

HSBC UAE PMI™

PMI signals strongest improvement in operating conditions in three months

Key findings:

- Further rise in output levels
- Companies reduce their charges at faster pace
- Input stocks rise at sharpest rate in two years

Non-oil producing private sector companies in the UAE reported further output and new order growth in May. The respective rates of expansion picked up from April and were the highest in three months. Meanwhile, output charges fell at the sharpest rate in over three years and input stocks increased for the thirteenth month in a row.

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 strengthening of operating conditions during the latest survey period. Posting 55.3 in May, up from April's 54.0, the latest reading was the highest since February and extended the sequence of improving operating conditions to 45 months.

May data signalled a rise in output levels in the UAE's non-oil producing private sector, with the rate of expansion at a three-month high. Increased order book volumes and improving market conditions were cited as the main drivers of the latest expansion. Incoming new business also increased at the fastest pace since February, with the rise linked to good market conditions and improved marketing efforts. Meanwhile, growth of new export orders picked up from April's nine-month low.

The increase in incoming new business accounted for much of the latest rises in stocks of purchases and purchasing activity.

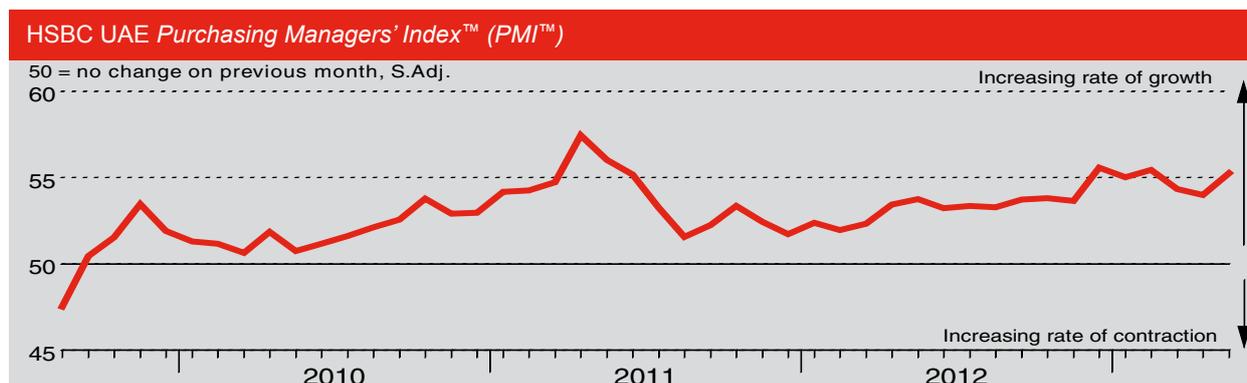
Input stocks accumulated at the fastest pace in 24 months and the rise in buying was the sharpest since the beginning of the year.

Backlogs of work in the UAE's non-oil producing private sector accumulated for the first time in three months during May, as companies reported increased new orders. Driven by improved relationships with suppliers, average lead times on inputs shortened further.

The latest survey data pointed to the seventeenth consecutive monthly increase in payroll numbers at the UAE's non-oil producing private sector companies. A combination of higher workloads and business expansions accounted for much of the latest rise in employment levels.

Overall input costs continued to increase in May. The rate of inflation eased, however, and was the weakest in four months. While a rise in purchase prices was linked to increased freight charges and general inflationary pressures, increased living costs was the main driver behind higher staff costs.

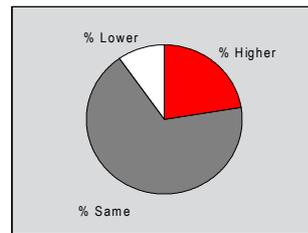
In response to increased market competition, non-oil producing private sector companies in the UAE lowered their charges during the latest survey period. Output prices have now fallen for three successive survey periods and the latest reduction was the fastest in 38 months.



