# HSBC Purchasing Managers' Index™ 2011

compiled by markit

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# HSBC UAE PMI™

## New order growth picked up in December, but input cost inflation hit series record rate.

**Key findings:**

- Activity and new business growth were marked.
- Job creation accelerated slightly.
- Input prices rose at fastest pace in survey history.

The United Arab Emirates non-oil private sector economy continued to expand in the final month of the year, with both output and new orders growing markedly and job creation picking up to a moderate pace. However, stronger demand conditions, alongside unfavourable exchange rates, contributed to a series record rise in input prices.

Registering 53.0 in December, the headline seasonally adjusted HSBC United Arab Emirates PMI™ – a composite indicator designed to provide a single-figure snapshot of the performance of the non-oil private sector – was virtually unmoved from November's reading of 52.9, signalling another solid improvement in the health of the sector.

Activity levels in the UAE non-oil private sector rose strongly in December, despite growth easing to a three-month low. Firms stated that output expanded on the back of another increase in new work. New business receipts rose at a robust and accelerated pace since November. Although data showed that foreign demand improved on the month, it suggested that the domestic market remained the key driver of total new order growth. Better market conditions, product innovations and aggressive marketing were the main reasons for higher demand, according to panel members.

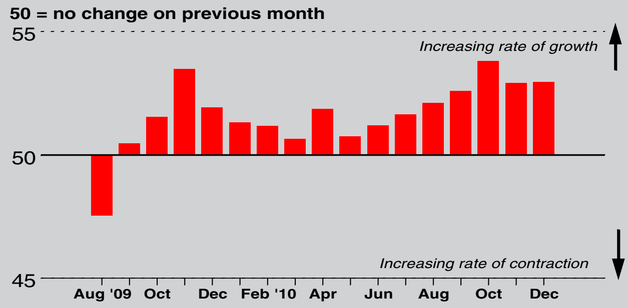
Reflecting stronger new order growth, UAE non-oil private sector firms raised employment, buying activity and input stocks at faster rates in December. Both staffing and purchases expanded moderately, while inventories increased at a series record pace (although this was only slight).

December data indicated that workloads at United Arab Emirates non-oil private sector firms remained manageable, despite greater demand levels. Backlogs continued to fall, albeit at only a fractional rate that was the mildest in the series' seventeen-month history. Suppliers were also generally able to readily meet demand, as average delivery times shortened at the fastest pace for five months.

Improving business conditions encouraged UAE non-oil private sector companies to increase staff salaries and wages in December. Labour costs rose marginally, following a slight decline in the previous month. Purchasing costs also increased during the latest survey period, and more noticeably. Purchase price inflation accelerated to a considerable rate that was a survey record, which respondents linked to higher raw material prices and unfavourable exchange rates. Overall, input costs rose at a robust pace.

Partly to protect their profit margins from rising input costs, but also to take advantage of improved market demand, UAE non-oil private sector companies raised their tariffs in December. Consequently, charges increased moderately, following a slight decline in November.

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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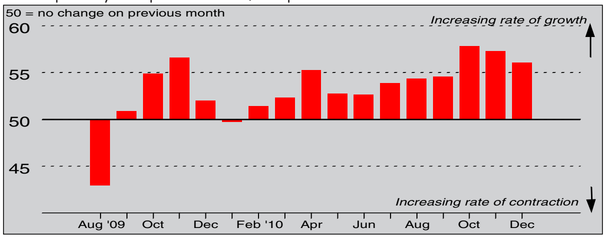
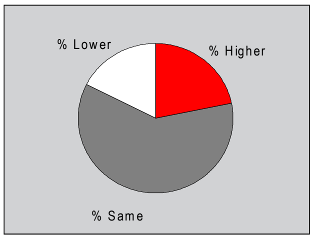
## Output Index

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

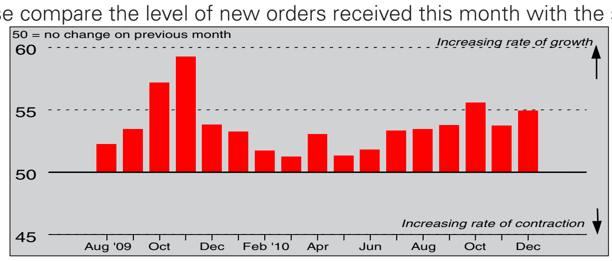


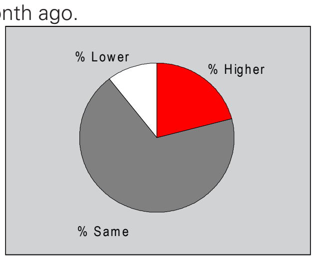




The seasonally adjusted Output Index sank to a three-month low at the end of Q4, but it remained at a level consistent with a marked rate of growth. Activity in the United Arab Emirates non-oil private sector has now increased for eleven months in succession. Panellists linked the latest expansion to improved demand and greater new order numbers.

