HSBC *Purchasing Managers' Index*™ 2012

compiled by markit

Embargoed until: 09:30 (DUBAI) 5 February 2012

HSBC UAE PMI™

Business conditions improve moderately in January

Key findings:

- PMI rises, having fallen to four-month low in December
- New order growth accelerates to quickest pace in last three months
- Charges remain broadly unchanged despite strong cost inflation

Business conditions in the UAE non-oil private sector improved at an accelerated rate in January, following a slight weakening at the end of 2011. The strengthening in the health of the sector was moderate, as the expansion in output quickened and new business rose at a marked pace. Hiring remained sluggish, however, as firms remained cautious of adding to cost pressures.

The HSBC United Arab Emirates *Purchasing Managers' Index*™ (*PMI*™) - a composite indicator designed to provide a single-figure snapshot of the performance of the non-oil private sector - increased from 51.7 in December to 52.4 in January. Registering above the 50.0 mark that separates growth from contraction, the latest reading was in-line with the average recorded during the second half of last year.

Non-oil producing firms recorded a marked rise in overall new orders at the start of 2012, as a number of panellists perceived that client demand in both domestic and regional markets had strengthened. The rate of growth in total new business accelerated over the survey period to a three-month high. An expansion in new export orders was also registered during January. The increase was slower than for overall new business, however, as survey members reported that purchasing activity of European customers remained subdued.

In response to the rise in new work, firms increased activity at their business units during January. Output growth at the UAE's non-oil producing companies accelerated to a solid rate, the second-quickest recorded in the last six months.

Efficient order processing and quicker delivery times from suppliers helped to reduce outstanding business held by companies over the month. Vendor performance improved considerably, with lead times shortening at their second-sharpest rate in 21 months.

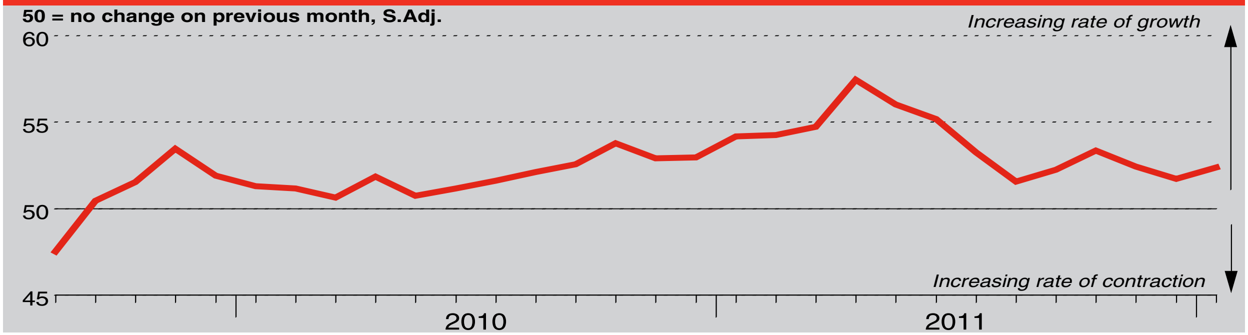
Greater production requirements encouraged businesses to increase purchasing activity in January. The expansion in input buying was solid, and quickened to the fastest pace since July 2011. However, greater purchasing activity did not translate into a rise in pre-production stocks.

Non-oil producing companies in the UAE increased headcounts at only a marginal rate in January. Most firms appeared reluctant to increase staff levels at their business units as cost pressures remained strong.

Overall input prices continued to rise in January. While the rate of inflation eased for the second successive month, it nevertheless remained above the series average. The latest data indicated that the increase was almost wholly caused by higher purchasing prices. Purchase price inflation was strong, and broadly in line with the series average, while firms left salary payments unchanged from December.

As firms tried to maintain competitive pricing strategies, input price rises were not passed on to clients in January. As a result, output prices were broadly stagnant over the month.

HSBC UAE *Purchasing Managers' Index*™ *(PMI*™*)*



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.

