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## HSBC UAE PMI™

Output and new order growth at series record highs in April. Prices also increased at unprecedented rates.

### Key findings:

- PMI at new survey record peak.
- Employment rose at fastest pace for sixteen months.
- Both input and output prices rose at series record rates.

April survey data pointed to a strong start to 2011's second quarter for the UAE non-oil private sector. Series record expansions were recorded in output, total new business, new export orders, buying activity and input stocks, while employment grew at the sharpest rate for sixteen months. However, price pressures built up on the back of higher demand levels.

Climbing to 57.5 in April, from 54.7 in March, 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 – reached a new series record peak. The latest reading signalled a stronger improvement in the health of the country's non-oil private sector.

Incoming new work to UAE non-oil private sector companies rose at an accelerated pace during the latest survey period, with growth reflecting improved market demand and the relative stability of business conditions in the country (compared to elsewhere in the region). Despite a faster rise in new export orders, data suggest that domestic demand remained the principal driver of expansion.

To accommodate faster growth of new business, United Arab Emirates non-oil private sector firms raised output at a sharper pace in April. Activity levels in the sector have now increased for fifteen straight months. By company size, data indicate that large and medium-sized firms were the best performers.

Partly due to further growth of new business, but also because of supply-chain disruptions caused by unrest in the region, backlogs of work at UAE non-oil private sector companies built up for the first time in the survey history in April. That said, the rate of accumulation was only marginal.

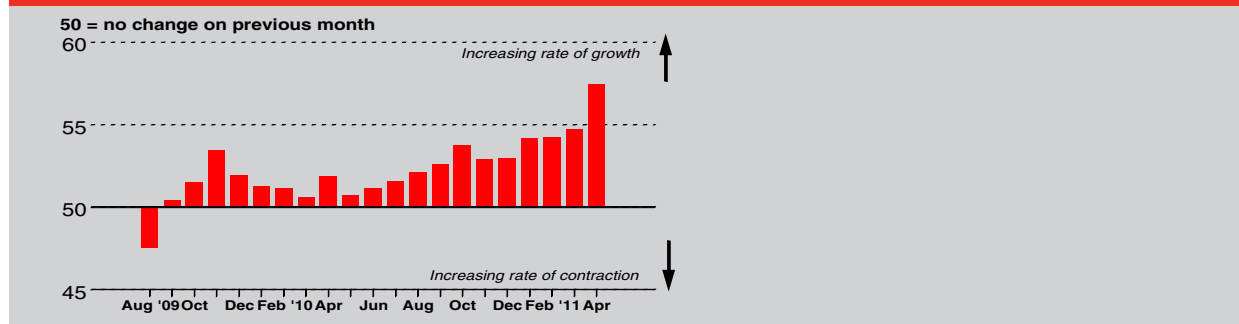
Reflecting greater business requirements, United Arab Emirates non-oil private sector firms took on additional staff and raised buying activity in April. Employment growth accelerated to the fastest since December 2009. Company size data showed that job creation was similar across the three categories. Meanwhile, purchases increased markedly, supporting a sharper rise in input holdings.

Despite supply-chain disruptions and stronger demand for inputs, average vendor performance continued to improve in April. However, lead times shortened at the slowest pace for three months.

A combination of stronger demand for inputs and political unrest across the Middle East and North Africa pushed up purchasing costs during April. Inflation accelerated to a series record rate as a result. Staff costs also rose, but at a slightly weaker rate. Respondents linked higher wages and salaries to increased living costs.

UAE non-oil private sector companies passed on part of their rising cost burdens to customers in April via higher charges. Consequently, output price inflation picked up to a survey record pace.

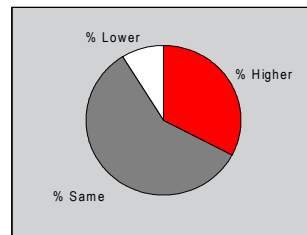
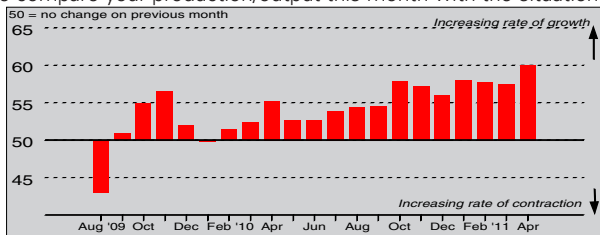
### HSBC UAE PMI



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 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**

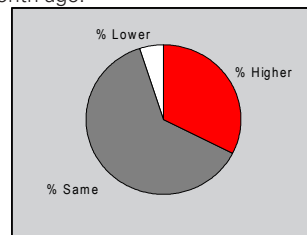
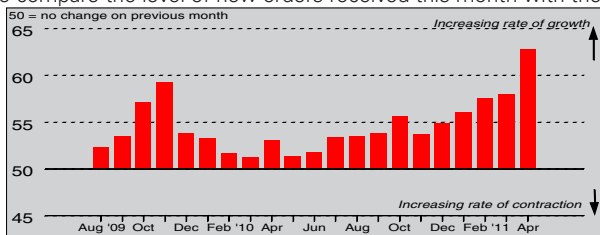
Q. Please compare your production/output this month with the situation one month ago.



