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HSBC UAE PMI™

PMI signals further improvement in business conditions at start of 2013

Key findings:

- Output and new orders continue to rise at marked rates
- New export orders and purchasing activity grow at sharpest rates in survey history
- Further rise in employment levels

January data signalled marked increases in both output and new orders at non-oil producing private sector firms in the UAE. New export orders and the quantity of items purchased both grew sharply, and at the fastest rates since the beginning of data collection. Meanwhile, employment levels rose further, and for the thirteenth month running.

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 – signalled a further marked strengthening of operating conditions. At 55.0 in January, down only slightly from December's 55.6, the PMI remained above its average at the start of the year.

Production in the UAE's non-oil producing private sector continued to rise during January. Nearly 20% of respondents indicated higher output levels and linked this to improved market conditions and increased business. New orders also increased at a marked rate with more than one-in-three panellists reporting an expansion in order book volumes.

New business from abroad placed at non-oil producing private sector firms in the UAE and purchasing activity both increased at the sharpest rates in the survey history. The rise in new export orders was mainly linked to improved market conditions. Companies that indicated an increase in buying also attributed

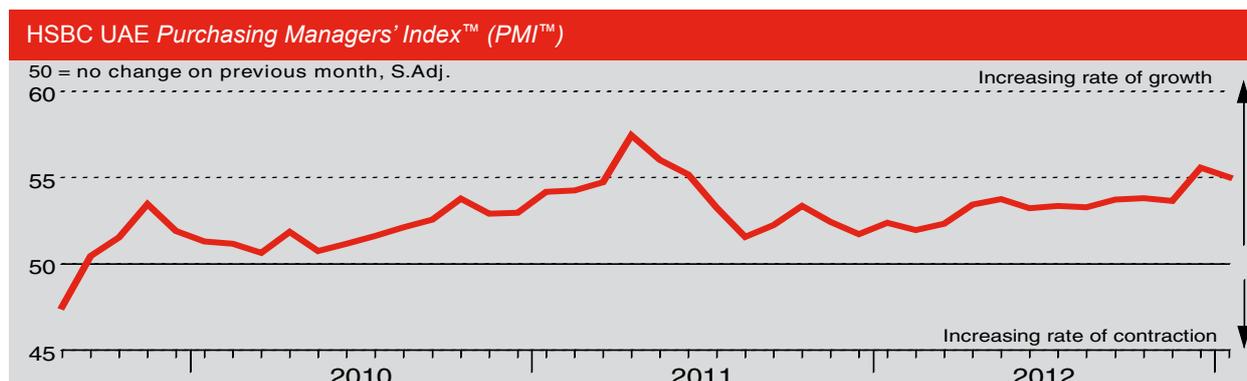
this to improvements in market conditions and additionally to higher new orders. Meanwhile, stocks of purchases rose for the ninth successive survey period.

Outstanding business in the UAE's non-oil producing private sector increased during January. The rate of accumulation was only marginal, but ended a two-month sequence of decreasing backlogs. Meanwhile, suppliers' delivery times continued to shorten. More than 10% of respondents reported an improvement in vendor performance. According to anecdotal evidence, this was partly driven by requests for quicker deliveries.

Workforce numbers at non-oil producing private sector companies in the UAE rose during January, and for the thirteenth month in a row. Some companies linked the latest expansion in payroll numbers to increased business.

Prices charged by non-oil producing private sector companies increased during January. There was some evidence that the rise was caused by higher market prices and increased demand.

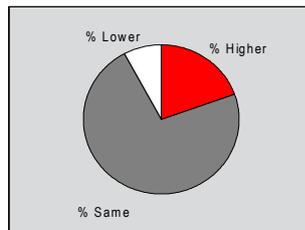
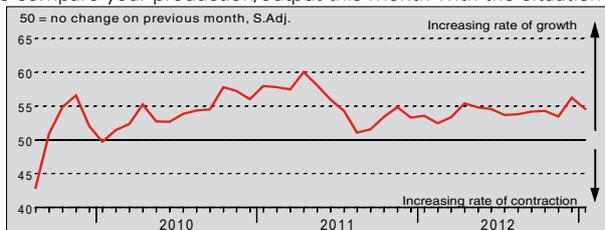
Driven by increased purchase prices and higher staff costs, overall input prices continued to rise during January. While the rise in purchase prices was partly driven by increased market demand, good business and higher living costs reportedly led to the increase in staff costs.



