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HSBC UAE PMI™

Series-record increase in new business

Key findings:

- Output and new orders increase at faster rates
- Rate of job creation highest in five months
- Purchasing activity sees strong increase

Business conditions in the UAE non-oil producing private sector improved solidly during December. Output continued to increase at a solid pace and the growth rate of new orders was the sharpest since the survey was launched in August 2009. Meanwhile, employment levels rose further and purchasing activity increased at the strongest rate in 18 months.

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 December, signalling an improvement in overall operating conditions. At 55.6, up from 53.7 in November, the PMI pointed to the strongest improvement in operating conditions in 19 months.

Production saw a solid rise during December, and the index recorded its highest reading since May 2011. New order levels continued to increase, and the growth rate of new work was the sharpest since the beginning of data collection in August 2009. According to anecdotal evidence, both higher output levels and increased new orders were partly driven by improving economic and market conditions.

The level of outstanding business at UAE non-oil producing private sector companies decreased slightly during December, partly reflecting higher production efficiency. Meanwhile, average lead times shortened further. There was some evidence

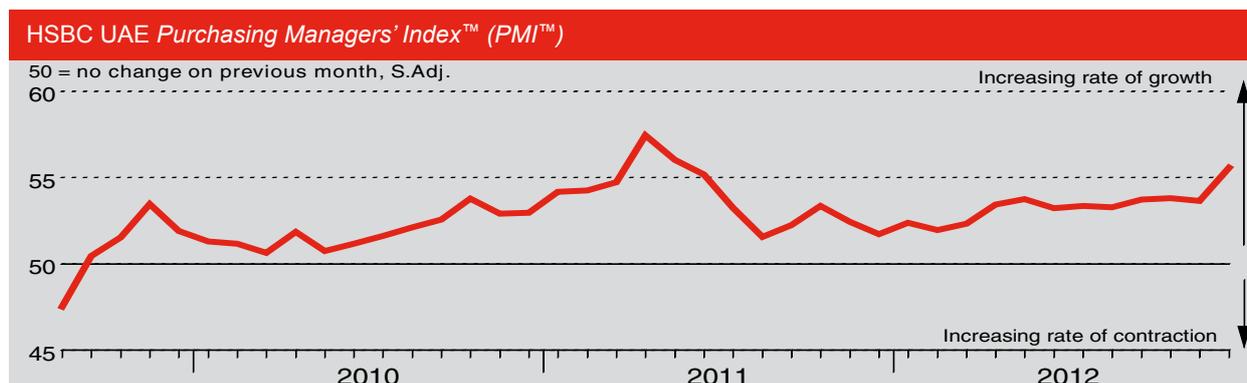
that the improvement in vendor performance was driven by long-term relationships with suppliers. December data signalled higher employment levels, and the rate of job creation was slightly higher than in the previous month.

Overall input prices continued to increase in the UAE non-oil producing private sector during December. That said, the rate of input price inflation eased and was the lowest since September 2010. While average purchase prices increased at a similar pace to November, the rate of wage inflation was slightly lower than in the previous month. The main reasons behind the latest inflation were general inflationary pressures and increased living costs, respectively.

Output prices charged by UAE non-oil producing private sector companies remained broadly unchanged as the majority of respondents recorded steady tariffs.

The latest survey data indicated an increase in buying at UAE non-oil producing private sector firms. The rate at which purchasing activity rose was the sharpest in 18 months, and one of the fastest in the series history. Some panellists linked growth to the increase in new orders.

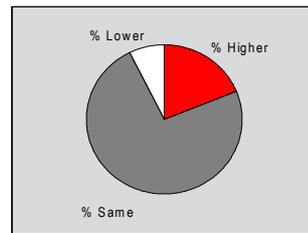
Stocks of purchases accumulated at a similar pace as in recent months. Some panellists commented on increased business as one of the reasons behind the latest development.



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

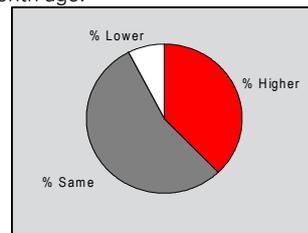
Q. Please compare your production/output this month with the situation one month ago.



