



Egypt PMI Update

The latest Purchasing Managers' Index (PMI) for Egypt continued to show declines in private sector output at the start of 2017. In January the headline PMI came in at 43.3, marking the 16th consecutive month below the neutral 50 level. The main Output Index came in at only 39.3, with 37% of respondents recording a decrease in output. This was the fourth consecutive month that this component of the PMI was below 40, which is also the case for the New Orders Index (39.2 in January).

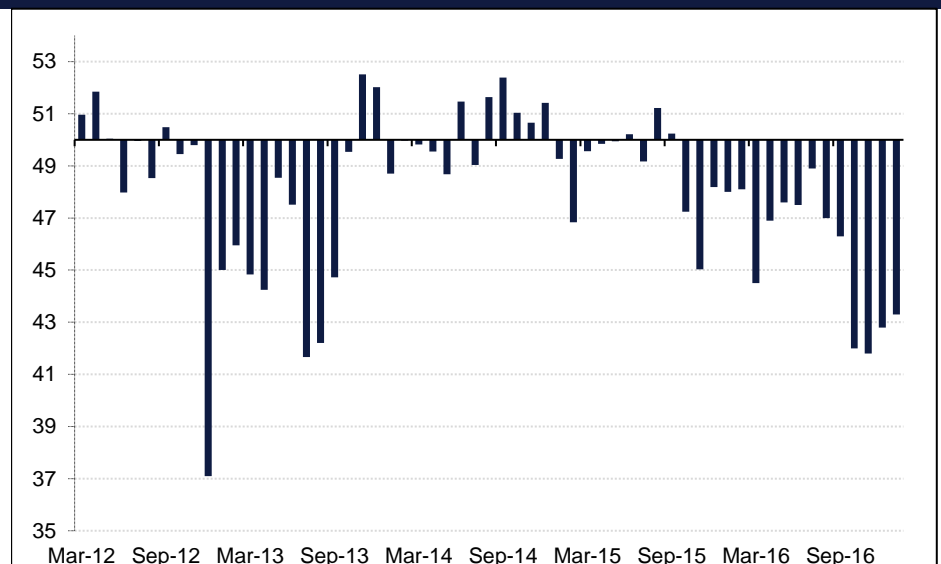
The New Export Orders Index fell back slightly to 46.1 from 47.8 in December, and thus continued to suggest external demand remained weak at the start of the year.

That said, given the recent devaluation of the EGP, we expect the export sector to be amongst the first to show signs of recovery. Indeed, the EGP's real effective exchange rate is now at its lowest level since December 2004 (*chart #1*), which was one year before the economy embarked on one of its fastest periods of growth in recent memory (real GDP expanded by an average 7.2% between 2006-2008). Recent news reports have also suggested Russia could be set to end its ban on flights to Egypt, which could provide a much needed boost to the tourism and export sector in 2017.

The EGP's devaluation also continues to result in significant upwards price pressures, with the Output Price Index hitting its highest level in the entire time series at 71.2. According to survey compiler Markit, 44% of respondents raised their selling prices in January, largely as a result of higher input costs (the Purchase Price Index came in at a still elevated 89.3). Strong inflationary pressures are also evident from official data sources, with core CPI jumping to 25.9% y/y in December. The sudden rise in prices of imported goods will be a dominant feature of Egypt's economic backdrop in 2017, with the shortage of raw materials in particular likely to constrain business activity in the coming months.

For the first time, Markit has also produced a Future Output Index, which is effectively the closest indicator we have to a measure of business confidence in Egypt. In January, this component – which asks firms if they expect overall volumes of output to be higher in one year's time - rose to a four-month high of 73.2. Respondents cited hopes of a stabilization in the exchange rate and state policies that support improved economic conditions as the reason for their optimism. Of note, the lowest reading in this component's history came in October 2016, which was just before the central bank devalued the currency.

