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HSBC UAE PMI™

October PMI data signals the fastest rate of output growth for four months

Key findings:

- Solid increase in non-oil private sector output
- Marked rise in total new business
- Input price inflation slowest since July

Data for October signalled an expansion of output in the UAE non-oil private sector economy. The rate of growth was solid, and at a similar pace to that recorded in September. Total new orders meanwhile increased at a sharp rate during October, although at a slightly slower pace than one month previously. The surge in total new orders partly reflected a sharp rise in new export orders, which grew at the strongest rate since May 2011.

On the price front, overall input prices increased at a solid rate in October, while output charges rose only marginally.

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 above the 50.0 no-change mark in October, signalling an improvement in overall operating conditions. At 53.8, unchanged from September, the PMI was above the series average of 52.7, and indicated a solid improvement overall.

Output at UAE non-oil private sector firms increased at a solid rate during October. Moreover, the rate of growth was at a similar pace to September. The increased level of production was driven by marked growth of new orders. Anecdotal evidence linked the increase in incoming new work to greater demand, particularly in international markets.

Backlogs of work increased marginally during October, following

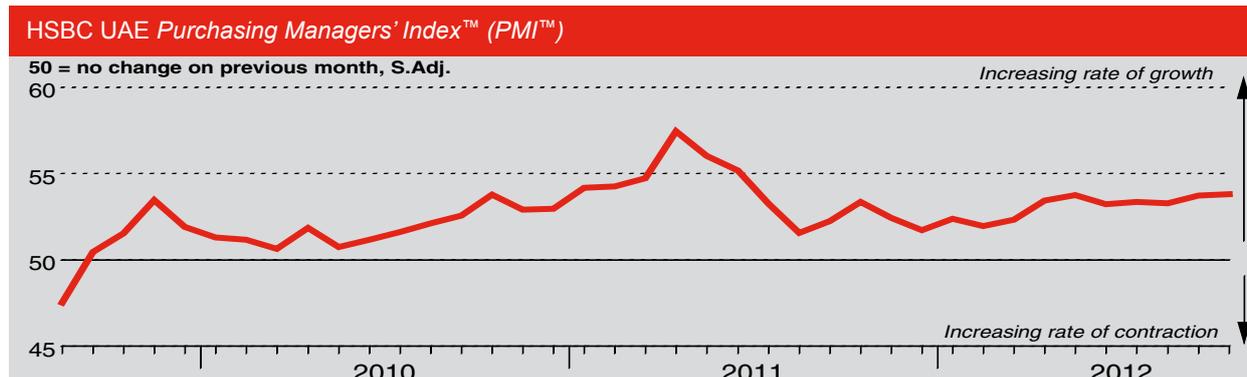
a modest reduction in September. A number of panellists attributed the rise of backlogged work to an increased volume of new business. Meanwhile, there was a further rise in employment levels at non-oil private sector firms in October. The rate of job creation was slightly faster than in September, quickening to a three-month high.

Purchasing activity grew at the fastest rate since June, with a number of firms attributing this to higher production requirements. Stocks of purchases also increased during October. The rate of inventory accumulation was marginally faster than in September, but continued to be modest nonetheless.

Suppliers' delivery times improved further during October, although the rate of improvement was slightly down from that recorded in September. Survey respondents mentioned requests for faster delivery times had driven the improvement in vendor performance.

Overall input prices increased at a solid rate in October, with both purchase prices and staffing costs having risen since September. The greatest increase was for purchases, with average salaries rising only marginally over the month.

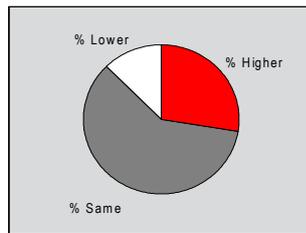
Average tariffs meanwhile rose for the second successive month. The rate of output price inflation was slightly quicker than one month previously, but remained only marginal overall.



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

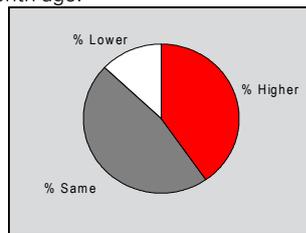
Q. Please compare your production/output this month with the situation one month ago.



The seasonally adjusted Output Index signalled a continued expansion of output in the UAE non-oil private sector during October. Although the rate of expansion was only marginally quicker than in September, the index nonetheless posted its highest reading for four months. Nearly 28% of survey respondents reported a higher level of output, with a number of firms linking this to an increased amount of new orders.

