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IHS Markit UAE PMI®

Growth in non-oil economy remains mild in January

Key findings

Business activity rises solidly, but sales growth weakens

Employment increases for first time since December 2019

Output expectations improve, but only slightly

Data were collected 12-25 January 2021.

Latest PMI data for the UAE pointed to a slight improvement in non-oil operating conditions at the start of 2021, as expansions in both output and new orders supported a renewed rise in employment. However, the pace of demand growth eased from December amid increased uncertainty around future coronavirus disease 2019 (COVID-19) restrictions, as local and global cases soared. Meanwhile, expectations for future activity remained weak, despite improving to the highest for three months.

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 51.2 for the second month running in January. Whilst being the joint-highest reading since August 2019, the index signalled only a marginal improvement in business conditions since the end of last year. The index also remained well below its average of 54.2.

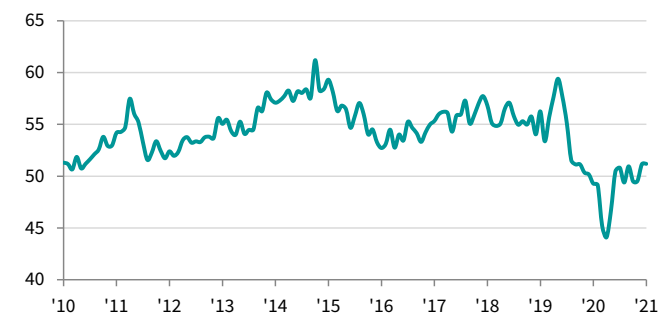
Businesses in the non-oil economy reported a solid expansion in activity during the month, which they associated with an increase in client sales and a resumption of construction projects. The rate of output growth eased slightly from December's five-month high, but remained one of the quickest seen since the downturn linked to the COVID-19 pandemic.

The amount of new business received by UAE companies also increased in the latest survey period, in part due to higher export sales as respondents commented on rising orders from the Gulf region. That said, the pace at which total sales increased was only modest and weakened from December, leading some firms to concentrate work on fulfilling outstanding orders.

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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 UAE non-oil private sector continued to record soft growth in the new year, with the PMI unchanged at 51.2 from December. Compared to the results seen throughout 2020, the latest data indicated more favourable business conditions. However, with firms still having to make up lost ground from the COVID-19 lockdown, the pace of recovery so far appears subdued."

"The rapid roll-out of COVID-19 vaccines in the UAE should help to restore confidence in markets over the first half of 2021, although firms were still relatively downbeat about future growth in January. Higher case numbers provided concerns of tighter restrictions in the short-term, which could present further challenges for businesses."

"On the upside, employment edged into positive territory for the first time in over a year, showing that firms are gaining more confidence to expand their operating capacity."

The softer rise in sales also tempered firms' predictions for future activity. Despite the relatively quick roll-out of COVID-19 vaccines, business expectations picked up only slightly from December and was the third-weakest in the series history (since April 2012). Some firms noted that the recent uptick in COVID-19 cases could lead to tighter restrictions on businesses and a fall in output in the short-term.

On the positive side, there was a slight uplift in employment in January, ending a year-long sequence of job shedding. In addition, higher activity encouraged an expansion in purchasing activity, with inventories also rising as a result.

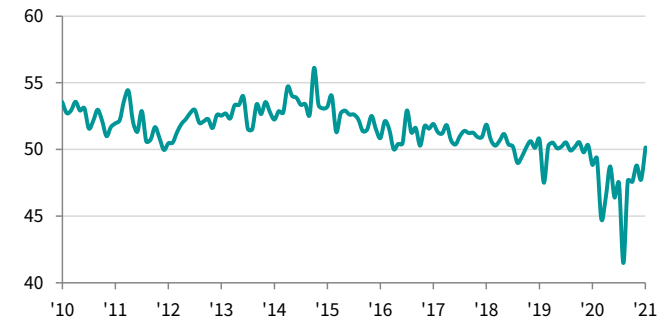
Meanwhile, input costs fell at the quickest rate since last April, linked to a reduction in staff costs and a softer rate of purchase price inflation.

Average prices charged in the non-oil sector continued to decline at the start of the year, although the rate of discounting was the softest in the current 28-month sequence of reduction. Some firms mentioned efforts to stimulate demand, but others were encouraged by rising sales to up their charges.

Vendor performance improved for the third successive month in January, despite some reports of input shortages and a tightening of global supply chains. Firms commented that vendors were generally able to speed up deliveries to meet higher input demand.

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.

January 2021 data were collected 12-25 January 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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