

News Release

Embargoed until 0815 GST (0415 UTC) 3 June 2022

S&P Global United Arab Emirates PMI[®]

Growth momentum builds despite stronger inflationary pressures

Key findings

Output rises at fastest rate since last December

Stronger increases in new orders and backlogs

Cost inflation climbs to three-and-a-half-year high

The United Arab Emirates PMI[®] strengthened to a five-month high in May, as businesses indicated faster uplifts in activity and new orders, plus a renewed increase in employment. However, the latest data also showed firms struggling to keep up with demand, as backlogs of work rose at the sharpest rate for eight months. Moreover, inflationary pressures on business costs picked up to the highest since November 2018, amid global supply concerns and geopolitical tensions.

The headline seasonally adjusted S&P Global 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 54.6 in April to 55.6 in May, the highest reading in 2022 so far and firmly above the 50.0 no-change mark. The index also signalled one of the strongest improvements in the health of the non-oil economy in the last three years.

Growth of non-oil output accelerated to a five-month high in May, and was just shy of the post-pandemic record in December last year. Where activity rose, survey panellists often related this to higher new order inflows and improving economic conditions in general.

At the same time, businesses reported a sharper increase in new work as client demand continued to strengthen. Some firms noted that increased marketing and renewed price discounting helped to lift sales. As well as rising domestic orders, demand from foreign customers expanded during May, with the overall upturn remaining solid despite softening from April.

Strengthening demand supported a renewed uplift in staffing across the non-oil sector in May. The rate of job creation was the fastest seen for seven months, but was notably insufficient to avoid constraints on business capacity. Indeed, the solid rise in new orders led to a sharp uptick in backlogs of work that was the most marked since September 2021.

S&P Global United Arab Emirates PMI

sa, >50 = improvement since previous month



Source: S&P Global.
Data were collected 12-25 May 2022.

Comment

David Owen, Economist at S&P Global Market Intelligence, said:

"The UAE PMI remained well inside growth territory in May, rising to its highest level for five months and indicating that the economy continues to recover strongly from the pandemic. Despite the end of the Expo 2020, firms continued to cite rising order book volumes and increased tourism, although this was partly helped by a renewed decline in average prices charged."

"Following the global trend, the main headwind to the non-oil sector in May was inflation. Input costs rose at the quickest rate since November 2018, as companies widely noted higher fuel prices as well as increased costs for a wide range of materials such as aluminium, steel, wood and chemicals. For now, PMI data suggest that companies are choosing to absorb extra costs rather than pass them onto customers, but this is unlikely to continue indefinitely."

PMI[®]

by S&P Global

On the price front, companies highlighted a sharp rise in input costs during May, as prices for items such as fuel, metals, chemicals and energy were elevated by ongoing global supply-chain challenges. The rate of input price inflation was in fact the sharpest recorded for three-and-a-half years.

Despite this, a number of firms offered lower prices to their customers, resulting in a renewed decrease in average prices charged. While there were some efforts to pass on higher costs, this was offset by sales campaigns amid reports of strong price competition. This followed the first rise in output charges for nine months in April.

Companies indicated a solid, but slower upturn in input purchases midway through the second quarter. The slowdown in purchasing growth was partly linked to firms drawing down inventories instead of buying new materials amid increased caution over spending. Stocks of purchases rose in May, but only marginally.

Vendor performance also improved during May, albeit to the least extent seen in the year-to-date. Panellists often found that suppliers were able to deliver more quickly when requested.

Finally, non-oil businesses remained hopeful of a rise in output over the next 12 months, often linked to strengthening demand and expectations of higher sales. The degree of confidence picked up slightly from April, but was weak compared to the survey trend.

PMI Employment Index

sa, >50 = growth since previous month



Source: S&P Global.

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Survey methodology

The S&P Global United Arab Emirates PMI® is compiled by S&P Global from responses to questionnaires sent to purchasing managers in a panel of around 1000 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. Data were first collected August 2009.

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.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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