HSBC *Purchasing Managers' Index*™ 2012

compiled by markit

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HSBC UAE PMI™

Growth remains solid as new orders continue to rise

Key findings:

- Growth in new business at 15-month high
- Purchasing activity picks up sharply
- Backlogs of work fall for first time in seven months on back of improved productivity

September data signalled a further expansion of the UAE non-oil private sector economy. Output continued to increase in the latest survey, and at a marginally quicker rate than in August. Growth of new business was sharp and the quickest in 15 months. Consequently, firms continued to accumulate inventories and take on extra staff in order to meet increased production requirements. Meanwhile, output prices were raised only marginally despite solid cost inflation.

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 – recorded a level of 53.8 in September, up from August's 53.3 and indicative of a solid improvement in operating conditions during the latest survey period.

Production levels expanded for a thirty-second consecutive month during September. The rate of growth was the quickest in three months and remained solid. Total new orders rose at the sharpest rate in 15 months. New export orders increased for the twenty-eighth month in a row, and at a marginally stronger rate than in August. Panellists linked higher new orders to improved market conditions and stronger client demand.

Backlogs of work in non-oil private sector firms fell for the first time since February. This reduction was only marginal, and many respondents reporting a fall linked this to increased productivity at their units. Meanwhile, there was a further, albeit modest, expansion of staffing levels at firms during September as companies responded to greater production requirements. Employment has now risen for the past nine months.

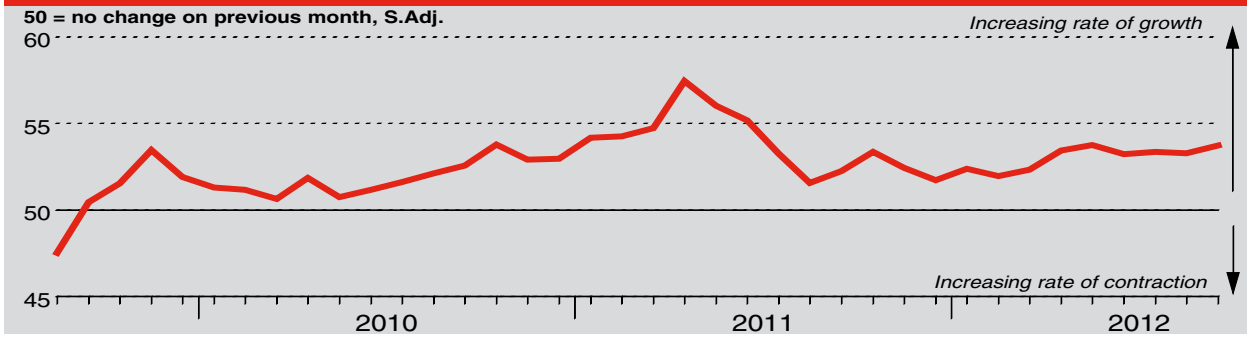
Purchasing activity at UAE non-oil private sector companies increased during September, and at the fastest rate since June. Inventories also continued to increase, albeit at a more modest pace than in August. Growth in purchases and stocks reflected increased production requirements, and expectations of higher demand.

Average lead times continued to shorten in the latest survey period, and at the sharpest rate since June. A number of firms attributed this to improved vendor reliability.

On the price front, overall input prices continued to rise, though the rate of inflation eased slightly from August. Higher purchasing prices were the key driver of overall input price inflation as suppliers raised prices in line with higher demand for inputs. Staffing costs continued to increase in September, but inflation of wages in the latest survey was modest.

Average tariffs set by companies rose during September, following on from the slight decline in output charges of August. However, this increase was only marginal and much weaker than that seen for input prices.

