HSBC Purchasing Managers' Index™ Press Release

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HSBC UAE PMI™

Improvement in operating conditions slows slightly in June

Summary

Non-oil producing private sector companies in the UAE reported increased output and new order levels in June. The rates of expansion, however, eased from May. New business from foreign markets also expanded at a slower pace. Meanwhile, payroll numbers rose solidly and the rate of wage inflation accelerated to the sharpest in the 47-month survey history.

The headline seasonally adjusted HSBC United Arab Emirates PMI^{TM} – a composite indicator designed to provide a single-figure snapshot of the performance of the non-oil private sector – posted 54.1 in June, down from May's 55.3, and pointed to a further improvement in operating conditions in the sector. Activity, new orders, employment and stocks of purchases all improved, but only workforce numbers rose at an accelerated rate from the previous survey period.

June data signalled a further rise in output levels in the UAE's non-oil producing private sector, as 24% of panellists reported increased activity. The rate of expansion eased, however, and was the weakest since last November. Order book volumes also increased at a slower pace, although growth remained sharp overall.

Deteriorating economic and political conditions in foreign markets were drivers behind a weak expansion in new business from abroad. While new export orders have risen in every month since June 2010, the latest rate of growth was the weakest in 11 survey periods

Non-oil producing private sector companies in the UAE hired additional workers in June, and linked the increase to higher new business. The rate of job creation picked up and was the fastest in the current 18-month sequence of increasing employment levels.

Overall input prices increased in June, but the rate of cost inflation eased to the weakest since the beginning of the year. While average purchase prices increased at a slower pace, the rate of staff cost inflation accelerated to the sharpest since data collection began in August 2009. There was some anecdotal evidence that the cost rise was driven by increased salary payments.

Output charges rose for the first time in four months during June, as companies responded to increased input costs. The overall rate of charge inflation was, however, only slight.

Levels of outstanding business rose at the fastest pace in a year during June, although only modestly overall. Concurrently, average lead times on inputs shortened, as competition among suppliers increased. Buying activity increased in the UAE's non-oil producing private sector in June, although at a slower pace than in the previous survey period. Pre-production inventories also rose, as 13% of panellists reported an accumulation of stocks of purchases.

Comment

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

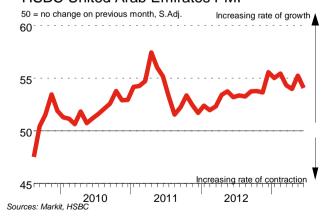
"Although the data show a modest slowdown into the start of the hot summer months, the economy is still in growth mode with output still rising and employment gaining speed. The sharp slowdown in other emerging markets is a concern, but robust new orders figures suggest the UAE is likely to retain momentum for now, as strong domestic and regional demand compensates for weakness in Asia and beyond."

Key points

- Output and new orders increase at weaker rates
- New export business rises, albeit only slightly
- Average staff costs increase at fastest pace in series history

Historical Overview

HSBC United Arab Emirates PMI







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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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