

HSBC UAE PMI™

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

Summary

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.

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 series trend.

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.

Comment

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

"It's a disappointingly soft reading. We argued last month that the boost the UAE received as a result of unrest elsewhere in the region was fading, but the loss of momentum is more marked than we had anticipated and the weakness in new orders is especially troubling. The UAE is still growing but we'll be watching next month's numbers particularly closely to see if the weak July print is a one-off, or the start of a trend."

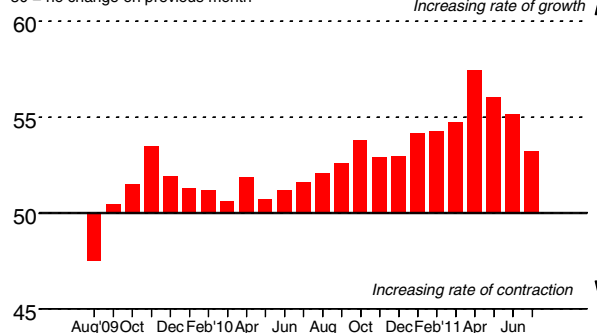
Key Points

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

Historical Overview

HSBC UAE PMI

50 = no change on previous month



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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.

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