

News Release

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S&P Global Egypt PMI®

Currency crisis drives higher inflation and steeper downturn across Egypt's non-oil economy

Key findings

Output and new orders fall at sharpest rates since early-2023

Foreign currency shortfall drives rapid rise in purchase costs

Input and output price inflation reach 13-month highs

Business activity across Egypt's non-oil private sector contracted at the sharpest rate in just over a year in February, driven by a worsening foreign exchange crisis and a steep drop in customer sales. According to the latest PMI® survey data from S&P Global, a rising number of businesses saw an increase in input costs, as a marked fall in Suez Canal freight volumes exacerbated foreign currency shortages. Demand, output and employment all deteriorated to greater degrees, while output charges rose at the fastest pace since the start of 2023.

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 – dropped from 48.1 in January to 47.1 in February, to signal a solid deterioration in the health of the non-oil sector. The reading was the lowest for 11 months and weaker than the survey's long-run trend.

Egyptian non-oil firms pointed to a worsening of order book volumes in February. New orders fell at the fastest rate since March 2023, with domestic sales faring especially poorly amid rising price pressures and supply-side challenges. Demand conditions were consistently weak across the monitored sectors, with wholesale & retail firms suffering the steepest fall.

At the same time, cost inflationary pressures accelerated to their highest for 13 months amid reports that a sharp decline in Suez Canal trade due to Red Sea shipping disruption exacerbated shortages of the US dollar and other foreign currencies. Subsequent rises in import prices led to a substantial increase in purchasing costs, with over a third of surveyed firms reporting a rise since January. Shipping disruption also contributed to the greatest lengthening of supplier delivery times since June 2022.

S&P Global Egypt PMI

sa, >50 = improvement since previous month



Source: S&P Global PMI.

Data were collected 12-21 February 2024.

Comment

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

"Egypt's non-oil economy appeared to suffer markedly in February as it found itself caught in the middle of the wider regional crisis. According to government reports, Red Sea shipping disruption has roughly halved Suez Canal revenues so far in 2024, which February PMI survey data indicated had a considerable impact on foreign currency inflows and inflationary pressures.

"Notably, more than a third of surveyed companies saw their purchasing costs increase over the month, with most comments linking this to rising US dollar values on informal markets. Input and output price inflation both reached their highest levels for 13 months, putting increased pressure on customer spending power.

"The resulting drop in sales was the quickest since last March, while activity was also rapidly curtailed. Reports from some panellists suggest that tourism activity is also struggling due to the Israel-Gaza war, and that domestic suppliers were hindered by shipping disruption.

"Despite Egypt's headline inflation rate dropping eight percentage points over the last four months, the latest results signal that it could reaccelerate in the near future, which looks likely to prolong the downturn and leave business confidence subdued. Indeed, firms' expectations for the coming year remain mild, while faster cuts in employment and purchasing suggest they are planning for a prolonged reduction in output."

PMI®

by S&P Global

Companies generally chose to pass higher purchase costs onto their clients, leading to a rapid rise in selling charges that was also the sharpest for 13 months. Elevated inflationary pressures were also seen with respect to wages, with firms often raising salaries due the cost-of-living crisis. Salary inflation was likewise at its highest since last January, albeit moderate overall.

With the demand environment worsening, firms scaled back their output levels rapidly in February. Indeed, the pace of contraction was the sharpest in just over a year, with comments from survey panellists noting that shipping disruption and weaker tourism due to the Israel-Gaza war had also impacted activity. Lower output requirements meant that purchasing activity decreased to the greatest extent for five months as firms continued to avoid holding excess stocks.

Similarly, hiring activity in the non-oil private sector declined midway through the first quarter, with the latest data signalling a modest drop in workforce numbers that was nonetheless the quickest since last October. Firms cited both layoffs and the non-replacement of leavers.

Looking ahead, companies maintained a relatively subdued forecast of business activity over the coming 12 months in February, amid expectations that economic conditions will remain challenging for the foreseeable future. The degree of confidence improved slightly from January, however, and was broadly aligned with the average seen over 2023 as a whole.

PMI Output Charges Index

sa, >50 = inflation since previous month



Source: S&P Global PMI.

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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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