

HSBC Egypt PMI™

Downturn in Egypt's non-oil producing private sector accelerates

Key findings:

- Output and new orders decline sharply, driven by fragile political conditions
- Workforce numbers fall further
- Purchasing activity declines at fastest pace since last December

The latest survey data signalled sharp declines in both output and new orders at Egypt's non-oil producing private sector firms. Employment levels fell for the fifteenth month in succession and purchasing activity declined at the second-sharpest rate in the survey history.

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.

Overall operating conditions in Egypt's non-oil producing private sector economy deteriorated further in July, with the headline PMI slipping to 41.7, down substantially from June's 47.5. The latest reading was the second-lowest in the 28-month survey history.

Fragile political conditions was the key driver for the latest declines in output and new orders at Egypt's non-oil producing private sector companies. Both rates of contraction accelerated markedly from the previous month and were the second-sharpest on record. New business from abroad also declined at a faster pace, as 31% of panellists recorded lower demand from foreign markets.

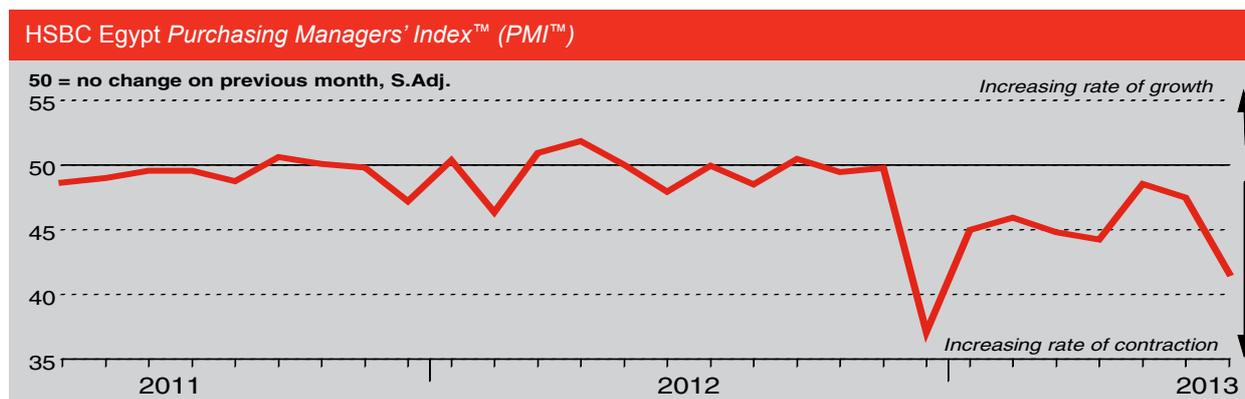
Payroll numbers fell for the fifteenth month in a row during July, and companies linked the decline to low business and the

retirement of employees. The rate of job cuts was the sharpest in three months. The level of outstanding business also decreased, for the first time since April. The pace of decline was the fastest in 27 survey periods. Meanwhile, suppliers' delivery times worsened further and respondents attributed this to road closures caused by protests and the ongoing political instability in the country.

In line with declines in output, incoming new business and workforce numbers, purchasing activity decreased in July. Buying activity has now fallen for 12 consecutive months, and the latest drop was the fastest since the record decline recorded last December. Concurrently, companies reported a sharp reduction in pre-production inventories.

The rate of overall input price inflation eased for the third consecutive month in July. While 28% of panellists recorded higher cost burdens, the latest rate of cost inflation was the weakest in seven survey periods. An increased dollar price accounted for most of the increase in purchase prices, while bonus payments was the main driver behind the latest wage inflation.

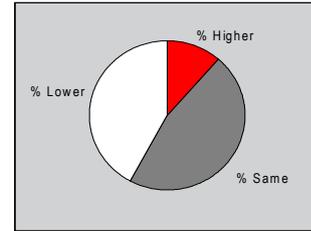
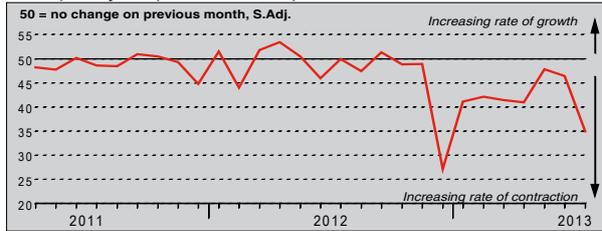
Output charges were unchanged in July. Some companies raised their charges in response to increased input costs, while others lowered their output prices to attract customers.



