



بنك الإمارات دبي الوطني
Emirates NBD

Economics

6 September 2017

Khatija Haque
Head of MENA Research
+971 4 230 7803
khatijah@emiratesnbd.com

High PMI reading masks some underlying strains

The Emirates NBD Purchasing Managers' Index (PMI) for the UAE rose to 57.3 in August from 56.0 in July, signalling the sharpest improvement in business conditions since February 2015. The increase was driven by faster new order growth and output growth last month, with firms attributing this to "new projects, enhanced marketing initiatives and good quality products." New export orders increased slightly in August after two months of decline, and firms highlighted improved demand from other GCC countries. Stocks of pre-production inventories also increased at a faster rate last month as output accelerated and as firms anticipated future demand.

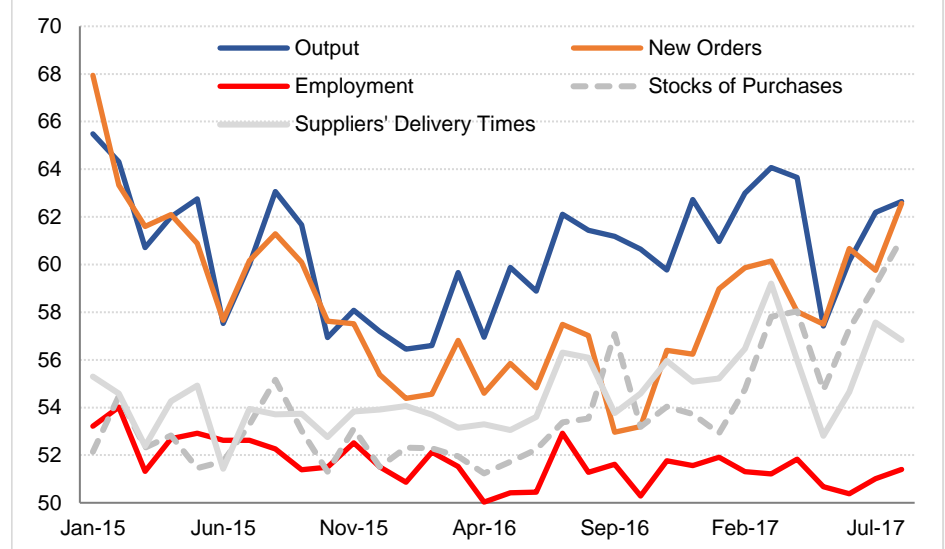
We have noted previously ("PMIs – A closer look" published 14 March 2017) that the headline PMI index is heavily weighted to the 'volume' components of the survey, which is what it is designed to do as a proxy for real GDP growth. "New orders" and "output" account for 55% of the headline index, with inventories accounting for another 10%. These components were all above 61 in August, significantly higher than the neutral 50.0 level and signalling very strong growth in the volume of goods and services ordered, sold and stored last month.

However, other components of the survey (some of which are not included in the headline index calculation) are more nuanced, and point to some strains in the economy. Employment, which accounts for 20% of the headline index, has been relatively muted even with output and new orders surging. Nevertheless, there has been a modest pick up in jobs growth over the last three months.

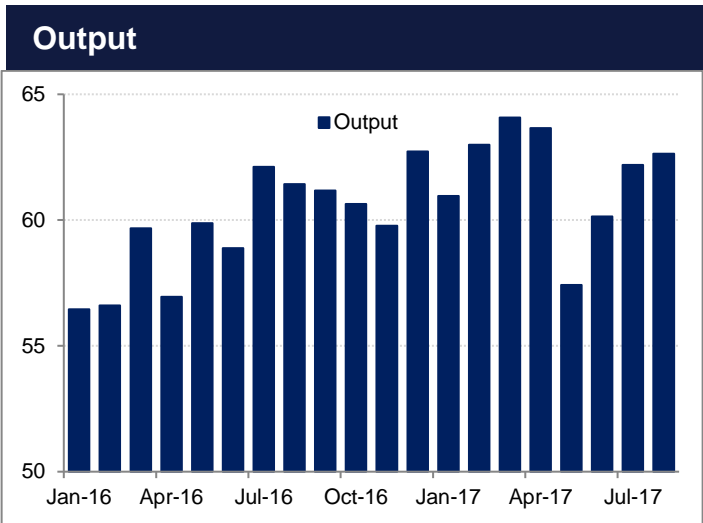
Firms' margins continue to be squeezed as input cost inflation has been compounded by lower selling prices. The input price index rose to 54.1 in August from 53.2 in July and has averaged 52.9 year-to-date. Output (selling) prices were broadly unchanged in August but this index has averaged 49.4 year-to-date, indicating a modest decline in average selling prices. Firms have indicated they are unable to pass on rising costs due to intense competition, in order to secure new work and support demand.