Non-oil producing private sector firms in the UAE saw a further rise in production during December, as the seasonally adjusted Output Index posted a reading above the 50.0 no-change mark. The rate of growth in output picked up and was the sharpest since May 2011. According to anecdotal evidence, higher output levels were partly driven by improving market conditions and increased business.

New Orders Index

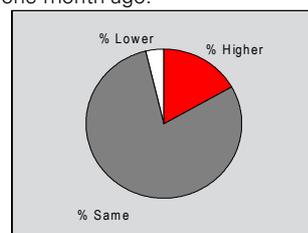
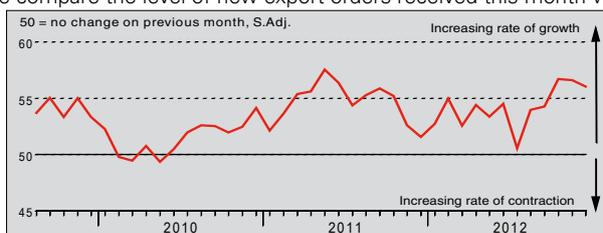
Q. Please compare the level of new orders received this month with the situation of one month ago.



December data signalled an increase in volumes of incoming business in the UAE non-oil producing private sector. The growth rate of new work was the sharpest since the beginning of data collection in August 2009. Around 38% of respondents reported an increase in order book volumes and most of them linked this to improving economic and market conditions.

New Export Orders Index

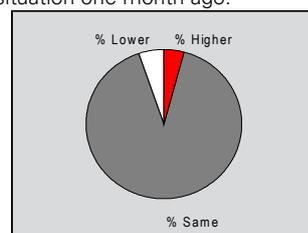
Q. Please compare the level of new export orders received this month with the situation of one month ago.



New export orders received at non-oil producing firms in the UAE increased during December, albeit at a marginally lower rate than in November. Almost 17% of panellists recorded higher levels of new business from abroad with less than 4% indicating a fall. Where a rise was reported, companies commonly associated this with stable economic conditions.

Backlogs of Work Index

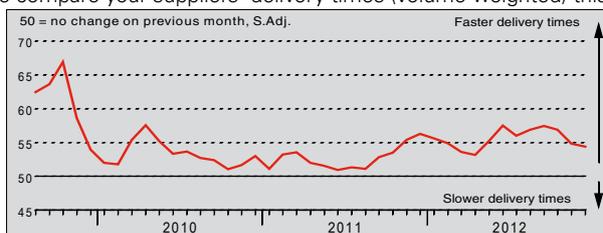
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



The level of outstanding work at UAE non-oil producing private sector companies decreased during December, however only at a marginal rate. Around 4% of respondents indicated an accumulation of backlogged work, while just more than 5% recorded a decrease in outstanding business. Where a reduction in work-in-hand was recorded, some panellists linked this to improved time and project management.

Suppliers' Delivery Times Index

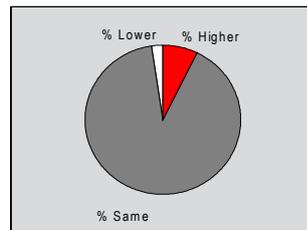
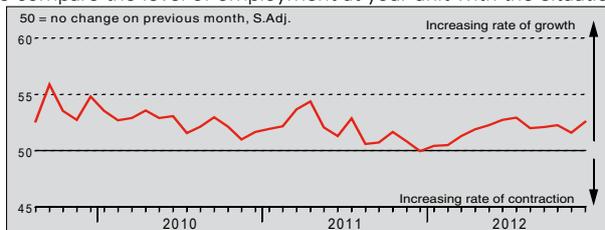
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Delivery times in the non-oil producing private sector in the UAE shortened further during December. This was highlighted by the seasonally adjusted Suppliers' Delivery Times Index posting a reading above the neutral 50.0 threshold. There was some evidence that the improvement in vendor performance was driven by long-term relationships with suppliers and requests for faster deliveries.

