HSBC *Purchasing Managers' Index*™ 2013

compiled by markit

Embargoed until: 07:30 (CAIRO) 3 October 2013

HSBC Egypt PMI™

Output contracts at slowest pace since June

Key findings:

- Output and new orders fall sharply, although at weakest rates in three months
- Rate of job cuts quickens
- Output charges decrease for first time in ten months amid increased input costs

The latest survey results from HSBC and Markit signalled further sharp declines in output and new orders at Egypt's non-oil producing private sector companies. The rates of contraction eased, however, to the weakest in three months. Meanwhile, payroll numbers declined at an accelerated pace and output charges fell for the first time since November 2012.

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.

Operating conditions in Egypt's non-oil producing private sector continued to deteriorate in September, with the headline PMI posting 44.7, up from August's 42.2. September data marked the twelfth consecutive monthly deterioration in operating conditions.

Egypt's non-oil producing private sector companies reported a further fall in activity in September, mainly linked to a lack of raw materials and low business. While the rate of contraction eased to a three-month low, the overall decline remained sharp. New order intakes also decreased at a sharp, but slower, pace. Panellists attributed lower new business to fragile political and economic conditions. Meanwhile, strikes at ports, suspension of air traffic and political problems elsewhere in the Middle East all reportedly contributed to the latest decline in new export orders.

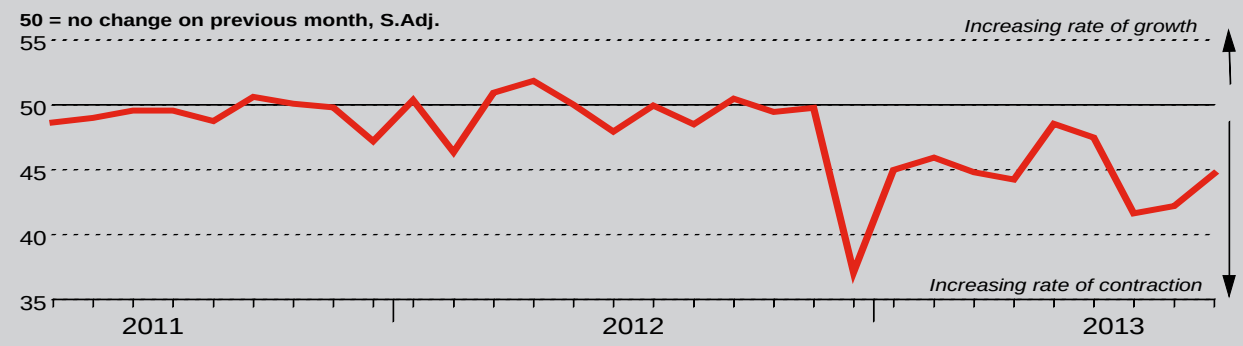
Lower new business was the main driver behind a further decline in employment levels. Payroll numbers have now fallen for 17 months in succession, and the rate of job losses in September was the quickest since April.

Input costs increased at an accelerated rate in September, with 27% of companies reporting higher cost burdens. The cost rise was driven by a sharp increase in purchase prices, while average staff costs rose only marginally. In contrast to higher input costs, Egypt's non-oil producing private sector companies reduced their selling prices for the first time since November 2012. Many companies lowered their charges in an attempt to attract customers.

Backlogs of work declined marginally in September, providing evidence of ongoing spare capacity in Egypt's non-oil producing private sector. Meanwhile, average lead times lengthened and companies linked this to imposed curfews, road congestion and ongoing security problems.

September data signalled a decline in purchasing activity, with almost one-in-four respondents indicating a fall in input buying. Anecdotal evidence suggested that the decline in buying activity was driven by low business. Stocks of purchases also fell, with companies commenting on withdrawals from existing stock.

