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HSBC Egypt PMI™

Substantial deterioration in private sector business conditions

Key findings:

- Output and new orders decline sharply
- Input price inflation accelerates
- · Steep fall in purchasing activity

Business conditions in the Egyptian private sector worsened substantially during December. Production, new order levels, new export orders and purchasing activity all fell at the sharpest rates since the beginning of data collection in April 2011. Employment levels declined and the rate of input cost inflation accelerated.

The headline figure derived from the survey is the *Purchasing Managers' Index*TM (PMI^{TM}). 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 recorded its lowest level in the series history to date in December, posting 37.1, down from 49.8 in November. The latest reading marked the third successive month of deterioration and pointed to a remarkable worsening in operating conditions in the Egyptian private sector.

December data signalled a striking decline in production at Egyptian private sector firms, with more than half of all respondents reporting lower output levels.

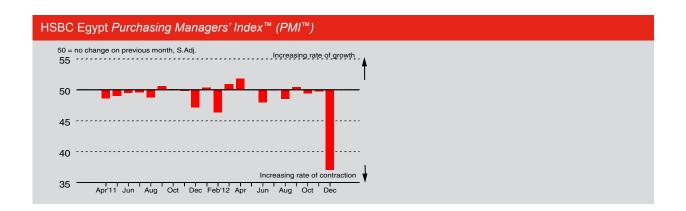
New order levels and export orders both fell sharply during December, and the rates of depletion accelerated to survey-record levels. Panellists linked the decline in order book volumes to the current fragile economic and political conditions.

The level of outstanding business remained broadly unchanged at Egyptian private sector companies in December. Meanwhile delivery times lengthened for the first time in six months, albeit only marginally.

Employment levels continued to fall during December. The rate of job shedding picked up, and was the highest since January. The retirement of employees was cited as one of the reasons behind the latest job cuts. Meanwhile, average tariffs charged by Egyptian private sector firms rose slightly. According to anecdotal evidence, the rise was partly driven by increased costs.

The rate of overall input price inflation accelerated slightly during December and recorded its highest level in four months. More than 14% of respondents indicated higher input costs and only 1% reported lower prices. The rise in average purchase prices was mainly driven by higher raw material costs and unfavourable exchange rates.

Purchasing activity at private sector companies in Egypt fell sharply during December. One-in-three respondents reported a decline in the quantity of items purchased. Lower business was given as the main reason for the latest development. Driven by a decrease in demand and lower output levels, stocks of purchases expanded for the eighth month running.



The HSBC Egypt Purchasing Managers' $Index^{TM}$ (PMI^{TM}) 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' $Index^{TM}$ and PMI^{TM} are trademarks of Markit Economics Limited, HSBC use the above marks under licence. Markit and the Markit logo are registered trade marks of Markit Group Limited.

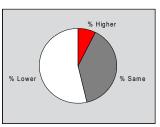




Output Index

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



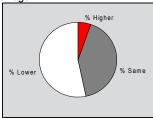


December data signalled a sharp deterioration in production at Egyptian private sector companies. The rate of contraction was the sharpest in the series history to date, and marked the third successive month of falling output levels. Around 54% of respondents indicated a reduction in production and commonly linked this to a decrease in demand.

New Orders Index

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



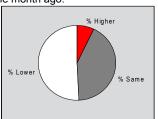


New business placed at private sector firms in Egypt decreased during December. This was highlighted by the seasonally adjusted New Orders Index recording a level below the no-change mark of 50.0. The rate of depletion accelerated and was by far the strongest since the beginning of data collection in April 2011. Panellists linked the decrease mainly to the current political instability in the country.

New Export Orders Index

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





The level of export orders in the Egyptian private sector declined substantially during December. More than 50% of respondents reported lower levels of business from abroad, compared with only 7% indicating a rise in export orders. Deteriorating economic and political conditions were cited as reasons behind the latest decrease.

