

IHS Markit UAE PMI®

Headline PMI drops to eight-year low in August

Key findings

Output and new order growth ease for third month running

Selling prices drop further as costs remain stable

Hiring activity stalls as backlogs rise only fractionally

Business conditions in the UAE non-oil private sector improved at only a modest pace in August, as activity and demand growth softened for the third month running. The headline reading subsequently dropped to its lowest in eight years. Amid tough competitive pressures, firms reduced their charges for the eleventh successive month, whilst overall input prices remained unchanged.

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 55.1 in July to 51.6 in August, the lowest reading for eight years. This pointed to only a modest improvement in business conditions and the third successive month in which growth has slowed.

Activity in the non-oil economy increased at a notably softer rate compared to July, with weaker demand curbing the expansion. The rate at which output rose was the least marked in just over six years.

Similarly, new orders received by UAE firms increased at a solid, but relatively subdued, pace in August. Customer demand remained strong, according to panellists, but the continuation of heightened market competition hampered growth. Sales to foreign customers also recorded a weaker upturn.

Companies thus looked to pare back on purchasing activity growth in the latest survey period. Input purchases rose at the softest rate since last October, albeit at a pace similar to the series trend. Notably, this led to a slight reduction in inventories of purchases.

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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:

"Latest PMI figures for the UAE non-oil private sector showed an easing from recent growth in activity. The headline PMI reading of 51.6 signalled only a modest improvement in business conditions, due to new order growth slowing for the third month in a row. Job numbers were broadly unchanged after five successive months of increases, while firms also looked to clear stock levels. Selling charges continued to fall, as competitive pressures remained heightened."

"The dip in activity growth dampened business sentiment in August, although the underlying forecast was still strong. With the Expo 2020 coming, many businesses were positive that the market will see strong levels of activity in the coming year."

Hiring activity also eased over August, with latest data showing a broadly unchanged labour force in the non-oil sector. This ended a five-month sequence of marginal increases in employment. Firms linked this to weaker inflows of new orders allowing them to keep on top of backlogs, with outstanding business growing only fractionally.

Lead times continued to quicken in August, although the rate of improvement weakened for the third successive month. Strong client relationships and high productivity helped vendors to achieve faster deliveries.

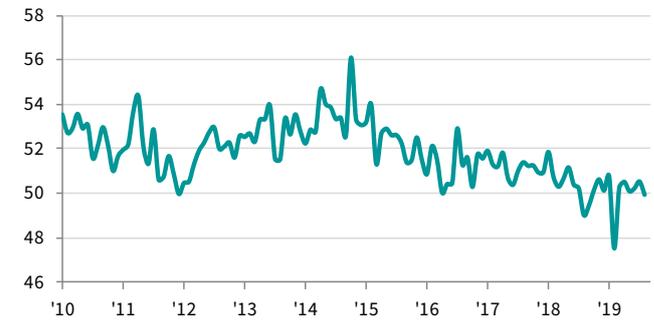
As reported in recent months, strong competitive pressures forced companies to lower selling prices again. The rate of reduction was the strongest since April, but still only modest. This extended the current sequence of decline to just under a year.

On the other hand, firms were again helped by a lack of cost pressures, with panellists reporting unchanged overall input prices. Staff costs did not alter from that seen in July, while purchase prices recorded only a marginal uptick.

Looking ahead, the dampening rate of new business growth in August led firms to project a weakened outlook for activity. Nevertheless, the level of optimism remained strong by historic standards, with firms expecting a boost to demand next year, in particular due to the Expo 2020 and improving market conditions.

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 2019 data were collected 12-23 August 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.