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HSBC UAE PMI™

Output rose at weakest rate for a year in July as new order growth slowed sharply

Key findings:

- Takings of new business rose at weakest rate for seven months...
- ...resulting in slower increase in output.
- Jobs growth picked up slightly.

Business conditions in the UAE non-oil private sector continued to improve at the start of Q3, as signalled by a HSBC United Arab Emirates *Purchasing Managers' Index™ (PMI™)* reading of 53.3. However, the latest PMI figure was down from 55.2 in June and the lowest for seven months. Underlying the weaker headline reading were slower expansions in output, new orders and input stocks. Nevertheless, employment growth picked up slightly to a three-month high.

The PMI is a composite indicator designed to provide a single-figure snapshot of the performance of the non-oil private sector.

Easing sharply since June, growth of incoming new business to the UAE non-oil private sector was the mildest for seven months in July. Reports indicated that strong competition and high selling prices were partly to blame for the weaker expansion. Nevertheless, over one-quarter of respondents recorded a rise in new work on the month, commenting on better market conditions, new company outlets and higher customer numbers.

Foreign demand remained solid in July, supporting another increase in new export orders. However, the pace of expansion continued to ease from May's recent peak.

Output rose at the slowest pace for a year in July, reflecting a weaker trend in new business growth. Large companies posted a more pronounced increase in activity than small- or medium-sized firms.

Companies continued to manage their workloads during the latest survey period, as signalled by a depletion of unfinished

business. Backlogs have only accumulated in the sector twice in the survey's two-year history (April and June this year, and even then only marginally).

Greater business requirements, as well as expectations of both greater market demand and higher input costs in the near future, led firms to acquire additional supplies of raw materials and semi-finished goods in July. Consequently, input stocks continued to build (albeit at the slowest pace since February).

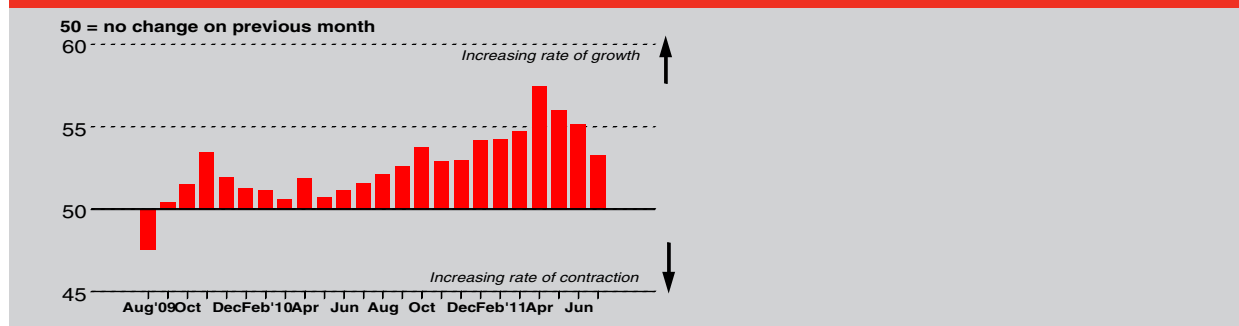
Vendor performance improved in July, maintaining the series trend. However, the rate of improvement remained weak by the historical standards of the survey.

Further growth of output and new business underpinned another rise in UAE non-oil private sector employment in July. Job creation picked up to a three-month high, with medium-sized firms taking on new staff at a sharper rate than small or large companies.

Reflecting weaker rises in both purchase and staff costs, overall input price inflation cooled during July. Nevertheless, the rate of increase remained strong in comparison with the long-run series average. Panellists stated that higher fuel and raw material prices drove the latest increase in purchase costs, while salaries and wages were raised to reflect better business performance and to retain staff.

UAE non-oil private sector firms opted to pass on their greater input cost burdens with customers in July, raising charges for the eighth month running. However, the latest increase was the least-marked of the current sequence.

