

Embargoed until: 09:30 (DUBAI) 4 January 2012

HSBC UAE PMI™

PMI slips to four-month low as output and new order growth ease and employment stagnates

Key findings:

- Rates of increase in activity and new business hit three- and four-month lows respectively
- Staffing levels unchanged since November
- Price pressures ease

December survey data pointed to an easing in UAE non-oil private sector growth. Output and total new business both rose at weaker rates, while staffing levels were unchanged. Data also implied that backlog depletion continued to support activity.

Falling to a four-month low of 51.7 in December, from 52.5 in November, the HSBC United Arab Emirates *Purchasing Managers' Index™ (PMI™)* signalled a weaker improvement in business conditions. The PMI is a composite indicator designed to provide a single-figure snapshot of the performance of the non-oil private sector.

Output from the UAE non-oil private sector continued to rise during the latest survey period. However, the rate of increase moderated since November to a three-month low, reflecting an easing trend in new business growth and a less-marked depletion of unfinished work. Broken down by company size, data revealed that expansion was led by small firms in December.

Total new order receipts rose at a weaker pace during December. However, the slowdown in growth was only fractional and the rate of increase remained robust. Over 27% of the survey panel noted higher takings of new work since November, citing solid market conditions, successful advertising campaigns and the introduction of new products.

New export business also expanded to a lesser extent at the end of Q4, with the rate of increase hitting a one-and-a-half

year low. Reports showed that difficult business conditions abroad had subdued demand.

Efficient order processing, alongside manageable workloads, led to another depletion of backlogs in December. However, the rate of reduction eased to the weakest of the current six-month run of decline.

Suppliers were also working efficiently in December. Input delivery times shortened further, and to the greatest extent since April 2010. Prompt payments for goods, strong business relationships and vendors' efforts to secure more orders were reportedly the key reasons for better performance.

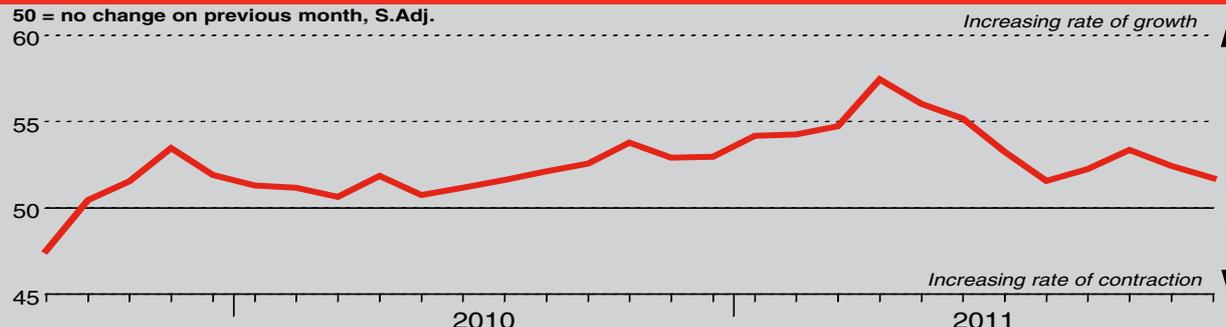
In response to further growth of new orders, as well as expectations of stronger demand, UAE non-oil private sector firms acquired additional inputs and built up inventories in December. However, employment was not increased. For the first time in the series history, staffing levels were unchanged.

Selling prices for UAE non-oil private sector goods and services were broadly maintained at the end of Q4. This followed three months of moderate inflation. Strong competition was the main reason for the slower rate of increase, according to respondents.

Overall input price pressures cooled in December, after picking up over the previous two months. The latest increase was the weakest since February and reflected a slower rise in purchase prices, as well as a slight decline in staff costs.

HSBC UAE Purchasing Managers' Index™ (PMI™)

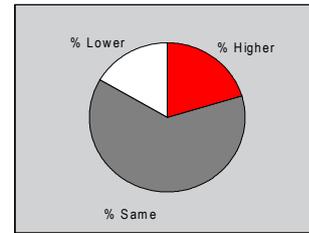
50 = no change on previous month, S.Adj.



