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Egyptian Economy: Decline in Private Sector Contraction Rates

Dr. Ahmed Zikrallah

The Egyptian non-oil private sector activity recorded its best performance in 6 months, despite the continued contraction in August 2022.

The Purchasing Managers' Index (PMI) issued by Standard & Poor's Global highlighted that the Egyptian private sector recorded its lowest contraction rate since February 2022, where the index recorded 47.6 points in August compared to 46.4 points in July.

The Egyptian private sector contraction rate appeared for the second month in a row: where the index rose in July to 46.4 points against 45.2 points in June. However, the sector's growth requires a score of more than 50 points on the index.

A statement issued by Standard & Poor's Global stated that the rise in the main index was mainly driven by the output and new orders indices, which both rose for the second month in a row from the lowest levels recently recorded in June. However, the readings continued to indicate a marked decline in business activity and sales.

However, the readings were still indicative of marked drops in business activity and sales, as firms continued to see a worsening of client demand in the face of rapid inflation. The drop in new business was widespread, with manufacturing, services, construction and wholesale and retail all recording a decline.

In addition, there were reports that a lack of raw material supply had constrained total output in August, exacerbated by recent import regulations and the war in Ukraine.

On the positive side, however, input lead times lengthened only marginally, and at the softest rate since the start of 2022. With global economic conditions showing signs of weakness, Egyptian businesses saw a fresh decrease in new export orders in August. This followed the first rise in foreign demand for six months in July.

At the same time, the quantity of inputs purchased by non-oil companies fell for the eighth successive month, as firms continued to retract their spending in light of weaker sales and high input costs.

Stocks of purchases decreased but only mildly, helped by a reduced drawdown of holdings as new order volumes fell.

By contrast, the number of staff at non-oil businesses rose at the strongest rate since October 2019, as firms began to offset job cuts made in the first half of the year. With the increase in the hiring capacity, businesses were able to stabilize their work-in-hand following two successive increases in backlogs.

On the price front, August survey data indicated a broad decline in the input cost pressures in Egypt, with inflation easing sharply for the second month running. However, higher purchase prices were again widely reported, linked to rising fuel and raw material prices, in part due to a further deterioration in the Egyptian pound against the US dollar. More positively, wage costs decreased for the first time in five months.

In contrast, prices charged by Egyptian businesses rose at a much slower rate in August. However, the uptick was still solid and faster than the series trend.

S&P Global said that looking ahead, Egyptian non-oil firms remained relatively downbeat about future output levels in August, with just 9% of respondents forecasting growth over the coming year. Despite hopes of a recovery in demand, sentiment was dampened by weak market conditions, high inflation and sustained supply problems. The overall degree of positively was the second-lowest on record, higher than only March's score.

"August saw the key PMI metrics move in the right direction with the headline index up for the second month running, while price gauges continued to fall from their recent peaks," said David Owen, an economist at S&P Global Market Intelligence, adding, "The latest rise in input costs was much softer than in July, supporting a slower uplift in output prices that should ease the burden on consumers over the coming months."

Owen added, "As a result, new orders decreased at the softest rate since April, leading to a slower, but still sharp fall in output levels. Furthermore, employment rose at the quickest rate since October 2019, as some firms looked to increase their capacity and support backlog depletion."

"However, the headwinds on the global economy meant that businesses showed little optimism towards future activity, as expectations slipped to the second-lowest on record. Monetary policy uncertainty, a weakening exchange rate, and the continued war in Ukraine mean there are still high levels of risk for the economy over the rest of 2022," Owen said.[1]

[1] The views expressed in this article are entirely those of the author's and do not necessarily reflect the views of the Egyptian Institute for Studies