HSBC Egypt *Purchasing Managers' Index*™ *(PMI*™*)*



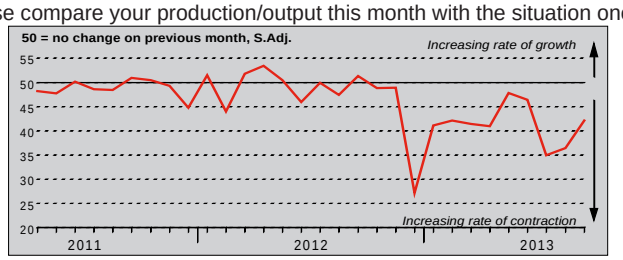
The HSBC Egypt *Purchasing Managers' Index*™ *(PMI*™*)* is a composite indicator designed to provide an overall view of activity in the Egyptian economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery times and stocks 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.

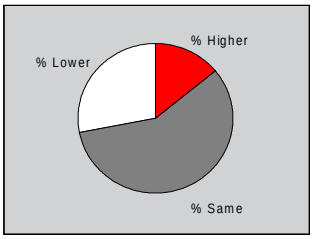
markit™

HSBC

Output Index

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

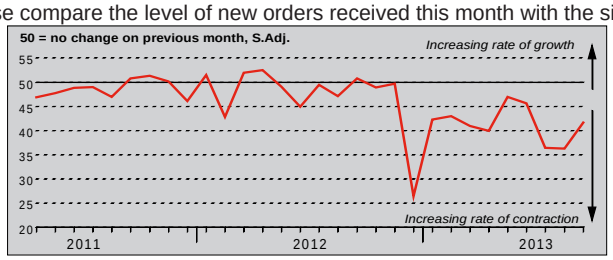


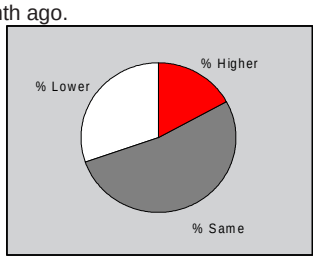


Egypt's non-oil producing private sector companies reported a further fall in output during September, extending the current sequence of contraction to 12 months. Panellists linked the latest drop in activity to a lack of raw materials and low business. The rate of decline was sharp, although the weakest since June.

New Orders Index

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

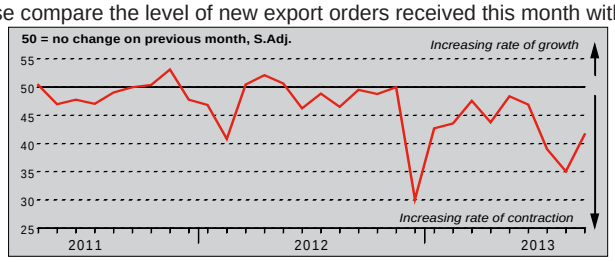


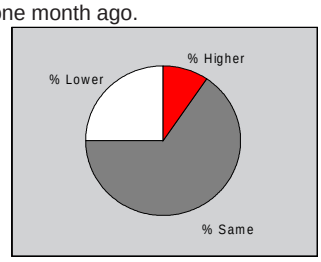


Order book volumes at Egyptian non-oil producing private sector companies decreased further in September, with the seasonally adjusted New Orders Index registering well below the 50.0 no-change mark. The pace of decline eased to a three-month low, but remained sharp overall. Anecdotal evidence suggested that fragile political and economic conditions in the country accounted for most of the latest decline.

New Export Orders Index

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

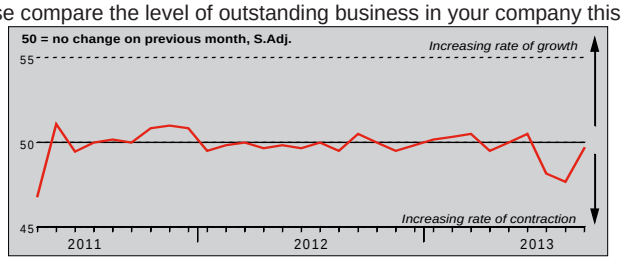


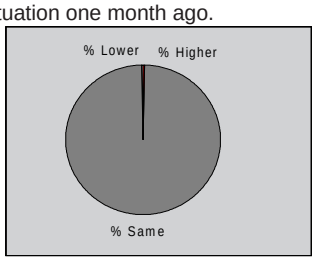


New business from abroad placed at Egypt's non-oil producing private sector companies declined for the tenth month running in September, with exactly one-in-four panel members indicating weaker client demand from foreign markets. Political problems in Arab countries, strikes at ports and suspension of air traffic had all contributed to the decline in new export orders, according to survey respondents.