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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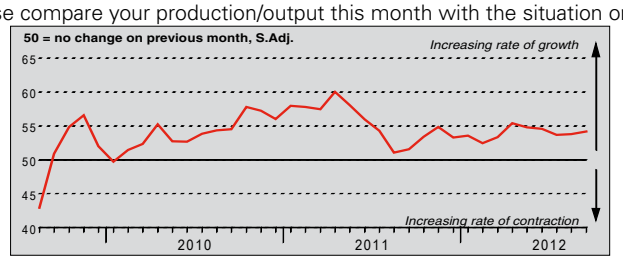
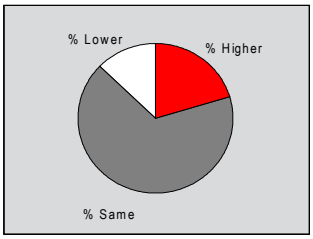
Output Index

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

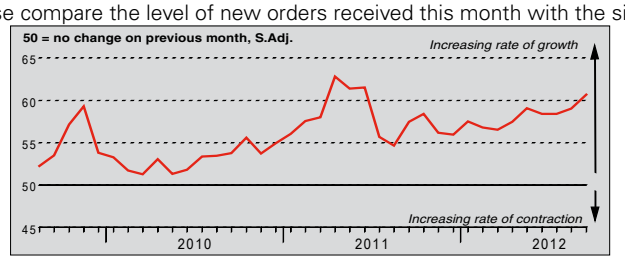


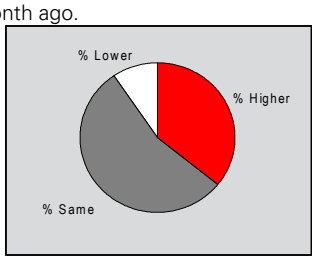


Adjusting for seasonality, the Output Index for the UAE non-oil private sector signalled a solid rate of growth during September. The rate of expansion accelerated slightly from August, and activity has now risen in each of the past 32 months. Over 20% of respondents in the latest survey reported an increase in production, and a number of firms suggested that an improvement in market demand contributed to the expansion.

New Orders Index

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

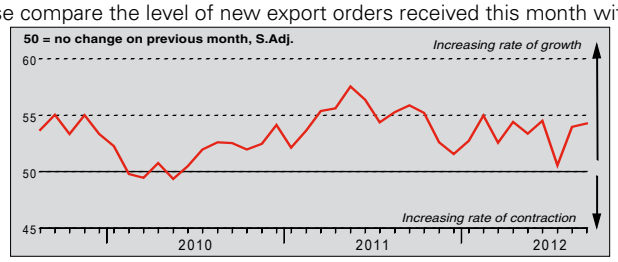


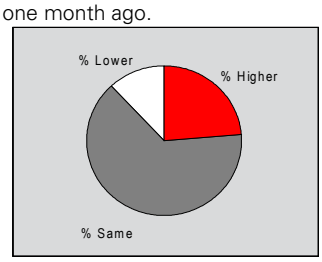


The seasonally adjusted New Orders Index posted its highest reading since June 2011 in September, and was well above the series trend. Almost 36% of survey respondents indicated an increase in new order volumes. Anecdotal evidence suggested that some companies attributed the increase in new business to improved market conditions which led to stronger client demand.

New Export Orders Index

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

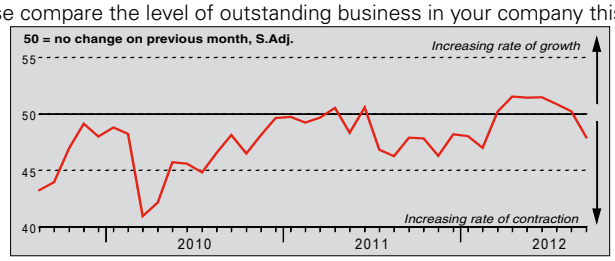


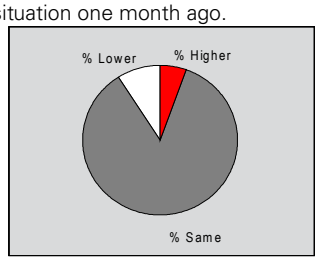


The seasonally adjusted New Export Orders Index signalled a solid increase in the volume of new export orders placed to non-oil private sector firms in September. The latest reading indicated the fastest growth rate of export orders since June. Nearly 24% of panellists recorded an increase in export order volumes. A number of respondents linked this rise to improved international economic conditions.

