

IHS Markit Egypt PMI®

Rising demand and inflationary pressures drive record increase in purchasing activity in August

Key findings

Output and new orders grow for second time in three months

Input cost inflation reaches two-year high as material prices rise

Firms expand purchasing activity at quickest rate in the series

Data were collected 12-20 August 2021.

Growing concerns over raw material prices and signs of a pick up in demand led to a record expansion in purchasing activity among Egyptian firms in August, according to the latest PMI™ survey data. Input prices rose at the quickest rate for two years, leading to a sharp increase in output charges amid worries that escalating costs would dampen firms' profits. Meanwhile, new order growth returned for the second time in three months, resulting in a slight increase in both output and employment alongside strong optimism that growth will be sustained over the coming year.

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 – posted at 49.8 in August, up from 49.1 in July and just shy of June's seven-month high.

Whilst still in contraction territory, the PMI masked renewed upticks in output and new orders in August to suggest that businesses had taken further steps to recover from the COVID-19 pandemic. Panellists widely pointed to a rebound in market activity and an increase in tourism numbers as travel reopened. As a result, employment levels rose for the second month running. That said, all three indices remained close to the 50.0 neutral threshold in August, suggesting that growth rates were only marginal.

At the same time, input price inflation picked up to its highest level in exactly two years, which firms almost wholly related to rising commodity prices such as metals, timber and plastics. Higher prices correlated with the current global picture of supply shortages and delays linked to the pandemic and shipping

continued...



Source: IHS Markit.

Comment

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

"August saw Egyptian non-oil output and new orders creep upwards for just the second time in nine months, following a renewed upturn in June. In addition, both of these indices posted above their long-run averages for the fourth month in a row, and gave further indication that the economy is on a second phase of recovery from the pandemic after an initial rebound towards the end of 2020.

"However, PMI data also showed the widespread risk of inflation, as input prices picked up at the fastest rate since August 2019. Selling prices were raised to the greatest extent in three years, while firms also sought to create buffer stocks amid fears that costs will continue to increase. Consequently, purchasing activity rose at the strongest rate on record, although global supplier delays meant that firms are yet to see many of these inputs arrive."

issues. Conversely, staff costs fell for the first time in six months.

The marked rise in input prices was passed on to consumers to a much greater extent than in July, as firms reported efforts to improve their profit margins. Notably, output charge inflation accelerated to the fastest since August 2018. As well as increasing commodity prices, firms noted that rises in transport costs and customs fees led them to mark up their charges.

Amid fears that rising new orders and supply-side pressures would lead to further price increases, Egyptian firms sought to build their input stocks in August. Purchasing activity expanded for the first time in nine months and at the quickest pace since the series began in April 2011.

Nevertheless, despite a record improvement in delivery times, businesses found that global supplier delays left them short of input stocks. Overall inventories decreased for the first time in three months as firms used existing stocks in order to boost their output.

With a second phase of economic recovery taking shape, over half of all surveyed firms projected output to grow over the next 12 months, linked to expected improvements in demand and capacity. As a result, the degree of positivity remained stronger than its long run trend for the fourth month running.

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.

August 2021 data were collected 12-20 August 2021.

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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