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HSBC Egypt PMI™

Downturn in Egypt's private sector continues in August

Key findings:

- Output and new orders decline substantially
- New export orders fall at fastest pace since record drop last December
- Input cost inflation eases

August data signalled further sharp declines in output and new orders at Egypt's non-oil producing private sector companies. New business from abroad also fell, and the pace of contraction accelerated to the sharpest in eight months. Meanwhile, overall input price inflation eased to a near-record low pace.

The headline figure derived from the survey is the *Purchasing Managers' IndexTM* (PMI^{TM}). Readings above 50.0 signal an improvement in business conditions on the previous month, while readings below 50.0 show a deterioration.

Egypt's non-oil producing private sector remained deep in recession in August, with the headline PMI posting 42.2, up fractionally from July's 41.7 but well below the 50.0 no-change mark. Operating conditions have deteriorated continuously since last October.

Non-oil producing private sector firms in Egypt reported a sharp contraction in output in August. The decline in activity was in line with a substantial fall in incoming new business, which was commonly attributed to the political instability and ongoing demonstrations in the country. New export orders also declined markedly, with the rate of decrease the second-strongest recorded in the series history. Concurrently, suppliers' delivery times worsened for the ninth month in succession.

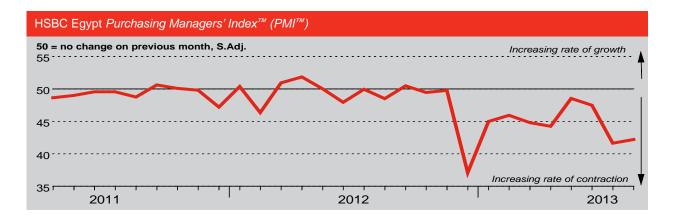
Continuing the trend observed throughout the survey history to

date, overall input prices increased in August. The rate of input cost inflation eased, however, and was the joint-second weakest since the series started in April 2011. Purchase prices rose on top of raw material shortages and a high dollar price, while salary increments accounted for much of the latest rise in staff costs. Meanwhile, output charges increased only fractionally, as some companies lowered their selling prices in order to attract new customers.

Egypt's non-oil producing private sector companies remained reluctant to take on additional staff in August, extending the current sequence of job shedding to 16 months. Survey respondents repeatedly linked a slide in workforce numbers to lower business. A lack in demand was also the main reason for the latest fall in unfinished work, according to panellists.

Purchasing activity fell at the third-fastest pace in the survey history during August, with more than 30% of panel members indicating a decrease in buying. According to anecdotal evidence, the decline was attributed to low demand.

Stocks of raw materials and other pre-production inventories held at Egyptian non-oil producing private sector companies decreased in August, and for the third month in a row. Lower business and withdrawals from existing stocks were the main contributors to the latest decline, according to respondents.



The HSBC Egypt Purchasing Managers' IndexTM (PMITM) 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' IndexTM and PMITM 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.

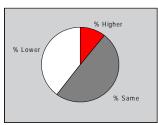




Output Index

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



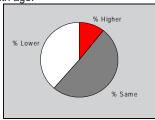


August data signalled a further sharp decline in levels at Egypt's non-oil producing private sector companies, extending the current sequence of contraction to 11 months. Around 40% of respondents reported a fall in output, and repeatedly linked this to fragile political conditions and the recent events in the country.

New Orders Index

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



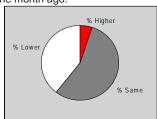


The seasonally adjusted New Orders Index registered well below the no-change of 50.0 in August, pointing to declining order book volumes at Egyptian non-oil producing private sector firms. Political instability continued to be the main reason for the fall in new work, according to survey respondents. The latest decrease was the second-sharpest in the 29-month survey history.

New Export Orders Index

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





Foreign demand for Egyptian goods and services continued to fall in August, with 39% of panellists indicating lower export business. The rate of contraction accelerated for the third month running, and was the second-strongest in the series history. According to anecdotal evidence, the fall in new export orders was driven by ongoing demonstrations and unstable political and economic conditions 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.





The level of outstanding business in Egypt's non-oil producing private sector declined for the second month in a row during August, signalled by the seasonally adjusted Backlogs of Work Index posting below the neutral 50.0 threshold. The rate of backlog depletion accelerated from July, and was the second-fastest since data collection began in April 2011. Panel members linked the decline in work-in-hand to lower business.

