HSBC *Purchasing Managers' Index*™ 2012

compiled by markit

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HSBC Egypt PMI™

PMI signals further marginal deterioration in private sector business conditions

Key findings:

- New orders and production fall for the second month running
- Employment levels decline further
- Rate of purchase price inflation quickens slightly

Business conditions at private sector firms in Egypt deteriorated for the second successive month in November. New orders and output fell marginally, but at slower rates than in the previous month. Meanwhile, purchase price inflation accelerated, but remained relatively muted.

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 PMI remained below the no-change mark of 50.0 for the second consecutive month in November, posting 49.8, slightly up from 49.5 in October. This pointed to a fractional deterioration in operating conditions.

Production at Egyptian private sector companies fell during November for the fourth time in six months. The rate of contraction was, however, marginal and slower than in the previous month.

New order volumes decreased again in November. This was highlighted by the seasonally adjusted New Orders Index scoring below the neutral 50.0 threshold. Economic and political instability were cited as the main reasons behind the slight decrease in new order levels. Meanwhile, data signalled no change in the level of new export orders in November, compared with the situation from the previous month.

Although a number of panellists reportedly benefited from improved conditions in some foreign markets, others pointed to lower demand from neighbouring countries.

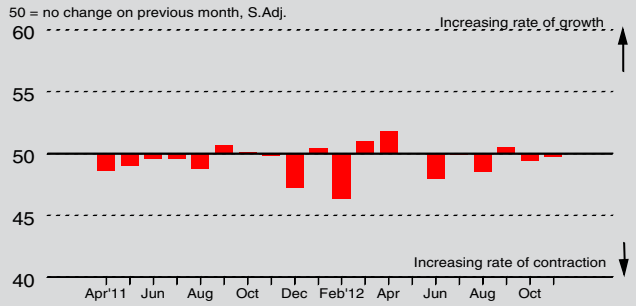
Delivery times improved for the fifth successive month in November. According to respondents, the slight improvement in vendor performance was due to a fall in underlying demand for inputs.

Employment levels declined further in November, extending the current period of job cuts to seven months. Panellists linked this ongoing development to lower levels of incoming work and business activity.

Purchasing activity at Egyptian private sector firms was marginally lower in November than in October. Where a decrease in buying was reported, firms often mentioned the lack of incoming business as one of the main reasons. Despite this, stocks of purchases rose again in November. Respondents that increased pre-production inventories commonly did so on expectations of higher activity.

The rate of overall input price inflation eased slightly in November and was well below the series average. In contrast, purchasing costs rose at a slightly faster pace. Meanwhile, average output prices charged by private sector companies in Egypt fell for the second month running in November.

HSBC Egypt *Purchasing Managers' Index*™ *(PMI*™*)*



The HSBC Egypt *Purchasing Managers' Index*™ *(PMI*™*)* is a composite indicator designed to provide an overall view of activity in the Egyptian economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery times and stocks of goods purchased. A reading of the PMI below 50.0 indicates that the economy is generally declining; above 50.0, that it is generally expanding. A reading of 50.0 signals no change. The greater the divergence from 50.0, the greater the rate of change signalled by the index. *Purchasing Managers' Index*™ and *PMI*™ are trade marks of Markit Economics Limited, HSBC use the above marks under licence. Markit and the Markit logo are registered trade marks of Markit Group Limited.

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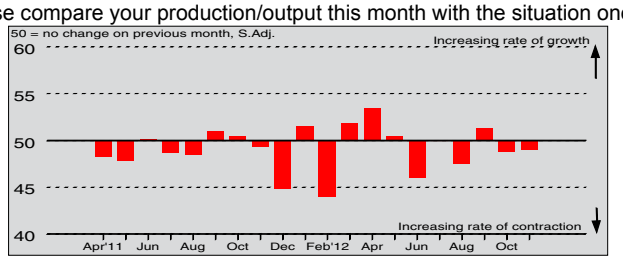
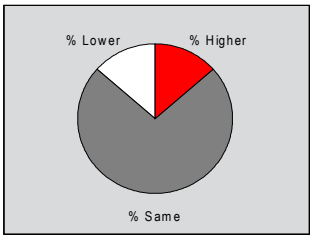
Output Index