Boosted by a sharper rise in new business, UAE non-oil private sector output grew at a series record rate at the start of Q2. Activity levels in the sector have now increased for fifteen successive months. Broken down by company size, data suggest that large and medium-sized firms were by far the best performers in April.

**New Orders Index**

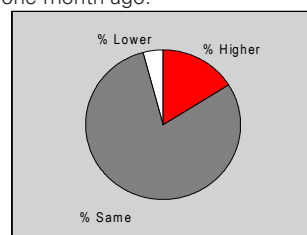
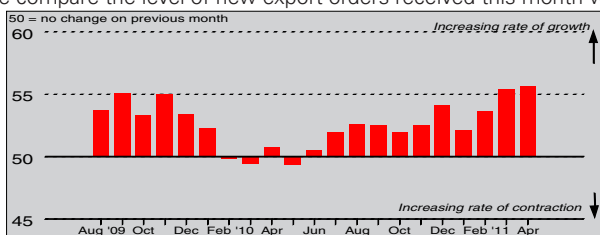
Q. Please compare the level of new orders received this month with the situation of one month ago.



Incoming new work to the United Arab Emirates non-oil private sector increased during April, maintaining the series trend. The latest expansion was the fastest since the survey began in August 2009 with around 33% of panellists recording growth. Anecdotal evidence suggests that good market demand and relatively stable business conditions in the country (compared with elsewhere in the region) had supported sales.

**New Export Orders Index**

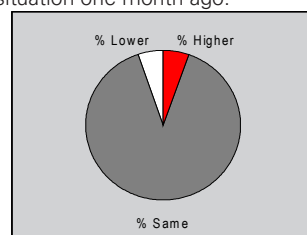
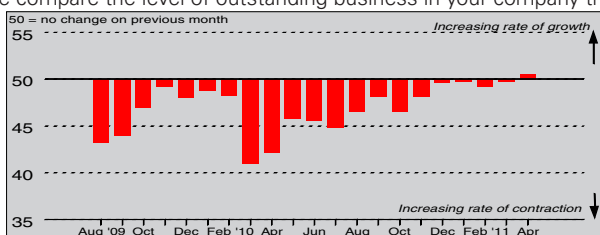
Q. Please compare the level of new export orders received this month with the situation of one month ago.



The seasonally adjusted New Export Orders Index rose only fractionally in April, but nevertheless reached a new series record peak. Foreign demand was supported by stable business conditions in the UAE, strong market demand and advertising, according to respondents. Large companies saw the most pronounced rise in new export work.

**Backlogs of Work Index**

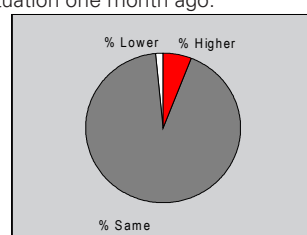
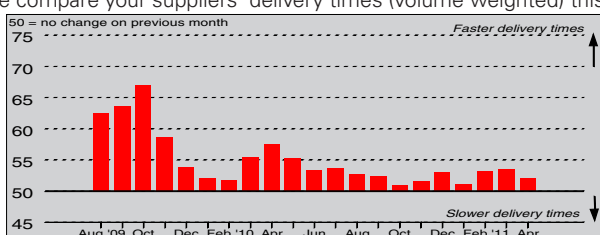
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



For the first time in the twenty-one month history of the series, United Arab Emirates non-oil private sector firms recorded a build-up of backlogs at their units in April. That said, the rate of accumulation was only marginal. Survey participants commonly linked unfinished business to greater new order levels. Company size data showed that the increase was mostly centred on large businesses, as SME's registered further declines.

**Suppliers' Delivery Times Index**

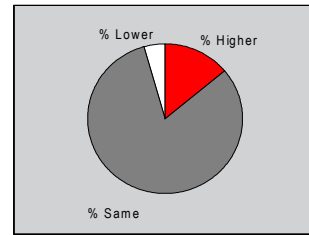
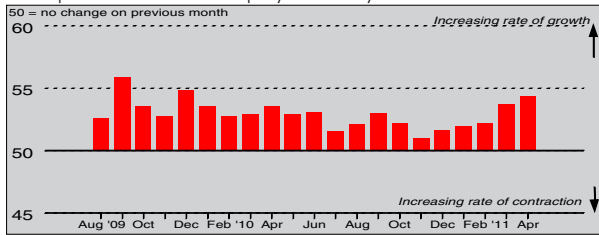
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Although vendors continued to make faster input deliveries to UAE non-oil private sector firms in April, the rate of improvement eased to a three-month low. Reports showed that this was principally due to greater demand for inputs and supply-chain disruptions. Nevertheless, lead times shortened at a modest pace.