Suppliers' Delivery Times Index

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



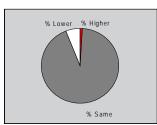


Average lead times for inputs rose in August, and for the ninth month in succession. While 10% of panellists indicated a rise in suppliers' delivery times, only 2% indicated an improvement. Panel members attributed slower delivery times to a lack of security, fragile political conditions and ongoing demonstrations in the country.

Employment Index

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



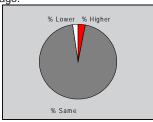


As has been the case throughout most of the 29-month survey history, Egypt's non-oil producing private sector firms reported a slide in workforce numbers in August. The rate of job shedding eased slightly from July, but remained greater than the historic series average. The latest decrease in payroll numbers was mainly linked to lower business.

Output Prices Index

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



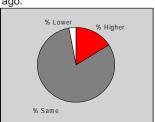


Average charges for goods and services rose fractionally in August, highlighted by the seasonally Output Prices Index posting just above the 50.0 no-change mark. While some companies lowered their charges in order to attract new customers, increased input prices accounted for much of the overall rise in output charges.

Overall Input Prices Index

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

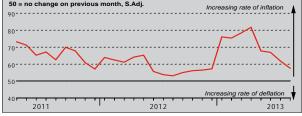


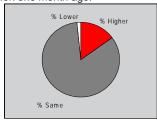


Overall input costs at Egypt's non-oil producing private sector firms continued to increase in August. However, the rate of cost inflation eased substantially and was the joint-second weakest in the survey history. While 16% of survey respondents recorded higher input prices, the vast majority of panellists indicated unchanged costs from the previous month.

Input Costs: Purchase Prices Index

 $Q. \ Pleas\underline{e} \ compare \ the \ price \ of \ your \ purchases \ (volume-weighted) \ this \ \underline{m} onth \ with \ the \ situati\underline{on} \ one \ month \ ago.$





After adjusting for seasonal factors, purchase prices in Egypt's non-oil producing private sector rose further in August. The rate of cost inflation decelerated for the fourth consecutive month, and was the lowest since the end of last year. A lack of some raw materials and a high dollar price contributed to the latest cost rise, according to panel members.

Input Costs: Staff Costs Index

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



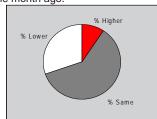


Average staff costs at Egyptian non-oil producing private sector companies rose in August, although to a lesser extent than seen in July. The vast majority of respondents indicated unchanged salaries, while 4% reported higher staff costs. According to anecdotal evidence, salary increments was the main reason for the latest wage inflation.

Quantity of Purchases Index

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



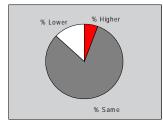


Egypt's non-oil producing private sector companies recorded a further fall in purchasing activity in August. Input buying declined at the third-fastest pace in the survey history, with 30% of companies reporting a reduction in the quantity of items purchased. Lower demand was cited as the main reason for the latest decrease in buying activity.

Stocks of Purchases Index

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





Pre-production inventories held at non-oil producing private sector companies in Egypt decreased for the third successive survey period in August. The rate of decline eased slightly and was the weakest recorded in the current sequence of contraction. Companies linked the latest fall in input stocks to the withdrawal of existing stock and lower business.

International PMI™ summary





2007

2009

2011

2013

2001

Source: Markit

2003

2005



HSBC China Composite PMI data (which covers both manufacturing and services) signalled a contraction of output for the second successive month in July. Although the HSBC Composite Output Index signalled only a marginal rate of reduction, it was the fastest recorded since November 2011.

July marked a tentative return to expansion for the eurozone economy, as manufacturing output posted a solid expansion and the trend in services activity moved close to stabilisation. At 50.5 in July, the Markit Eurozone PMI Composite Output Index rose to a near two-year high and posted above the neutral 50.0 mark for the first time since January 2012.

Operating conditions in the US manufacturing sector improved at the fastest pace in 25 months during July, with the headline PMI posting 55.4, up from June's 50.9. Non-manufacturing companies also reported improved operating conditions. The headline Index rose from 52.2 in June to 56.0 in July, the joint-highest reading in 17 survey periods.

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' IndexTM (PMITM)* 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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