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HSBC UAE PMI™

Rising sales volumes support faster improvement in operating conditions in May

Key findings:

- Headline PMI up to 11-month high in May
- Faster growth of incoming new orders supports further marked rise in production
- Capacity constraints led to higher backlogs and further rise in employment

May's survey indicated a further improvement in operating conditions in the UAE's non-oil private sector, led by a marked and accelerated rise in volumes of incoming new orders. Output continued to increase, but at a slower pace than sales, leading to further growth of backlogs and associated increases in employment.

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 – registered 53.8 in May, slightly up on April's 53.5 and the strongest reading for 11 months.

Improved operating conditions largely emanated from rising sales volumes, which also increased at the fastest pace since last June. Panellists indicated that market conditions were relatively buoyant, with advertising, promotional work and good marketing all reported to have supported efforts to win new contracts during the latest survey period.

Latest data implied that the domestic market was a key source of new orders in May. Export sales continued to rise, although with some reports of a slower global economy, the rate of growth was slightly weaker.

Companies in UAE's non-oil private sector responded to a sharp increase in their order books by increasing production volumes. Growth was again solid, although was slightly down on April's recent high and below that signalled for new orders.

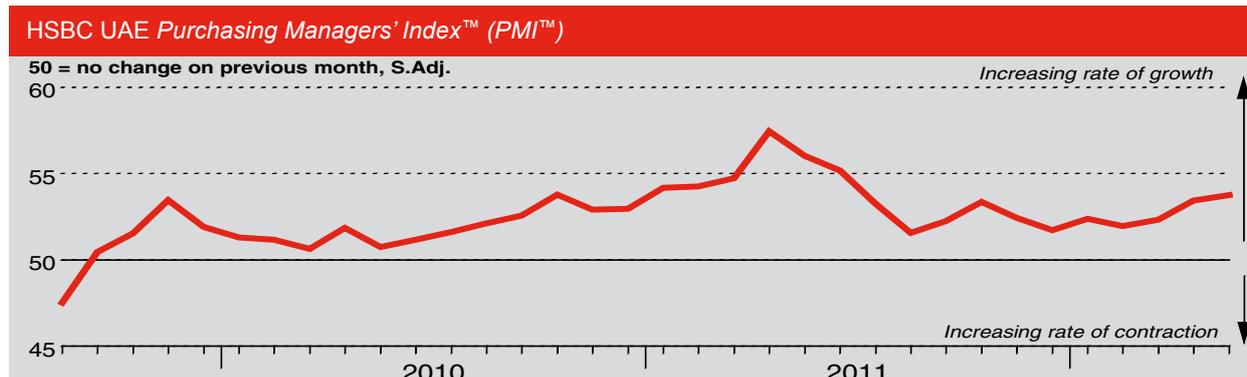
Subsequently, further pressure on capacity was created in May, as highlighted by another increase in backlogs of work. Latest data marked the third successive month that work outstanding has risen, which encouraged companies to add to their payroll numbers. Employment rose for a fifth successive month, and at the sharpest pace since last July as firms tried to keep on top of their higher workloads.

Purchasing activity was also raised at a marked pace, extending the current period of growth to 22 months. Part of this growth led to intentional inventory building, as companies anticipated continued increases in incoming new orders and signalled concerns about shortages of inputs in the future.

Despite strong demand, suppliers were again able to exceed delivery schedules. Vendor performance improved in May to the sharpest degree since January, with companies commenting on benefiting from positive relationships with their suppliers.

Finally, on the price front, faster rises in both salaries and purchase costs led to a sharp increase in overall input prices. Panellists largely blamed strong demand for rising purchase prices, although some noted that oil-related product costs had increased. A modest rise in staffing costs reportedly reflected the compensation of workers for a higher cost of living.

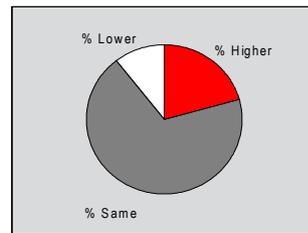
Efforts to protect margins resulted in sustained output charge inflation in May, with the rate of inflation the sharpest for seven months (albeit one that was well below inputs).



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

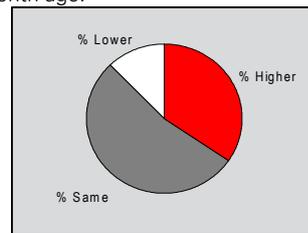
Q. Please compare your production/output this month with the situation one month ago.



Growth of non-oil private sector output in the UAE was sustained in May, albeit at a slightly reduced pace. With around 21% of the survey panel indicating a rise in production since the previous month, growth nonetheless remained marked with companies reportedly benefiting from positive market conditions and associated gains in new orders.

