

IHS Markit Egypt PMI®

Private sector downturn eases in May

Key findings

Output and new orders fall at softer rates compared to April's records

Input costs drop for first time since series began in 2011

Supply chain delays ease to marginal pace

Data were collected 12-20 May 2020

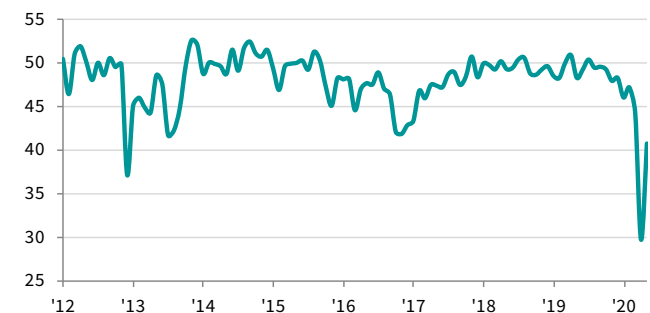
Egypt's non-oil private sector faced a further downturn in May, according to the latest PMI survey data, albeit one that was far softer than in April as parts of the economy restarted following restrictions. Additional employment cuts and salary reductions meanwhile led to the first drop in cost pressures in the series' history.

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 29.7 in April (a record low) to 40.7 in May, indicating a softer deterioration in business conditions, albeit one that was still steep overall. The latest reading marked the tenth successive month of declining conditions and the second-fastest in that sequence.

Output levels continued to contract midway through the second quarter, although the rate of decline eased considerably from April when businesses were widely closed due to the COVID-19 pandemic. Many firms remained shut in May or operated at reduced activity, but some were able to reopen. New business volumes also remained weak, with companies finding that demand had stagnated amid the coronavirus crisis. However, the rate at which new orders fell was noticeably weaker compared to April, helped by a slower decline in exports.

Nevertheless, with sales struggling to rebound, Egyptian companies made further adjustments to jobs in May. Employment levels declined for the seventh month running and at the sharpest rate since January 2017. Alongside this, businesses often reduced workers' salaries, leading to a solid drop in wage costs that was the most marked since the series 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:

"The Egypt PMI rose 11 points to 40.7 in May which, while signalling that the worst of the economic hit from the COVID-19 crisis may have passed, still pointed to weaker business conditions since April.

"Output and new orders fell again as private sector demand remained broadly stagnant. Export sales were also weak. In addition, job losses accelerated to the quickest pace in over three years.

"The remaining solace for Egyptian firms is that overall cost burdens eased for the first time in the series history, as wage cuts coupled with only a marginal rise in purchase prices in May. This could be important as firms look to maintain low output prices for when the economy recovers, with the market environment likely to be challenging.

"Sentiment was still positive, though concerns arose that the US/China relationship is worsening, which could affect any rebound in global demand."

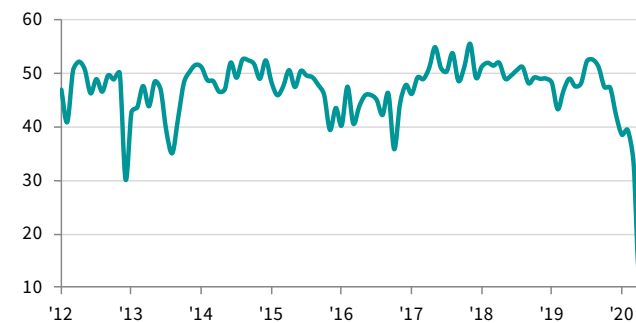
began in April 2011. Furthermore, lower payroll led to the first fall in overall expenses seen in the survey's history.

Purchasing activity meanwhile fell for the fifth consecutive month, as input requirements remained low amid weaker sales. Stock levels decreased at a faster rate, due to both lower purchases and the restarting of production at some companies. On the positive side, deliveries made to Egyptian companies were only slightly slower in May, following sharper deteriorations in vendor performance during March and April as supply chains struggled to cope with the pandemic.

Purchase prices increased only slightly in the latest survey period, with firms noting higher prices of medical supplies and food items, but lower prices of plastic and other raw materials. Output charges meanwhile dropped for the seventh month in a row, linked to firms offering discounts in order to support a recovery in sales.

Finally, the outlook for activity in 12 months' time weakened from April, although it remained higher than March's recent low. Businesses were generally hopeful that the eventual passing of the COVID-19 crisis could lead to a rebound in the market. That said, many firms expressed concerns that virus cases continued to rise, while also noting greater tensions between USA and China and the potential impact on exports.

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.

May 2020 data were collected 12-20 May 2020.

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

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