

## IHS Markit UAE PMI®

# UAE economy shows muted signs of recovery in May

### Key findings

Softer reduction in activity, but demand remains weak

Job shedding continues as sentiment dips to joint-lowest on record

Reduced travel restrictions ease pressure on supply chains

Data were collected 8-22 May 2020.

The UAE PMI remained firmly in contraction territory in May, despite some signs of recovery as the country emerged from its strictest lockdown measures. Output fell to a much lesser extent than April's unprecedented pace, yet firms were still limited by a weak market environment and lower employment. Greater freedom of travel meanwhile led to an easing of supply chain pressures, while input costs ticked up for the first time since February.

At the same time, sentiment towards future output dipped to the joint-lowest ever seen in the series, as businesses became increasingly concerned over the long-term impact of the coronavirus disease 2019 (COVID-19) pandemic on the economy.

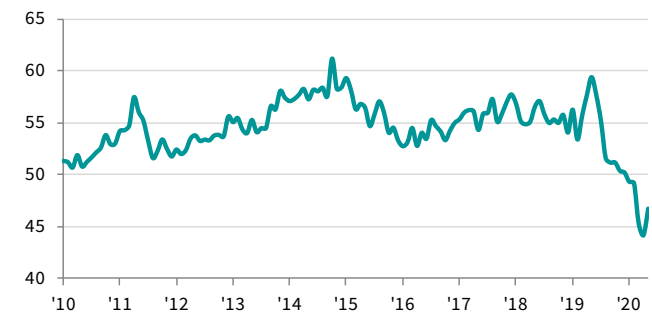
The headline seasonally adjusted IHS Markit UAE Purchasing Managers' Index™ (PMI®) - a composite indicator designed to give an accurate overview of operating conditions in the non-oil private sector economy - increased from a record low of 44.1 in April to 46.7 in May. Despite reaching the highest in three months, the latest figure indicated a solid decline in business conditions.

This was partly due to a further drop in activity in the UAE non-oil private sector in May, marking the fourth contraction in a row. However, as several businesses were able to reopen and increase output due to lighter curfew measures, the rate of decline eased back from April's record. Nevertheless, many firms highlighted that client demand had so far failed to recover, indicated by another sharp decrease in new order volumes. Export orders also declined for the fourth month running, mainly linked to ongoing lockdown measures in GCC countries and other markets.

*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 change in curfew hours in May helped to lighten the impact on the UAE economy, PMI data suggests, with the headline index rising to 46.7 from a record low of 44.1 in April. However, this reading signalled that the market environment remained weak, particularly as new orders data showed another steep fall in demand."*

*"Lockdown measures worldwide have notably reduced exports, as well as limiting input supply. However, May data suggested that these impacts are lessening as some countries move to lighter measures. Export sales in the UAE fell again, but at a softer rate, while deliveries were helped by the lifting of travel restrictions."*

*"Input prices have begun to creep up, leading firms to make further cuts to staffing as sales revenues remain low. Businesses also reported a fall in future output sentiment to the joint-lowest ever, illustrating concerns of a drawn-out economic recovery and long-lasting impact on activity."*

Additionally, UAE firms continued to reduce employment numbers in May, although the latest fall was the softest since February. Businesses reported that excess capacity remained, whilst rising cost pressures led them to make further adjustments to salaries. As a result, staffing costs fell solidly and at the quickest pace in the survey's history.

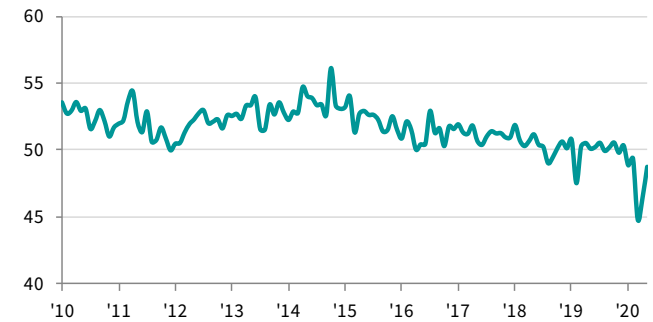
More positively, the partial lifting of travel restrictions allowed suppliers to make greater numbers of deliveries in May, which helped to ease pressure on supply chains. Lead times continued to increase, but only marginally. Firms meanwhile looked to shore up stocks of inputs, linked to an expectation of a further lifting of lockdown restrictions in the UAE and elsewhere.

Input costs increased for the first time in three months during May, attributed to rising raw material prices and a reported uptick in shipment charges. Output prices meanwhile decreased for the twentieth straight month, albeit only slightly as some firms passed on higher costs to consumers.

Finally, the outlook towards the next 12 months of activity worsened still in May, with sentiment reaching the joint-lowest since the series began in April 2012. While output and new orders contracted at softer rates, firms highlighted increasing concerns that the pandemic will have a long-term impact on demand.

### 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.

May 2020 data were collected 8-22 May 2020.

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