

IHS Markit UAE PMI®

Business conditions deteriorate for first time since 2009

Key findings

New orders fall for second time in three months

Output fails to expand for first time in ten years

Employment contracts and business confidence weakens

The new year brought a deterioration in the health of the UAE non-oil private sector, latest PMI data showed, as new orders declined and output failed to grow for the first time in ten years. Workforce numbers dropped at one of the strongest rates on record, while selling prices were lowered for the sixteenth month running. Business expectations also weakened, though firms remained broadly upbeat.

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 - dropped from 50.2 in December to 49.3 in January, falling below the crucial 50.0 no-change mark for the first time since August 2009. Overall, the headline index signalled a slight deterioration in business conditions.

Notable weakness was observed on the demand side again in January, with total new orders falling for the second time in three months. Firms reportedly struggled to gain sales amid a slow business environment, in particular within the domestic economy. Meanwhile, new orders from abroad grew for the third month in a row and at a faster, albeit modest, pace than in December as respondents commented on better conditions among trade partners. As such, the drop in total new business was only fractional.

Nevertheless, firms responded by leaving output levels unchanged in January, ending a prior sequence of growth that had lasted for almost ten years. While a number of companies restricted output due to lower sales, ongoing projects sustained activity at other businesses.

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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:

"The IHS Markit UAE PMI continued to worsen in January, and this month fell below the 50.0 mark that separates growth from contraction for the first time in over ten years.

"Key to the decline were firms' efforts to reduce employment at one of the fastest rates on record in order to streamline costs. Input prices continued to rise while output charges dropped, placing notable pressure on margins.

"Despite lower prices, new orders fell for the second time in three months in January, adding extra pressure on businesses and halting output growth.

"Looking ahead, it is hoped by many firms that the upcoming Expo 2020 will restore new business volumes and kick-start activity. Another bright note is growing momentum in export sales, which businesses have attributed to stabilisation in some international markets."

In addition, employment at UAE companies fell at one of the quickest rates on record at the start of the year. Panellists mainly related the reduction to cost-cutting strategies. With capacity dwindling, backlogs of work continued to pile up, although this was often attributed to credit issues.

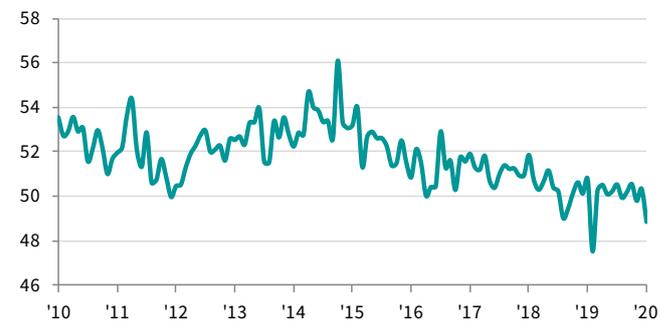
While hiring activity fell, input purchases continued to expand in January. That said, the rate of growth was marginal and softer than in December. Successive rises in input buying led to a slight pick-up in inventories, the second in six months. Moreover, firms reported a solid improvement in delivery times that was the quickest since last September.

On the price front, UAE non-oil firms continued to lower selling charges in January amid strong competition. However, the rate of decrease slowed for the third month running. This constrained margins further, as indicated by a fifth consecutive month of rising input costs. Higher cost pressures mostly arose from increased wages, while purchase prices were broadly unchanged from the end of 2019.

Business confidence weakened slightly during January, though it held strong overall. The degree of optimism was the weakest for three months, but still much higher than the series average. The Expo 2020, higher export orders and increased competitiveness from lower prices underpinned growth projections for the coming year.

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.

January 2020 data were collected 13-27 January 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. To learn more go to ihsmarkit.com/products/pmi.html.