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## IHS Markit UAE PMI®

# Business activity rises solidly in June, as demand growth restored after lockdown

### Key findings

Output levels grow at strongest pace since October 2019

Total new orders and foreign sales rise after record falls in April

Cost-cutting spurs further solid reduction in employment

Data were collected 12-24 June 2020.

The UAE non-oil private sector enjoyed a return to growth in June, latest PMI data showed, as the country continued to relax measures designed to stop the spread of coronavirus disease 2019 (COVID-19). New business rose at a solid pace, driving the first increase in output since last December.

Nevertheless, companies are still feeling the after-effects from the lockdown measures, as efforts to cut costs further led to another fall in employment, while salaries were also reduced. Rising input demand meanwhile led to a rise in purchase prices, increasing overall costs for the second month running.

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 to 50.4 in June, to signal the first improvement in operating conditions for six months. The upturn was also the strongest since October 2019, but still much weaker than the series average, and slight overall.

The headline index was also slightly affected by the suppliers' delivery times component, which was above 50.0 for the first time since February and indicated a solid improvement in vendor performance over the month. Relaxed measures on economic activity and movement helped suppliers to partly return to normal services, causing lead times to fall since May.

A more accurate picture of the recovery was given by the output sub-index, which indicated a solid rise in output at non-oil businesses that also marked the first monthly expansion seen in 2020 so far. New orders grew at a solid rate as well, the fastest since August 2019, as client demand both at home and

*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:

*"At 50.4 in June, the UAE PMI signalled the first stage of recovery in the non-oil private sector. More firms are now seeing an increase in activity as opposed to a decline, while new orders grew at the fastest rate in ten months. Businesses also saw an improvement in export conditions, as foreign new orders rose for the first time since January, albeit tentatively.*

*"Despite this positivity, looking at the data over the past few months shows just how large a rebound in output is required to return the UAE economy to pre-COVID levels. Renewed growth in June marked only a slight reprieve from the downturn that reached its peak in April.*

*"In addition, evidence from panellists suggested that balance sheets remain in a tricky situation, as firms made another solid cut to workforces in order to reduce costs. Thus it may be a long path to recovery for the labour market."*

abroad improved following the relaxing of lockdown measures. Nevertheless, these upticks represented only a partial reprieve from the historic downturns in activity and sales as a result of the COVID-19 pandemic.

Furthermore, despite the rise in sales, efforts to limit costs meant firms continued to lower employment during June. The rate of job shedding accelerated from May to one of the quickest seen in the series history. As a result, capacity at many businesses remained low, leading to a ninth successive rise in backlogs that was also the strongest for three months.

Staff costs were reduced in June, albeit at a softer rate than in the previous month. Meanwhile, purchasing costs increased for the second month in a row, in part due to higher demand for inputs as firms started to see an improvement in new business. Overall cost pressures rose marginally, whereas selling charges fell again in a sequence stretching back to October 2018. Some firms reported offering promotions in order to help client demand rebuild following the pandemic.

Looking forward, the outlook for future activity improved for the first time since March, as more businesses were optimistic that output will expand in the year ahead. This was often related to the relaxation of COVID-19 measures, which many hoped will spur the recovery in demand. This optimism for greater sales drove a slight increase in input stocks for the second month in a row.

### 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 2020 data were collected 12-24 June 2020.

For further information on the PMI survey methodology, please contact [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com).

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### About PMI

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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