Outlook for business activity climbs to 18-month high in August

Key findings

- Strongest expectations since February 2018
- Output and new orders drop slightly, but exports grow further
- Employment levels rise for first time in four months

Business sentiment around future activity soared to the highest in one-and-a-half years in August, as more Egyptian firms expressed optimism for growth. Nevertheless, present operating conditions were subdued, mainly due to mild declines in output and new orders. Employment improved for the first time since April, but backlogs grew amid issues with liquidity.

Input cost inflation meanwhile ticked up as pressure from higher fuel prices persisted. As such, firms raised selling charges at the fastest rate in a year.

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 – fell from 50.3 in July to 49.4 in August, signalling a slight worsening in the health of the sector. It was the tenth deterioration in 12 months, but one that was among the softest seen in this period.

Output levels declined over August, after a slight expansion in July. Lower activity was largely linked to weaker sales, with many firms commenting on the impact of poor labour market conditions in the economy.

On the flip side, new export orders increased for the second month in a row. Firms noted an improved picture in the external market, as contracts from trading partners in the Middle East and other regions increased. This indicated that the fall in total sales was driven by weakness in domestic demand.

Despite difficult conditions at Egyptian non-oil companies, the outlook for future activity continued to improve. The level of sentiment among surveyed firms was the strongest for one-and-a-half years since February 2018, with the output and new orders indices dropping slightly, but exports growing further.

Employment levels also rose for the first time in four months. Input cost inflation ticked up as pressure from higher fuel prices continued to persist. As such, firms raised selling charges at the fastest rate in a year.

Comment

Commenting on the latest survey results, David Owen, Economist at IHS Markit, said:

"Business conditions in Egypt’s non-oil economy deteriorated slightly during August. The headline PMI was at 49.4, below the crucial 50.0 no-change mark but still higher than the series average. The decline was due to a drop in sales which, whilst down for the third time in four months, was the weakest fall seen in this period.

"Meanwhile, companies are appearing increasingly optimistic for the year ahead. Sentiment has been subdued since the middle of 2018, but is starting to pick up now amid hopes of a recovery in growth. That said, concerns around current economic and employment conditions are still being highlighted by panellists as limiting business activity.

"Input costs rose at a heightened pace again due to recent subsidy reforms that caused a spike in fuel prices. The impact of these reforms should ease soon though, leading to lower rates of inflation, as underlying cost pressures appear mild."
a-half years, with a majority of respondents expecting output to grow in the next 12 months.

Employment meanwhile rose marginally in August, ending the previous three-month run of decline. Many companies found that new hires were required to expand capacity. On average, the rate of job creation was the strongest in a year.

At the same time though, Egyptian firms saw a moderate increase in outstanding business. Panelist reports showed that liquidity issues limited the volume of purchases at several companies, leading to difficulties in fulfilling work-in-hand.

Purchasing activity fell slightly in August, after a solid expansion in the previous month. Stock levels were up marginally, however, as higher input cost inflation prompted fears of a spike in purchase prices in the future. As such, a number of companies looked to stockpile inputs.

Overall input prices increased sharply, once again driven by a rise in fuel prices due to subsidy cuts during July. Cost burdens thus rose at the sharpest rate in ten months, albeit at a below-trend pace.

Firms passed some of these higher costs onto consumers, as indicated by a solid increase in output prices. Furthermore, the uptick in charges was the strongest recorded since August last year.

Methodology

The IHS Markit Egypt PMI® is compiled by IHS Markit 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.

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.

August 2019 data were collected 12-21 August 2019.

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