## New Orders Index

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

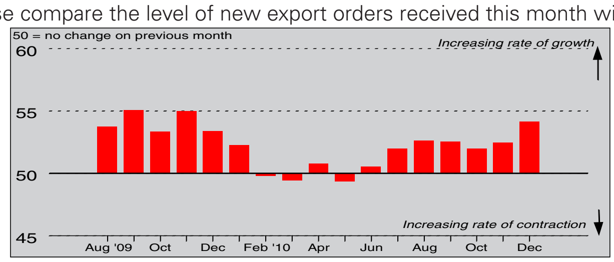


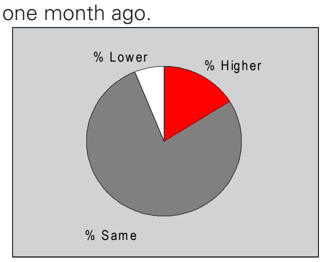




Incoming new work to the UAE non-oil private sector grew markedly in December, and at an accelerated pace. Around 21% of the survey panel recorded an increase – approximately twice the proportion that saw a decline. Reports showed that a combination of improved demand conditions, product innovations and aggressive marketing drove the latest expansion.

## New Export Orders Index

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

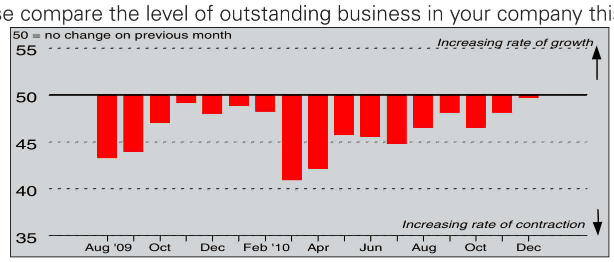


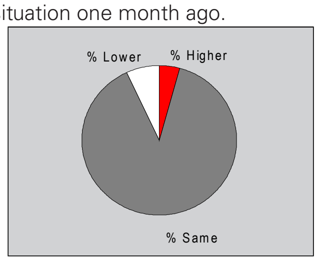




December data pointed to an improvement in foreign demand for UAE non-oil private sector goods and services. New orders rose at a robust rate that was the most marked for over a year. Respondents cited favourable business conditions and successful promotional campaigns as key reasons for growth. Some firms made note of good demand from Saudi Arabia.

## Backlogs of Work Index

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

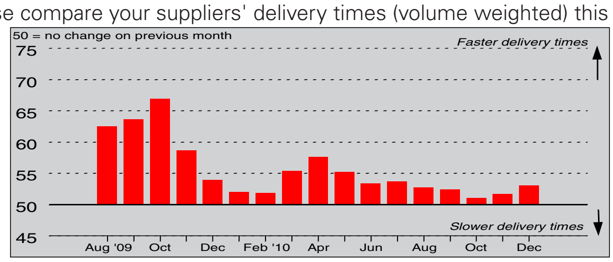


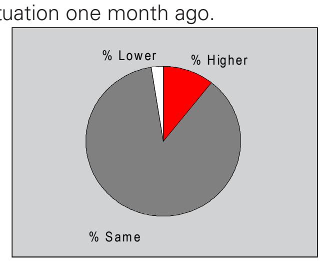




Backlogs of work at UAE non-oil private sector companies fell during the latest survey period, as has been the case throughout the survey's seventeen-month history. Panellists stated that efforts were made to keep on top of workloads. However, the rate of depletion eased to only a fractional pace since November.

## Suppliers' Delivery Times Index

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

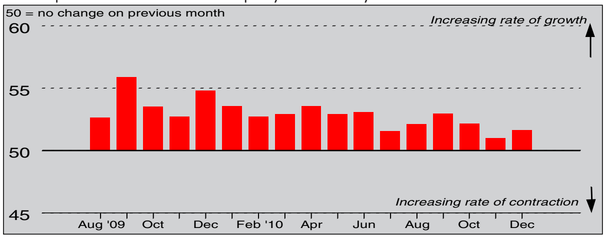


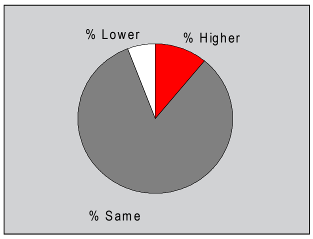




Intense competition amongst suppliers and prompt payment for goods resulted in another improvement in vendor performance across the UAE non-oil private sector during December. Lead times shortened solidly and at the fastest rate for five months, despite a pick-up in demand for inputs. However, the rate of improvement remained slower than the series trend.

