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HSBC UAE PMI™

PMI signals strongest improvement in non-oil private sector business conditions for four months

Key findings:

- Output, new business and employment growth all accelerate
- Sharper improvement in supplier delivery times
- Price pressures pick up, but inflation remains below the highs seen earlier in the year

The first month of Q4 saw another improvement in UAE non-oil private sector business conditions. Moreover, growth rates of output, new business and employment were all stronger than their respective Q3 averages. Even so, they remained weaker than the rates of increase recorded earlier in the year. Meanwhile, both input cost and output price inflation ticked up.

Please note that following re-estimation of recent seasonality, the seasonally adjusted data for some variables have been revised from figures published last month.

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 – posted a four-month high of 53.4 in October, up from an upwardly-revised 52.3 in September. The latest reading pointed to a solid improvement in the health of the sector.

Total new business receipts rose at a sharper pace during the latest survey period, boosted by improved market conditions, promotional campaigns and good company reputations. New export orders also grew in October, but at a marginally slower rate than in September.

Companies responded to new order gains by raising output for the twenty-first month running. Growth was solid and the most marked since July. Broken down by company size, data showed that small firms increased activity to a greater extent than medium or large firms.

Additional personnel were recruited in October to meet increased

business requirements (comprising higher new order levels and company expansions), and also due to greater optimism about future output. This helped firms keep on top of their unfinished work. Backlogs were depleted for the fourth straight month.

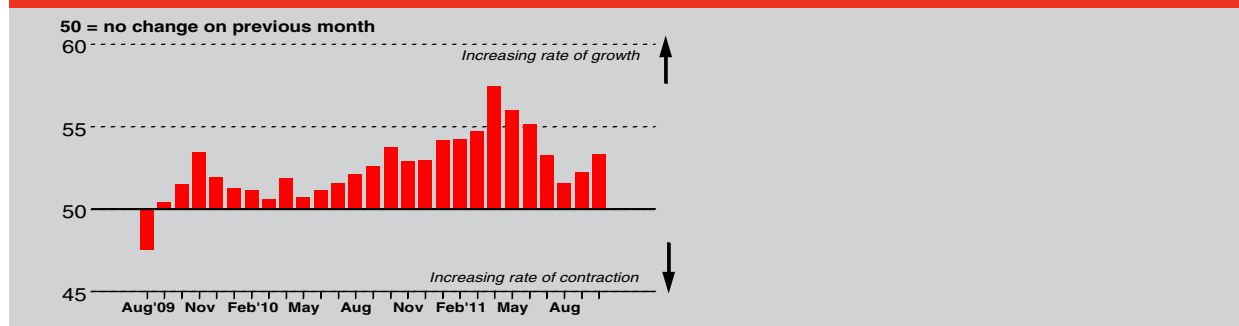
Stronger market demand and improved business sentiment also led companies to re-build input stocks in October. Buying activity rose at a solid and accelerated pace, which allowed for a modest accumulation of inventories. Medium-sized firms registered the greatest increase in input holdings.

In spite of stronger demand for inputs, supplier lead times shortened to a greater extent in October. Respondents stated that quicker deliveries were the result of good business relationships with vendors and strong competition amongst suppliers.

UAE non-oil private sector companies noted another increase in their average input costs during October. Both purchase prices and staff costs rose at faster rates, which was reflected by an upward trend in overall input price inflation. Panel members linked higher purchase costs to a combination of rising raw material, fuel and transport prices. Even so, all three measures of cost inflation remained weaker than the record highs recorded earlier in the year.

Reflecting another rise in input costs and stronger market demand, selling prices increased for the second consecutive month in October. Moreover, the rate of inflation accelerated slightly since September to a four-month high.

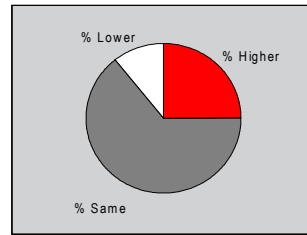
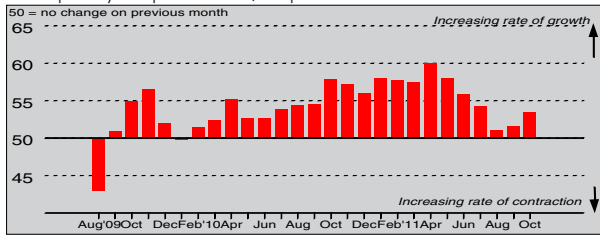
HSBC UAE *Purchasing Managers' Index™* (PMI™)



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

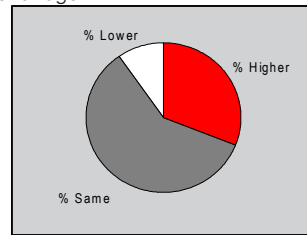
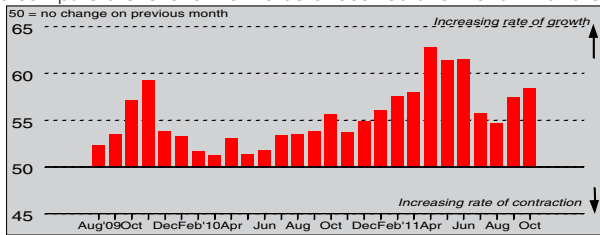
Q. Please compare your production/output this month with the situation one month ago.



