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HSBC UAE PMI™

Strongest improvement in operating conditions in nearly two-and-a-half years

Key findings:

- Output growth accelerates as new orders rise at fastest pace in survey history
- Export business increases sharply
- Rate of job creation picks up

The UAE's non-oil producing private sector companies reported a solid rise in activity in September with the pace of expansion the highest in over two years. Order intakes increased at the fastest pace in the survey history and new export business also rose at an accelerated pace. Meanwhile, employment levels continued to rise.

The headline seasonally adjusted HSBC United Arab Emirates PMI^{TM} — a composite indicator designed to provide a single-figure snapshot of the performance of the non-oil private sector — posted a 29-month high of 56.6 in September, up from August's 54.5. Operating conditions in the sector have improved continuously since September 2009.

The latest survey results signalled a sharp increase in activity at the UAE's non-oil producing private sector companies. Output growth was the highest since May 2011 and largely attributed to increased new business. In line with higher output levels was a strong rise in order intakes. The growth rate of new work accelerated substantially from August to the highest in the 50-month survey history. Anecdotal evidence suggested that higher new business was driven by improved market conditions, increased sales efforts and the introduction of new products.

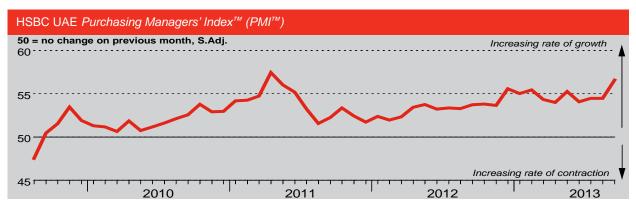
New business from abroad also rose sharply in September. Increased tourism and improved market conditions contributed to the latest rise in new export orders, according to panellists.

In response to increased workloads, non-oil private sector companies in the UAE hired additional workers in September. Employment levels increased at the fastest pace in three months.

Backlogs of work accumulated for the second month running in September, as companies faced increased demand. The rate of backlog accumulation was, however, only marginal. Meanwhile, average lead times on inputs shortened further with some companies commenting on faster payments.

Following a trend observed throughout most of the survey history, input costs increased in September. The rate of cost inflation accelerated to the highest in seven months. While purchase prices rose at a largely unchanged pace from August, average staff costs increased at the fastest pace since June 2011. Survey respondents attributed higher average salaries to increased living costs and performance based pay rises.

September data signalled a further rise in input buying. The pace of expansion accelerated from August and was the second-sharpest in the survey history. The increase in purchasing activity was mainly driven by higher new business, according to panel members. Meanwhile, stocks of purchases accumulated for the seventeenth month in succession. The rise in input stocks was higher than that seen in August, although marginal overall.



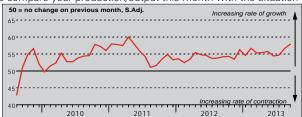
The HSBC UAE Purchasing Managers' Index (PMI) is a composite indicator designed to provide an overall view of activity in the United Arab Emirates non-oil private sector economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' 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™ 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.

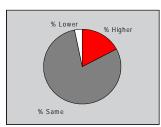




Output Index

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



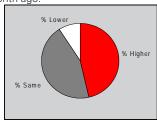


September data signalled a sharp increase in output at the UAE's non-oil producing private sector companies. The pace of expansion accelerated to the highest since May 2011, with 17% of panel members indicating a rise in activity. Anecdotal evidence suggested that output growth was largely driven by increased new business.

New Orders Index

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



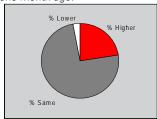


The seasonally adjusted New Orders Index registered well above the no-change mark of 50.0 in September, signalling a further sharp rise in order intakes at the UAE's non-oil producing private sector companies. Order book volumes rose at the quickest pace in the 50-month survey history, and panellists linked growth in new work to improved market conditions, increased sales efforts and the introduction of new products.

