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HSBC UAE PMI™

Output growth slows slightly, but remains sharp overall

Key findings:

- Activity growth eases in October
- New export orders rise at fastest pace in series history
- Output charges fall, despite increased cost pressures

October data signalled a slowing of output growth in the UAE's non-oil producing private sector, while new order intakes rose sharply and new export orders increased at the quickest pace in the survey history. Meanwhile, companies lowered their charges despite rising input costs.

The headline seasonally adjusted HSBC United Arab Emirates PMI™ signalled a further solid improvement in operating conditions in the UAE non-oil producing private sector, with the headline index inching down fractionally from September's 56.6 to 56.3 in October.

The latest survey results signalled a further increase in output, with panellists linking growth to higher new business. The pace of expansion eased to the slowest in three months, but remained sharp overall.

The UAE's non-oil producing private sector companies reported a solid rise in order intakes during October, with the rate of growth in new work the second-highest recorded in the survey history. Good sales efforts, improving economic conditions and higher construction activity all contributed to the sharp rise, according to panel members. Meanwhile, new export orders rose at the quickest pace since data collection began in August 2009. Anecdotal evidence suggested that competitive pricing and good market conditions accounted for much of the overall expansion.

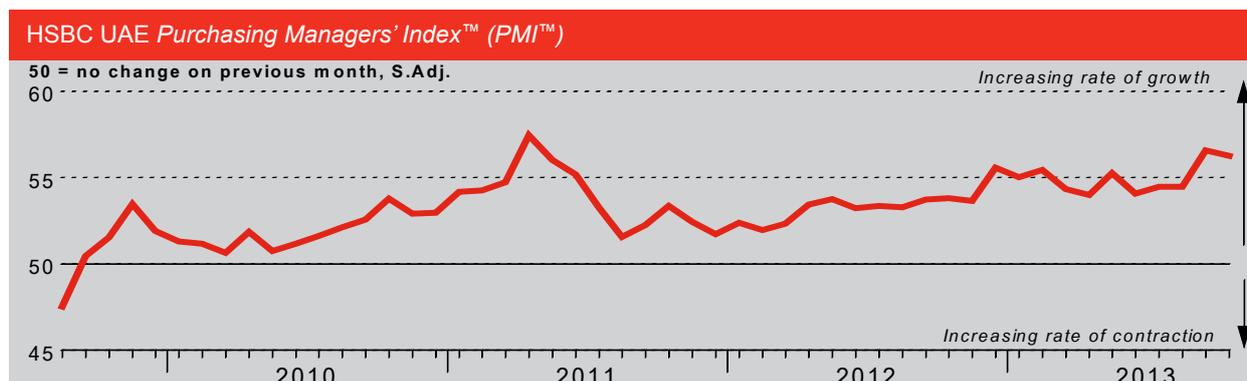
Inflationary pressures persisted into October, but the rate of overall input price inflation eased slightly from September. Driven by increased market demand, general inflationary pressures and increased raw material costs, purchase prices rose at a slightly accelerated pace, while average staff costs increased at a weaker rate.

Despite rising input costs, the UAE's non-oil producing private sector firms lowered their selling prices for the first time in five months. Survey respondents largely attributed price discounting to competitive market conditions.

Employment levels continued to increase during October as companies faced higher workloads. The rate of job creation was down slightly from that seen in September, but remained above the long-run series average.

Backlogs of work accumulated for a third month in succession during October, and to a greater extent than in the previous month. Meanwhile, suppliers' delivery times improved at the slowest pace in just over two years.

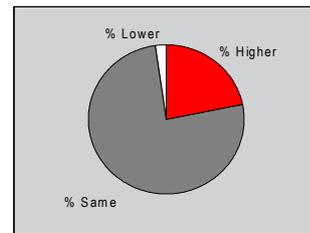
In line with the trends for output and new orders, purchasing activity in the UAE's non-oil producing private sector increased in October. Concurrently, stocks of purchases accumulated at an accelerated pace. Some companies linked the rise in input stocks to predicted new order growth.



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

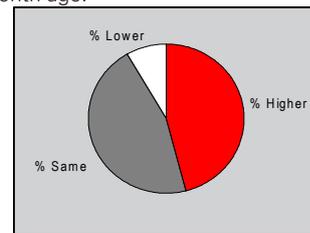
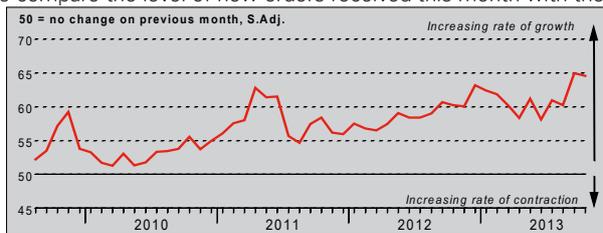
Q. Please compare your production/output this month with the situation one month ago.



