News Release

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S&P Global Egypt PMI™

Business conditions deteriorate further in May as inflation quickens

Key findings

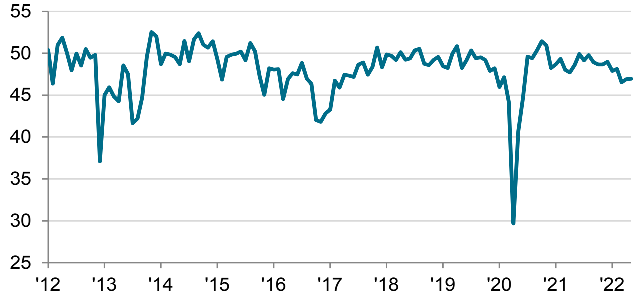
New orders decline at quickest pace in nearly two years

Firms rein in activity and spending as demand falls

Input cost inflation accelerates to six-month high

S&P Global Egypt PMI

sa, >50 = improvement since previous month



Source: S&P Global.
Data were collected 12-23 May 2022.

The latest Egypt PMI signalled a further downturn in demand and activity across the non-oil economy in May, as rising price pressures continued to weigh on client spending. Input cost inflation quickened to the highest in six months, amid rising global commodity prices, a stronger US dollar and the banning of a number of imported goods. Subsequently, businesses reduced their input purchases and staffing levels, while the outlook for future activity weakened to its second-lowest in the series history.

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 – posted at 47.0 in May, up slightly from 46.9 in April but still pointing to a deterioration in the health of the sector. The latest reading marked the eighteenth consecutive monthly decline in operating conditions.

The two largest contributors of the PMI, the Output and New Orders indices, continued to post well below the neutral 50.0 threshold in May, signalling sharp declines in business activity and demand, respectively. Notably, the reduction in new orders was the fastest seen since June 2020. Where sales had fallen, firms often mentioned that increased price pressures had led to a drop in client demand.

Panellists also noted the impact of two key decisions in recent weeks: firstly, the banning of a number of foreign products due to certification issues, leading to supply shortages for several firms; and secondly, the requirement of Letters of Credit for importing goods, resulting in increased customs delays.

As well as contributing to a marked fall in output, firms noted that these constraints had often made it more challenging to

Comment

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

"Non-oil business conditions in Egypt remained pinned down by rapid inflationary pressures in May, as survey panellists indicated that rising market prices led to a sharp drop-off in demand and a further increase in business expenses. New order volumes fell at the quickest pace since June 2020, while price pressures were at their highest level for six months. Firms often commented that a strengthening of the US dollar added to the burden of incredibly-high commodity prices from the war in Ukraine and the prevailing effects of the COVID-19 pandemic.

"Wait times for inputs meanwhile lengthened for the seventh month running as firms commented on further delays at customs following the requirement of Letters of Credit for imported goods. Moreover, the banning of a number of foreign products in April left several businesses searching for alternatives and having to reduce activity in the short run.

"With conditions deteriorating, business confidence fell back to the second-lowest on record in May, signalling only mild optimism of a rise in activity over the coming year. Following this, the latest Central Bank decision to raise interest rates by 2% will make businesses more likely to rein in spending and investment until the current inflation wave has been crested."

acquire goods in a timely manner. May survey data indicated that suppliers' delivery times worsened for the seventh month running, as input buying continued to decrease (albeit at a softer pace). Despite this, stock levels remained broadly stable as fewer inputs were used in production.

Meanwhile, the rate of input cost inflation accelerated to the highest level for six months in May. Firms noted that this was mainly due to the impact of the Russia-Ukraine war on global commodity prices, as well as increased import costs due to supply shortages and a higher US dollar value. Staff costs picked-up for the first time in five months, though the rise was only fractional.

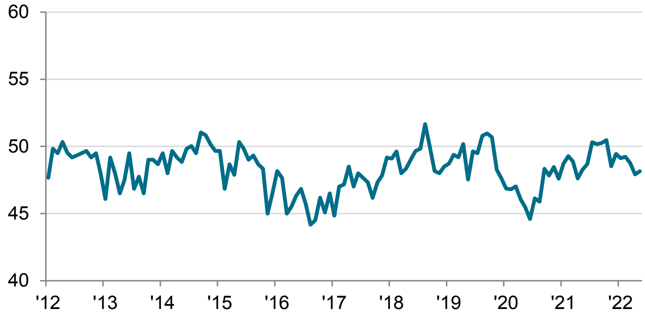
In line with higher cost inflation, non-oil companies raised their charges to a greater extent in May. That said, the overall uptick was only modest, suggesting that firms were not marking up their prices as frequently as cost rises in order to protect sales volumes.

On the employment side, the latest survey data pointed to a modest fall in staffing during May, and the seventh in as many months. Notably, some firms indicated that cost increases and lower new order volumes had led them to cut-back on workforce sizes. Backlogs of work also fell in May, stretching the sequence of decline to four months.

Finally, the outlook for future business activity in the non-oil sector slipped to the second-lowest on record in May (since April 2012), having reached an all-time low in March. While businesses remained on balance positive that output will rise over the next 12 months, there were increased concerns that inflationary pressures will limit growth.

PMI Employment Index

sa, >50 = growth since previous month



Source: S&P Global.

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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@ihsmarkit.com.

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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. ihsmarkit.com/products/pmi.html.

PMI™ by S&P Global