

IHS Markit UAE PMI®

Material shortages and travel restrictions curb non-oil growth in June

Key findings

PMI drops slightly to four-month low

New order growth weakens as export sales fall sharply

Price inflation picks up amid input shortages

Data were collected 11-24 June 2021.

The UAE non-oil private sector saw a slightly weaker improvement in business conditions in June, as the PMI slipped to a four-month low amid a slower upturn in new orders. Pandemic-related measures and flight cancellations led to a sharp fall in sales from abroad, while output growth was hampered by raw material shortages. These shortages pushed up input prices at the quickest rate in three months, leading firms to raise output charges for only the second time in nearly three years.

The outlook for future activity meanwhile improved for the seventh month in a row, supporting the first rise in employment since January. Nevertheless, sustained uncertainty about the path of the pandemic meant that optimism remained relatively mild.

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 – slipped from 52.3 in May to 52.2 in June, to signal a moderate expansion in the non-oil economy that was the slowest since February.

The rate of output growth was unchanged at the end of the second quarter, as rising activity linked to higher new order inflows was often countered by a lack of raw material supply. These shortages also led to a lengthening of average lead times, albeit one that was the least marked in five months.

Price pressures were driven higher by supply problems in June, with the latest data signalling the fastest rise in purchase costs for three months. Higher steel and concrete prices were often

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:

"Business conditions continued to improve at only a gradual pace in June, adding evidence to a mixed initial recovery from COVID-19 in the UAE non-oil sector. Firms often mentioned that material shortages had hampered output growth, while new sales were curtailed by travel restrictions.

"As a result, the pace of output growth remained far off the average level seen since data collection began in 2009, leaving business expectations relatively subdued despite another uplift since May. Further boosts to confidence and a drop in COVID-19 cases are likely needed to push the economy into another gear."

cited by survey panellists, as well as a rise in transportation charges.

Having built up stocks in recent months, many firms chose to hold off new purchases during June, leading to the first fall in input buying since last November. Despite this, the arrival of previously bought items led to the strongest expansion of inventories for ten months.

Demand conditions were mixed in June. While overall new orders increased, the rate of growth slipped for a second month running. Many firms saw an improvement in client demand as the impact of the pandemic eased, but others reported that flight cancellations and global travel restrictions harmed tourism prospects. Most notably, new export orders fell sharply and at the quickest rate for just over a year.

Nevertheless, sustained sales growth and a slightly improved outlook for future activity encouraged firms to expand their workforce numbers in June. Whilst only marginal, the increase in staffing was the first seen since January and the quickest for nearly two-and-a-half years. This helped firms to lower backlogs after a two-month run of accumulation.

Finally, the latest data pointed to a renewed increase in output charges for only the second time in 33 months. Efforts to pass through rising input costs to clients outweighed discounting at firms faced with heavy competition. However, the overall rise in charges was fractional.

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.

June 2021 data were collected 11-24 June 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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