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HSBC UAE PMI™

Output growth reached series record high in January, boosted by sharper rise in new orders.

Key findings:

- PMI hit series record peak.
- Activity, new orders and employment all rose at accelerated rates.
- Charges increased at fastest pace in survey history, despite slower input price inflation.

United Arab Emirates non-oil private sector companies enjoyed a strong start to the new year, as expansions in new orders, activity, employment and purchasing all accelerated. In particular, output growth reached a series record rate. This enabled firms to raise their charges at the fastest pace since the survey began in August 2009. Meanwhile, input cost inflation moderated.

Boosted by improved readings from its key components, 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 – rose to a survey record peak in January. At 54.2, up from 53.0 in December, the latest reading signalled a robust improvement in the health of the sector.

New business receipts at United Arab Emirates non-oil private sector firms continued to increase during the latest survey period, and at the fastest rate since November 2009. Panel members stated that stronger economic conditions and good company reputations underlay January's gains in new work. Data suggested that domestic demand was the main driver of total new order growth, as new export business increased at a weaker rate on the month.

In response to a further increase in new business, UAE non-oil private sector firms raised output, purchases and employment in January. Activity levels rose considerably, while both input

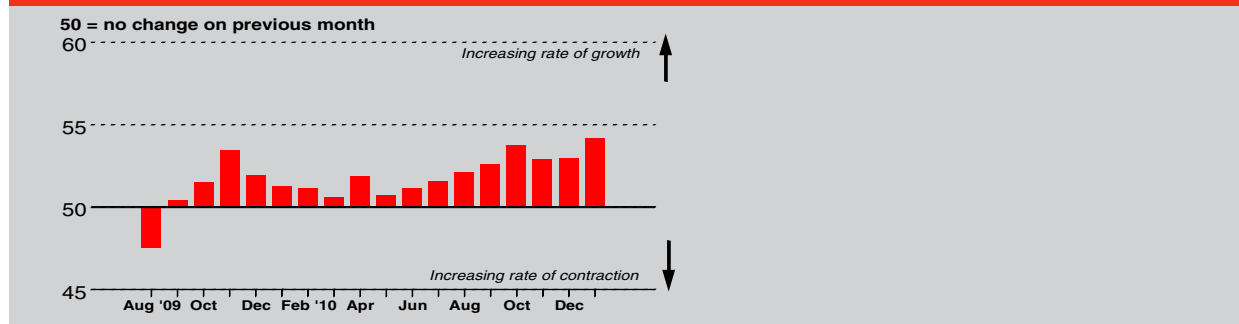
acquisitions and staffing expanded at a moderate pace. Respondents also commented on company expansions as a reason for job creation.

A sharper rise in buying activity resulted in a faster accumulation of input stocks at the start of Q1. Inventories grew at a pace that, although modest, was the most marked in the series' one-and-a-half year history. Greater demand for inputs did not, however, prevent another shortening of lead times on input deliveries. Average vendor performance improved moderately, although at the mildest pace for three months. Anecdotal evidence indicated that competition amongst suppliers and prompt payments for goods were the main reasons for faster deliveries.

Latest data suggested that non-oil private sector firms in the UAE were generally able to cope with workloads. Outstanding business continued to fall, albeit only marginally and at the joint-slowest rate in the survey history.

Overall input prices faced by UAE non-oil private sector companies increased at a solid rate during January, principally driven by rising fuel and raw material costs (staff cost inflation was marginal and weaker than in December). Partly to compensate for this, but also to take advantage of stronger market conditions, firms raised their tariffs again. Output price inflation was moderate and the steepest recorded in the survey history.

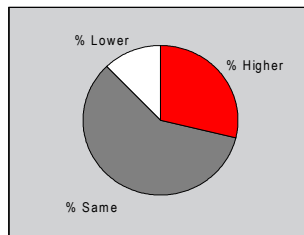
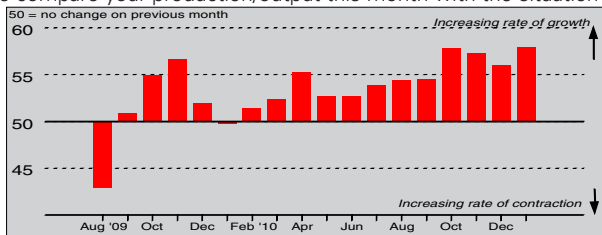
HSBC UAE PMI



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

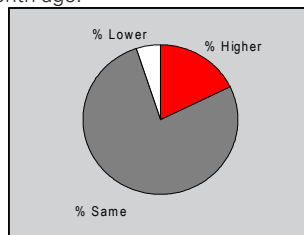
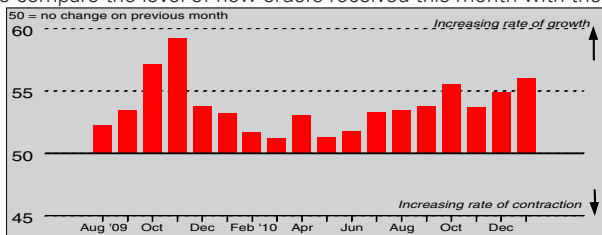
Q. Please compare your production/output this month with the situation one month ago.



