



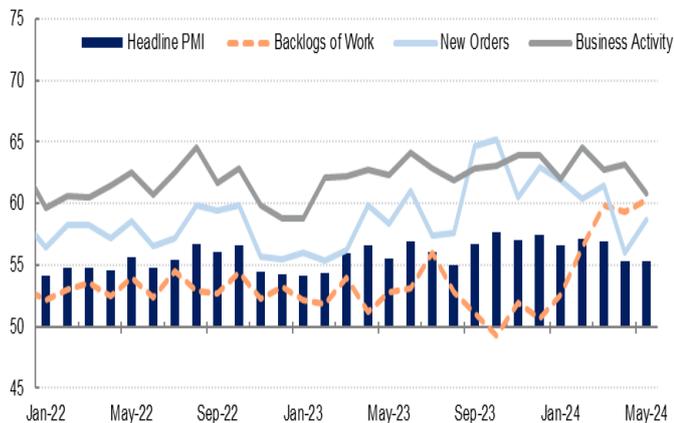
Regional May PMI surveys

Economics | 5 June 2024

UAE

The S&P Global PMI survey for the UAE was at 55.3 for the second month running in May, with the second quarter looking somewhat weaker than Q1, albeit still comfortably in 50.0-plus expansionary territory and higher than the series average. It should be noted that weather-related disruptions have impacted the survey responses over the past two months, meaning that there could be a pick-up hereafter as these pass through.

UAE PMI & subcomponents



Source: S&P Global, Emirates NBD Research

One of the most apparent impacts of the rain is on backlogs of work, which have continued to rise at a quicker pace each month. This was already a mounting issue prior to April's heavy rainfall as businesses faced high levels of demand and disruption to supply chains caused by Red Sea shipping disruption, and the subsequent extraordinary weather events exacerbated this further. The rise in May was the steepest in the 15-year long series history and as they have sought to bring this back down, firms have continued to expand headcount. The employment subcomponent was at a three-month high in May and above the series average.

Output rose at a slightly slower pace in May, growing at the slowest pace since January last year, but it

Regional May PMI surveys

continues to signal strong expansion nonetheless. The coming months look positive also with ongoing robust growth in new orders, which have picked up again in May following the rain-driven slowdown in April. The growth continues to be driven by domestic activity as while new export orders did turn positive again after April's decline, this was only marginal.

Overall input costs for businesses rose at the fastest pace since July 2022 in May, driven by higher purchase prices and staff costs. Higher petrol prices were one contributor, and some businesses needed to replenish flood-damaged stock and equipment. A need to compensate staff for a higher cost-of-living saw staff costs rise at the fastest pace in six years, albeit still fairly modest. With these higher costs squeezing margins, UAE businesses passed on higher prices to customers, raising output prices for the first time since April 2021.

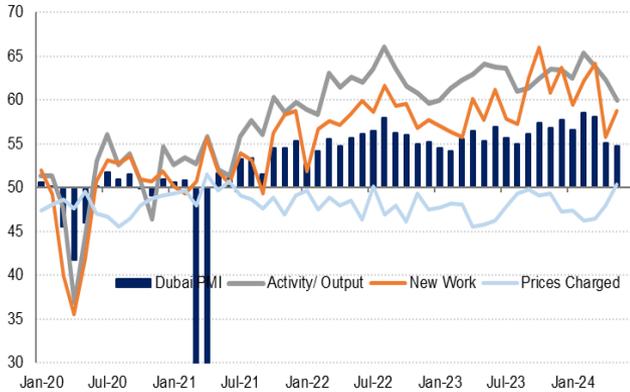
Businesses remained positive in this strong growth environment, and business optimism ticked up from April's lull. Around a quarter of respondents expect greater output in 12 months' time, compared to just 1% that expect a decline. Despite the impact of the April rains, the UAE economy has continued to perform strongly so far in 2024, as evidenced by these PMI survey results. This contributed to our recent non-oil growth forecast upgrade for the UAE to 5.0% this year from 4.5% previously.