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

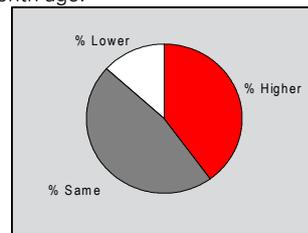
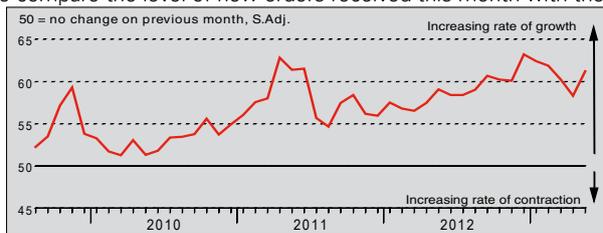
Q. Please compare your production/output this month with the situation one month ago.



Non-oil producing private sector companies in the UAE recorded increased output levels in May, with 22% of respondents indicating growth. The pace of expansion was up marginally from April and posted a three-month high. Improving market conditions and increased new orders were cited as the main drivers of the latest output rise.

New Orders Index

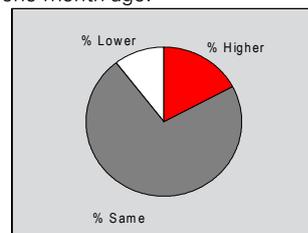
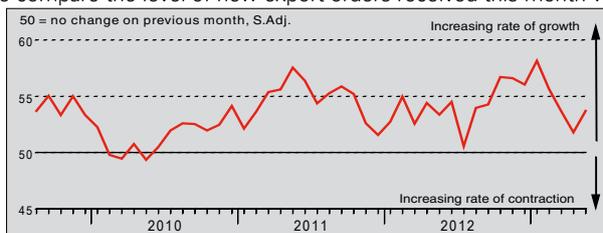
Q. Please compare the level of new orders received this month with the situation of one month ago.



The seasonally adjusted New Orders Index posted well above the no-change mark of 50.0 in May, signalling further growth of new work in the UAE's non-oil producing private sector. The rate of increase accelerated from the previous survey period and was above the series average. Good market conditions and improved marketing efforts accounted for much of the latest increase.

New Export Orders Index

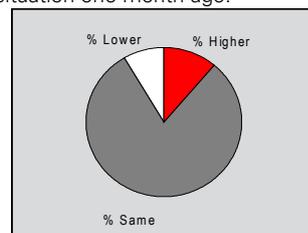
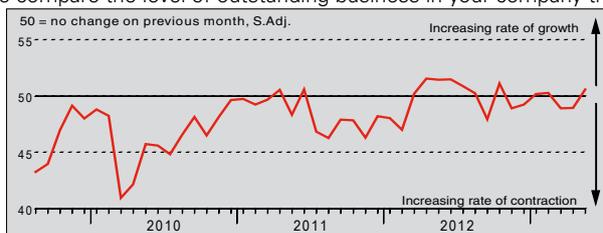
Q. Please compare the level of new export orders received this month with the situation of one month ago.



After growth of new export business slowed to a nine-month low during April, the rate of increase picked up during the latest survey period. Around 17% of companies in the UAE's non-oil producing private sector reported increased business from abroad and commonly linked this to improved market conditions.

Backlogs of Work Index

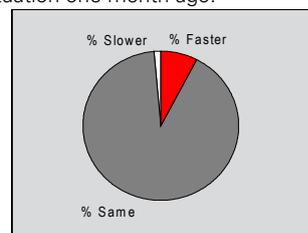
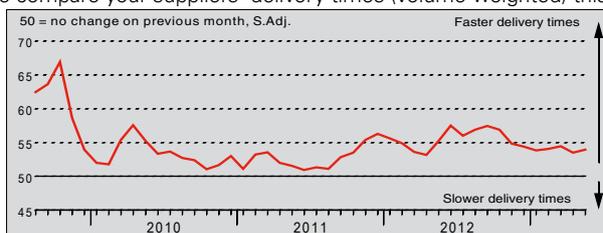
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Overall volumes of incomplete business at the UAE's non-oil producing private sector companies increased during the latest survey period. The rate of backlog accumulation was marginal, but ended a two-month sequence of depletion. Companies that indicated more work-in-hand attributed this to increased new orders.

