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HSBC Egypt PMI™

PMI returns below 50.0 mark in October, signalling deteriorating business conditions

Key findings:

- Modest declines in both output and new orders
- Strongest rate of job losses since June, though only modest overall
- Input price inflation at two-month high, but remains below series average

This report contains the first public release of data collected from the monthly survey of business conditions in the Egyptian private sector. The survey, produced by Markit on behalf of HSBC, has been conducted since April 2011 and provides an early indication of operating conditions in Egypt.

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 HSBC PMI returned below the 50.0 no-change mark in October, suggesting a renewed deterioration in Egypt's private sector business conditions. At 49.5, down from 50.5 in September, the PMI indicated only a marginal contraction, and was broadly in line with the series average of 49.4.

Private sector firms received a lower volume of new orders in October, with companies largely citing weaker market conditions. New export orders also fell, and for the fifth consecutive month, with the rate of decline strengthening since September. Overall, total new business declined modestly, reversing the increase registered one month previously.

Reflective of the fall in new orders, output declined in October. One-in-five surveyed firms reported lower business activity levels when compared with September. Backlogs of work were

meanwhile unchanged from the previous survey period.

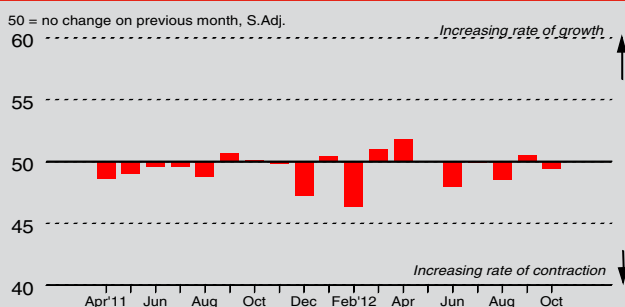
Employment in Egypt's private sector fell for the sixth consecutive month in October. Approximately 4% of firms reported lower employee numbers, with companies largely linking this to retirements. Although the rate of job losses was only modest, it nonetheless strengthened to a four-month record.

Despite another marginal fall in input buying, stocks of purchases rose solidly in October. The rate of accumulation was solid and the strongest in four months. Suppliers' delivery times meanwhile shortened for the fourth month in a row. However, the latest reduction in input lead times was only marginal.

Input costs faced by private sector companies working in Egypt rose strongly during the latest survey period. Both purchase prices and staffing costs increased, with the larger rise recorded for the former. Overall, the rate of input price inflation was the strongest in two months, but nonetheless remained weaker than the series average.

In contrast, average selling prices were broadly unchanged from September. Almost all the survey respondents reported no change in output charges during October.

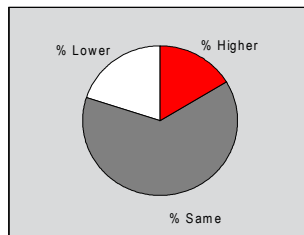
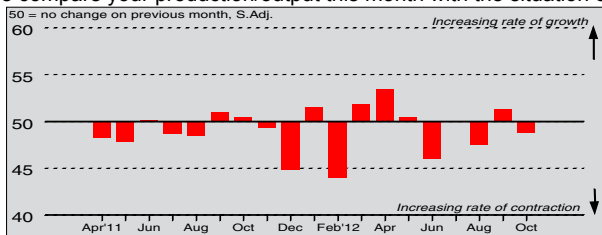
HSBC Egypt Purchasing Managers' Index™ (PMI™)



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.

Output Index

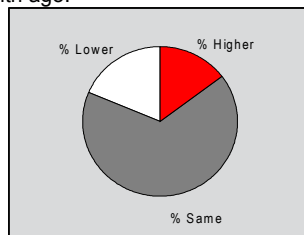
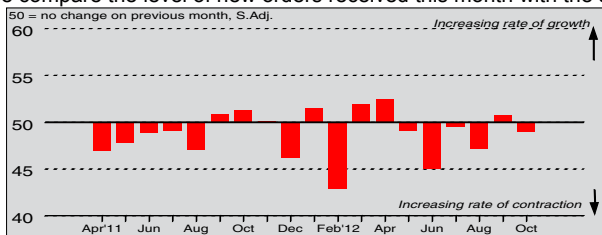
Q. Please compare your production/output this month with the situation one month ago.



After having increased in September, private sector output in Egypt fell during October. This was indicated by the seasonally adjusted Output Index falling below the 50.0 no-change mark that separates growth from contraction. One-in-five surveyed firms reported a reduction in business activity, with this largely linked to weak client demand. That said, the index signalled only a modest month-on-month decline in output overall.