Rising further from August's 19-month low, the seasonally adjusted Output Index registered a three-month high in October. The latest reading signalled a solid rise in activity, with panellists linking growth to favourable market conditions and gains in new business. By company size, small firms posted the sharpest expansion of output since September.

New Orders Index

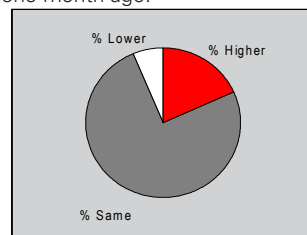
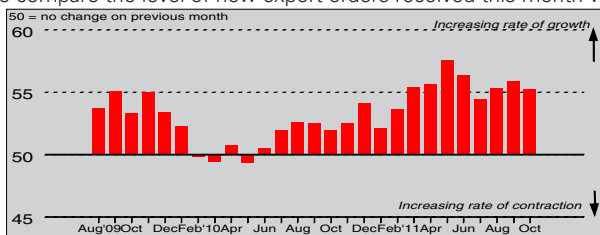
Q. Please compare the level of new orders received this month with the situation of one month ago.



Strengthening market conditions, advertising campaigns and good business reputations all supported demand for UAE non-oil private sector goods and services in October. Incoming new business expanded at a marked and accelerated pace as a result, with 31% of the survey panel noting growth.

New Export Orders Index

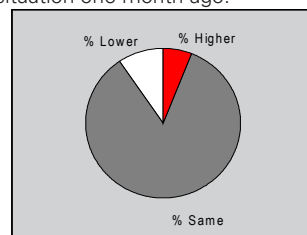
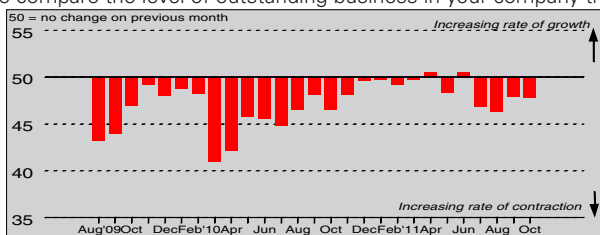
Q. Please compare the level of new export orders received this month with the situation of one month ago.



New orders placed with UAE non-oil private sector companies by foreign clients increased for the seventeenth month running in October. Despite easing fractionally since September, the rate of expansion remained robust and above the series trend. Anecdotal evidence showed that favourable business conditions underlay the latest rise in new export work.

Backlogs of Work Index

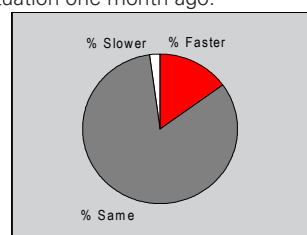
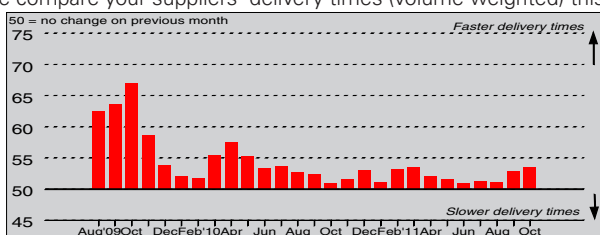
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Unmoved since September, the seasonally adjusted Backlogs of Work Index signalled another modest decline in unfinished business in October. Respondents indicated that workloads were manageable and that deliveries were made on time. Large firms made greater inroads into their existing contracts than SMEs.

Suppliers' Delivery Times Index

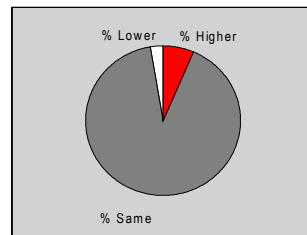
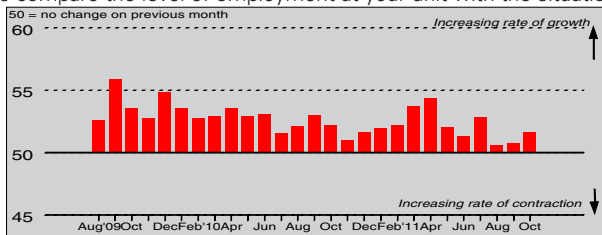
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Lead times on input deliveries shortened to the greatest extent for seven months in October. Good business relationships and strong competition amongst suppliers were behind the latest improvement, according to panellists. Lead times have improved on average throughout the 27-month series history.