New Orders Index

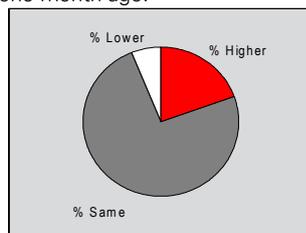
Q. Please compare the level of new orders received this month with the situation of one month ago.



After adjusting for seasonality, the New Orders Index indicated a further rise in new orders volumes in October. Although the index fell slightly from September, it remained above the series average and indicated a sharp rate of new business growth. Over 40% of panellists indicated a higher volume of new orders over the month, with a number of respondents linking this to improved market conditions.

New Export Orders Index

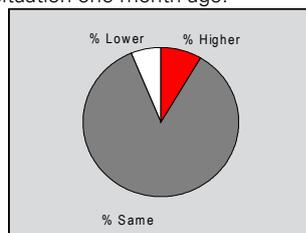
Q. Please compare the level of new export orders received this month with the situation of one month ago.



The seasonally adjusted New Export Orders index signalled a sharp increase in the amount of export orders placed at UAE non-oil private sector firms during October. Moreover, this was the strongest rate of growth since May 2011, with one-in-five respondents recording a larger volume of new export orders over the month. Evidence suggested that the rise in new exports generally reflected strengthening demand in key export markets.

Backlogs of Work Index

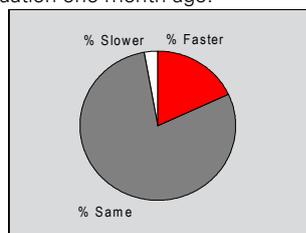
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



The level of outstanding business increased during October, following a modest decrease in September. However, the rate of backlog accumulation was only marginal, despite being the highest seasonally adjusted Backlogs of Work Index since June. Approximately 9% of panellists reported an increase in work-in-hand, with this largely linked to greater volumes of new business.

Suppliers' Delivery Times Index

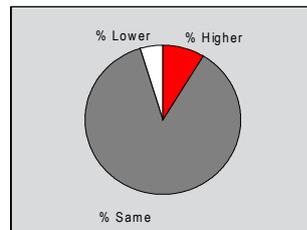
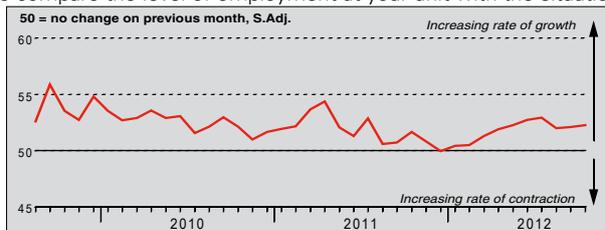
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Average lead times at UAE non-oil private sector firms shortened further in October. The rate of improvement was sharp, albeit marginally slower than in September. Over 18% of respondents reported faster supplier delivery times in the latest survey period. Anecdotal evidence suggested that the overall improvement in vendor performance reflected requests for quicker delivery times.

Employment Index

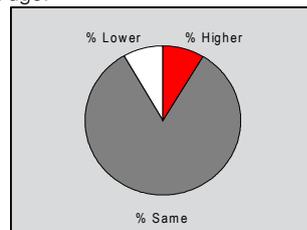
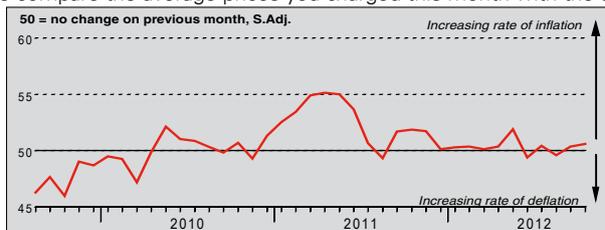
Q. Please compare the level of employment at your unit with the situation one month ago.



Employment levels at non-oil private sector firms increased during October, as has been the case since data collection began in August 2009. The rate of job creation was slightly faster than in September, but remained modest overall. Nearly 9% of respondents recorded an expansion of workforce numbers, with a number of firms attributing the higher staffing levels to greater production requirements.

Output Prices Index

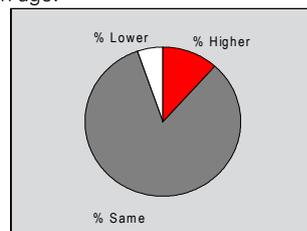
Q. Please compare the average prices you charged this month with the situation one month ago.



Average tariffs set by firms increased during October for the second successive month. However, the rate of inflation was only marginal, despite strengthening to a five-month high. Nearly 9% of panellists noted higher output charges in the latest survey, but a majority (over 83%) recorded no change. Anecdotal evidence suggested that the rise of average tariffs reflected increased market demand.

