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## HSBC Egypt PMI™

Deterioration in operating conditions slows in May

#### **Key findings:**

- Output and new orders both decline at weaker rates
- Slight increase in stocks of purchases
- Rate of input cost inflation eases but remains solid

May data signalled further declines in both output and incoming new business in Egypt's non-oil producing private sector, but the rates of contraction eased remarkably since the end of last year. Meanwhile, stocks of purchases increased for the first time since last December and the rate of input cost inflation remained sharp, but slowed to a five-month low.

The headline figure derived from the survey is the *Purchasing Managers' Index*<sup>TM</sup> ( $PMI^{TM}$ ). 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 posted 48.5 in May, up from April's four-month low of 44.2. While operating conditions in the Egyptian non-oil producing private sector have now deteriorated for eight consecutive survey periods, the latest rate of contraction was the weakest in six months.

While output levels declined for an eighth successive survey period during May, the rate of contraction was substantially lower than in April. The pace of contraction in new order volumes also eased to the weakest in six months. The securing of new clients at a number of companies helped to slow down the overall rate of decline. Meanwhile, new business from abroad also decreased at a moderate pace during May.

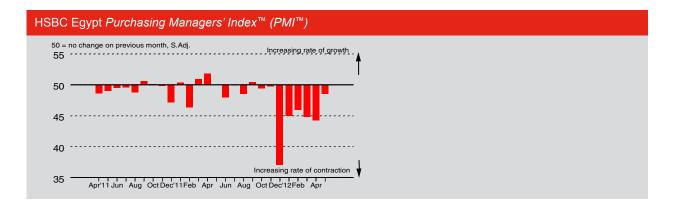
The slight fall in incoming new business led to a decline in

purchasing activity. Buying has now decreased for ten months in a row, but the rate of contraction in May was the weakest since last November. Meanwhile, backlogs of work were unchanged from April and the level of pre-production inventories increased for the first time in five months, albeit only marginally.

As has been the case throughout most of the survey history, employment levels in Egypt's non-oil producing private sector fell in May. Companies often linked the decline to decreased incoming new orders. Driven by an increased desire among suppliers to be paid in cash, average lead times on inputs worsened during the latest survey period.

Increased purchase prices accounted for most of the latest rise in overall input costs at non-oil producing private sector companies in Egypt. The rate of purchase price inflation slowed from April's record high, but remained sharp. There was some anecdotal evidence that the increase was driven by a rising dollar price and higher raw material prices. Average staff costs also increased, albeit at a moderate pace, with the majority of panellists reporting unchanged average salaries.

In response to increased input costs, Egyptian non-oil producing companies raised their output prices in May, but the rate of charge inflation eased from the previous month and was the weakest in five months.



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.

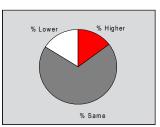




#### Output Index

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



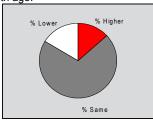


Egypt's non-oil producing private sector companies reported a further decline in output levels during May, but the rate of contraction eased to the weakest since last November. Exactly 16% of panellists recorded a fall in production, while 15% indicated an increase. High raw material prices was cited as one of the reasons behind the latest decline.

#### New Orders Index

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





The seasonally adjusted New Orders Index posted below the no-change mark of 50.0 in May, extending the sequence of declining order book volumes to eight months. The pace of contraction, however, eased substantially and was the slowest since last November. While the securing of new clients helped to lower the rate of decline, ongoing political instability was cited as the main reason behind the overall decrease.

#### New Export Orders Index

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

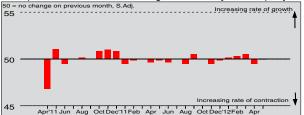


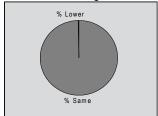


New business from abroad placed at Egypt's non-oil producing private sector companies fell for the sixth successive survey period in May. Companies often linked the fall to deteriorating political conditions in the country. However, the latest rate of decline was modest and the weakest in the current sequence.