New Export Orders Index

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





Client demand from foreign markets strengthened in September, with around 22% of panel members reporting increased new export orders. A combination of improved market conditions and increased tourism resulted in the latest rise of new business from abroad, according to survey respondents. The pace of expansion accelerated to an eight-month high.

Backlogs of Work Index

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





Volumes of unfinished work rose for the second month in succession during September, highlighted by the seasonally adjusted Backlogs of Work Index posting above the neutral 50.0 threshold. The rate of backlog accumulation was marginal, and slower than in August. Where more work-in-hand was reported, panellists commented on higher new business.

Suppliers' Delivery Times Index

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



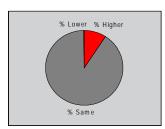


As has been the case throughout the survey history, average lead times shortened in September. The rate at which vendor performance improved accelerated slightly and was the highest since March. Panel members reported that faster deliveries had been agreed with suppliers in order to meet production requirements. Faster payments also helped delivery times to shorten.

Employment Index

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



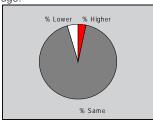


The UAE's non-oil producing private sector companies hired additional workers in September, extending the current sequence of job creation to 21 months. Employment levels rose at the quickest pace in three months and survey respondents linked the rise in payroll numbers to increased workloads.

Output Prices Index

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





The latest survey results signalled a marginal rise in output prices charged by the UAE's non-oil producing private sector firms. Selling prices rose for the fourth consecutive month, and the rate of charge inflation was unchanged from August. Panellists that reported higher output prices mainly linked this to increased input costs.

Overall Input Prices Index

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





Overall input costs increased further in September. This was highlighted by the seasonally adjusted Overall Input Prices Index posting above the 50.0 no-change mark. The rate of cost inflation was the sharpest since February and driven by both increased purchase prices and higher 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.

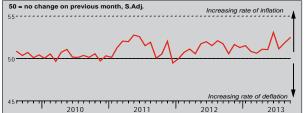


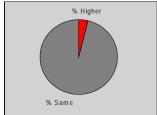


Following a trend observed throughout most of the survey history, purchase prices increased in September. The rate of cost inflation was broadly unchanged from August and remained below the series average. Panellists commonly attributed higher purchase prices to general inflationary pressures and increased 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.



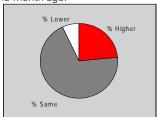


Average staff costs in the UAE's non-oil producing private sector rose further in September and the rate of wage inflation was one of the highest seen in the survey history. Increased living costs and performance based pay rises contributed to the latest increase in staff costs, according to panel members.

Quantity of Purchases Index

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



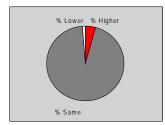


Purchasing activity continued to rise in September, extending the current sequence of expansion to 38 months. The pace of expansion accelerated to the second-quickest in the survey history, with almost one-in-four respondents indicating increased input buying. According to anecdotal evidence, higher new business was the main reason for the latest rise.

Stocks of Purchases Index

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





September data signalled a further rise in input stocks held at the UAE's non-oil producing private sector companies. Increased business volumes accounted for most of the latest rise in stocks of purchases. The rate of stock accumulation was marginal, as the majority of panellists reported unchanged inventory levels.

International PMI summary



The latest survey data signalled a further improvement in operating conditions at Saudi Arabia's non-oil producing private sector firms. The headline PMI rose to a four-month high of 57.5 in August, up from July's 56.6. Operating conditions have improved in every month of the survey history to date.



The final Markit Eurozone PMI[®] Composite Output Index signalled a second successive monthly expansion in business activity in August. The index rose to 51.5, up from 50.5 in July, to signal the fastest rate of growth in just over two years. Manufacturing led the upturn in August, seeing production volumes expand to the greatest degree since May 2011.



ISM data signalled a further improvement in operating conditions in the US manufacturing sector during August, with the headline PMI posting a 26-month high of 55.7, up from July's reading of 55.4. Operating conditions also improved across non-manufacturers, with the NMI headline Index registering 58.6 in August, up from 56.0 in July.

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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