Overall Input Prices Index

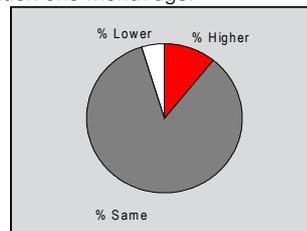
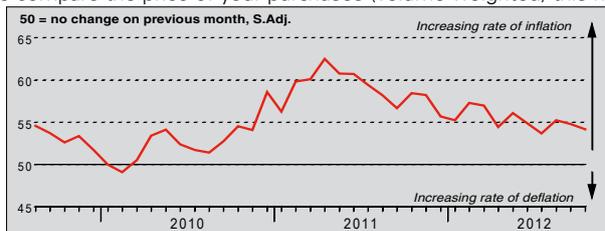
Q. Please compare your overall average input prices this month with the situation one month ago.



October data pointed to a solid rise in overall input costs in the UAE's non-oil private sector. That said, the rate of inflation eased for the second month running, and was the weakest since July. The latest increase in overall input costs was also slower than the series average. Purchase prices rose at a sharper pace than staff costs during the latest survey period.

Input Costs: Purchase Prices Index

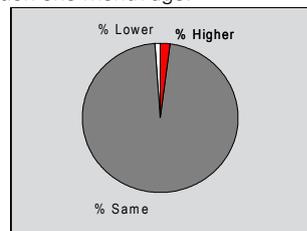
Q. Please compare the price of your purchases (volume-weighted) this month with the situation one month ago.



Purchase prices increased for the thirty-second successive month in October. The rate of inflation remained solid, despite having eased slightly from September. Those respondents that posted a rise in purchasing costs (approximately 11%) indicated that this was mainly due to strengthening demand for inputs in the latest survey period.

Input Costs: Staff Costs Index

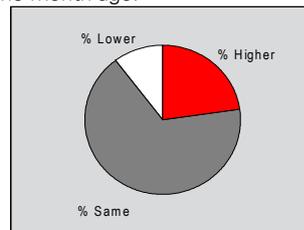
Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.



As has been the case in each month since February, UAE non-oil private sector firms reported larger staff costs during October. However, the latest increase was only marginal, and the joint-weakest (with April) in the current sequence of inflation. Highlighting the weakness in the rate of wage inflation, close to 97% of panellists recorded no change in average salaries during the month.

Quantity of Purchases Index

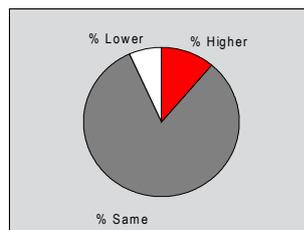
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Purchasing activity at UAE non-oil private sector firms increased sharply in October, with the rate of growth quickening to the fastest since June. Input buying has now risen in each of the past 27 months. Where a rise in purchasing was recorded, panellists largely linked this to higher production requirements.

Stocks of Purchases Index

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

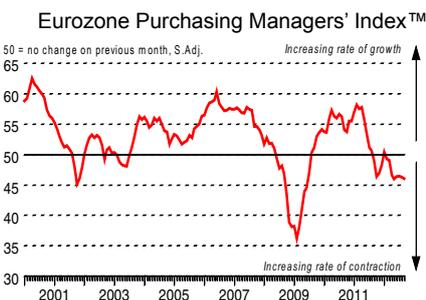


Higher workloads, coupled with expectations of further growth of new orders in coming months, led to a further accumulation of stocks of purchases in October. Pre-production inventories have increased in each month since May. The latest rise in input inventories was modest and, with the seasonally adjusted Stocks of Purchases Index rising over the month, was greater than that recorded in September.

International PMI summary



Source: SABB, HSBC, Markit.



Source: Markit.



Source: Institute for Supply Management (ISM).

The Saudi Arabia non-oil producing sector continued to report strong growth of both business activity and new orders in September. The HSBC Saudi Arabia PMI rose to 60.3, up from 58.3 in August, to reach a four-month high. The average PMI reading through the third quarter of 2012 (58.9) was below the average for Q2, but nonetheless broadly in line with the survey trend.

The Eurozone economy contracted further at the end of Q3 2012. Business activity and new orders both continued to fall, leading to mounting job losses, while the rate of cost inflation moved higher. The Markit Eurozone PMI Composite Output Index posted 46.1 in September, to remain below the neutral mark of 50.0 for the eighth successive month.

The US manufacturing sector saw its first improvement for four months in September, according to PMI data from the ISM. The PMI index rose from 49.6 to 51.5, and signalled a modest improvement in business conditions. The non-manufacturing sector fared better, with the NMI index pointing to the strongest improvement since March (55.1).

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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