PMI® By IHS Markit

News Release

Purchasing Managers' Index®
MARKET SENSITIVE INFORMATION
EMBARGOED UNTIL 0615 (Cairo) / 0415 (UTC) August 5th 2019

IHS Markit Egypt PMI®

Business conditions improve slightly in July

Key findings:

- Output and new orders increase for first time since April
- Export sales growth strongest in 20 months
- Input costs rise sharply amid fuel price hike

Data collected 12-23 July

Egypt's non-oil private sector economy saw a marginal improvement at the start of the third quarter of the year, as output and new orders grew slightly but employment continued to fall. Export sales increased at the strongest rate since November 2017. Input cost inflation jumped due to a hike in fuel prices, which was partly passed on to consumers through higher output charges.

The headline seasonally adjusted IHS Markit 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 – rose from 49.2 in June to 50.3 in July, moving above the 50.0 neutral threshold to signal the first improvement in business conditions since April, albeit only a marginal one.

Key to the improvement was a slight increase in activity at non-oil private sector firms in July, only the second monthly expansion in 20 months (alongside April). Companies boosted output in the wake of higher new orders at the start of the third quarter, although the overall rise in demand was marginal. Panellists often noted increased market activity and the introduction of new export contracts as reasons for stronger sales.

Moreover, total new business from abroad rose for the first time since last August and at the sharpest pace for over a year-and-a-half. Companies highlighted increased demand from a number of foreign markets, with clients from the Middle East, Africa and Europe placing greater volumes of new work.

Concurrently, firms expanded their purchasing activity during July. Following a slight reduction in June, the latest increase was solid and the most marked for six months. In addition to greater output requirements, some businesses raised their purchases to build up stocks due to growing fears over input prices. The rate of overall cost inflation was the highest in nine months during July, mainly due to increased fuel charges after the government cut subsidies that were previously initiated through reform packages. This also caused firms to mark up their selling prices overall.

Employment continued to decline in July, although the latest decrease was marginal and broadly similar to that seen in June. Retirements and voluntary leavers mainly drove the overall reduction, whereas some firms increased their workforce numbers to meet higher sales volumes. Staff costs meanwhile rose at a modest pace that was nonetheless the fastest recorded in six months.

Lastly, sentiment around future output improved from June's five-month low, as more businesses displayed a positive outlook due to hopes of higher market activity and a fall in the value of the US dollar. That said, rising fuel charges weighed slightly on the overall level of optimism.

Comment

David Owen, Economist at IHS Markit and author of the report said:

"The latest business survey for the Egyptian non-oil private sector gave some encouraging signs for activity in July. The headline PMI showed a slight improvement in operating conditions, driven by higher output and new orders.

"A noticeable factor was an increase in contracts from foreign clients, leading to the first rise in new export orders since August 2018. The rise in demand came from a number of countries, signalling that Egyptian businesses are growing in their competitiveness on trade.

"Another key impact on businesses was a sharp rise in fuel prices that led to increased overall input costs. According to reports, domestic fuel charges were raised by up to 30% across the country as the government implemented further subsidy cuts to bring prices in line with the market. Subsidies were initially introduced through IMF-led economic reform packages that are nearing their end. As such, it is likely that the impact on costs will be temporary, with the rate of inflation possibly returning to its relatively low level seen during the first half of 2019.

"Furthermore, optimism toward future output growth improved in July. Some firms based their outlook on hopes of a strengthening Egyptian pound in the near-term as the US dollar may fall in value through interest rate cuts. Overall, firms are generally positive when regarding the future condition of the economy."

-Ends-

For further information, please contact:

David Owen, Economist
Telephone +44-20-7064-6237
Email david.owen@ihsmarkit.com

Joanna Vickers, Corporate Communications
Telephone +44 207 260 2234
Email joanna.vickers@ihsmarkit.com

Notes to Editors

The IHS Markit Egypt Purchasing Managers' Index is based on data compiled from monthly replies to questionnaires sent to purchasing executives in approximately 450 private sector companies, which have been carefully selected to accurately represent the true structure of the Egyptian non-oil 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. IHS 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.

About IHS Markit (www.ihsmarkit.com)
IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

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. To learn more go to https://ihsmarkit.com/products/pmi.html.