

IHS Markit UAE PMI®

New orders continue to rise solidly, but employment contracts

Key findings

Strong rise in new orders, despite fall in exports

Job numbers decline slightly and backlogs grow

Price pressures soften, leading to renewed fall in output charges

Data were collected 4-24 May 2021.

The UAE non-oil economy continued to recover midway through the second quarter, as domestic demand improved on the back of rising confidence surrounding the COVID-19 pandemic. Output rose at a solid pace, but job numbers continued to decline and input purchases increased only slightly. Meanwhile, cost inflation softened for the second month running, allowing for renewed discounting of output charges as businesses looked to gain new customers.

The headline seasonally adjusted IHS Markit UAE Purchasing Managers' Index™ (PMI®) – a composite indicator designed to give an accurate overview of operating conditions in the non-oil private sector economy – posted 52.3 in May, to signal a moderate improvement in business conditions and the sixth in as many months. The index was down slightly from 52.7 in April and remained below the series average of 54.1.

Nevertheless, latest data pointed to solid expansions in output and new business in May. New orders were particularly helped by improving domestic sales, whereas international orders were curbed by COVID-19 restrictions in some destinations for UAE exports. Overall new business growth slipped from April, but was still the second-fastest since August 2019.

However, some factors continued to weigh on total sales in May, with some firms highlighting that competitive pressures and uncertainty linked to the pandemic led to reduced new orders. In many cases, this led companies to lower their selling prices, resulting in a renewed (but slight) decrease in average output charges.

Business activity was scaled up in order to accommodate for

continued...

UAE PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

Commenting on the latest survey results, David Owen, Economist at IHS Markit, said:

"UAE's non-oil private sector showed further signs of improvement in May, although growth slipped marginally from April's recent high. New orders were largely supported by domestic sales, as latest data signalled a slight decrease in export orders."

"Employment numbers continued to disappoint in May, falling for the fourth month in a row. With backlogs starting to rise and demand strengthening, it is hoped that businesses will start to raise their staffing levels soon to support overall growth."

the overall rise in sales in May, although the rate of expansion slipped to a three-month low. Moreover, the increase was insufficient to prevent backlogs from rising for a second straight month.

Despite capacities coming under pressure, the vast majority of businesses kept employment numbers unchanged in May, while some firms cut their staff levels due to cash flow issues. As a result, employment fell for the fourth month in a row.

Input purchasing rose only slightly in May as a number of companies reported having sufficient stocks to meet demand. At the same time, the rate of input price inflation slowed to a three-month low, despite reports of shortages of items such as aluminium and rising transportation costs. There was also a modest deterioration in supplier performance that continued the trend seen since February.

Finally, business expectations for the upcoming 12 months climbed again in May, rising for the sixth month in a row to the highest since July 2020. Hopes of output growth were largely attributed to a recovery from the pandemic, with the Expo 2020 also cited. That said, the overall degree of optimism remained some way off the series average, as just 14% of respondents were confident of a rise in output in the year ahead.

Employment Index

sa, >50 = growth since previous month



Source: IHS Markit.

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Methodology

The IHS Markit UAE PMI® is compiled by IHS Markit from responses to questionnaires sent to purchasing managers in a panel of around 400 private sector companies. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP. The sectors covered by the survey include manufacturing, construction, wholesale, retail and services.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Purchasing Managers' Index™ (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers' Delivery Times Index is inverted so that it moves in a comparable direction to the other indices.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

May 2021 data were collected 4-24 May 2021.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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Purchasing Managers' Index™ (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.

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