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

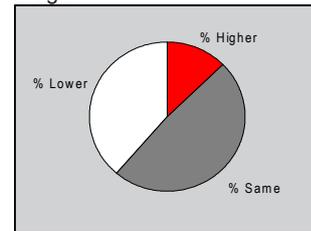
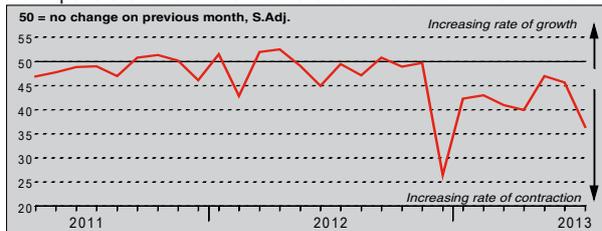
Q. Please compare your production/output this month with the situation one month ago.



July data signalled a further decline in output levels in Egypt's non-oil producing private sector, extending the current sequence of contraction to ten months. The pace of decline accelerated substantially from June, and was the sharpest since the survey record last December. The current political instability in the country was the primary factor for the latest fall, according to panellists.

New Orders Index

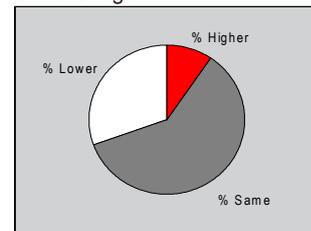
Q. Please compare the level of new orders received this month with the situation of one month ago.



In line with the trend for output, order book volumes fell in July. This was highlighted by the seasonally adjusted New Orders Index posting well below the no-change mark of 50.0. Incoming new business declined for the tenth month in a row, and at the fastest pace in seven months. Respondents linked the latest decline to fragile political conditions and a lack of security in the country.

New Export Orders Index

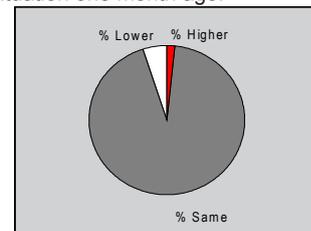
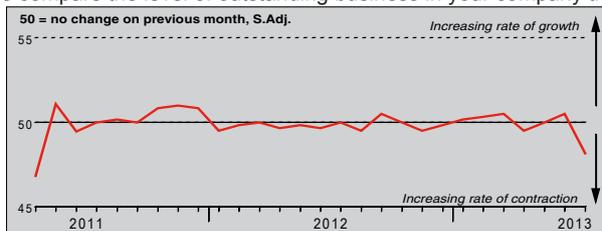
Q. Please compare the level of new export orders received this month with the situation of one month ago.



New business from abroad placed at Egyptian non-oil producing private sector firms decreased in July, with 31% of panellists reporting lower new export orders. The latest fall was the second-sharpest in the 28-month survey history. Many respondents linked declines to demonstrations and political unrest in the country.

Backlogs of Work Index

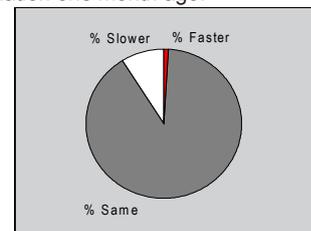
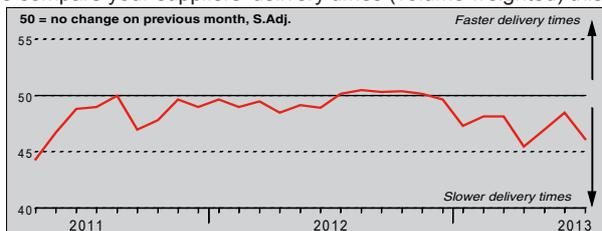
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Egypt's non-oil producing private sector companies reported a lower volume of unfinished work in July. The rate of backlog depletion was the highest since April 2011, but modest overall, as the majority of respondents indicated unchanged volumes of incomplete business. Where a decline in work-in-hand was reported, companies attributed this to low business and a lack of regular work.

