Downturn in non-oil private sector continues in February

Key findings

Output falls for seventh month in a row, albeit at a slower rate

Export sales continue to drop sharply

Subdued cost pressures provide scope for further discounting

Egypt's non-oil private sector remained in contraction in February, seeing further declines in output, new orders and employment. The combination of soft demand and subdued cost pressures meanwhile led firms to reduce average charges for goods and services, albeit with the rate of decline easing for the third month in a row. Business sentiment towards future output remained positive, but weakened to a five-month low.

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 – registered in contraction territory for the seventh month in a row in February. At 47.1, the latest reading was up from January’s near three-year low of 46.0 but still indicative of another solid downturn in the non-oil private sector economy.

Weakness continued to stem from softer underlying demand, with non-oil companies noting a seventh straight monthly decrease in new business, albeit with the rate of decline easing since the previous survey period but remaining solid by historical standards.

Commenting on the latest survey results, Phil Smith, Principal Economist at IHS Markit, said:

"Egypt's non-oil private sector remained mired in a downturn in February. Though the PMI improved from January’s near three-year low, the latest data continue to show broad-based weakness across output, new orders and employment.

"Evidence from the survey indicates a vicious cycle of weak labour market conditions leading to lower domestic sales, and subsequently further staff cuts.

"It’s encouraging to see that firms are attempting to break this cycle by reducing output prices as part of efforts to boost sales.

"Unfortunately for local businesses, the challenging domestic market conditions are being compounded by weakness in external demand, with export orders continuing to fall sharply in February.

"The outbreak of the coronavirus in China is not only reportedly weighing on export sales, but also dampening business confidence."
Faced with weaker demand and reduced output requirements, non-oil companies scaled back both employment and purchasing activity during February. Staffing numbers fell at the fastest rate since September 2017, while the drop in buying levels was the most marked in almost three years.

Stocks of purchases decreased accordingly. At the same time, the reduction in demand for raw materials and other inputs was reflected in a stabilisation of supplier delivery times, following deteriorations in the each of the previous two months.

On the cost front, average prices paid for purchases rose only marginally in February, continuing the trend observed over the past four months. There was a further increase in staff costs, though again the rate of inflation was relatively mild. Overall operating expenses thereby increased only modestly, and at one of the slowest rates over the series history (since April 2011).

Subdued cost pressures provided non-oil firms with the opportunity to try to boost sales through discounts. February saw average prices charged for goods and services fall for the fourth month in a row, marking the longest sequence of decline for five years. That said, the extent to which selling prices were reduced was the weakest in the current sequence.

Lastly, February’s survey showed that, on average, non-oil firms remained upbeat about the outlook for activity over the next 12 months. That said, the degree of optimism eased for the second month in a row to the weakest since last September, with fears about the impact of the coronavirus on the Chinese economy weighing on sentiment.