The rise in the headline PMI to a 2 ½ year high does point to faster real growth in the non-oil sectors of the UAE in August, but it appears to have come at a cost of lower margins for most firms. It is perhaps unsurprising in this context that businesses are more cautious when it comes to increasing hiring.

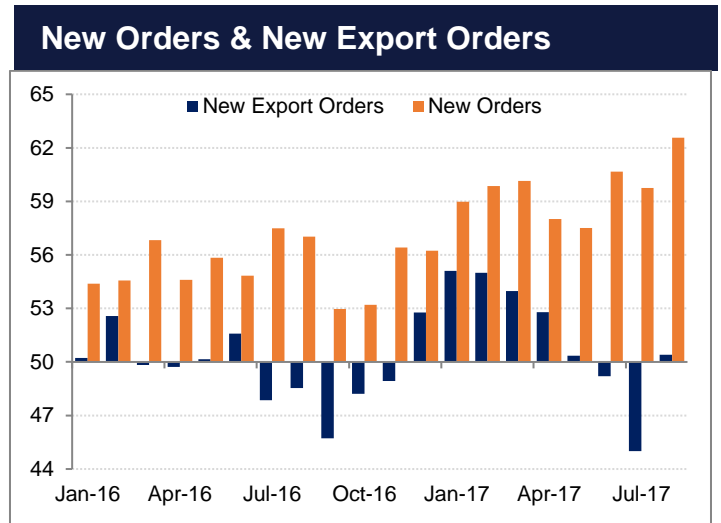
Emirates NBD UAE PMI components



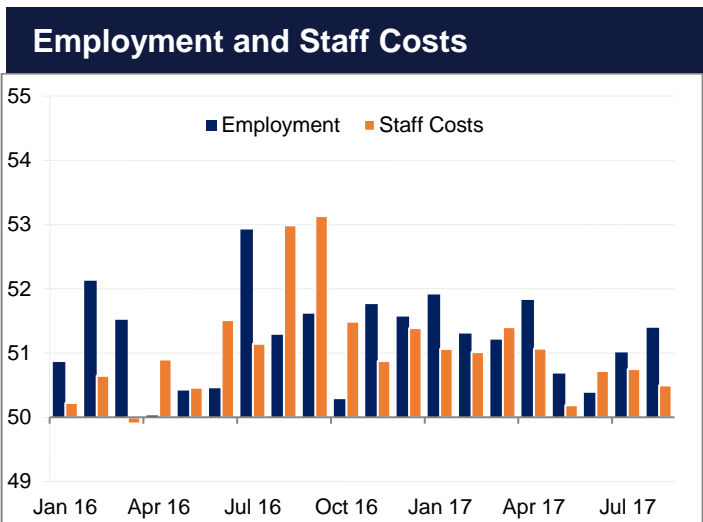
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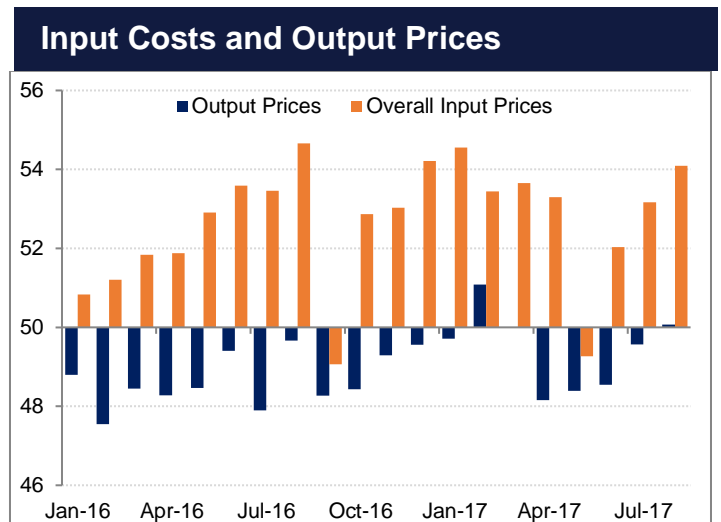
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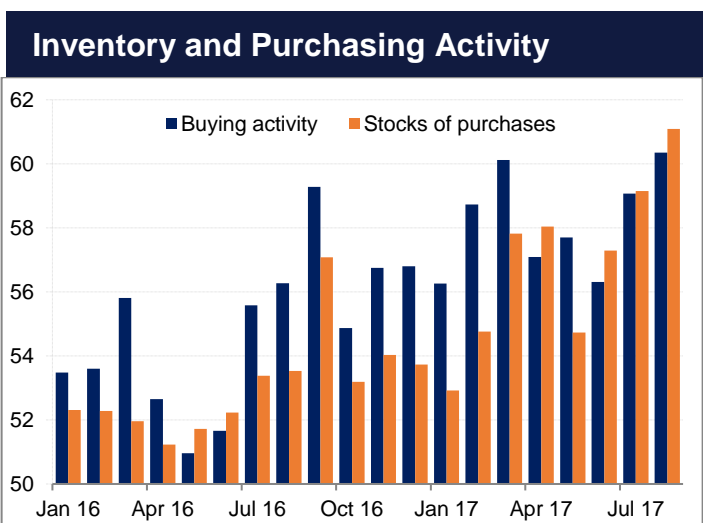
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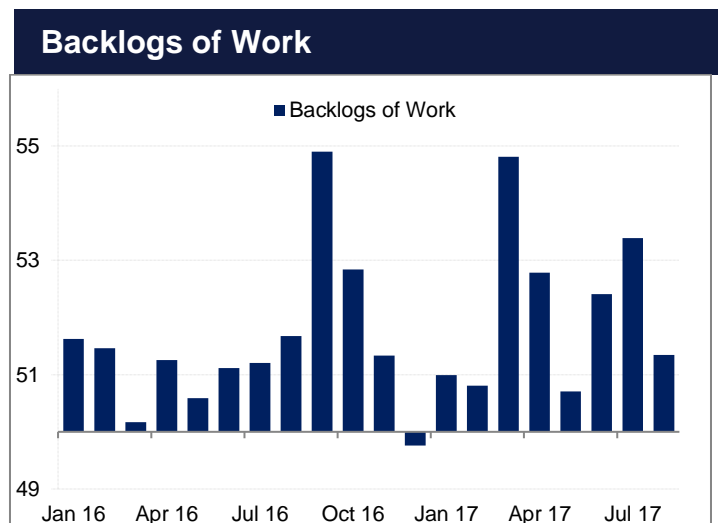
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Emirates NBD Research & Treasury Contact List

