HSBC Purchasing Managers' Index™ Press Release

Embargoed until: 09:30 (Dubai), 5 June 2012

compiled by markit

HSBC UAE PMI™

Rising sales volumes support faster improvement in operating conditions in May

Summary

May's survey indicated a further improvement in operating conditions in the UAE's non-oil private sector, led by a marked and accelerated rise in volumes of incoming new orders. Output continued to increase, but at a slower pace than sales, leading to further growth of backlogs and associated increases in employment.

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 – registered 53.8 in May, slightly up on April's 53.5 and the strongest reading for 11 months.

Improved operating conditions largely emanated from rising sales volumes, which also increased at the fastest pace since last June. Panellists indicated that market conditions were relatively buoyant, with advertising, promotional work and good marketing all reported to have supported efforts to win new contracts during the latest survey period.

Latest data implied that the domestic market was a key source of new orders in May. Export sales continued to rise, although with some reports of a slower global economy, the rate of growth was slightly weaker.

Companies in UAE's non-oil private sector responded to a sharp increase in their order books by increasing production volumes. Growth was again solid, although was slightly down on April's recent high and below that signalled for new orders.

Subsequently, further pressure on capacity was created in May, as highlighted by another increase in backlogs of work. Latest data marked the third successive month that work outstanding has risen, which encouraged companies to add to their payroll numbers. Employment rose for a fifth successive month, and at the sharpest pace since last July as firms tried to keep on top of their higher workloads.

Finally, on the price front, faster rises in both salaries and purchase costs led to a sharp increase in overall input prices. Panellists largely blamed strong demand for rising purchase prices, although some noted that oil-related product costs had increased. A modest rise in staffing costs reportedly reflected the compensation of workers for a higher cost of living.

Efforts to protect margins resulted in sustained output charge inflation in May, with the rate of inflation the sharpest for seven months (albeit one that was well below inputs).

Comment

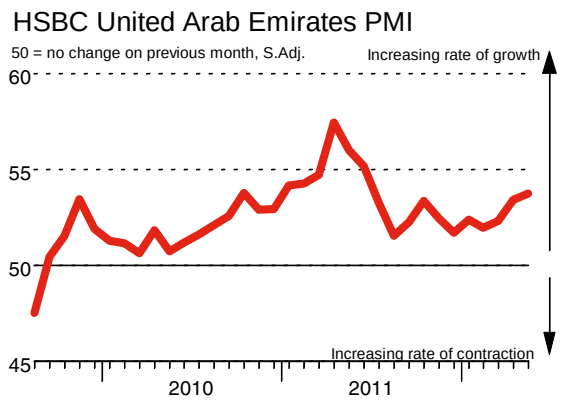
Commenting on the UAE PMI™ survey, Simon Williams, Chief Economist for Middle East & North Africa at HSBC said:

"Its a good reading and, given the weakness PMIs are showing elsewhere in the world, the pick up in the new orders and employment scores is particularly encouraging. The UAE's reliance on external demand and foreign funding, though, and the limited fiscal stimulus that's in place, mean it will be hard for the economy to continue to build momentum, particularly as we move into the hot summer months."

Key points

- Headline PMI up to 11-month high in May
- Faster growth of incoming new orders supports further marked rise in production
- Capacity constraints led to higher backlogs and further rise in employment

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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