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HSBC UAE PMI™

Output and new order growth remained strong in May.

Key findings:

- PMI signalled another marked improvement in operating conditions.
- Job creation slowed, but remained moderate.
- Cost inflation weakened in May.

The UAE non-oil private sector continued to expand at a sharp pace in May, although latest data suggest that growth eased off slightly. Both output and new orders increased considerably on the back of solid domestic and foreign demand. Moreover, the benefits of stronger business conditions were again felt by the labour market, as employment rose further. However, price pressures remained elevated.

The headline seasonally adjusted HSBC United Arab Emirates *Purchasing Managers' Index™ (PMI™)* – a composite indicator designed to provide a single-figure snapshot of the performance of the non-oil private sector – registered 56.0 in May, down from April's survey record high of 57.5. Nevertheless, the latest reading points to another marked improvement in the health of the UAE non-oil private sector economy.

New order takings rose sharply during the latest survey period, albeit to a lesser extent than in April. Data suggest that the domestic market remained the key driver of total new business expansion, despite a pick-up in new export order growth. Panellists commented on better operating conditions, competitive pricing and successful promotional activities.

As a result of further gains in new work, as well as investments in new equipment, UAE non-oil private sector output rose considerably in May. However, the rate of increase slowed from April's series record pace.

Efficient order management and timely goods dispatch led to a

modest depletion of backlogs at United Arab Emirates non-oil private sector firms in May. This followed a slight accumulation in April.

To accommodate greater business requirements, firms raised buying activity, built up input stocks and took on extra staff in May. Purchasing increased at a series record pace, supporting another robust rise in inventories. Job creation slowed on the month, but remained solid.

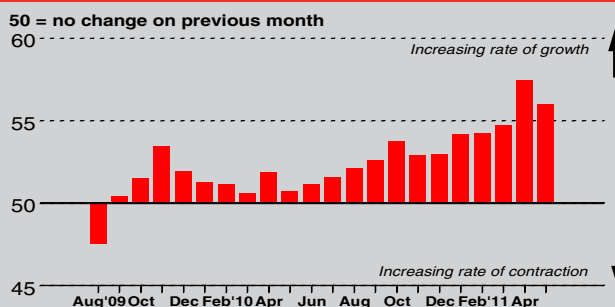
Average vendor performance continued to improve in May, despite stronger demand for inputs. Firms attributed this to prompt payment for goods and efficient service at suppliers.

Purchase price inflation moderated in May, but remained sharp with 26% of panellists registering a rise in purchasing costs. Anecdotal evidence suggests that greater fuel, raw material and freight costs drove the latest increase.

Staff costs continued to rise in May, and at a series record pace. Companies monitored by the survey stated that wages and salaries were increased to compensate workers for rising living costs.

UAE non-oil private sector firms shared the burden of rising input costs with their customers again in May. Prices charged for goods and services increased at a marked rate that was little-changed from April's series record pace.

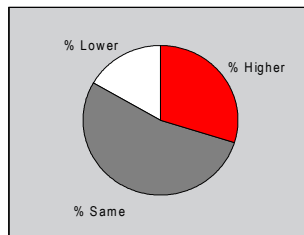
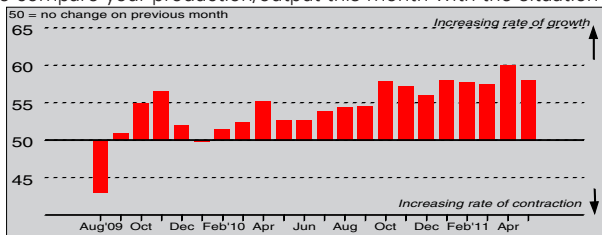
HSBC UAE Purchasing Managers' Index™ (PMI™)



The HSBC UAE Purchasing Managers' Index (PMI) is a composite indicator designed to provide an overall view of activity in the United Arab Emirates non-oil private sector 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. *Purchasing Managers' Index™* and *PMI™* are trade marks of Markit Economics Limited, HSBC use the above marks under licence. Markit and the Markit logo are registered trade marks of Markit Group Limited.

Output Index

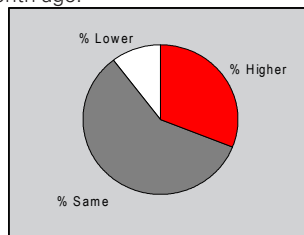
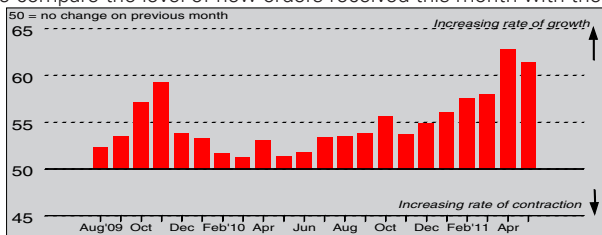
Q. Please compare your production/output this month with the situation one month ago.