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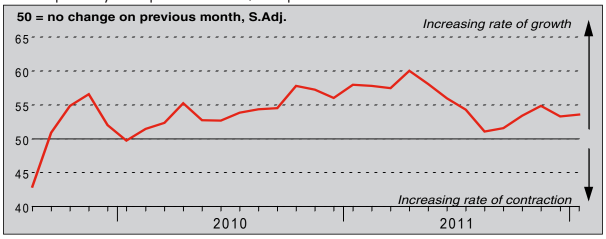
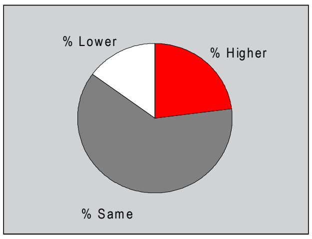
Output Index

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

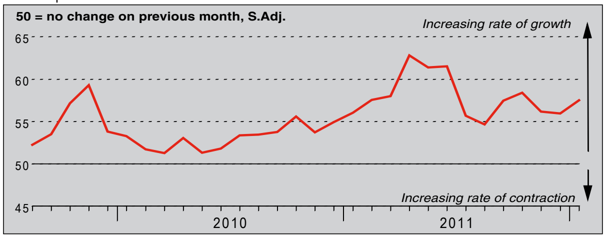


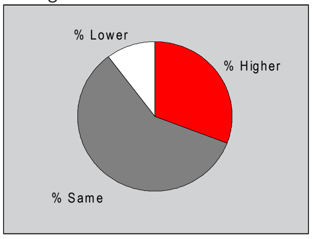


Non-oil producing companies in the UAE registered a solid increase in activity during the first month of 2012. The rate of expansion accelerated from December, and was the second-fastest in the last six months. A strong increase in new orders, amid an improved economic environment, was the principal cause of the output gain according to survey members.

New Orders Index

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

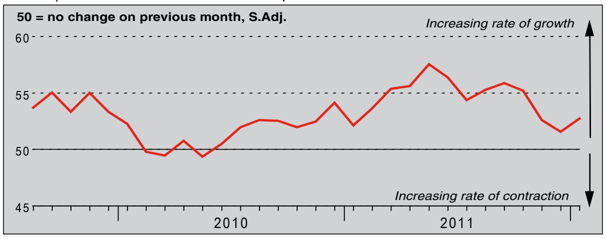


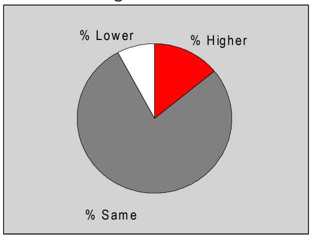


New business received by the UAE's non-oil producing firms rose robustly in January. Having fallen to a four-month low in December, the seasonally adjusted New Orders Index jumped to its highest level since October and indicated above series-trend growth of new work. Over 30% of panellists reported an increase in new orders, many of whom attributed this to improved market conditions.

New Export Orders Index

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

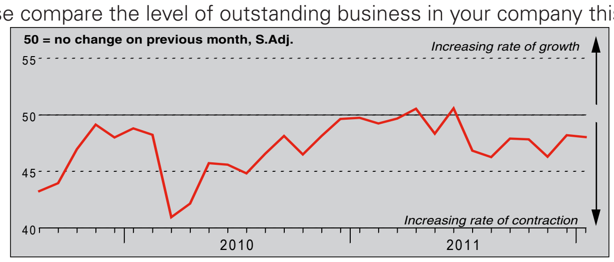


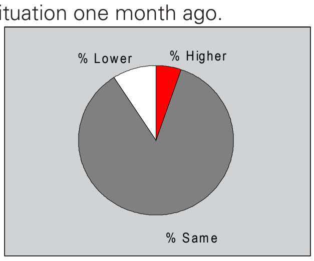


New export order growth accelerated for the first time in four months during January. While the expansion in new business was solid, and the quickest for three months, it remained below the series average. Competitive pricing strategies, the launch of new products and a strengthening in demand from Qatar and Saudi Arabia were among the most cited reasons for the increase in new business from abroad over the month.