## Employment Index

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

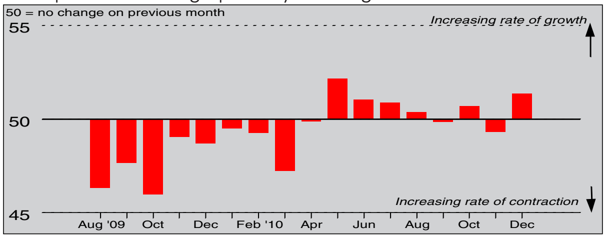


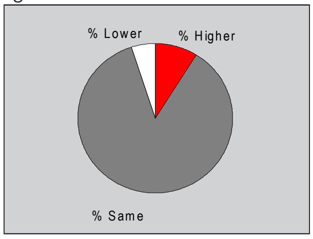




Job creation in the United Arab Emirates non-oil private sector accelerated slightly during December. Respondents cited increased business requirements, due to stronger market demand and company expansions, as the principal reason for growth. However, the rate of increase in headcounts remained weaker than the series average.

## Output Prices Index

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

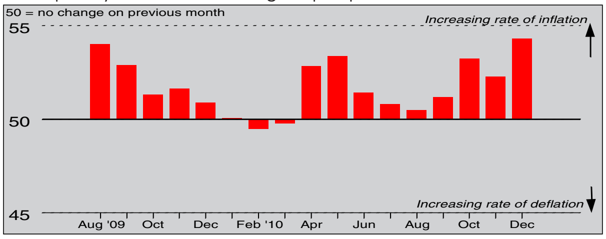


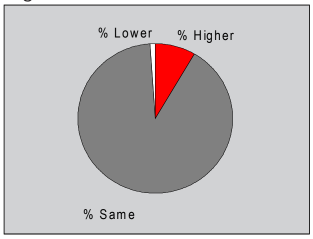




Following a slight decrease in November, output prices across the UAE's non-oil private sector rose in December. Although only moderate, the rate of inflation was the second-sharpest in the series history (after May's record). Panel members indicated that charges were raised to compensate for higher input prices and to bolster profit margins.

## Overall Input Prices Index

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

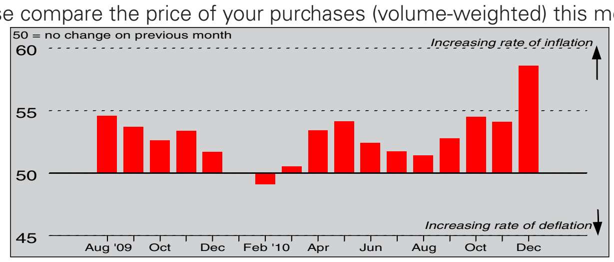


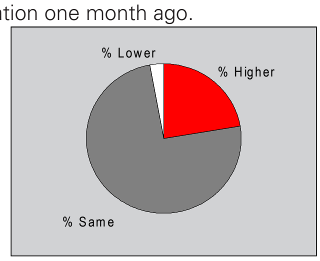




Overall input price pressures faced by UAE non-oil private sector firms intensified during December. The latest increase in costs was robust and the most marked in the series to date. Although both purchase and staff costs picked up on the month, data suggested that the former remained the main driver of total input price inflation.

## Input Costs: Purchase Prices Index

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

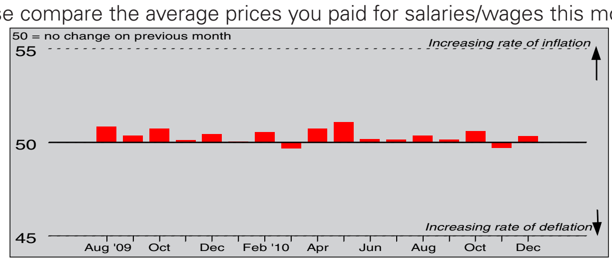


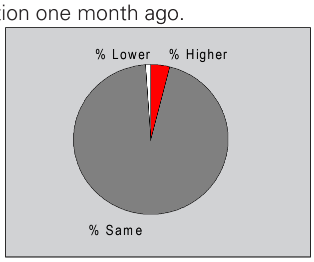




Purchase price inflation accelerated noticeably in the final month of the year, with over 22% of survey participants noting an increase since November. This is in contrast to just 3% that saw raw material prices fall. Stronger demand for commodities and unfavourable exchange rate fluctuations were the principal factors underlying inflation, according to respondents.

