News Release

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S&P Global Egypt PMI™

Output levels decline at sharpest rate in two-and-a-half years

Key findings

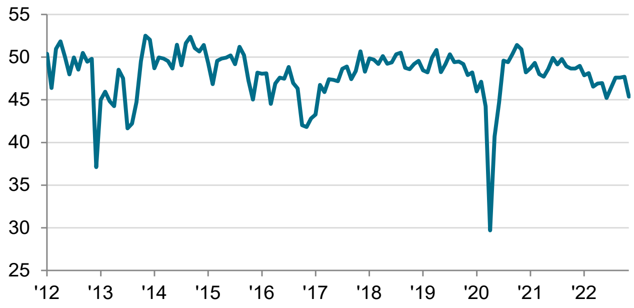
Output and new orders fall sharply amid high inflation

Purchase prices rise at quickest rate since July 2018

Business confidence remains mild

S&P Global Egypt PMI

sa, >50 = improvement since previous month



Source: S&P Global.
Data were collected 11-22 November 2022.

Egyptian firms suffered a marked contraction in operating conditions during November, latest PMI data showed, as business activity and demand were undermined by inflationary pressures. Output fell at the sharpest rate since the initial COVID-19 lockdown in May 2020, as a strong depreciation of the Egyptian pound caused purchase prices to rise at the sharpest pace in over four years. Despite new orders falling rapidly, employment levels expanded for the fourth time in five months, while business confidence recovered slightly from October's series low.

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 – dropped from 47.7 in October to 45.4 in November. The reading was the second lowest since June 2020, extending the current sub-50.0 sequence to two years (any reading below 50.0 indicates a contraction).

Central to the downturn was a rapid decrease in business activity, as survey panellists reported that accelerated cost rises and falling new orders forced them to cut output. The rate at which activity declined was the sharpest for two-and-a-half years, and the most severe since January 2017 when excluding the initial phase of the COVID-19 pandemic.

The rate of decline in new orders deepened in November, amid reports of spending cuts at customers due to rapid inflation and elevated interest rates. Like output, new business fell to the greatest degree since May 2020. Export sales also decreased amid slowing global economic conditions.

A clear factor behind the latest decline in operating performance was a sharp depreciation of the Egyptian pound against the US dollar, as the currency was floated to

Comment

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

"Egyptian firms faced an immediate hit to demand from a rapid depreciation of the pound since late-October, with the November PMI results signalling the worst drops in output and new orders since May 2020. Outside of the initial COVID-19 lockdown stage, the fall in activity was the quickest since the beginning of 2017.

"The pound's depreciation against the US dollar led to a marked increase in prices paid for raw materials, which have already been exacerbated by import restrictions since early-2022. Purchase price inflation hit a 52-month high, leading 42% of surveyed firms to report a rise in total input costs over the month. Notably, this proportion was three times higher than those registering an increase in their selling prices in November (14%), suggesting that most firms were shouldering the burden of rising costs as demand continues to worsen.

"The latest downturn also came in the midst of an emergency 2% hike in interest rates, amid continued efforts to bring inflation down from its current four-year high of 16.2%. While the latest FX move signals a further rise in inflation in November, it is hoped that slowing demand and falling commodity prices will start to alleviate price pressures in the medium- to long-term."

PMI™ by S&P Global

enable the approval of a new IMF deal. The immediate result was a sharp acceleration in purchase price inflation to a 52-month high. Notably, over 42% of surveyed businesses saw their overall costs increase since October, three-times the proportion of firms that saw a concurrent rise in selling prices (14%). Output charge inflation nevertheless quickened from the previous month, although the results signalled some hesitancy to raise charges as sales continue to fall.

On the purchasing side, rising import costs and falling new orders prompted firms to rapidly cut input buying levels in November. Some companies mentioned utilising old stocks to meet demand, contributing to a slight reduction in total inventories. Supplies were also hampered by a renewed lengthening of delivery times.

Egyptian businesses expanded their headcounts for the fourth time in five months during November, and at the quickest rate for more than three years. Despite this, the volume of backlogged orders increased again as some firms reportedly faced fresh disruption to supply chains from import restrictions. Companies also reported a slight increase in wage costs, reflecting salary increases due to the rising cost of living.

Looking ahead, Egyptian firms were slightly more optimistic about future output in November, albeit following a series-record low in October. Concerns about high inflation, rising interest rates, currency weakness and a global economic slowdown remained dampeners on sentiment.

PMI Output Charges Index

sa, >50 = inflation since previous month

Source: S&P Global.

Contact

David Owen
Economist
S&P Global Market Intelligence
T: +44 1491 461 002
david.owen@spglobal.com

Sabrina Mayeen
Corporate Communications
S&P Global Market Intelligence
T: +44 7967 447 030
sabrina.mayeen@spglobal.com

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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.