Suppliers' Delivery Times Index

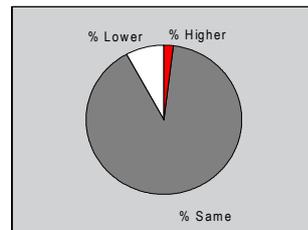
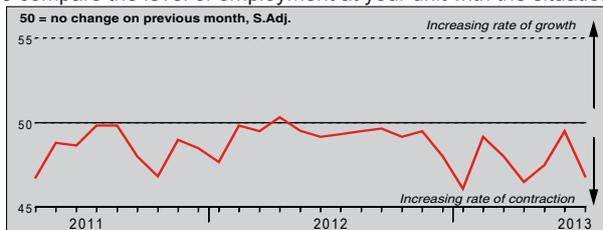
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Vendor performance in Egypt's non-oil producing private sector worsened further in July, highlighted by the seasonally adjusted Suppliers' Delivery Times Index posting below the 50.0 no-change threshold. Road closures caused by protests and the ongoing political instability in the country were key contributors to the latest worsening of delivery times.

Employment Index

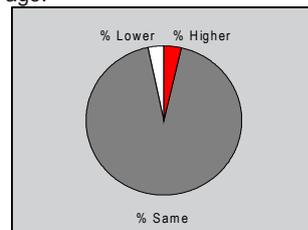
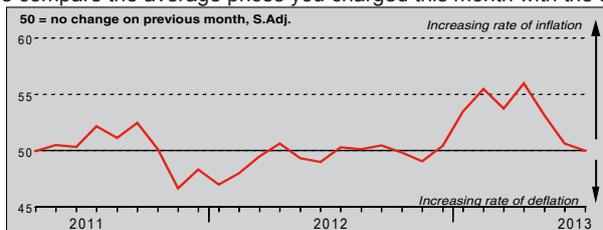
Q. Please compare the level of employment at your unit with the situation one month ago.



Employment levels in Egypt's non-oil producing private sector fell for the fifteenth month running in July, with 8% of companies reporting job cuts. The rate of job shedding picked up from June, and was the sharpest in three months. Many respondents linked the latest decline in payroll numbers to low business and the retirement of employees.

Output Prices Index

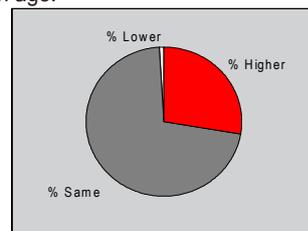
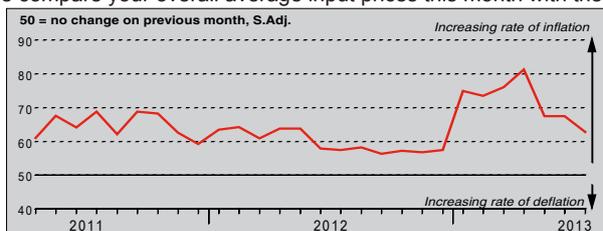
Q. Please compare the average prices you charged this month with the situation one month ago.



After seven months of increasing output prices, selling prices charged by non-oil producing private sector companies in Egypt were unchanged in July. While some companies raised their tariffs in response to increased raw material prices, others lowered their charges to attract customers. The majority of panellists reported no change in output prices from the previous month.

Overall Input Prices Index

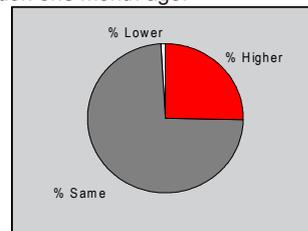
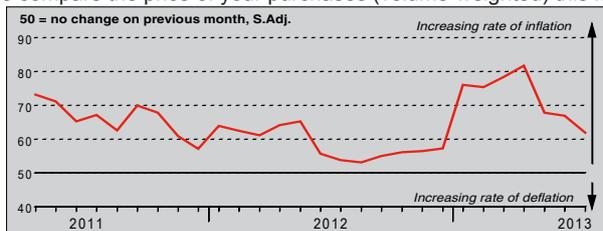
Q. Please compare your overall average input prices this month with the situation one month ago.