Climbing to a series record high in January, the seasonally adjusted Output Index signalled a substantial rise in UAE non-oil private sector activity. Approximately 29% of the survey panel raised output on the month, linking this to better economic conditions and further inflows of new business.

New Orders Index

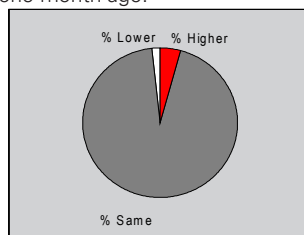
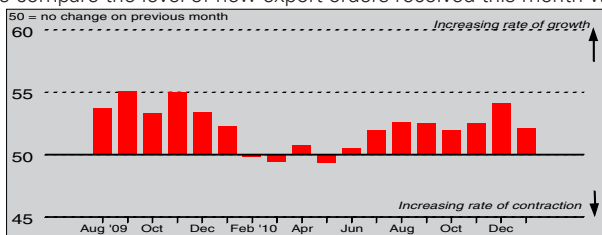
Q. Please compare the level of new orders received this month with the situation of one month ago.



Growth of new business across the United Arab Emirates non-oil private sector picked up to a marked rate during the latest survey period. It was the most pronounced increase for fourteen months and reflected stronger market conditions and demand, as well as good company reputations. Data suggested that the home market was the key driver of expansion, as new export orders rose at a weaker rate.

New Export Orders Index

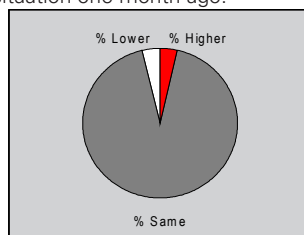
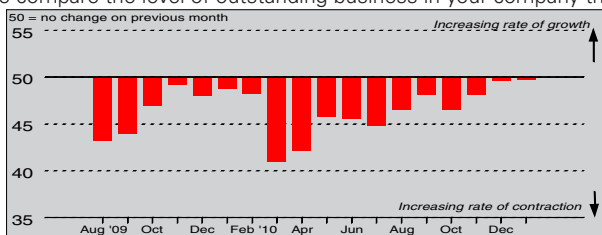
Q. Please compare the level of new export orders received this month with the situation of one month ago.



UAE non-oil private sector firms reported another expansion of new work from abroad at the start of Q1, bringing the current run of growth to eight months. The latest increase was modest and milder than over the previous two survey periods. Respondents cited improved economic conditions and stronger demand (particularly from Asia) as the main reasons for gains in new export orders.

Backlogs of Work Index

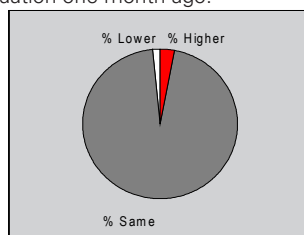
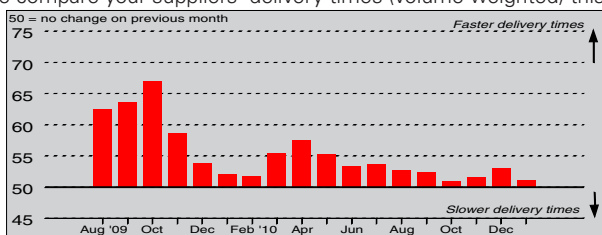
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



The seasonally adjusted Backlogs of Work Index was unmoved in January, indicating another marginal depletion of outstanding business across the UAE non-oil private sector. This suggests that workloads remained manageable, despite a sharper rise in new orders. However, it was the joint-slowest decline in unfinished business in the survey history.

Suppliers' Delivery Times Index

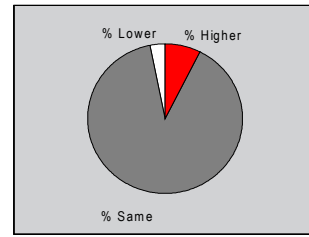
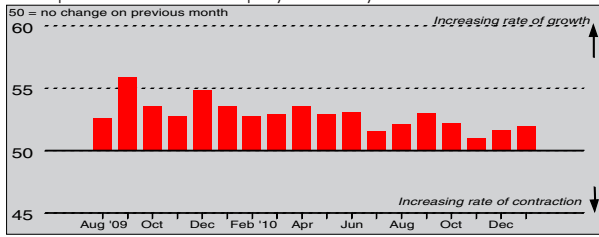
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Competition amongst suppliers and timely payments for deliveries by UAE non-oil private sector companies resulted in another improvement in vendor performance during January. Lead times have shortened throughout the series history, although the latest improvement was the slowest since October and one of the weakest of the sequence.