**Employment Index**

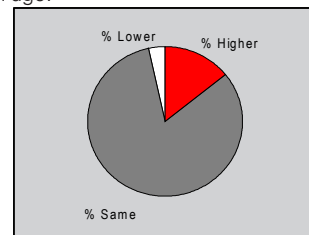
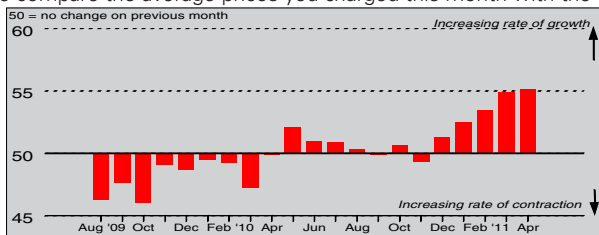
Q. Please compare the level of employment at your unit with the situation one month ago.



Job creation in the United Arab Emirates non-oil private sector picked up during April, reflecting stronger demand conditions and company expansions. Employment rose at the third-fastest rate in the survey history. Data showed that growth rates were similar across the three company size categories.

**Output Prices Index**

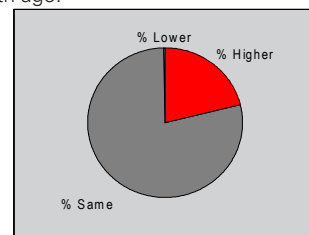
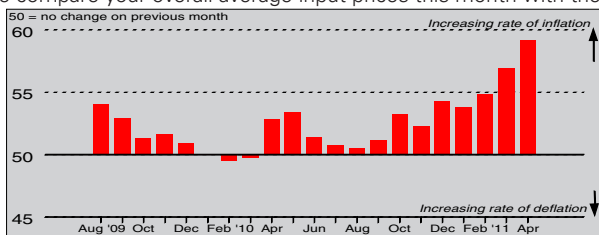
Q. Please compare the average prices you charged this month with the situation one month ago.



Prices charged for UAE non-oil private sector goods and services rose again at the start of Q2, bringing the current run of inflation to five months. The latest increase was the most marked in the series history, with panel members attributing higher tariffs to rising input costs. Large firms raised output prices to the greatest extent.

**Overall Input Prices Index**

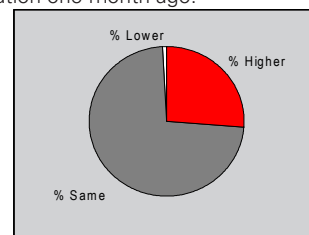
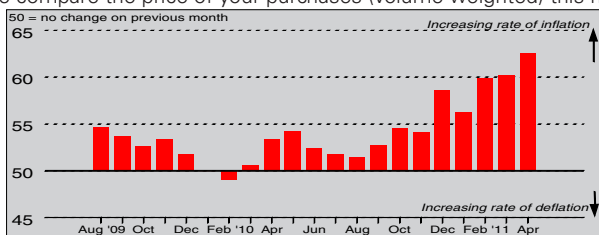
Q. Please compare your overall average input prices this month with the situation one month ago.



Overall input price inflation faced by UAE non-oil private sector firms accelerated during April, reaching a new series record high. Data indicated that rising purchase prices underlay the latest uptick in total inflation, as staff costs grew at a slightly slower pace. Large and medium-sized firms recorded the sharpest rates of increase during the latest survey period.

**Input Costs: Purchase Prices Index**

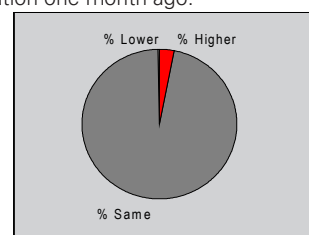
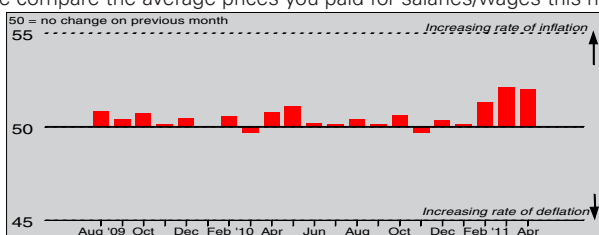
Q. Please compare the price of your purchases (volume-weighted) this month with the situation one month ago.



