



Egypt PMI Update

The latest Purchasing Managers' Index for Egypt showed ongoing declines in private sector activity in November. The headline PMI dropped to 41.8 from 42.0 in October, marking the lowest reading since July 2013. Between January-November the PMI has averaged 46.2, compared to 49.0 and 50.3 in the same time period in 2015 and 2014 respectively. As Markit's survey of private sector firms was conducted post-EGP devaluation (November 11-22), the report's results highlight how the economic recovery could take several months to gain momentum. The key challenge in this environment of weak growth and rising inflation will be to maintain a commitment to reform which can help address some of the economy's most pressing structural weaknesses.

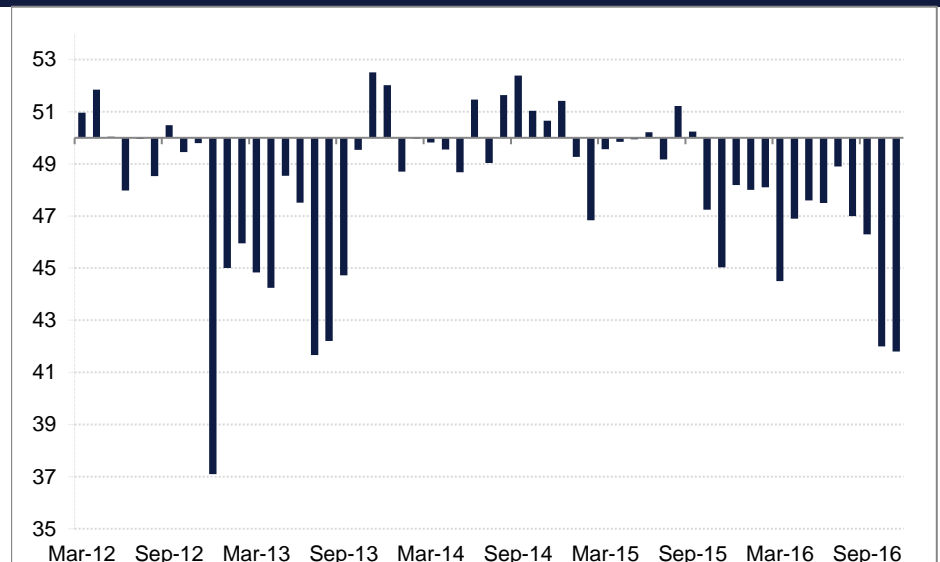
The devaluation of the Egyptian pound and subsequent spike in inflation was one of the key factors weighing on business activity in November. This was most clearly evident in the Purchase Price Index, with 85% of respondents seeing a rise in prices, and keeping the reading at a survey-record 93.7. Higher purchase prices were also caused by the introduction of the Value Added Tax earlier in the year, in addition to rising fuel prices. In the face of these higher input prices, firms once again reported an increase in prices charged to customers, with the Output Price Index hitting a record-high 66.7.

Companies are also increasingly compensating their employees for the spike in living costs, with the Staff Costs Index coming in at the highest level in over four years at 54.0. That said, non-oil private sector firms reported they had also trimmed headcounts (for the 18th consecutive month) in an effort to contain this rise in costs.

In light of the weak demand conditions, firms also reported declines in purchasing activity and reductions in inventory levels, with panelists citing little need for input buying. Indeed, the Quantity of Purchases index came in at 34.0 (up from 33.2 in October) while Stocks of Purchases rose marginally to 38.2 from 36.8.

The biggest improvement in November's survey was seen within New Export Orders. At 44.3 the index still shows a fairly pronounced pace of deterioration, however this was a notable improvement from October's reading of 35.8. We suspect that once the dust settles on the EGP devaluation and the currency finds a stable trading range, export orders are going to be one of the first components of the PMI survey to improve. A key upside risk to the export sector in 2017 is if Russia decides to end its flight ban to Egypt, which could go some way towards improving the outlook for the tourism sector.