Dubai

Dubai's PMI slipped to 54.7 in May, from 55.1 in April and compared with an average of 57.7 over the first quarter. May's survey marked the weakest reading for the Dubai index since February 2023, but the greater impact of the rains on Dubai as compared with Abu Dhabi and some other parts of the UAE likely explains this more pronounced slowdown.



Dubai PMI & subcomponents



Source: S&P Global, Emirates NBD Research

New work orders accelerated again after April's slower growth, and business expectations rose to a seven-month high. Firms expanded headcount more rapidly than over the previous two months in order to cope with ongoing growth in business. Similar to the national reading, input costs rose at the fastest pace since July 2022, and firms raised their selling prices for the first time since July 2022 also. Should this trend entrench, it could see upwards pressure on Dubai's CPI inflation measure, which rose to 3.9% y/y in May on the back of higher petrol costs.

Construction

The construction index picked up modestly in May, to 52.6, from 52.4 previously. This makes it the only individual Dubai sector covered by the data to have grown more quickly in May than in April, but it nevertheless remains weaker than seen in the first quarter. Input costs saw a particularly strong rise to the fastest level since October, and businesses have been passing these higher costs on to customers for two consecutive months now, with output prices rising at a more meaningful pace in May compared to April's marginal rise. Output accelerated sharply as the weather was more amenable to work in May, and new orders also accelerated. Nevertheless, headcount grew at a softer pace in May.

Travel & tourism

Travel & tourism PMI slowed to 55.0 in May, down from 55.3 in April. While the sector continues to grow, it has

been at a markedly slower pace over the past two months as compared with Q1. Output was still expanding rapidly, but at a slightly softer pace than in April. However, new work accelerated again after April's lull, and firms hired more aggressively as a result. Input prices also increased, albeit at a slower pace than in construction, leading firms to raise their selling prices for the first time since last August.

Wholesale & retail trade

The wholesale & retail trade sector also slowed further in May, falling to 54.9, from 56.7 on the previous reading. There was a marked slowdown in output, although this remained indicative of rapid growth in the sector, and firms expanded headcount for the second month running as business expectations rose to a seven-month high. The sector was the only one to continue discounting to customers with prices charged falling for the 26th consecutive month even as input costs continued to grow, albeit at a slightly softer pace than seen in April.

Saudi Arabia

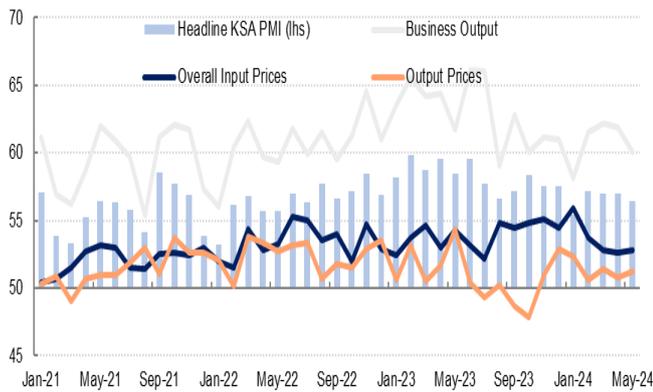
Saudi Arabia's Riyadh Bank PMI survey slowed to 56.4 in May, down from 57.0 the preceding two months. While still comfortably above the neutral 50.0 line, this marked the slowest expansion for the non-oil private sector since the surprise downturn in January and it was the second-lowest reading in 22 months. The index has averaged moderately slower over the first five months of this year as compared to the same period in 2023, in line with our projection that non-oil GDP growth will slow to 4.0% this year, from 4.4% in 2023. Q1 private non-oil growth was 2.8% y/y, compared with 5.3% in Q1 2023.

Looking at the index subcomponents, the slowdown was fairly broad based. Business output slowed to the lowest level since January, but it is worth reiterating that this was still at a strongly expansionary level as firms noted strong demand. New orders growth also slowed, falling to the slowest level since April 2022, with a scaling back of some projects in the initial stages



potentially weighing on the measure, although there were still substantial orders. New export orders also expanded at a slightly softer pace than seen the previous month, and at a softer pace than total orders, suggesting that it remains the domestic economy that is driving growth.