The UAE's non-oil producing private sector companies reported a further rise in activity during October, extending the current sequence of output growth to 45 months. The pace of expansion eased slightly since September, but remained solid and above the series average. Higher new business was the main driver of the latest rise, according to panellists.

New Orders Index

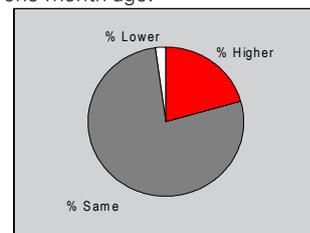
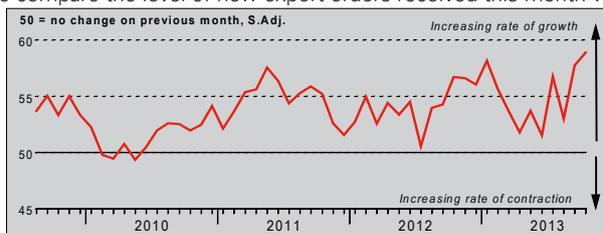
Q. Please compare the level of new orders received this month with the situation of one month ago.



Following a trend observed throughout the survey history, new order intakes rose in October, with 46% of survey respondents indicating growth. The rate of increase was the second-highest since data collection began in August 2009. Anecdotal evidence suggested that good sales efforts, improving economic conditions and higher construction activity all contributed to the sharp rise in new business.

New Export Orders Index

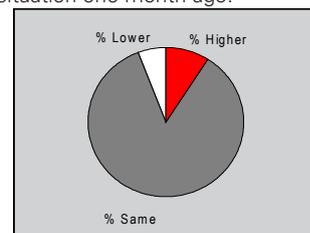
Q. Please compare the level of new export orders received this month with the situation of one month ago.



The seasonally adjusted New Export Orders Index registered above the no-change mark of 50.0 in October, pointing to a strengthening of client demand from foreign markets. Companies linked the latest increase to competitive pricing and good market conditions. The pace of expansion accelerated from the previous month and was the quickest recorded in the series history.

Backlogs of Work Index

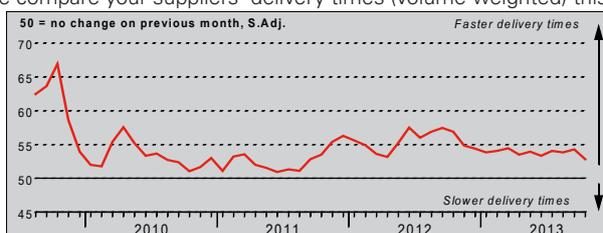
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



October saw a third successive monthly accumulation of unfinished work at the UAE's non-oil producing private sector firms with the rate of backlog accumulation accelerating from September. Around 9% of panellists reported increased work-in-hand, while 6% indicated a decline. Higher new business was commonly mentioned as the main reason for the rise.

Suppliers' Delivery Times Index

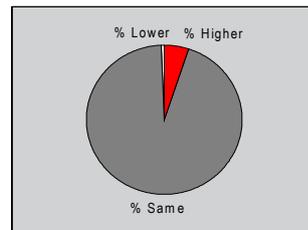
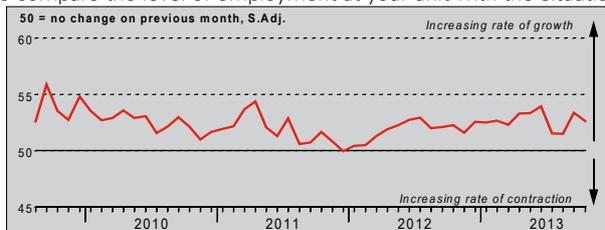
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



The latest survey results signalled a further improvement in vendor performance, highlighted by the seasonally adjusted Suppliers' Delivery Times Index posting above the neutral 50.0 threshold. Panel members reported that faster delivery times had been agreed with suppliers in order to meet production requirements. The rate of improvement eased to the weakest in just over two years.

Employment Index

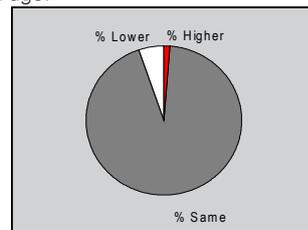
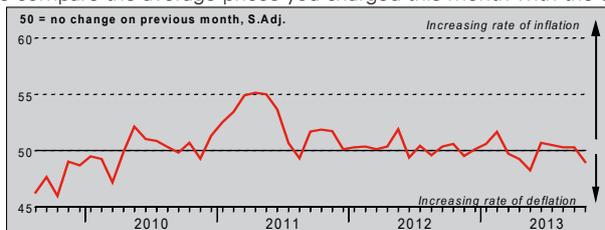
Q. Please compare the level of employment at your unit with the situation one month ago.