Q. Please compare your production/output this month with the situation one month ago.

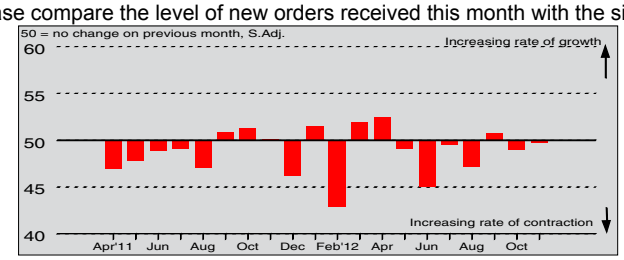


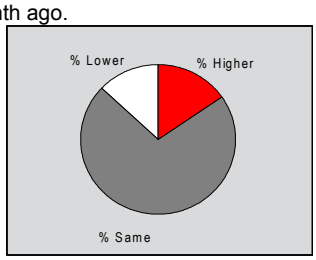


Egypt's private sector economy experienced a slight fall in activity levels during November. This was highlighted by the seasonally adjusted Output Index posting below the 50.0 no-change mark that separates growth from contraction for a second successive month and for the fourth time in the past six. Panellists attributed the slight reduction in activity to marginal falls in new order volumes.

New Orders Index

Q. Please compare the level of new orders received this month with the situation of one month ago.

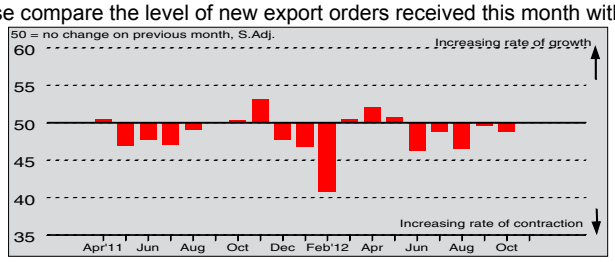


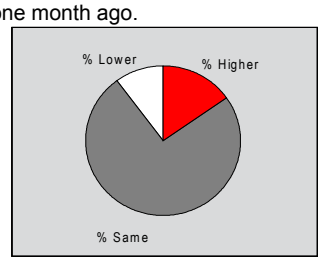


By remaining below the crucial 50.0 no-change mark, the seasonally adjusted New Orders Index indicated a second successive monthly reduction in new order volumes. However, the rate of contraction was only slight, indicated by a rise in the index to just below 50.0. Instability, both economically and politically, was noted as a factor undermining sales in the latest survey period.

New Export Orders Index

Q. Please compare the level of new export orders received this month with the situation of one month ago.

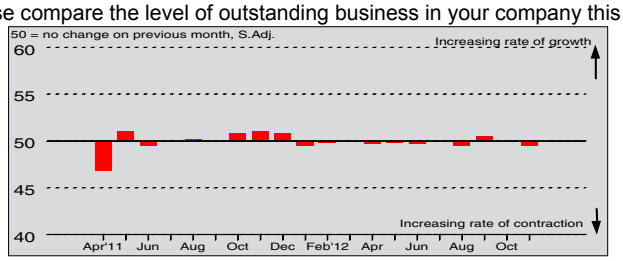


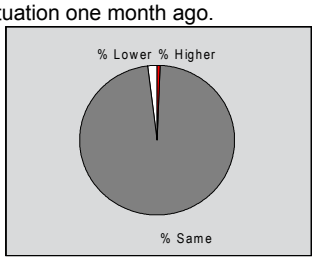


Registering at a level of exactly 50.0 in November, the seasonally adjusted New Export Orders Index signalled no change in new export volumes compared with the situation one month ago. Whereas a number of companies reported that improved stability in conditions in some export markets had supported foreign sales, others commented on a lack of demand from neighbouring countries.