Employment Index

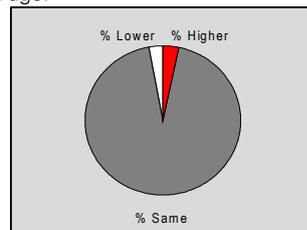
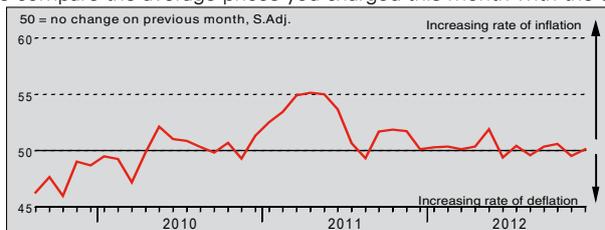
Q. Please compare the level of employment at your unit with the situation one month ago.



Staffing levels continued to rise in the UAE non-oil producing private sector during December. The rate of job creation accelerated slightly and was the highest in five months. Workforce numbers have increased in every month throughout the past year. Increased work was cited as the main driver behind the latest rise in employment levels.

Output Prices Index

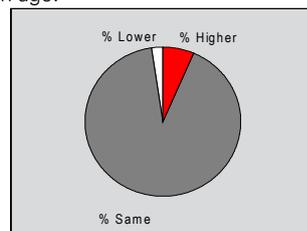
Q. Please compare the average prices you charged this month with the situation one month ago.



Average prices charged by non-oil producing private sector firms in the UAE remained broadly unchanged during December. The seasonally adjusted Output Prices Index recorded a level very close to the 50.0 mark that separates growth from contraction. Some companies that raised their tariffs attributed this to higher expenses. Firms that lowered their prices partly linked this to competitive pressures.

Overall Input Prices Index

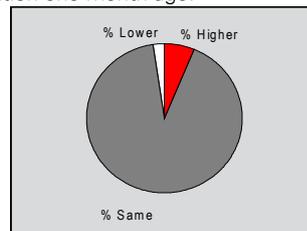
Q. Please compare your overall average input prices this month with the situation one month ago.



Overall input prices continued to rise during December, and for the thirty-third consecutive survey period. However, the rate of input cost inflation eased to the lowest since September 2010. The majority of companies reported unchanged input prices, while around 7% indicated a rise and 2% mentioned a fall in input costs.

Input Costs: Purchase Prices Index

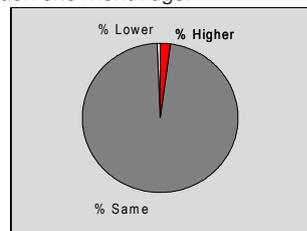
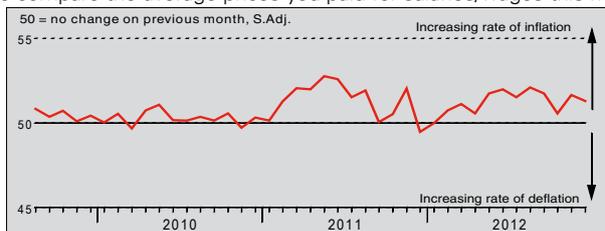
Q. Please compare the price of your purchases (volume-weighted) this month with the situation one month ago.



December data pointed to a further rise in average purchase prices in the UAE non-oil producing private sector, but the rate of inflation was the lowest since August 2010. Where higher purchase costs were reported, companies linked this to general inflationary pressures. Prices for purchases have increased in each month since March 2012.

Input Costs: Staff Costs Index

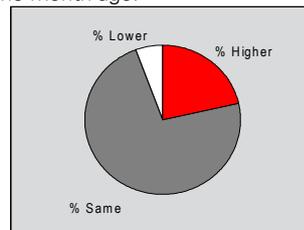
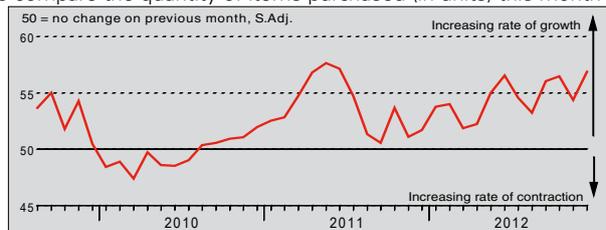
Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.