Backlogs of Work Index

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

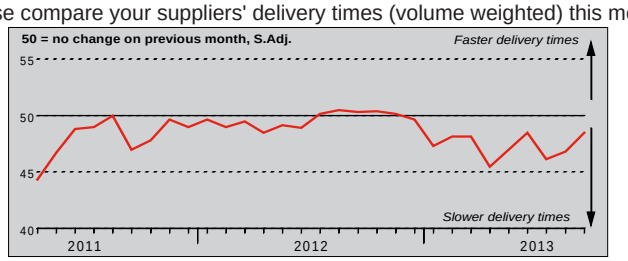


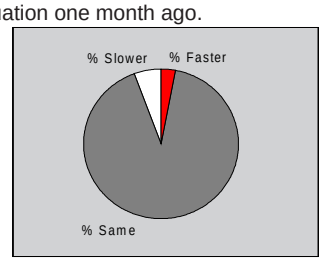


Volumes of unfinished work in Egypt's non-oil producing private sector fell in September. However, the pace of backlog depletion was marginal, as the vast majority of panellists indicated unchanged levels of outstanding business. Backlogs of work were depleted for the third month in succession.

Suppliers' Delivery Times Index

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



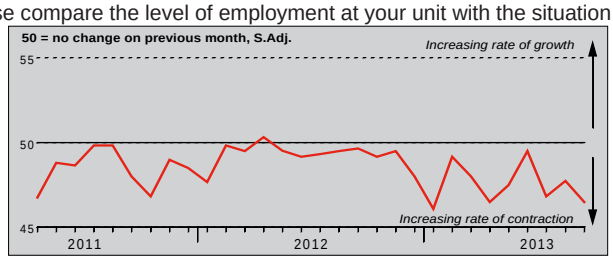


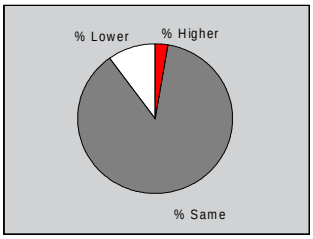
Continuing a trend observed since last December, suppliers' delivery times lengthened in September. Companies attributed longer delivery times to imposed curfews, road congestion and ongoing security problems. The pace at which average lead times rose eased since August, and was the joint-weakest in nine months.

All Intellectual Property Rights owned by Markit Economics Limited

Employment Index

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

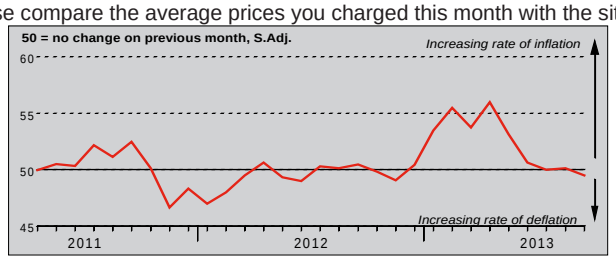


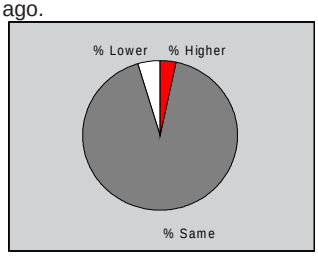


The seasonally adjusted Employment Index posted below the neutral 50.0 threshold in September, signalling further job cuts in Egypt's non-oil producing private sector. Workforce numbers have decreased continuously since May 2012. The rate of job shedding in September was the fastest in five months. Low business was the main driver behind the latest fall in employment levels, according to respondents.