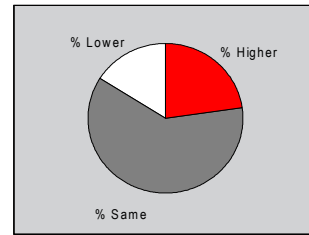
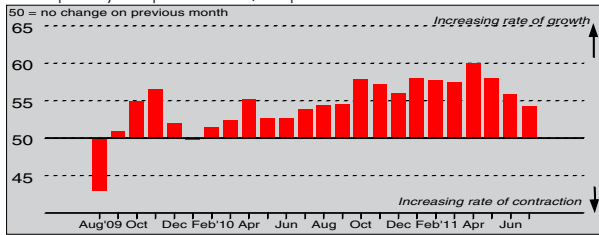
HSBC UAE Purchasing Managers' Index™ (PMI™)



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

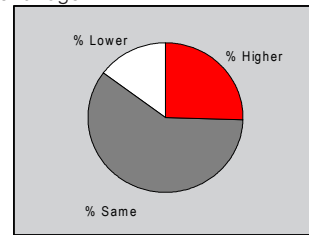
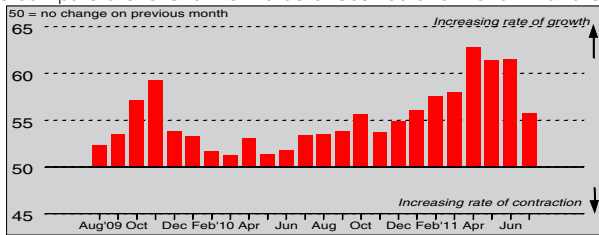
Q. Please compare your production/output this month with the situation one month ago.



UAE non-oil private sector output continued to expand at the start of the third quarter, although the pace of growth eased further from April's series record high. July's rise was the weakest for a year, but broadly similar to the long-run series average. Panellists mostly linked higher activity to gains in new work. Of the three company size categories, output rose fastest at large firms.

New Orders Index

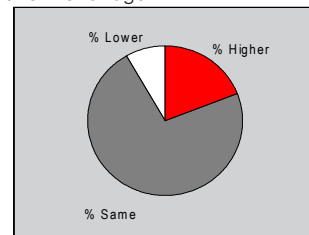
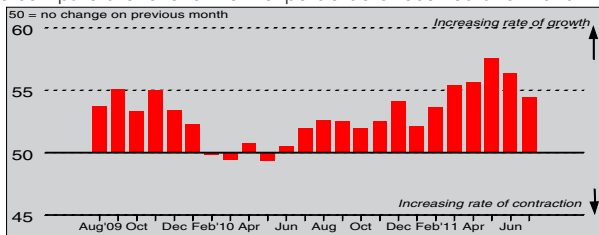
Q. Please compare the level of new orders received this month with the situation of one month ago.



The seasonally adjusted New Orders Index fell almost six points in July, indicating a much weaker inflow of new business to UAE non-oil private sector firms. Reports indicated that the slowdown partly reflected strong competition and high selling prices. Still, over one-quarter of respondents noted more new work on the month. Improved market conditions, new company outlets and more customers were all cited as reasons for growth.

New Export Orders Index

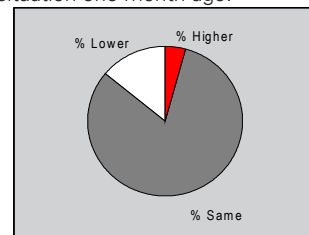
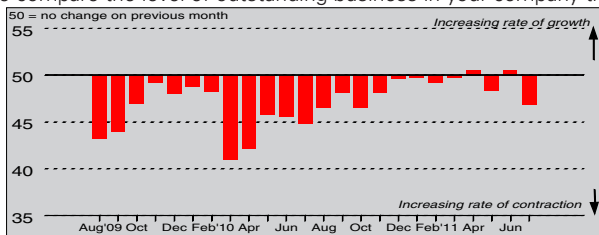
Q. Please compare the level of new export orders received this month with the situation of one month ago.