Backlogs of Work Index

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

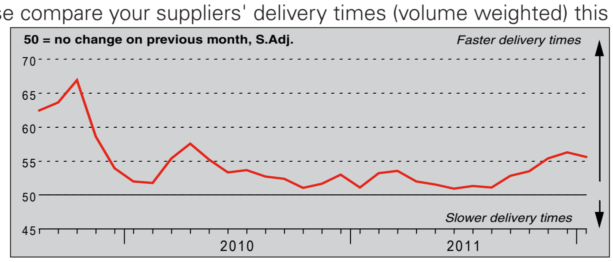


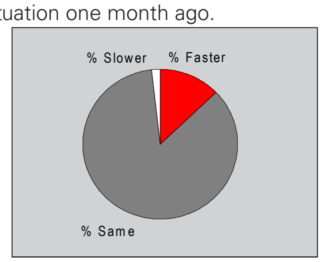


Non-oil producing companies in the UAE continued to eat into backlogs of work at the start of the new year. The rate of depletion was modest, remaining broadly unchanged from December. Approximately 9% of respondents reduced outstanding business over the month, a number of whom indicated that this was due to a combination of improved vendor performance and greater efficiency at their business units.

Suppliers' Delivery Times Index

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

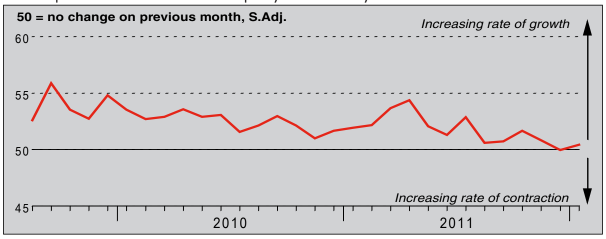


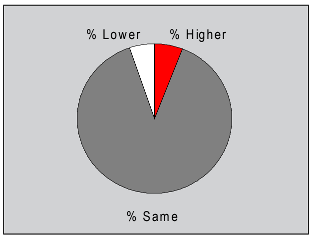


Vendor performance continued to improve during January. While the seasonally adjusted Suppliers' Delivery Times Index fell slightly from December's 20-month high, it remained considerably above the average for 2011, indicating that lead times were reduced at a strong pace. Almost 13% of survey members reported faster delivery times from suppliers than in December, while less than 2% recorded a slowing.

Employment Index

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

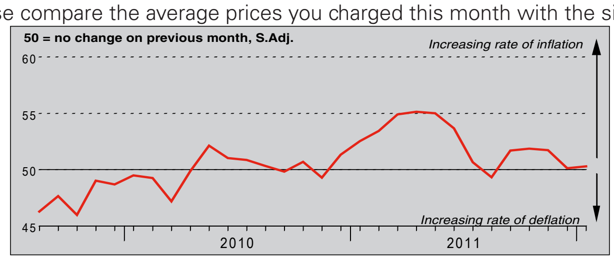


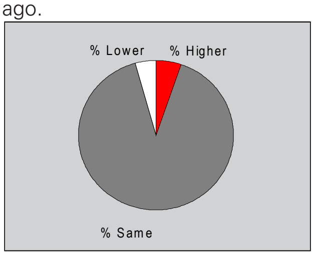


The seasonally adjusted Employment Index was fractionally above the 50.0 no-change mark during January, signalling only marginal growth of headcounts at UAE non-oil producing companies. Those companies that noted a rise in personnel generally attributed this to new order growth. However, the majority of respondents (approximately 89%) kept staff levels the same as in December.

