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HSBC UAE PMI™

PMI up from August's 15-month low in September

Key findings:

- Output growth picks up, following stagnation in August
- New business expands at fastest rate in Q3
- Charges increase after slight fall in previous month

UAE non-oil private sector business conditions strengthened at the end of the third quarter, following a relatively weak month in August. Supported by a sharper rise in new business, output picked up from stagnation and job creation accelerated (albeit only fractionally). However, the overall pace of improvement remained muted in relation to the rates recorded in the first half of the year.

The HSBC United Arab Emirates *Purchasing Managers' Index™ (PMI™)* – a composite indicator designed to provide a single-figure snapshot of the performance of the non-oil private sector – registered 52.1 in September, up from August's 15-month low of 50.9. The latest reading signalled a moderate improvement in the health of the sector.

New business takings rose at a sharper rate during the latest survey period, boosting the sector's output (although activity growth remained below the series trend). Data suggested that both domestic and external demand contributed to the increase in total new work. Favourable business conditions, company expansions into new markets and competitive pricing all supported new order gains, according to panel members. Small companies out-performed medium and large firms in terms of both output and new order growth in September.

Further expansion of new work led UAE non-oil private sector firms to take on more staff and purchase additional inputs in September. Job creation accelerated fractionally on the month, although the rate of increase remained weak by the historical

standards of the survey. Meanwhile, buying activity growth slowed to a marginal pace. Reports indicated that the slowdown in purchasing reflected stock management policies and just-in-time practices.

September's rise in raw material and semi-finished goods purchases was not sufficient to build input stocks. Holdings fell for the second straight month as a result, and at a marginally faster pace.

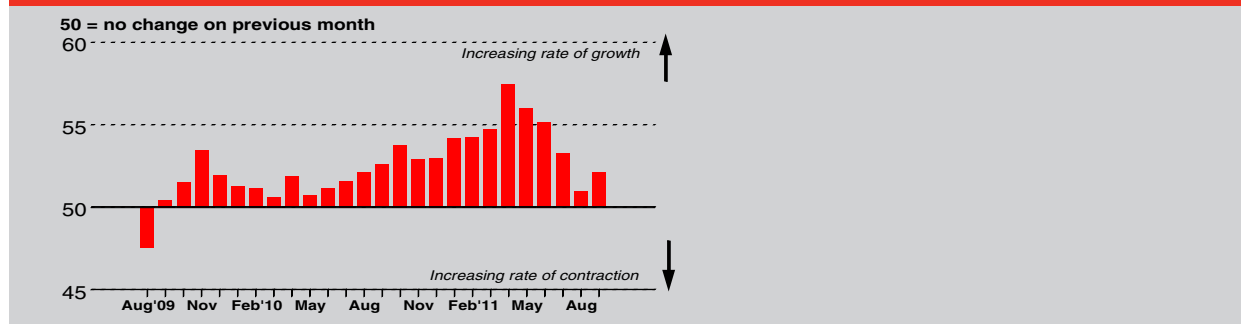
Outstanding work declined moderately during September, with panellists commenting on staff efficiency and manageable workloads. Efficiency was also a reason for improved vendor performance, alongside prompt payments and strong competition amongst suppliers.

The latest price indicators pointed to a general easing of input price pressures, but an acceleration of charge inflation in September.

Overall input costs increased at the mildest pace for seven months, which data suggested was a result of weaker rises in both purchase and staff costs (the latter broadly stagnated). Even so, total input cost inflation remained sharper than its long-run series average.

To compensate for rising input costs, firms increased their tariffs in September. However, the rate of inflation was much slower than in the first half of the year. Reports indicated that strong competition prevented a faster rise in selling prices.

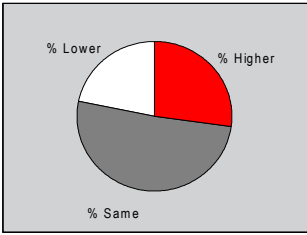
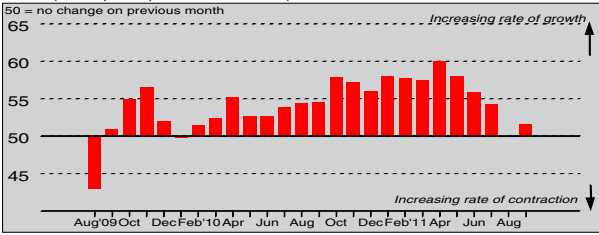
HSBC UAE *Purchasing Managers' Index™ (PMI™)*



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

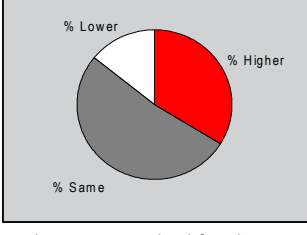
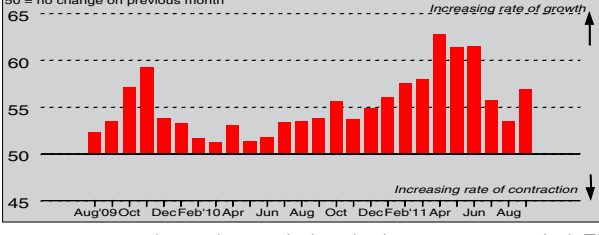
Q. Please compare your production/output this month with the situation one month ago.



