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HSBC UAE PMI™

Non-oil private sector continues to expand at solid pace in July

Key findings:

- Domestic market conditions remain positive, but foreign demand shows signs of slowing
- Employment registers sharpest rise since April 2011
- Operating costs rise at slowest rate for 18 months; output charges up only slightly

Operating conditions in UAE's non-oil private sector continued to improve during the latest survey period, with output, new orders and employment levels all continuing to rise. Companies signalled positive expectations for growth, with purchasing up markedly and stocks rising at a solid pace.

On the price front, input costs continued to increase but at a slower rate, while efforts to remain competitive meant output charges were raised only fractionally.

The headline seasonally adjusted HSBC United Arab Emirates PMI^{TM} — a composite indicator designed to provide a single-figure snapshot of the performance of the non-oil private sector — remained in positive territory during July, posting 53.4. That was slightly up on June's 53.2 and signalled the thirty-fifth successive month-on-month improvement in operating conditions.

New order volumes continued to increase sharply during July, with the rate of growth unchanged on the previous month. There were reports of a positive demand environment, particularly at home. A rise in export sales was again recorded during July, but the increase was marginal and the weakest since June 2010. Panellists indicated that securing foreign sales was becoming increasingly difficult in line with tougher operating conditions abroad.

July's survey indicated another increase of output volumes in

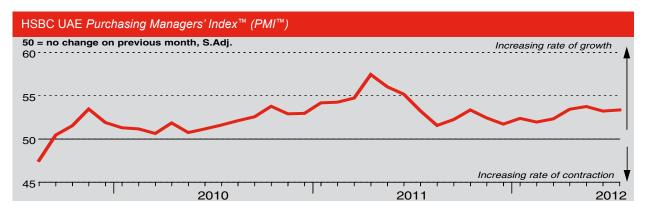
UAE's non-oil private sector economy. Growth has now been recorded throughout the past two-and-a-half years, although the latest increase was the slowest since March.

With sales continuing to rise at a stronger pace than production, there was again evidence of capacity pressures. Backlogs rose for a fifth successive month, albeit only marginally and at the weakest pace since March.

As workloads increased and companies retained positive expectations for growth, payroll numbers rose again in July. Employment has now rise for seven successive months and latest data showed the continuation of the recent acceleration in growth, with staffing levels in July rising to the greatest degree since April 2011.

Forecasts for growth encouraged companies to boost their purchasing activity in July, with the survey signalling another solid increase in input buying. Stocks were subsequently raised to the greatest degree for over a year.

Finally, July's survey indicated that operating costs continued to rise, but at the slowest rate for a year-and-a-half as purchase price inflation weakened to a 22-month low and salaries increased only modestly. Part of the rise in overall costs was passed onto clients in the form of higher charges. However, a desire to remain competitive meant that output price inflation was only slight during the latest survey period.



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.

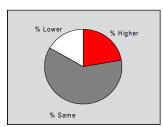




Output Index

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



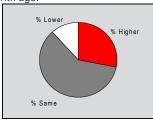


Output in the UAE's non-oil private sector continued to increase in July, extending the current period of growth to 30 months. However, the rate of expansion was down since June, dropping to the slowest rate since March. There were reports from panellists that positive demand conditions and associated gains in new business had supported the increase in output.

New Orders Index

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



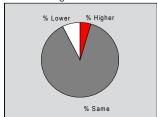


Volumes of incoming new business placed with non-oil private sector companies in the UAE continued to increase during July. Moreover, the rate of growth held steady at a sharp pace. Panellists reported a positive demand environment, with strong market conditions and associated rises in new orders from clients.

New Export Orders Index

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



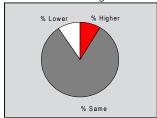


Export growth eased sharply during the latest survey period, falling to a marginal pace that was the slowest recorded since June 2010 which marked the start of the current run of expansion. Panellists commented that slowdowns in export markets meant that sales were increasingly difficult to secure.