New Orders Index

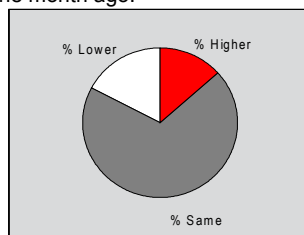
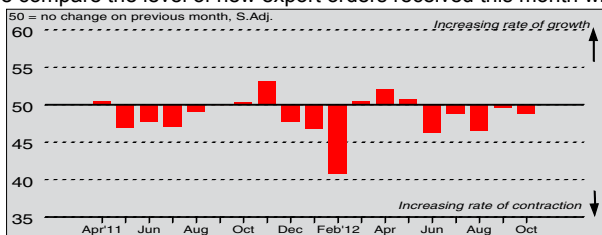
Q. Please compare the level of new orders received this month with the situation of one month ago.



Private sector firms received a lower volume of new orders in October, as has been the case in five out of the past six months. The rate of contraction was only modest, and in line with the series average. Companies that reported a reduction in new business (approximately 19%) generally commented on deteriorating market conditions during the latest survey period.

New Export Orders Index

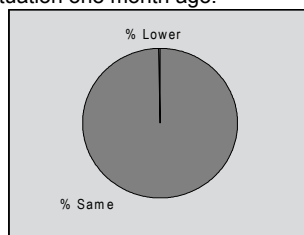
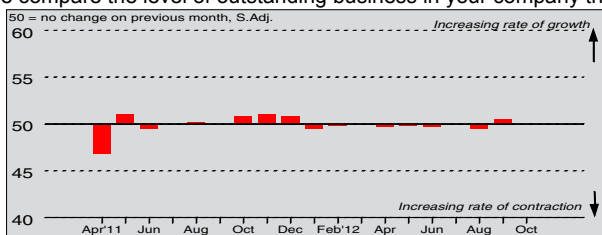
Q. Please compare the level of new export orders received this month with the situation of one month ago.



New export orders placed at Egyptian private sector companies fell for the fifth consecutive month in October. Anecdotal evidence provided by panellists largely commented on deteriorating economic conditions. New export orders fell at a stronger rate than that recorded for September, as indicated by a lower seasonally adjusted New Export Orders Index reading.

Backlogs of Work Index

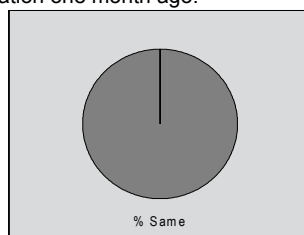
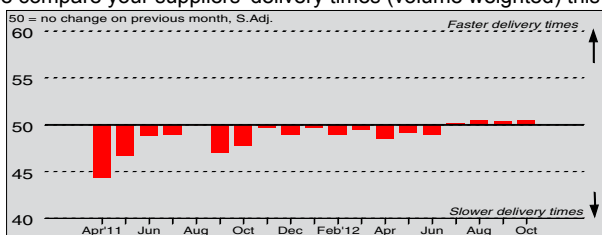
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



The seasonally adjusted Backlogs of Work Index registered at the 50.0 no-change mark in October, suggesting that the level of outstanding business at private sector firms was unchanged from September. Almost all surveyed companies reported no change in work-in-hand from one month previously. The index has hovered near the neutral mark in each month of 2012 so far.

Suppliers' Delivery Times Index

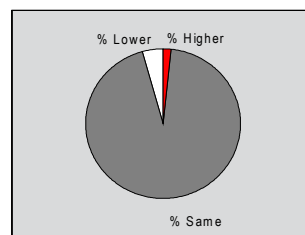
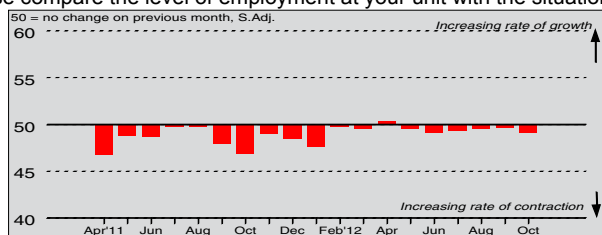
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



After adjusting for seasonal variation, suppliers' delivery times shortened further during October. Lead times on inputs have fallen in each month since July. Although the seasonally adjusted Suppliers' Delivery Times Index posted its second-highest reading in the 19-month series history (behind August), it still signalled only a marginal improvement in overall vendor performance.

