News Release

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S&P Global Egypt PMI™

Output prices rise at sharpest pace in almost six years as pound depreciates

Key findings

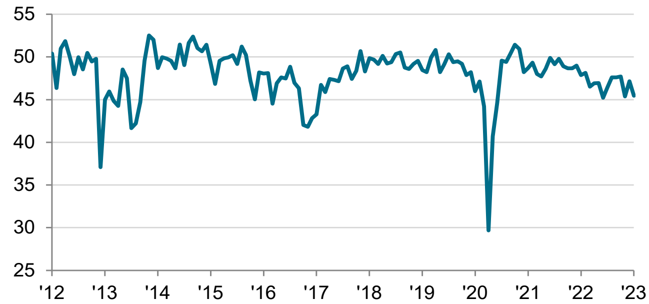
Purchase cost inflation hits four-and-a-half-year high

New business falls sharply as charge inflation soars

Output, purchasing and employment each decrease further

S&P Global Egypt PMI

sa, >50 = improvement since previous month



Source: S&P Global.
Data were collected 12-23 January 2023.

The Egyptian non-oil economy suffered a sharp contraction in operating conditions in January, as a depreciation of the pound drove a rapid acceleration in price pressures. Purchase cost inflation rose to its highest level in four-and-a-half years, leading selling charges to increase at the sharpest pace since February 2017. The build-up of inflationary pressures led to a marked and faster decline in new business inflows, pushing firms to make additional cuts to activity, purchasing and employment. Firms also gave a downbeat assessment of the year ahead as output expectations dropped to the third-lowest level in the series history.

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 – fell from 47.2 in December to 45.5 in January, registering well below the 50.0 no-change mark. The reading indicated a sharp deterioration in the health of the non-oil sector that was one of the quickest seen in the current 26-month sequence of decline.

New order inflows decreased at a marked and faster pace in the latest survey period, as firms widely highlighted that rising prices had limited client budgets. The downturn was also reflected in renewed weakness in foreign sales, which fell to the greatest degree since last September.

Inflation was driven higher by a rapid depreciation of the Egyptian pound against the US dollar, which compounded cost woes for domestic firms as purchase price inflation reached its highest since July 2018. In fact, roughly half of all surveyed firms saw their purchasing costs increase since the end of last year, leading to a robust and quicker rise in overall expenses.

Comment

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

"Another marked depreciation of the Egyptian pound against the US dollar in January added to gloomy inflation forecasts at the beginning of 2023. The latest PMI survey data showed purchasing costs increasing at the sharpest rate in four-and-a-half years, as the pound's depreciation drove a further rise in import fees. The surge in costs led to the largest rise in selling prices at non-oil firms since February 2017, suggesting that inflation could climb further from December's 21.3% and remain elevated throughout much of the year.

"Subsequently, the latest data signalled steep drops in both new orders and business activity in January. Firms made further cuts to purchasing and employment as a result, with input buying again constrained by import controls and an ongoing shortage of US dollars. The dollar shortage added significantly to Egypt's economic challenges in 2022 and will likely remain a major problem this year. As such, business forecasts for the coming 12 months fell to their third-lowest on record, as firms predict supply and price-related issues to hamper demand further."

PMI™ by S&P Global

Consequently, businesses raised their output prices substantially in January, with the rate of inflation picking up to the fastest seen for almost six years. Wholesale & retail saw the greatest rise in average prices charged of the four broad sectors, followed by manufacturing.

The rapid uplift in inflationary pressures and the resulting impact on demand led to a sharp contraction in output across the non-oil sector in January. Some firms added that import restrictions led to further supply shortfalls, which hindered activity and contributed to a sustained rise in backlogs of work. Delivery times were also impacted by shortages, as firms reported delays in the arrival of items for the third month running.

With supply of some inputs constrained and demand falling, firms made additional cuts to purchasing activity at the start of the year. The sharp fall in input buying was one of the strongest registered in the survey's near 12-year history. Similarly, companies trimmed their stocks of purchases for the third month running.

Looking ahead, non-oil businesses gave a subdued assessment for output in 12 months' time in January, as overall sentiment fell to the third-lowest level since this series began in April 2012. Several respondents noted that high inflation was likely to hinder demand in the months ahead, although some hoped that market conditions will stabilise.

Weak sentiment and activity levels weighed on employment in January, which fell for the third time in the past four months. Nevertheless, average staff costs rose at the quickest pace since November 2020 as firms looked to boost wages amid higher living costs.

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.

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