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HSBC UAE PMI™

PMI at 15-month low in August as output stagnates

Key findings:

- Non-oil private sector activity levels unchanged in August
- New order growth at one-year low
- Job creation eases to marginal pace

At 50.9, the HSBC United Arab Emirates *Purchasing Managers' Index™ (PMI™)* continued to signal expansion in August, but it was only slightly above the no-change mark of 50.0 and well below the highs reached in Q2. Down from 53.3 in July, the latest reading was also a 15-month low. The PMI is a composite indicator designed to provide a single-figure snapshot of the performance of the non-oil private sector.

Underlying the weaker headline figure were slower rises in both new business and employment, a stagnation of output and a fall in input stocks.

New business growth continued to slow during the latest survey period, reaching a one-year low. The rate of increase in new work has cooled sharply over the past two months from the series record rates recorded in the second quarter. However, data suggested that the latest moderation was largely centred on the domestic market as new export orders rose at a sharper pace, boosted by a weaker dirham. Where higher takings were reported, firms commented on good demand, competitive pricing and successful promotional activities.

The easing trend in new business growth was reflected by firms' output levels, which were unchanged on the month. This followed one-and-a-half years of expansion. By size, large firms outperformed SMEs in August.

The volume of unfinished work across the non-oil private sector fell again during August, which panellists linked to manageable

workloads, efficient order processing and timely goods dispatch. Moreover, the rate of reduction was the most marked for over a year.

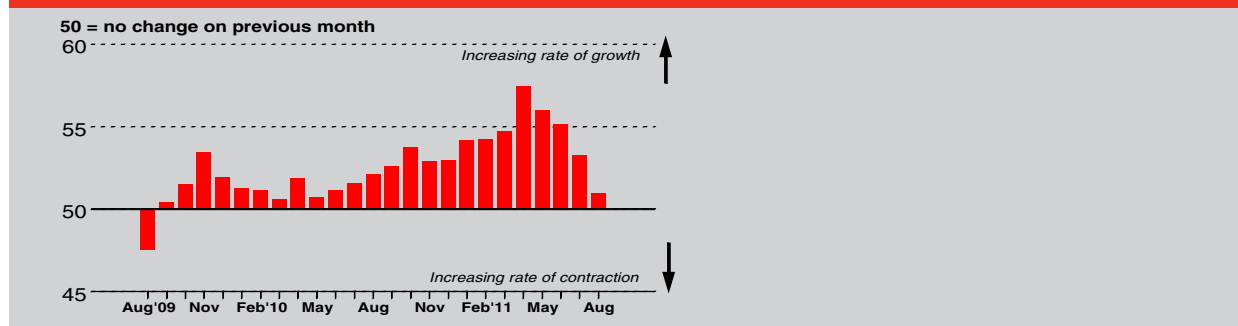
Buying activity and employment each expanded at more modest rates in August, reflecting milder growth of new orders. While the increase in purchases was the slowest since last November, the rate of job creation was a series record low. A weaker rise in input acquisitions, alongside intentional stock shedding, resulted in the first drop in input stocks for 10 months.

Maintaining the series trend, lead times shortened in August (albeit only slightly). Reports indicated that faster deliveries resulted from competition amongst vendors and their need to secure new orders.

With regard to prices, input cost inflation was unchanged overall during August as a slower rise in purchase prices was outweighed by a faster increase in staff costs. Nevertheless, total input price pressures remained considerable and comfortably above the series trend. Although all three company size categories monitored by the survey posted sharp rises in their average input costs since July, large firms registered the steepest inflation.

Despite further increases in their input costs, UAE non-oil private sector companies cut selling prices in August. The decline was only slight, but it was the first recorded for nine months. Panel members stated that charges were reduced in order to remain competitive and attract more customers.

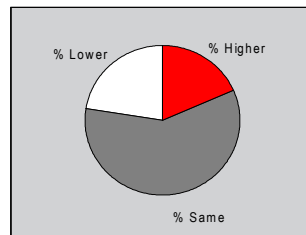
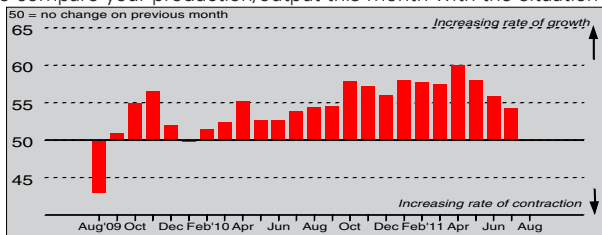
HSBC UAE Purchasing Managers' Index™ (PMI™)



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

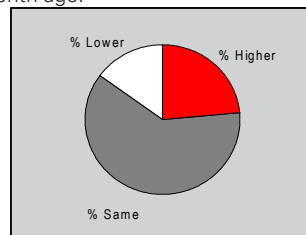
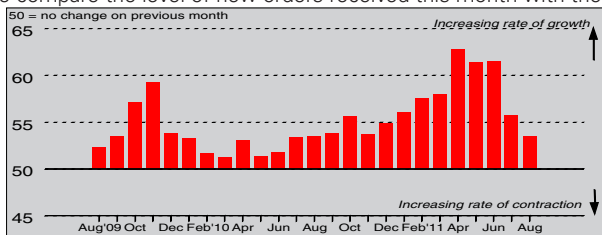
Q. Please compare your production/output this month with the situation one month ago.



