

News Release

Embargoed until 0815 GST (0415 UTC) 5 April 2022

S&P Global United Arab Emirates PMI[®]

Output growth remains strong in March, but cost pressures climb to 40-month high

Key findings

Output and new order growth remain near post-pandemic highs

Input cost inflation reaches 40-month record amid Ukraine war

Inflationary pressures curb input purchasing growth

PMI survey data signalled another strong expansion in the UAE non-oil economy in March, but one that was marred by intensifying inflationary pressures linked to rising commodity prices. Output and new business continued to increase sharply, although firms restricted purchasing activity as input costs picked up at the fastest rate since November 2018.

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 – posted 54.8 for the second month running in March. The reading was well above the 50.0 neutral mark to indicate a further sharp improvement in operating conditions.

The rate of new business growth at UAE non-oil firms was unchanged since February, and remained close to the post-pandemic high seen in November 2021. Where new orders rose, panellists often linked this to a further uplift in client demand as markets recovered from COVID-19 lockdown measures. While domestic sales were the main driver of growth, there was also a modest expansion in new export business.

The strong rise in demand fed through to a substantial increase in business activity during March, with nearly a quarter of surveyed firms signalling output growth. As well as higher demand, panellists stated that marketing efforts and new product releases supported overall activity.

At the same time, cost pressures quickened to a 40-month high as businesses saw particularly strong rises in the price of fuel and raw materials due to supply concerns relating to the war in Ukraine. The rate of input cost inflation was faster than the series average and solid. Efforts to pass-through higher costs to customers at some businesses meant that average output charges fell to the least extent in the current eight-month run of decline.

S&P Global United Arab Emirates PMI

sa, >50 = improvement since previous month



Source: S&P Global.
Data were collected 11-25 March 2022.

Comment

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

"A strong rise in demand across the non-oil economy in March masked the concerning threat posed by global commodity prices. With energy and raw material costs rising around the world in response to the Russia-Ukraine war, UAE firms faced a sharp increase in purchase prices and the most marked rise in overall price pressures for more than three years.

"The uplift weighed somewhat on business pricing decisions. Whilst output charges continued to fall, they did so at the weakest pace for eight months. Given that the recovery in sales has been reportedly helped by price discounts since the second half of 2021, firms now face a difficult decision - whether to pass on higher costs and risk a drop-off in demand, or face a hit to their profit margins.

"Moreover, there is the risk that a drop in material and energy availability will add to supply chain problems that first appeared during lockdown measures. However, current data suggest that conditions are improving for now, as delivery times shortened at the joint-fastest rate in 20 months."

PMI[®]

by S&P Global

The sharp rise in input prices led to a slowdown in input buying growth in March, as firms looked to limit cost burdens and draw from current stocks in order to meet customer demand. While the latest rise in quantity of purchases was solid, it was much softer than that seen in February. After 15 months of consecutive growth, stocks of purchases were stable at the end of the quarter.

At the same time, employment levels at non-oil businesses picked up, marking the tenth rise in as many months. However, despite quickening to a three-month high, the rate of job creation was still only marginal, as some efforts to cut labour costs weighed on overall hiring activity.

With staff capacity expanding only slightly despite stronger demand pressures, businesses saw a further solid increase in backlogs of work. Moreover, the rate of accumulation was the fastest since last October. Some firms noted that previous shipping delays had contributed to the rise in unfinished orders, although current data suggested an improvement in supplier delivery times that was the joint-quickest since July 2020.

Finally, UAE companies remained confident of a rise in activity over the year ahead in March, often citing recent improvements in sales and overall economic conditions. However, concerns about inflation, shipping and the war in Ukraine weighed partly on overall confidence.

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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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.