New export orders taken by UAE non-oil private sector companies grew at a slower pace during July. The latest increase was the least marked since February, but remained stronger than the average for the two-year series history. Survey participants highlighted expansions into foreign markets and favourable business conditions in recipient countries as key supporters of external demand.

Backlogs of Work Index

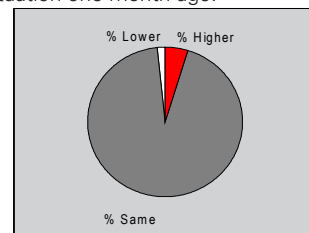
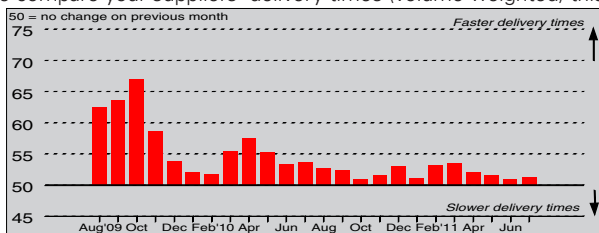
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



The seasonally adjusted Backlogs of Work Index remained below the 50.0 no-change mark in July. The latest reading was the lowest for nine months and signalled a marked depletion of unfinished business at UAE non-oil private sector companies. Small, medium and large firms all registered backlog clearance during the latest survey period.

Suppliers' Delivery Times Index

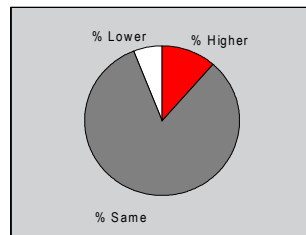
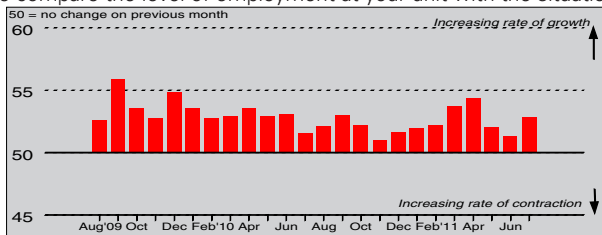
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Non-oil private sector companies in the United Arab Emirates reported faster input deliveries in July. Although the rate of improvement in vendor performance picked up slightly since June, it remained one of the slowest in the series history. Efficient service and strong competition were the principal reasons for quicker deliveries, according to panel members.

Employment Index

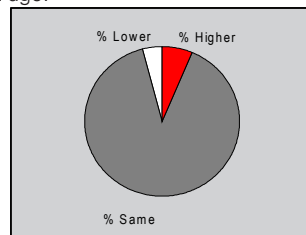
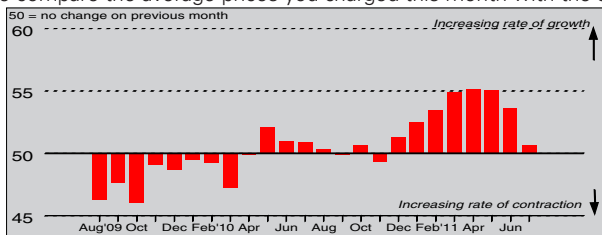
Q. Please compare the level of employment at your unit with the situation one month ago.



Jobs growth in the UAE non-oil private sector accelerated during July. Greater business requirements was frequently noted by panellists as a reason for recruitment, although several companies mentioned that they had been previously understaffed. By size, medium firms hired new workers at a faster pace than small or large companies.

