

IHS Markit UAE PMI®

Non-oil output growth reaches two-year high

Key findings

Output and new business rise at quickest rates since July 2019

Worst delivery delays since onset of pandemic

Backlogs growth hits 16-month high

Data were collected 8-26 July 2021.

The rate of growth in the UAE non-oil economy picked up in July, reaching the strongest in exactly two years as demand continued to rebound from the COVID-19 pandemic. A sharp rise in new orders drove increasing pressure on business capacity and a marked expansion in output, while employment rose at the fastest rate since January 2019. Meanwhile, delays to shipments from Asia led to the worst lengthening of suppliers' delivery times since April 2020 and contributed to a quicker rise in input costs.

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 – rose from 52.2 in June to 54.0 in July, pointing to a strong improvement in business conditions that was the most marked in exactly two years.

The Output and New Orders indices followed this same trend in July, moving up to their highest levels since July 2019. The latest upturn in new orders was the eighth in nine months, as businesses commented on a further recovery in demand as COVID-19 restrictions ease.

However, ongoing measures in other parts of the world led to a third successive fall in export sales during July, with firms increasingly turning to domestic clients to help recover new business.

Lockdown measures also hit the supply of inputs at the start of the third quarter, particularly from Asia where rising COVID-19 cases led to tighter restrictions. Most notably, UAE firms reported the second-worst lengthening of input lead times in

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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:

"UAE's non-oil sector enjoyed a busy start to the third quarter of the year, as firms saw the sharpest rise in new orders for two years amid soaring domestic sales and strengthening market confidence. Output rose in line with this expansion, but was not enough to cover outstanding business which increased to the greatest extent for 16 months."

"At 54.0 in July, the headline PMI was broadly at its long-run level to suggest the economy was largely back to normal growth. That said, there were many firms reporting that output had not yet recovered to pre-COVID levels."

"Moreover, new orders from abroad disappointed again in July as sales were hindered by pandemic-related measures around the world. With COVID-19 cases re-accelerating in Asia, firms also pointed to a worsening of supply chain problems. In fact, delivery times lengthened to the greatest extent since the onset of the pandemic in April 2020."

the survey history, behind only that seen in April 2020.

Output meanwhile expanded at a much faster rate than in June, which firms related to higher demand, project work and the rollout of new products and services. Despite this, sharp growth in new orders and input delivery delays led to a renewed increase in backlogs of work, which was the most marked for 16 months.

July data also signalled an increase in employment, which panellists often linked to efforts to expand sales departments. Whilst only marginal, the rate of job creation was the fastest since January 2019. Firms also expanded their purchasing activity in July, after a slight decrease in June.

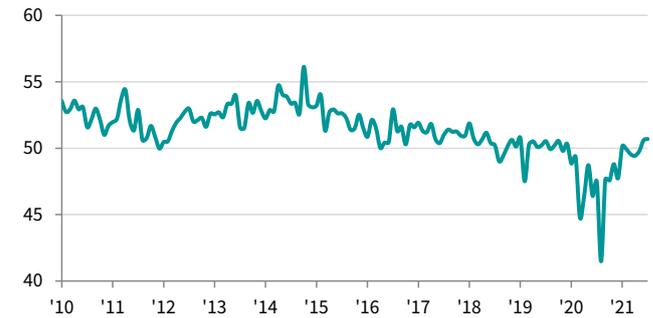
Raw material shortages were often linked by panellists to a further upturn in raw material prices such as steel and cement. Notably, overall cost burdens rose at one of the fastest rates in the last three-and-a-half years.

Higher input costs were again partly passed on to customers as output charges rose for the second month running. However, efforts by other firms to keep prices low in order to stimulate demand meant that the overall rise was only marginal.

Looking ahead, the outlook for future non-oil activity remained positive in July. Firms often hoped that the easing of COVID-19 restrictions and the Expo 2020 later this year would help to improve economic conditions. That said, for the first time in eight months, overall business expectations declined from the previous survey period.

Employment Index

sa, >50 = growth since previous month



Source: IHS Markit.

Contact

David Owen
Economist
IHS Markit
T: +44 1491 461 002
david.owen@ihsmarkit.com

Joanna Vickers
Corporate Communications
IHS Markit
T: +44 2072 602 234
joanna.vickers@ihsmarkit.com

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.

July 2021 data were collected 8-26 July 2021.

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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