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HSBC UAE PMI™

Health of UAE private sector economy continues to improve moderately

Key findings:

- PMI signals fractionally quicker rate of improvement
- Output growth accelerates to solid pace
- Charge inflation remains only marginal as firms cautious over demand levels

March saw another moderate improvement in UAE non-oil private sector operating conditions, rounding off a positive start to the first quarter of 2012. Output and new orders both continued to increase, while jobs growth picked up to a five-month high. Rising employment levels were just sufficient for firms to satisfy business requirements, with backlogs remaining largely unchanged on the month. Meanwhile, despite persistent inflationary pressures, firms again only increased charges fractionally to prevent demand levels retreating.

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 – climbed slightly from 52.0 in February, to 52.3 in March. The latest reading indicated further modest gains in the health of the private sector. The headline PMI has now registered above the no-change mark of 50.0 for 31 months in succession

New work received by UAE non-oil private sector companies in March increased at a strong pace that was above the series trend. New export order growth slowed, however, and was the weakest in three months.

The gains in new work contributed towards an expansion in activity over the month. Output growth accelerated to a solid pace in March. UAE non-oil private sector companies linked higher volumes of new orders to better market conditions. Respondents indicated that alongside higher demand, advertising campaigns and discounting also contributed to gains in new work.

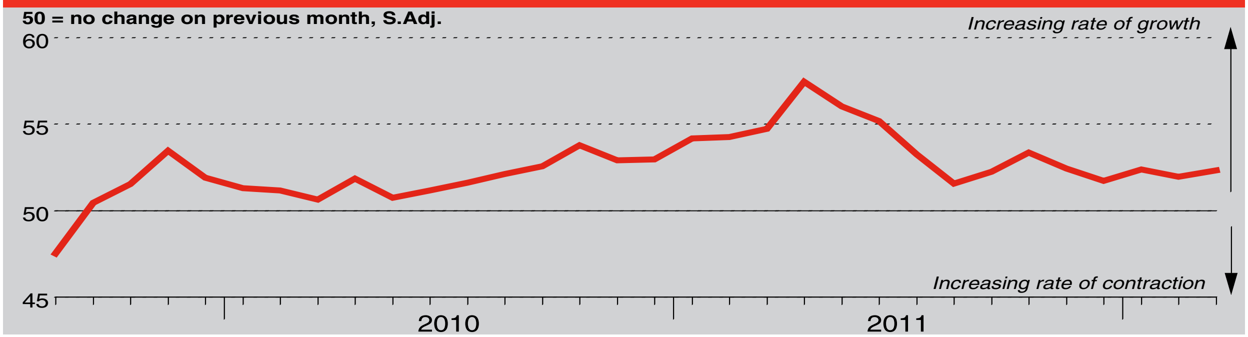
Improved market conditions led UAE non-oil private sector firms to recruit extra personnel in March. Employment increased at an accelerated, albeit still marginal pace on the month. The rise in headcounts did not help to reduce backlogs though, as the respective index registered above the no-change level for the first time since June 2011.

To accommodate further new order growth, firms acquired additional supplies in March. Buying activity rose at a modest pace which was the weakest so far this year. However, stock holdings were not added to, as many purchases were immediately used to meet rising activity requirements. Elsewhere, suppliers' delivery times continued to improve.

Input price inflation remained strong in March, despite easing on the month, as both purchase and employee costs increased. Respondents made particular reference to the increased costs of oil, while remuneration had been revised upwards due to an increase in new business.

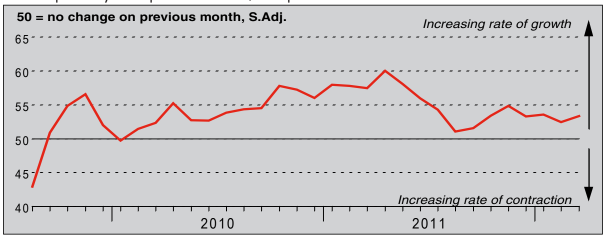
United Arab Emirates non-oil private sector companies were cautious over passing on rising cost burdens to clients in March, due to strong competition and uncertainty regarding the strength of demand. Firms left their tariffs broadly unchanged in March, in line with the fractional increases registered in the previous three months.