The HSBC UAE Purchasing Managers' Index (PMI) is a composite indicator designed to provide an overall view of activity in the United Arab Emirates non-oil private sector economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery times and stocks of goods purchased. A reading of the PMI below 50.0 indicates that the economy is generally declining; above 50.0, that it is generally expanding. A reading of 50.0 signals no change. The greater the divergence from 50.0, the greater the rate of change signalled by the index. *Purchasing Managers' Index™* and *PMI™* are trade marks of Markit Economics Limited, HSBC use the above marks under licence. Markit and the Markit logo are registered trade marks of Markit Group Limited.

Output Index

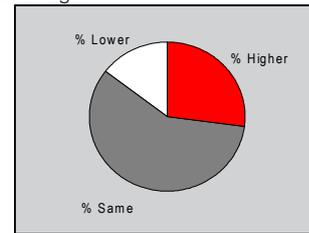
Q. Please compare your production/output this month with the situation one month ago.



The UAE non-oil private sector saw solid growth of activity during December, although the rate of increase moderated since November to a three-month low that was below the series trend. One-in-five monitored companies registered an increase in output, commenting on gains in new business. Broken down by company size, small firms were the strongest performers.

New Orders Index

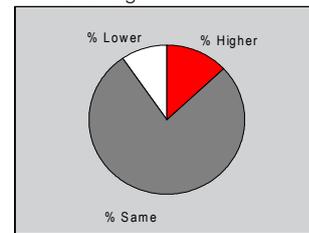
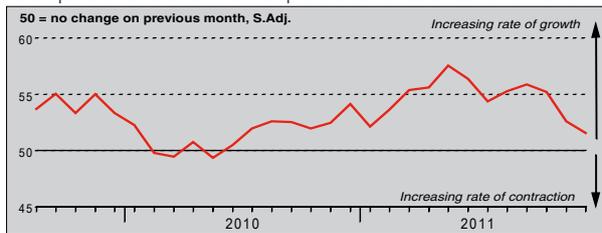
Q. Please compare the level of new orders received this month with the situation of one month ago.



The seasonally adjusted New Orders Index trended broadly sideways in December, signalling another marked rise in total new business receipts. Respondents indicated that good market conditions, successful promotional activities and the introduction of new products had all supported demand.

New Export Orders Index

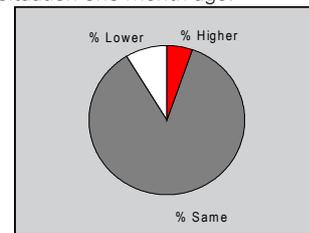
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Growth of new export business continued to slow during the latest survey period, reaching an 18-month low. December's rise was only modest and contrasted with the highs seen in the middle of the year. Reports suggested that less favourable business conditions abroad had subdued demand in some cases.

Backlogs of Work Index

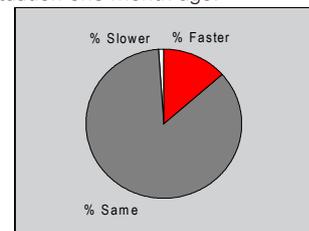
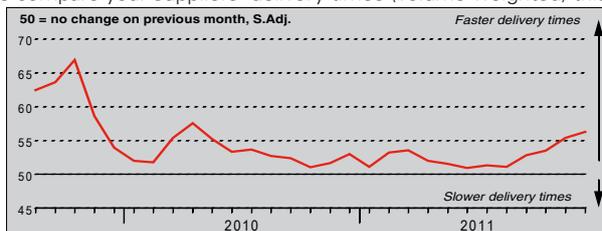
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Unfinished business fell for the sixth straight month in December, albeit at the weakest pace of that sequence. Panel members indicated that backlogs were cleared due to manageable workloads and efficient order processing. In the 29-month series history, work-in-hand has risen only twice (April 2011 and June 2011).