Average prices paid for salaries continued to rise at a modest rate during December. The seasonally adjusted Staff Costs Index recorded a level above the no change mark of 50.0 for the eleventh successive survey period. The vast majority of respondents indicated no change in average wages. Where an increase in average salaries was reported, panellists partly linked this to an increase in living costs.

Quantity of Purchases Index

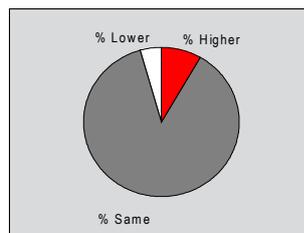
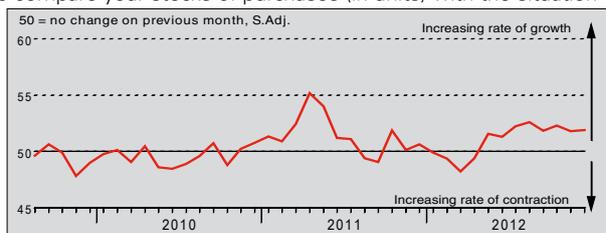
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Purchasing activity increased at UAE non-oil producing private sector companies during December. The rate at which buying increased accelerated, and was the sharpest in 18 months. The latest rise was also the joint-third fastest in the series history. According to anecdotal evidence growth was mainly driven by an increase in new orders.

Stocks of Purchases Index

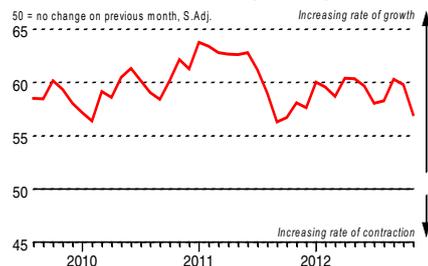
Q. Please compare your stocks of purchases (in units) with the situation one month ago.



December data saw a further increase in pre-production inventories in the UAE non-oil producing private sector. Stocks of purchases rose for the eighth successive survey period, and the rate of input stock growth stayed broadly in line with that observed in the previous three months. Increased business was among the reasons behind the latest development.

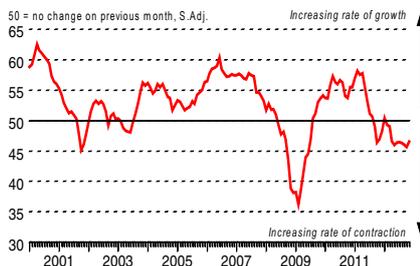
International PMI summary

Saudi Arabia Purchasing Managers' Index™



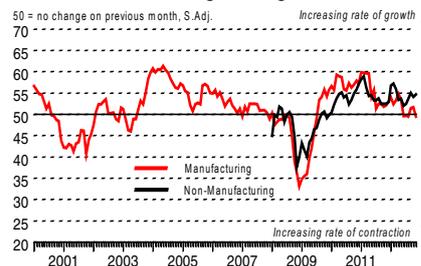
Source: SABB, HSBC, Markit.

Eurozone Purchasing Managers' Index™



Source: Markit.

US Purchasing Managers' Index



Source: Institute for Supply Management (ISM).

The Saudi Arabian non-oil producing private sector continued to report strong growth in production and new orders during November, while the level of outstanding business fell and the overall rate of input price inflation scored its lowest reading in 24 months. The headline PMI recorded a level of 57.0 in November, down from 59.8 in October.

The Markit Eurozone PMI® Composite Output Index rose to 46.5 in November, up from October's 40-month low of 45.7. The headline index has now remained below the neutral 50.0 mark for ten consecutive months and, although the latest reading was the highest since July, it was nonetheless indicative of a solid contraction in overall private sector output.

The ISM data signalled a worsening of manufacturing conditions for US companies in November, as the PMI Index posted at 49.5, down from 51.7 in October. Non-manufacturing firms in the US on the other hand reported a further improvement in business conditions, as the NMI index scored 54.7 in November, slightly up from 54.2 in the previous month.

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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