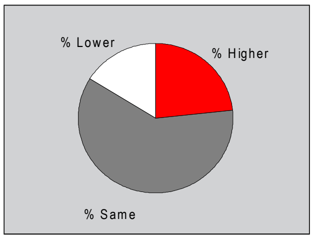
HSBC UAE *Purchasing Managers' Index*™ *(PMI™)*



Output Index

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

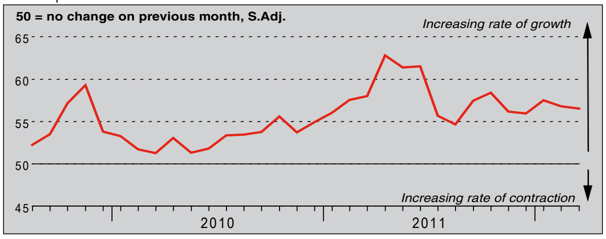


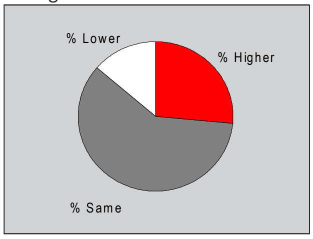


The seasonally adjusted Output Index rose from February's five-month low in March, but remained below the series average. The latest figure signalled a solid increase in UAE non-oil private sector activity. Survey participants mostly linked higher output to further gains in new work, amid an improved business environment.

New Orders Index

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

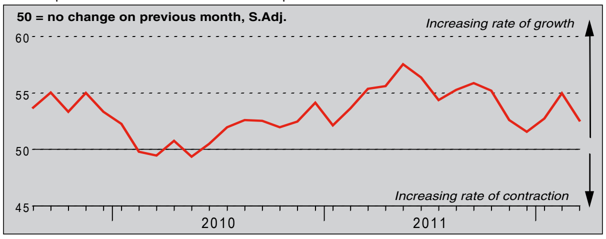


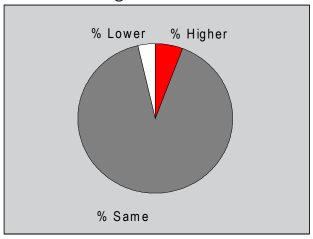


New order growth in the United Arab Emirates non-oil private sector decelerated for the second month running in March. However, the latest rise was nonetheless strong and above the survey trend. Reports showed that better market conditions and accompanying higher demand had underpinned gains in new work, while advertising campaigns and discounting also contributed.

New Export Orders Index

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

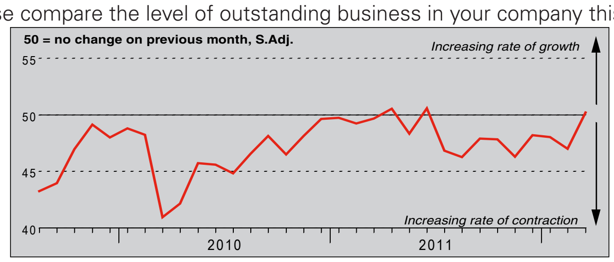


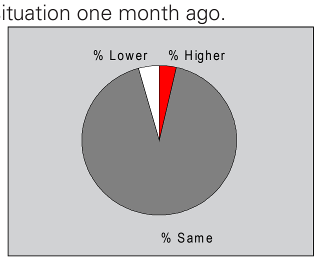


Foreign demand for UAE non-oil private sector goods and services strengthened at the end of Q1, boosting export business. Falling from February's four-month high, the seasonally adjusted New Export Orders Index denoted a moderate and slower rate of growth in new business receipts from abroad. A number of companies commented that new work from foreign clients had increased due to economic uncertainty in other countries.

Backlogs of Work Index

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

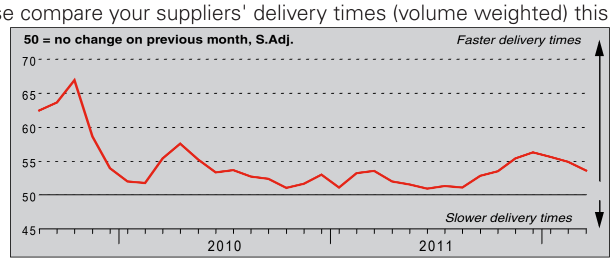


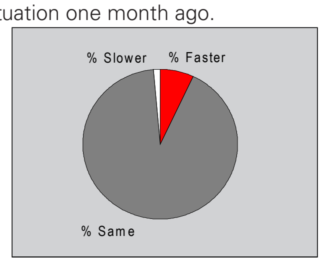


Work outstanding at UAE non-oil private sector firms was broadly unchanged in March. The seasonally adjusted Backlogs of Work Index posted fractionally above the 50.0 no-change mark (for the first time since June 2011) as new order growth continued to outstrip the expansion in output. Outstanding business has only been accumulated in three months since data collection began in August 2009.