New Orders Index

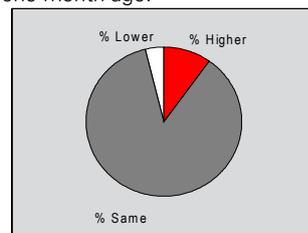
Q. Please compare the level of new orders received this month with the situation of one month ago.



May saw non-oil private sector companies in the UAE register another sharp increase in volumes of incoming new orders. Growth has been sustained throughout the survey history and the latest increase was the strongest since last June. Companies were reportedly able to capitalise on buoyant market conditions, with gains in sales supported by good marketing, promotions and increased advertising.

New Export Orders Index

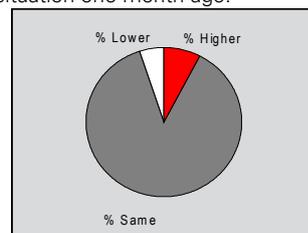
Q. Please compare the level of new export orders received this month with the situation of one month ago.



New export orders rose further during May, extending the current period of growth to two consecutive years. Nearly 10% of panellists recorded an increase in foreign business but, in line with a slower global economy and softening market conditions, the latest rise in sales was weaker than observed in April.

Backlogs of Work Index

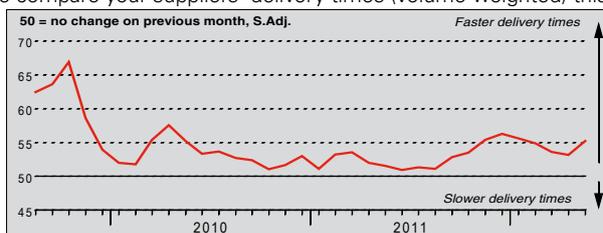
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



With new orders continuing to rise at a steeper pace than output, backlogs of work in the UAE private sector rose again in May. The modest increase stretched the run of expansion in work outstanding to three months, with panellists attributing growth to continued gains in incoming new business.

Suppliers' Delivery Times Index

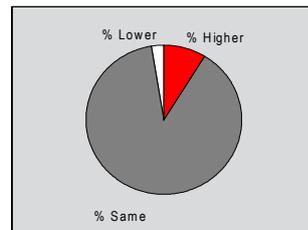
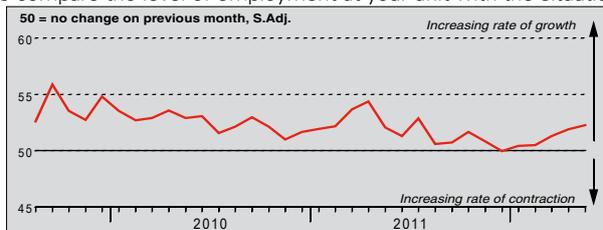
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Another improvement in average delivery times was signalled by the latest survey, with the seasonally adjusted Suppliers' Delivery Times Index registering comfortably above the 50.0 no-change mark and posting its highest level since January. Respondents reported benefiting from positive relationships with vendors, and subsequently being able to push for quicker delivery.

Employment Index

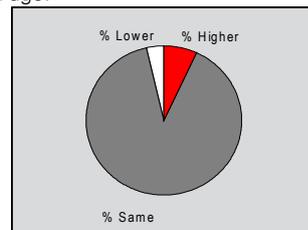
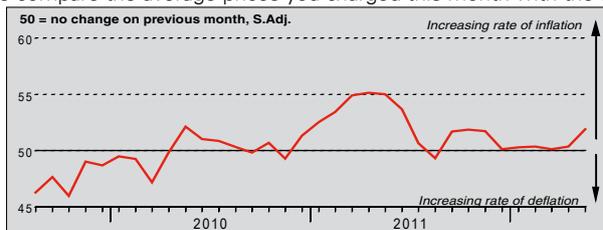
Q. Please compare the level of employment at your unit with the situation one month ago.



With capacity constraints remaining evident, companies continued to add to their payrolls in May. Growth has now been sustained for five consecutive months, and May's rate of expansion was solid and the strongest registered since last July. Panellists largely took on additional staff in a bid to keep on top of escalating workloads.

Output Prices Index

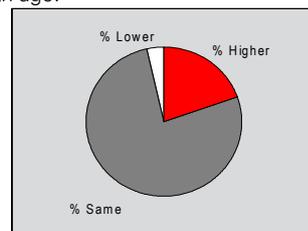
Q. Please compare the average prices you charged this month with the situation one month ago.



UAE private sector companies continued to raise their output charges during May, extending the current period of inflation to nine months. Although modest, the rate at which charges increased was the highest since last October as companies sought protection from rising input costs. This task was made somewhat easier by continued strength in demand.

