

IHS Markit UAE PMI®

Employment falls at record pace in August

Key findings

Output growth at UAE non-oil firms drops to three-month low

Job cuts steepest in 11-year survey history as outlook worsens

Selling prices fall at sharpest pace since December 2019

Data were collected 12-24 August 2020.

The UAE non-oil private sector economy suffered its first decline in business conditions for three months in August, latest PMI data showed, as record job cuts stifled the sector's recovery from the impact of the coronavirus disease 2019 (COVID-19) pandemic. Growth in business activity slowed from July and was marginal, as sales rose solidly but were supported by the quickest drop in output charges since the end of 2019.

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 below the 50.0 mark separating growth from contraction in August. At 49.4, down from 50.8 in July, the headline index signalled a slight deterioration in business conditions, ending a two-month sequence of growth.

That said, the Output and New Orders sub-indices indicated that activity and demand continued to expand during August. Firms reported a solid upturn in new business inflows, which was primarily down to higher domestic spending as export sales declined for the second month in a row.

However, rising levels of demand in part reflected steeper price discounting. Output charge deflation reached its strongest pace since December 2019, as businesses made further efforts to recover sales lost during the COVID-19 lockdown.

Business activity meanwhile rose for the third successive month, although the rate of expansion slowed to just a marginal pace. Despite stronger output, several firms mentioned that markets had generally not recovered to pre-COVID-19 levels of activity.

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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:

"While business activity expanded for the third month in a row in August - albeit mildly - jobs data imprinted fresh concerns for the UAE non-oil private sector economy. The PMI Employment Index fell to its lowest in over 11 years of data collection, signalling a sharp fall in workforces as firms shedded excess capacity and clamped down on employee costs.

"For most businesses, the cut to jobs allowed them to remain in-step with the muted economic recovery after lockdown, as demand growth failed to gain further momentum. However, others emphasised it was to avoid closure in a period of weak sales and strong competition.

"Activity was again projected to rise, but only tentatively, as business sentiment dropped to its lowest on record. As such, firms reduced selling charges sharply in order to remain competitive amid an uncertain future."

Subdued business conditions were reflected in business sentiment for the next 12 months, which dropped to the lowest seen in the series history (since April 2012). In fact, several firms noted the weak recovery could lead to business closures, particularly as competition remained strong.

As a result, UAE firms made sharp reductions to employment in August. The rate of job losses was notably the strongest on record, as around one-in-five panellists cut workforce numbers, often citing the need to reduce business costs.

Backlogs of work increased during the month, but respondents indicated that this was often due to clients delaying payments for goods and services rather than pressure on capacity.

Meanwhile, inventories of inputs grew at the sharpest rate for 15 months in August as, despite the relatively subdued outlook, firms still expect sales to rise in the near future. Purchasing activity rose at a slower rate than seen in July, while input prices increased at the weakest pace in four months.

Finally, delivery times continued to shorten during August, but the rate of improvement slowed to a three-month low. Firms reported that suppliers were able to make quicker deliveries as lockdown restrictions continued to ease and supplier competition strengthened.

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.

August 2020 data were collected 12-24 August 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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