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IHS Markit Egypt PMI®

Output and new business fall in March, but optimism builds amid vaccine rollout

Key findings

Non-oil business activity decreases at fastest rate since June 2020

Exports cool-off and COVID-19 restrictions lead new orders lower

Business expectations soar as vaccine rollout accelerates

Data were collected 12-23 March 2021.

March survey data signalled a faster decline in Egyptian non-oil private sector operating conditions, as new business fell for a fourth straight month and output decreased at the sharpest rate since last June. On the upside, the national vaccine rollout accelerated, improving hopes of a strong economic recovery later in the 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 – dropped for the first time in three months in March, from 49.3 in February to 48.0, signalling a modest deterioration in the health of the sector. This also marked the lowest reading since June 2020 and pointed to the quickest downturn since the initial impact of the coronavirus disease 2019 (COVID-19) pandemic.

The decline in the headline figure was largely driven by faster reductions in output and new business at the end of the first quarter. Egyptian businesses saw a solid fall in activity that was the most marked for nine months, while new business inflows declined at the joint-quickest rate in that same period. Nearly 12% of survey respondents saw a fall in new work from February, often attributing this to weak market demand and ongoing COVID-19 restrictions. Meanwhile, export sales were down for the first time in three months, albeit following a survey-record upturn.

The drop in sales allowed firms to work on backlogs during March, which fell for the third month in a row. Softer capacity pressures contributed to a reduction in workforces, extending the run of job losses to almost a year-and-a-half.

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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:

"Egypt's non-oil sector saw a stronger, but modest, downturn in March, extending the contraction seen since the end of 2020 and compounding worries about the economy's recovery from the pandemic. Client demand remained subdued as new order inflows fell solidly, whilst export sales dropped for the first time in three months. Consequently, employment, backlogs and input purchases fell further, although this helped to soften cost inflationary pressures.

"The outlook for future business activity was more positive, as businesses predicted that economic conditions will start to pick up soon as vaccines feed through to a greater reopening of the economy. The expanding of the vaccine programme to more demographics played a key part in boosting expectations. Hopefully this is a sign of improving demand in the near term and a recovery in output in the second half of the year."

At the same time, purchasing activity in the non-oil sector fell markedly, with respondents mentioning that a drop in new business inflows and previous overstocking led to weaker demand for inputs. Stocks of purchased items decreased modestly, while firms experienced the worst delay to input deliveries since last June.

Inflationary pressures were again recorded in the March data, led by a solid increase in purchasing costs as a number of raw materials were marked up in price. Firms particularly mentioned price rises for metals, plastics and cardboard, linked to global supply problems resulting from the pandemic. Meanwhile, salary costs ticked up for the first time since last December. Weaker input demand, however, meant that the overall pace of input price inflation softened to a nine-month low, leading to another subdued rise in output prices.

Lastly, business expectations pointed to a contrasting positive picture for the Egyptian economic outlook, as over half of all respondents predicted that activity will rise in the next 12 months. Overall business optimism soared and was almost level with last July's 29-month high. The improvement came as the government's vaccination programme was expanded to more areas of the population, fuelling hopes of a quicker return to normality than previously expected.

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.

March 2021 data were collected 12-23 March 2021.

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

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