Emirates NBD Head Office
12th Floor
Baniyas Road, Deira
P.O.Box 777
Dubai

Jonathan Morris
General Manager Wholesale Banking
JonathanM@emiratesnbd.com

Aazar Ali Khwaja
Group Treasurer & EVP Global Markets &
Treasury
+971 4 609 3000
aazark@emiratesnbd.com

Tim Fox
Head of Research &
Chief Economist
+9714 230 7800
timothyf@emiratesnbd.com

Research

Khatija Haque
Head of MENA Research
+9714 230 7803
khatijah@emiratesnbd.com

Anita Yadav
Head of Fixed Income Research
+9714 230 7630
anitay@emiratesnbd.com

Shady Shafer Elborno
Head of Macro Strategy
+9714 2012300
shadyb@emiratesnbd.com

Athanasios Tsetsonis
Sector Economist
+9714 230 7629
athanasiost@emiratesnbd.com

Edward Bell
Commodity Analyst
+9714 230 7701
edwardpb@emiratesnbd.com

Mohammed Al-Tajir
Manager, FX Analytics and Product Development
+9714 609 3005
mohammedtaj@emiratesnbd.com

Aditya Pugalia
Analyst
+9714 230 7802
adityap@emiratesnbd.com

Sales & Structuring

Group Head – Treasury Sales
Tariq Chaudhary
+971 4 230 7777
tariqmc@emiratesnbd.com

Saudi Arabia Sales
Numair Attiyah
+966 11 282 5656
numaira@emiratesnbd.com

Singapore Sales
Supriyakumar Sakhalkar
+65 65785 627
supriyakumars@emiratesnbd.com

London Sales
+44 (0) 20 7838 2241
vallancel@emiratesnbd.com

Egypt
Gary Boon
+20 22 726 5040
garyboon@emiratesnbd.com

Emirates NBD Capital

Ahmed Al Qassim
CEO- Emirates NBD Capital
AhmedAQ@emiratesnbd.com

Hitesh Asarpota
Head of Debt Capital Markets.
+971 50 4529515
asarpotah@EmiratesNBD.com

Investor Relations

Patrick Clerkin
+9714 230 7805
patricke@emiratesnbd.com

Group Corporate Affairs

Ibrahim Sowaidan
+9714 609 4113
ibrahims@emiratesnbd.com

Claire Andrea
+9714 609 4143
clairea@emiratesnbd.com
