

IHS Markit Egypt PMI®

Business conditions soften in January

Key findings

Output and new orders fall at quicker rates

Input purchases and job numbers decline

Selling prices drop amid subdued cost pressures

Egypt's non-oil private sector weakened at a stronger rate at the start of the year, as the downturn in sales gathered pace and led to a sharp reduction in business activity. Employment and purchases were also down solidly, leading to only a slight uptick in input costs and driving firms to offer discounts for the third month in a row. Nevertheless, business expectations remained fairly positive.

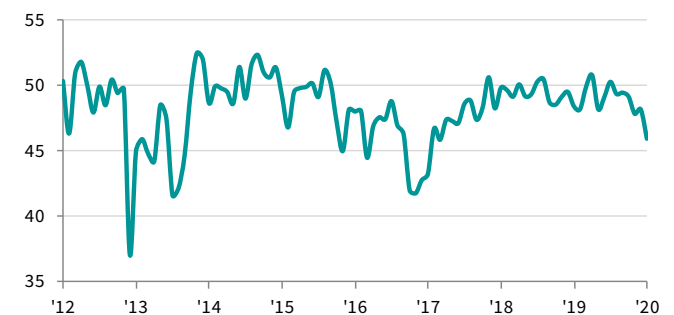
The headline seasonally adjusted IHS Markit Egypt Purchasing Managers' Index™ (PMI®) – a composite gauge designed to give a single-figure snapshot of operating conditions in the non-oil private sector economy – fell to a near three-year low of 46.0 in January, from 48.2 in December, to indicate a solid deterioration in business conditions in the Egyptian non-oil private sector. The health of the sector has now declined in each of the past six months.

Contributing to the downturn was a sharp contraction in output at Egyptian firms, with the rate of decline accelerating to the fastest since January 2017. Companies noted that the stronger drop in activity was linked to weaker sales. The fall in new orders was the quickest in nearly three years, with panellists commenting on a lack of new contracts and reduced market movement. Furthermore, export demand softened for the fourth month running.

As a result, supply-side factors were negatively hit. Most notably, purchasing activity fell at the sharpest pace in 28 months, following only a slight upturn in December. Firms often found that reduced sales led to lower input requirements, which in turn limited purchases and stock levels at the start of the year. Despite this, lead times lengthened for the second consecutive
continued...

Egypt PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

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

"January PMI data brought unwelcome news for Egypt's non-oil private sector. The headline index posted 46.0, the lowest in 34 months, indicating a solid deterioration in operating conditions. Firms squarely linked this to falling sales, with customers increasingly cautious about their expenditure and new contracts dwindling. This led to softer output, reduced employment and a marked drop in overall purchases."

"On the positive side, this kept input costs subdued, allowing firms to continue their discounting strategies to try and rejuvenate the market. As such, business expectations remained positive, despite dropping to a four-month low, as respondents hoped that lower prices would drive sales and activity higher in the coming months."

month, albeit slightly.

Weaker demand for inputs restricted cost inflation in January as suppliers kept purchase prices broadly flat for the first time in the series history. Firms were also helped by a lower US dollar value that reduced import costs. However, higher prices of some raw materials, and increased salaries due to elevated living costs, meant that overall expenses rose marginally.

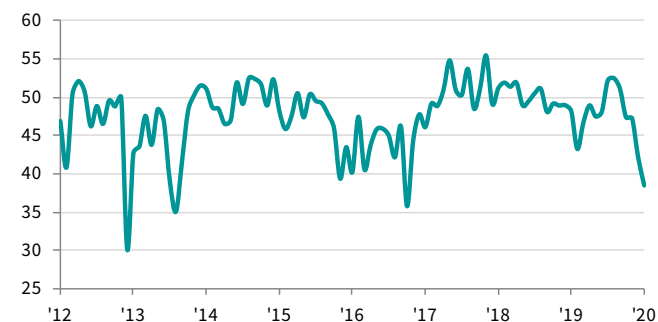
That said, with cost pressures generally subdued and demand remaining weak, companies continued to lower selling charges, extending the current run to three months. The latest reduction reflected firms' efforts to generate stronger demand in the market.

Meanwhile, employment at Egyptian non-oil businesses declined for the third month running, as several panellists saw employees leaving during the month for other job opportunities. Many of those firms chose not to replace these workers, as weaker sales reduced labour requirements.

Looking forward, companies were slightly less upbeat around the outlook for activity, although the degree of optimism was still broadly in line with that seen on average across 2019. A strong proportion of respondents expect output to grow in the coming 12 months. By contrast, a few firms expressed worries that the current decline in activity will continue throughout 2020.

New Export Orders Index

sa, >50 = growth since previous month



Source: IHS Markit.

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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.

January 2020 data were collected 13-23 January 2020.

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

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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 ihsmarkit.com/products/pmi.html.