Egypt Purchasing Managers' Index



Source: Markit, Emirates NBD Research

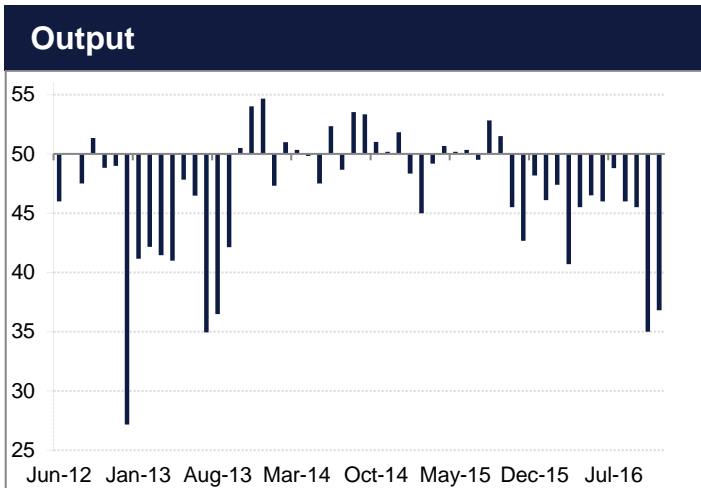


Chart #1
Source: Markit, Emirates NBD Research

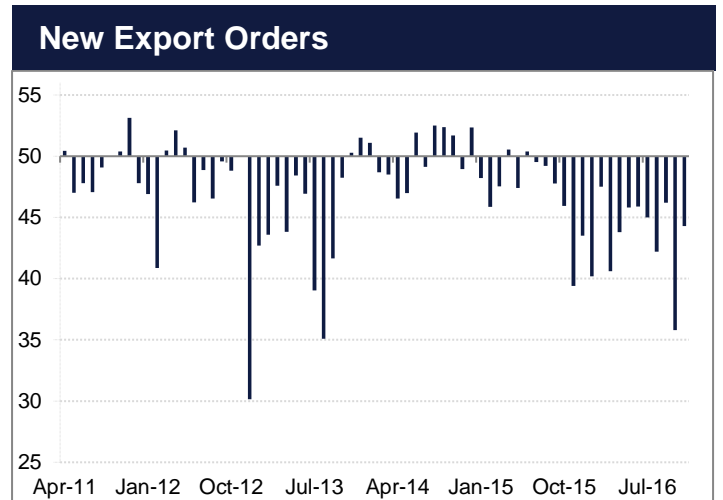


Chart #2
Source: Markit, Emirates NBD Research

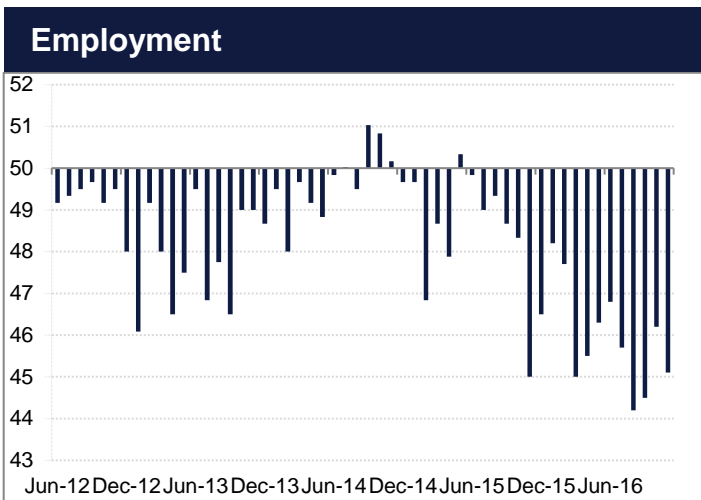


Chart #3
Source: Markit, Emirates NBD Research

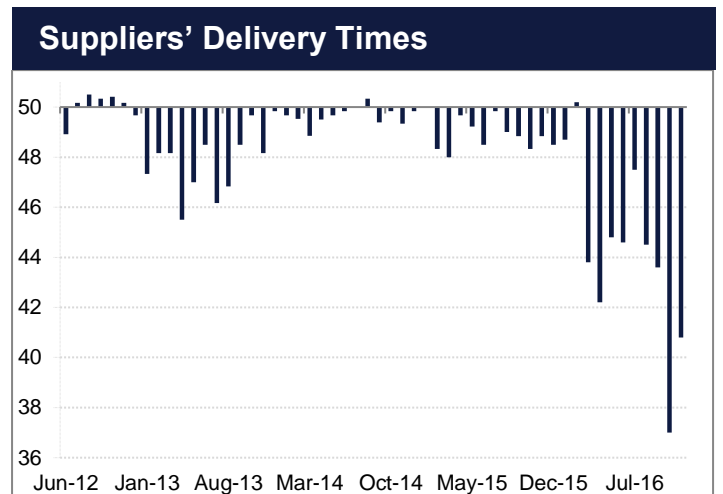


Chart #4
Source: Markit, Emirates NBD Research

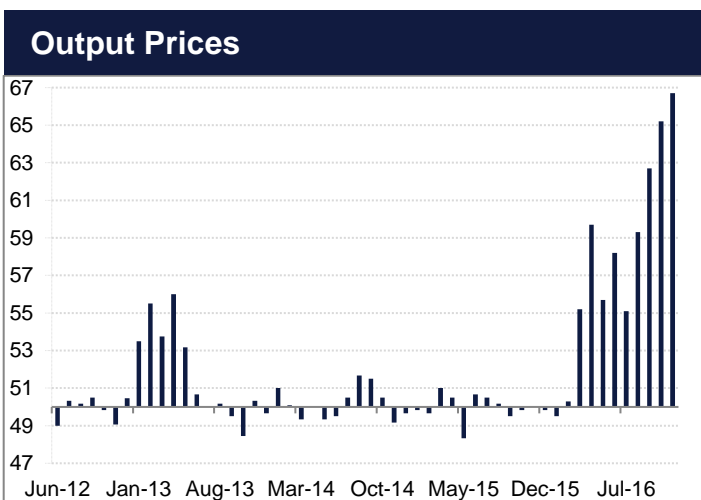


Chart #5
Source: Markit, Emirates NBD Research

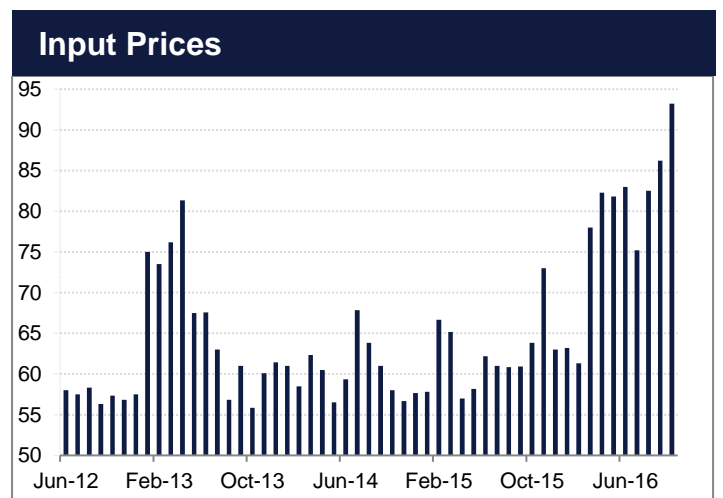


Chart #6
Source: Markit, Emirates NBD Research

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