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IHS Markit Egypt PMI®

Sentiment improves in October as PMI signals soft decline in business conditions

Key findings

Sentiment strengthens notably from September

Output and new orders fall moderately

Employment rises for third month running

October data signalled a slight deterioration in business conditions at Egyptian firms, with new orders declining for the third month running and output also falling. Selling charges increased, but only slightly as some companies offered discounts to drive up sales. Expectations towards future activity improved strongly, with firms also engaging in greater hiring activity.

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 slightly from 49.5 in September to 49.2 in October, indicating the third successive month of deterioration. Despite this, the reading was stronger than the average for the series (48.4).

Egyptian companies noted a modest fall in activity levels during the month. The pace of decline quickened from September, with survey participants reporting that lower sales and liquidity problems led to the overall reduction. This contributed to a further increase in work-in-hand, albeit one that was the slowest since July.

Meanwhile, demand conditions in the non-oil private sector remained subdued, as companies commented on a lack of new contracts during October. The rate at which new orders fell was the fastest since May, albeit still relatively modest. Sales to foreign clients were also down, the first time in four months, with exporters linking this to a poor market environment.

Firms additionally mentioned that weak employment levels in the economy had hampered demand. This was highlighted by a trend of declining payroll numbers earlier this year. Businesses

continued...

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 headline PMI dropped slightly to 49.2 in October which, whilst signalling a marginal deterioration in operating conditions, was still above the series average of 48.4, and thus pointed to a softer decline than usual.

"Sales dropped for the third successive month, with new orders from abroad also sliding into contraction territory. Firms noted that market conditions were weak at present, leading to a reduction in the amount of new contracts. Labour market conditions have reportedly been slow, although continued hiring activity among surveyed firms suggests a possible improvement in the future.

"Moreover, after falling to a near three-year low in September, the forward-looking business outlook improved greatly during October, signalling regained hopes of stronger market activity in the months ahead."

have expanded their workforces in each of the past three months, although rates of growth were marginal.

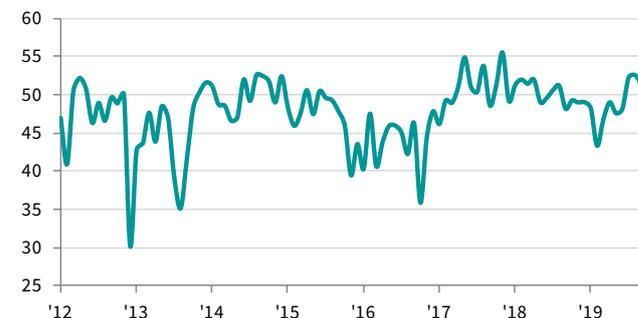
Companies curtailed input buying during October. The latest reduction was the strongest since March, albeit only slight. As such, stock levels grew just marginally, with some firms linking the build-up to lower output. At the same time, falling input purchases allowed vendors to shorten delivery times, extending the current sequence of improvement to four months.

On the price front, a drop in new orders encouraged Egyptian firms to keep output change inflation to a minimal, with prices rising to the least extent for four months. In fact, a number of businesses reduced their fees in order to attract new customers. However, this was offset by other firms raising prices due to higher cost burdens.

Meanwhile, input cost inflation dropped to the weakest since June. Increases arose from a sharp rise in salaries, often related to higher living costs. On the flip side, purchase prices grew at a softer pace, as higher bills and customs fees were offset by lower raw material prices and an improvement in the exchange rate against the US dollar.

Looking ahead, the level of business sentiment jumped from September's near three-year low, with 48% of panellists expecting activity to rise over the coming 12 months. Despite lower current sales, firms were hopeful of future contracts leading to a rebound in activity.

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.

October 2019 data were collected 11-23 October 2019.

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

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