Employment Index

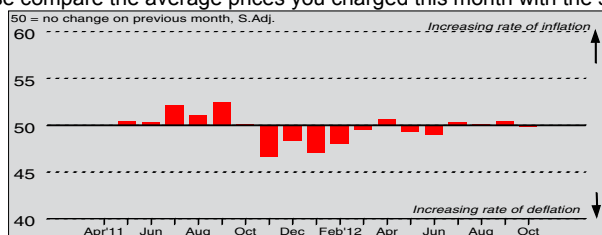
Q. Please compare the level of employment at your unit with the situation one month ago.



Private sector employment in Egypt fell for the sixth consecutive month in October, with approximately 4% of surveyed firms reducing their employee numbers since September. Retirements and voluntary leavers were often commented on by companies that reported lower staffing levels. Despite the rate of decline being only modest, it nonetheless quickened to the fastest since June.

Output Prices Index

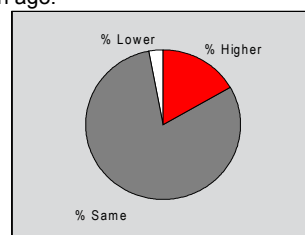
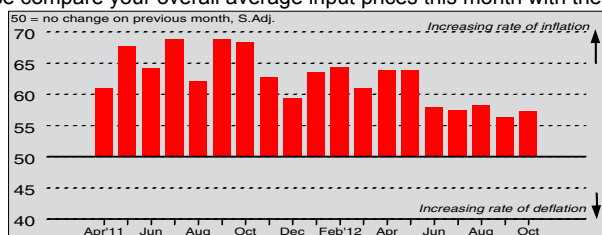
Q. Please compare the average prices you charged this month with the situation one month ago.



Average selling prices at firms working in Egypt's private sector were broadly unchanged in October. This was signalled by the seasonally adjusted Output Prices Index posting only slightly below the 50.0 no-change threshold. The majority of respondents kept output charges unchanged in the latest survey period.

Overall Input Prices Index

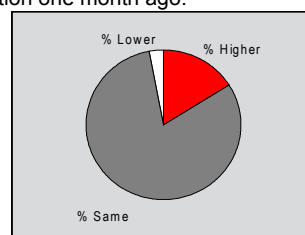
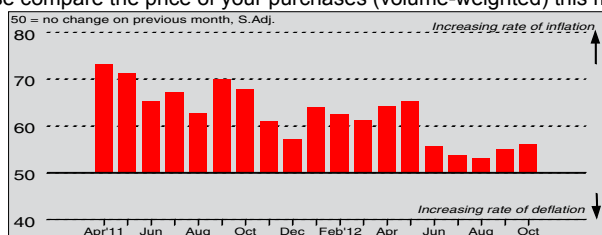
Q. Please compare your overall average input prices this month with the situation one month ago.



October data pointed to a further rise in input costs, continuing the trend that has been registered in each month since data collection began in April 2011. Both purchase prices and staffing costs increased over the month, with the larger month-on-month rise recorded for the former. The overall rate of input price inflation was the fastest in two months, but remained weaker than the series average.

Input Costs: Purchase Prices Index

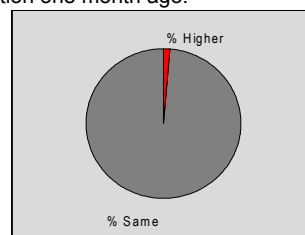
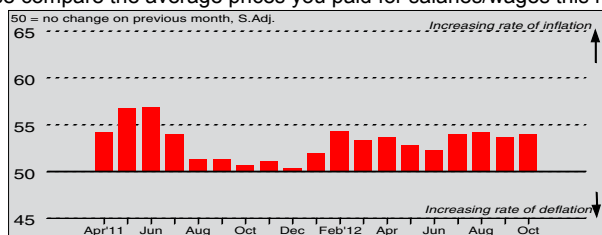
Q. Please compare the price of your purchases (volume-weighted) this month with the situation one month ago.



Purchase prices increased further in October, with raw materials such as wheat, rubber and fuel particularly mentioned by panellists as having risen in cost. Respondents partly attributed the rise in input prices to unfavourable exchange rates in the latest survey period. Overall, the rate of inflation was the strongest since May, although remained weak in the context of historical data.