Backlogs of Work Index

Q. Please compare the level of outstanding business in your company this month with the situation one month ago.

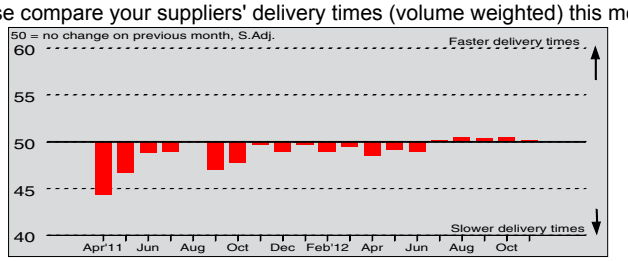


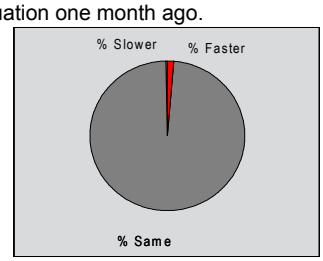


A slight reduction in volumes of work outstanding was indicated by the November survey data – with the respective seasonally adjusted index slipping below the 50.0 no-change mark for the first time in three months. The soft underlying trend in incoming new business was reported by some companies to have afforded them the opportunity to clear work outstanding at their units.

Suppliers' Delivery Times Index

Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.





Lead times for the supply of inputs to private sector companies in Egypt were little-changed during November. This was signalled by the seasonally adjusted Suppliers' Delivery Times Index registering only fractionally above the 50.0 no-change mark that separates improving from deteriorating vendor performance. A number of panellists reported that vendors were able to improve lead times due to a fall in underlying demand for inputs.

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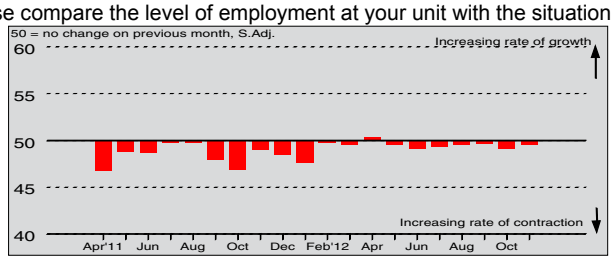
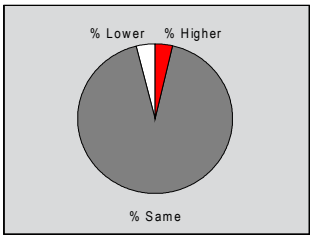
Employment Index

Q. Please compare the level of employment at your unit with the situation one month ago.

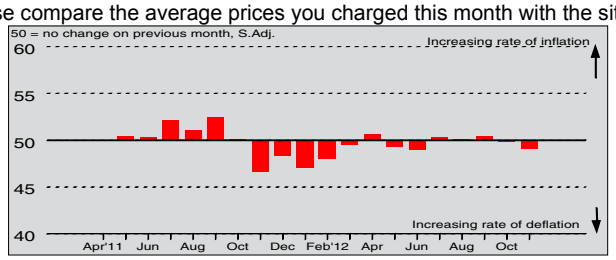


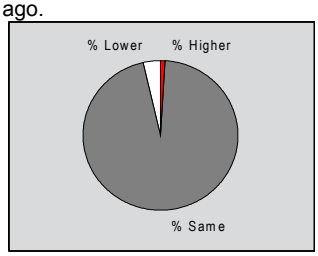


Employment decreased for the seventh successive month in November. However, the rate of job losses was only marginal, as it has remained throughout this period. Where a reduction was reported, this was linked to lower levels of incoming new work and business activity. Conversely, some firms reported that they had needed to raise capacity to cope with existing workloads.

Output Prices Index

Q. Please compare the average prices you charged this month with the situation one month ago.

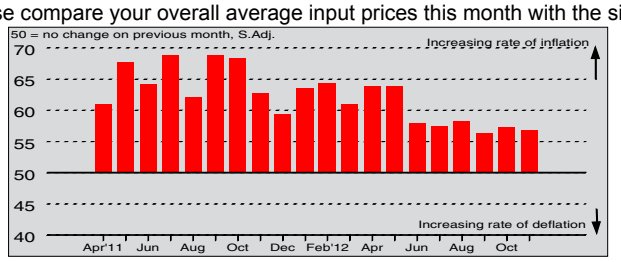


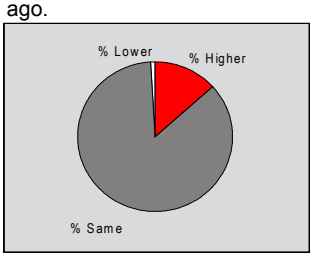


November data pointed to a slight reduction in average selling prices for the second straight month. Although the rate of deflation was only moderate, it was nonetheless sharper than signalled during October. Companies generally linked lower average charges to subdued market conditions and increased competition. The decrease in selling prices contrasted with the ongoing inflation of average costs.

