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IHS Markit UAE PMI®

Business activity rises, but employment declines further

Key findings

Output levels rise strongly in December, driven by higher new business...

... but employment numbers fall more quickly

Business expectations remain weak

Data were collected 4-17 December 2020.

The UAE non-oil private sector economy enjoyed a renewed rise in business activity in December, buoyed by a faster upturn in sales and a strong increase in export demand. Nevertheless, job numbers continued to fall and at an accelerated rate, as backlogs declined. Price pressures remained weak over the month, while the outlook for future activity improved only slightly from November's record low.

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 from 49.5 in November to 51.2 in December, to indicate a renewed improvement in the sector's performance. Despite rising to its highest level for 16 months, however, the rate of growth signalled by the index was only mild.

Output levels returned to growth territory at the end of the year. The latest data signalled a solid increase in non-oil activity that was the second-fastest since September 2019 (behind July's recent high). Firms related the surge in output to an improvement in market conditions and a sustained rise in client demand.

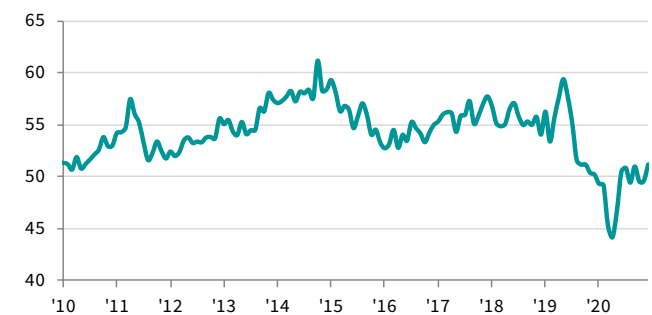
New business also rose in December, and at a more marked pace compared to November's slight rate of expansion. Anecdotal evidence linked the upturn to a solid rise in demand from abroad, particularly from Gulf countries, and the continued offering of price discounts. Notably, new export orders grew at the strongest rate in 15 months.

Amid a renewed increase in output, UAE firms expanded their purchasing activity in December, in part offsetting the reduction

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:

"Rising output and new orders, particularly from abroad, were key drivers of the renewed improvement in non-oil business conditions in December. Notably, the PMI rose above the 50.0 no-change threshold for the first time since September, and was at its highest level since August 2019."

"However, the jobs market continued to act as a drag on the sector, as employment fell again at the end of the year. Moreover, the rate of job shedding quickened, as cash flow shortages meant some firms were unable to pay for new staff. The subdued rate of cost inflation may help struggling businesses in the near term, although margins remained under pressure due to falling output charges as firms attempt to speed up the recovery in demand."

recorded in November. That said, the rise in input buying was marginal and softer than the series average. Nevertheless, the rise in purchases helped firms to rebuild stock levels, which improved for the first time since August.

At the same time, employment numbers continued to fall in December, with the rate of job shedding quickening from November. Firms reduced their workforces in each month throughout 2020. The latest fall came amid a drop in backlogs of work, the fourth in consecutive months, although the pace of depletion slowed again from October's recent record.

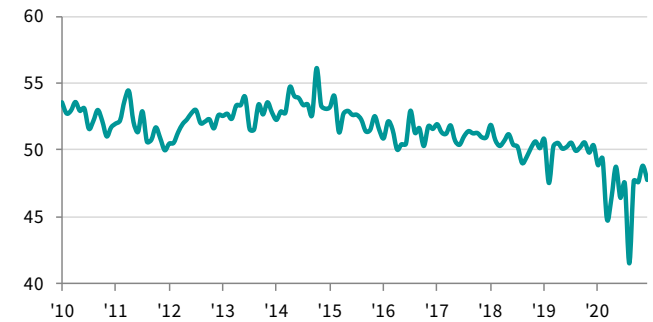
Cost pressures remained subdued at the end of the year, as the latest data signalled largely unchanged input prices. Subsequently, businesses lowered their selling charges further in an effort to compete for clients, although the rate of discounting eased to the softest since May.

Some companies struggled to pay their suppliers in December, which led those vendors to delay the delivery of inputs. As a result, the shortening of overall lead times remained subdued by historical standards.

Finally, the outlook for the next 12 months of activity picked up only slightly from November's record low. Most companies expect business activity to remain flat over 2021, despite hopes of a broad recovery in global economic conditions. Only 2% of respondents gave an optimistic outlook for the sector.

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.

December 2020 data were collected 4-17 December 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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