

IHS Markit UAE PMI®

Business conditions deteriorate at record pace in March

Key findings

New orders fall sharply as COVID-19 pandemic grips global markets

Output, employment and purchases lowered to restrain overall costs

Supplier delivery times lengthen at fastest rate in series history

Business conditions in the UAE non-oil private sector deteriorated at a record pace in March, amid the coronavirus disease 2019 (COVID-19) pandemic. Firms reported sharp reductions in output, new orders and employment, whilst seeing notable delays to supplier deliveries.

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 - dropped to a record low of 45.2 in March, from 49.1 in February, to signal a sharp deterioration in operating conditions at the end of the first quarter. This marked the third monthly decline in the health of the non-oil private sector in a row.

The headline index was notably dragged down by the new orders sub-component, which fell at the quickest pace on record to indicate a substantial drop in new business at UAE non-oil companies. This was widely linked by panellists to the impact of the COVID-19 pandemic, in particular on tourism, consumer demand and exports. Border controls also meant that trade with foreign clients was down sharply since February.

The decline in overall demand led firms to take steps to reduce activity and costs in March. Output was reduced for the second month running, and at a faster pace compared to February. However, part of the downturn was offset by higher activity at food sellers amid greater bulk-buying from consumers.

In addition, firms continued to lower overall employment, extending the current period of decline to three months. The latest decrease was the sharpest on record. As well as businesses

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's non-oil private sector suffered a sharp decline in business conditions in March, accelerated notably by the COVID-19 pandemic. New business volumes fell at a steep pace, driven by lower customer sales, reduced tourism and weaker trade as countries across the world closed borders.

"Firms rapidly took measures to ease cost pressures, lowering activity, purchases and workforce numbers. As a result, there was little change in total input costs overall.

"Meanwhile, the closure of airports in the UAE and working-from-home policies, as seen across the globe, are likely to extend the downturn into April, particularly as there is no end in sight to the pandemic."

shedding jobs, many asked employees to reduce hours in order to further minimise costs.

The downturn also extended into firms' buying activity in March, as purchases were reduced slightly from the previous month. Stocks of inputs were also limited amid weaker demand trends and a slowdown in delivery times caused by the COVID-19 outbreak. Lead times lengthened at the quickest pace in the series history, albeit only moderately overall.

Meanwhile, softer demand meant that clients of UAE businesses struggled to pay for current sales in the latest period, leaving those orders on hold. As a result, the volume of outstanding work increased at the quickest rate for over a year.

Overall input costs were broadly stable over the course of March, as efforts to reduce costs helped to offset higher raw material prices at some suppliers. Firms also noted that a slump in oil prices helped to ease total expenses.

Output prices were subsequently lowered for the eighteenth month running, as firms sought to remain competitive in the domestic market. The rate of charge reduction quickened from February.

Future output expectations remained at a relatively downbeat level compared to the past two years in March, despite strengthening slightly from February's recent low. The Expo 2020 remained a key source of optimism, though some were concerned of its viability in a potentially weak year for global growth.

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.

March 2020 data were collected 12-25 March 2020.

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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