Suppliers' Delivery Times Index

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

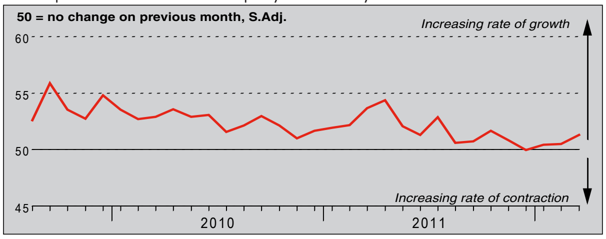


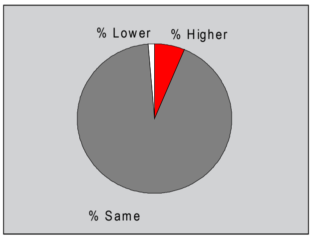


Although down since February, the seasonally adjusted Suppliers' Delivery Times Index signalled a solid improvement in vendor performance in March. Around 7% of monitored UAE non-oil private sector firms noted shorter lead times, attributing this to urgent requirements, improved processing of payments and competition amongst suppliers.

Employment Index

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

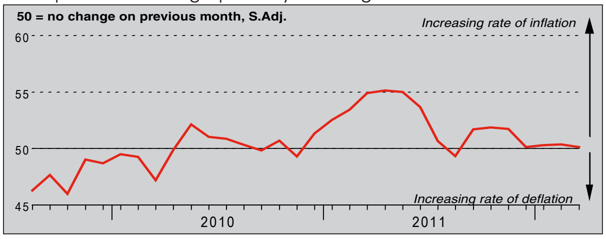


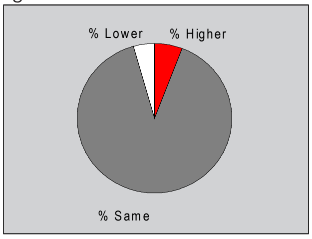


Job creation across the UAE non-oil private sector gained pace in March as business conditions and new order levels improved. Employment in the sector has risen throughout the past three months, with the latest increase the most pronounced since October 2011. However, the rise in headcounts was only marginal and below the series average.

Output Prices Index

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

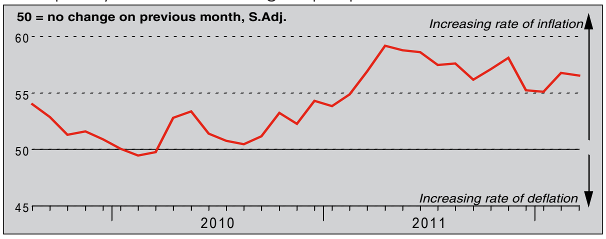


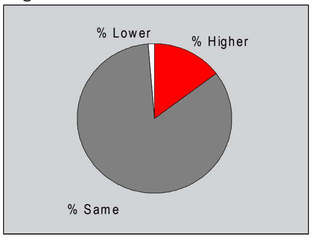


United Arab Emirates non-oil private sector firms left their tariffs broadly unchanged in March, as companies spoke of strong levels of market competition and caution with regards to demand. Charge inflation was only fractional over the month, in line with that recorded since last December. The latest seasonally adjusted Output Prices Index reading was below the survey average.

Overall Input Prices Index

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

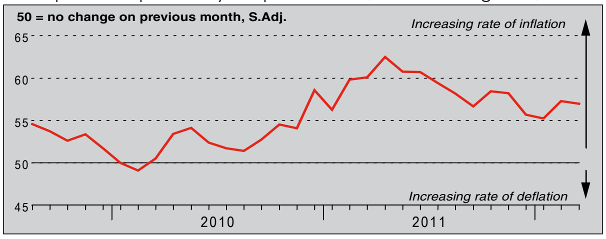


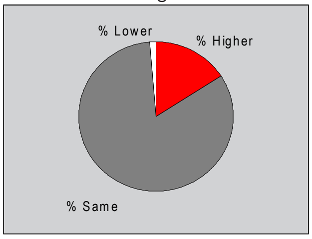


March marked two years of continuous input price inflation across the UAE non-oil private sector. The latest rise was strong and above the series trend, reflecting further increases in both purchase and employee costs. Almost 15% of panellists registered growth in their average input cost burdens since February, against just 1% that saw a reduction.

Input Costs: Purchase Prices Index

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

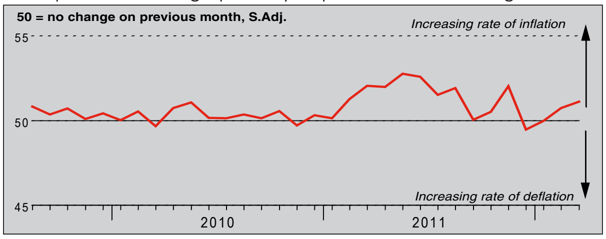


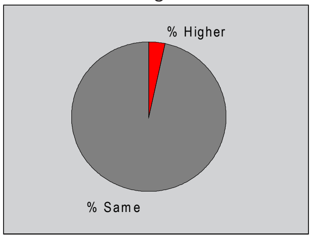


Purchase price inflation in the UAE non-oil private sector eased fractionally in March, but remained strong. Respondents made particular reference to the increased costs of oil, while some firms also mentioned unfavourable exchange rates. Latest data indicated that the rate of input cost inflation was below that recorded on average during 2011.

