

# HSBC Egypt PMI™

## Deterioration in operating conditions slows in May

### Summary

May data signalled further declines in both output and incoming new business in Egypt's non-oil producing private sector, but the rates of contraction eased remarkably since the end of last year. Meanwhile, stocks of purchases increased for the first time since last December and the rate of input cost inflation remained sharp, but slowed to a five-month low.

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.

The headline PMI posted 48.5 in May, up from April's four-month low of 44.2. While operating conditions in the Egyptian non-oil producing private sector have now deteriorated for eight consecutive survey periods, the latest rate of contraction was the weakest in six months.

While output levels declined for an eighth successive survey period during May, the rate of contraction was substantially lower than in April. The pace of contraction in new order volumes also eased to the weakest in six months. The securing of new clients at a number of companies helped to slow down the overall rate of decline. Meanwhile, new business from abroad also decreased at a moderate pace during May.

The slight fall in incoming new business led to a decline in purchasing activity. Buying has now decreased for ten months in a row, but the rate of contraction in May was the weakest since last November. Meanwhile, backlogs of work were unchanged from April and the level of pre-production inventories increased for the first time in five months, albeit only marginally.

As has been the case throughout most of the survey history, employment levels in Egypt's non-oil producing private sector fell in May. Companies often linked the decline to decreased incoming new orders. Driven by an increased desire among suppliers to be paid in cash, average lead times on inputs worsened during the latest survey period.

Increased purchase prices accounted for most of the latest rise in overall input costs at non-oil producing private sector companies in Egypt. The rate of purchase price inflation slowed from April's record high, but remained sharp. There was some anecdotal evidence that the increase was driven by a rising dollar price and higher raw material prices. Average staff costs also increased, albeit at a moderate pace, with the majority of panellists reporting unchanged average salaries.

In response to increased input costs, Egyptian non-oil producing companies raised their output prices in May, but the rate of charge inflation eased from the previous month and was the weakest in five months.

### Comment

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

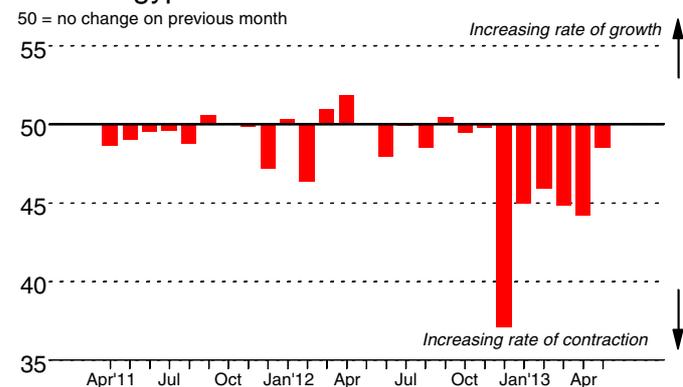
*"The May reading suggests Egypt's economy has begun to stabilise after a torrid five months but at a low base, and prospects for recovery still appear muted. Output and new orders continued to contract, albeit at a slower pace than earlier in the year, and price pressures remain elevated. The weak readings for employment and wages continue to be a concern, and offer clear evidence of an economy generating little momentum."*

### Key points

- Output and new orders both decline at weaker rates
- Slight increase in stocks of purchases
- Rate of input cost inflation eases but remains solid

### 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](mailto:economics@markit.com).

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*Purchasing Managers' Index™ (PMI™)* surveys are now available for 32 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. To learn more go to [www.markit.com/economics](http://www.markit.com/economics)

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