Dropping over four points since July, the seasonally adjusted Output Index registered at the neutral level of 50.0 in August to signal no-change in UAE non-oil private sector activity. It was the first time in over one-and-a-half years that the sector had not registered growth of output. By size category, large firms out-performed SMEs in August.

New Orders Index

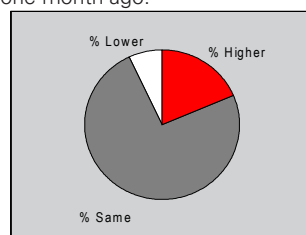
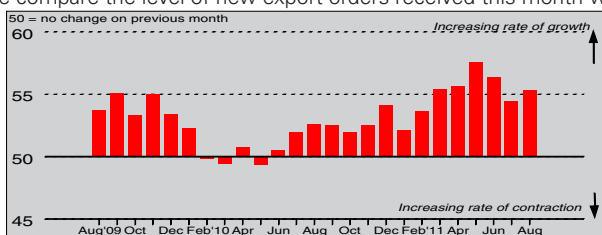
Q. Please compare the level of new orders received this month with the situation of one month ago.



Growth of incoming new business to the UAE non-oil private sector hit a one-year low in August. Nevertheless, the rate of increase remained solid with almost 24% of respondents noting higher takings since July. Companies commented on good demand, competitive prices and promotional activity as key reasons for the rise in new work.

New Export Orders Index

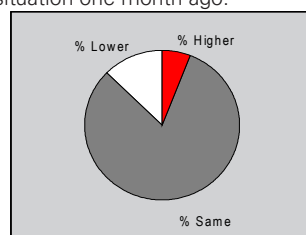
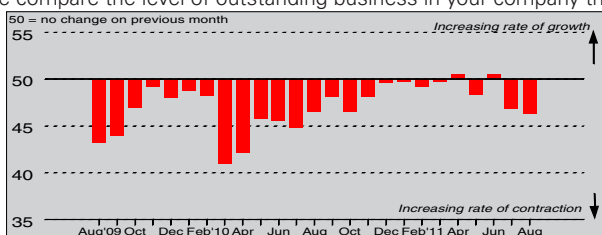
Q. Please compare the level of new export orders received this month with the situation of one month ago.



New export order growth picked up from July's five-month low in August, but remained below the highs recorded between March and June. Reports showed that a weaker dirham, successful advertising and favourable foreign market conditions were the principal factors behind the latest rise in new work from abroad. Large firms posted the sharpest increase in new export business, followed by small companies.

Backlogs of Work Index

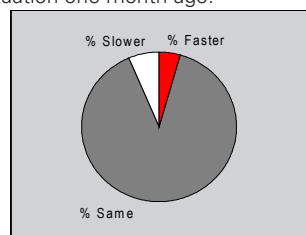
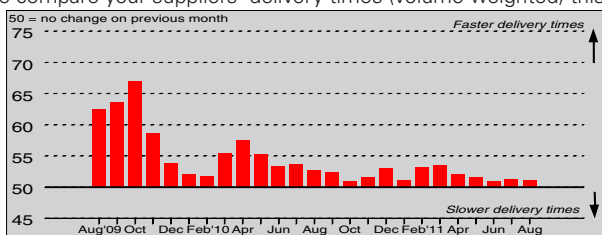
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



UAE non-oil private sector firms continued to report falling levels of unfinished work in August. Moreover, the rate of reduction accelerated slightly since July to the fastest pace for over a year. Panel members attributed backlog clearance to more manageable workloads, efficient order processing and timely goods dispatch.

Suppliers' Delivery Times Index

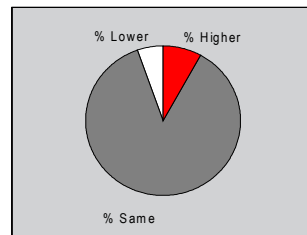
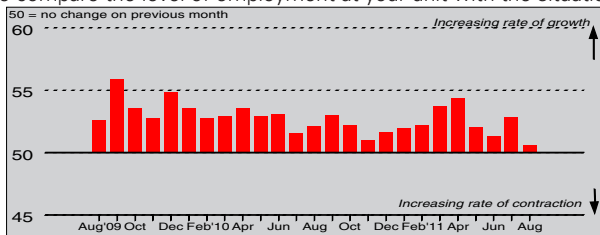
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Input delivery times shortened during August, as has been the case throughout the 25-month history of the series. However, the rate of improvement eased since July and was close to June's survey record low. Competition amongst vendors and their need to secure new orders underlay the latest reduction in lead times, according to panellists.

