

HSBC UAE PMI™

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

Summary

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™ 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, 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, 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.

Comment

Commenting on the UAE PMI survey, Simon Williams, Chief Economist for Middle East & North Africa at HSBC said:

"This is encouraging reading that supports our view that the UAE has shifted into recovery mode. I don't expect momentum in the economy to build particularly quickly, and there are clear signs that the amount of spare capacity in the economy is worryingly high. The gains in new orders, though, offer strong grounds to expect the steady gains in output and labour demand to persist. We continue to look for real growth of around 2 percent this year, rising to around 3.5-4 percent in 2011."

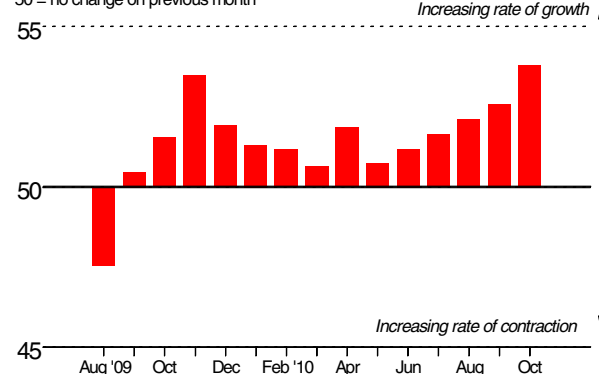
Key points

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

Historical Overview

HSBC UAE PMI

50 = no change on previous month



For further information, please contact:

HSBC

Simon Williams, Chief Economist, HSBC Middle East & North Africa

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, 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 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.