United Arab Emirates non-oil private sector output growth slowed during the latest survey period. Nevertheless, the rate of expansion was substantial and one of the fastest in the survey history. Approximately 30% of respondents raised activity in May, linking this to better market conditions and investment in new equipment. Data show that medium-sized companies were the best performers in terms of output expansion.

New Orders Index

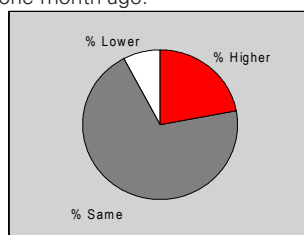
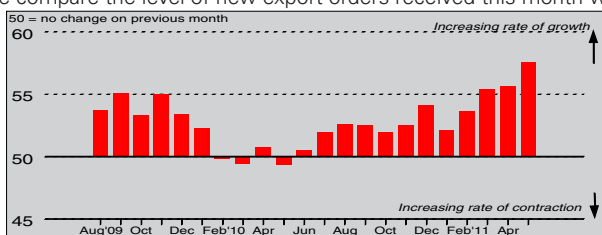
Q. Please compare the level of new orders received this month with the situation of one month ago.



Receipts of new orders at UAE non-oil private sector companies rose during May, maintaining the series trend. The latest increase was considerable and the second-fastest in the series history, despite slowing from April's survey record peak. Favourable business conditions and competitive pricing were cited by panellists as principal reasons for higher demand.

New Export Orders Index

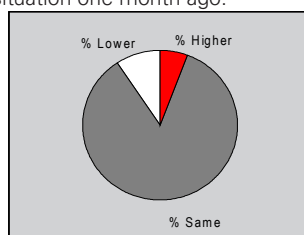
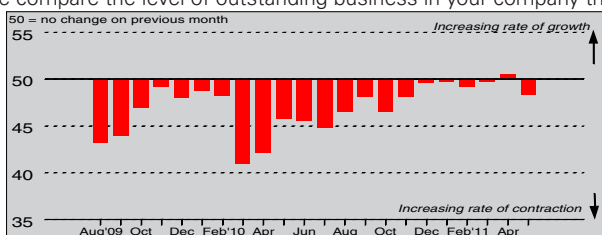
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Foreign demand for UAE non-oil private sector goods and services improved in May, supporting a series record rise in new export business. Survey members attributed higher new export orders to strong business conditions, competitive prices and marketing activities. By size, large companies registered the sharpest increase in new work from abroad.

Backlogs of Work Index

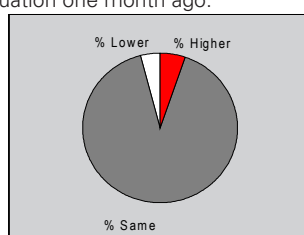
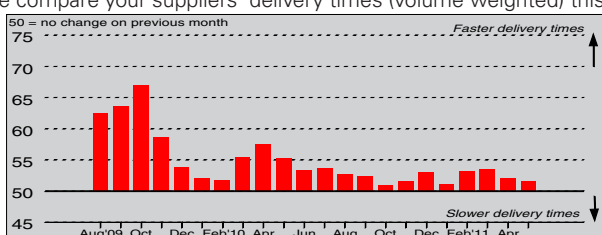
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



After rising slightly in April, the volume of unfinished work across the United Arab Emirates non-oil private sector fell in May. That said, the rate of depletion was only modest, with just 9% of firms reporting a decline. Companies mostly linked backlog clearance to the efficient processing of orders and on time dispatches.

Suppliers' Delivery Times Index

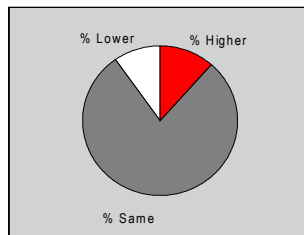
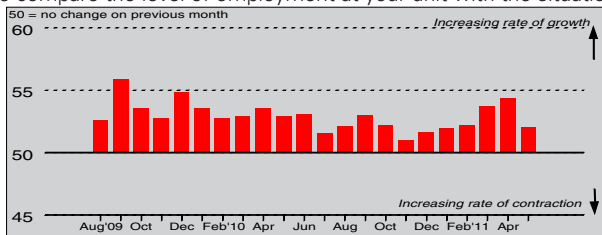
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



UAE non-oil private sector firms noted another improvement in supplier performance during May. Anecdotal evidence suggests that prompt payment for goods by recipients and efficient service on the part of vendors led to the latest reduction in delivery times. However, the rate of improvement was the third-slowest in the survey history.

