

HSBC UAE PMI™

PMI at 15-month low in August as output stagnates

Summary

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. 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.

Comment

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

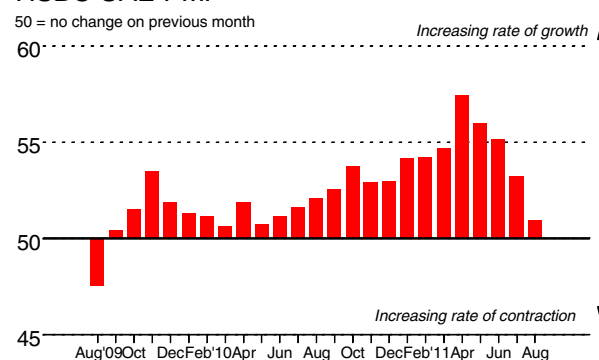
"It's a disappointing reading that strongly suggests the pick up in growth apparent in the first half of the year has lost speed. While I'm hopeful that the slowdown will reverse once Ramadan passes and the summer draws to a close, the marked drop in the new orders index, as well as the current output index, indicates that the deteriorating global environment is taking its toll. That output prices fell in August even though input costs continued to rise may be welcomed by consumers but underscores the difficulty firms face protecting their margins in an economy that still has substantial excess capacity."

Key Points

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

Historical Overview

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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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