

## IHS Markit UAE PMI®

# Business conditions deteriorate again in February

### Key findings

Output contracts for first time since January 2010

New orders decline for second month running and exports stall

Business expectations slip to near two-year low amid economy fears

UAE's non-oil private sector economy remained in the doldrums in February, latest PMI® data showed, as overall business conditions declined for the second month running. Firms began to limit activity due to weaker new orders, while employment fell again amid efforts to streamline costs. Consequently, output expectations dropped sharply to a near two-year low, dampened by fears around the impact of the coronavirus outbreak on exports and supply chains.

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 49.1 in February, down slightly from 49.3 in January and at its lowest since August 2009. The figure signalled a second successive month of deterioration, driven by declines in output, new orders and employment.

Most notably, output levels contracted for the first time in over ten years, after stagnating in January. Companies reported that continued demand weakness led them to restrict activity, although the rate of reduction in output was only moderate. Input buying and stock levels subsequently declined.

Meanwhile, order book volumes decreased for the second month running, with the rate of reduction quickening from January. Firms often attributed the downturn to a weak domestic economy. In addition, the coronavirus outbreak in China reportedly led to a slight drop in export orders, the second in five months, which weighed on overall sales.

The virus outbreak also caused delays of several input deliveries at UAE firms, such that overall vendor performance improved

*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 suffered another blow in February, with latest PMI data indicating a further deterioration in business conditions. The headline reading of 49.1 was the lowest since August 2009, reflecting declines in output, new orders and employment."*

*"Supplier performance was meanwhile hit by the coronavirus outbreak in China, with PMI surveys globally noting significant delays to freight deliveries, as well as weaker export demand. With many UAE firms also suffering from credit issues, backlogs rose for the fifth month running."*

*"While many firms remained upbeat for the year ahead, business expectations were hit by fears that the virus outbreak could damage an already struggling domestic economy. As a result, confidence for future output fell to a near two-year low."*

only fractionally in February. This compared with a solid improvement in lead times at the start of the year. These delays, combined with ongoing credit issues at many businesses, led to a fifth consecutive month of rising backlogs.

UAE businesses chose not to increase workforce numbers, with employment instead dropping for the second month in a row due to further declines in new orders and efforts to streamline staff costs. The rate of reduction in jobs was marginal though and slower than in January.

Meanwhile, output prices decreased at the softest pace for 17 months, with the rate of decline slowing considering since the start of the year. While demand remained weak, a number of firms ended recent price discounting strategies amid efforts to improve profit margins. At the same time, the rate of overall input cost inflation softened to a six-month low, mainly linked to weaker oil prices.

With firms still observing poor domestic conditions, and noting fears of a marked impact from the coronavirus outbreak, expectations for future activity were down solidly in February. The degree of optimism was the weakest since March 2018, albeit still positive overall, with about 39% of respondents expecting output to grow over the next 12 months.

### 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.

February 2020 data were collected 12-24 February 2020.

For further information on the PMI survey methodology, please contact [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com).

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### About PMI

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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