

HSBC Purchasing Managers' Index™ 2011

compiled by markit

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HSBC UAE PMI™

Output growth slowed further in June, but remained strong.

Key findings:

- New business rose at near-survey record rate.
- Firms continued to recruit new staff, but at slowest pace for seven months.
- Input cost pressures remained elevated.

Latest data from the HSBC UAE PMI report signalled further expansions of output, new business and employment during June. Despite a fractional pick-up in new order growth, the rate of increase in activity and employment moderated. On the prices front, input cost pressures persisted at near-record highs. Moreover, expectations of continued strong inflation led some companies to bring input purchasing forward.

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 – signalled a further improvement in operating conditions across the UAE non-oil private sector economy in the final month of Q2. Despite falling from 56.0 in May to 55.2 (its lowest reading for three months), the PMI remained above its long-run trend.

Output levels at United Arab Emirates non-oil private sector firms rose for the seventeenth month running in June, albeit at the slowest pace since last September. Panellists indicated that gains in new business underpinned the latest expansion of output, which was more marked at medium-sized companies than at small or large firms.

Growth of total new work was the second-sharpest in the twenty-three month survey history in June. Anecdotal evidence suggested that favourable market conditions, new product launches and competitive pricing all supported demand. New export orders also rose at a near-survey record pace, despite the rate of expansion slowing.

Panellists reported an accumulation of unfinished business in June as new workloads increased. Backlogs have only risen twice in the survey history (the other occasion being in April).

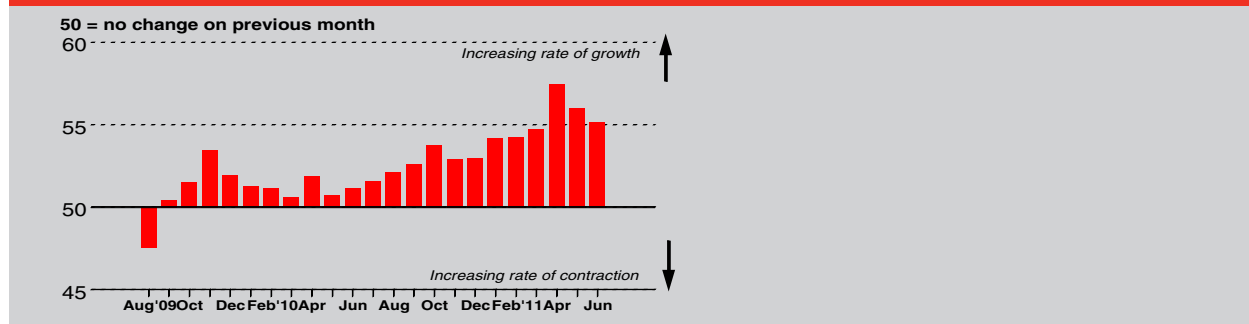
To accommodate current and expected growth of new work, UAE non-oil private sector companies raised buying activity, built up input stocks and hired additional staff in June. Purchases rose at a near-survey record pace, although inventory growth was more modest. Some firms noted that purchasing activity increased to hedge against future input price inflation. Job creation, meanwhile, was only moderate and the mildest since November last year.

Vendor performance continued to improve during the latest survey period, albeit at the slowest rate in the series history. Respondents cited good business relationships, cash payments, strong competition amongst suppliers and efficient service as the main reasons for faster deliveries.

Inflation of both purchase prices and staff costs eased during June, but remained elevated compared to respective survey averages. Stronger demand for inputs and difficulties caused by the recent earthquake in Japan were given as the primary upward influences on purchase prices, while strong business performance, productivity gains and greater living costs were the main reasons for higher salaries and wages.

Companies continued to pass through some of their input cost increases to customers in June. However, charge inflation was the weakest since February.

HSBC UAE Purchasing Managers' Index™ (PMI™)



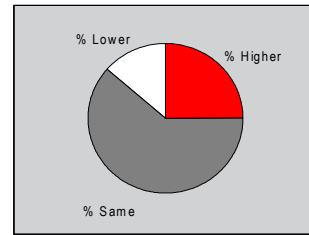
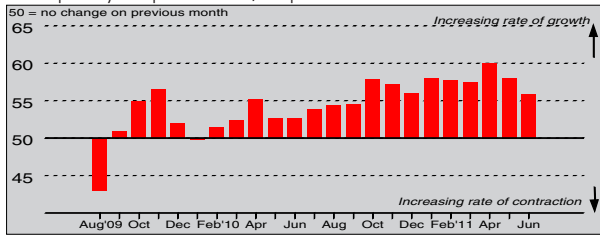
The HSBC UAE Purchasing Managers' Index (PMI) is a composite indicator designed to provide an overall view of activity in the United Arab Emirates non-oil private sector economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' 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.