Employment Index

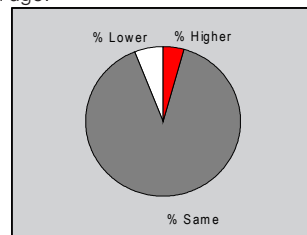
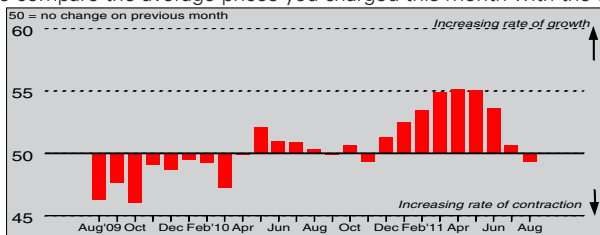
Q. Please compare the level of employment at your unit with the situation one month ago.



United Arab Emirates non-oil private sector companies continued to hire new staff in August, linking this to more new business, company expansions and expectations of stronger market demand. However, the rate of recruitment slowed to only a slight pace that was the least marked in the series history.

Output Prices Index

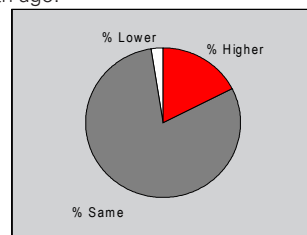
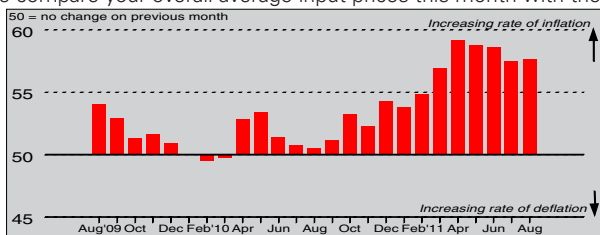
Q. Please compare the average prices you charged this month with the situation one month ago.



Following eight successive months of output price inflation, UAE non-oil private sector selling prices fell during August (albeit only slightly). Firms reported that increased competition and efforts to boost sales were the main reasons for discounting. However, the vast majority of panel members (90%) maintained their rates on the month.

Overall Input Prices Index

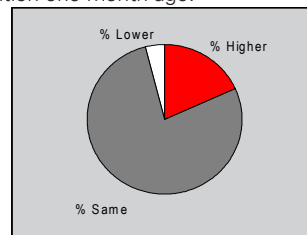
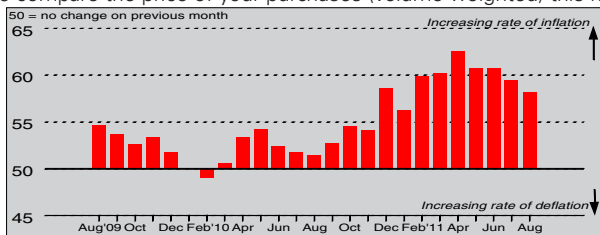
Q. Please compare your overall average input prices this month with the situation one month ago.



Total input cost inflation in the UAE non-oil private sector was broadly stable during the latest survey period as a slower rise in purchase prices was offset by a pick-up in staff cost inflation. Consequently, the overall rate of increase remained sharp and comfortably above the series trend.

Input Costs: Purchase Prices Index

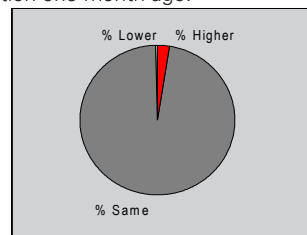
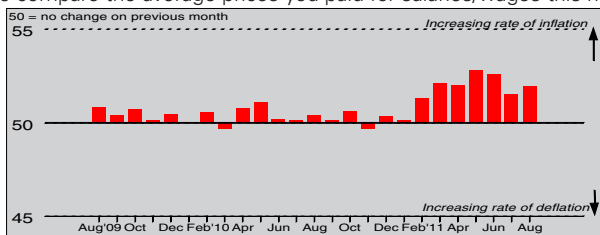
Q. Please compare the price of your purchases (volume-weighted) this month with the situation one month ago.



Purchase price inflation continued to ease during August, reaching a seven-month low. Nevertheless, the rate of increase remained considerable and above the series trend. Respondents linked inflation to greater raw material prices and unfavourable exchange rates. Data by company size showed that large firms posted a sharper rate of inflation than SMEs.

