

HSBC Egypt PMI™

Downturn in Egypt's non-oil producing private sector accelerates

Summary

The latest survey data signalled sharp declines in both output and new orders at Egypt's non-oil producing private sector firms. Employment levels fell for the fifteenth month in succession and purchasing activity declined at the second-sharpest rate in the survey history.

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.

Overall operating conditions in Egypt's non-oil producing private sector economy deteriorated further in July, with the headline PMI slipping to 41.7, down substantially from June's 47.5. The latest reading was the second-lowest in the 28-month survey history.

Fragile political conditions was the key driver for the latest declines in output and new orders at Egypt's non-oil producing private sector companies. Both rates of contraction accelerated markedly from the previous month and were the second-sharpest on record. New business from abroad also declined at a faster pace, as 31% of panellists recorded lower demand from foreign markets.

Payroll numbers fell for the fifteenth month in a row during July, and companies linked the decline to low business and the retirement of employees. The rate of job cuts was the sharpest in three months. The level of outstanding business also decreased, for the first time since April. The pace of decline was the fastest in 27 survey periods. Meanwhile, suppliers' delivery times worsened further and respondents attributed this to road closures caused by protests and the ongoing political instability in the country.

In line with declines in output, incoming new business and workforce numbers, purchasing activity decreased in July. Buying activity has now fallen for 12 consecutive months, and the latest drop was the fastest since the record decline recorded last December. Concurrently, companies reported a sharp reduction in pre-production inventories.

The rate of overall input price inflation eased for the third consecutive month in July. While 28% of panellists recorded higher cost burdens, the latest rate of cost inflation was the weakest in seven survey periods. An increased dollar price accounted for most of the increase in purchase prices, while bonus payments was the main driver behind the latest wage inflation.

Output charges were unchanged in July. Some companies raised their charges in response to increased input costs, while others lowered their output prices to attract customers.

Comment

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

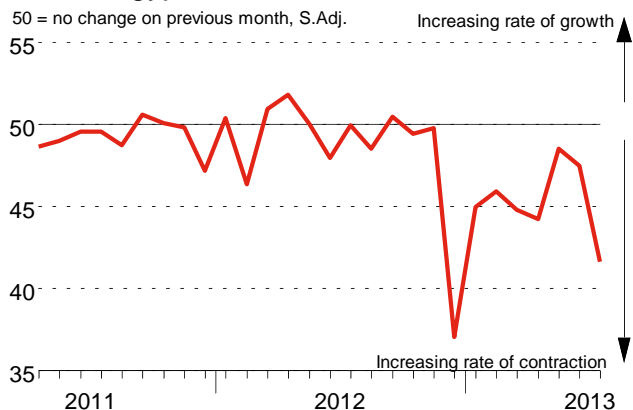
"The poor print underscores the enormous costs ongoing turmoil continues to impose on the Egyptian economy. Political order is a prerequisite for recovery, but even if that is achieved, it will prove very challenging to quickly reverse the losses of the past 10 months."

Key points

- Output and new orders decline sharply, driven by fragile political conditions
- Workforce numbers fall further
- Purchasing activity declines at fastest pace since last December

Historical Overview

HSBC Egypt PMI



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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