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Output Index

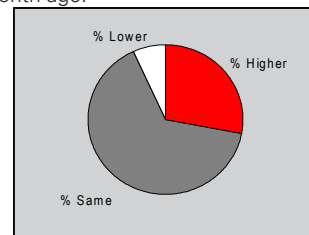
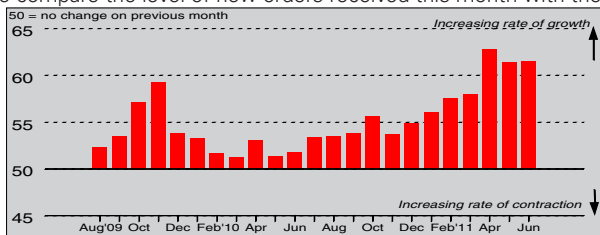
Q. Please compare your production/output this month with the situation one month ago.



UAE non-oil private sector output grew for the seventeenth month running in June. Although the rate of increase slowed to the weakest for nine months, it remained above the series trend with around one-quarter of firms noting growth. Panellists indicated that activity rose to accommodate further inflows of new business. By size, medium companies registered the sharpest rate of expansion.

New Orders Index

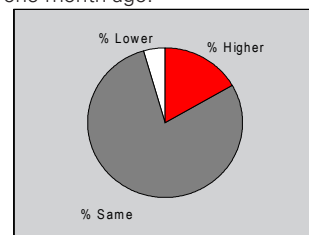
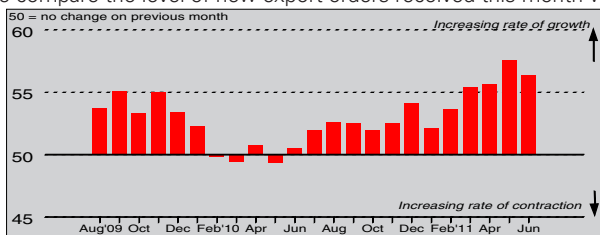
Q. Please compare the level of new orders received this month with the situation of one month ago.



The seasonally adjusted New Orders Index was virtually unmoved in June, remaining close to April's series record peak. Improved market conditions, new product launches and competitive pricing were all cited by respondents as reasons for higher demand for UAE non-oil private sector goods and services.

New Export Orders Index

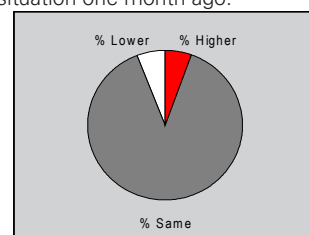
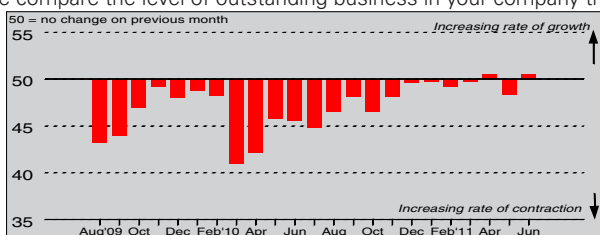
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Growth of new export business at UAE non-oil private sector companies slowed slightly at the end of Q2. Nevertheless, the rate of expansion was the second-sharpest in the twenty-three month series history. Survey members reported that good conditions in export markets and new product launches underlay the latest increase in foreign demand. Large firms posted the sharpest rise in new export work.

Backlogs of Work Index

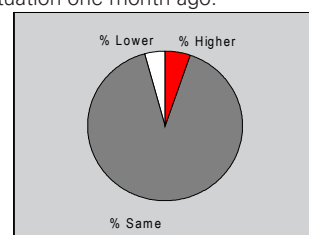
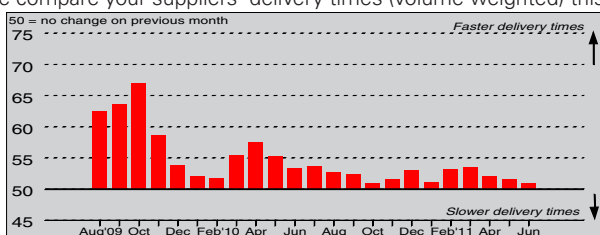
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



For only the second time in the survey history, backlogs of work at UAE non-oil private sector companies rose during June. However, the rate of increase was only slight. Greater volumes of new orders was the main factor driving growth in outstanding business, according to respondents.