The seasonally adjusted Overall Input Prices Index posted above the 50.0 no-change mark in July. Around 28% of companies reported increased input costs, while only 1% indicated a fall. The rate of cost inflation decelerated for the third month running, and was the weakest since the end of last year.

Input Costs: Purchase Prices Index

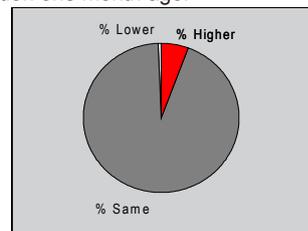
Q. Please compare the price of your purchases (volume-weighted) this month with the situation one month ago.



Average purchase prices in Egypt's non-oil producing private sector increased in July, as one-in-four respondents indicated higher cost burdens. There was some evidence that inflationary pressure was driven by an increased dollar price. While purchase prices have increase in every month since data collection began in April 2011, the latest rate of cost inflation eased to the weakest in seven months.

Input Costs: Staff Costs Index

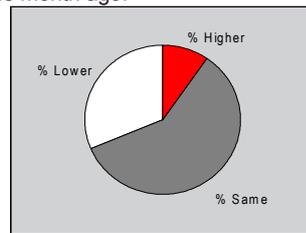
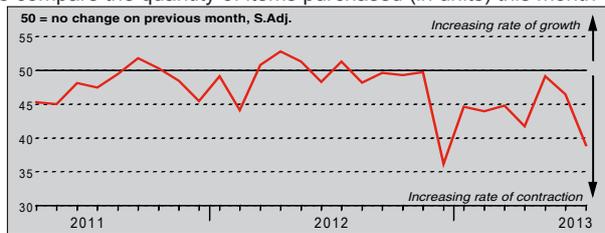
Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.



Egypt's non-oil producing private sector companies reported increased staff costs in July, extending the current sequence of growth to five months. The rate of wage inflation picked up and was the highest since last November, with 6% of panellists reporting higher average salaries. According to respondents, the latest wage inflation was due to bonus payments.

Quantity of Purchases Index

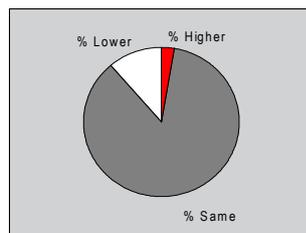
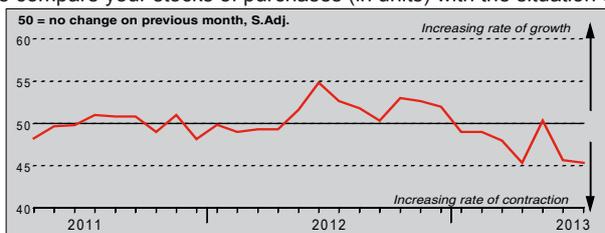
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



The latest survey data signalled a sharp decrease in purchasing activity in Egypt's non-oil producing private sector, highlighted by the seasonally adjusted Quantity of Purchases Index registering well below the neutral 50.0 threshold. Buying has now fallen for 12 months in succession, and at the fastest pace since last December. According to anecdotal evidence, low workloads was the key driver of the latest decline.

Stocks of Purchases Index

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



Stocks of raw materials and other pre-production inventories continued to decrease in July. Input stocks fell for the sixth time in the past seven months, and at the joint-highest rate over that period. While 11% of companies reported a reduction in pre-production inventories, only 3% indicated an accumulation of stocks of purchases.

International PMI™ summary



HSBC China Composite PMI data (which covers both manufacturing and services) signalled the first contraction of output in ten months in June. That said, the rate of reduction was only fractional, as signalled by the HSBC Composite Output Index posting slightly below the 50.0 no-change mark at 49.8 (down from 50.9 in May).

At 48.7 in June, up from 47.7 in May, the Markit Eurozone PMI Composite Output Index indicated a further easing in the rate of contraction in economic output to a 15-month low. However, the latest reading signalled that overall activity has now fallen in each of the past 17 months.

ISM data signalled an improvement in overall operating conditions for US manufacturers with the headline PMI index posting 50.9 in June, up from May's 49.0. The June reading was the strongest in the second quarter. Operating conditions in the non-manufacturing sector also improved, albeit at a reduced rate. The headline index posted a 40-month low of 52.2 in June, down from 53.7 in May.

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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