

IHS Markit UAE PMI®

Downturn in business output accelerates in April

Key findings

PMI hits new record low as activity and new business fall at quicker rates

Export demand collapses amid global lockdown

Input costs fall as companies lower wage bills and purchases

Data were collected 7-24 April 2020.

April PMI data indicated an even sharper downturn in the UAE non-oil private sector, as lockdown measures in place throughout the month led to steep falls in activity, new business and export sales. Input costs decreased as companies made efforts to lower expenses, including a solid drop in employment, wage cuts, and weaker purchases. Meanwhile, the outlook for future activity reached the worst seen since August 2017.

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 for the sixth month running to 44.1 in April, down from 45.2 in March. The index set a record low for the second successive month, with the figure indicating a sharp deterioration in business performance.

Firms were heavily impacted by public health measures taken to curb the spread of coronavirus disease 2019 (COVID-19) in April. Movement restrictions and forced company closures led to a record fall in activity, as many companies lowered output and adopted working-from-home policies.

On the demand side, the restrictions led to a further collapse in new business during April, with the rate of decline extending slightly from March's previous record. Firms saw a slowdown in client activity, whilst shop closures and movement restrictions led to a sharp fall in consumer demand. That said, some businesses noted a rise in online sales.

Tourism declined sharply again, as countries worldwide imposed similar restrictions amid the virus pandemic. Along with reduced demand from foreign clients, this led to a steep fall

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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 full month of lockdown measures and business restrictions led to a steep decline in UAE non-oil private sector activity in April. Shop closures and restrictions in domestic and international travel had huge repercussions on new business, which fell at an unprecedented pace after also declining sharply during March.

"Average prices charged by UAE businesses fell again in April. The rate of reduction accelerated, in part reflecting the loss of sales. To recover costs, many firms reduced employment or asked employees to take salary cuts and unpaid leave, with spending on inputs also sharply lowered.

"Business sentiment reached the lowest in nearly three years, reflecting heightened uncertainty from the COVID-19 crisis. While firms on balance remain optimistic of growth in the coming year, some panellists were apprehensive, noting that the risk of an economic downturn was increasing."

in export business, one that was unprecedented in the survey history (since August 2009).

Employment in the non-oil private sector was pared back again in April amid lockdown measures. Companies often highlighted efforts to reduce staffing to minimal levels whilst economic activity remained weak. Although solid, the rate of job shedding was slower than that seen in March. Backlogs additionally rose at a much softer rate, mainly due to weaker levels of new business.

As well as workforce reductions, several companies asked employees to take unpaid leave and salary cuts in order to reduce staff costs. Firms made further efforts to lower expenses, including a steep drop in purchasing activity. Consequently, overall input costs fell at a modest pace, allowing businesses to reduce selling prices for the nineteenth month running.

Delivery times at UAE firms lengthened for the second successive month in April amid the COVID-19 pandemic. This was largely attributed to border closures and reduced activity at vendors. As a result, firms were slow to receive new inputs, leading to a solid fall in inventories.

Lastly, business expectations for the year ahead weakened to a 32-month low. Firms were still positive overall of an uplift in output, although the level of sentiment was near to the series historic low in October 2016. Those businesses giving cautious outlooks expressed worries that the COVID-19 pandemic would cause a protracted downturn in the economy.

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.

April 2020 data were collected 7-24 April 2020.

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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