News Release

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S&P Global United Arab Emirates PMI®

Cost pressures soar to 11-year high in June

Key findings

Rising fuel prices spur marked increase in business costs

New orders continue to rise sharply amid price promotions

Weakest rise in input buying for a year

Inflationary pressures were widespread across the UAE non-oil economy at the halfway point of 2022, latest PMI data showed, as a sharp uptick in fuel prices led to a severe increase in business expenses and efforts to secure staff through higher wages. Input costs rose at the fastest pace for 11 years, leading to a slowdown in purchases and reduced stockpiling efforts.

Nevertheless, helped in part by sustained efforts to lower output charges and offset competitive pressures, firms continued to see a robust increase in new orders in June driving a strong expansion in activity. Optimism that demand would remain strong despite inflationary pressures also boosted confidence for the year ahead, as output projections improved to the highest since October last year.

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 – posted firmly above the crucial 50.0 mark in June, but dropped from 55.6 in May to 54.8. The performance of the non-oil sector has improved in each of the past 19 months, helped by a recovery in economic conditions following the lifting of COVID-19 restrictions.

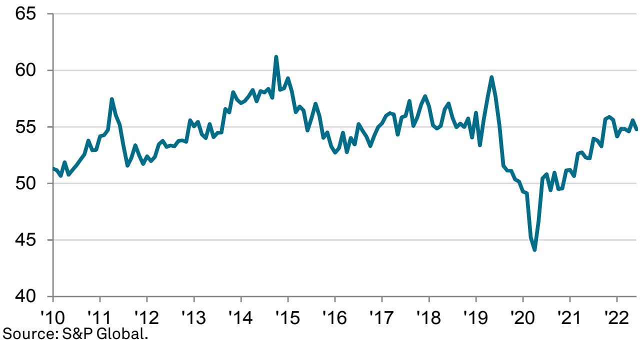
The recovery continued to support a sharp rise in new order volumes in June, with 21% of survey respondents reporting growth since the previous month. As well as reports of stronger domestic demand, businesses were helped by a solid upturn in new work from abroad.

After reaching a six-month high in May, the pace of sales growth nonetheless slowed to the weakest since January, as some panellists noted that strong competition had weighed on client orders. In addition, some firms mentioned that rising interest rates in response to global inflationary pressures had hit household and business spending.

At the same time, input costs in the non-oil economy rose at a much quicker pace over June, with inflation accelerating to

S&P Global United Arab Emirates PMI

sa, >50 = improvement since previous month



Source: S&P Global.

Data were collected 13-24 June 2022.

Comment

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

"UAE businesses came under increased pressure from rising input costs in June, as a surge in fuel prices drove the fastest rate of cost inflation in exactly 11 years. More than twice as many surveyed firms indicated a rise in their expenses compared to May, leading many to curb spending on inputs.

"Nevertheless, the latest data suggested that firms were unwilling to pass higher costs on to customers in June, as output charges were reduced at the fastest rate in over a year-and-a-half. According to panellists, the threat of strong competition led them to offer price discounts to protect their sales.

"While firms remained positive about future activity, the survey data suggested that they are unlikely to maintain cost margins at the current level. The ratio between the Input Price and Output Price Indices was the highest on record, signalling that price rises for customers are likely in the coming months."

PMI by S&P Global

the fastest in exactly 11 years. The uptick was chiefly driven by higher fuel prices, according to panellists, which had knock-on effects on transport and raw material costs.

However, with companies facing strong competition, output prices were in fact reduced for the second month running, and to the greatest extent since late-2020. Despite some efforts to pass on increased cost burdens, a higher proportion of firms offered discounts to their clients.

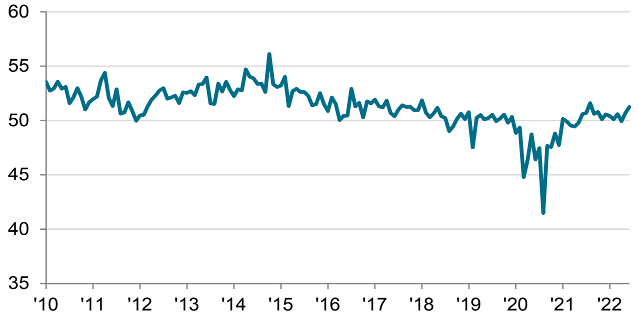
The latest survey data meanwhile signalled a marked increase in activity at the end of the second quarter, which led businesses to expand their staffing levels. However, there was some evidence that companies were having to offer higher salaries to hire and retain staff, as average wages rose at the fastest pace for over four years.

Inflationary pressures also hit purchasing activity in June, which rose only marginally and at the weakest rate in a year. Whilst higher spending reflected new order growth, several panellists eased back on stockpiling efforts due to rising material and transport prices. Shorter lead times continued to support spending, although the latest improvement in supplier performance was the softest for eight months.

Finally, the outlook for future activity improved for the second straight month in June to the strongest for eight months. Despite some fears that inflation will hit spending, firms were generally hopeful of a continued recovery in demand from the pandemic.

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.

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. ihsmarkit.com/products/pmi.html.