

Middle East

Egypt remains weak spot in the Middle East economy

- **Marked improvements in business conditions in Saudi Arabia and the UAE**
- **Output growth accelerates in Turkey**
- **Egyptian economy remains in recession**

September PMI data pointed to further solid improvements in business conditions across the UAE's and Saudi Arabia's non-oil producing private sectors, while Turkey's manufacturing sector moved up a gear, with output and new orders increasing at the sharpest rates since the beginning of the year. Egypt's economy, in contrast, remains mired in recession.

Markit's PMI™ (Purchasing Managers' Index™) surveys currently cover four of the six largest economies in the Middle East, namely Egypt, Saudi Arabia, Turkey and the UAE (Iran and Israel being the other two). There are some variations in survey coverage worth noting from the outset: the HSBC Turkey Manufacturing PMI provides a monthly indication of business conditions across the country's manufacturing economy, while data for Egypt, Saudi Arabia and the UAE cover non-oil producing private sector companies. The headline figure derived from these reports is the PMI™. Readings above 50.0 signal an improvement in business conditions on the previous month, while readings below 50.0 show a deterioration.

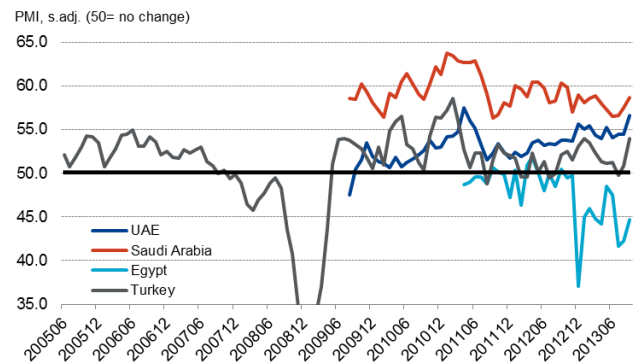
Growth accelerates across most Middle Eastern regions

The latest business survey results signalled improving operating conditions in three out of the four Middle Eastern regions currently covered by PMI surveys. Non-oil producing private sector companies in **Saudi Arabia** and the **UAE** reported the strongest improvements, with the headline PMIs posting a six-month high of 58.7 and a 29-month high of 56.6, respectively.

Operating conditions in **Turkey's** manufacturing sector also improved at a faster pace, with the headline PMI climbing to 54.0, up from August's 50.9.

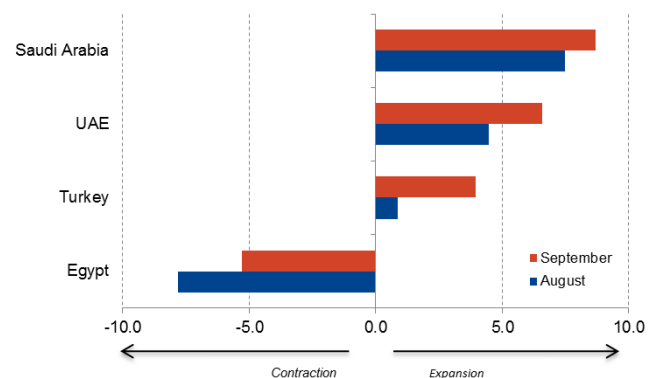
Despite expansion in Saudi Arabia, the UAE and Turkey, **Egypt's** non-oil producing private sector remained in recession, with the headline PMI at 44.7, up from 42.2 in August. Operating conditions in the country have now deteriorated for 12 months in succession.

PMI Headline Index



Sources: Markit, HSBC, SABB.

Countries ranked by headline PMIs - Index points from 50.0 no-change mark



Sources: Markit, HSBC, SABB.

Detailed data summary: Output Index

Country	Coverage	Jun-13	Jul-13	Aug-13	Sep-13
Egypt	Private sector*	▼	▼	▲	▲
Saudi Arabia	Private sector*	▼	▼	▲	▲
UAE	Private sector*	▼	▲	▲	▲
Turkey	Manufacturing	▲	▼	▲	▲

- ▲ Above 50, rising
- ▼ Above 50, falling
- ▼ 50, falling
- ▲ Below 50, rising
- ▼ Below 50, falling
- * Non-oil

Sources: Markit, HSBC, SABB.

Saudi Arabia: New export orders rise at fastest pace series history

September data signalled further sharp increases in both output and new orders at Saudi Arabian non-oil producing private sector firms. Output growth was the strongest in five months, while new orders increased at the fastest pace in almost a year. Panel respondents linked growth of new work to a combination of higher construction business, increased sales efforts and improved market conditions.