Suppliers' Delivery Times Index

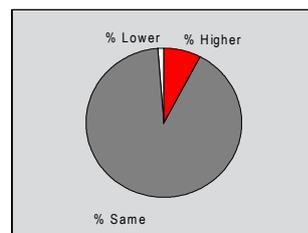
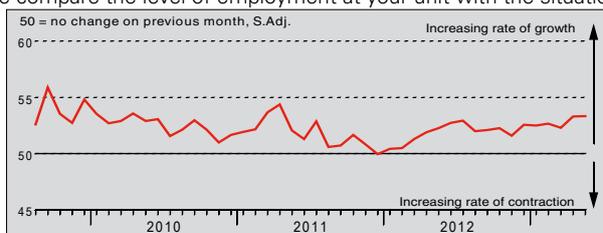
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



As has been the case throughout the survey history to date, average lead times on the delivery of inputs shortened in May. Around 8% of respondents indicated an improvement in vendor performance, while only 1% reported a worsening. There was some evidence that better delivery times were driven by improved relationships with suppliers.

Employment Index

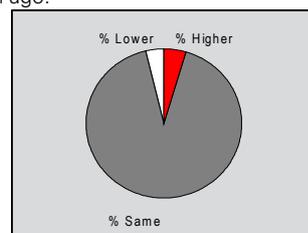
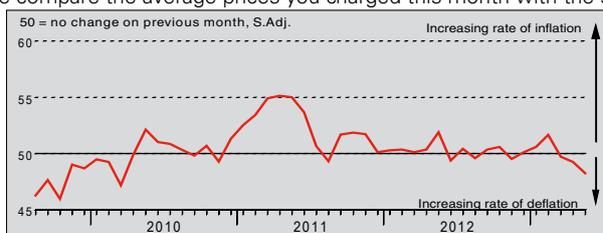
Q. Please compare the level of employment at your unit with the situation one month ago.



Workforce numbers in the UAE's non-oil producing private sector continued to increase in May, highlighted by the seasonally adjusted Employment Index posting above the neutral 50.0 threshold. The latest rate of job creation was unchanged from April, and the joint-highest in 25 months. Increased workloads and business expansions resulted in the hiring of additional staff.

Output Prices Index

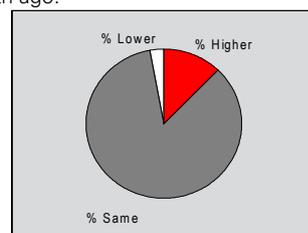
Q. Please compare the average prices you charged this month with the situation one month ago.



Non-oil producing private sector companies in the UAE reduced their average charges in May, extending the current sequence of falling output prices to three months. The pace of charge reduction was up from April and the fastest in 38 months. Panellists often linked the fall in charges to competitive market conditions.

Overall Input Prices Index

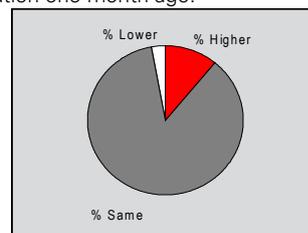
Q. Please compare your overall average input prices this month with the situation one month ago.



Overall input costs in the UAE's non-oil producing private sector rose in May. This was highlighted by the seasonally adjusted Overall Input Prices Index posting above the 50.0 no-change mark. While 12% of panellists recorded increased input prices, the rate of cost inflation eased slightly and was the lowest in four months.

