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IHS Markit UAE PMI®

PMI slips to decade low in November

Key findings

New business falls for first time in series history

Output expands at slowest pace since September 2011

Selling prices decline sharply

Growth in non-oil private sector business conditions softened to the weakest in over ten years in November. UAE firms saw the first monthly decline in new orders on record, despite further cuts to selling prices aimed at improving demand. Output growth slowed to a modest rate, while payroll numbers fell marginally. Nevertheless, business expectations improved to a four-month high.

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 51.1 in October to 50.3 in November, indicating a marginal improvement in the health of the sector. The reading was the lowest observed since August 2009 and just above the 50.0 mark that separates growth from contraction.

The latest survey data showed the first month-on-month decline in new business at UAE non-oil companies in the series history. Slowing market conditions led customers to limit order volumes, according to surveyed firms. That said, the overall reduction was marginal. More positively, panellists saw a renewed increase in new export orders, as international markets reportedly fared better than the domestic one.

Nevertheless, the drop in total new orders contributed to a slowdown in activity growth in November. Output rose at the softest rate in over eight years, with firms that signalled an uplift in activity relating this to ongoing projects. The weak expansion in output led to a build-up of input stocks for the first time in four months. As such, purchasing activity was reduced further.

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:

"Strong competitive pressure was again a key factor in the UAE PMI in November, with the headline reading falling to its lowest in over ten years. Price discounts that led to marked surges in demand earlier this year are now relatively ineffectual, illustrated by the first drop in new business since the survey began despite a sharp cut in charges. While the overall decline in sales was marginal, it offered a first hint that the non-oil private sector might endure a period of contraction.

"Whether or not this occurs, businesses remain positive that the Expo 2020 will bring a steady stream of demand to the sector. With current conditions remaining subdued, it appears that such a boost would greatly benefit the economy."

At the same time, ongoing issues with payments meant that many suppliers held off from making deliveries. Vendor performance thus failed to improve for the first time in the series history. Backlogs were also affected by liquidity issues, rising at the quickest pace since June.

Meanwhile, employment levels fell at a fractional pace in November. With sales dropping, some panellists sought to reduce payroll in order to streamline costs, which offset the hiring of extra workers at other firms. Subsequently, staff costs rose only marginally during the month.

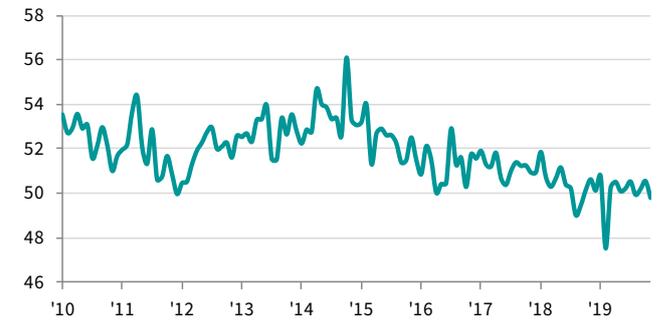
Purchase prices also increased at a relatively subdued pace, though the rate of inflation accelerated from October. Inputs marked up in price included equipment and foodstuff.

With cost pressures remaining subdued, firms continued to lower selling prices in November. The latest reduction was sharp and extended the current sequence to 14 months. As has been the case recently, respondents highlighted that strong competition forced them to offer discounts. That said, the rate at which charges fell softened for the first time since July.

Finally, despite growth slowing, firms were more optimistic for the year ahead during November. Most panellists still expect output to rise over the coming 12 months, with the Expo 2020 remaining a key feature of the economic outlook.

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.

November 2019 data were collected 12-25 November 2019.

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. To learn more go to ihsmarkit.com/products/pmi.html.