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# HSBC Egypt PMI<sup>™</sup>

PMI signals further deterioration in operating conditions in June

## **Key findings:**

- Political instability in the country causes further declines in output and new orders
- Input cost inflation remains sharp
- · Stocks of purchases fall at second-sharpest rate in survey history

June data for the Egyptian non-oil producing private sector economy signalled declines in both output and new orders, and the rates of contraction picked up from the previous survey period. Having increased fractionally in May, inventory levels also declined markedly and the overall rate of input price inflation remained sharp.

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.

Operating conditions in Egypt's non-oil producing private sector continued to deteriorate in June, with the headline index registering 47.5, down from May's 48.5. The latest survey data extended the current sequence of overall contraction in the sector to nine months.

Fragile economic and political conditions in Egypt accounted for much of the latest declines in both output and new business, and the rates of contraction picked up from the previous month. New business from abroad also fell at an accelerated pace. Panellists linked the decline in foreign demand to unstable political conditions.

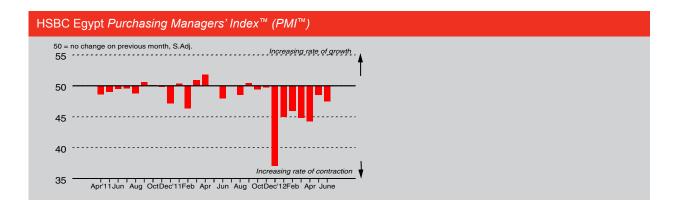
After a marginal increase during the previous survey period, stocks of purchases fell in June, and at the second-fastest pace

in the 27-month survey history. Purchasing activity also declined, as companies reported lower order book volumes. Concurrently, Egypt's non-oil producing private sector companies reduced their payroll numbers, although the rate of job shedding was only marginal.

Work-in-hand in Egypt's non-oil producing private sector rose for the first time in three months during June. The rate of backlog accumulation was, however, only slight, with 98% of respondents indicating unchanged levels of outstanding business. Meanwhile, a lack of fuel and raw materials explained a further deterioration in vendor performance.

Overall input prices continued to rise sharply in June, with 35% of companies recording increased input costs. The overall rate of input price inflation was above the series average and mainly driven by a solid rise in purchase prices. According to anecdotal evidence, the increase in purchase prices was driven by an increased dollar price. Meanwhile, average staff costs increased only slightly, as the majority of panellists indicated unchanged average wages.

Output prices charged by Egypt's non-oil producing private sector companies increased in June. The rate of charge inflation eased, however, as some companies lowered their charges to attract new customers.



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.

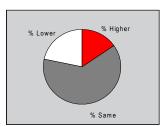




#### Output Index

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



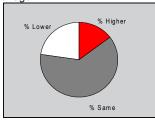


Egypt's non-oil producing private sector companies reported a further contraction in their activity levels during June, highlighted by the seasonally adjusted Output Index registering below the 50.0 no-change mark. The latest data signalled a ninth consecutive monthly decline in output, and companies mainly linked this to political and economic instability in the country.

#### New Orders Index

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



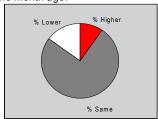


In line with the trend for output, order book volumes in Egypt's non-oil producing private sector fell in June, and for the ninth consecutive survey period. The rate of contraction accelerated from May, but was the second-lowest in 2013 so far. According to anecdotal evidence, the latest decrease was driven by fragile political conditions and increased input costs.

#### New Export Orders Index

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

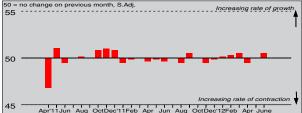


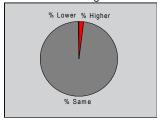


Client demand from foreign markets fell in June, as 15% of companies reported a decline in business from abroad. New export orders have now decreased for seven months in a row, and the rate of contraction picked up from May. The decrease reflected ongoing unstable political conditions, according to panellists.