After stagnating in August, United Arab Emirates non-oil private sector output rose during September. Firms indicated that improved market conditions and higher takings of new orders had boosted activity levels. However, the rate of increase remained subdued in comparison with the series trend.

New Orders Index

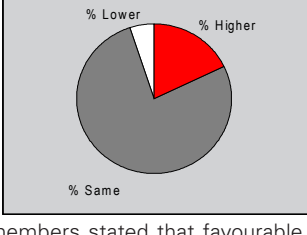
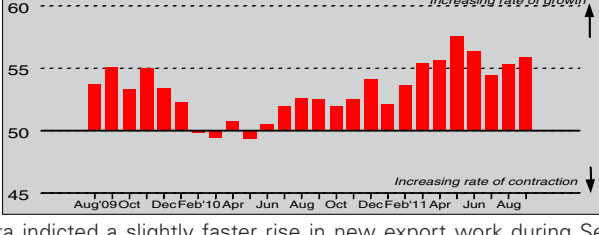
Q. Please compare the level of new orders received this month with the situation of one month ago.



New work rose at an accelerated pace during the latest survey period. The rate of growth was the most marked for three months and reflected better business conditions, stronger market demand and competitive pricing, according to panellists. By company size, small firms recorded the sharpest increase in new orders.

New Export Orders Index

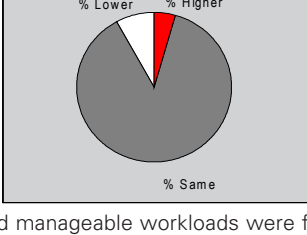
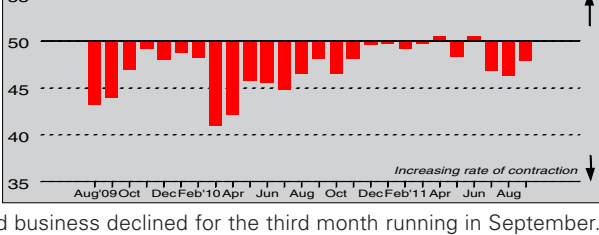
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Latest data indicated a slightly faster rise in new export work during September. Survey members stated that favourable market conditions, business expansions into new markets and competitive pricing all supported foreign demand and attracted new customers. Large firms saw steeper growth of new export orders than SMEs.

Backlogs of Work Index

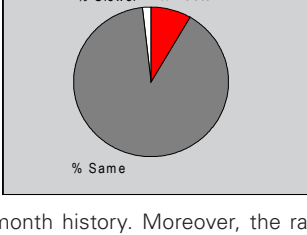
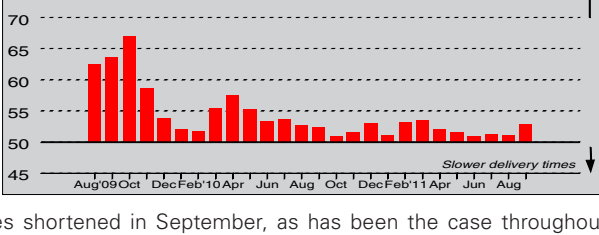
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Unfinished business declined for the third month running in September. Staff efficiency and manageable workloads were frequently linked by respondents to the latest decrease in backlogs. However, the rate of reduction moderated since August to the weakest of the current period of contraction.

Suppliers' Delivery Times Index

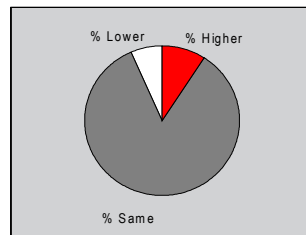
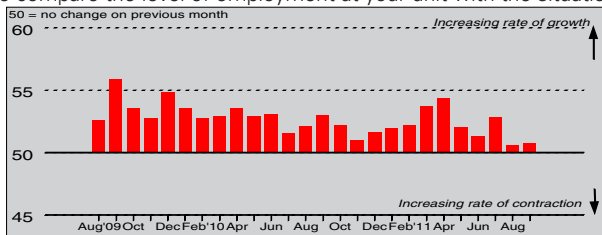
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Lead times shortened in September, as has been the case throughout the survey's 26-month history. Moreover, the rate of improvement accelerated to a six-month high. Reports showed that prompt payments for goods and strong competition amongst suppliers were the main factors behind the latest shortening of delivery times.