Input Costs: Staff Costs Index

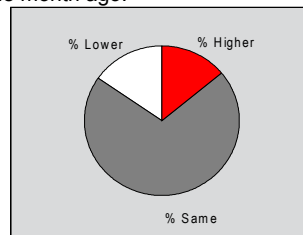
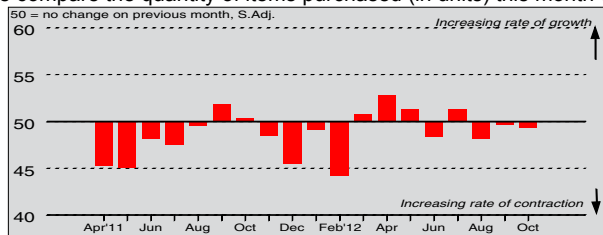
Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.



Firms working in Egypt's private sector reported higher staffing costs in October. The average salary paid to employees has increased in each month throughout the survey history. A number of monitored companies attributed the latest rise in salaries to attempts to motivate staff. That said, the rate of increase was only marginal, and only slightly stronger than that seen in September.

Quantity of Purchases Index

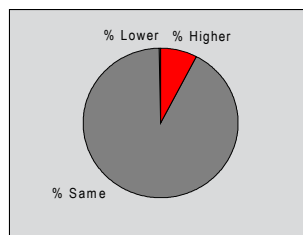
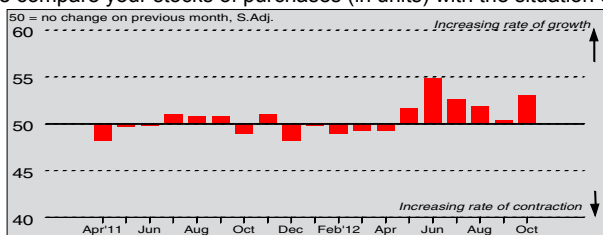
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Reflective of lower output requirements, the quantity of inputs bought by monitored companies fell for the third consecutive month in October. Approximately 15% of respondents recorded a reduction in purchasing volumes compared with one month previously, while exactly 14% registered an increase. Despite having quickened slightly since September, the rate of decline was only marginal overall.

Stocks of Purchases Index

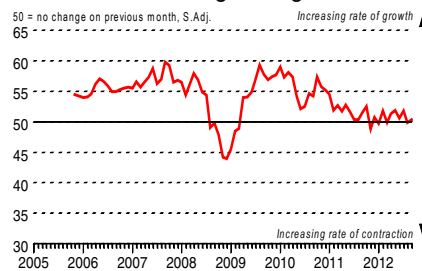
Q. Please compare your stocks of purchases (in units) with the situation one month ago.



Input inventories increased in October, taking the current sequence of stock accumulation to six months. Firms that raised stocks of purchases (approximately 8%) largely attributed this to lower output requirements. Moreover, the rate of growth was solid, with the seasonally adjusted Stocks of Purchases Index rising to its second-highest level since data collection began in April 2011.

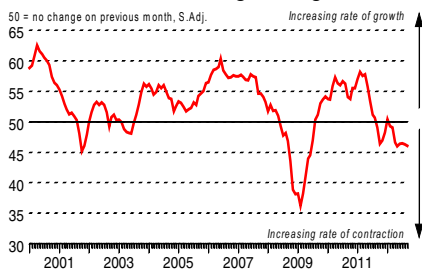
International PMI summary

China Purchasing Managers' Index™



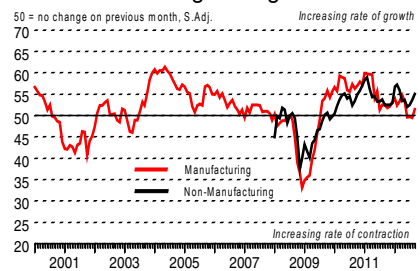
Sources: Markit, HSBC

Eurozone Purchasing Managers' Index™



Source: Markit

US Purchasing Managers' Index™



Source: Institute for Supply Management (ISM)

At 50.3, the September PMI Output Index (covering both manufacturing and services) signalled a renewed, albeit marginal, expansion in business activity. This followed on from August's slight contraction (49.9), when activity fell for the first time since March. The service sector drove the overall improvement, as output continued to fall in manufacturing.

The Eurozone economy contracted further at the end of the third quarter, with the Markit Eurozone Composite Output Index remaining below the 50.0 no-change mark. Moreover, having fallen marginally from 46.3 in August to a four-month low of 46.1 in September, the index has indicated contraction for eight successive months.

The US manufacturing sector saw its first improvement for four months in September, according to PMI data from the ISM. The PMI index rose from 49.6 to 51.5, and signalled a modest improvement in business conditions. The non-manufacturing sector fared better, with the NMI index pointing to the strongest improvement since March (55.1).

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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