Suppliers' Delivery Times Index

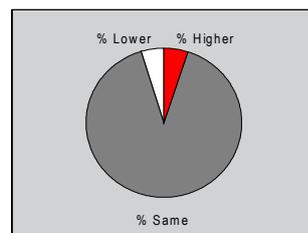
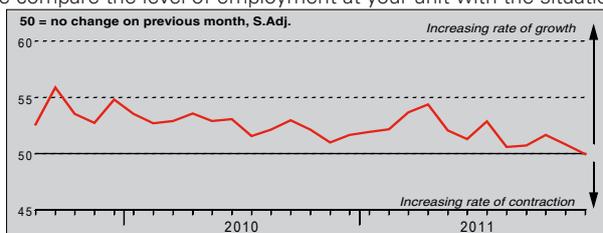
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Lead times on input deliveries to UAE non-oil private sector companies shortened again during December, and to the greatest extent since April 2010. Respondents cited good payment terms and strong relationships with suppliers, alongside vendors' efforts to secure more business, as key reasons for improved vendor performance.

Employment Index

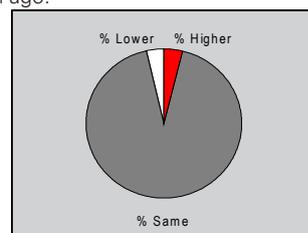
Q. Please compare the level of employment at your unit with the situation one month ago.



Employment in the United Arab Emirates non-oil private sector stagnated in December, for the first time in the survey's 29-month history. Where new staff were taken on, panellists commented on increased new orders and expectations of higher demand, as well as the opening of new business units. Meanwhile, job shedding was attributed to resignations or low workloads.

Output Prices Index

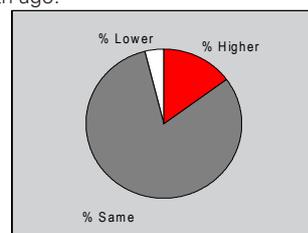
Q. Please compare the average prices you charged this month with the situation one month ago.



Charges in the UAE non-oil private sector were broadly unchanged at the end of Q4, after modest increases in the previous three months. The vast majority of the survey panel (92%) maintained their rates since November. In the 3.9% of cases where tariffs were raised, firms cited higher input costs. Meanwhile, the 3.6% of monitored companies that reduced selling prices mostly noted strong competition.

Overall Input Prices Index

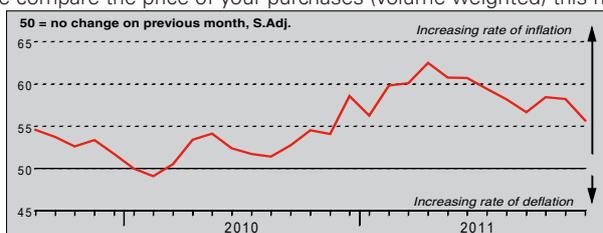
Q. Please compare your overall average input prices this month with the situation one month ago.



Overall input cost inflation was recorded for the twenty-first month running in December. However, the latest rise was the least-marked since February. Data suggested that the slowdown in total input cost inflation reflected a weaker rise in purchase prices and a slight fall in staff costs.

Input Costs: Purchase Prices Index

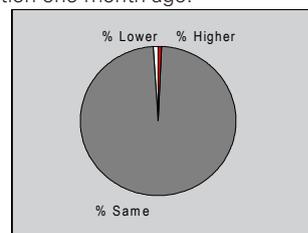
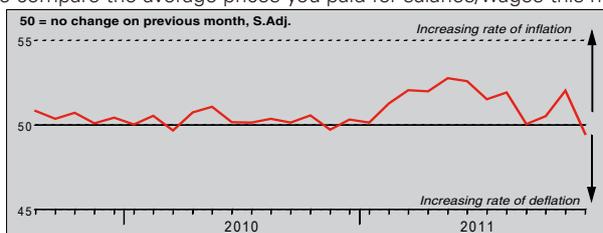
Q. Please compare the price of your purchases (volume-weighted) this month with the situation one month ago.



Prices paid by UAE non-oil private sector firms for their inputs continued to increase during December. However, inflation eased to its weakest pace for over a year. Reports showed that this slowdown reflected lower prices for certain raw materials. Data indicated that purchase price inflation was strongest at small and large companies.