Output Prices Index

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

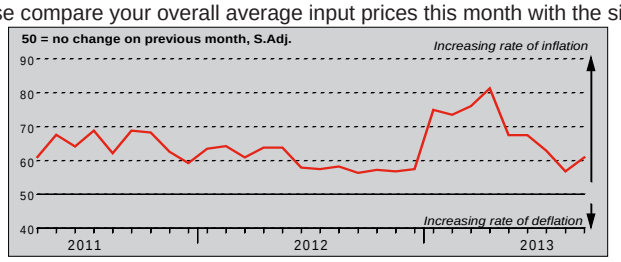


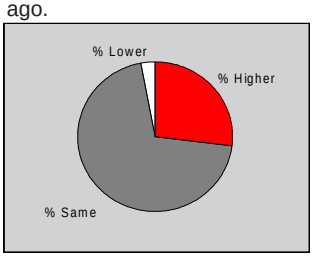


September data signalled a reduction in average prices charged by Egypt's non-oil producing private sector firms. According to anecdotal evidence, companies lowered their charges in an attempt to attract new customers. Output prices fell for the first time since last November, albeit only modestly, as the vast majority of panellists reported unchanged selling prices.

Overall Input Prices Index

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

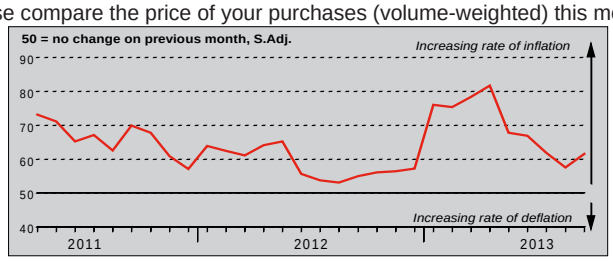


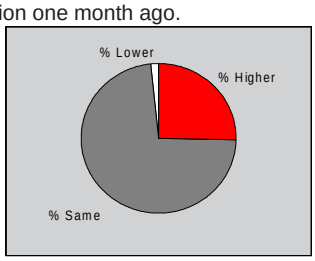


Overall input prices in Egypt's non-oil producing private sector continued to increase in September. Exactly 27% of companies recorded higher input cost, while only 3% reported a decline. The rate of cost inflation accelerated from the previous month, but remained below the series average. The rise in input costs was mainly driven by higher 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.

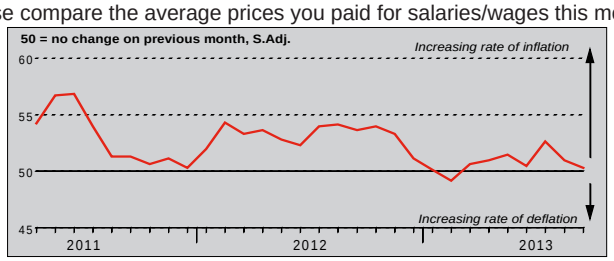


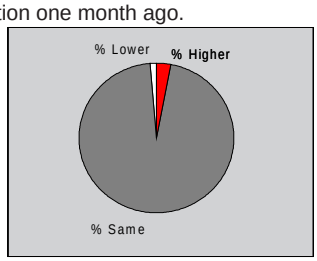


Continuing a trend observed throughout the 30-month survey history, average purchase prices in Egypt's non-oil producing private sector rose further in September. Around one-in-four respondents indicated increased purchase prices, with many linking rises to unfavourable exchange rates, a lack of control in the market and the scarcity of some raw materials.

Input Costs: Staff Costs Index

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

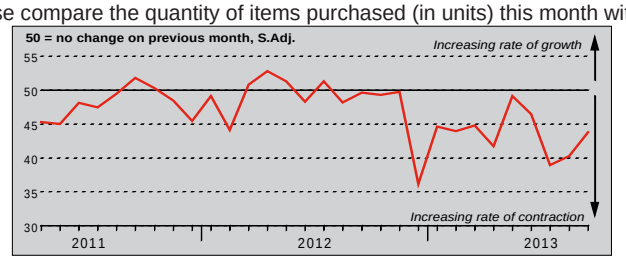


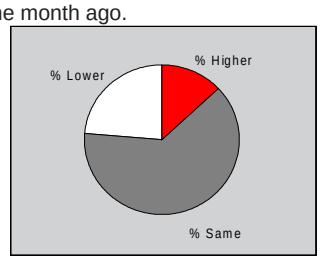


Average staff costs in Egypt's non-oil producing private sector rose marginally in September, extending the current sequence of wage inflation to seven months. While 3% of survey respondents indicated increased staff cost, the vast majority reported no change from the previous survey period.

