

HSBC UAE PMI™

Output growth at six-month high

Summary

August data signalled accelerated output growth at the UAE's non-oil producing private sector companies. New orders continued to rise sharply, and workforce numbers increased for the twentieth month running. Meanwhile, companies raised their output charges in response to increased input costs.

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 – posted 54.5 in August, unchanged from July's reading. Operating conditions have improved continuously since September 2009, and the latest pace of improvement was above the overall series average.

The latest survey results signalled a further rise in output levels at the UAE's non-oil producing private sector firms. The pace of expansion accelerated to a six-month high, mostly driven by increased business and improving market conditions. Order intakes also rose, as one-in-three respondents indicated growth of new work. Some companies linked more business to improved economic conditions, while others commented on price discounting. Meanwhile, new business from abroad increased at a slower pace than seen in July.

In line with increases in output and new orders, employment levels rose in August. Anecdotal evidence suggested that companies hired additional workers to meet higher production requirements.

Increased new business was the key driver for an accumulation of backlogs. The increase in work-in-hand was the sharpest recorded since data collection began in August 2009. Concurrently, suppliers' delivery times shortened again. Panellists attributed better delivery times to efficiency improvements and increased competition among suppliers.

Input costs increased at the fastest pace in four months during August. Purchase prices and staff costs both increased at sharper rates than those seen in July. There was some anecdotal evidence that general inflationary pressures accounted for much of the latest increase in purchase prices.

In response to increased input costs, non-oil producing private sector companies in the UAE raised their output charges in August, extending the current sequence of rising selling prices to three months. However, the latest charge inflation was only marginal, as the vast majority of panel members indicated unchanged output prices from July.

Purchasing activity rose at the fastest pace in three months during August, mainly driven by increased business and predicted new order growth. Meanwhile, stocks of purchases accumulated marginally, and at the weakest rate since April.

Comment

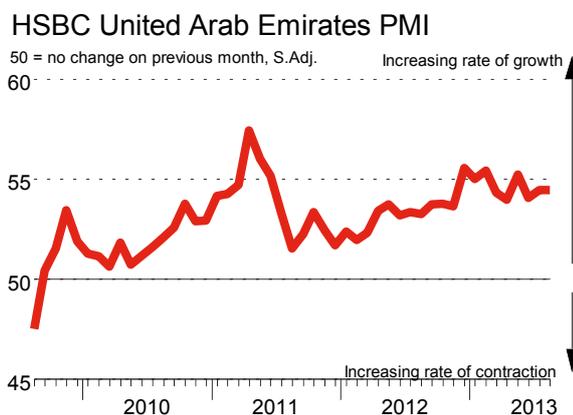
Commenting on the UAE PMI™ survey, Liz Martins, Senior Economist for Global Banking and Markets at HSBC said:

"This is another very good reading, supporting our view of a broad based pick-up in growth throughout the UAE. Even allowing for the seasonal adjustment, the increase in output and employment is all the more impressive for taking place in the typically quiet month of August."

Key points

- Activity growth accelerates as new orders increase sharply
- Further rise in employment levels
- Output charges rise in line with higher input costs

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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