Overall Input Prices Index

Q. Please compare your overall average input prices this month with the situation one month ago.

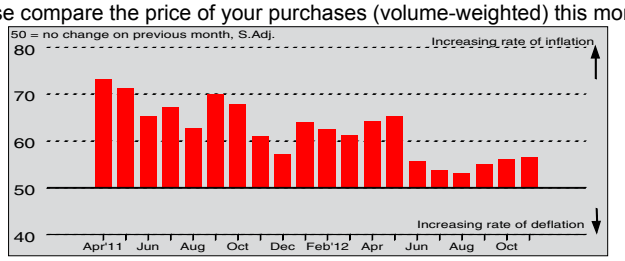


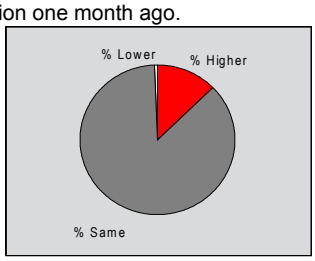


Overall input costs rose again during November, continuing a trend observed since the survey began in April 2011. Although the rate of input price inflation remained solid overall, it was slightly weaker than in November and well below the series average. Panellists reported higher staff costs and raw material prices, with the steeper increase seen for purchase prices.

Input Costs: Purchase Prices Index

Q. Please compare the price of your purchases (volume-weighted) this month with the situation one month ago.

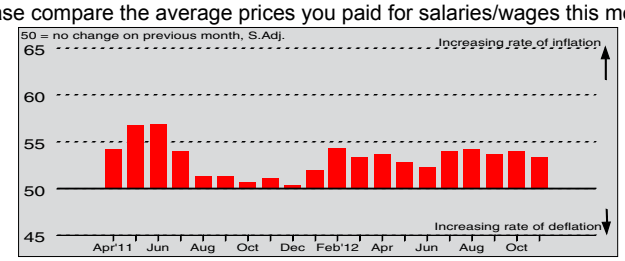


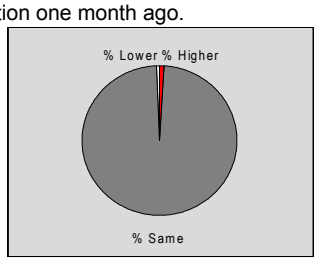


November saw a marked increase in average purchase prices, mainly due to higher transportation costs. There were also reports that exchange rate factors had increased the price of a number of commodities. The rate of inflation was the sharpest since May, but remained well below the average for the 20-month survey history. Almost 13% of survey respondents reported an increase in purchase prices.

Input Costs: Staff Costs Index

Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.

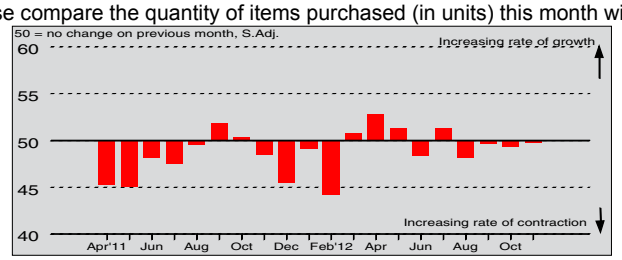


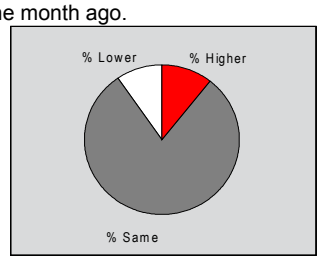


Average wages and salaries were raised further during the latest survey period, as signalled by the seasonally adjusted Staff Costs Index posting above the 50.0 no-change mark. However, the rate of staff cost inflation was slightly weaker than in October. Companies reported that higher wages and salaries simply reflected increased working hours and, in some cases, staff promotions.