Output Prices Index

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

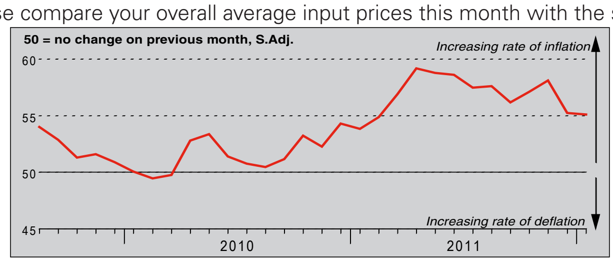


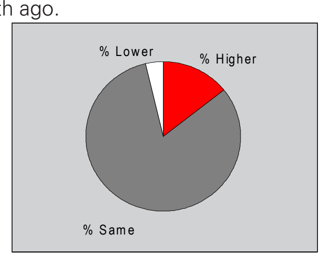


Data for January indicated that output prices remained broadly unchanged from December, with over 90% of panellists registering the same charges as the previous month. The stagnation in output prices is a marked contrast to the robust rates of increase recorded during the first half of 2011. A number of survey members remarked that they had left prices unchanged in order to maintain competitive pricing strategies.

Overall Input Prices Index

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

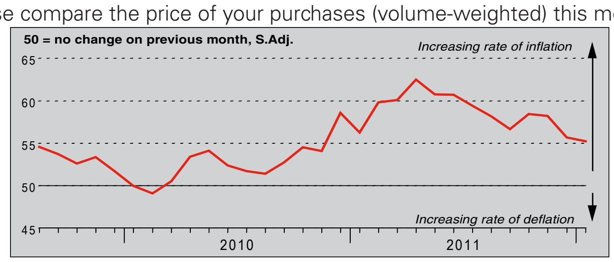


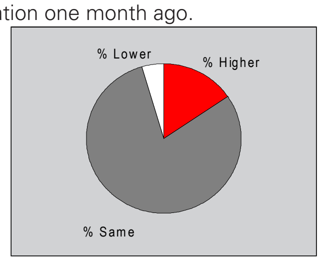


Overall input prices continued to rise in January. While the rate of inflation eased for the second successive month to the slowest recorded in the last 11 months, it nevertheless remained above the series average. Over 14% of panellists registered a rise in overall input prices, compared to less than 4% than noted a decline.

Input Costs: Purchase Prices Index

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

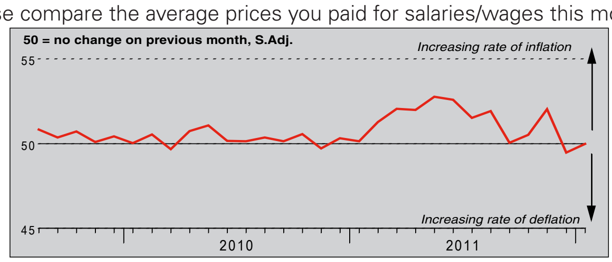


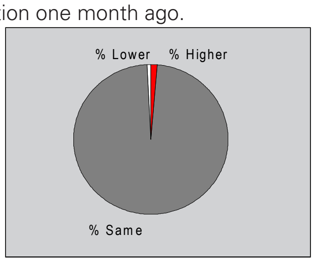


Purchasing prices faced by UAE non-oil producing companies rose further during the first month of 2012. The pace of inflation slowed for the third consecutive month, however, as the seasonally adjusted Purchase Prices Index fell to a 14-month low. Higher raw material prices was the most frequently given reason by panellists for the increase in purchasing costs during January.

Input Costs: Staff Costs Index

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

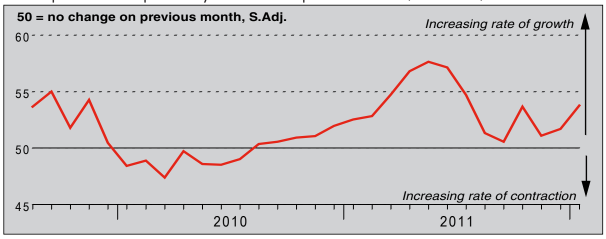


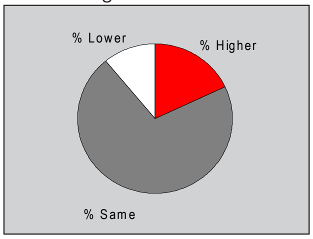


Having reduced salaries fractionally in December, non-oil producing companies in the UAE chose to keep staff payments unchanged during January. The seasonally adjusted Staff Costs Index rose to the 50.0 no-change threshold, indicating stagnation of employment related costs, as almost 98% of survey respondents did not alter wages over the month.