Output Prices Index

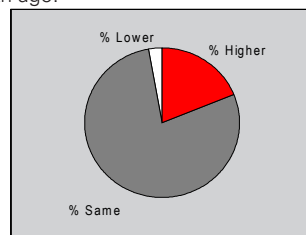
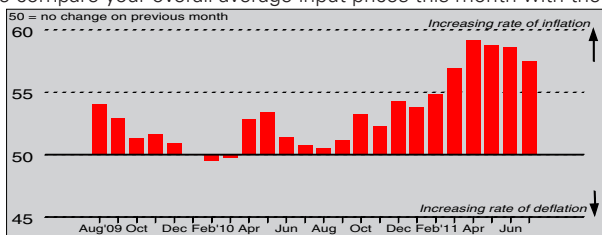
Q. Please compare the average prices you charged this month with the situation one month ago.



Falling three points since June, the seasonally adjusted Output Prices Index pointed to a marked easing in the rate of charge inflation across the UAE non-oil private sector in July. The latest rise in selling prices was the weakest of the current eight-month run of increase. Respondents stated that higher tariffs reflected greater input costs.

Overall Input Prices Index

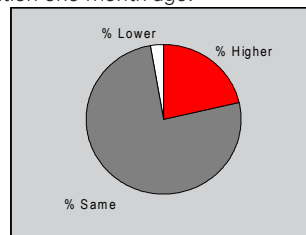
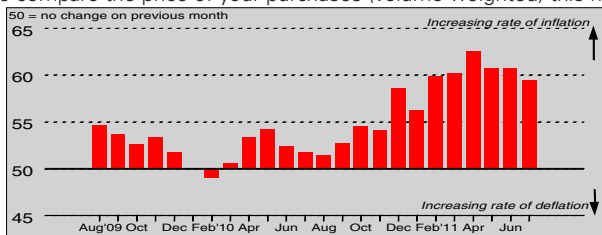
Q. Please compare your overall average input prices this month with the situation one month ago.



Overall input costs in the UAE non-oil private sector rose further at the start of Q3. Moreover, inflation remained elevated in relation to the series trend, despite easing to the weakest pace for four months. Data indicated that purchase price inflation continued to exert the greatest upward pressure on total input costs.

Input Costs: Purchase Prices Index

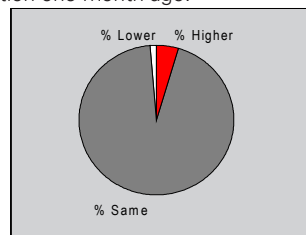
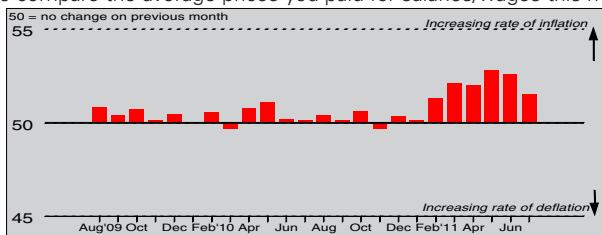
Q. Please compare the price of your purchases (volume-weighted) this month with the situation one month ago.



Purchase price inflation faced by UAE non-oil private sector companies moderated during the latest survey period. Even so, the rate of increase remained sharp by the historical standards of the survey. Over 21% of panellists saw a rise in their average input cost burdens, against less than 3% that noted a fall. Reports showed that higher fuel and raw material costs were the primary drivers of inflation.

Input Costs: Staff Costs Index

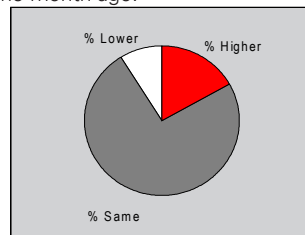
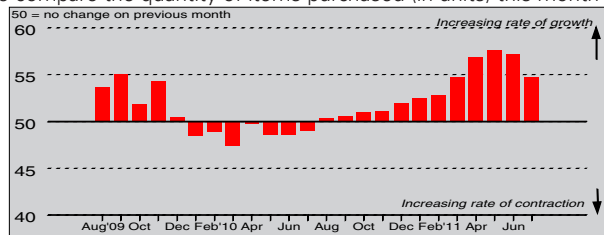
Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.



To reflect improved business performance and also to retain staff, UAE non-oil private sector companies raised the average salaries and wages paid to their employees in July. Staff cost inflation has now been recorded in each of the past eight months. However, the rate of increase continued to moderate from May's series record peak.

