

HSBC UAE PMI™

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

Summary

The HSBC United Arab Emirates *Purchasing Managers' Index™ (PMI™)* 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.

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

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.

Comment

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

"It's an encouraging print that suggests the UAE economy is coming back to life after the quiet summer months. I'm still concerned that global economic weakness is going to weigh on the performance of the non-oil economy in the months ahead, though, and am anxious at the clear evidence that margins are under pressure. We maintain our forecast that the economy will grow at less than 4% this year."

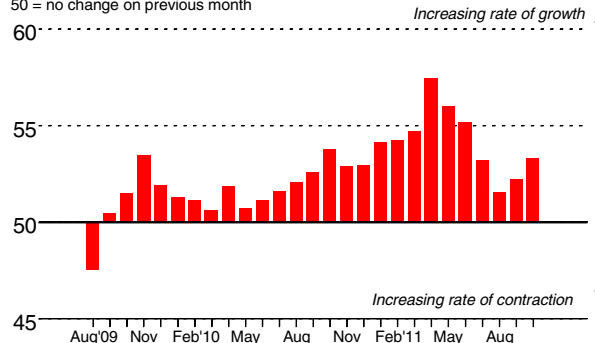
Key Points

- 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

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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