Embargoed until: 11:00 (CAIRO) 5 February 2013

HSBC Egypt PMI[™]

Input price inflation accelerates substantially

Key findings:

- · Input price inflation quickens to series record high
- Employment levels fall
- Output and new orders continue to decline

Output and new orders in the Egyptian private sector economy both declined for the fourth successive survey period during January, albeit at slower rates than in December. Meanwhile, input prices rose substantially, and the rate of input cost inflation was the sharpest since the beginning of data collection in April 2011. Workforce numbers declined for the ninth successive month

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.

Overall business conditions continued to deteriorate at the start of 2013, as the headline PMI posted 45.0 in January, up from 37.1 in December. The latest reading marked the fourth successive month of deterioration and pointed to a further worsening in operating conditions in the Egyptian private sector.

January data signalled a further fall in output at Egyptian non-oil producing private sector firms. This was the fourth successive month of decline, but the rate of contraction was remarkably lower than in the previous survey period.

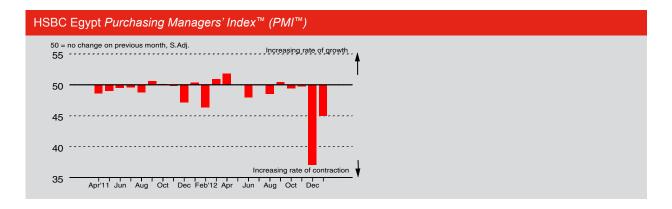
Volumes of incoming new business continued to decrease in January. Panellists linked this development to the ongoing political and economic instability in the country.

Driven by unfavourable exchange rates, new business from abroad declined further during January. Around 30% of panellists indicated a decrease in new export orders. Meanwhile, the level of outstanding business remained broadly unchanged and vendor performance worsened for the second month running.

Employment levels at Egyptian non-oil producing private sector companies fell during January, and at the sharpest rate in the survey history. According to anecdotal evidence, the decline was driven by lower business and the attempts to reduce expenditure.

Overall input prices continued to rise, and the rate of input cost inflation accelerated sharply to record the highest level in the series history. While staff costs remained broadly unchanged, purchase prices rose substantially. Companies commonly mentioned the development of the dollar price as the main driver behind the latest rate of inflation. Concurrently, average tariffs charged at non-oil producing companies in Egypt rose during January, and at the fastest rate in 22 months of data collection.

Purchasing activity in Egypt's non-oil producing private sector fell for the sixth successive survey period during January. There was some evidence that the decline was driven by lower business. Pre-production inventory levels fell for the first time since April, and at the joint-sharpest rate since December 2011.



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.

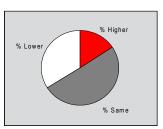




Output Index

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



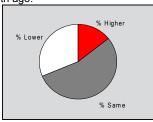


Production at non-oil producing Egyptian private sector companies declined further during January. This was highlighted by the seasonally adjusted Output Index recording a level below the 50.0 mark that separates growth from contraction. The latest reading marked the fourth successive month of deterioration. According to anecdotal evidence the decline was driven by decreased demand and rising dollar prices.

New Orders Index

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

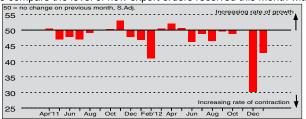


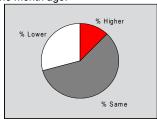


January data signalled a decline in new orders placed at non-oil producing firms in Egypt. Almost one-in-three respondents indicated lower volumes of incoming new business. Most panellists linked this to the ongoing political and economic instability in the country. The overall rate of contraction was, however, much slower than in the previous 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 business from abroad continued to decline in Egypt's non-oil producing private sector during January. Nearly 30% of panellists reported a fall in new export orders and only 12% recorded more business from abroad. Where a decline was indicated, companies partly attributed this to poor political and economic conditions and high currency rates.

Backlogs of Work Index

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



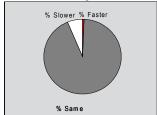


As has been the case for most of the series history, the level of outstanding business at Egyptian non-oil producing private sector firms remained broadly unchanged in January, as the seasonally adjusted Backlogs of Work Index posted near the no-change mark of 50.0. The majority of respondents indicated an unchanged level of work-in-hand compared to the situation in December.