Saudi Arabia PMI & subcomponents



Source: Riyadh Bank, Emirates NBD Research

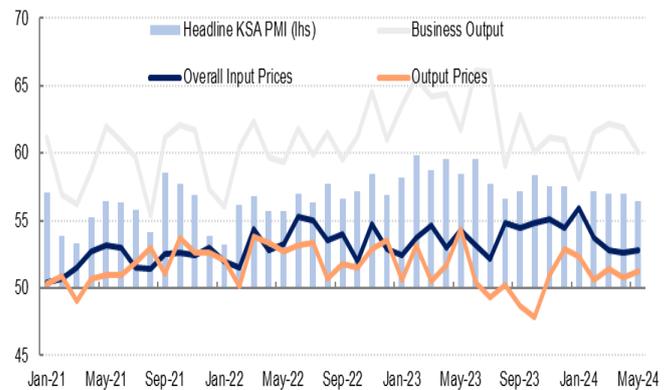
With growth still strong, even if slightly slower, firms expanded headcount once more in May after the measure had turned contractionary in April. Firms noted that they hired to help ease backlogs of work, which fell in May following an anomalous spike in April. The business confidence sub-index fell to the lowest level in four months, but more respondents (8%) expect an uptick in activity over the next 12 months compared with those that expect a decrease (1%).

Overall input prices rose at a slightly faster pace in May than in April, with both purchase cost and staff cost rises accelerating. Firms noted that higher global commodity prices drove higher purchase costs, although the services sector saw a fall. Staff costs also rose more rapidly as firms looked to retain staff in a competitive environment and compensate employees for higher cost of living expenditures. Saudi firms continued to raise their output prices, which rose for the 17th month running, in contrast to the UAE where firms have been discounting, although this was fairly marginal and is unlikely to exert much upwards pressure on the CPI inflation measure which fell to 1.6% y/y in April, down from 1.7% in March.

Egypt

Egypt's S&P Global PMI survey saw a substantial improvement in May as it rose to 49.6, from 47.4 in April. While this is still below the neutral 50.0 line – thereby marking the 42nd consecutive contractionary reading for the Egyptian private sector – it is the shallowest contraction since August 2021 and there is considerable evidence in the index subcomponents that Egypt's economy is starting to turn a corner. Egypt has been under substantial financial and economic pressure over the past several years, but a flurry of renewed international support began in February with a pledge by the UAE to invest USD 35bn and now totals USD 54bn with additional pledges from the IMF, World Bank, and EU. This was met by renewed reform efforts from the Egyptian government, not least a devaluation to the EGP and a commitment to a durably flexible exchange rate regime.

Egypt PMI & subcomponents



Source: S&P Global, Emirates NBD Research

The benefit of this is evident in the purchase costs component of the survey in particular, as this rose at the slowest pace in four years. Prior to the currency float, the parallel market rate was far wider than the current level of EGP 47.1/USD, and FX is now far more widely available, so the devaluation of the official rate has counterintuitively made price pressures less salient. These easing pressures are boosting Egyptian businesses generally, and both output and new orders were only marginally contractionary in May, and



services and construction actually produced more last month as compared to April. New export orders were positive as firms benefitted from a stable exchange rate and foreign customers boycotting products from elsewhere.

In this environment, there was a solid uptick in business optimism, now at its highest level since October 2023, although it is still lower than the series average with only 12% of respondents expecting greater output in a year's time. Firms were hiring though as they reported greater confidence towards new order growth. Firms also increased their pay to staff as employees faced higher living costs.

While firms did raise their output prices, this was at the same pace as seen in April which was a two-year low and markedly softer than was the trend over the preceding months. Indeed, services was the only sector to report higher prices charged, with discounting seen elsewhere. The PMI survey results support our view that disinflation is entrenching in Egypt, and we expect that annual CPI will continue to slow after declining in both March and April. With this in mind we forecast that the CBE will keep its benchmark rates on hold at its MPC meeting later this month, with 200bps of cuts pencilled in in the fourth quarter. On the growth front, we expect a slowdown to 3.0% this year (ending June), from 3.7% last year, but in 2024/25 we project a pick-up to 5.1% as conditions continue to improve.



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