Quantity of Purchases Index

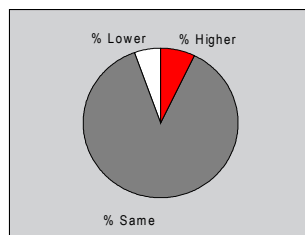
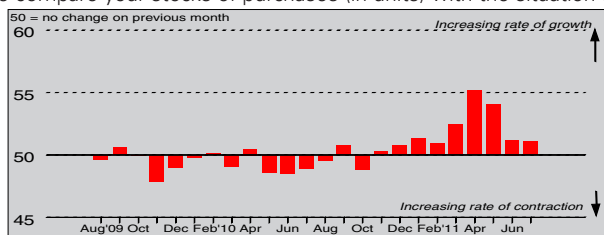
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Reflecting weaker trends in both new order and output growth, July's increase in buying activity at UAE non-oil private sector firms was the mildest for five months. Around 17% of firms raised purchases since June, commenting on gains in new work and expectations of good demand and stronger input cost inflation in the near future.

Stocks of Purchases Index

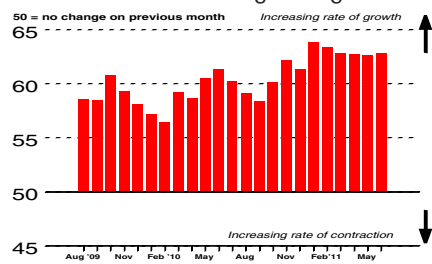
Q. Please compare your stocks of purchases (in units) with the situation one month ago.



Input holdings across the United Arab Emirates non-oil private sector accumulated for the ninth successive month in July. Although the rate of increase was little-changed from that recorded in June, it was nevertheless the weakest since February. Large- and medium-sized firms raised inventory levels in the latest survey period; small companies allowed them to fall further.

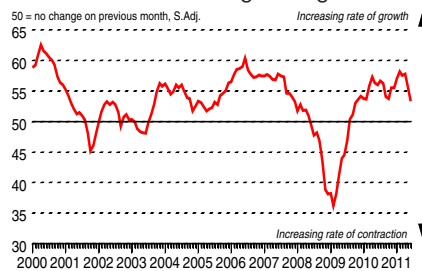
International PMI summary

Saudi Arabia Purchasing Managers' Index™



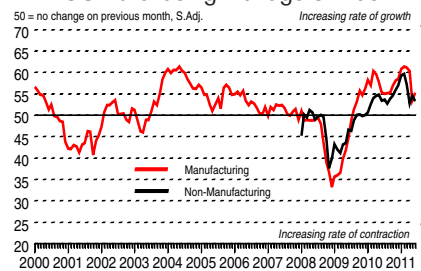
Source: Markit.

Eurozone Purchasing Managers' Index™



Source: Markit.

US Purchasing Managers' Index



Source: Institute for Supply Management (ISM).

The headline seasonally adjusted SABB HSBC Saudi Arabia PMI rose marginally in June, after falling over the previous four months. The latest reading of 62.8 (up from 62.6 in May) was the highest since March and signalled a further strong improvement in operating conditions across the KSA non-oil private sector economy.

At 53.3, down from 55.8 in May, the Eurozone PMI Composite Output Index fell to a 20-month low in June. The dip since May signalled the steepest monthly slowdown in the rate of expansion since November 2008. The index has fallen sharply since hitting a four-and-a-half year peak in February, but has nevertheless signalled growth for 23 consecutive months.

After sinking to a 20-month low of 53.5 in May, the ISM US Manufacturing PMI rose in June to 55.3, signalling a sharper improvement in business conditions. In contrast, the ISM Non-Manufacturing Index (NMI) fell on the month. The latest reading of 53.3 was down from May's two-month high of 54.6. Even so, it remained comfortably above the 50.0 no-change mark.

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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