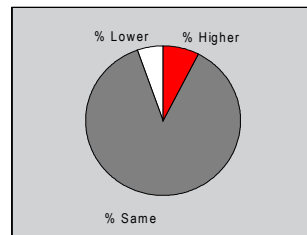
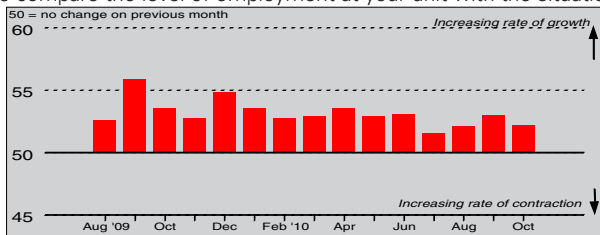
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Latest data showed that lead times on input deliveries to UAE private sector companies continued to shorten during October. However, the rate of improvement in vendor performance was only modest and the weakest in the series history. Respondents cited strong competition amongst suppliers and prompt payment as the primary reasons for better service.

Employment Index

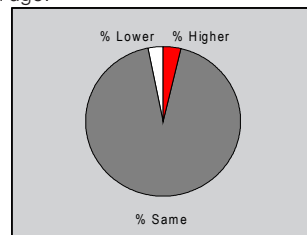
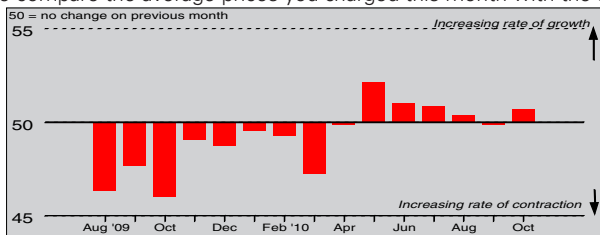
Q. Please compare the level of employment at your unit with the situation one month ago.



Private sector companies in the United Arab Emirates hired additional staff during the latest survey period, as has been the case throughout the series fifteen-month history. Growth was moderate, and slightly weaker than in September. Panel members stated that higher workloads and business expansions were the key factors behind job creation.

Output Prices Index

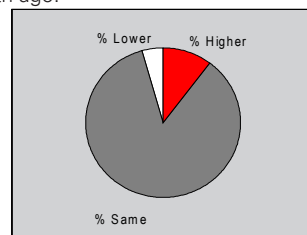
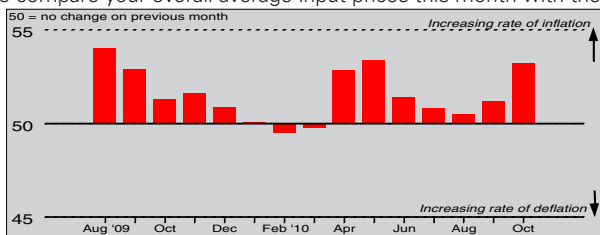
Q. Please compare the average prices you charged this month with the situation one month ago.



After accounting for seasonal variation, the Output Prices Index moved back above the no-change mark of 50.0 in October. However, the latest reading signalled only a slight rise in charges across the UAE non-oil producing private sector. Survey participants cited higher input costs as the main driver of output price inflation. Reports indicated that competitive pressures tempered the rate of increase.

Overall Input Prices Index

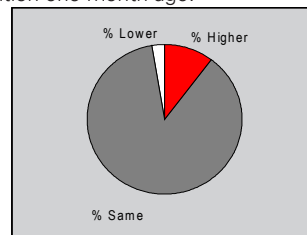
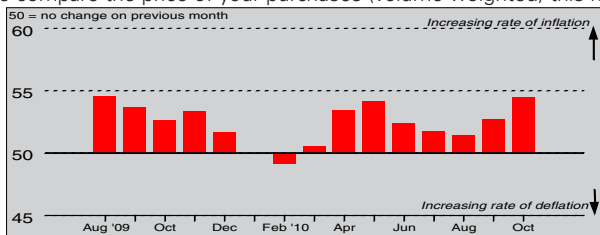
Q. Please compare your overall average input prices this month with the situation one month ago.



October data showed that further increases in both purchasing and staff costs were behind the latest rise in total input prices across the UAE's private sector economy. Accelerating to a solid rate, the former provided the main impetus to overall input price inflation, while wage growth remained relatively weak.

Input Costs: Purchase Prices Index

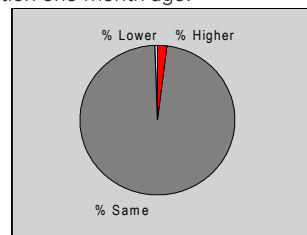
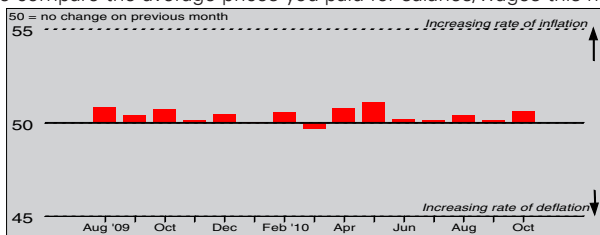
Q. Please compare the price of your purchases (volume-weighted) this month with the situation one month ago.