Input Costs: Staff Costs Index

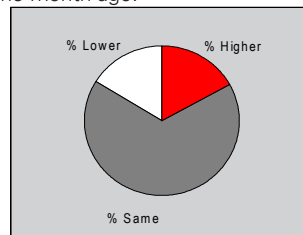
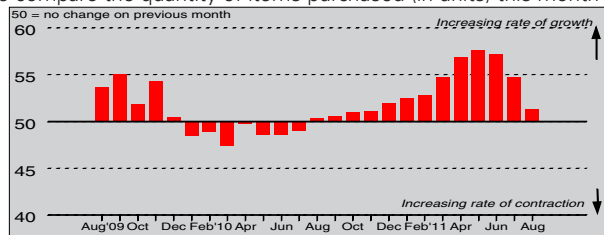
Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.



Average salaries and wages paid to UAE non-oil private sector workers rose for the ninth month in succession in August, and at a sharper pace. Companies monitored by the survey indicated that staff cost inflation principally reflected performance-related pay increases and longer working hours.

Quantity of Purchases Index

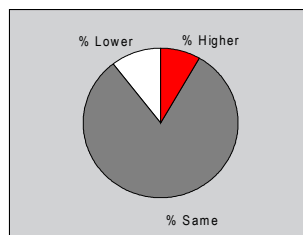
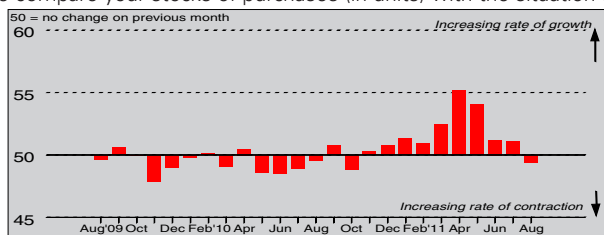
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



UAE non-oil private sector companies continued to acquire additional raw materials and semi-finished goods during August, bringing the current run of expansion to 13 months. However, the rate of increase slowed sharply, in line with the trend in new business, to the weakest pace since November last year.

Stocks of Purchases Index

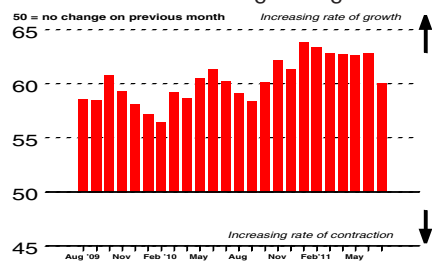
Q. Please compare your stocks of purchases (in units) with the situation one month ago.



Ending a nine-month sequence of growth, stocks of purchases at UAE non-oil private sector companies declined in August. Approximately 11% of the survey panel reported inventory depletion, citing intentional stock shedding due to weaker business conditions. However, the overall rate of reduction was only slight.

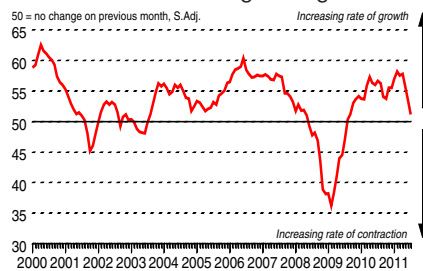
International PMI summary

Saudi Arabia Purchasing Managers' Index™



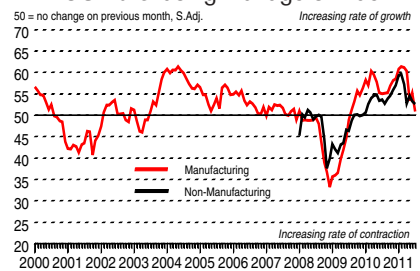
Source: Markit.

Eurozone Purchasing Managers' Index™



Source: Markit.

US Purchasing Managers' Index



Source: Institute for Supply Management (ISM).

PMI data signalled a sharp slowdown in the rate of expansion of Saudi Arabia's non-oil private sector economy in July. Reflecting this, the headline seasonally adjusted SABB HSBC Saudi Arabia PMI registered a 10-month low of 60.0 (down from 62.8 in June). Nevertheless, the PMI remained comfortably above 50.0, suggesting that business conditions continued to improve at a marked pace.

Having eased sharply in each of the previous three months, Eurozone private sector growth moved closer to stagnation at the start of Q3 2011. The Eurozone PMI Composite Output Index fell to 51.1 in July, down from 53.3 in June. Although above the earlier flash estimate of 50.8, the final reading was still the lowest since September 2009. Activity has risen throughout the past two years.

The ISM US Manufacturing PMI posted 50.9 in July, down from 55.3 in June. The latest reading was the weakest of the current two-year run of expansion and reflected the first fall in new business since June 2009. The non-manufacturing sector was faring slightly better at the start of Q3, although the ISM NMI also fell. At 52.7 the index reached a 17-month low.

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 may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

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