Suppliers' Delivery Times Index

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



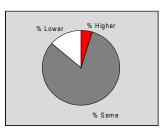


Supplier delivery times in the non-oil producing private sector in Egypt rose for the second successive survey period during January. The rate at which vendor performance worsened was the sharpest since September 2011. More than 6% of panellists indicated a rise in average lead times ,with less than 1% recording a shortening. There was some evidence that the worsening was driven by increased prices.

Employment Index

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



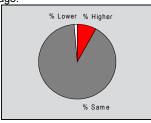


Employment levels at non-oil producing private sector firms in Egypt fell during January, and the rate of job losses was the highest in the series history to date. Almost 14% of panellists recorded lower staffing levels. Reduced business and the attempt to reduce expenditures by cutting jobs were among the reasons behind the latest decline.

Output Prices Index

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

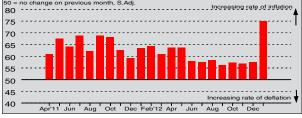


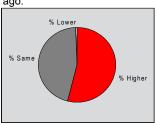


January data signalled a further rise in average tariffs set at non-oil producing private sector firms in Egypt. The rate of output price inflation picked up and was the highest since the beginning of data collection in April 2011. An increase in raw material prices was cited as the main driver behind the latest price rise.

Overall Input Prices Index

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





Overall average input prices at non-oil producing private sector companies in Egypt continued to rise during January. The rate of input cost inflation accelerated substantially and recorded the highest level in the 22-month series history. More than half of respondents reported higher overall input prices, which was mainly driven by an increase in 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.

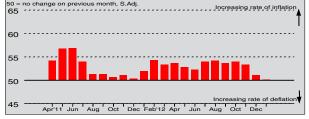




Average purchase prices rose remarkably during January, as the seasonally adjusted Purchase Prices Index posted a reading way above the 50.0 threshold. The rate of price inflation recorded was the highest in the survey history to date. More than 55% of respondents indicated higher purchase prices and commonly associated this with the latest increase in the dollar price.

Input Costs: Staff Costs Index

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



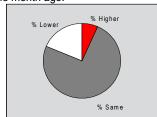


Average prices paid for salaries remained broadly unchanged at Egyptian non-oil producing private sector firms during January. The rate of wage inflation eased and recorded the lowest level since the survey was first conducted. Only around 2% of panellists reported a rise in average prices paid for salaries, while 1% indicated a fall.

Quantity of Purchases Index

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



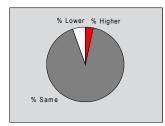


January data signalled a further decrease in buying at Egyptian non-oil producing private sector firms. Purchasing activity fell for the sixth consecutive month, but at a slower rate than in the previous survey period. Almost one-in-five respondents reported a decline in quantities of inputs purchased. There was some evidence that the latest decline was driven by a decrease in business.

Stocks of Purchases Index

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





Stocks of purchases decreased at companies in Egypt's non-oil producing private sector during January. This was the first fall in pre-production inventories since April and the join-sharpest since December 2011. Lower consumption was one of the main reasons mentioned by companies that reported a decrease in inventory levels.

Eurozone Purchasing Managers' Index™

International PMI summary

China Purchasing Managers' Index™



Sources: Markit, HSBC

40 35

2001 Source: Markit

2003

2005



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 December. Output has now risen for four consecutive months. Moreover, the rate of growth quickened slightly from November to the fastest in the current sequence. The HSBC China Composite Output Index posted 51.8 in December, up from 51.6 in November.

The Eurozone downturn eased further at the end of 2012, as rates of contraction in economic output and new business slowed. At a nine-month high of 47.2 in December, the Markit Eurozone PMI Composite Output Index was nonetheless below the 50.0 no-change mark for the eleventh successive month.

2007

2009

2011

After a worsening of manufacturing conditions for US companies in November, ISM data signals an improvement during December as the PMI posted at 50.7, up from 49.5 in the previous month. Non-manufacturing firms in the US reported a further improvement in business conditions, as the NMI scored a 10month high of 56.1 in December, up from 54.7 in November.

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

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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