HSBC *Purchasing Managers' Index*™ Press Release

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compiled by markit

HSBC UAE PMI™

Output growth slowed further in June, but remained strong

Summary

The headline seasonally adjusted HSBC United Arab Emirates *Purchasing Managers' Index™ (PMI™)* 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.

Comment

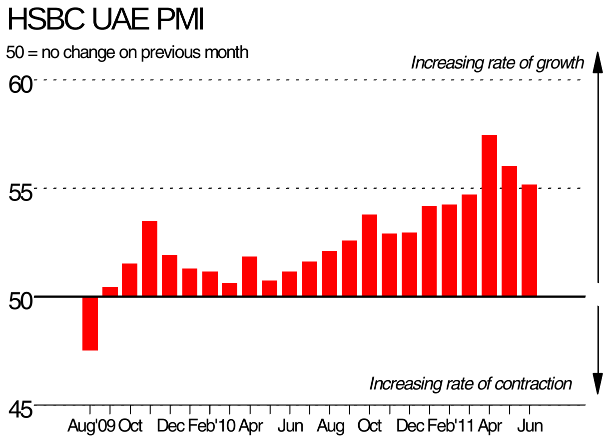
Commenting on the UAE PMI survey, Simon Williams, Chief Economist for Middle East & North Africa at HSBC said:

"The headline number has softened for a second consecutive month, suggesting that the lift the UAE received from unrest elsewhere may be fading. There's enough in the data, though, to persuade me that the underlying recovery is still underway. Output was up in June, if less markedly than in May, the new order book still looks strong and employment is still gaining. Output price rises also lost pace in June, supporting our view that overall inflationary pressures are weak and likely to stay that way."

Key points

- 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.

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: 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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About PMIs:

Purchasing Managers' Index™ (PMI™) surveys are now available for 32 countries and also for key regions including the Eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to www.markit.com/economics.