HSBC Purchasing Managers' Index™ Press Release

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compiled by markit

HSBC UAE PMI™

Business conditions improve moderately in January

Summary

Business conditions in the UAE non-oil private sector improved at an accelerated rate in January, following a slight weakening at the end of 2011. The strengthening in the health of the sector was moderate, as the expansion in output quickened and new business rose at a marked pace. Hiring remained sluggish, however, as firms remained cautious of adding to cost pressures.

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 - increased from 51.7 in December to 52.4 in January. Registering above the 50.0 mark that separates growth from contraction, the latest reading was in-line with the average recorded during the second half of last year.

Non-oil producing firms recorded a marked rise in overall new orders at the start of 2012, as a number of panellists perceived that client demand in both domestic and regional markets had strengthened. The rate of growth in total new business accelerated over the survey period to a three-month high. An expansion in new export orders was also registered during January. The increase was slower than for overall new business, however, as survey members reported that purchasing activity of European customers remained subdued.

In response to the rise in new work, firms increased activity at their business units during January. Output growth at the UAE's non-oil producing companies accelerated to a solid rate, the second-quickest recorded in the last six months.

Efficient order processing and quicker delivery times from suppliers helped to reduce outstanding business held by companies over the month. Vendor performance improved considerably, with lead times shortening at their second-sharpest rate in 21 months.

Greater production requirements encouraged businesses to increase purchasing activity in January. The expansion in input buying was solid, and quickened to the fastest pace since July 2011. However, greater purchasing activity did not translate into a rise in pre-production stocks.

Non-oil producing companies in the UAE increased headcounts at only a marginal rate in January. Most firms appeared reluctant to increase staff levels at their business units as cost pressures remained strong.

Overall input prices continued to rise in January. While the rate of inflation eased for the second successive month, it nevertheless remained above the series average. The latest data indicated that the increase was almost wholly caused by higher purchasing prices. Purchase price inflation was strong, and broadly in line with the series average, while firms left salary payments unchanged from December.

As firms tried to maintain competitive pricing strategies, input price rises were not passed on to clients in January. As a result, output prices were broadly stagnant over the month.

Comment

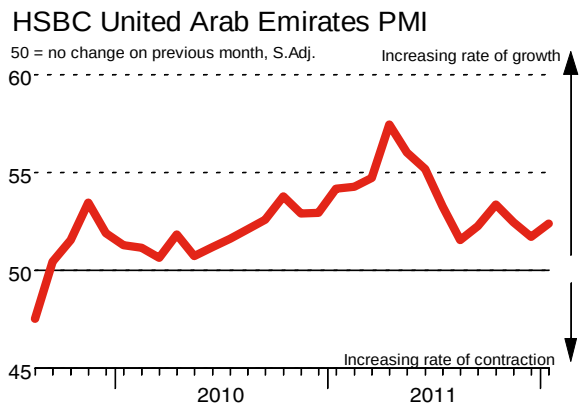
Commenting on the UAE PMI™ survey, Simon Williams, Chief Economist for Middle East & North Africa at HSBC said:

"The headline number points to greater stability after a run of declines and its encouraging to see the uptick in new orders. Employment still looks soft, though, and continued weak output prices despite further gains in costs suggests there continues to be significant spare capacity in the domestic economy."

Key points

- PMI rises, having fallen to four-month low in December
- New order growth accelerates to quickest pace in last three months
- Charges remain broadly unchanged despite strong cost inflation

Historical Overview



Sources: Markit, HSBC.

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Notes to Editors:

The HSBC 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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