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IHS Markit UAE PMI®

Demand growth weakens to record low in September

Key findings

New orders increase at softest rate in series history

Activity growth remains near six-year low

Selling prices fall further, despite rise in input costs

Business conditions in the UAE non-oil private sector improved at a softer pace for the fourth month running in September, with output growth remaining relatively weak amid the slowest increase in new orders in the series history. Firms responded with another round of price discounting, despite a stronger increase in overall input costs, while also noting a marginal rise in purchasing activity. Sentiment meanwhile weakened to the lowest in seven months.

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 – fell from 51.6 in August to 51.1 in September, continuing its downward trend from the relatively high readings earlier this year. The figure signalled the weakest improvement in the health of the private sector since May 2010, amid a slowdown in demand growth.

In fact, the rate at which new orders increased was the softest since the series began over ten years ago. Companies noted that slowing market conditions led to a reduction in customer orders during the month. The slowdown was further evident in foreign sales, which grew at the most subdued pace since February.

As a result, UAE companies reported another relatively weak uplift in private sector output during September. The expansion was slightly faster than in August, but was the second-softest in over six years. Nevertheless, a marginal rise in demand, as well as greater marketing activity, contributed to a solid increase in output overall.

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:

"The UAE non-oil economy continued to lose steam at the end of the third quarter of 2019. After comparatively strong demand growth earlier this year, September data signalled the weakest monthly upturn in new orders in the survey history. Companies reported further competitive pressures, while also seeing a slowdown in customer movement despite sustained price discounting.

"With this in mind, businesses were more downbeat towards the one-year outlook. Sentiment eased to the lowest in seven months, but was still stronger than the series average, with the Expo 2020 remaining a key source of optimism among panellists."

At the same time, purchasing activity increased only slightly, whilst firms also left stocks of inputs unchanged from the previous month. This allowed vendors to improve their delivery times, albeit at a softer pace than in August. In addition, the vast majority of firms kept employment unchanged, while only a few companies hired additional workers on the back of higher output requirements.

Meanwhile, a slower rise in new orders led firms to concentrate on reducing backlogs. The aggregate level of work-in-hand fell for the first time since December 2016, but only marginally.

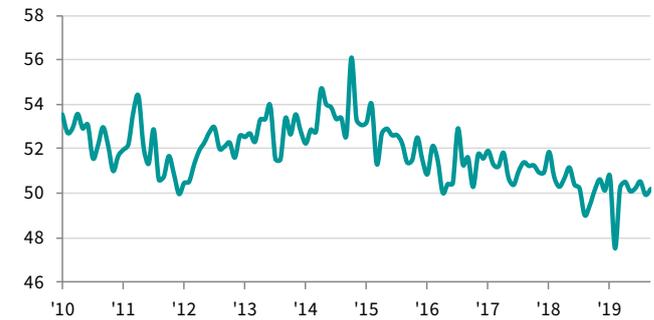
Once again, output charges at UAE companies were lowered over September. Latest data indicated a solid reduction in prices, the twelfth in as many months, and the fastest since April. This was commonly attributed to growing competitive pressures.

At the same time, overall input prices faced by these firms increased modestly, after no change was recorded in August. Panellists found that higher raw material prices led to the mark-up, with staff costs little-changed from the previous month.

As such, business sentiment weakened at the end of the third quarter, with more than half of all respondents predicting unchanged output levels in 12 months' time. Expectations were stronger than the series average, however, with many firms still hoping that new order growth will rebound and lead to greater business activity.

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.

September 2019 data were collected 12-24 September 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.