Non-oil producing private sector companies in the UAE hired additional workers during October, but the rate of job creation eased slightly since September. Around 5% of companies reported higher employment levels, while less than 1% indicated a decline. According to anecdotal evidence, the rise in workforce numbers was largely attributed to increased new business.

Output Prices Index

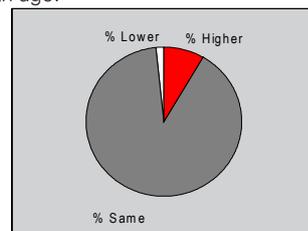
Q. Please compare the average prices you charged this month with the situation one month ago.



Output prices charged by the UAE's non-oil producing private sector companies fell in October, ending a four-month sequence of rising charges. The reduction in selling prices was modest, with 5% of survey respondents indicating price discounting. Panellists attributed the decline in charges to competitive market conditions.

Overall Input Prices Index

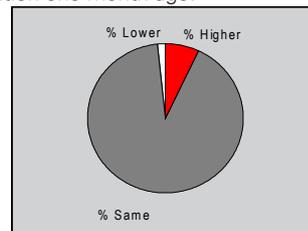
Q. Please compare your overall average input prices this month with the situation one month ago.



The seasonally adjusted Overall Input Prices Index posted above the no-change mark of 50.0 in October, pointing to ongoing cost pressures in the UAE's non-oil producing private sector. The rate of inflation eased slightly from September, but was largely in line with the long-run series average. While purchase prices rose at a slightly faster pace, staff costs increased at a weaker rate.

Input Costs: Purchase Prices Index

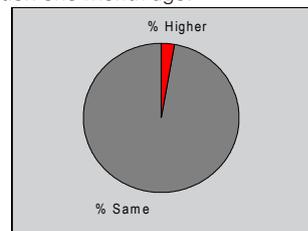
Q. Please compare the price of your purchases (volume-weighted) this month with the situation one month ago.



October data signalled a further rise in purchase prices, with exactly 7% of companies reporting an increase. Purchase costs have risen continuously since March 2010 and in October at the quickest pace in five months. Increased market demand, general inflationary pressures and higher raw material costs all contributed to the latest inflation, according to panel members.

Input Costs: Staff Costs Index

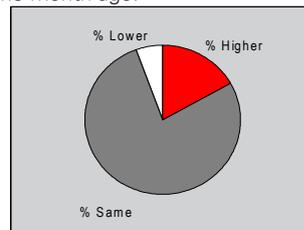
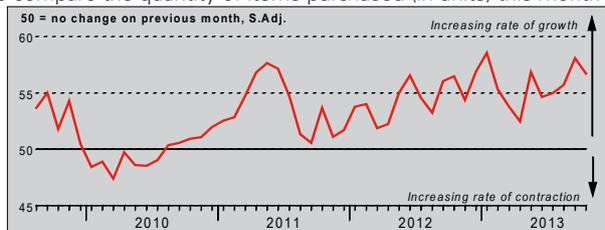
Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.



Average staff costs at the UAE's non-oil producing private sector companies continued to increase in October, extending the current sequence of rising salaries to 21 months. The latest increase in average wages was modest, with the vast majority of survey respondents indicating unchanged staff costs.

Quantity of Purchases Index

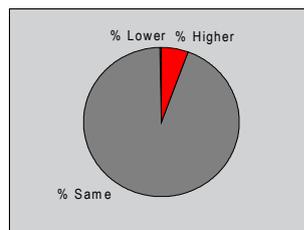
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Purchasing activity rose further during October, with 17% of companies indicating a rise in input buying. The pace of expansion eased since September, but remained above the overall series average. According to anecdotal evidence, increased new business accounted for most of the rise in input buying.

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 accumulated further in October, with the seasonally adjusted Stocks of Purchases Index registering above the neutral 50.0 mark. Companies repeatedly mentioned predicted new order growth as the main driver behind the latest rise. Input stocks accumulated at the quickest pace in three months.

International PMI summary



Source: SABB, HSBC, Markit.



Source: Markit.



Source: Institute for Supply Management (ISM).

Following a trend observed throughout the 50-month survey history, operating conditions in Saudi Arabia's non-oil producing private sector improved in September. The headline PMI registered a six-month high of 58.7, up from August's 57.5.

The Markit Eurozone PMI® Composite Output Index rose to a 27-month high of 52.2 in September, up from 51.5 in August and providing further evidence that the eurozone recovery gathered pace, after the region pulled out of the longest recession in its history.

Operating conditions in the US manufacturing sector improved further in September, with the ISM headline index posting a 29-month high of 56.2, up from August's 55.7. Non-manufacturers also reported an improvement in operating conditions, with the headline index registering 54.4, down from 58.6 in August.

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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