# 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 above the neutral 50.0 threshold in June, indicating increased volumes of unfinished orders in Egypt's non-oil producing private sector. Work-in-hand rose for the first time since March, but only slightly. A lack of raw materials was cited as the main reason for the latest rise in outstanding business.

# Suppliers' Delivery Times Index

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



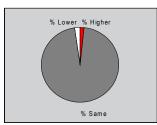


June data signalled a further rise in average lead times in Egypt's non-oil producing private sector. The rate at which delivery times worsened eased, however, and was the weakest in six survey periods. A lack of fuel and raw materials was one of the drivers behind the latest worsening in suppliers' delivery times.

# **Employment Index**

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



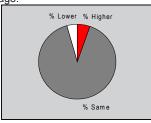


The latest survey data indicated a further slide in workforce numbers at Egyptian non-oil producing private sector companies. Payroll numbers have now fallen for 14 months running, albeit only marginally, as the majority of respondents reported unchanged employment levels from the previous survey period.

## Output Prices Index

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



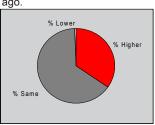


Selling prices in Egypt's non-oil producing private sector rose in June, extending the current sequence of rising charges to seven months. The rate of output price inflation eased, however, and was the weakest since last December. While some companies lowered their charges to attract more customers, increased raw materials accounted for much of the overall rise in output prices.

#### Overall Input Prices Index

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



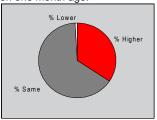


The seasonally adjusted Overall Input Prices Index posted above the no-change mark of 50.0 in June, pointing to a further rise in input costs in Egypt's non-oil producing private sector. The rate of inflation was in line with data from May and was mainly driven by a sharp rise in purchase prices, while staff costs increased only fractionally.

## Input Costs: Purchase Prices Index

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

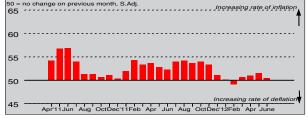




Average purchase prices in Egypt's non-oil producing private sector rose in June, as 34% of panellists reported increased cost burdens. The rate of inflation was the weakest since last December, although still sharp overall. An increased dollar price was the primary factor for the latest increase, according 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.



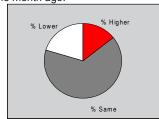


Staff costs paid by Egypt's non-oil producing private sector companies increased in June, and for the fourth straight month, but the latest rate of wage inflation eased, however, and was only marginal overall. The majority of panellists reported unchanged salaries, with 4% indicating higher average staff costs.

### Quantity of Purchases Index

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



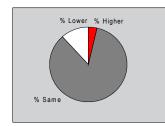


Purchasing activity in Egypt's non-oil producing private sector fell in June, with 20% of companies indicating a decline in the quantity of items purchased. Buying has now declined for 11 straight months, although the latest fall was the second-slowest in seven months. Many firms attributed lower input buying to decreased incoming business.

## Stocks of Purchases Index

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





After a marginal increase during May, stocks of raw materials and other pre-production inventories held at Egyptian non-oil producing private sector companies fell in June. The rate of depletion was sharp, and the second-fastest in the 27-month survey history. Panellists mainly linked the fall in input stocks to low business.

# International PMI™ summary



HSBC China Composite PMI™ data (which covers both manufacturing and services) signalled only a slight expansion of output during May. The HSBC China Composite Output Index posted 50.9, and down from 51.1 in April, indicated the weakest expansion in business activity since last October.

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Posting 47.7 in May, up from April's 46.9, the downturn in the eurozone economy eased for the second month running in May. Rates of decline eased for both manufacturing production and service sector business activity, reaching 15- and three-month lows respectively.

Source: Markit



ISM data signalled a contraction in operating conditions in the US manufacturing sector in May, with the headline index posting 49.0, down from April's 50.7. The May reading was the weakest in six months. Meanwhile, operating conditions in the non-manufacturing sector continued to improve, with the headline index registering 53.7, up slightly from 53.1 in April.

# 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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