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# HSBC UAE PMI™

Solid growth of UAE non-oil private sector sustained in June

# Key findings:

- Positive demand environment supports further sharp rise in new orders
- Production rises further, but capacity constraints evident as backlogs up again
- Output charges fractionally down; input costs increase at slowest rate since January

June's survey indicated the continuation of solid growth in the UAE's non-oil private sector. Output and new orders rose again, albeit at fractionally slower rates than in May, while companies added to their payrolls in a bid to keep on top of rising workloads.

There were also signs of waning price pressures, with input price inflation dropping to a five-month low and a fall in output charges recorded for the first time since August 2011.

The headline seasonally adjusted HSBC United Arab Emirates  $PMI^{\text{TM}}$  — a composite indicator designed to provide a single-figure snapshot of the performance of the non-oil private sector — registered 53.2 in June. That was fractionally down on May's 11-month high of 53.8 and a three-month low, though still indicative of a solid improvement in operating conditions.

The PMI was again largely supported in June by a steep rise in new order volumes. Panellists reported positive operating conditions, with efforts to secure new work supported by marketing and advertising. Foreign sales also continued to increase during June, with the rate of growth reaching a fourmonth high.

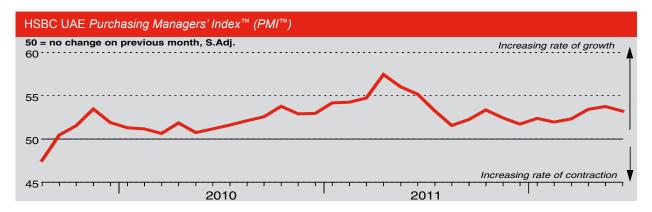
Faced with another steep increase in order volumes, UAE nonoil private sector companies upped their production in the latest survey period. Although a three-month low, the rate of growth remained marked as companies tried to deal with higher workloads.

Rising workloads encouraged companies to take on extra staff during June; employment rose for the sixth successive month, with the rate of expansion the steepest since last July. Despite an expansion of capacity, backlogs of work continued to rise modestly, stretching the current run of growth to four months.

As business requirements increased further during June, UAE non-oil private sector companies raised their purchasing activity for a twenty-third month in a row. According to the latest data, growth of input buying was the sharpest since June 2011. This also enabled companies to add to their inventories; stocks of purchases rose for a second successive month, with the modest increase reflective of positive forecasts for sales and production over the coming months.

June's survey indicated that sales were in part supported by a marginal drop in output charges, the first reduction since August 2011. There were reports from panellists of strong competitive pressures encouraging the use of discounting.

Finally, input costs rose further in June, although the rate of inflation moderated to a five-month low. Purchase prices rose at a pace that was only slightly above April's near one-and-a-half year trough, but with suppliers trying to take advantage of the positive demand environment, inflation remained marked. Salary costs rose modestly in June.



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.

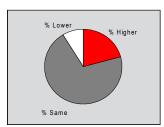




# Output Index

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



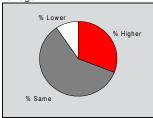


Growth of UAE's non-oil private sector economy was sustained in June. Despite falling to a three-month low, the degree to which output rose remained marked. Around 21% of the survey panel indicated a rise in production, generally attributing growth to strong business conditions and associated increases in new orders.

#### New Orders Index

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



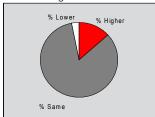


Volumes of incoming new business continued to increase in June, with the seasonally adjusted New Orders Index remaining comfortably above the 50.0 no-change mark. Strong growth of new work reportedly reflected positive market conditions, with companies commenting that marketing and advertising had supported the increase in new business.

#### New Export Orders Index

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



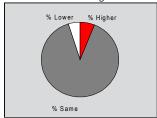


New export orders continued to rise at a firm rate during June, with the rate of growth improving to a four-month high. Panellists that reported an increase in foreign sales reported conducive business conditions in markets they operated in. Quality service and advertising were noted as factors supporting growth of new export business.

# Backlogs of Work Index

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





Backlogs of work increased for a fourth successive month in June. However, with nearly 89% of respondents indicating no change in work outstanding, the rate of expansion was modest and unmoved from May. Where an increase in backlogs was signalled, panellists principally attributed the increase to another sharp rise 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.