Employment Index

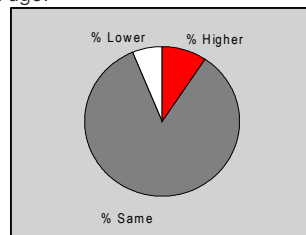
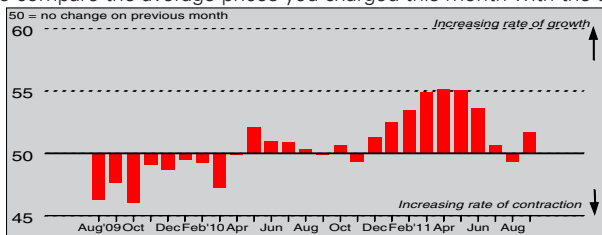
Q. Please compare the level of employment at your unit with the situation one month ago.



Job creation across the United Arab Emirates non-oil private sector remained weak in September, despite accelerating marginally since August. In the 9% of cases where additional personnel were taken on, firms commented on better business conditions and the opening up of new company branches.

Output Prices Index

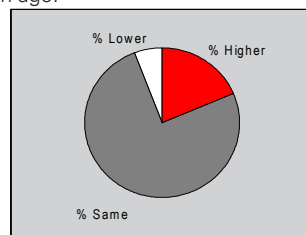
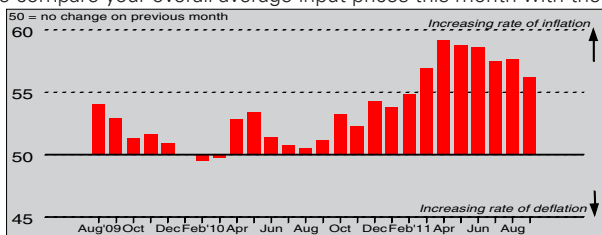
Q. Please compare the average prices you charged this month with the situation one month ago.



Following a marginal decline in August, UAE non-oil private sector charges increased at the end of Q3. The rate of inflation was the sharpest since June, but remained below the average for the first half of the year. Reports showed that strong competition prevented a faster increase in tariffs. Higher output prices were commonly attributed by panellists to rising input costs.

Overall Input Prices Index

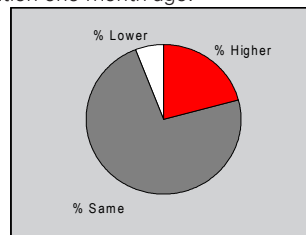
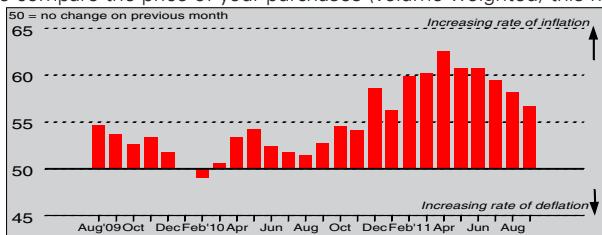
Q. Please compare your overall average input prices this month with the situation one month ago.



Overall input price inflation moderated during September to the weakest pace for seven months. Around 19% of the survey panel reported a rise in their average input costs, against 6% that saw a decline. Data suggested that the slowdown in inflation reflected easing rates of increase in both purchase and staff costs.

Input Costs: Purchase Prices Index

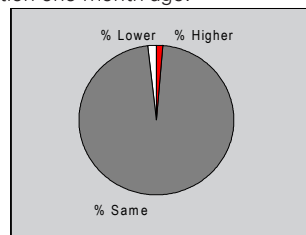
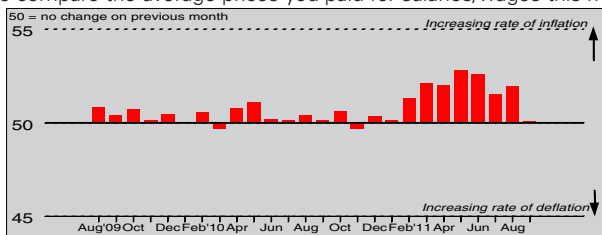
Q. Please compare the price of your purchases (volume-weighted) this month with the situation one month ago.