Backlogs of Work Index

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

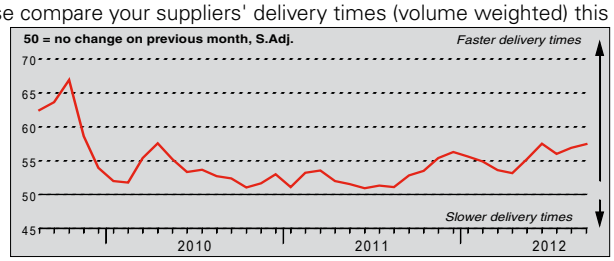


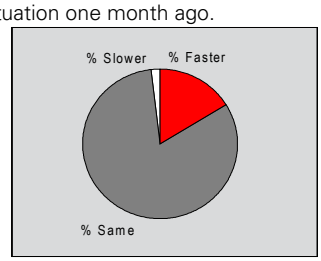


Outstanding business for non-oil private sector firms fell for the first time since February. However, the rate of reduction in September was modest, with a majority of respondents (nearly 86%) signalling no change to backlogs of work. Some survey respondents linked this to an improvement in productivity at their units, as projects were often completed in good time.

Suppliers' Delivery Times Index

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

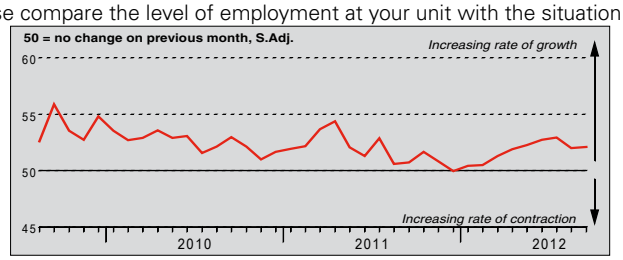


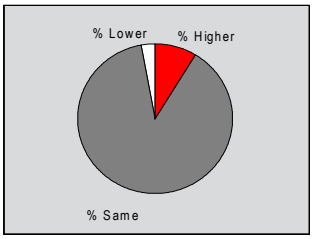


September data signalled a further sharp improvement in average delivery times of suppliers. Moreover, the latest improvement was the strongest in three months as around 16% of respondents recorded shorter lead times. Anecdotal evidence suggested that better delivery times were due to on-time payments and the repeated use of reliable vendors.

Employment Index

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

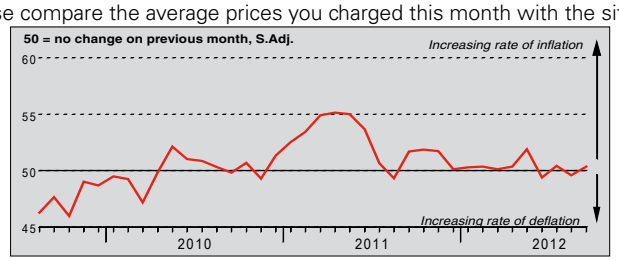


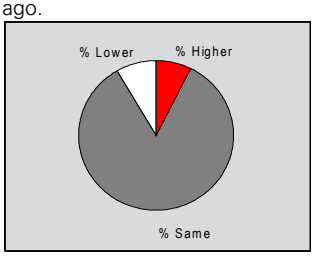


Employment levels continued to rise at firms in the UAE, and data indicated a modest rate of growth during September. Nearly 9% of panellists signalled an expansion of staff numbers in the latest survey period. Respondents indicated that the expansion of workforce numbers was due to increased production requirements as the volume of new orders continued to rise.