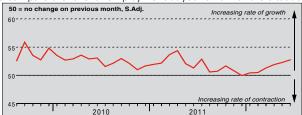


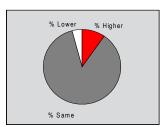


The seasonally adjusted Suppliers' Delivery Times Index remained well above the 50.0 no-change mark in June to indicate a further improvement in vendor performance. Moreover, the degree to which lead times shortened was the strongest for over two years. Panellists reported that good relationships with suppliers had resulted in a positive response to requests for prompt delivery.

# **Employment Index**

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



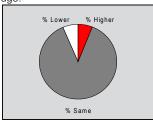


The seasonally adjusted Employment Index remained above the 50.0 no-change mark in June to signal a sixth successive monthly rise in staffing levels. Moreover, by remaining on an upward trajectory, the index signalled the strongest rate of employment growth for just under a year. Panellists reported adding to their staffing levels in response to continued growth of workloads.

#### Output Prices Index

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



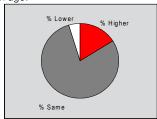


Output charges were reduced slightly in June, the first such fall in ten months. That said, the rate of deflation was only marginal as nearly 88% of panellists reported no change in their prices charged. Competitive pressures and efforts to stimulate further sales growth were noted as primary reasons behind the slight reduction in output prices during June.

#### Overall Input Prices Index

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





Input price pressures showed some sign of waning in June, with the seasonally adjusted Overall Input Prices Index falling to a five-month low. However, with 16% of the panel indicating a rise in overall costs, the rate of inflation remained relatively marked. Purchasing costs remained the principal driver of overall input price rises in June.

# Input Costs: Purchase Prices Index

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



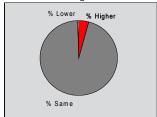


Demand-pull pressures were noted as a key driver of purchase price inflation during June, with suppliers reportedly taking advantage of positive market conditions by raising their charges. Although marked, the degree to which purchase prices rose was lower than in May and only fractionally firmer than April's 17-month low.

### Input Costs: Staff Costs Index

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



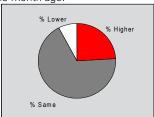


Staff costs were raised again in June, extending the current period of inflation to five months. However, with 95% of the panel reporting no change in wages paid to workers, the rate of inflation was again only modest. Of the 4% of panellists that indicated an increase in staffing costs many did so in response to a general rise in prices.

# Quantity of Purchases Index

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



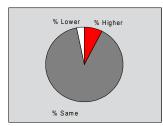


Purchasing activity continued to rise in June, maintaining the trend registered by the survey since August 2010. Nearly a quarter of the survey panel indicated a rise in buying, with many doing so in response to higher business requirements given the positive trend in new orders. Overall, the rate of growth in purchasing was the sharpest since June 2011.

# 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 posted a second successive monthly increase in inventories during June. Panellists reported that positive expectations for sales and business requirements led to deliberate stock accumulation. Growth was again modest, reflective of the 89% of panellists that signalled no change in stocks since May.

# International PMI summary

# Saudi Arabia Purchasing Managers' Index TM 50 = no change on previous month, S.Adj. Increasing rate of growth 65 60 45 2010 2011 2012





Saudi Arabia's non-oil private sector economy continued to expand at a robust pace during May. This was highlighted by the headline PMI™ posting at 60.4, unchanged since April's nine-month high and above the historical series trend. May saw new business placed at Saudi Arabian non-oil private sector firms increase at a marked and accelerated rate – the fastest in 11 months.

At 46.0 in May, down from 46.7 in April, the Markit Eurozone PMI® Composite Output Index showed the steepest rate of decline in manufacturing and services output in the euro area since June 2009. The headline index was below the neutral 50.0 mark for the fourth month running. Data indicated that the service sector fell into a steepening downturn, in tandem with a stronger decline across manufacturing.

May saw the ISM US Manufacturing PMI fall from April's ten-month high of 54.8 to 53.5, with growth of both output and employment in the sector slowing since the previous survey period. The Non-Manufacturing Index was meanwhile broadly unchanged, posting at 53.7 in May from 53.5 in April. The index was above the 50.0 no-change value for the twenty-ninth month in a row.

# 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.

# **W**arning

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