Backlogs of Work Index

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

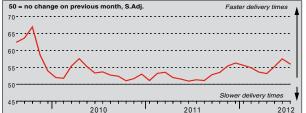




Backlogs of work continued to increase in July, largely reflective of strong ongoing growth in incoming new business which placed further pressure on operating capacity. However, the rate of expansion was only marginal and the slowest since March. Conversely, some companies indicated that improved productive efficiency had enabled them to keep on top of workloads.

Suppliers' Delivery Times Index

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



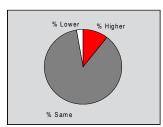


Average lead times continued to shorten during July, in line with the trend that has been apparent throughout the survey history. The degree to which deliveries improved was again marked, with respondents commenting that suppliers had reacted positively to demands for faster deliveries at a time of increasing production requirements.

Employment Index

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

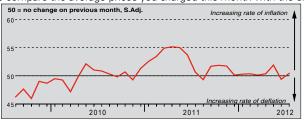


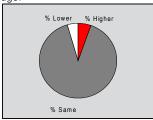


Employment in UAE's non-oil private sector economy was increased further during July. Moreover, the rate of growth accelerated since the previous month, reaching the highest recorded since April 2011. Around 11% of the survey panel reported an increase in payroll numbers, with additional hands hired in line with positive growth of new business and expectations for further expansion.

Output Prices Index

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



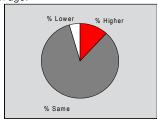


Output charges were only marginally higher during the latest survey period, as the majority of the survey panel reported no change in their output charges since June. Where output prices were increased, panellists largely did so to offset higher operating costs. Others cut charges in a bid to bolster competitiveness.

Overall Input Prices Index

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



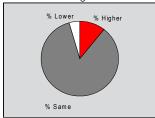


Input prices continued to increase in July, albeit at a slower rate. Latest data showed that input price inflation was solid, but the weakest recorded by the survey for a year-and-a-half. The biggest contributor to the increase in input costs came from purchase prices as staff costs rose only modestly.

Input Costs: Purchase Prices Index

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



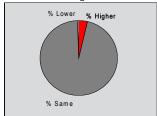


General inflationary pressures, linked to stronger market demand, led to a further increase in purchase prices during July. Nearly 11% of the survey panel reported an increase in the cost of purchases, although the overall rate of inflation weakened to the lowest since September 2010. Market competition was reported to have kept a lid on suppliers' pricing power.

Input Costs: Staff Costs Index

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



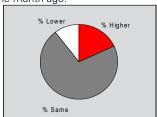


July's survey indicated another month of wage inflation in UAE's non-oil private sector economy. However, the degree to which salaries were increased on average remained only modest as the vast majority of companies left wages unchanged. General inflation and business expansion were noted as factors that led to higher salaries.

Quantity of Purchases Index

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





The seasonally adjusted Quantity of Purchases Index posted a three-month low in July, but remained comfortably above the 50.0 no-change mark to indicate a further solid increase in purchasing activity. Panellists reported that higher sales and rising production requirements had led to an increase in buying.

Stocks of Purchases Index

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





July's survey signalled a further increase in stocks of purchases, extending the current period of growth to three survey periods. There were reports from panellists that inventories had been built in anticipation of continued rises in sales and workloads over the coming months. The solid increase in stocks was the strongest recorded by the survey since May 2011.

International PMI summary

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





June saw the seasonally adjusted SABB HSBC Saudi Arabia PMI™ dip from 60.4 in May to 59.7, signalling a further, albeit slightly slower, improvement in overall operating conditions across the KSA non-oil private sector economy. Total output increased at a marginally faster rate, albeit one that was still below the average recorded since data collection started almost three years ago.

At 46.4 in June, the Markit Eurozone PMI™ Composite Output Index was higher than May's reading of 46.0, but still remained deep in contraction territory. The average reading for Q2 2012 was the lowest for three years as a result. Rates of decline eased marginally in both services and manufacturing, but both sectors have seen the strongest quarterly contractions for three years in the second quarter.

The ISM US Manufacturing PMI fell from May's mark of 53.5 to a 35-month low of 49.7 in June, signalling a slight deterioration in overall operating conditions facing US goods producers. The Non-Manufacturing Index meanwhile dropped from 53.7 to 52.1, its lowest mark since the start of 2010. Data showed that the index fell primarily on slower growth of activity and new business.

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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