Employment Index

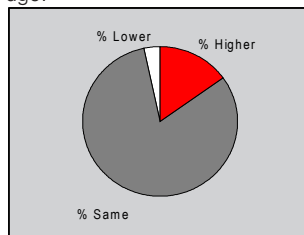
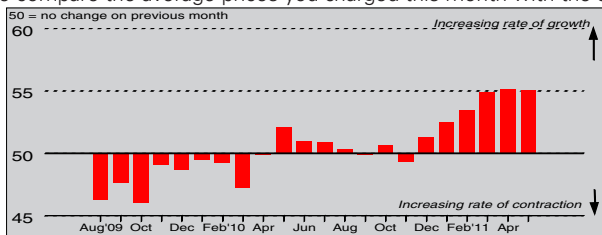
Q. Please compare the level of employment at your unit with the situation one month ago.



UAE non-oil private sector companies continued to recruit new staff in May as business requirements increased. Employment in the sector has risen throughout the twenty-two month history of the series, although the latest round of job creation was the mildest since January. Data show that staffing rose fastest at small companies.

Output Prices Index

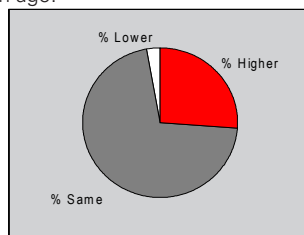
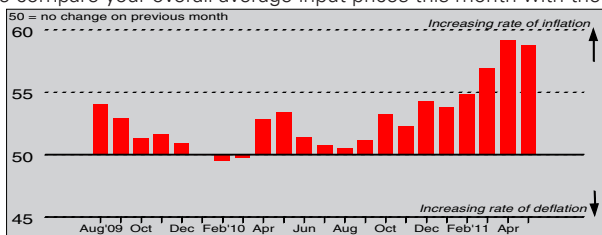
Q. Please compare the average prices you charged this month with the situation one month ago.



Charge inflation in the United Arab Emirates non-oil private sector was marked in May and little-changed from April's series record peak. Panel members stated that rising input costs was the main reason for higher output prices. Although inflation was recorded across all company size categories in the latest survey period, large firms increased tariffs to the greatest extent.

Overall Input Prices Index

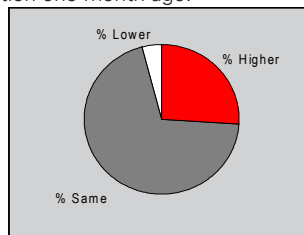
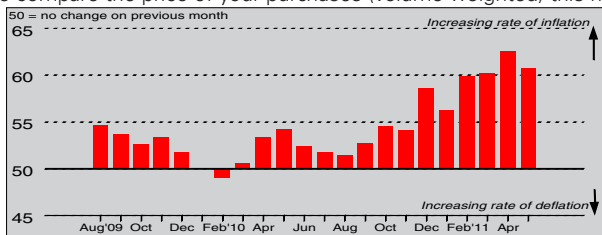
Q. Please compare your overall average input prices this month with the situation one month ago.



Reflecting a weaker rise in purchasing costs, total input price inflation in the United Arab Emirates non-oil private sector moderated in May. That said, the rate of increase remained considerable and close to April's series record pace. Overall input costs have now risen for fourteen months in succession.

Input Costs: Purchase Prices Index

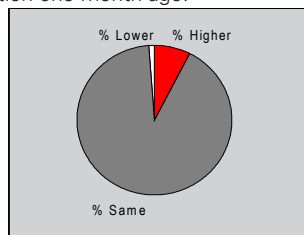
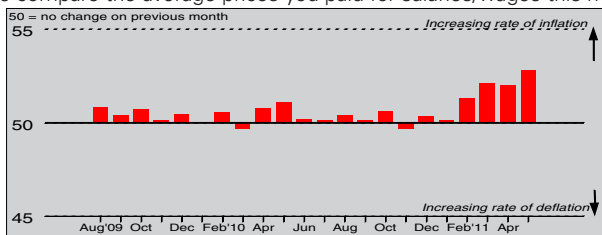
Q. Please compare the price of your purchases (volume-weighted) this month with the situation one month ago.