Input Costs: Staff Costs Index

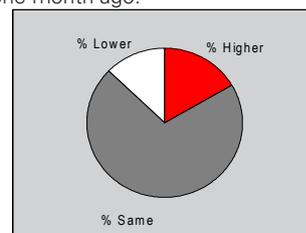
Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.



Average UAE non-oil private sector wages and salaries fell during December for the first time since November 2010, albeit only slightly. The clear majority of monitored companies (over 98%), reported unchanged staff costs. Only 1.1% of respondents saw a reduction in their workers' pay, against 0.7% that noted an increase.

Quantity of Purchases Index

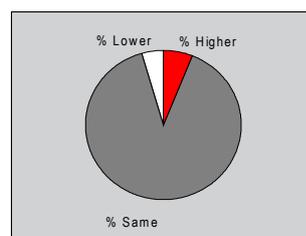
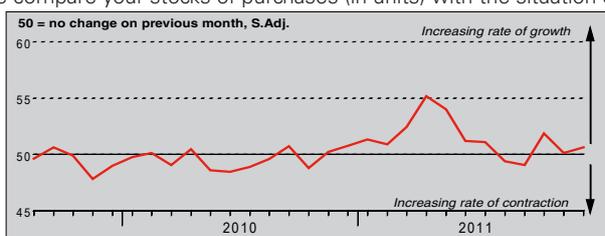
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Increased business activities and expectations of improved demand led UAE non-oil private sector companies to acquire additional inputs at the end of Q4. Buying activity rose for the seventeenth month running, and at a slightly faster pace. Small firms raised purchasing to a greater extent than medium or large companies.

Stocks of Purchases Index

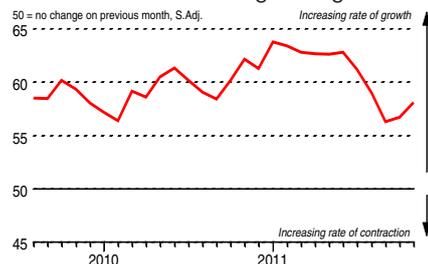
Q. Please compare your stocks of purchases (in units) with the situation one month ago.



Input stocks built up at a slightly faster pace during December, after growth eased to near-stagnation in November. The improved rate of expansion reflected a sharper increase in purchasing activity. Even so, the accumulation of inventories was only marginal and remained below October's five-month high.

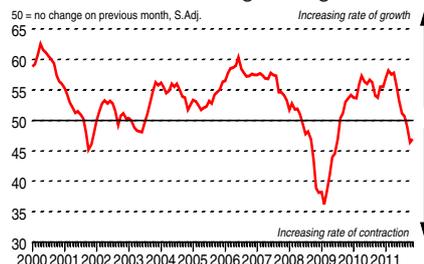
International PMI summary

Saudi Arabia Purchasing Managers' Index™



Source: Markit.

Eurozone Purchasing Managers' Index™



Source: Markit.

US Purchasing Managers' Index



Source: Institute for Supply Management (ISM).

Saudi Arabian non-oil private sector business conditions continued to improve in November, with activity, new orders and staffing all rising at faster rates. Even so, expansions in both output and employment remained below-trend. Further improvements in its key components supported another rise in the PMI, which registered 58.1, up from 56.7 in October.

The Eurozone private sector economy contracted for the third month running in November. At 47.0, up from 46.5 in October, the Eurozone PMI Composite Output Index signalled a slight easing in the rate of decline. Output of the combined manufacturing and service sectors declined across all of the big-four nations for the first time since July 2009.

The ISM US Manufacturing PMI climbed to a five-month high of 52.7 in November, from 50.8. Supporting this upward movement were sharp rises in both the output and new orders indices. The Non-Manufacturing Index, meanwhile, fell to a 22-month low of 52.0 (from 52.9). Weighing on the NMI was a contraction in employment, which occurred despite sharper growth of activity and new work.

Notes on the Data and Method of Presentation

The 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.

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