HSBC Purchasing Managers' Index™ Press Release

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HSBC Egypt PMI™

Downturn in Egypt's private sector continues in August

Summary

August data signalled further sharp declines in output and new orders at Egypt's non-oil producing private sector companies. New business from abroad also fell, and the pace of contraction accelerated to the sharpest in eight months. Meanwhile, overall input price inflation eased to a near-record low pace.

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.

Egypt's non-oil producing private sector fell deeper into recession in August, with the headline PMI posting 42.2, up fractionally from July's 41.7 but well below the 50.0 no-change mark. Operating conditions have deteriorated continuously since last October.

Non-oil producing private sector firms in Egypt reported a sharp contraction in output in August. The decline in activity was in line with a substantial fall in incoming new business, which was commonly attributed to the political instability and ongoing demonstrations in the country. New export orders also declined markedly, with the rate of decrease the second-strongest recorded in the series history. Concurrently, suppliers' delivery times worsened for the ninth month in succession.

Continuing the trend observed throughout the survey history to date, overall input prices increased in August. The rate of input cost inflation eased, however, and was the joint-second weakest since the series started in April 2011. Purchase prices rose on top of raw material shortages and a high dollar price, while salary increments accounted for much of the latest rise in staff costs. Meanwhile, output charges increased only fractionally, as some companies lowered their selling prices in order to attract new customers.

Egypt's non-oil producing private sector companies remained reluctant to take on additional staff in August, extending the current sequence of job shedding to 16 months. Survey respondents repeatedly linked a slide in workforce numbers to lower business. A lack in demand was also the main reason for the latest fall in unfinished work, according to panellists.

Purchasing activity fell at the third-fastest pace in the survey history during August, with more than 30% of panel members indicating a decrease in buying. According to anecdotal evidence, the decline was attributed to low demand.

Stocks of raw materials and other pre-production inventories held at Egyptian non-oil producing private sector companies decreased in August, and for the third month in a row. Lower business and withdrawals from existing stocks were the main contributors to the latest decline, according to respondents.

Comment

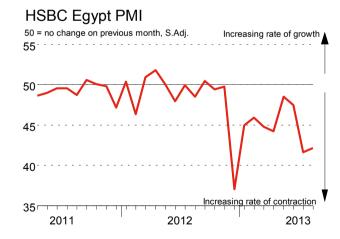
Commenting on the Egypt PMI™ survey, Liz Martins, Senior Economist for Global Banking and Markets at HSBC said:

"Although the security situation has stabilised somewhat since the August survey, the latest numbers show how deeply Egypt has been hit by political turmoil, and how far it has to go before it can normalise. The only relief offered by the August numbers is the apparent easing of inflation pressures."

Key points

- Output and new orders decline substantially
- New export orders fall at fastest pace since record drop last December
- Input cost inflation eases

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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