

HSBC Egypt PMI™

Output contracts at slowest pace since June

Summary

The latest survey results from HSBC and Markit signalled further sharp declines in output and new orders at Egypt's non-oil producing private sector companies. The rates of contraction eased, however, to the weakest in three months. Meanwhile, payroll numbers declined at an accelerated pace and output charges fell for the first time since November 2012.

The headline figure derived from the survey is the Purchasing Managers' Index™ (PMI™). Readings above 50.0 signal an improvement in business conditions on the previous month, while readings below 50.0 show a deterioration.

Operating conditions in Egypt's non-oil producing private sector continued to deteriorate in September, with the headline PMI posting 44.7, up from August's 42.2. September data marked the twelfth consecutive monthly deterioration in operating conditions.

Egypt's non-oil producing private sector companies reported a further fall in activity in September, mainly linked to a lack of raw materials and low business. While the rate of contraction eased to a three-month low, the overall decline remained sharp. New order intakes also decreased at a sharp, but slower, pace. Panellists attributed lower new business to fragile political and economic conditions. Meanwhile, strikes at ports, suspension of air traffic and political problems elsewhere in the Middle East all reportedly contributed to the latest decline in new export orders.

Lower new business was the main driver behind a further decline in employment levels. Payroll numbers have now fallen for 17 months in succession, and the rate of job losses in September was the quickest since April.

Input costs increased at an accelerated rate in September, with 27% of companies reporting higher cost burdens. The cost rise was driven by a sharp increase in purchase prices, while average staff costs rose only marginally. In contrast to higher input costs, Egypt's non-oil producing private sector companies reduced their selling prices for the first time since November 2012. Many companies lowered their charges in an attempt to attract customers.

Backlogs of work declined marginally in September, providing evidence of ongoing spare capacity in Egypt's non-oil producing private sector. Meanwhile, average lead times lengthened and companies linked this to imposed curfews, road congestion and ongoing security problems.

September data signalled a decline in purchasing activity, with almost one-in-four respondents indicating a fall in input buying. Anecdotal evidence suggested that the decline in buying activity was driven by low business. Stocks of purchases also fell, with companies commenting on withdrawals from existing stock.

Comment

Commenting on the Egypt PMI™ survey, Simon Williams, Chief Economist for the Middle East at HSBC said:

"It's a disappointing reading that underscores how long and difficult Egypt's road to recovery may prove to be. Support from overseas can offer the currency some immediate relief, but as this month's PMI shows, it will take more fundamental changes inside Egypt itself for private sector activity to normalise."

Key points

- Output and new orders fall sharply, although at weakest rates in three months
- Rate of job cuts quickens
- Output charges decrease for first time in ten months amid increased input costs

Historical Overview



Sources: Markit, HSBC.

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Notes to Editors:

The HSBC Egypt PMI is based on data compiled from monthly replies to questionnaires sent to purchasing executives in approximately 350 private sector companies, which have been carefully selected to accurately represent the true structure of the Egyptian economy, including manufacturing, services, construction and retail. The panel is stratified by Standard Industrial Classification (SIC) group, based on industry contribution to GDP. Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'

The *Purchasing Managers' Index*[™] (*PMI*[™]) is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times index inverted so that it moves in a comparable direction.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

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