Employment Index

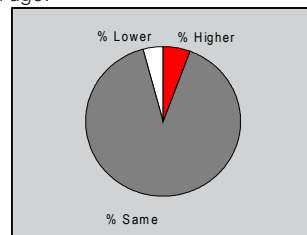
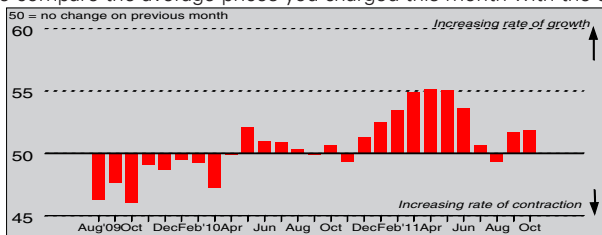
Q. Please compare the level of employment at your unit with the situation one month ago.



Employment growth in the United Arab Emirates non-oil private sector gained pace in October, reaching a three-month high. Increased business requirements (due to both rising new order levels and company expansions), and greater confidence for future output were the main reasons behind recruitment, according to panel members. Large firms took on more new staff than SMEs since September.

Output Prices Index

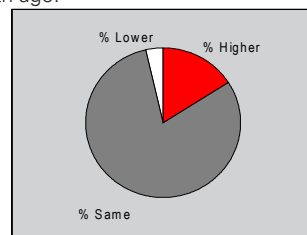
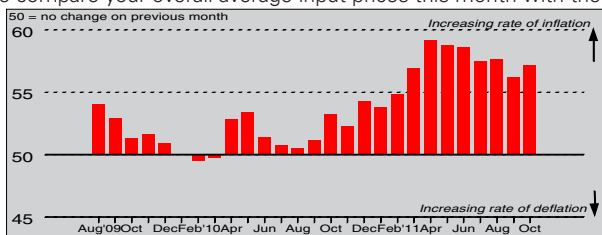
Q. Please compare the average prices you charged this month with the situation one month ago.



Non-oil private sector companies continued to raise their charges in October, which respondents indicated was in response to higher input costs and stronger market demand. The latest increase was slightly faster than in September and the most marked for four months. Small companies hiked their tariffs to a greater extent than medium or large firms.

Overall Input Prices Index

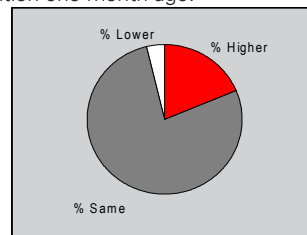
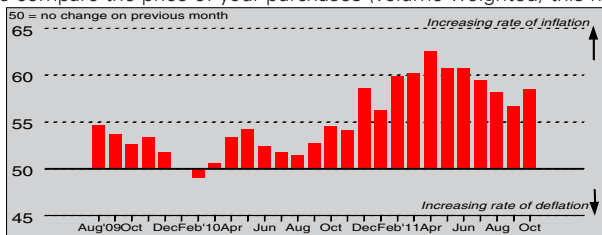
Q. Please compare your overall average input prices this month with the situation one month ago.



The seasonally adjusted Overall Input Prices Index rose from September's seven-month low in October, but remained below the highs seen earlier in the year. The latest reading pointed to a marked rate of inflation, which data suggested was underpinned by sharper increases in both purchase and staff costs.

Input Costs: Purchase Prices Index

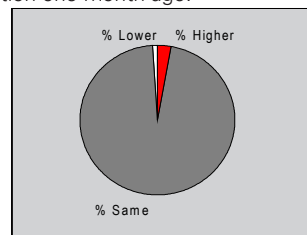
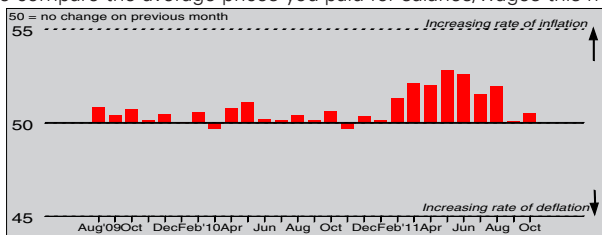
Q. Please compare the price of your purchases (volume-weighted) this month with the situation one month ago.



Bringing the current run of inflation to 20 months, purchase prices rose during October. Moreover, the rate of increase accelerated to a three-month high. Reports indicated that greater purchase costs were the combined result of rising raw material and fuel prices, as well as increased transport costs.

