

Non-oil private sector took a breather in May, but outlook remains cloudy

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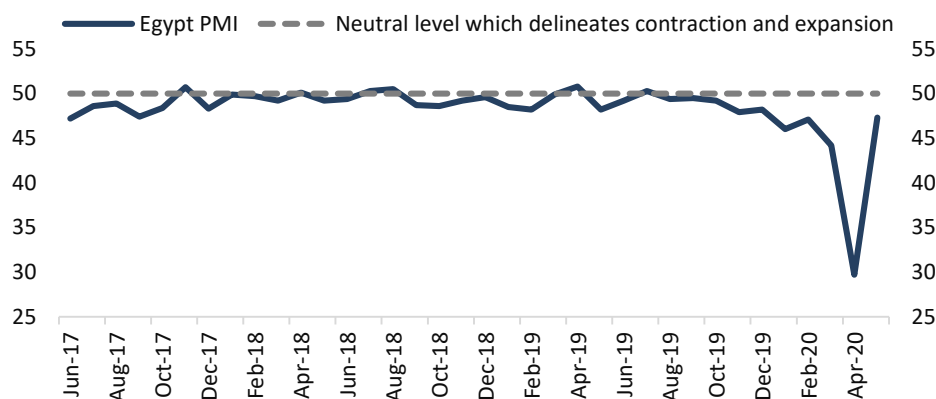
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Non-oil private sector delivered a sign of soft rebound in May as the headline PMI index rose 11 points to 40.7, up from 29.7—its lowest record since the series began in 2017. This reading, however, is still well below the expansion territory and marks the tenth consecutive reading of deteriorated business conditions in the non-oil private sector. **The worst may have passed, but it is unlikely to expect the sector to fully recover any time soon, given the significant impact of the COVID-19 dual (supply and demand) shock.** Moreover, the duration and the magnitude of risks triggered by the outbreak are still raising concerns as the number of infections in the country continues to increase. Re-escalating trade tensions between the U.S. and China and geopolitical threats are yet another serious risk, which further takes a heavy economic toll on the sector's long road to recovery.

Chart 1: Egypt's PMI headline index



Source: IHS Markit.

Weak consumption sentiment and lockdown measures kept the output and the new orders weak. However, the decline in output and new orders eased compared April on the back of easing lockdown hours in May which helped some firms reopen but at a lower capacity. The plunge in new exports continued but at a slower pace.

Weak labor market dynamics is going to exacerbate firms' struggle to boost their sales. The employment index fell for the seventh month in a row, which did not come as a surprise, given the pressures on firms to stand on their feet at a time of a severe fall in their cash inflows. **According to CAMPAS recent data, the unemployment rate increased to 9.2%, indicating that the pre-pandemic vicious cycle of "lower employment—lower sales—lower hiring—lower sales" will likely be amplified by the pandemic-induced slowdown.** On the other hand, the fall in the cost of labor, in tandem with lower global input prices, eased pressure on firms' cost giving them a room to maneuver. Yet, this would complicate their ability to raise prices down the road in view of the expected long-lasting weak demand.

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