News Release

Embargoed until 0615 EET (0415 UTC) 6 July 2022

S&P Global Egypt PMI™

Non-oil private sector suffers worst slump in business conditions for two years

Key findings

New orders fall sharply as selling prices soar

Input cost inflation climbs to near four-year high

Purchasing levels drop at marked pace amid supply constraints

The Egyptian non-oil economy saw its weakest performance in exactly two years in June, as businesses saw demand slump in the face of sharply rising prices, a devalued pound and material shortfalls. At the same time, the latest PMI survey data signalled the quickest rise in input costs for almost four years, leading to a marked acceleration in the rate of selling charge inflation. With new business falling sharply, and reports that geopolitical headwinds had reduced commodity availability, firms greatly reduced both their own activity and input purchases.

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 – fell further into negative territory in June, posting at 45.2 from 47.0 in May. The reading was the lowest recorded since June 2020 during the first wave of the COVID-19 pandemic, and below the series average of 48.2.

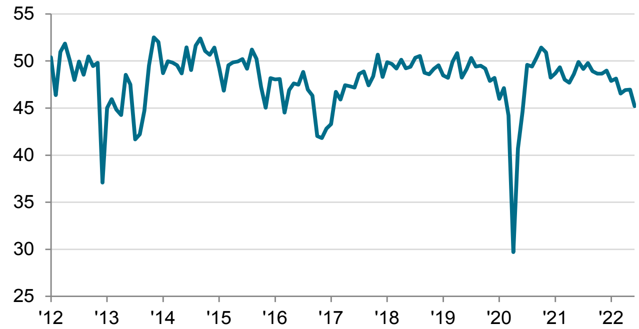
Two of the largest components of the PMI, the Output and New Orders Indices, both declined to their lowest levels since the second quarter of 2020 in June, registering marked contractions in both activity and sales. Nearly a quarter of surveyed businesses saw a reduction in new order volumes over the latest survey period, amid numerous mentions of a drop in client demand due to rising inflationary pressures.

Weaker sales were more prominently seen in the manufacturing and wholesale & retail sectors, with a strong decline also recorded in services. By contrast, the construction sector saw stabler economic conditions, with output and new orders even growing marginally.

The Egypt PMI also indicated a substantial rise in input costs during June, with around 45% of surveyed companies

S&P Global Egypt PMI

sa, >50 = improvement since previous month



Source: S&P Global.
Data were collected 13-22 June 2022.

Comment

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

"Egyptian companies suffered from a sharp downturn in new business in June, leading to the strongest deterioration in economic conditions since COVID-19 measures were introduced in the second quarter of 2020. The sharp drop-off in demand came from rising inflation and tightening monetary policy, as the Central Bank's decision in May to devalue the pound against the US dollar, in response to interest rate rises by the Federal Reserve, added to the cost of importing goods.

"Following this, businesses raised their selling charges at the fastest rate since February 2017, contrasting with only modest increases in the first five months of the year. The sharp uptick suggested that firms were ready to pass on a greater bulk of their costs to customers amid sinking hopes that discounts would help spur a demand recovery.

"Supply conditions also remained weak and added to inflationary pressures, as firms signalled that raw material supplies were becoming increasingly difficult to secure. Combined with a sharp fall in output, companies responded by lowering their purchases to the greatest extent since April 2020." (continued on page 2)

seeing their expenses rise since May. Alongside root drivers of inflation such as supply constraints, geopolitical headwinds and transport costs, panellists noted that a further devaluation of the pound against the US dollar had led to higher import fees. In addition, staff wages rose at the fastest pace for eight months as firms looked to compensate workers facing a higher cost of living.

Subsequently, output charges were raised at the strongest rate since February 2017, with the month-on-month uptick in inflation the largest seen since the survey began in April 2011.

Rising input costs led non-oil companies to reduce their purchasing activity at the end of the second quarter. Input buying decreased at the sharpest pace since the nadir seen in April 2020, resulting in a solid drop in inventories. Staffing capacity was also lowered, albeit at a modest pace that was the slowest recorded since March.

Supply constraints continued to be felt by Egyptian firms in June, as the war in Ukraine and lockdowns in China exacerbated difficulties with obtaining raw materials. As a result, supplier lead times lengthened to the greatest extent since February 2017, while backlogs of work rose for the first time in six months.

Despite the sharp downturn in economic conditions, businesses showed a greater degree of confidence in the year-ahead outlook in June. Overall sentiment rose to a five-month high amid hopes that activity will start to recover from its current slump.

"While the reduction may offset some cost pressures, the June PMI data shows that hawkish monetary policy in the US and a rising dollar value is likely to keep supply-side inflation running high. The Fed's latest rate rise of 75 basis points adds to these concerns, while the Central Bank's decision to keep policy unchanged in June could put additional pressure on exchange rates."

PMI Output Charges Index

sa, >50 = inflation 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