Input Costs: Purchase Prices Index

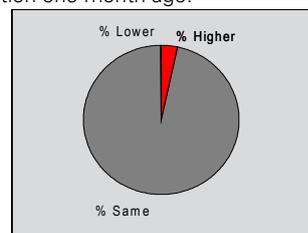
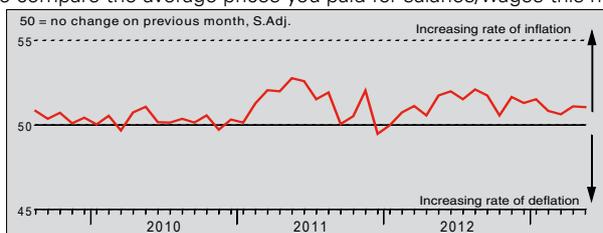
Q. Please compare the price of your purchases (volume-weighted) this month with the situation one month ago.



Average purchase prices increased during the latest survey period, as 11% of non-oil producing private sector companies in the UAE faced a cost increase. The latest rate of purchase price inflation was up marginally from April and the sharpest since last October. Increased freight charges and general inflationary pressures were mentioned by panellists as contributors to the rise in costs.

Input Costs: Staff Costs Index

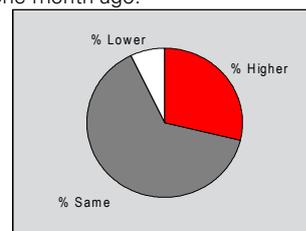
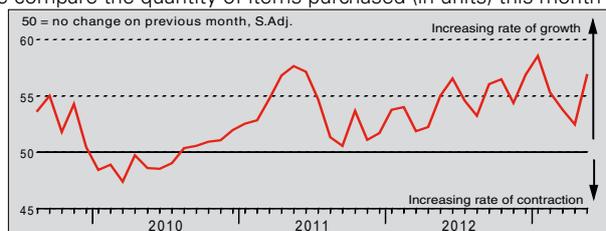
Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.



Average staff costs in the UAE's non-oil producing private sector rose slightly in May. The rate of wage inflation was unchanged from the previous survey period and the majority of panellists reported unchanged overall wages. Where a rise was reported, companies linked this to increased living costs.

Quantity of Purchases Index

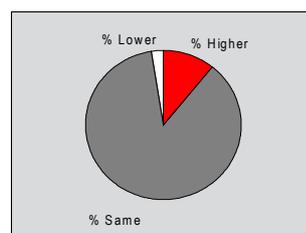
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



The latest survey data indicated an increase in purchasing activity in the UAE's non-oil producing private sector. The rate of expansion accelerated and was the sharpest since the beginning of the year. Around 29% of panellists reported a rise in buying and commonly linked this to increases in incoming business.

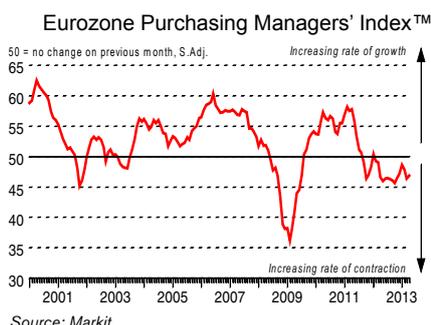
Stocks of Purchases Index

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



Stocks of raw materials and other pre-production inventories in the UAE's non-oil producing private sector increased during May, extending the sequence of rising input stocks to 13 months. The pace of expansion was the fastest in two years, and the third-steepest in the series history. Increased new orders was the main driver behind the latest accumulation of stocks of purchases.

International PMI summary



April data suggested a further improvement in operating conditions in Saudi Arabia's non-oil producing private sector, as the headline PMI posted 58.0, down slightly from 58.9 in March. While the latest survey data marked the lowest reading in five months, the rate of improvement remained sharp.

The Markit Eurozone PMI Composite Output Index posted 46.9 in April, up slightly from March's 46.5. Overall output has now declined throughout the past 15 months, although the easing in the rate of decline signalled by the headline index was the first since January. Eurozone manufacturing production and service sector business activity both contracted at similarly marked rates in April.

Operating conditions in the US manufacturing sector improved during April, highlighted by the ISM headline PMI posting a reading of 50.7. This was down from March's 51.3 and the weakest reading in four months. The pace of growth also slowed in the non-manufacturing sector, with the headline index posting a nine-month low of 53.1. This was down from 54.4 in March.

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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