Employment Index

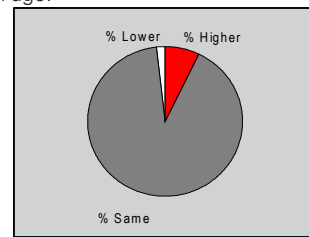
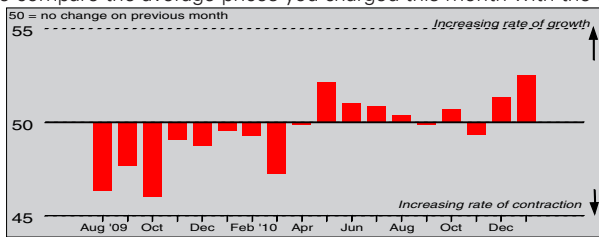
Q. Please compare the level of employment at your unit with the situation one month ago.



Data pointed to a faster rate of job creation at United Arab Emirates non-oil private sector firms in January. Staffing rose at a moderate pace, but remained slower than the series' twelve-month average. Anecdotal evidence showed that improved business conditions and company expansions were the principal factors driving recruitment.

Output Prices Index

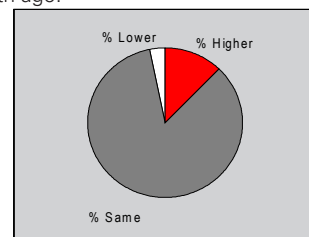
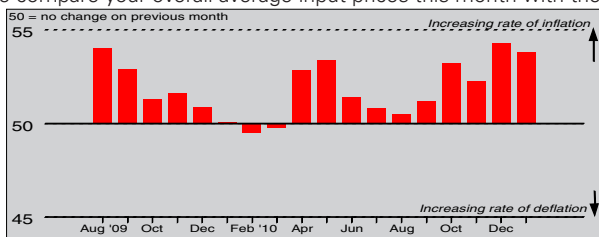
Q. Please compare the average prices you charged this month with the situation one month ago.



In order to compensate for rising input costs, but also to expand profit margins, UAE non-oil private sector firms continued raising their charges in January. Furthermore, output price inflation gained pace since December to a series record high. Around 7% of companies reported an increase in charges, compared with fewer than 2% noting a decline.

Overall Input Prices Index

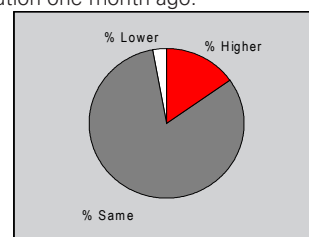
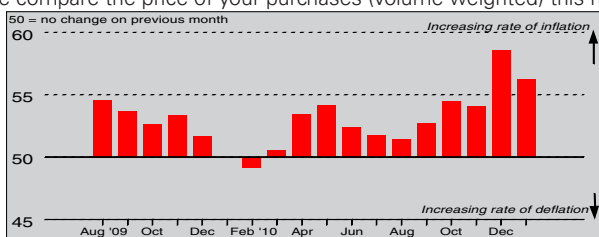
Q. Please compare your overall average input prices this month with the situation one month ago.



Overall, input price inflation across the UAE non-oil private sector economy moderated during January. Nevertheless, the latest increase was solid and the third-fastest in the series history. Rising purchasing costs continued to put the greatest upward pressure on total input prices, as personnel cost inflation remained muted.

Input Costs: Purchase Prices Index

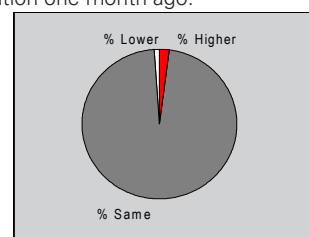
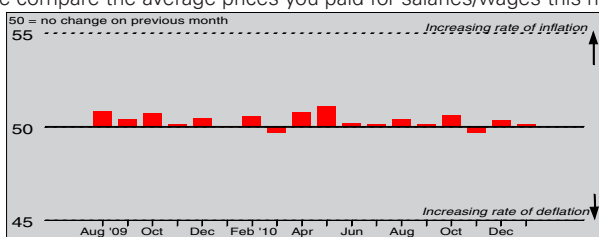
Q. Please compare the price of your purchases (volume-weighted) this month with the situation one month ago.



Purchasing cost inflation in the UAE non-oil private sector slowed from December's series record peak at the start of 2011, but remained marked. Reports showed that higher energy and raw material prices underpinned the latest increase. Specifically, firms commented on the higher costs of oil, steel, cement and building materials.