Suppliers' Delivery Times Index

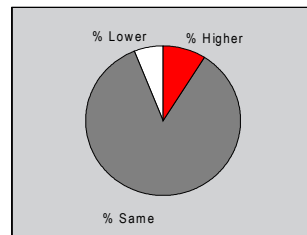
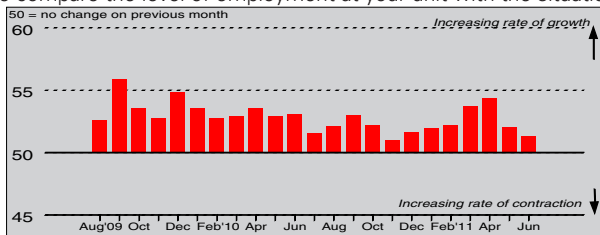
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



UAE non-oil private sector companies reported faster input deliveries during the latest survey period. Good business relationships with suppliers, cash payments, strong competition amongst vendors and efficient service were all given by panellists as reasons for shorter lead times. However, the rate of improvement was the slowest in the series history.

Employment Index

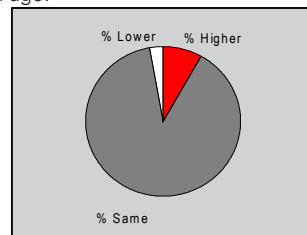
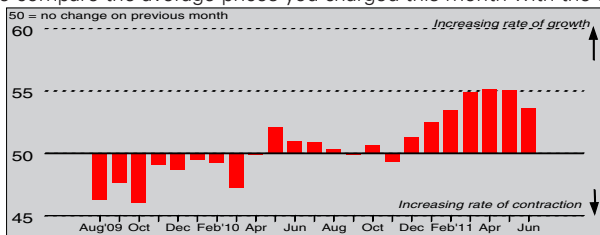
Q. Please compare the level of employment at your unit with the situation one month ago.



Staffing levels rose at UAE non-oil private sector firms in June, as has been the case in every month of the survey's twenty-three month history. Anecdotal evidence suggested that greater business requirements was the primary factor driving recruitment. However, the rate of increase moderated to the weakest for seven months. Data showed that medium-sized companies hired employees at a faster rate than small or large firms.

Output Prices Index

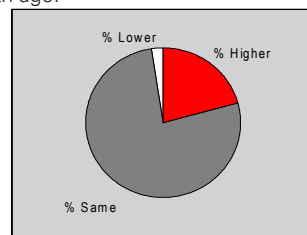
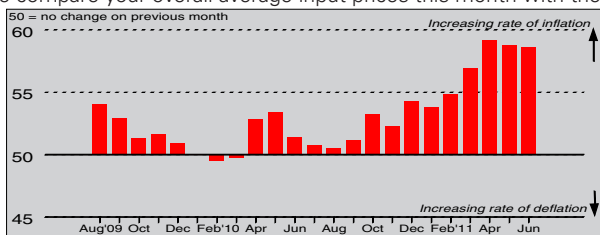
Q. Please compare the average prices you charged this month with the situation one month ago.



Charges applied to UAE non-oil private sector goods and services increased during the latest survey period, bringing the current run of inflation to seven months. The rate of increase was the mildest since February, but remained above the series trend. Respondents stated that tariffs were raised to compensate for higher input costs. Output price inflation was sharper at large firms than at SMEs.

Overall Input Prices Index

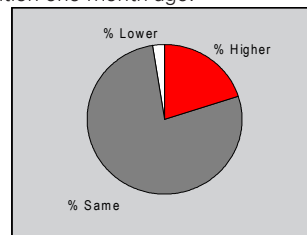
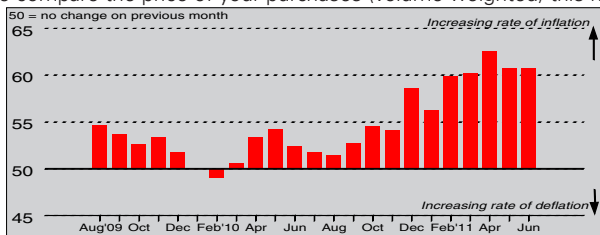
Q. Please compare your overall average input prices this month with the situation one month ago.



The overall rate of input price inflation across the United Arab Emirates non-oil private sector was little-changed in June from that recorded in May, remaining close to April's series record peak. Data suggested that rising purchase prices continued to form the larger part of total input cost inflation.

Input Costs: Purchase Prices Index

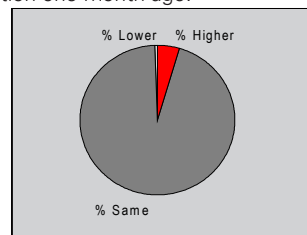
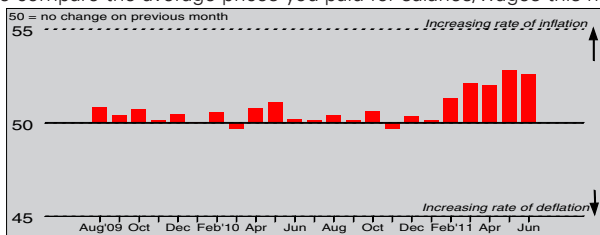
Q. Please compare the price of your purchases (volume-weighted) this month with the situation one month ago.



