

IHS Markit Egypt PMI®

Business conditions move closer to stabilisation in June

Key findings

Falls in activity and new orders soften from May

Employment decreases, but backlogs signal rising capacity pressures

Input prices rebound as firms lower output charges

Data were collected 12-22 June 2020

The Egyptian non-oil private sector faced a further deterioration in business conditions in June, although there were positive signs as rates of decline in both activity and new business slowed considerably from May.

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 – rose to 44.6 in June which, while signalling a sharp decline in business conditions, was the highest seen in four months. The figure compared with 40.7 in May and a nadir of 29.7 in April at the height of the coronavirus disease 2019 (COVID-19) pandemic.

In line with the headline figure, sub-indices for output and new orders also rose to four-month highs in June. Despite still pointing to marked downturns in activity and demand across Egypt's non-oil private sector, the rate of contraction softened considerably from the previous month. Many firms were helped by the partial lifting of COVID-19-related restrictions, reporting an increase in working hours and new contracts from clients. That said, activity across much of the sector remained weak, often due to restrictions on travel and tourism.

Despite the softer downturn, latest data showed that firms were still actively cutting employment in June, with the rate of job shedding quickening to a near four-year high. Firms reported choosing not to hire new workers, while some laid off employees in order to reduce staffing costs. Salaries were also adjusted, with many firms lowering wages due to reduced working hours. As a result, staff costs fell for the third month in a row.

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Comment

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

"June's PMI data gave some promising signs that the Egyptian economy is beginning to stabilise. The headline PMI was up to 44.6, from 40.7 in May, signalling a further slowing in the downturn caused by the COVID-19 crisis that reached its worst level in April. Activity fell at the weakest pace in four months, supported by a similar easing to the decline in new business."

"Employment numbers still fell at an accelerated rate in June, although multiple signals suggest this will soon change. Higher demand at some companies, increased backlogs and sentiment rising to a six-month high all point to firms hopefully restarting hiring in the near future."

"Firms sourcing medical equipment and other raw materials saw a sharp uptick in purchases prices in June, which led to a renewed rise in cost burdens across the non-oil private sector. As a result, wages were reduced for the third month in a row."

At the same time, backlogs at Egyptian companies rose for the second consecutive month, and at a record pace, to signal that firms were increasingly constrained on business capacity. Optimism for future activity was also the highest seen in 2020 so far, as firms noted that the government is looking to relax COVID-19 restrictions even further. Businesses hoped that this will restore private sector demand and support a rise in jobs in the future.

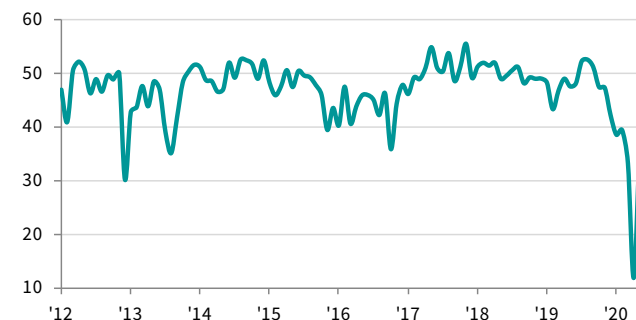
Elsewhere, firms reported a softer reduction in purchasing activity in June, as the decline in new business also slowed. Nevertheless, delivery times were again pressured by curfew hours and delays at port customs, lengthening for the fourth month in a row and at the joint-quickest rate since October 2017.

Prices paid for input goods meanwhile rose sharply, in part due to an increase in prices for medical materials and a rising US dollar value. The rate of inflation was the sharpest for nine months, leading to a renewed uptick in overall cost pressures at Egyptian firms.

Despite this, companies continued to lower output charges in June in an effort to attract new customers and improve sales amid the pandemic. However, the latest drop in prices was only modest.

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.

June 2020 data were collected 12-22 June 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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