IHS Markit Dubai PMI®

Growth in Dubai economy softens during August

Key findings

Output expands at weakest rate in three months of recovery

Job cuts pick up from July as demand growth slows

Charge discounting reaches strongest since October 2019

The latest Dubai PMI data signalled a further improvement in the performance of the non-oil private sector in August, extending the upturn that was seen in July as business conditions continued to recover after the coronavirus disease 2019 (COVID-19) related lockdown. However, the latest rise in output was the softest for three months, while growth in demand also slowed. As a result, job cuts quickened from July, while firms lowered selling prices at the fastest rate since October last year.

The headline IHS Markit Dubai Purchasing Managers’ Index™ (PMI®) is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers’ delivery times and stocks of purchased goods. The survey covers the Dubai non-oil private sector economy, with additional sector data published for travel & tourism, wholesale & retail and construction.

The seasonally adjusted IHS Markit Dubai Purchasing Managers’ Index™ (PMI®) posted above the 50.0 neutral mark for the second month running in August. At 50.9, the index was down from 51.7 in July, signalling a slower and only marginal improvement in business conditions, in part due to weaker rises in output and new business.

Across the three monitored sectors, Construction and Wholesale & Retail recorded softer growth in August. Travel & Tourism registered a downturn in business conditions, but this remained modest overall and the speed of decline was unchanged from July.

Companies in the Dubai non-oil sector expanded output further in August. The increase in activity was the third in as many continued...

Comment

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

"Dubai’s non-oil economy saw a disappointing slowdown in growth in August, as the PMI fell for the first time since April. Business activity rose solidly, but the expansion was markedly weaker than in July, which will dent hopes of a swift recovery from the COVID-19 pandemic. Firms have not seen a full-scale uplift in demand to pre-pandemic levels and many commented that market conditions remained strongly depressed. "Demand weakness drove a further cut to jobs in August, the sixth in as many months and one that was broadly level with the trend over this COVID-affected period. Business optimism weakened, with some firms expecting activity to improve but others citing that the unpredictability of the recovery could lead to business closures."
months, albeit the slowest in this period. Where firms raised output, this was largely attributed to higher demand and an improved market situation following the easing of lockdown measures.

New work increased solidly in August, with the rate of growth only slightly weaker than July’s eight-month high. Nevertheless, this marked the first time since April where the respective index has weakened, suggesting a slowing recovery in the economy. Firms found that despite a rise in sales, customer demand remained subdued in general.

Meanwhile, job cuts at Dubai firms quickened to a solid rate as companies continued to reduce capacity and employee costs. The fall in workforce numbers was broadly in line with the average over the six-month sequence of decline.

Sentiment toward future output also weakened in August, dropping to the lowest in three months. That said, it remained stronger than at the height of lockdown measures in April.

Input costs ticked up midway through the third quarter, although the rate of inflation was weak. At the same time, firms put further pressure on margins by lowering selling prices in a bid to improve new business. The decline in charges was the quickest for ten months, and sharp overall.

Methodology
The IHS Markit Dubai PMI™ is compiled by IHS Markit from responses to questionnaires sent to purchasing managers in a panel of around 600 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.

August data were collected 12-24 August 2020.

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

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