

## IHS Markit UAE PMI®

# UAE economic recovery stalls in October, as sales decline

### Key findings

New business falls for first time since May

Output growth weakens and job shedding continues

Business optimism slips to joint-record low

Data were collected 12-26 October 2020.

Business conditions in the UAE non-oil private sector economy worsened for the second time in three months in October, indicating a further stalling in the economic recovery from the coronavirus disease 2019 (COVID-19) pandemic. Notably, new business declined for the first time since May, leading to a slower rise in output and a sharp reduction in backlog volumes. With capacity pressures remaining weak, and expectations down to a joint-record low, workforce numbers were trimmed again across the sector.

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 no change mark in October, posting 49.5, down from 51.0 in September. The reading marked the second deterioration in business conditions in three months, and signalled that the UAE non-oil economy is struggling to maintain a robust recovery from the COVID-19 lockdown earlier in the year.

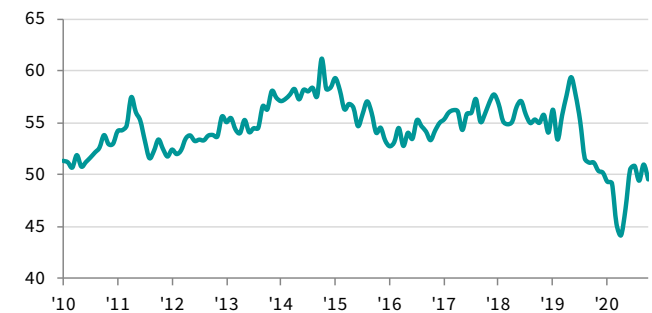
A key result in the October data was a first - albeit marginal - decline in new business in five months. Surveyed firms noted that increased competition and a slow improvement in market activity led to weaker sales volumes over the month. In addition, with the COVID-19 pandemic accelerating in some regions, export growth remained mild, although there were some reports of new business wins from GCC countries.

While UAE companies continued to increase output levels, the rate of expansion slowed to just a modest pace in October. Nevertheless, they were still able to lower backlogs, and did so to the greatest degree since November 2011.

*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 recovery in demand across the UAE non-oil economy suffered in October, as PMI survey data signalled the first monthly drop in new business since May. While the decline was mild, it nonetheless showed a stalling of growth momentum after the COVID-19 lockdown. Notably, sentiment amongst businesses towards the 12-month outlook was at a joint-record low as firms remained concerned that the pandemic could further hurt activity and spending.*

*"Firms are notably concerned that costs will outstrip revenues, leading to a further cut to payroll numbers and a sharper fall in inventories amid efforts to free-up liquidity. On a positive note, cost inflation remains weak, in fact easing slightly on the month. This should reduce pressure on margins as selling prices continue to be lowered due to efforts to drum up sales."*

With demand falling and firms able to reduce work outstanding, latest data pointed to a further decline in workforce numbers at the start of the fourth quarter. Firms often commented that they needed to cut costs after the lockdown and that a slow recovery had underpinned weak revenues. As such, there was also evidence of declining input stocks over the month as panellists attempted to improve liquidity.

Companies raised their quantities of purchases solidly in October, in line with increased output requirements. Notably though, lead times on purchases lengthened for the first time since supply chains were negatively impacted by the global lockdown in May. That said, vendor performance deteriorated only slightly overall.

Input price inflation eased to a six-month low, with only a few mentions of increased purchasing costs. Staff costs fell for the first time since July, albeit only fractionally. Meanwhile, charges were lowered at the slowest rate in four months, despite several panellists noting increased efforts to deal with tight market competition.

Lastly, the overall degree of sentiment regarding the 12-month outlook for activity slipped back on the previous month, and was the joint-weakest in the survey history (level with August) as the COVID-19 pandemic continued to weigh on firms' spending plans.

## Employment Index

sa, >50 = growth since previous month



Source: IHS Markit.

## Contact

David Owen  
Economist  
IHS Markit  
T: +44 2070 646 237  
[david.owen@ihsmarkit.com](mailto:david.owen@ihsmarkit.com)

Katherine Smith  
Public Relations  
IHS Markit  
T: +1 781 301 9311  
[katherine.smith@ihsmarkit.com](mailto:katherine.smith@ihsmarkit.com)

### 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.

October 2020 data were collected 12-26 October 2020.

For further information on the PMI survey methodology, please contact [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com).

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### About PMI

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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