Input Costs: Staff Costs Index

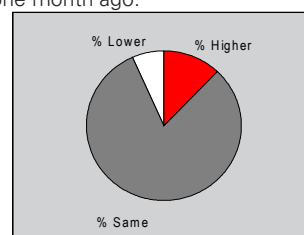
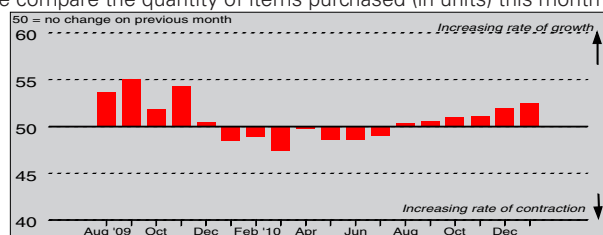
Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.



Both to motivate staff and to compensate them for increased living costs, United Arab Emirates non-oil private sector companies raised employee salaries for the second straight month in January. However, the rate of staff cost inflation remained only marginal. Most respondents (around 97%) left wages unchanged since December.

Quantity of Purchases Index

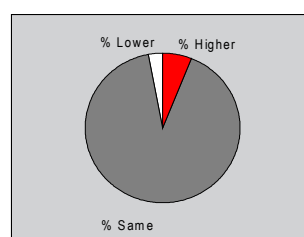
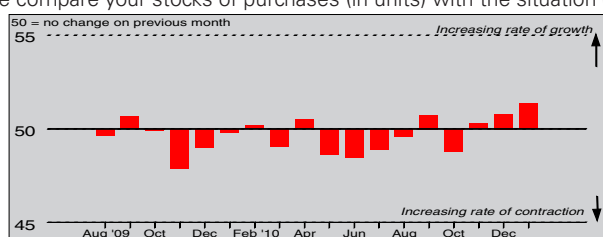
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Reflecting an upward trend in new orders, buying activity in the UAE non-oil private sector rose at a faster rate during January. Growth was moderate and the most pronounced since November 2009. Over 12% of panellists acquired additional inputs since December, against 7% that reduced purchases.

Stocks of Purchases Index

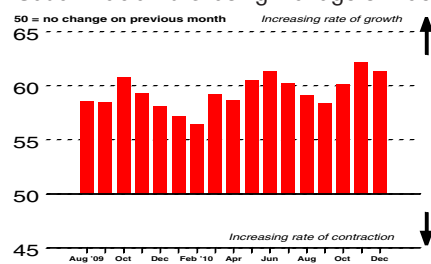
Q. Please compare your stocks of purchases (in units) with the situation one month ago.



To accommodate current business requirements, but also in anticipation of further demand growth in the near future, United Arab Emirates non-oil private sector firms build up input stocks during January. Although still modest, growth accelerated to the sharpest rate in the series history. However, the vast majority of firms (91%) maintained inventories since December.

International PMI summary

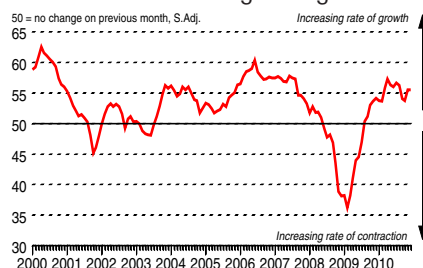
Saudi Arabia Purchasing Managers' Index™



Source: Markit.

At 61.3 in December, the headline index was down slightly from November's series record high of 62.2. Nevertheless, the latest reading signalled another considerable gain in the health of the Saudi Arabian non-oil private sector. Moreover, the rate of the improvement remained above the series trend.

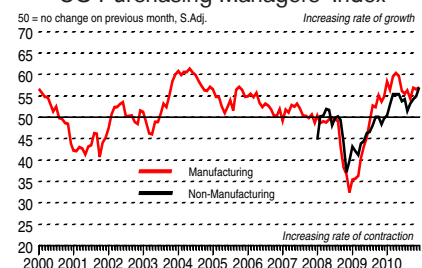
Eurozone Purchasing Managers' Index™



Source: Markit.

At 55.5 in December, unchanged from November's three-month high, the Markit Eurozone Composite Output Index signalled an expansion in economic activity for the seventeenth consecutive month. Manufacturing output growth accelerated to a five-month high, but expansion slowed slightly in services (though remained solid).

US Purchasing Managers' Index™



Source: Institute for Supply Management (ISM).

The business environment in which US goods producers and service providers operate continued to improve at the end of 2010. This was shown by rises in the ISM US Manufacturing PMI and Non-Manufacturing NMI to 57.0 and 57.1 respectively. The former was a seven-month high and the latter a series record.

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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