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

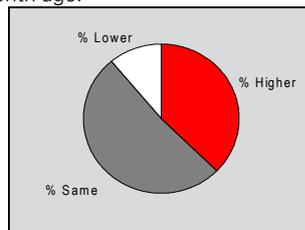
Q. Please compare your production/output this month with the situation one month ago.



January data signalled a further increase in output at non-oil producing private sector companies in the UAE. This was highlighted by the seasonally adjusted Output Index posting a reading above the neutral 50.0 threshold. Almost 20% of respondents indicated higher output levels, while only 8% reported a decline. Improved market conditions and increased business were cited as the main drivers of the latest rise.

New Orders Index

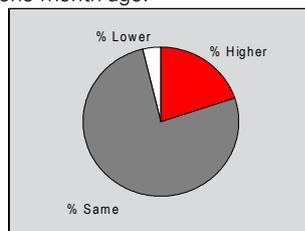
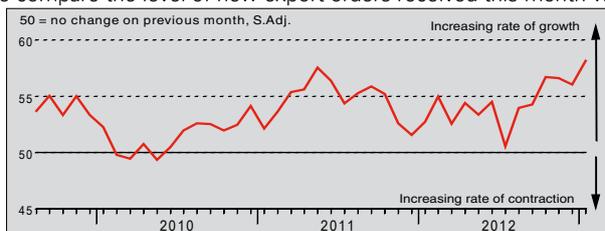
Q. Please compare the level of new orders received this month with the situation of one month ago.



New business placed at UAE's non-oil producing private sector companies increased during January. While the rate of growth eased slightly from December, it was still the third-fastest in the series history. More than one-in-three panellists recorded higher order book volumes and partly linked this to good market conditions and more customers.

New Export Orders Index

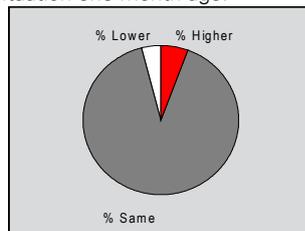
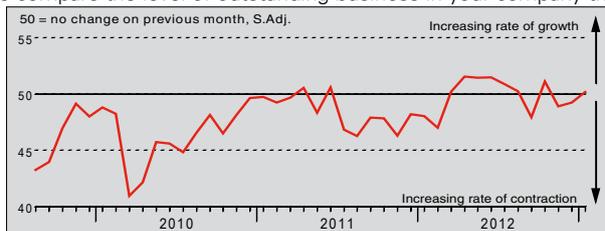
Q. Please compare the level of new export orders received this month with the situation of one month ago.



The latest survey data indicated an increase in new business from abroad placed at non-oil producing private sector firms in the UAE. The rate of expansion accelerated and was the sharpest in the survey history. According to anecdotal evidence, the rise in new export orders was mainly driven by improved market conditions.

Backlogs of Work Index

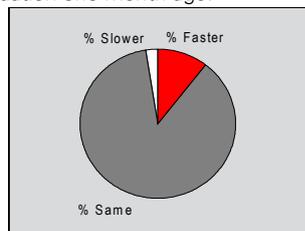
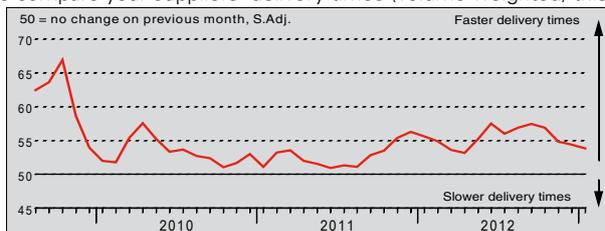
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



After two months of declining work-in-hand, January data signalled a rise in work outstanding in the UAE's non-oil producing private sector. That said, the rate at which outstanding business accumulated was only marginal. Increased business was often commented on by companies that reported an accumulation of backlogged work.