Prices paid for input purchases by UAE non-oil private sector firms continued to rise during the latest survey period. The rate of increase was sharp, despite easing from April's survey record. Exactly 26% of respondents reported a rise in their average purchasing costs, commenting on greater fuel, raw material and freight charges.

Input Costs: Staff Costs Index

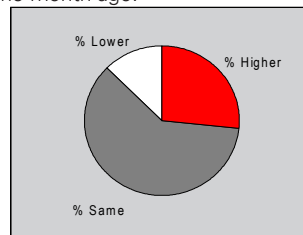
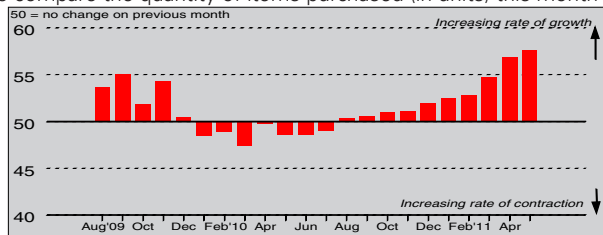
Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.



To compensate their employees for greater living costs, UAE non-oil private sector companies raised the average prices paid on wages and salaries in May. Consequently, staff cost inflation picked up to a series record pace with around 8% of panellists noting an increase. Large firms raised wages and salaries at a faster rate than SMEs.

Quantity of Purchases Index

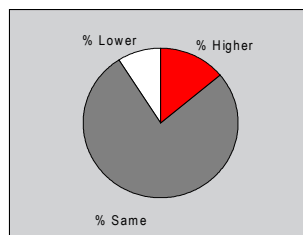
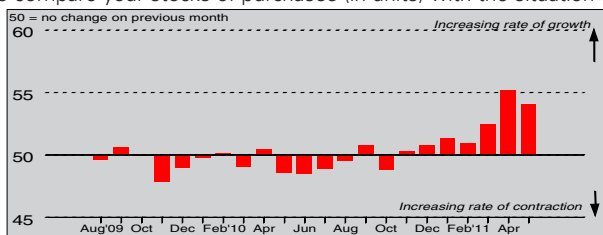
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Buying activity at United Arab Emirates private sector firms increased at a series record pace during May, with 27% of panellists noting growth. Reports show that greater business requirements and stock building were the key reasons for the latest rise in purchasing. Large companies acquired inputs at a sharper rate than small and medium-sized companies.

Stocks of Purchases Index

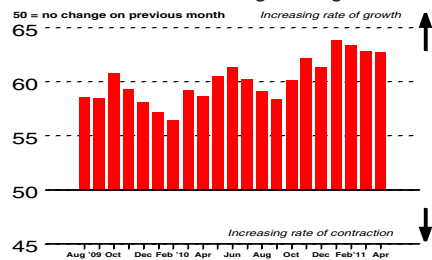
Q. Please compare your stocks of purchases (in units) with the situation one month ago.



Input holdings at UAE non-oil private sector companies increased at a robust pace in May, although the rate of accumulation slowed from April's series record rate. Panellists stated that inventories were increased both in order to accommodate greater business requirements and to hedge against further input price inflation.

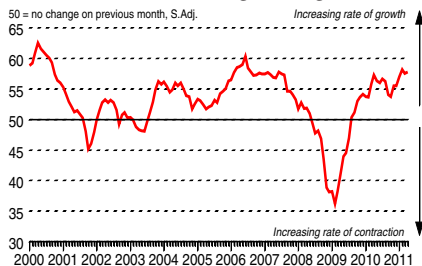
International PMI summary

Saudi Arabia Purchasing Managers' Index™



Source: Markit.

Eurozone Purchasing Managers' Index™



Source: Markit.

US Purchasing Managers' Index



Source: Institute for Supply Management (ISM).

Almost unmoved from March's reading of 62.8, the headline PMI posted 62.7 in April. Although it was the lowest for four months, the latest reading is still above the series trend and signals another marked improvement in operating conditions across the KSA non-oil private sector.

The Eurozone Composite Output Index registered 57.8 in April, up slightly from 57.6 in March. Although the index remains below February's four-and-a-half year high of 58.2, the April reading has been exceeded only once since July 2006.

The ISM US Manufacturing PMI continued to slip from February's eighty-one-month high in April, posting 60.4 – its lowest reading since December last year. The equivalent services series, the ISM Non-Manufacturing Index (NMI) fell sharply to 52.8. However, this was from an historically high level of 57.3 in March.

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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