PMI ticks up as employment growth strengthens in September

Key findings

- Job numbers rise at fastest rate in 13 months
- Output falls, albeit at slower pace
- Export sales increase for third month running

Business conditions in the Egypt non-oil private sector deteriorated at only a marginal rate in September, as firms reduced output at a softened pace. Total sales fell, but export orders continued to increase. Employment growth strengthened to a 13-month high. Input cost inflation eased, while price discounting at some firms led to a weaker mark-up of selling charges.

The headline seasonally adjusted IHS Markit Egypt Purchasing Managers’ Index™ (PMI®) – a composite gauge designed to give a single-figure snapshot of operating conditions in the non-oil private sector economy – rose fractionally from 49.4 in August to 49.5 in September, to signal a marginal deterioration in the health of the sector. The reading was nonetheless above the series average.

A contributing factor to the below 50.0 PMI figure was a second successive monthly fall in output at Egyptian firms. Companies continued to pare back activity as new business volumes dropped further. However, the rate of reduction was noticeably weaker than in August. The drop in output led to another rise in input inventories over the month, which allowed firms to keep purchasing activity broadly unchanged.

On the demand side, total new business received by Egyptian non-oil companies declined for the second month running. In contrast to output levels, the rate of decrease gathered pace in September as panellists continued to report poor economic conditions. Demand weakness was mainly domestic though, as there was a slight increase in foreign sales, the third in as many months. The pace of growth was weaker than in July and August, however.

Comment

Commenting on the latest survey results, David Owen, Economist at IHS Markit, said:

“The headline Egypt PMI was again at an above-average level in September, registering 49.5, up from 49.4 in August, to signal only a marginal deterioration in business conditions. Output and new orders were again reduced, although output fell at a weaker pace than in the previous month.

“The fall in new orders was mainly domestic, with panellists reporting a third consecutive increase in foreign sales, albeit one that was softer than in August.

“A notable downside was a weakening of sentiment in September, which fell to a near three-year low. Higher prices for fuel and other raw materials dampened some firms’ expectations. Falling sales also harmed the overall outlook. That said, panellists still expect activity to improve over the next 12 months.”

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Despite challenging demand conditions, the labour market remained strong in September, as survey data indicated a further increase in workforce numbers. The rise was slightly quicker than in August, marking the fastest rate of employment growth for 13 months. Firms generally linked this to the need for additional labour. However, backlogs rose for the sixth successive month.

Notably, supplier performance improved for the third month in a row in September. The rate of improvement was the strongest on record, but only modest.

Meanwhile, price pressures at Egyptian companies softened in September. There was a weaker, albeit still sharp, rise in purchasing costs, with respondents noting higher prices for fuel, energy and metals, among other raw materials. However, an improvement in the exchange rate against the US dollar helped to ease inflationary pressure. At the same time, staff costs increased at the quickest rate since last December, as companies looked to improve employee satisfaction.

Output charges followed the trend for input prices, with companies raising their charges at a reduced pace compared to August. In fact, some businesses lowered their fees in the wake of falling demand over the past two months.

Finally, expectations for future business activity were down markedly from the 18-month high in August, with September data indicating the weakest level of positive sentiment since October 2016. An extended fall in new orders, along with higher input prices, eased firms’ outlook for the coming year.