Business conditions improve again in July, but growth remains mild

Key findings

Output and new business rise for second month running

Job numbers fall further as firms seek to lower payroll costs

Charge discounting accelerates as businesses reopen

The UAE non-oil private sector registered a further marginal recovery in business conditions during July amid a greater easing of lockdown restrictions. Rising new business drove a solid upturn in activity. However, firms continued to lower employment in an effort to reduce payroll costs, while output charges fell at a sharper pace.

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 - rose from 50.4 in June to 50.8 in July, to signal a second successive monthly improvement in business conditions. However, the rate of growth remained marginal and represented only a mild recovery from the downturn experienced by UAE businesses as a result of the coronavirus disease 2019 (COVID-19) pandemic.

The further easing of lockdown restrictions helped to improve customer demand and drive an upturn in new business at the start of the third quarter. Following June’s expansion, the latest increase was unchanged and solid overall. However, firms saw some weakness in sales to foreign customers with new export orders falling modestly, erasing the gains made in June.

Nevertheless, the rise in total demand encouraged UAE firms to expand output again in July. The rate of growth was the fastest seen in ten months, albeit still signalling a relatively mild improvement since lockdown. According to survey respondents, the starting of new projects and an increase in marketing partly drove the rise in activity.

Comment

Commenting on the latest survey results, David Owen, Economist at IHS Markit, said:

"UAE business activity continued to expand at a solid pace in July, as firms enjoyed another upturn in new work. The further reopening of the economy, including the lifting of curfew measures, helped to reinvigorate consumer spending. It was also particularly evident that future output sentiment depended on how demand recovered in the coming months, as firms hope that the economy will make strides back to pre-COVID-19 output levels over the second half of 2020.

"Employment fell for the seventh month in a row, however, amid weak capacity pressures and efforts by companies to lower workforce costs. This acted as a drag on overall business conditions, as the headline PMI reading of 50.8 indicated just a marginal improvement.

"Notably, the rate at which selling charges fell gathered pace and was solid in July, mainly due to growing competition as more businesses returned to more normal operations.”
Whilst output and new orders rose further in July, hiring intentions among UAE businesses remained weak as employment declined for the seventh month in a row. Firms were reportedly able to cover the rise in new work with existing workforces, as signalled by a stable level of backlogs. At the same time, company requirements to offset business costs led several respondents to cut payroll numbers.

As a result, staffing costs were broadly level in July. Despite this, overall input costs ticked up due to a rise in purchase prices, with panellists mentioning that metals and machinery parts were up in price. Rising demand for inputs was also noted as a contributing factor. Meanwhile, selling charges fell at a faster pace, reportedly due to a greater degree of competition in the non-oil private sector as more businesses reopened.

Despite further government steps to restart the economy, sentiment regarding the year ahead weakened during July. The level of optimism was only slightly higher than May’s recent low. Nevertheless, the overall outlook for activity remained positive, encouraging businesses to build up input stocks in anticipation of a rise in sales.

Supply chain conditions continued to improve, as evidenced by back-to-back reductions in lead times in June and July. The latest improvement was solid and the quickest since September 2019. Firms particularly mentioned that travel restrictions were much weaker than during the height of the pandemic, allowing suppliers to increase their services.

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.

July 2020 data were collected 13-27 July 2020.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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