Client demand from foreign markets also strengthened substantially in September, with new export business growth accelerating to the fastest since data collection began in August 2009. Anecdotal evidence suggested that the rise in new export orders was mainly linked to good market conditions.

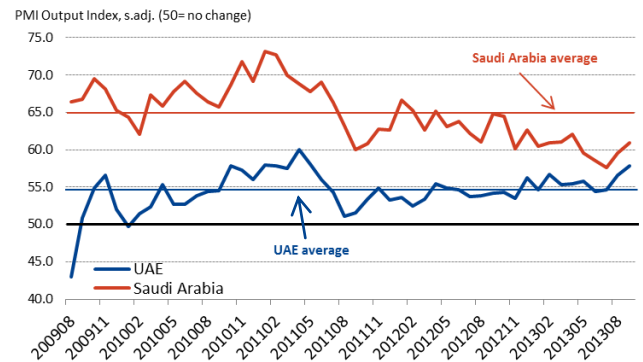
Meanwhile, companies hired additional workers in order to meet increased workloads. The rate of job creation was up slightly from August.

UAE: Output growth accelerates as new orders rise at fastest pace in survey history

The latest survey results signalled a sharp increase in activity at the UAE's non-oil producing private sector companies, with the pace of expansion the fastest since May 2011. Anecdotal evidence suggested that output growth was largely linked to increased new business, which rose substantially and at the fastest rate in the 50-month survey history. According to panellists, larger new business volumes was driven by improved market conditions, increased sales efforts and the introduction of new products.

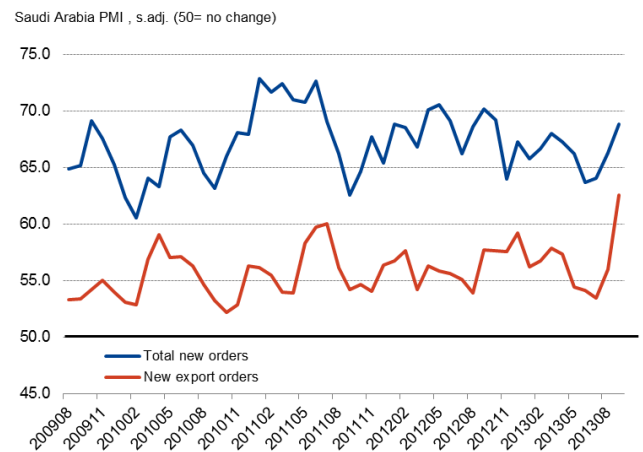
Following a trend observed throughout most of the survey history, input costs increased in September. Moreover, the rate of cost inflation accelerated to the highest in seven months. While purchase prices rose at a largely unchanged pace from August, average staff costs increased at the fastest pace since June 2011. Survey respondents attributed higher salary bills to increased living costs and performance based pay rises.

Comparison Output Index



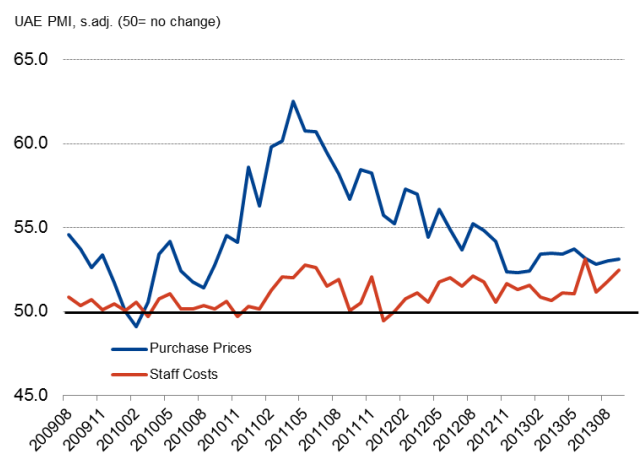
Sources: Markit, HSBC, SABB.

Saudi Arabia: Marked increase in total new orders partly reflecting sharp rise in new export work



Sources: Markit, HSBC, SABB.

UAE: Both purchase prices and staff costs rise



Sources: Markit, HSBC.

Egypt: Output and new orders fall sharply, although at weakest rates in three months

Egypt's non-oil producing private sector companies reported a further fall in output levels in September, with panel members commenting on a lack of raw materials and low levels of market activity. While the rate of contraction eased to a three-month low, the overall decline remained sharp. New order intakes also decreased at a marked, but slower, pace. Panellists attributed lower new business to fragile political and economic conditions. Meanwhile, strikes at ports, the suspension of air traffic and political problems elsewhere in the Middle East all reportedly contributed to the latest decline in new export orders.