Overall Input Prices Index

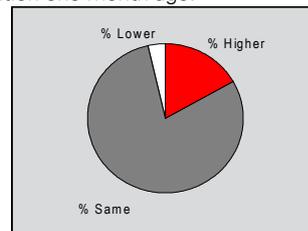
Q. Please compare your overall average input prices this month with the situation one month ago.



Input price inflation was sustained in May at a sharp pace. With nearly 20% of respondents indicating a rise in input prices since the previous month, the rate of cost inflation rose was the sharpest since last November. Increased purchase prices remained the principal source of the rise in overall costs during the latest survey period.

Input Costs: Purchase Prices Index

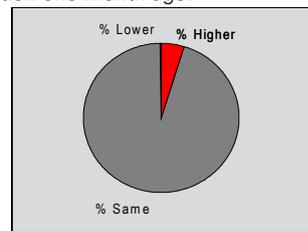
Q. Please compare the price of your purchases (volume-weighted) this month with the situation one month ago.



Purchase price inflation accelerated during May as a higher proportion of panellists registered an increase in costs than one month ago. While there was some mention that oil was a source of higher purchase prices, many respondents commented that increased demand had been a key driver of general inflation in the latest survey period.

Input Costs: Staff Costs Index

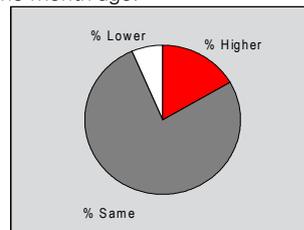
Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.



A modest increase in average staff costs was signalled in May, marking the fourth successive month of inflation and the strongest recorded in this period – although the vast majority of companies signalled no change in costs since the previous month. Where higher salaries were paid, companies generally did so to compensate workers for a higher cost of living.

Quantity of Purchases Index

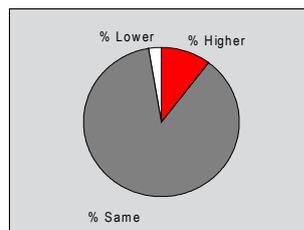
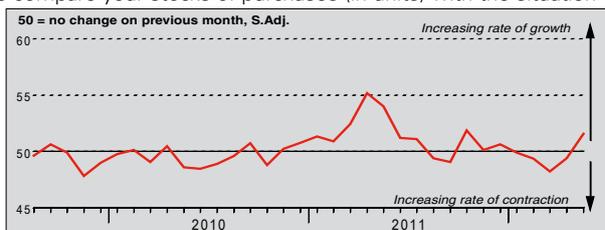
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Purchasing activity in the UAE private sector continued to increase during May, extending the current period of growth to 22 consecutive months. Moreover, the rate of growth was marked, accelerating to the sharpest recorded in just under a year. Those respondents that commented on a rise in purchasing at their companies generally attributed growth to higher sales and production requirements.

Stocks of Purchases Index

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

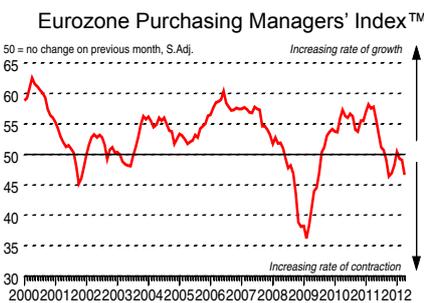


Stocks of purchases rose in May for the first time in five months, with 10% of the survey panel registering an increase in inventories. Growth was, however, modest. Panellists reported adding to their inventory levels in anticipation of continued rises in incoming new orders. A number of panellists added to stocks in response to worries over future shortages given strong market demand.

International PMI summary



Source: Markit.



Source: Markit.



Source: Institute for Supply Management (ISM).

Rising from March's reading of 58.7, the Saudi Arabia PMI™ posted 60.4 in April. Registering above the series trend, it was the highest reading for nine months, and signalled another marked improvement of operating conditions across the KSA non-oil private sector. Growth of both output and new business accelerated from March readings

At 46.7 in April, down from 49.1 in March, the Markit Eurozone PMI® Composite Output Index signalled the fastest rate of decline since last October and one of the steepest contractions since mid-2009. Deeper downturns in output were signalled in both the manufacturing and service sectors, as the rates of contraction accelerated in both cases. Both sectors were hit by marked declines in new business.

The ISM US Manufacturing PMI improved for a second successive month in April, reaching a level of 54.8 from 53.4 in March. Growth has now been registered for 33 months in a row. Meanwhile, the Non-Manufacturing Index remained above the 50.0 no-change mark in April, but slipped to a four-month low of 53.5, down from March's 56.0.

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 (PMI™) 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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