Backlogs of Work Index

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





The level of outstanding business at private sector firms in Egypt remained broadly unchanged during December, as the seasonally adjusted Backlogs of Work Index posted a reading marginally below the neutral 50.0 threshold. Work-in-hand has been broadly unchanged on a monthly basis throughout much of the series so far.

Suppliers' Delivery Times Index

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



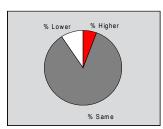


Average lead times rose very slightly at Egyptian private sector companies during December. The latest data signalled the first worsening in vendor performance in six months. The rate at which delivery times rose was, however, only marginal and the vast majority of respondents reported no change in lead times.

Employment Index

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





The rate of job cuts in December was the highest in 11 months. With the exception of April 2012, the level of employment has decreased for every single month since the start of data collection in April 2011. According to anecdotal evidence, the latest decline in workforce numbers was driven by employees' retirement and the search for better job opportunities.

Output Prices Index

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



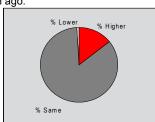


After readings below the 50.0 threshold mark in the previous two months, the seasonally adjusted Output Prices Index scored above the no-change mark in December. That said, the latest figure signalled that average tariffs set by Egyptian private sector firms rose only slightly. There was some evidence that the rise in charges was driven by increased costs.

Overall Input Prices Index

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



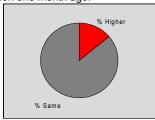


December data signalled a further rise in input costs at private sector firms in Egypt. The rate of inflation picked up and scored its highest level since August. More than 14% of respondents indicated a rise in input prices compared with exactly 1% reporting a fall in costs. Data suggested higher purchase prices to be the main driver behind the rise in overall input costs.

Input Costs: Purchase Prices Index

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





Average purchase prices rose further during December, as has been the case throughout the survey history. The rate of inflation quickened to its highest level in seven months and pointed to solid growth of purchase prices. Panellists attributed the rise in prices to an increase in raw material prices and to unfavourable exchange rates.

Input Costs: Staff Costs Index

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



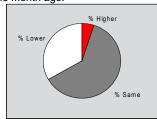


After seasonal adjustments, staff costs continued to rise at Egyptian private sector firms in December. The rate of wage inflation was, however, lower than in the previous month and remained below the overall series average. The vast majority of respondents reported no change in average prices paid for salaries.

Quantity of Purchases Index

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



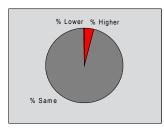


Purchasing activity fell sharply at private sector companies in Egypt during December. The seasonally adjusted Quantity of Purchases Index remained below the 50.0 no-change mark and posted its lowest reading in the 21-month series history. Exactly one-in-three respondents indicated a decrease in buying, and commonly attributed this to lower business.

Stocks of Purchases Index

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





Pre-production inventories increased further during December, but at a slightly slower rate than in November. The latest reading signalled the eighth consecutive monthly increase in input stocks. Lower output levels and a fall in demand were often commented on by companies that reported a further accumulation of stocks of purchases.

International PMI summary

China Purchasing Managers' Index™



Eurozone Purchasing Managers' IndexTM
= no change on previous month, S.Adj.

Increasing rate of growth



Source: Markit

US Purchasing Managers' Index™



Source: Institute for Supply Management (ISM)

The HSBC China Composite PMI data (which covers both manufacturing and services) signalled a modest expansion of business activity during November. Activity has now risen for the past three months, with the rate of expansion the fastest since July. The HSBC China Composite Output Index posted 51.6 in November, up from 50.5 in October.

The Markit Eurozone PMI[®] Composite Output Index rose to 46.5 in November, up from October's 40-month low of 45.7. The headline index has now remained below the neutral 50.0 mark for ten consecutive months and, although the latest reading was the highest since July, it was nonetheless indicative of a solid contraction in overall private sector output.

The ISM data signalled a worsening of manufacturing conditions for US companies in November, as the PMI Index posted at 49.5, down from 51.7 in October. Non-manufacturing firms in the US on the other hand reported a further improvement in business conditions, as the NMI index scored 54.7 in November, slightly up from 54.2 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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