Input Costs: Staff Costs Index

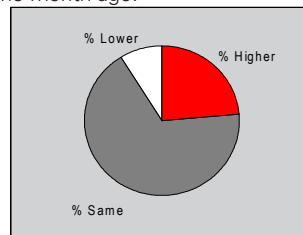
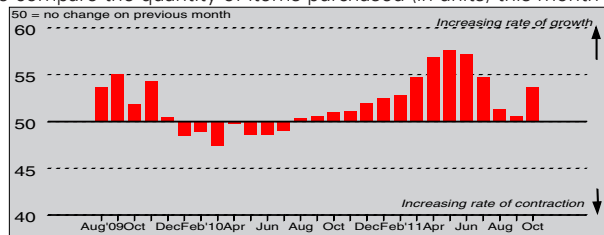
Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.



Staff cost inflation picked up fractionally during October, although the rate of increase remained muted in comparison to the year-to-date average. The vast majority of the survey panel (96%) made no changes to average wages or salaries. Broken down by company size, data showed that medium-sized companies saw the greatest rise in personnel expenses.

Quantity of Purchases Index

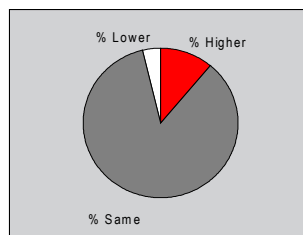
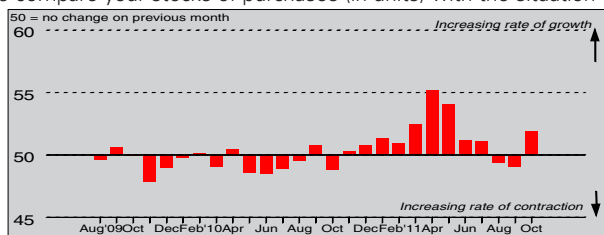
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Reacting to gains in new work, UAE non-oil private sector companies purchased additional inputs during the latest survey period. Moreover, the rate of growth picked up to a solid pace, following only a slight increase in September. Attempts to boost stock levels and expectations of stronger market demand were also mentioned as reasons for greater buying activity.

Stocks of Purchases Index

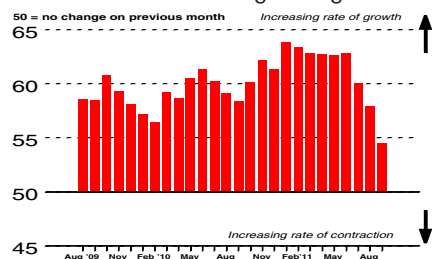
Q. Please compare your stocks of purchases (in units) with the situation one month ago.



Following on from two straight months of contraction, input holdings at UAE non-oil private sector companies increased during October. Growth was moderate and the fastest since May, reflecting a sharper rise in buying activity. Medium-sized firms registered a greater accumulation of inventories than small or large companies.

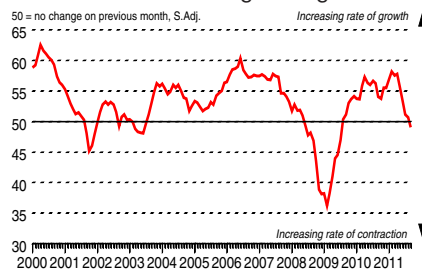
International PMI summary

Saudi Arabia Purchasing Managers' Index™



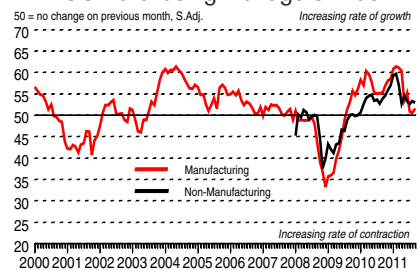
Source: Markit.

Eurozone Purchasing Managers' Index™



Source: Markit.

US Purchasing Managers' Index



Source: Institute for Supply Management (ISM).

The pace of improvement in Saudi Arabian non-oil private sector operating conditions eased further at the end of the third quarter, as growth rates of both output and new orders cooled and employment fell for the first time in the survey history. The PMI slipped further, reaching a new low of 56.3 (from 59.0 in August). Meanwhile, September data showed a further slowdown in input price inflation.

At 49.1, down from 50.7 in August, the final Eurozone PMI Composite Output Index for September signalled the first drop in private sector activity since July 2009. The final reading was broadly unchanged on the earlier flash estimate of 49.2. The average reading for the third quarter as a whole was just 50.3 – signalling a stagnation of activity – down from 55.6 in Q2 and 57.6 in Q1.

The ISM US Manufacturing PMI rose from August's 25-month low of 50.6 to a three-month high of 51.6 in September, pointing to a stronger improvement in business conditions. The pick-up in the headline index reflected renewed growth or output and stronger gains in employment. In contrast, the Non-Manufacturing Index slipped marginally to 53.0, from 53.3 in the previous month.

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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