

IHS Markit UAE PMI®

Growth remains weak in October

Key findings

PMI stays at 51.1, joint-lowest since May 2010

New business rises at softest pace on record, while export sales fall

Selling charges decline at steepest rate in series history

October PMI data signalled another weak month for business conditions in the UAE non-oil private sector economy. New business growth slipped to a new record low, with a decline in foreign sales adding to firms' difficulties at the start of the fourth quarter. Output levels grew at a relatively subdued pace, with businesses also restraining purchasing activity. To restore sales, output charges were reduced again, and at the fastest rate in the series history, despite a second consecutive rise in cost burdens.

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 – was unchanged at 51.1 in October, remaining at its lowest level since May 2010. Overall, the reading pointed to a slight improvement in business conditions.

Curtailing growth at the start of the fourth quarter was the weakest increase in new work at UAE businesses in the series history. The rate at which sales rose was fractionally slower than in September, as firms reported softening demand after relatively strong growth rates earlier this year. Market competition continued to dampen new business both at home and abroad, according to panel members, with sales to foreign clients falling for the first time in 19 months.

As such, firms placed a greater emphasis on promotional activity in October, with several companies reducing selling prices from September. In fact, the rate of decline accelerated to a sharp pace that was the quickest recorded in the survey history.

Activity levels rose at a relatively weak rate in the latest survey period, amid slowing demand conditions. This translated into

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:

"UAE companies continued to ease back from the recent growth momentum earlier this year, with activity levels rising at the weakest rate since 2012. The amount of new work also remained subdued, as competition meant that sales increased only marginally from September."

"Cash issues were again a factor hampering firms in October. Some panellists noted that a lack of liquidity stalled the delivery of sold products, leading to higher backlogs, while delayed payments to suppliers disrupted supply chains."

"However, the most problematic indication from the survey was that further reductions in output charges are failing to boost sales. Firms have responded with an even larger price drop, the sharpest on record, but it seems that demand weakness is lingering in the private sector."

the first decrease in input purchases since July 2010, as firms looked to streamline their inventories.

At the same time, issues with payments at a number of firms led to a slight increase in outstanding business. Lead times were also impacted, improving at the weakest rate in the survey history.

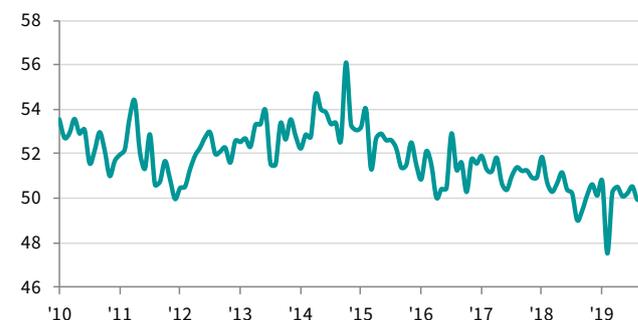
Employment rose for the second consecutive month in October. However, the rate of growth remained marginal. While some UAE firms raised payroll numbers amid efforts to adapt business strategies in a weaker sales environment, others reduced their labour in order to cut costs.

Overall input prices rose for the second month running, although the pace of inflation was marginal and softer than in September. This was mainly due to a slower increase in purchasing prices. A few firms saw a rise in raw material prices, including oil, whereas most panellists indicated no change in costs.

Despite tough market conditions at present, business expectations towards future output improved in October. Firms were positive that new strategies and greater investment ahead of the Expo 2020 would lead to higher levels of activity. That said, the degree of optimism remained weaker than the average for 2019 so far.

Employment Index

sa, >50 = growth since previous month



Source: IHS Markit.

Contact

David Owen
Economist
IHS Markit
T: +44 2070 646 237
david.owen@ihsmarkit.com

Joanna Vickers
Corporate Communications
IHS Markit
T: +44 207 260 2234
joanna.vickers@ihsmarkit.com

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.

October 2019 data were collected 11-25 October 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.