Input Costs: Staff Costs Index

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

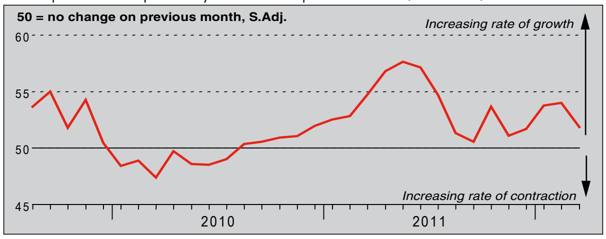


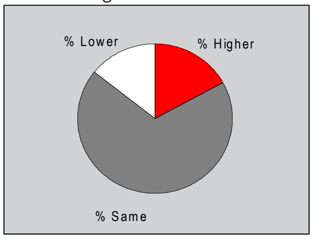


The wages and salaries paid by United Arab Emirates non-oil private sector comapnies continued to rise in March. While the rate of inflation accelerated over the month, it was nevertheless only marginal. Panel members indicated that remuneration had been revised upwards due to an increase in new business.

Quantity of Purchases Index

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

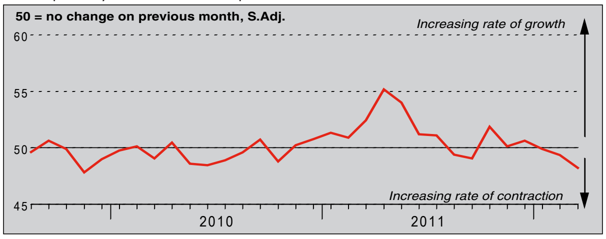


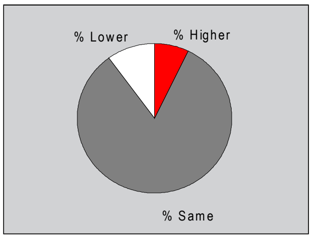


To keep pace with new order growth, UAE non-oil private sector companies raised buying activity in March. However, the rate of increase eased since February to a modest pace, the weakest since the end of 2011. The latest increase in purchasing extended the current sequence of expansion to 20 months.

Stocks of Purchases Index

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

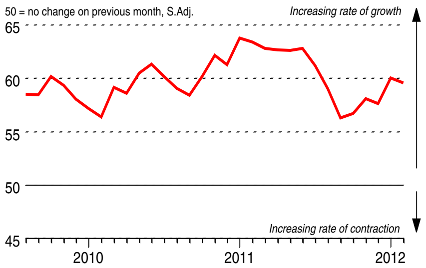




Despite a sharper increase in purchases, input holdings at UAE non-oil private sector firms declined at an accelerated pace during the latest survey period. Although only moderate, the rate of reduction was the second-sharpest in the series history, with around 10% of panel members reporting a depletion in March.

International PMI summary

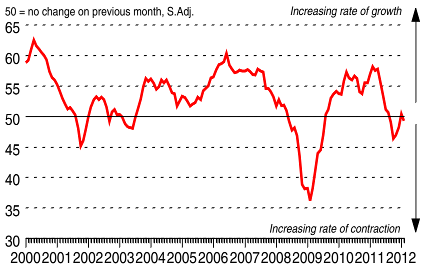
Saudi Arabia Purchasing Managers' Index™



Source: Markit.

Business conditions in the KSA non-oil private sector continued to improve in February, supported by further marked expansions in both new orders and activity, as well as accelerated growth of both employment and stocks of purchases. As a result, the headline PMI registered 59.6 in February, marginally below January's reading of 60.0.

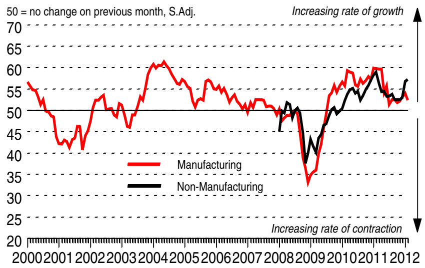
Eurozone Purchasing Managers' Index™



Source: Markit.

The Markit Eurozone PMI® Composite Output Index fell from 50.4 in January to 49.3 in February. The reading confirmed that business activity contracted in February, having briefly returned to growth in January following four months of decline at the end of last year. The overall contraction in output reflected a renewed decline in service sector activity.

US Purchasing Managers' Index



Source: Institute for Supply Management (ISM).

The ISM US Manufacturing PMI dropped slightly to 52.4 in February from 54.1 in January, signalling a moderate improvement in manufacturing operating conditions. In contrast, the Non-Manufacturing Index rose to 57.3. Marked new business growth was the quickest for a year, and was accompanied by a strong increase in 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