Quantity of Purchases Index

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

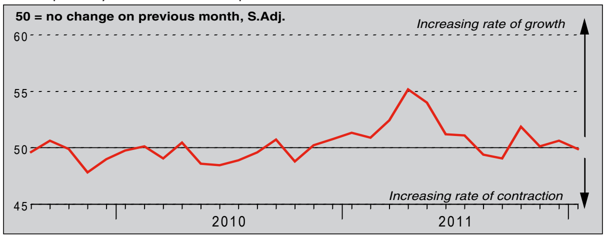


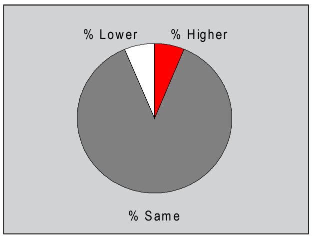


Anecdotal evidence provided by monitored UAE non-oil producing companies suggested that the latest rise in purchasing activity was attributable to strong growth of new orders. The expansion in input buying quickened for the second consecutive month to the fastest rate since July 2011. Exactly 18% of panellists reported an increase in their quantity of purchases, while 11% recorded a decrease.

Stocks of Purchases Index

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

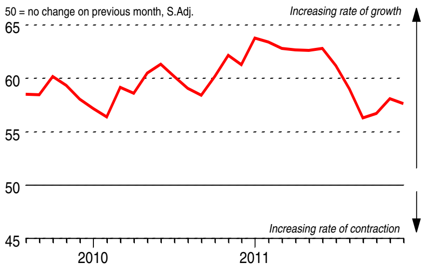




The seasonally adjusted Stocks of Purchases Index indicated that pre-production inventories were virtually unchanged between December and January. The stagnation in stocks of purchases at UAE non-oil producing companies followed three months in which inputs held by firms had risen.

International PMI summary

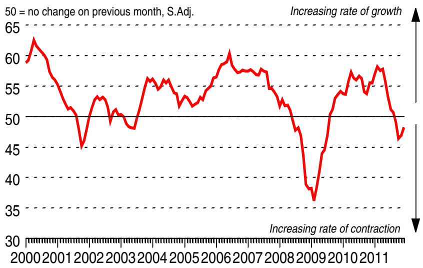
Saudi Arabia Purchasing Managers' Index™



Source: Markit.

Slipping slightly to 57.7, from 58.1 in November, the PMI signalled a weaker improvement in business conditions across Saudi Arabia's non-oil private sector in December. Behind the weaker PMI reading were slower expansions in output and total new work. However, employment and input stocks both rose at slightly faster rates over the month.

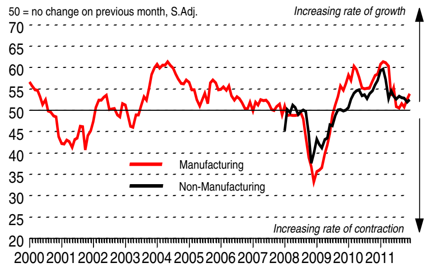
Eurozone Purchasing Managers' Index™



Source: Markit.

Business activity in the Eurozone private economy contracted for the fourth straight month in December. At 48.3, up from 47.0 in the previous month, the Markit Eurozone PMI® Composite Output Index signalled the weakest rate of decline for three months.

US Purchasing Managers' Index



Source: Institute for Supply Management (ISM).

The ISM US Manufacturing PMI climbed to a six-month high of 53.9 in December, indicating solid growth in the sector. The expansion was supported by marked growth of both output and new orders. Meanwhile, the Non-Manufacturing Index rose to 52.6. The solid improvement in business conditions was insufficient, however, to increase employment.

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.

Warning