

News Release

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S&P Global United Arab Emirates PMI[®]

Stronger upturn in new business boosts output growth in July

Key findings

Joint-quickest rise in business activity in year-to-date

Sales growth picks up as firms refrain from lifting charges

Input cost inflation moderates from June's 11-year high

UAE non-oil companies welcomed a surge in new business during July, as favourable underlying demand was supported by promotional efforts. Firms scaled up output, stepped up input purchasing and took on additional workers as outstanding business piled up. There was another substantial increase in overall input costs, albeit with the rate of inflation softening from June's 11-year high. Material prices continued to rise much more markedly than wage costs, while fierce competition for new work underpinned another fall in selling prices.

Posting 55.4 in July, the 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 – pointed to a marked improvement in the health of the sector. Moreover, the headline figure rose from 54.8 in June and was above its long-run average.

Panellists indicated that favourable demand conditions, competitive pricing, marketing efforts and expanded clientele all drove new business intakes higher in July. The latest rise in sales was marked and quicker than seen in June.

International demand for UAE non-oil output increased further at the start of the third quarter. Moreover, the rate of expansion was solid and broadly similar to that seen in the previous month.

As a result of sustained growth of new business volumes, firms scaled up output in July. The rate of expansion was sharp and the joint-fastest in 2022 so far, matching that registered in May.

July data pointed to an intensification of capacity pressures among non-oil firms, as outstanding business increased at the quickest pace since March 2020. In response to rising backlogs, companies continued with their hiring efforts. Employment expanded only slightly.

S&P Global United Arab Emirates PMI

sa, >50 = improvement since previous month



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

Comment

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

"UAE non-oil companies started the third quarter on a stronger footing, according to July's PMI data. Firms reported a faster upturn in new business intakes and scaled up output accordingly. With demand strengthening, operating capacities came under pressure, but businesses reacted to this squeeze by continuing with their hiring efforts.

"The current run of output expansion is now approaching its second year, a remarkable performance when considering lingering global headwinds.

"The biggest challenge facing UAE non-oil businesses is inflation. While the latest results pointed to a softer upturn in overall input costs, the rate of increase was nevertheless the second-strongest in four-and-a-half years amid global shortages of inputs and greater prices for fuel, materials and shipping.

"Once again, firms opted to absorb additional cost burdens and cut their prices in line with intense competition for new work. The rate of discounting eased and was only fractional, however, indicating that some firms may be prepared to hike their charges in coming months."

PMI[®]

by S&P Global

Amid reports of strengthening demand conditions, rising output needs and the forthcoming start of new projects, businesses purchased additional inputs in July. The rate of expansion was moderate, but notably faster than that seen in June (one-year low).

Non-oil companies indicated that suppliers were generally able to deliver purchased materials in a timely manner during July, with vendor performance improving for the tenth month in a row. According to panellists, the timely processing of payments was crucial in preventing delivery delays.

Ongoing input buying and shortening lead times supported another increase in stocks of raw materials and semi-finished items at UAE non-oil firms. The pace of accumulation was marginal and little-changed from June, however.

Price indices pointed to mixed inflation trends in the non-oil economy as despite a sharp increase in overall input costs, and in tandem with competitive pressures, monitored firms continued to lower their output charges.

That said, the aggregate rate of input cost inflation did at least ease in July, after climbing to an 11-year high in June.

Further on expenses, the key source of price pressures was purchase costs which rose at a sharp rate that was the second-strongest in four-and-a-half years (behind June). Staff outlays increased at a marginal pace in comparison.

Finally, businesses remained upbeat towards the year-ahead outlook for output amid expectations of a pick-up in demand, quotations pending approval and planned advertising. However, the overall level of sentiment fell to a ten-month low.

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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