



The Highest Reading in Six Years

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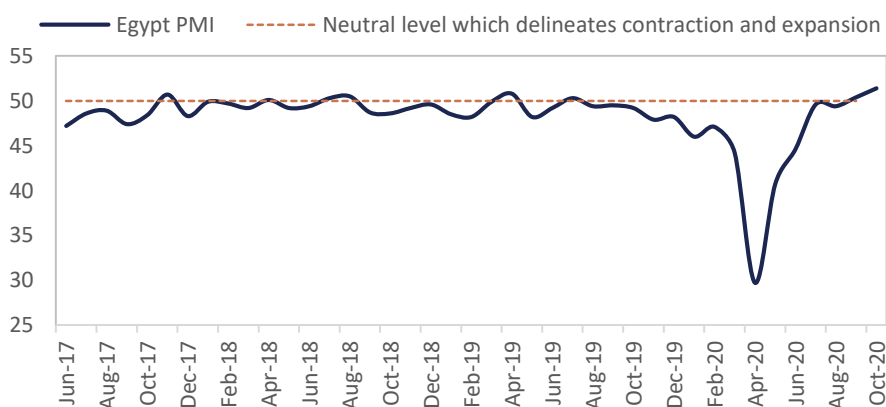
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Non-oil private sector expansion broadened in October for the second consecutive month. After registering its first expansion reading in 14 months in September, the private sector posted another expansion reading in October. PMI index grew to 51.4 from 50.4 in September, thanks to the rise in new order index and output index. The reading came to reflect that the pick-up in domestic demand is still gaining an impetus due to: **(1)** the process of normalizing economic activity and loosening health-related restriction measures; **(2)** back-to-school season which was expected to drive demand for electronic devices this year in particular given the new education strategy which depends on online platforms and digitalization of the education process; and **(3)** government initiatives to boost consumption.

Despite the strong output, firms are still reluctant to increase production capacity through hiring. Despite higher output and the pick-up in demand, the employment index is still falling for the twelfth consecutive month. Furthermore, the pace of decline in the employment quickened in October to register its weakest level in almost a year. Firms were reluctant to raise their workforce reflect weak confidence in the business environment. According to the PMI release, firms are still struggling to raise the required funds for new staff and the sentiment regarding the next 12 months of business activity fell in October to the weakest level since May. The surge in COVID-19 cases and the new imposed restriction measures in Europe cloud the outlook of business activity.

Future PMI readings will be subject to the risk of a second wave and further deterioration in business sentiment. With the second wave already starting in many countries around the globe, the Egyptian government expressed its concerns over citizens not complying with anti-coronavirus precautionary measures despite continued warnings from the authorities. According to the government, some of the previous tough measures could be reinstated if the state of non-compliance persists. That should keep the optimism about business activity low and feed the downward pressure on private-sector activities. Yet, the lockdown is highly unlikely; it is fair to say that the worst is behind us now.

Chart 1: Expansion continues and PMI at a 6-year high



Source: PMI Markit.



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