Quantity of Purchases Index

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

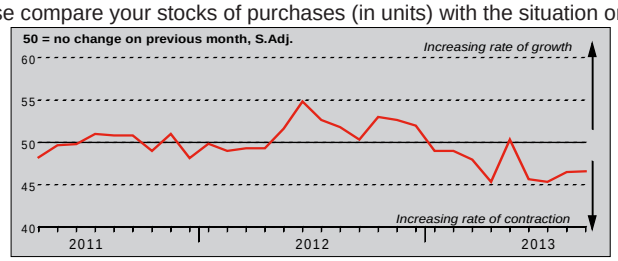


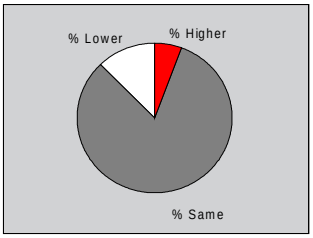


As has been the case in every month since August 2012, purchasing activity at Egyptian non-oil producing private sector firms decreased in September. The rate of decline eased, however, to the weakest in three months. Where a fall in input buying was reported, panel members often attributed this to low business.

Stocks of Purchases Index

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

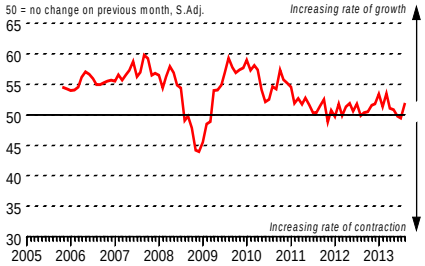




Egypt's non-oil producing private sector companies signalled a reduction in pre-production inventories in September. Input stocks fell for the fourth month in succession, although at the weakest pace in that sequence. Anecdotal evidence suggested that withdrawals from existing stock was the main contributor to the latest decrease in inventory levels.

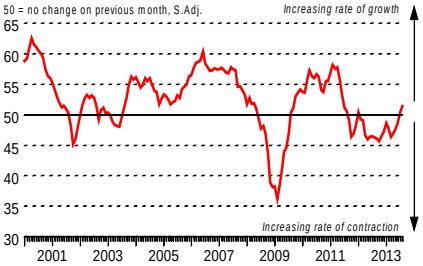
International PMI™ summary

China Purchasing Managers' Index™



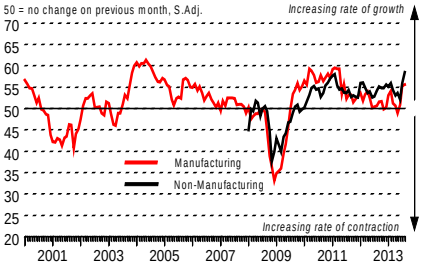
Sources: Markit, HSBC

Eurozone Purchasing Managers' Index



Source: Markit

US Purchasing Managers' Index



Source: Institute for Supply Management (ISM)

HSBC China Composite PMI™ data (which covers both manufacturing and services) signalled an expansion of output for the first time in three months during August. The HSBC Composite Output Index signalled a modest rate of growth, posting at 51.8 (up from 49.5 in July), the highest since March.

The final Markit Eurozone PMI® Composite Output Index signalled a second successive monthly expansion in business activity in August. The index rose to 51.5, up from 50.5 in July, to signal the fastest rate of growth in just over two years.

ISM data signalled a further improvement in operating conditions in the US manufacturing sector during August, with the headline PMI posting a 26-month high of 55.7, up from July's reading of 55.4. Operating conditions also improved across non-manufacturers, with the NMI headline Index registering 58.6 in August, up from 56.0 in July.

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.

Warning

The intellectual property rights to the HSBC Egypt PMI provided herein is owned by Markit Economics Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. *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.