Quantity of Purchases Index

Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.

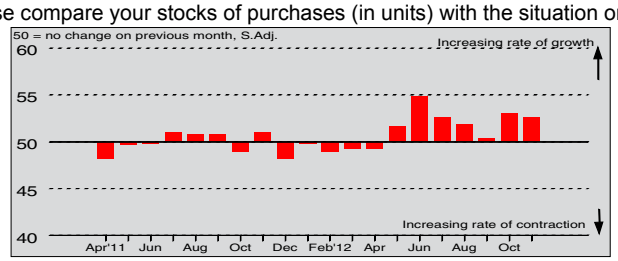


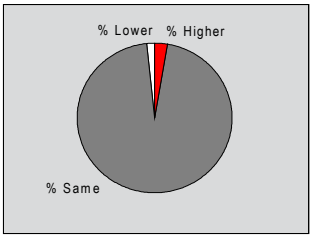


Purchasing activity amongst Egyptian private sector companies was marginally lower during the latest survey period as highlighted by the seasonally adjusted Quantity of Purchases Index, which posted just below the 50.0 no-change mark. November's data marked the fourth successive month that purchasing has registered a net fall, which panellists linked to a lack of incoming new business and activity requirements.

Stocks of Purchases Index

Q. Please compare your stocks of purchases (in units) with the situation one month ago.

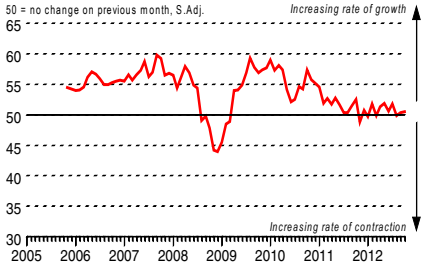




The seasonally adjusted Stocks of Purchases Index remained comfortably above 50.0 in November to indicate a further rise in input inventory holdings at Egyptian private sector companies. Growth has now been sustained for seven months, although the rate of accumulation in November was slightly weaker than the previous month. Those panellists that raised stocks generally did so on expectations of higher activity.

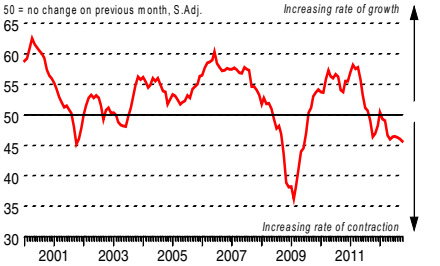
International PMI summary

China Purchasing Managers' Index™



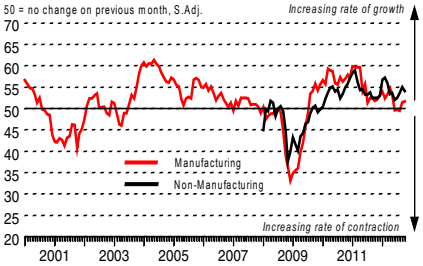
Sources: Markit, HSBC

Eurozone Purchasing Managers' Index™



Source: Markit

US Purchasing Managers' Index™



Source: Institute for Supply Management (ISM)

The HSBC Composite PMI data (which covers both manufacturing and services) signalled a marginal expansion of business activity during October. This was the second successive monthly rise in output, and the rate of growth was broadly similar to September. The HSBC Composite Output Index posted 50.5 in October, up from 50.3 in September.

The downturn in the Eurozone economy deepened at the start of Q4 2012, with the combined output of the manufacturing and service sectors falling at the fastest pace since June 2009. The Markit Eurozone PMI® Composite Output Index fell to 45.7 in October, down from 46.1 in September and the earlier flash estimate of 45.8. Overall activity has now fallen for nine straight months.

The ISM data showed a strengthening of manufacturing conditions for US companies in October with the PMI Index recording its highest reading in five months. This was the second consecutive improvement signalled. Non-manufacturing firms posted a weaker, albeit still solid improvement compared to September with an NMI Index reading of 54.2, down from 55.1 in the previous month.

Notes on the Data and Method of Presentation

The *Purchasing Managers' Index*™ is based on data compiled from monthly replies to questionnaires sent to purchasing executives in approximately 400 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.

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