Prices paid for input purchases continued to increase during September. Companies monitored by the survey indicated that higher fuel and raw material prices were the main factors driving up purchase costs. Greater prices for metals and agricultural goods were mentioned in particular. However, the rate of inflation cooled further, reaching an eight-month low.

Input Costs: Staff Costs Index

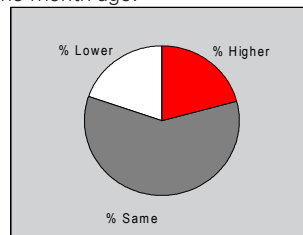
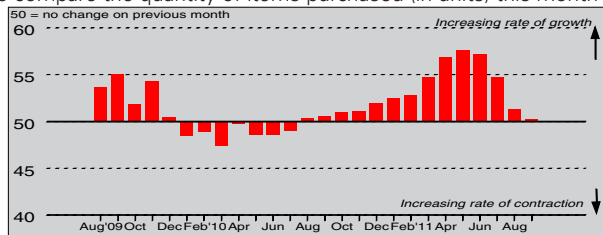
Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.



Staff cost inflation largely stagnated during September, and was the weakest of the current ten-month run of increase. The vast majority (97%) of respondents noted no change in employee expenses. Where personnel costs rose, panellists noted overtime pay and attempts to retain skilled workers.

Quantity of Purchases Index

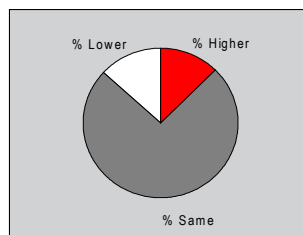
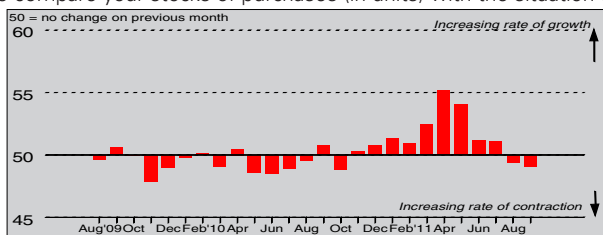
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Although UAE non-oil private sector companies continued to buy additional raw materials and semi-finished goods in September, the rate of increase eased to near stagnation. Anecdotal evidence indicated that the slowdown in growth reflected sufficient inventory holdings at units, stock management policies and just-in-time methods of purchasing.

Stocks of Purchases Index

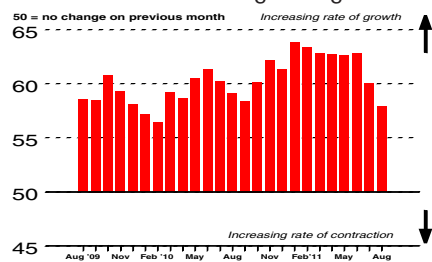
Q. Please compare your stocks of purchases (in units) with the situation one month ago.



Input holdings at UAE non-oil private sector firms fell for the second successive month in September, and at a slightly faster pace than in August. Respondents indicated that inventories were depleted due to efforts to store fewer stocks. That said, the rate of reduction remained only marginal.

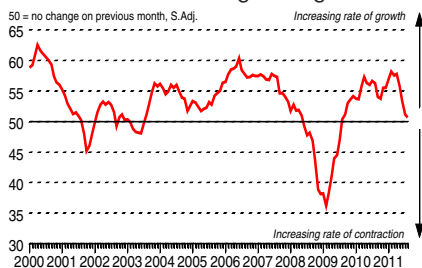
International PMI summary

Saudi Arabia Purchasing Managers' Index™



Source: Markit.

Eurozone Purchasing Managers' Index™



Source: Markit.

US Purchasing Managers' Index



Source: Institute for Supply Management (ISM).

Although the PMI continued to signal a strong improvement in Saudi Arabian non-oil private sector business conditions in August, at 57.9 (down from 60.0 in July), it was at its lowest level for one-and-a-half years. Behind the latest fall in the headline index were deteriorations in all of its component indices (the suppliers' delivery times index is inverted in the calculation of the PMI).

The slowdown in Eurozone private sector growth continued in August. At a two-year low of 50.7, down from 51.1 in July, the Eurozone PMI Composite Output Index signalled the second-weakest rate of expansion since the recovery began in August 2009. The weaker output trend was driven by a decline in manufacturing production, the first since July 2009, and a weaker service sector performance.

Reflecting the first drop in output for 27 months and another decline in new orders, the ISM US Manufacturing PMI fell from 50.9 in July to 50.6 in August. Its other components (employment, input stocks and delivery times) prevented the headline index from falling below the neutral 50.0 mark. In contrast, the Non-Manufacturing Index picked up in August to 53.3. However, it remained close to July's 17-month low of 52.7.

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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