Purchase price inflation faced by UAE non-oil private sector companies remained elevated in June, despite easing to the weakest pace for three months. One-fifth of panel members saw their average input costs climb since May, linking this to stronger demand for inputs and supply disruptions caused by the recent earthquake in Japan.

Input Costs: Staff Costs Index

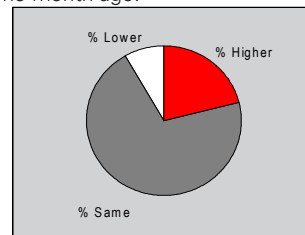
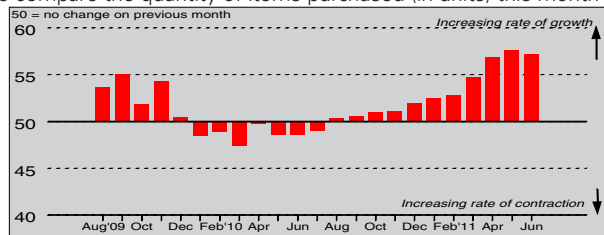
Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.



Good business performance, productivity gains and greater living costs all underlay the latest rise in staff cost inflation across the UAE non-oil private sector in June. The rate of increase moderated slightly since May, but was nevertheless the second-sharpest in the series history. Large and medium-sized firms recorded the most pronounced rises in salaries and wages.

Quantity of Purchases Index

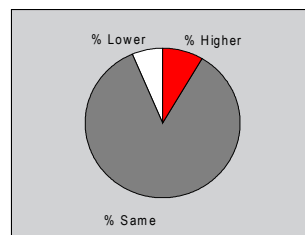
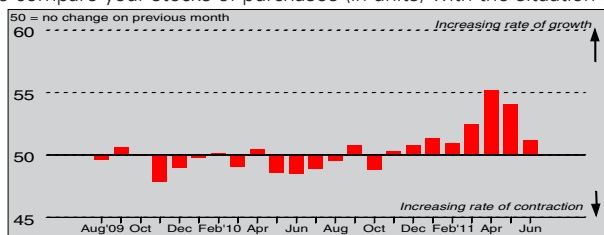
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Partly due to growing new order levels, but also to hedge against future input price inflation, UAE non-oil private sector firms raised the quantity of their input purchases in June. Buying activity has now risen for eleven successive months, with the latest increase only marginally weaker than May's series record pace.

Stocks of Purchases Index

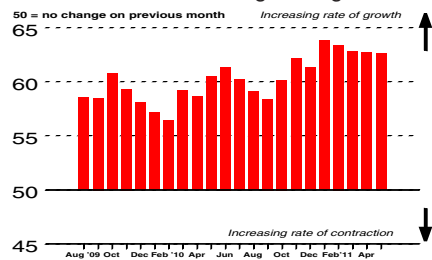
Q. Please compare your stocks of purchases (in units) with the situation one month ago.



Buying activity growth at UAE non-oil private sector companies led to another accumulation of input stocks in June. However, the rate of increase slowed further from April's survey record. Reports showed that the slowdown principally reflected intentional stock management policies.

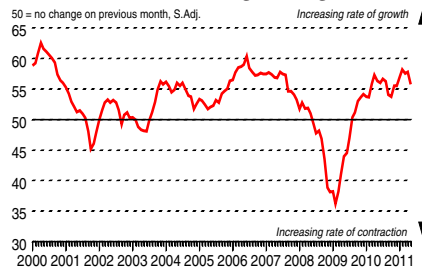
International PMI summary

Saudi Arabia Purchasing Managers' Index™



Source: Markit.

Eurozone Purchasing Managers' Index™



Source: Markit.

US Purchasing Managers' Index



Source: Institute for Supply Management (ISM).

PMI data for May signalled a further improvement in business conditions across the Saudi Arabian non-oil private sector. The headline seasonally adjusted SABB HSBC Saudi Arabia PMI registered 62.6 in May, almost unmoved from April's reading of 62.7, signalling a strong improvement in non-oil private sector operating conditions.

At 55.8 in May, down from 57.8 in April, the Eurozone PMI Composite Output Index fell to a five-month low. The index has signalled expansion in each of the past 22 months. The latest reading was slightly above the average for 2010 as whole, and growth so far in Q2 has been only moderately below the post-recession high reached in the opening quarter.

Falling sharply from 60.4 in April, the ISM US Manufacturing PMI registered a twenty-month low of 53.5 in May. The dip in the index signalled a marked slowdown in the rate of improvement in business conditions. In contrast, the ISM Non-Manufacturing Index (NMI) rose to 54.6 in May, from an eight-month low of 52.8 in April.

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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