

## HSBC UAE PMI™

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

### Summary

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™ 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.

### Comment

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

*"The latest PMI reading suggests that the economy continues to normalise. The uptick in new orders is particularly encouraging but I still view this as a recovery yet to build momentum."*

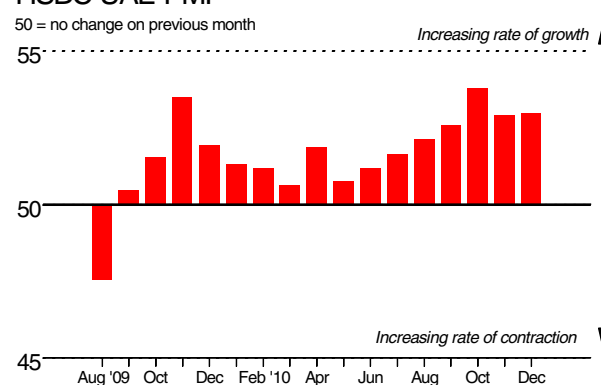
*"Even though there was some increase in output prices, it is unlikely that this rise fully compensates for the pick-up in input costs."*

### Key points

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

### Historical Overview

#### HSBC UAE PMI



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**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](mailto:economics@markit.com).

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