Output Prices Index

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

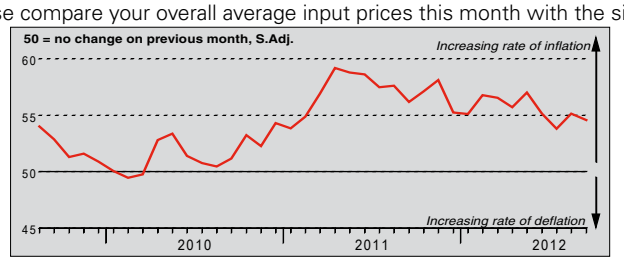


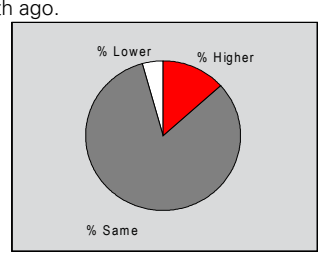


The seasonally adjusted Output Prices Index posted slightly above the neutral 50.0 threshold in September. This indicated a renewed, albeit slight, increase in average output charges set by UAE non-oil private sector companies. Output charges have only changed modestly in recent months. with a majority of firms (just over 84%) indicating no change to their average tariffs in September.

Overall Input Prices Index

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

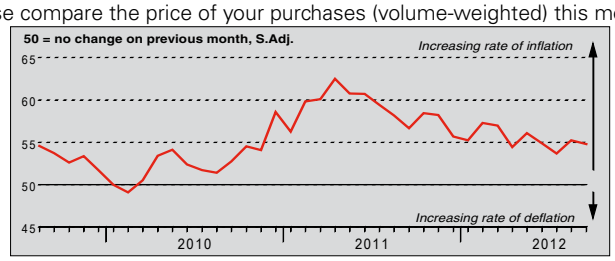


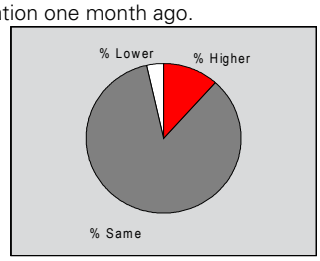


Total input prices faced by companies continued to rise in September. The seasonally adjusted Overall Input Prices Index signalled that the rate of input price inflation slowed slightly from August, but still remained marked. Over 13% of survey respondents recorded an increase in overall input costs. Data suggested that higher purchasing prices was a key driver of overall input price inflation.

Input Costs: Purchase Prices Index

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

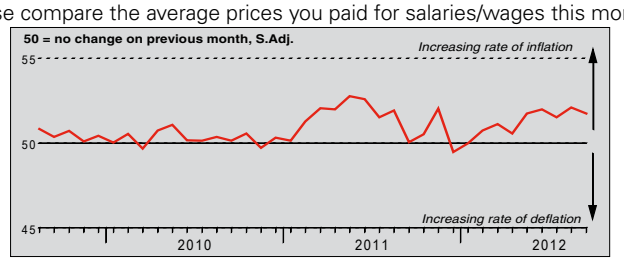


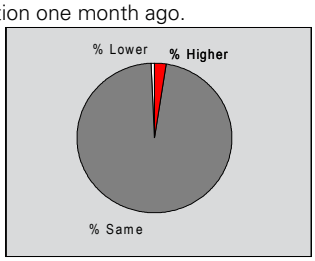


Anecdotal evidence in September signalled a further increase in the demand for inputs which consequently pushed up purchasing prices. The latest survey indicated that the rate of increase slowed from August, but still remained marked. Purchasing prices have now risen for 31 successive months, with nearly 12% of panellists reporting an increase during September.

Input Costs: Staff Costs Index

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

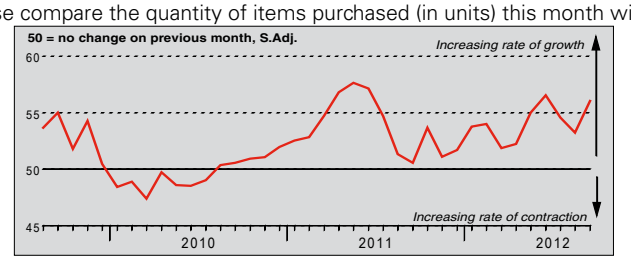


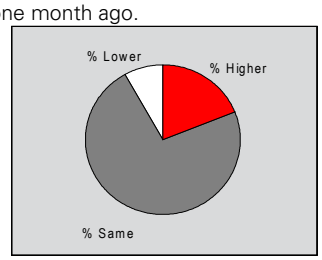


Average staffing costs continued to rise during September, extending the current period of inflation to eight months. However, the rate of inflation slowed from August and a majority of respondents (nearly 97%) reported no change in their average wages. A number of firms who experienced an increase in staffing costs mentioned that higher pay was in keeping with higher living costs in the wider economy.