Suppliers' Delivery Times Index

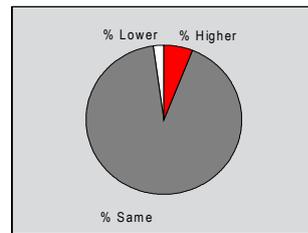
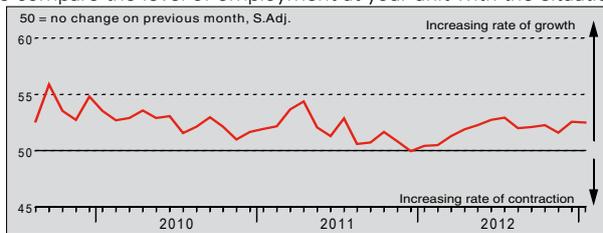
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Average lead times continued to shorten at non-oil producing firms in the UAE during January. Vendor performance has now improved for every month since the beginning of data collection in August 2009. There was some evidence that delivery times had quickened in line with requests for improved performance.

Employment Index

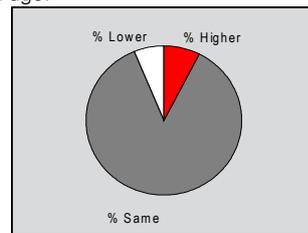
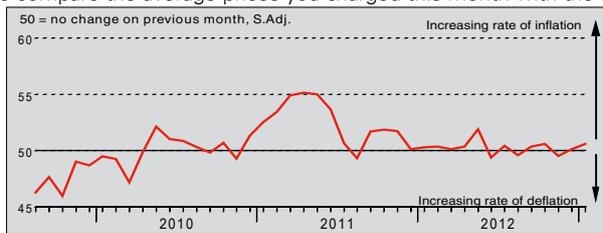
Q. Please compare the level of employment at your unit with the situation one month ago.



Employment levels in the UAE's non-oil producing private sector rose during January, and for the thirteenth month running. The rate of job creation remained broadly unchanged from December. Increased new business was the main reason mentioned by panellists that reported an expansion in workforce numbers.

Output Prices Index

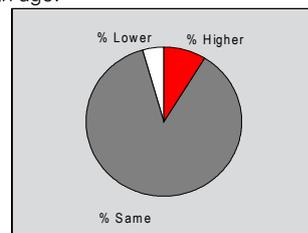
Q. Please compare the average prices you charged this month with the situation one month ago.



Average tariffs set by non-oil producing private sector firms in the UAE rose for the second successive survey period during January. The rate of output price inflation picked up slightly and waqs in line with the overall series average. Higher market prices and increased demand were among the reasons for the latest increase.

Overall Input Prices Index

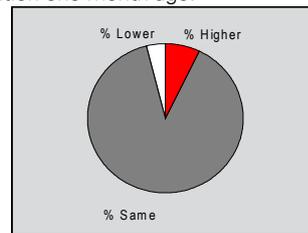
Q. Please compare your overall average input prices this month with the situation one month ago.



January data pointed to a further increase in average input prices, as the seasonally adjusted Overall Input Prices Index posted a reading above the no-change mark of 50.0. While around 9% of respondents indicated a rise in costs, less than 5% reported a fall. Overall input cost inflation was reflective of both higher purchase prices and increased staff costs.

Input Costs: Purchase Prices Index

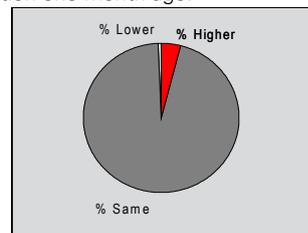
Q. Please compare the price of your purchases (volume-weighted) this month with the situation one month ago.



