

## Egypt's recovery is broadening

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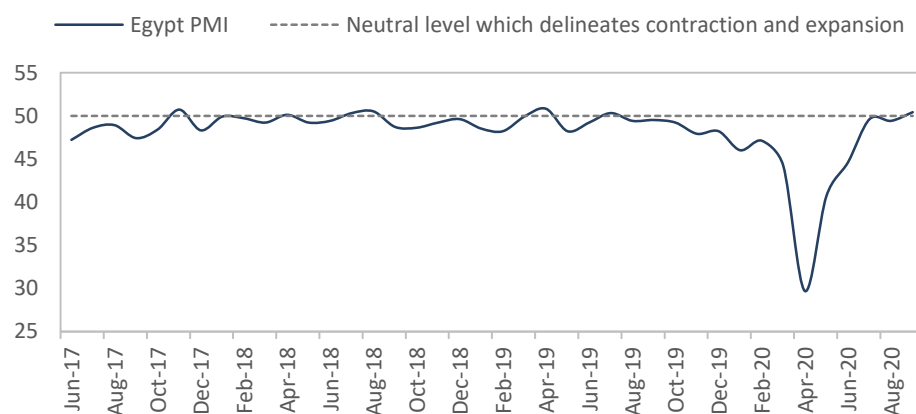
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**Non-oil private sector registered its first expansion since July 2019 and highest reading in 17 months.** The non-oil private sector in Egypt returned to growth for the first time in 14 months in September, registering 50.4 compared to 49.4 in August. The turnaround in economic activity in September was driven by: **(1)** the third consecutive month of increase in new orders, **(2)** a rise in output, registering its highest reading since July 2019, and **(3)** continued improvement in the export index. The reading is signaling that the pick-up in domestic demand is gaining a momentum. This comes in light of pent-up consumption triggered by relaxed COVID-19 related measures. Also, easing concerns over the virus's possible second wave contributed as well. Thanks to the reopening process, normalization of business activity accompanied by the rebound in external demand helped the tourism and hospitality sector start its long journey to recovery.

**Chart 1: Egypt's PMI headline index at a 17-month high, back to expansion territory**



Source: IHS Markit.

**Despite the turnaround, the employment index fell but at the lowest rate in 10 months.** It would be difficult to see such a level of normalization in business activity and an improvement in consumption sentiment without some progress in labor demand. According to PMI index survey, the employment index fell but at its lowest rate in 10 months as some firms had to increase their hiring to meet the rise in demand. We expect to see such a trend in the tourism and accommodation sector as the catch-up effect from the pandemic shock continues. This should arise from the rebound in consumption sentiment post COVID-19 as the risk of the virus starts to fade away in the eyes of the public.

**For the rest of 2020, PMI has room to remain in the expansion territory** due to catch-up effect triggered by continued improvement in consumption sentiment and normalization of business activity. Seasonality factors, like the back-to-school season, in addition to government initiatives to boost consumption should provide further catalysts.

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