HSBC Purchasing Managers' Index™ Press Release
Embargoed until: 09:30 (DUBAI), 3 March 2011

compiled by markit

HSBC UAE PMI™

PMI reached survey record high in February, but price pressures intensified

Summary

February data point to another positive performance from UAE non-oil private sector companies. Output growth stayed close to January's record pace, while both new orders and employment rose at stronger rates. However, price pressures intensified at unprecedented rates in the survey's nineteen-month history.

The headline seasonally adjusted HSBC United Arab Emirates PMI™ hit a new high of 54.3 in February, from January's 54.2. The latest figure signals another robust gain in the health of the sector. The PMI has now registered above the 50.0 no-change threshold for a year-and-a-half. Supporting the rise in the headline index were faster increases in both new orders and employment.

Incoming new work grew at a substantial and accelerated pace during February. Data show that improvements in both domestic and foreign demand contributed to the increase in total new business, although the former remained the principal driver. Panel members cited favourable economic conditions, company expansions, new product launches, promotional work and strong business reputations as reasons for greater demand.

To accommodate stronger growth of new orders, UAE non-oil private sector firms raised output, hired more staff and built up stocks of purchases in February. Activity levels expanded at a substantial pace, although the rate of increase eased fractionally since January. The accumulation of input stocks also moderated on the month, despite a faster rise in buying activity. Job creation, on the other hand, picked up to a modest pace that was the sharpest since last October.

Latest figures suggest that both UAE non-oil private sector firms and their suppliers were coping well with workloads in February. The former continued to clear backlogs, while the latter made faster input deliveries. Panel members attributed improved vendor performance to sufficient stock levels, efficient service, good client-provider relationships and competition amongst suppliers.

A combination of greater fuel and raw material prices drove up purchasing costs in February. Consequently, purchasing price inflation accelerated to a series record pace. Respondents made particular reference to higher oil prices.

To compensate their workers for increased living costs, firms raised wages and salaries again, and at the fastest rate in the survey history. Even so, the rate of inflation was only modest.

Stronger demand conditions meant that UAE non-oil private sector companies were able to pass on part of their increased cost burdens to customers in February. Charges were raised at an unprecedented rate as a result.

Comment

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

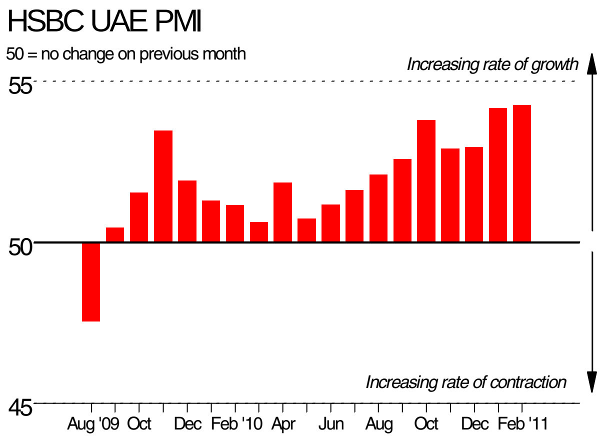
"The latest readings strengthen our view of the UAE that recovery is gaining traction and beginning to build speed. The fact that new orders and current output are both rising is particularly encouraging. Higher output prices also suggest a more resilient consumer, although real estate excesses, low bank credit and a slack labour market will keep the headline inflation rate low this year.

"It's too soon to judge what impact regional unrest is having on growth prospects. Next month's PMIs though should give us a clearer steer."

Key points

- Output and new orders both rose sharply.
- Employment growth picked up to modest pace.
- Series record rises in both input and output prices.

Historical Overview



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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, Markit Press Office
Telephone +44-20-7260-2047
Mobile +44-781-581-2162
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:

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