

HSBC UAE PMI™

Health of UAE private sector economy continues to improve moderately

Summary

March saw another moderate improvement in UAE non-oil private sector operating conditions, rounding off a positive start to the first quarter of 2012. Output and new orders both continued to increase, while jobs growth picked up to a five-month high. Rising employment levels were just sufficient for firms to satisfy business requirements, with backlogs remaining largely unchanged on the month. Meanwhile, despite persistent inflationary pressures, firms again only increased charges fractionally to prevent demand levels retreating.

The headline seasonally adjusted HSBC United Arab Emirates PMI™ – a composite indicator designed to provide a single-figure snapshot of the performance of the non-oil private sector – climbed slightly from 52.0 in February, to 52.3 in March. The latest reading indicated further modest gains in the health of the private sector.

New work received by UAE non-oil private sector companies in March increased at a strong pace that was above the series trend. New export order growth slowed, however, and was the weakest in three months.

The gains in new work contributed towards an expansion in activity over the month. Output growth accelerated to a solid pace in March. UAE non-oil private sector companies linked higher volumes of new orders to better market conditions.

Improved market conditions led UAE non-oil private sector firms to recruit extra personnel in March. Employment increased at an accelerated, albeit still marginal pace on the month. The rise in headcounts did not help to reduce backlogs though.

To accommodate further new order growth, firms acquired additional supplies in March. Buying activity rose at a modest pace which was the weakest so far this year. However, stock holdings were not added to, as many purchases were used immediately.

Input price inflation remained strong in March, despite easing on the month, as both purchase and employee costs increased. Respondents made particular reference to the increased costs of oil, while remuneration had been revised upwards due to an increase in new business.

United Arab Emirates non-oil private sector companies were cautious over passing on rising cost burdens to clients in March, due to strong competition and uncertainty regarding the strength of demand. Firms left their tariffs broadly unchanged in March, in line with the fractional increases registered in the previous three months.

Comment

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

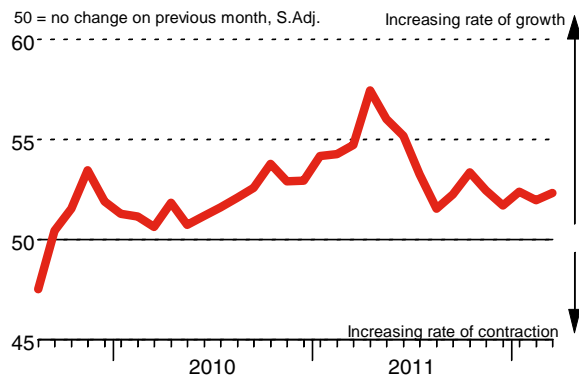
"The growth in new orders is encouraging, but the data is still painting a picture of an economy that is stable, not one that is gaining momentum. Employment still looks sluggish, wages flat and export demand soft. Another month of flat output prices is good news for consumers, but continues the pressure on producers who are having to absorb higher input costs."

Key points

- PMI signals fractionally quicker rate of improvement
- Output growth accelerates to solid pace
- Charge inflation remains only marginal as firms cautious over demand levels

Historical Overview

HSBC United Arab Emirates PMI



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.

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