Egypt Purchasing Managers' Index



Source: Markit, Emirates NBD Research

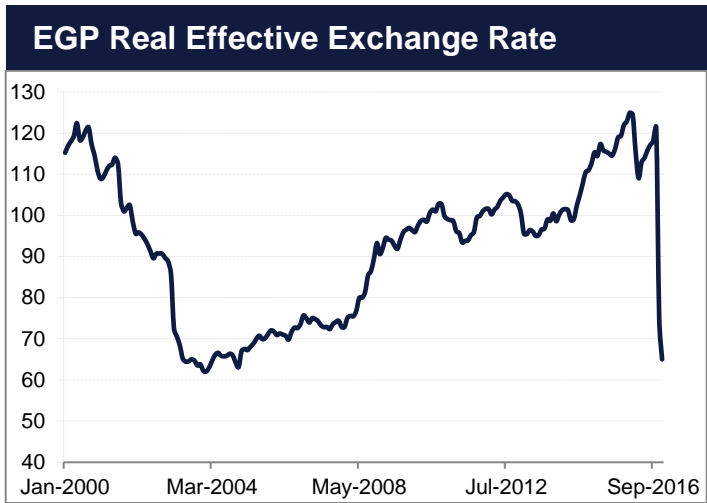


Chart #1
Source: JP Morgan,, Emirates NBD Research

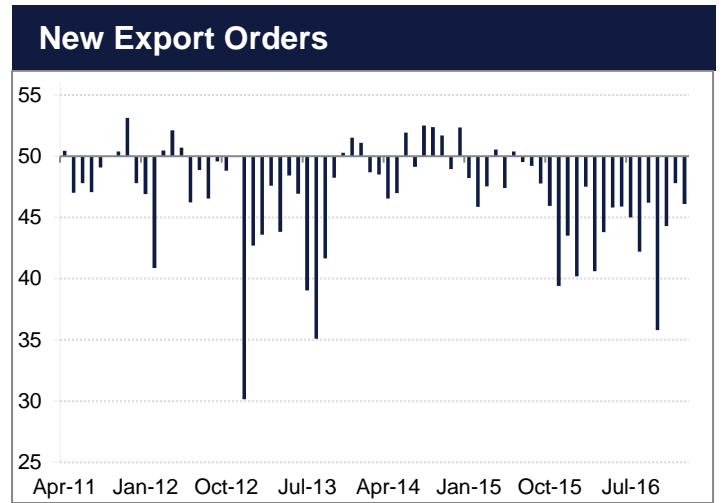


Chart #2
Source: Markit, Emirates NBD Research

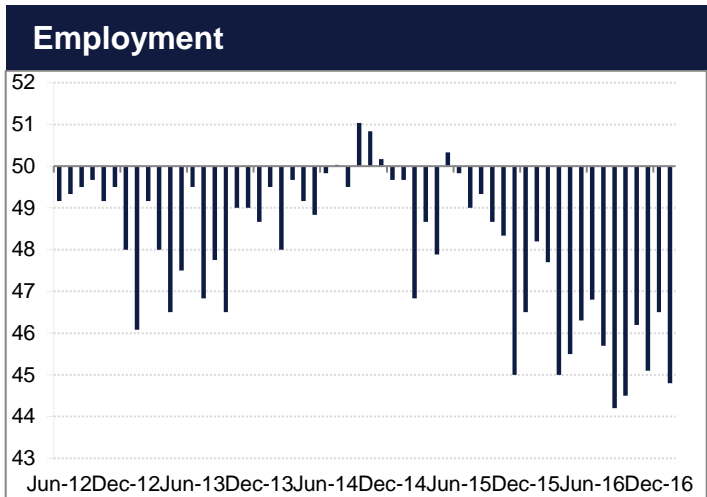


Chart #3
Source: Markit, Emirates NBD Research

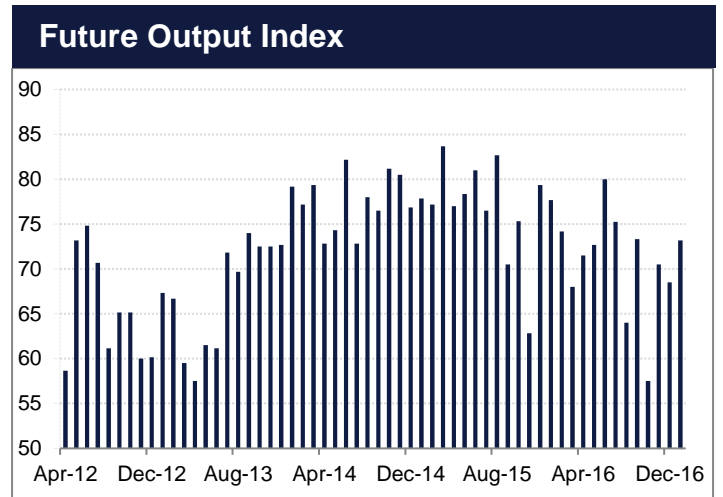


Chart #4
Source: Markit, Emirates NBD Research

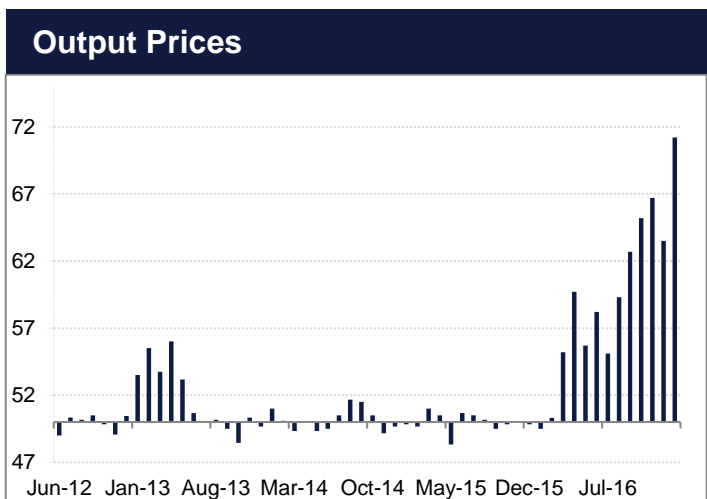


Chart #5
Source: Markit, Emirates NBD Research

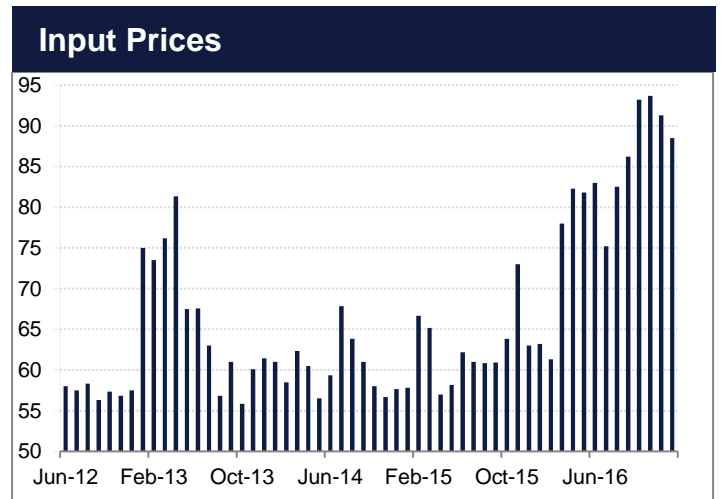


Chart #6
Source: Markit, Emirates NBD Research

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