Average purchase prices continued to rise in the UAE's non-oil producing private sector during January. The rate of purchase price inflation remained broadly unchanged from the previous two survey periods, and was below the average recorded over the series history. According to anecdotal evidence, the latest rise was partly linked to increased market demand.

Input Costs: Staff Costs Index

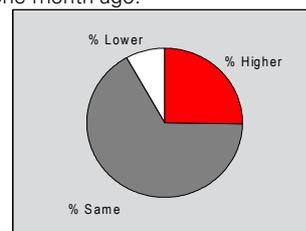
Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.



Average staff costs at non-oil producing companies in the UAE rose further during the latest survey period. This was the twelfth successive month of increasing average wages, and the rate of inflation picked up marginally from December. Good business and higher living costs were among the reasons mentioned by firms that reported an increase in average staff costs.

Quantity of Purchases Index

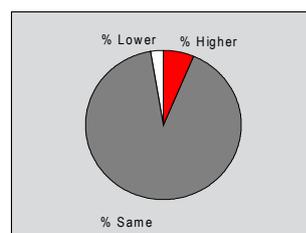
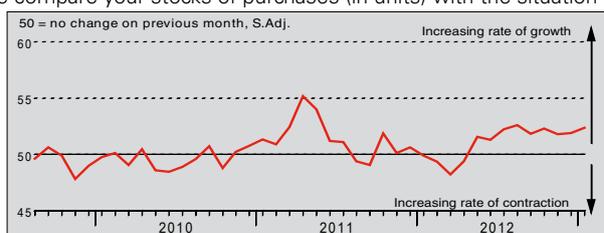
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



The quantity of items purchased by non-oil producing private sector companies in the UAE increased during January. The rate at which purchasing activity grew picked up, and was the highest in the survey history. More than one-in-four respondents recorded an increase in buying over the month. Higher new orders and improved market conditions were linked to the increase in purchasing activity.

Stocks of Purchases Index

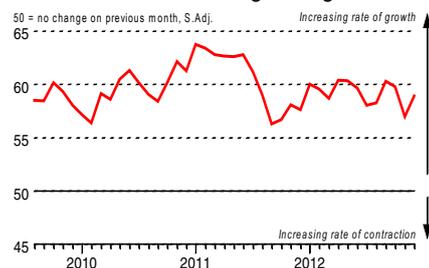
Q. Please compare your stocks of purchases (in units) with the situation one month ago.



Stocks of purchases continued to increase in January, and for the ninth consecutive survey period. The rate at which pre-production inventories grew was the sharpest in five months and stayed above the overall series average. Companies that indicated a rise in input stocks partly attributed this to an expected increase in business.

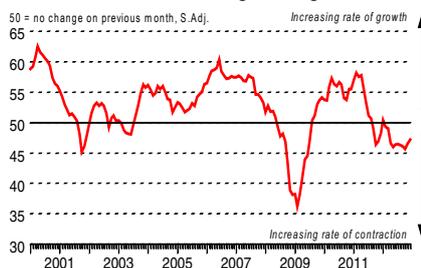
International PMI summary

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).

Operating conditions in the Saudi Arabian non-oil producing private sector improved again in December, as the headline PMI posted a reading of 58.9, up from 57.0 in November. Output and new orders increased solidly and employment levels rose at the sharpest rate in three months. Meanwhile the overall rate of input price inflation weakened slightly.

The Eurozone downturn eased further at the end of 2012, as the rate of contraction in economic output slowed. At a nine-month high of 47.2 in December, from 46.5 in November, the Markit Eurozone PMI Composite Output Index was nonetheless below the 50.0 no-change mark for the eleventh successive month.

After a worsening of manufacturing conditions for US companies in November, ISM data signalled an improvement during December as the PMI posted at 50.7, up from 49.5 in the previous month. Non-manufacturing firms in the US reported a further improvement in business conditions in December, as the NMI scored a 10-month high of 56.1, up from 54.7 in November.

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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