#### Backlogs of Work Index

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



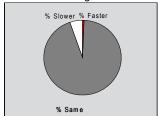


The seasonally adjusted Backlogs of Work Index posted at the neutral 50.0 threshold during the latest survey period, pointing to unchanged volumes of incomplete business in Egypt's non-oil producing private sector. The vast majority of companies surveyed recorded no change in their levels of outstanding business.

#### Suppliers' Delivery Times Index

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



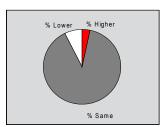


Average lead time on inputs in Egypt's non-oil producing private sector continued to rise in May. Vendor performance has now worsened for six consecutive survey periods, and the latest lengthening was at the second-highest rate in this sequence. According to anecdotal evidence, the worsening of suppliers' delivery times was driven by a lack of liquidity and an increased desire among suppliers to be paid in cash.

#### **Employment Index**

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



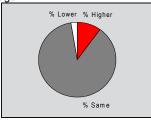


In response to declining order book volumes and falling output levels, Egypt's non-oil producing private sector companies elected to cut staff during May. This was highlighted by the seasonally adjusted Employment Index posting below the 50.0 no-change mark. Staffing levels have now fallen for 13 months in row, and the latest rate of job shedding was greater than the series average.

#### Output Prices Index

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



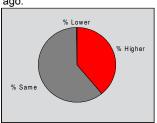


Non-oil producing private sector companies in Egypt raised their average prices charged for goods and services in May. Panellists often linked the rise to increased input costs. While prices charged rose for a sixth successive survey period, the rate of charge inflation slowed to the second-lowest in the current sequence.

#### Overall Input Prices Index

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

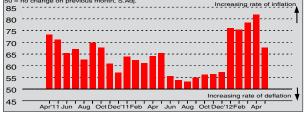


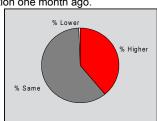


As has been the case throughout the survey history to date, overall input prices increased during May. The rate of cost inflation remained sharp, but eased dramatically from the record high registered in April. Respondents reported that higher purchase prices was the main driver behind the latest increase in overall 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 in Egypt's non-oil producing private sector rose further in May. While the increase was the weakest in five months, the rate of inflation remained sharp and above the series average. A rising dollar price and increased raw material costs accounted for much of the latest increase in purchase prices, according to panellists.

#### Input Costs: Staff Costs Index

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



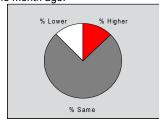


Egypt's non-oil producing private sector companies indicated a third consecutive monthly rise in average staff costs during the latest survey period. While the rate of wage inflation was the sharpest in six months, it was modest overall. The majority of companies registered unchanged average salaries, with only 1% indicating a rise.

#### Quantity of Purchases Index

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



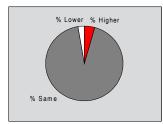


Purchasing activity in the Egyptian non-oil producing private sector fell during May, and for a tenth successive survey period. The latest decline was, however, slight and the weakest in six months. Where a fall in buying was reported, companies often attributed this to decreased incoming new business

#### Stocks of Purchases Index

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





The latest survey data signalled a marginal rise in pre-production inventories at Egypt's non-oil producing private sector firms, with the seasonally adjusted Stocks of Purchases Index registering above the neutral 50.0 threshold. The latest increase ended a four-month period of falling input stocks.

#### International PMI™ summary

# China Purchasing Managers' Index™ 2005 2006 2007 2008 2009 2010 2011 2012 2013

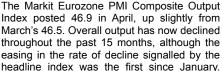


was down from 53.5 in March, suggesting that

the rate of expansion was the weakest since

### Eurozone Purchasing Managers' Index





throughout the past 15 months, although the easing in the rate of decline signalled by the headline index was the first since January. Eurozone manufacturing production and service sector business activity both contracted at similarly marked rates in April.

#### US Purchasing Managers' Index



Source: Institute for Supply Management (ISM)

Operating conditions in the US manufacturing sector improved during April, highlighted by the ISM headline PMI posting a reading of 50.7. This was down from March's 51.3 and the weakest reading in four months. The pace of growth also slowed in the non-manufacturing sector, with the headline index posting a ninemonth low of 53.1. This was down from 54.4 in March.

#### 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

#### Warning

last October.

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