December PMI data pointed to an even stronger uplift in business conditions across the Dubai non-oil private sector, driven by a rapid increase in new orders as firms continued to enjoy strong demand from tourism and the relaxing of COVID-19 measures. However, a much quicker rise in input prices was also registered, putting pressure on firms’ margins and limiting their ability to purchase extra inputs. Moreover, uncertainty about the pandemic led to a fall in optimism for the upcoming year.

The seasonally adjusted IHS Markit Dubai Purchasing Managers’ Index™ (PMI®) rose to its highest level in two-and-a-half years in December. At 55.3, up from 54.5 in November, the PMI signalled a sharp improvement in operating conditions.

The upturn was driven by a robust increase in new order volumes in the non-oil economy. The rate of growth was the quickest seen since July 2019, and back in line with the trend for the series which began 12 years ago.

Surveyed businesses highlighted that the rise in new work was often driven by the recent easing of travel restrictions which, along with the Expo 2020, had boosted tourism demand. Companies also cited an improvement in local sales as consumer confidence grew.

Comment

Commenting on the latest survey results, David Owen, Economist at IHS Markit, said:

“Dubai’s PMI continued to signal strong growth in the non-oil private sector at year-end, with the Expo 2020 and a general improvement in demand helping to lift the economy further out of its pandemic-induced downturn.

“Most notably, the New Orders Index was at its highest level for 29 months, and back in line with the series trend after running below it for the entirety of the pandemic. Output was also strong, expanding at the second-fastest pace since mid-2019.

“Inflationary pressures were much sharper, however, as higher energy and raw material costs drove the fastest rise in overall input prices for nine months. Firms continued to reduce their charges, albeit at a much softer rate than in November.

“Fears of the Omicron variant and potential disruption to travel meant that firms were less upbeat about future prospects in December. In fact, just 12% were confident of growth over the coming year.”
Of the three sectors monitored by the survey, travel & tourism continued to lead the way in terms of sales growth, closely followed by wholesale & retail. New work at construction firms rose at the fastest rate since February, but was still well behind the other two categories.

Output in the non-oil economy also increased at a sharp pace in the final month of the year, with the expansion only slightly softer than October’s recent peak. Despite this, backlog volumes continued to rise solidly as firms struggled to complete their orders.

There were some efforts to build staff capacity in December, with latest data indicating a renewed rise in employment. The expansion was modest but nonetheless one of the strongest recorded since the start of the pandemic. By contrast, the quantity of inputs purchased by non-oil companies was unchanged, ending a five-month sequence of growth and leading to a slight decrease in inventory levels. According to panellists, higher prices for raw materials often discouraged buying activity.

As well as higher raw material costs, firms also mentioned an uplift in energy prices in the latest survey period, whereas staff expenses were broadly flat. The rate of overall input price inflation accelerated sharply to the highest since March.

Whilst input costs rose, average prices charged by non-oil firms dropped for a sixth month running. The pace of decline, however, slowed to the weakest since July.

Finally, the outlook for future activity slipped again at the end of the year. Despite the current strong expansion, many companies were uncertain as to how the Omicron variant would impact new business and travel. Only 12% of respondents were confident that output would expand over 2022.