Quantity of Purchases Index

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

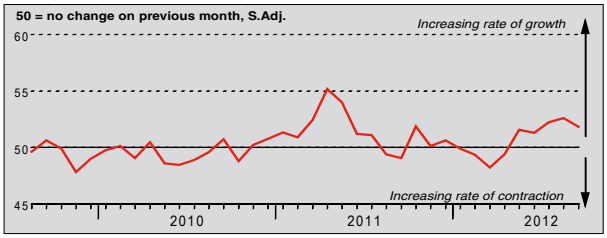


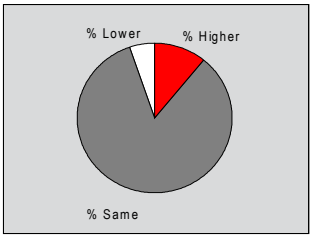


The seasonally adjusted Quantity of Purchases Index posted its highest reading since June, and indicated a sharp increase in the quantity of inputs purchased in September. Nearly 19% of firms reported an increase in input buying, in contrast to just over 8% that reported a decrease. Respondents that recorded an increase in purchasing activity attributed this to an increased amount of new orders and production requirements.

Stocks of Purchases Index

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

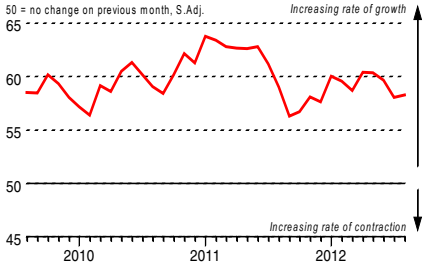




Stocks of purchases increased during September for the fifth consecutive month, although the respective index indicated that the rate of accumulation eased since August. Most firms (nearly 84%) saw no change in inventory levels, while nearly 11% saw a rise. Panellists that reported an increase linked growth to the strong rise of new order volumes and anticipation of higher demand in the future.

International PMI summary

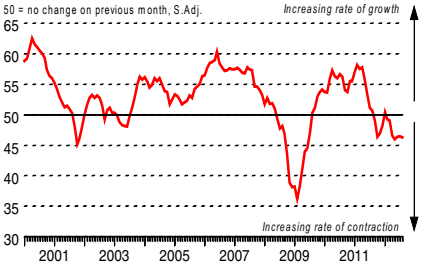
Saudi Arabia Purchasing Managers' Index™



Source: Markit.

At 58.3 in August, up fractionally from 58.1 in July, the seasonally adjusted HSBC Saudi Arabia PMI pointed to another robust improvement in business conditions facing non-oil private sector companies. Behind the slight uptick in the headline number was a more marked increase in incoming new business, which anecdotal evidence attributed to improving market conditions.

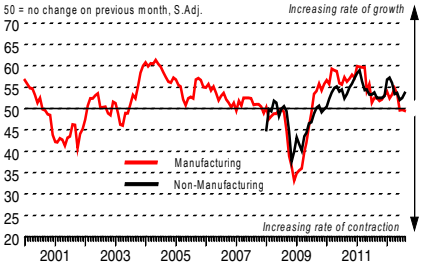
Eurozone Purchasing Managers' Index™



Source: Markit.

Eurozone economic output contracted for the seventh successive month in August. At 46.3, down slightly from 46.5 in July, the Markit Eurozone PMI™ Composite Output Index came in below its earlier flash estimate of 46.6. The average index reading so far in Q3 2012 (46.4), is in line with that registered for the second quarter as a whole.

US Purchasing Managers' Index



Source: Institute for Supply Management (ISM).

The downturn in the US manufacturing sector extended into a third month in August. This was signalled by the seasonally adjusted ISM Manufacturing PMI posting 49.6, a level consistent with a marginal rate of contraction. The non-manufacturing sector fared better, with the ISM Non-Manufacturing NMI signalling growth for the thirty-second 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.

Warning