

Embargoed until 0615 EET (0415 UTC) 5 January 2021

IHS Markit Egypt PMI®

Business conditions worsen in December amid second wave of COVID-19

Key findings

Output levels fall solidly as rising infections subdue demand

Strongest increase in inventories since mid-2012

Rate of job shedding quickens

Data were collected 4-15 December 2020.

Egyptian non-oil businesses saw a renewed decline in operating conditions at the end of 2020, reflecting solid falls in both output and new orders as rising coronavirus disease 2019 (COVID-19) cases sparked a reduction in client demand. Notably, the downturn led to a build-up of excess inputs, with inventories rising at the strongest rate since June 2012.

Employment cuts meanwhile accelerated to the fastest seen in four months, although increased hopes surrounding COVID-19 vaccines meant firms were more optimistic of a recovery during 2021.

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 – fell below the 50.0 no-change mark in December, registering 48.2 to signal a moderate deterioration in the health of the non-oil sector. After posting 50.9 in November, the latest reading ended a three-month upturn in the economy that followed a sharp downturn caused by the pandemic.

Firms reported a solid fall in business activity at the end of the year, that was often linked to a drop in sales as customers became wary of a renewed increase in COVID-19 cases. With the possibility of tighter public health measures in the future, surveyed businesses indicated that clients had held off from completing new orders.

That said, the downturns in output and sales were notably softer than those seen in each month throughout the first half of 2020, and considerably weaker than the nadir set in April at the height of the pandemic.

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Egypt 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 latest PMI data pointed to a downturn in the Egyptian non-oil economy at the end of the year, reflecting a slightly depressed market environment as domestic COVID-19 cases rose again. Fears of a 'second wave' of the pandemic and renewed lockdown measures meant some businesses held off from completing new orders in December, despite increased optimism for the future as COVID-19 vaccines begin to be distributed around the world.

"The decline in sales was a surprise to those firms that made additional purchases earlier in the fourth quarter, as stocks of unused inputs built up at the quickest rate since mid-2012. Purchasing activity was subsequently reduced sharply, while job numbers fell at the strongest rate since August."

With demand falling, companies reported an excess of input stocks in December, as the volume of inventories rose at the quickest rate for eight-and-a-half years. Consequently, new purchasing activity was sharply reduced, partly offsetting expansions seen in the prior two survey periods.

Backlogs were stable for the first time in eight months in December as capacity pressures eased, leading to a faster reduction in workforce numbers. Notably, the fall in employment was the strongest since August, albeit still only moderate overall.

On the price front, Egyptian non-oil firms registered only a slight mark-up in selling charges at the end of the year, the slowest recorded in four months. Higher charges were generally linked to the pass-through of greater costs to clients, as raw materials such as copper and iron were sharply up in price. However, some firms lowered their charges amid efforts to attract new customers.

Meanwhile, firms faced a longer wait for deliveries during the month, as lead times extended for the first time since June. That said, the overall decline in supplier performance was fractional.

Finally, the outlook for the next 12 months of activity improved strongly in December, as Egyptian companies placed increased hopes of a recovery in 2021. Optimism around effective COVID-19 vaccines led the improvement, while there were also expectations of new contracts and business expansion. However, the overall level of positivity was weaker than the series average.

New Export Orders Index
sa, >50 = growth since previous month



Source: IHS Markit.

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Methodology

The IHS Markit Egypt 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 2020 data were collected 4-15 December 2020.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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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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