UAE private sector firms reported another increase in their average purchasing costs in October. Prices paid for raw materials and semi-finished goods rose strongly on the month, which respondents attributed to higher fuel and commodity prices, as well as currency fluctuations. The latest round of inflation was the most marked since August 2009.

Input Costs: Staff Costs Index

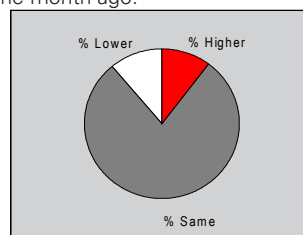
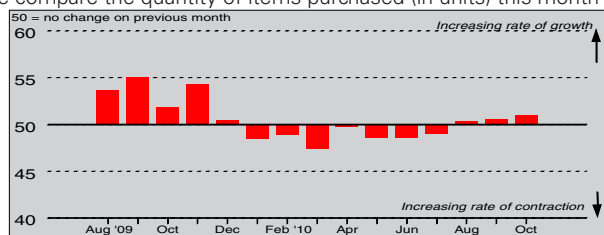
Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.



The seasonally adjusted Staff Costs Index climbed to a five-month high in October, signalling a sharper rise in salaries at UAE private sector companies. Although the latest increase was above the series trend, it remained only mild. The vast majority of panellists (over 97%) reported no change in salaries since September.

Quantity of Purchases Index

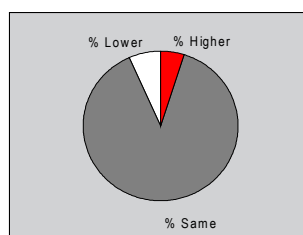
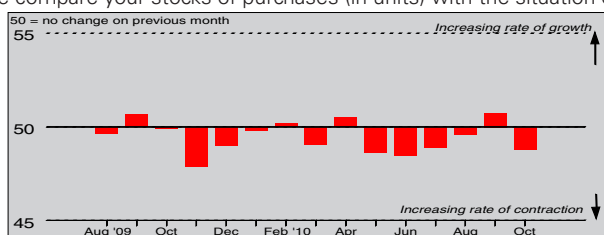
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Purchasing at United Arab Emirates private sector companies continued to rise in October, and at an accelerated pace. Anecdotal evidence suggested that buying activity growth reflected another expansion of new business. That said, the rate of increase was only modest and weaker than that registered during the same period last year.

Stocks of Purchases Index

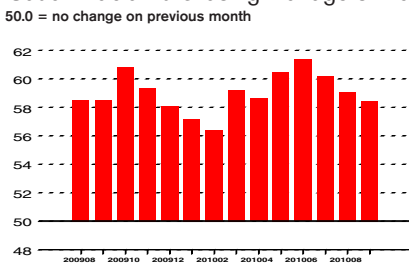
Q. Please compare your stocks of purchases (in units) with the situation one month ago.



A combination of higher-than-expected sales and efforts to cut costs through stock shedding led to a modest depletion of input holdings at UAE private sector companies in October. Moreover, the contraction was the most pronounced since June and sharper than the series trend. Since the survey began in August 2009, input inventories have grown in only four months.

International PMI summary

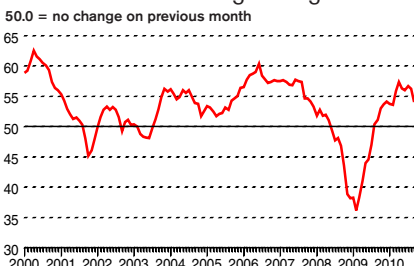
Saudi Arabia Purchasing Managers' Index™



Source: Markit.

The seasonally adjusted headline SABB HSBC Saudi Arabia Purchasing Managers' Index slipped further in September to 58.4, from 59.1 in August. Although the latest reading pointed to a weaker improvement in the health of the KSA private sector economy, it remained consistent with a substantial rate of expansion.

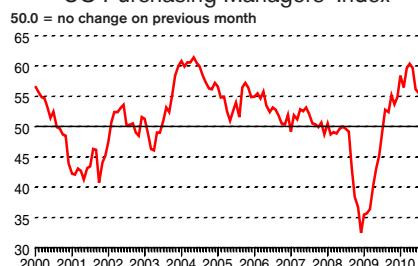
Eurozone Purchasing Managers' Index™



Source: Markit.

Eurozone private sector activity growth eased to a seven-month low in September. At 54.1, the Markit Eurozone Composite Output Index was down sharply from 56.2 in August. However, the average headline index reading in Q3 was only slightly below the three-year high reached in Q2.

US Purchasing Managers' Index



Source: Institute for Supply Management (ISM).

The headline ISM US Manufacturing PMI fell to ten-month low of 54.4 in September, down from 56.3 in August. Nevertheless, the latest reading remained above the series trend and signalled a robust improvement in business conditions across the sector.

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, 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 July be revised from time to time as appropriate which will affect the seasonally adjusted data series.

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