

News Release

Embargoed until 0615 EET (0415 UTC) 4 October 2022

S&P Global Egypt PMI™

Business conditions deteriorate while inflationary pressures grow

Key findings

Output and new business fall sharply

Overall input costs rise at marked pace

Headcounts expand for the third month in succession

Business conditions in Egypt's non-oil economy remained under strain from inflationary pressures, energy rationing, import restrictions and weak demand at the end of the third quarter. Latest PMI data pointed to further marked declines in private sector business activity, driven by a sharp drop-off in client demand amid high prices and growing uncertainty. Subsequently, businesses continued to reduce their purchasing activity and inventory holdings. Despite this, firms retained an optimistic view towards output growth in the year ahead and continued hiring activity, though sentiment was weak by historical standards.

Unfavourable exchange rate movements against the US dollar, and price hikes for a range of inputs led to a quicker increase in overall input prices in September. Firms responded by lifting their selling charges.

The headline seasonally adjusted S&P Global Egypt Purchasing Managers' Index™ (PMI™) – a composite gauge designed to give a single-figure snapshot of operating conditions in the non-oil private sector economy – posted at 47.6 in September, unchanged from that seen in August, but still below the 50.0 neutral value. The index signalled a solid deterioration in business conditions, albeit one that was the joint-weakest for seven months.

Egyptian non-oil businesses registered a marked decline in output during September with contractions now seen each of the last 13 months. Firms indicated that energy rationing, part shortages and weak demand weighed on output.

Similarly, new orders fell solidly in the final month of the third quarter, but at the weakest rate for seven months. Firms indicated that high prices and client hesitancy curtailed demand. Meanwhile, exports fell for the second month in a row, but at the steepest rate for over two years. Weak

S&P Global Egypt PMI
sa, >50 = improvement since previous month



Source: S&P Global.
Data were collected 12-22 September 2022.

Comment

Shreyya Patel, Economist at S&P Global Market Intelligence, said:

"Non-oil activity in Egypt continued to suffer from weak demand, geopolitical tensions and surging inflation in the final month of the third quarter. The energy crisis - brought about by Russia's war on Ukraine - led to sharp uplifts in energy costs and the introduction of energy rationing policies. At the same time, unfavourable pound-dollar exchange rate movements added to already steep price pressures.

"As a result, clients held off from placing orders while those in international markets reduced their demand sharply with exports falling at the quickest rate for over two years.

"Firms nevertheless remain hopeful that macroeconomic conditions would improve in the medium-term, but for now, non-oil Egyptian businesses are challenged to operate in an environment which includes persistently high prices, weak demand and growing uncertainty."

demand reportedly drove the latest decline.

Cost pressures largely arose from increased energy, material and wage expenses in September, although unfavourable exchange rate movements also contributed to rising expenses. Overall input price inflation was marked and quickened to a three-month high.

Firms responded to higher costs by hiking their selling prices. Moreover, the rate of inflation was sharp and quicker than the long-run series average.

Sustained declines in demand paired with growing cost burdens led non-oil firms in Egypt to scale back on their purchasing activity. Inventory holdings also fell in September, and for the fourteenth month in a row.

Vendor performance deteriorated once again with lead times now lengthening in each month since November 2021. Firms linked delays to restrictions at ports and material shortages.

On the employment side, headcounts rose for the third month in succession. The rate of increase was marginal and eased slightly from that seen in August. Backlogs, meanwhile, rose fractionally.

Finally, the outlook for future business activity in the non-oil sector improved from August's near-survey low. That said, sentiment was still far below the long-run trend level and among the weakest in the series history. Firms that registered optimism mentioned hopes that macroeconomic conditions would improve in the coming months.

PMI Output Charges Index
sa, >50 = inflation since previous month



Source: S&P Global.

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Survey methodology

The S&P Global Egypt PMI™ is compiled by S&P Global from responses to questionnaires sent to purchasing managers in a panel of around 400 private sector companies. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP. The sectors covered by the survey include manufacturing, construction, wholesale, retail and services. Data were first collected April 2011.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Purchasing Managers' Index™ (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers' Delivery Times Index is inverted so that it moves in a comparable direction to the other indices.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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About PMI

Purchasing Managers' Index™ (PMI™) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. ihsmarkit.com/products/pmi.html.