

IHS Markit UAE PMI®

Growth in non-oil sector remains rapid in December

Key findings

Output increases at sharpest rate since July 2019

Purchase price inflation jumps up to nine-month high

Higher prices limit input buying and inventory growth

Data were collected 6-17 December 2021.

December PMI data rounded off a strong end to the year for the UAE non-oil economy, with growth running at a marked pace throughout the fourth quarter amid the start of the Expo 2020 and an easing of travel restrictions. The latest survey indicated a further sharp expansion in new business, whilst output levels rose at the fastest pace in nearly two-and-a-half years.

On the downside, businesses also reported a much stronger rise in cost pressures that was often linked to increased energy and fuel prices. Overall purchasing costs rose at the sharpest rate since March, which often dissuaded firms from purchasing extra inputs.

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 55.6 in December, down only slightly from November's 29-month high of 55.9. As has been the case throughout the final quarter of the year, the index signalled a strong improvement in business conditions.

New orders continued to rise sharply in December, despite the rate of growth easing to a three-month low. Increased travel, often due to the Expo 2020, and strong demand from clients were again cited as key drivers of sales growth. New export orders also expanded, although the upturn slowed and was only marginal.

Higher new orders continued to support a marked expansion in non-oil private sector activity in December. In fact, the upturn was the most marked since July 2019, with around a quarter of respondents seeing an increase in output from November.

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:

"The PMI remained close to its recent peak, at 55.6 in December, showing that the benefits to the economy from the Expo 2020 and the loosening of COVID-19 measures had remained strong throughout the final quarter of the year. New work volumes rose sharply, supporting the fastest upturn in business activity for almost two-and-a-half years."

"The next few months may prove more challenging, however, depending on how the Omicron variant impacts worldwide travel and local restrictions. Businesses also face the prospect of higher inflation, after the latest data indicated the fastest rise in purchase costs for nine months due to an increase in energy and raw material prices."

Despite this, firms continued to struggle to keep up with demand, leading to a sixth successive monthly increase in backlogs. Workforce numbers also rose, albeit marginally, reflecting a further recovery in employment after a long period of decline.

Whilst businesses continued to enjoy strong demand levels, they also reported a much sharper increase in input prices. The uptick was largely attributed to a rise in fuel and energy costs, as well as higher raw material prices. The rate at which purchase costs increased was the fastest since March, and the second-sharpest over the past three years.

Inflationary pressures often led firms to limit their purchasing activity. Input buying rose at the slowest rate in five months, while stock levels ticked up only marginally. This was in spite of a further improvement in lead times, that was the most marked since July 2020.

In contrast to higher input costs, output charges fell for the fifth month in a row in December. Discounts were largely offered in response to strong competition.

Looking ahead, business confidence regarding future activity dropped to a three-month low in December, with just 14% of respondents giving a positive outlook. While firms hope that the strong growth trend will continue, some highlighted the risk of a tightening of business and travel restrictions due to the Omicron wave of the pandemic.

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.

December 2021 data were collected 6-17 December 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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