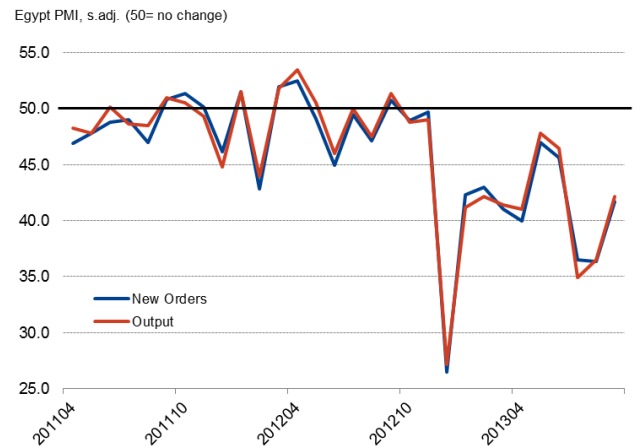
Lower volumes of new business was the main driver behind a further decline in employment levels. Payroll numbers have now fallen for 17 months in succession during September, and the latest rate of job losses was the quickest since April.

Turkey: Manufacturing production rises at fastest pace since January

September data signalled the strongest expansion in production at Turkish manufacturers since January. Panel members commonly linked this to stronger domestic and foreign demand. Total new orders similarly rose at the quickest pace since the beginning of the year, partly reflecting a second successive monthly increase in export work. Anecdotal evidence suggested that increased market activity and expansions into new markets accounted for much of the latest rise in new export business.

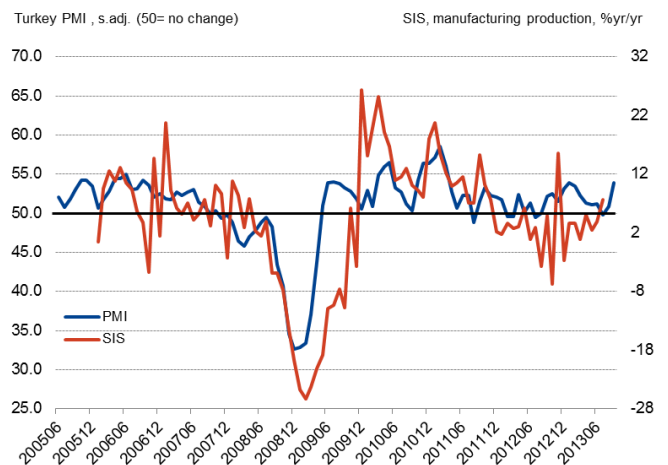
Concurrently, inflationary pressures persisted into September, with cost inflation accelerating to the highest for almost two years. A combination of unfavourable exchange rates and increased raw material prices resulted in the latest rise in input prices. In response to higher cost burdens, Turkish manufacturers raised their selling prices in September. Charge inflation was the strongest in nearly two-and-a-half years, and above the long-run average.

Egypt: Output and new orders fall further



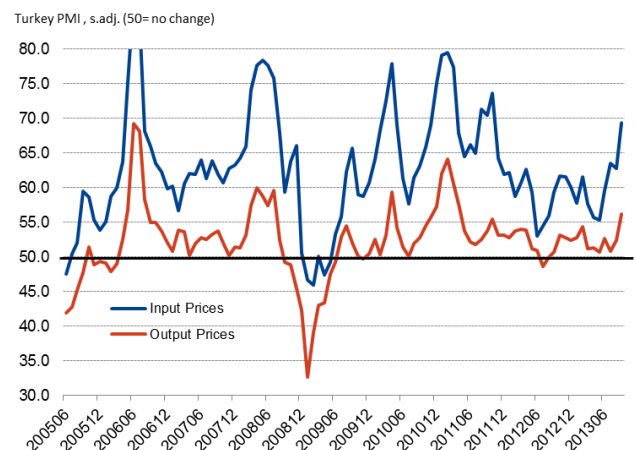
Sources: Markit, HSBC.

Turkey: Output growth strengthens to eight-month high



Sources: Markit, HSBC, Ecwin.

Turkey: Input and output price inflation accelerate



Sources: Markit, HSBC.

Oliver Kolodseike

Economist

Markit

Tel: +44 1491 461003

Email: oliver.kolodseike@markit.com

For further information, please visit www.markit.com