

IHS Markit UAE PMI®

New business growth stalls in February

Key findings

New orders fail to rise amid fresh COVID-19 restrictions

Output expands only modestly, with job numbers largely stable

Signs of growing supply pressure as delivery times lengthen

Data were collected 11-22 February 2021.

The latest PMI survey data indicated fresh disruptions to the UAE non-oil private sector in February, as rising coronavirus disease 2019 (COVID-19) cases led to increased restrictions in parts of the economy and hampered customer sales. New business failed to rise for the first time in four months, contributing to just a modest rise in output and a broadly unchanged employment level. Business expectations improved, but only gradually as restrictions led to further uncertainty about short-term growth prospects despite hopes for a rebound in the latter half of 2021.

Firms also signalled that global supply chain delays impacted on the UAE economy in February, as lead times on inputs lengthened at the fastest rate since last April. However, the impact on costs has so far been limited, allowing companies to continue offering discounts on sales.

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 – fell from 51.2 in January to 50.6 in February to indicate a slower and only marginal improvement in business conditions.

The index stayed above the 50.0 neutral threshold largely due to the output sub-component, which continued to signal a rise in business activity in the UAE non-oil economy. However, the rate of output growth slowed from the previous month and was modest, as a number of firms commented on weaker demand trends due to stricter COVID-19 restrictions on areas such as retail and services.

These restrictions notably dampened client spending and

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:

"The tightening of COVID-19 restrictions in February had a notable impact on the UAE economy, according to PMI survey data. New orders failed to grow for the first time since last October, while output growth softened since the start of the year. Reports of weaker demand were largely led by those sectors that saw the harshest restrictions, although some firms on the production side were also hard-hit by customs delays and global shipping problems.

"The return to stricter lockdown measures meant that many firms' expectations for future output growth remained subdued in February, despite the success of the UAE's vaccine programme paving the way for a reopening of the economy later in the year. Only 6% of businesses gave a positive outlook for the next 12 months, with overall sentiment remaining one of the weakest seen in the series history."

contributed to a stalling of new order growth, following three successive months of expansion. The sector was also hit by a slight drop in export sales, after a sharp upturn was recorded at the start of the year.

In addition, some firms noted that delays to the delivery of inputs contributed to softer output growth during February. These delays were often linked to wider global supply problems, including shortages of both raw materials and transport capacity. Notably, overall delivery times lengthened at the fastest rate since April 2020. As a result, while firms managed to build inventories of purchased items again, the rate of growth was the slowest seen for three months.

On the positive side, the impact on cost pressures was limited as input prices rose only slightly over the latest survey period. Meanwhile, some firms continued to offer discounts in an effort to increase client demand, leading to a further fall in average selling charges.

Employment numbers were largely stable in February, as unchanged sales volumes meant that companies saw little pressure on capacity and were able to lower backlogs for the sixth month running. Subdued jobs trends were also linked to expectations for output in the next 12 months which, despite improving to a five-month high, remained historically weak. Firms commented that new restrictions made the near-term outlook more uncertain, although the rapid rollout of COVID-19 vaccines and projected new business gains from the Expo 2020 meant that firms were generally optimistic of an improvement in the economy later in the year.

Employment Index

sa, >50 = growth since previous month



Source: IHS Markit.

Contact

David Owen
Economist
IHS Markit
T: +44 2070 646 237
david.owen@ihsmarkit.com

Joanna Vickers
Corporate Communications
IHS Markit
T: +44 207 260 2234
joanna.vickers@ihsmarkit.com

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.

February 2021 data were collected 11-22 February 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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