News Release

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S&P Global Egypt PMI™

Price and supply challenges lead to record accumulation of backlogs in September

Key findings

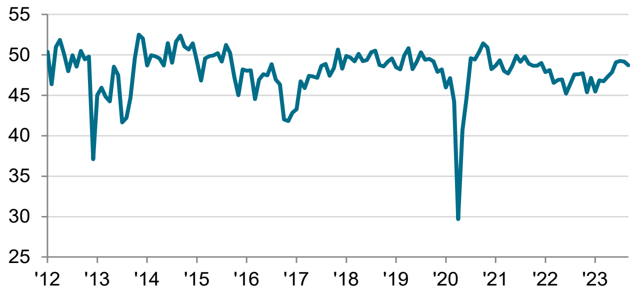
Unprecedented rise in backlogs despite falling new work

Liquidity issues and material shortages restrict output

Input costs continue to rise sharply

S&P Global Egypt PMI

sa, >50 = improvement since previous month



Source: S&P Global PMI.
Data were collected 12-21 September 2023.

Egyptian non-oil firms struggled with supply chain challenges and rapid inflation at the end of the third quarter, latest PMI™ survey data showed, leading to an unprecedented rise in outstanding work as output levels contracted sharply. The record uptick in backlogs came despite a further downturn in new orders, as rising prices continued to hit client spending and confidence.

At the same time, survey data indicated that weak exchange rates contributed to another sharp rise in overall input costs, in turn leading to a solid mark-up of selling charges. Amid fears that prices will continue to rise and supply conditions remain challenging, firms held onto inventories and boosted staff numbers.

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 48.7 in September, down from 49.2 in August to a four-month low. The reading signalled a further deterioration in operating conditions, albeit one that was modest overall.

Weighing on the headline figure were sharper drops in output and new orders, as Egyptian non-oil businesses continued to signal a depressed demand environment due to high inflation. New work intakes dropped at the fastest rate since May, although the decline remained soft compared to those seen at the beginning of the year.

Likewise, output levels decreased at a sharp and accelerated rate at the end of the third quarter. As well as weaker sales, firms commonly reported difficulties acquiring raw materials due to import challenges and rapid price rises. The resultant pressure on operating capacity led to the sharpest increase in backlogs of work ever recorded by the survey since it began in 2011.

Comment

David Owen, Senior Economist at S&P Global Market Intelligence, said:

"Egyptian non-oil companies faced unprecedented pressure on their operating capacity in September despite sales continuing to fall, as the PMI Backlogs of Work Index signalled a record pile-up of incomplete orders. Firms frequently reported that the high-inflationary environment - annual urban inflation reached a record high of 37.4% in August - and a lack of raw material supply meant they were often unable to fulfil client orders. Adding to this, firms were reluctant to draw down inventories as the outlook for supply and prices remains challenging, resulting in output levels dropping sharply and to a greater degree than new orders.

"The weak exchange rate against the US dollar led to another steep rise in purchase prices in September, adding to indications that inflation will remain high until related factors are under control, such as food supply and foreign currency reserves. This added to a generally subdued level of confidence towards future activity, as well as another sharp reduction in purchasing levels.

"However, operating conditions continued to weaken at only a mild overall pace, following recent positive movements in the PMI. The latest reading of 48.7 was the lowest since May, but it was still above the series average. A strong employment reading also showed that firms were happy to raise their staff numbers, while new orders, despite falling at a faster pace, decreased only modestly."

Meanwhile, the rate of input cost inflation in the non-oil economy remained sharp in September, slowing only marginally from August's five-month high. The weak exchange rate against the US dollar was still the main culprit of higher expenses, according to panel members, as purchase prices rose steeply. That said, wage inflation ticked up to a seven-month high as some companies opted to raise staff salaries to help employees facing heightened living costs. Greater input prices led firms to raise their selling charges solidly, albeit to a slightly softer degree than in August.

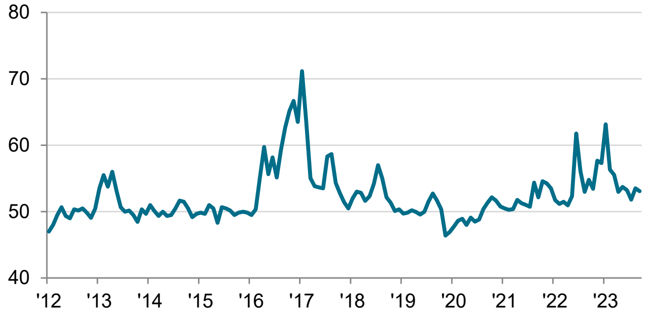
Fears of additional input price hikes and supply challenges led Egyptian non-oil firms to hold onto stocks during September, leading to a rise in total inventories for the second month running (albeit fractional). This was mainly due to a sharp reduction in output, as purchasing activity continued to fall rapidly. Additionally, firms faced delays in the arrival of inputs for the first time in three months, which was largely attributed to longer customs procedures.

On a positive note, firms expanded their employment levels for the second month in a row in September, and at the quickest pace for just over five years. The rise was centred on the services sector and mainly linked to a desire for stronger workforces.

Lastly, non-oil businesses were only mildly confident of a rise in output over the next 12 months. The degree of optimism slipped from August, amid some concerns over price volatility and liquidity issues.

PMI Output Charges Index

sa, >50 = inflation since previous month



Source: S&P Global PMI.

Contact

David Owen
Senior Economist
S&P Global Market Intelligence
T: +44 1491 461 002
david.owen@spglobal.com

Sabrina Mayeen
Corporate Communications
S&P Global Market Intelligence
T: +44 7967 447 030
sabrina.mayeen@spglobal.com

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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@spglobal.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. www.spglobal.com/marketintelligence/en/mi/products/pmi

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