Rising raw material, fuel and freight costs – partly due to instability in the Middle East and North Africa – drove purchase price inflation in the UAE non-oil private sector to a survey record peak in April. Over 26% of panel members noted an increase since March, compared with less than 1% that reported a decline. Input prices in the sector have now risen in each of the past fourteen months.

**Input Costs: Staff Costs Index**

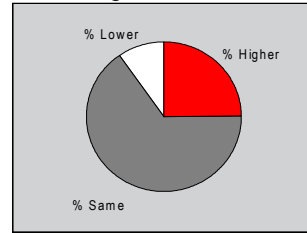
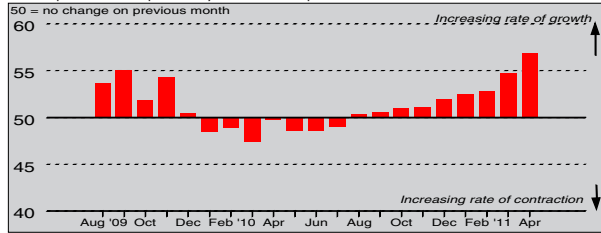
Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.



Staff cost inflation across the United Arab Emirates non-oil private sector was little-changed from March's series record high in April. Respondents cited good business performance and favourable economic conditions as the main reasons for increased wages and salaries. All three company size classes recorded a rise in average personnel costs.

**Quantity of Purchases Index**

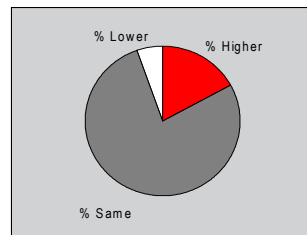
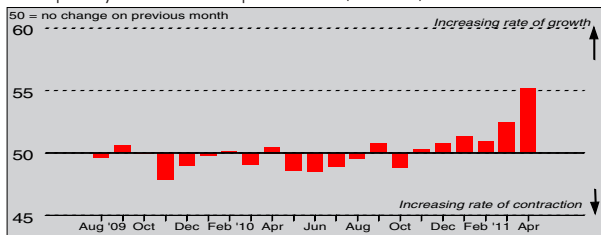
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



In line with the upward trend in new order growth, input purchases at United Arab Emirates non-oil private sector firms rose at a faster rate during the latest survey period. The latest increase was the most marked in the series history. Some panellists commented on the need to hedge against future input cost inflation.

**Stocks of Purchases Index**

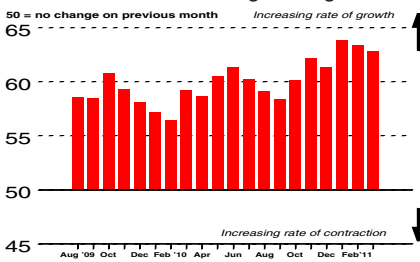
Q. Please compare your stocks of purchases (in units) with the situation one month ago.



The latest increase in buying activity at UAE non-oil private sector firms was sufficient to build inventories in April. Holdings of raw materials and semi-finished goods accumulated for the sixth straight month, and at a survey record rate. Stocks rose across all three company size categories, but growth was sharpest at large firms.

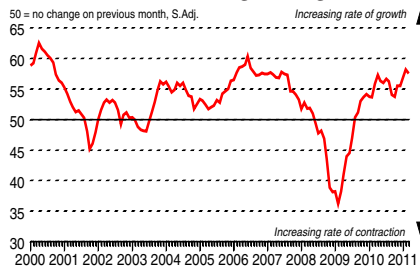
**International PMI summary**

**Saudi Arabia Purchasing Managers' Index™**



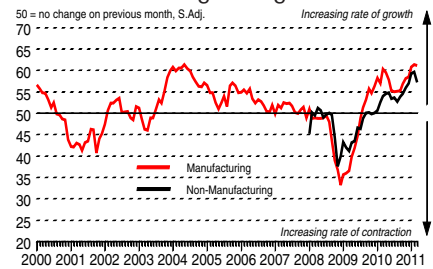
Source: Markit.

**Eurozone Purchasing Managers' Index™**



Source: Markit.

**US Purchasing Managers' Index™**



Source: Institute for Supply Management (ISM).

Registering 62.8 in March, the headline SABB HSBC Saudi Arabia PMI was down on February's reading of 63.4. Nevertheless, the latest figure was consistent with a considerable improvement in operating conditions across the Saudi Arabian non-oil private sector.

The Eurozone Composite Output Index posted 57.6 in March, down from February's four-and-a-half year high of 58.2. The index has now signalled expansion for twenty consecutive months. Growth of new business was also little different from February's three-and a half year peak.

The ISM US Manufacturing PMI posted 61.2 in March – little changed from February's near-seven year high of 61.4. Meanwhile, the ISM Non-Manufacturing Index (NMI) was at a three-month low of 57.3. Nevertheless, the NMI remained comfortably above the average for 2010 (54.0).

**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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