

HSBC Egypt PMI™

Business conditions continue to deteriorate during March

Summary

The latest survey data signalled further falls in output and new orders in Egypt's non-oil producing private sector, with new work contracting at the sharpest rate since the record posted in December. The falls in output and new business were accompanied by a decline in employment levels. Meanwhile, overall input price inflation accelerated to a series record.

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.

Posting 44.8 in March, down from February's 46.0, the headline PMI pointed to a further deterioration of overall business conditions in Egypt's non-oil producing private sector. Operating conditions have now deteriorated for six successive survey periods, and the rate of contraction was the second-fastest in the series history.

Driven by political and economic instability, Egyptian non-oil producing private sector companies faced further declines in output and new orders during March. The rates of contraction were sharp, and picked up from the previous survey period. New business from abroad also declined, albeit at the slowest pace in the current four-month sequence.

The level of outstanding business increased for the third month running, but only marginally. The majority of respondents indicated an unchanged level of work-in-hand from February. Meanwhile, vendor performance continued to worsen. According to anecdotal evidence, the rise in average lead times was driven by increasing instability in the country, shortages of fuel and an increased desire amongst suppliers to be paid in cash.

March data signalled further job shedding at non-oil producing private sector firms in Egypt, and companies commonly linked this to lower business. Workforce numbers have now decreased for eleven months in a row.

Overall input prices rose sharply in March, and the rate of cost inflation accelerated to a series high. Most of the cost increase was attributed to a rise in average purchase prices, where 55% of panellists reported higher costs. An increase in raw material prices and the high dollar price were the main drivers behind the latest rise. Average staff costs rose only slightly during the latest survey period. In response to increased input costs, non-oil producing private sector companies in Egypt raised their output charges.

Purchasing activity continued to decrease during March, as 22% of companies reported a decline in buying. There was some anecdotal evidence that the fall was caused by low business. Stocks of purchases also declined, and panellists linked this to the clearance of existing stocks.

Comment

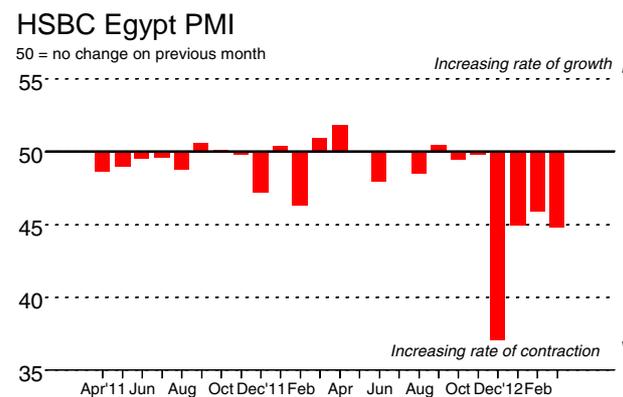
Commenting on the Egypt PMI™ survey, Simon Williams, Chief Economist for the Middle East at HSBC said:

"A fourth consecutive monthly score printing well below 50 leaves little to cheer. Falling output and weakening new orders would be big enough concerns on their own, but the data also show a sharp rise in inflation, suggesting real incomes and corporate margins are under acute strain. With the political outlook still so uncertain and the domestic economy subject to ongoing disruption, it seems unlikely that prospects will improve materially in the near term."

Key points

- Output and new orders decline at sharp rates
- Further fall in employment
- Overall input price inflation accelerates to series high

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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