## Input Costs: Staff Costs Index

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

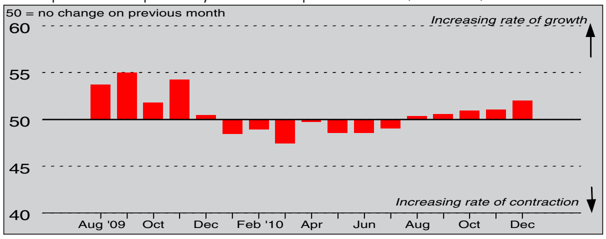


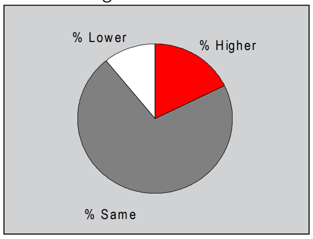




Average labour costs paid by UAE non-oil private sector companies rose slightly in December, following a fractional decline in November. It was the eighth time in the past nine months that firms in the sector had increased their staff costs. Panellists indicated that higher employee payments reflected better company performance.

## Quantity of Purchases Index

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

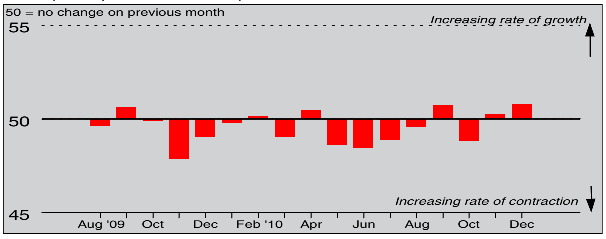


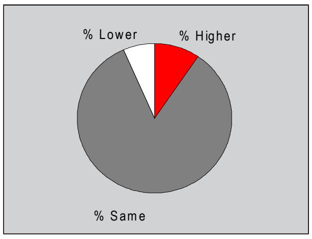




Partly to accommodate increased business requirements, but also to hedge against further raw material price hikes, United Arab Emirates non-oil private sector firms raised their buying activity in December. Moreover, with around 18% of panel members noting growth, the rate of expansion accelerated to the sharpest since November last year.

## Stocks of Purchases Index

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

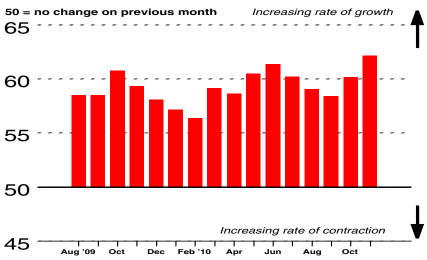



In anticipation of further new order growth, but also to guard against future commodity price rises, UAE private sector companies built up input stocks in December. Holdings of raw materials and semi-finished goods grew for the second month running and at a series record rate. Even so, the pace of increase was only fractional.

## International PMI summary

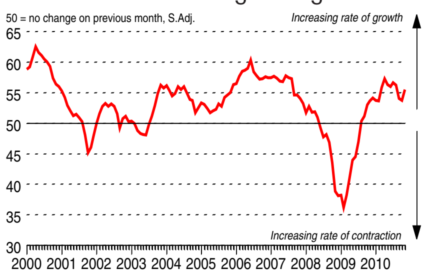
### Saudi Arabia Purchasing Managers' Index™




*Source: Markit.*

The headline SABB HSBC Saudi Arabia PMI climbed to 62.2 in November – its highest level to date – up from 59.9 in October. The reading signalled another strong improvement in the health of Saudi Arabia's non-oil private sector economy. Contributing to the improvement in the PMI were faster increases in output, new orders and employment.

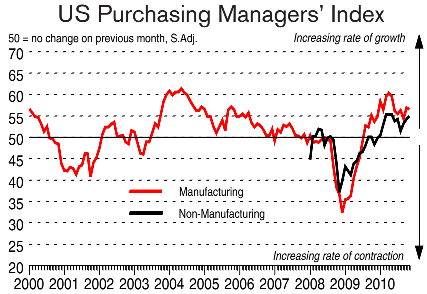
### Eurozone Purchasing Managers' Index™




*Source: Markit.*

The Markit Eurozone Composite Output Index rose to a three-month high of 55.5 in November, up from 53.8 in October. However, the average index reading so far in Q4 (54.6) remained below that for Q3 (55.7). Output has increased in each of the past sixteen months.

### US Purchasing Managers' Index




*Source: Institute for Supply Management (ISM).*

At 56.6 in November, the headline ISM US Manufacturing PMI was fractionally below October's 56.9. The latest figure signalled another strong improvement in the health of the US manufacturing economy. A headline ISM US NMI reading of 55.0, up from 54.3, showed that the performance of the non-manufacturing sector improved.

## 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.

## Warning