News Release

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S&P Global Egypt PMI™

Downturn in business conditions eases in December but remains solid

Key findings

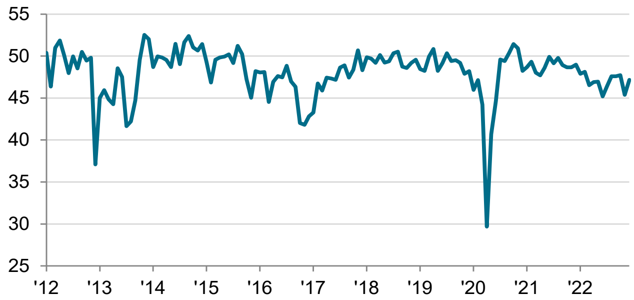
Output and new business fall at sharp, but softer rates

Job cuts resume and stock levels decrease

Cost inflation remains marked, despite easing

S&P Global Egypt PMI

sa, >50 = improvement since previous month



Source: S&P Global.
Data were collected 6-15 December 2022.

Rapid inflation continued to hamper the Egyptian non-oil economy at the end of 2022, as businesses indicated further declines in both output and new business. That said, the two metrics registered softer falls than in the previous month, while cost inflation also slowed from November's over four-year high.

Whilst output expectations improved to the highest since June, they still reflected a subdued level of sentiment towards the economic outlook. With this in mind, firms reduced their staffing levels for the second time in three months and cut input purchases rapidly amid ongoing supply constraints.

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 – rose from 45.4 in November to 47.2 in December, posting below the 50.0 neutral mark for the twenty-fifth month running. The index signalled a solid deterioration in the health of the non-oil sector, albeit one that was less marked than in November.

The softer downturn was reflected in the PMI's two-largest components: output and new orders, which indicated sharp, but slower falls in activity and incoming new business. According to survey panellists, lower activity generally reflected weak demand conditions, as rising prices led customers to make additional cuts to spending. The downturn in sales was broad-based across the monitored sectors, albeit relatively mild in the service category.

Output levels were also constrained by a sharp drop in purchasing activity in December, which fell for the twelfth successive month and at the strongest rate since June. According to panellists, higher material prices often limited

Comment

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

"The Egypt PMI recovered somewhat to 47.2 in December (45.4 in November) but continued to signal a decline in operating conditions across the non-oil economy. Output and new business fell at sharp, but softer rates, with firms mainly linking the downturn in sales to inflationary pressures.

"The pound's depreciation against the US dollar in recent months continued to drive input costs higher, although the latest data signalled a softer rate of inflation than November's over four-year record. Nonetheless, with last month's data indicating that firms had shouldered most of the cost burden, output prices continued to rise at a rapid pace at the end of the year as firms passed a greater proportion of their expenses onto clients.

"Cost concerns led firms to reduce their headcounts and deplete input inventories in December, leading to an additional rise in backlogs of work. On a positive note, hopes that inflation will be tamed in 2023 through interest rate hikes and the subsequent slowing of demand meant that firms were more optimistic for activity in the year-ahead, with sentiment climbing higher from October's record low."

buying activity, although some firms mentioned that weak liquidity and supply shortages due to import controls were behind the fall. Input shortages also led firms to draw down stocks to meet demand, leading to a further drop in inventories.

December survey data pointed to another rapid increase in input costs at non-oil companies, although the rate of inflation eased substantially from November's over four-year high. According to respondents, the weak value of the Egyptian pound against the US dollar continued to drive material prices higher, alongside a modest increase in staff costs. Subsequently, output charges rose at a sharp pace that was broadly unchanged from the previous month and one of the quickest seen for nearly six years.

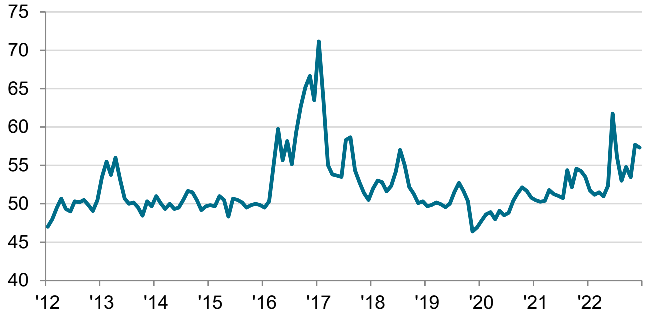
Higher supplier costs led some firms to seek alternative logistics solutions in December, which weighed on overall supplier performance. Lead times lengthened for the second straight month, although only slightly.

On a positive note, expectations towards future output improved for the second month running from October's record low and were the strongest since June. That said, sentiment remained weak in the context of the series history amid concerns about inflation and global economic conditions.

Finally, Egyptian non-oil firms reduced their staffing levels for the second time in three months in December. The cut to labour capacity meant that backlogs of work rose for the seventh month running and at the fastest rate in just over two years, with the uptick partially related to input shortages.

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.

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