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IHS Markit UAE PMI®

Business conditions improve sharply in February

Key findings

Output and new orders expand at stronger rates

Greater optimism spurs sharp rise in purchases

Capacity constraints drive backlogs higher

Data were collected 10-22 February 2022.

February data pointed to a marked improvement in the health of the UAE non-oil private sector economy, according to the latest PMI survey, as firms saw a further strong uplift in market demand. Output levels subsequently rose sharply, whilst increased optimism for future sales encouraged firms to expand their input purchases to the greatest extent in two-and-a-half years.

At the same time, however, rising material prices, global shipment delays and weak hiring continued to drive backlogs higher, while price margins were squeezed by efforts to reduce output charges. More positively, vendors were able to speed up their deliveries, in a sign that local supply chain improvements had helped firms to offset pandemic-related issues.

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 – ticked up for the first time in three months, from 54.1 in January to 54.8 in February, and remained well above the 50.0 neutral threshold. The rate of improvement in operating conditions was robust and one of the strongest seen since the start of the pandemic.

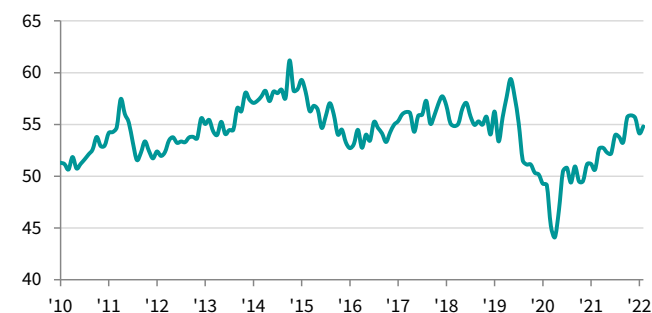
Central to the upturn was a further substantial rise in new orders across the non-oil sector, which panellists attributed to a recovery in market demand and increased travel activity. The rate of growth picked up from January's four-month low, but remained down on the levels seen during the final quarter of last year when the Expo 2020 began.

As well as strong output growth at present, businesses were

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:

"Growth in the UAE non-oil economy continued to run at a strong clip in February, with the PMI up to 54.8 but remaining slightly lower than the post-COVID highs seen during the final quarter of 2021. The upsurge was widely linked to rising client demand, with businesses also pointing to growth in tourism as the Expo 2020 continued and countries loosened their travel measures.

"While output expanded sharply in February, firms still reported a lack of capacity to deal with new orders, linked to weak hiring momentum and challenging global supply conditions. On the plus side, local vendors were able to deliver available inputs more quickly, and there are signs that supply problems are slowly easing as the world emerges from COVID restrictions. This should aid businesses in relation to both capacity and cost pressures in the coming months."

confident that sales would increase markedly over the coming months. The year-ahead outlook for business activity rose to a four-month high, and was the second-highest since the middle of 2020.

This confidence spurred businesses to increase their efforts to stockpile and purchase greater amounts of inputs, with the latter rising at the fastest rate for two-and-a-half years. Inventories also expanded, albeit only slightly.

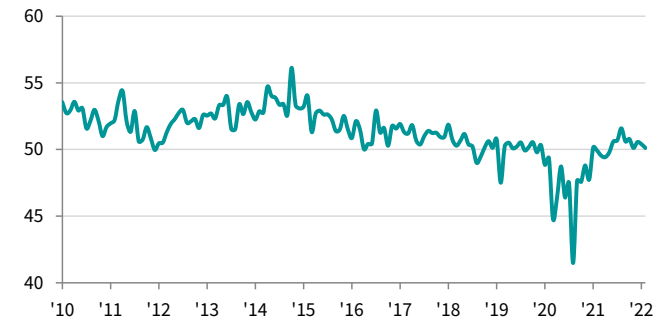
Despite higher sales, non-oil companies struggled to take on additional workers during February, as latest data signalled a broadly unchanged level of employment. This, as well as some ongoing reports of global shipment delays related to the pandemic, meant that firms saw a rise in backlogs of work for the eighth month running.

While global supply chains remained disrupted, business signalled that local vendors are increasing their capacity to manage these issues. This led to a solid reduction in overall lead times that was the most marked since July 2020, as firms often requested quicker deliveries in response to higher new orders.

Meanwhile, increases in raw material prices and transport fees led to another rise in average input costs, although the rate of inflation ticked down to the weakest since last November. At the same time, output charges were reduced for the seventh month running as firms continued to enact competitive pricing strategies, although the pace of discounting was the slowest since August 2021.

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.

February 2022 data were collected 10-22 February 2022.

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

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About PMI

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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