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IHS Markit UAE PMI®

Economic recovery picks up pace with sharp uplift in business activity in March

Key findings

Output growth reaches 20-month high

Boost to construction work supports solid upturn in sales

Input prices rise at quickest rate since November 2018

Data were collected 12-25 March 2021.

UAE non-oil business activity grew at the quickest rate since July 2019 in March, helped by a renewed increase in new business inflows and a sharp pick-up in the construction sector. However, supply-side constraints were apparent as delivery times lengthened and input availability worsened, leading to a marked rise in overall cost pressures.

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 by two index points from 50.6 in February to 52.6 in March, indicating a solid upturn in business conditions and one that was the sharpest for 20 months. The reading also extended the current run of expansion to four months, the longest seen since the end of 2019.

The key driver of the headline figure in March was the Output Index, which registered its highest reading for over a year-and-a-half and pointed to a sharp uplift in non-oil activity. After a subdued trend for sales in February, when new business growth stalled, the latest data signalled an increase in demand as the coronavirus disease 2019 (COVID-19) vaccine roll-out reportedly boosted business confidence and spending. Efforts to restart construction work was also a key factor to growth, with respondents in this sector noting a resumption of old projects and a rise in new work.

Hopes that COVID-19 restrictions will be eased in the coming months, meanwhile, contributed to a further improvement in business expectations. The year-ahead outlook for activity improved for a fourth successive month and was the highest since July 2020, although it remained subdued compared to the

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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:

"Improving construction sector activity acted as a sorely-needed boost to the UAE non-oil economy in March, with the PMI gaining ground and posting its highest reading since mid-2019. The PMI has also now been above the 50.0 no-change mark in each of the latest four months, signalling increased momentum in the economy's recovery. Likewise, business confidence improved to an eight-month high, with vaccine optimism driving confidence in future activity."

"There is growing concern surrounding supply-side factors, however, with global delivery delays having built up during the first quarter of the year. UAE businesses are now starting to see the effects, as input price inflation ticked higher amid rising raw material prices and shipping fees. Firms struggling to contain costs may find this acting as a resistance to future output growth as COVID-19 restrictions continue to unwind and new orders start to improve."

series trend (since 2012).

While new order volumes rose, businesses were still hesitant concerning input buying decisions in March. In fact, the rate of purchasing activity growth slowed to a four-month low, with many panellists citing that high stock levels and supply shortages led them to cut their purchases. Delivery times on raw materials and key components lengthened for a second straight month, due in part to growing pressure on global supply chains and input availability.

Input costs were notably affected by these supply issues, as the pace of inflation accelerated to the fastest since November 2018. Firms also commented on a rise in transport costs linked to a dearth in global freight container supply. In spite of this, discounting efforts continued, although the pass-through of higher costs to clients at some firms meant that the overall decline in charges was the softest for two-and-a-half years.

Some companies looked to offset rising cost pressures through staff reductions in March, resulting in a slight drop in employment across the non-oil sector. Nevertheless, excess capacity built up during the pandemic meant that some firms were able to lower backlogs, with the pace of depletion accelerating slightly from February.

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 2021 data were collected 12-25 March 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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