

## Weak Demand Still Weighing on the Rebound Trajectory

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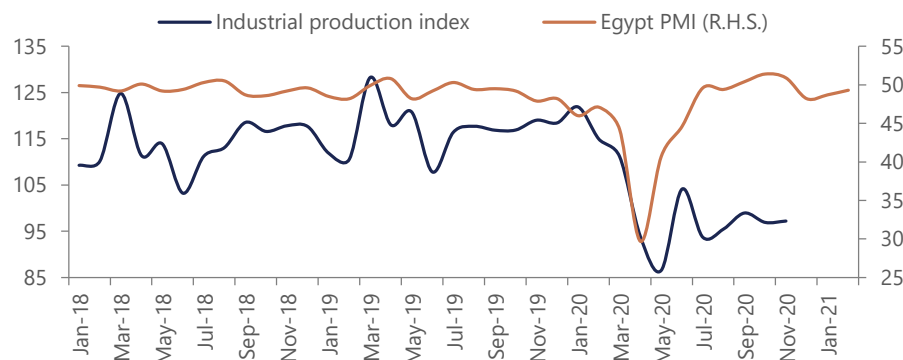
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**The February PMI came in line with our expectation, posting another contraction reading despite a slight improvement m/m.** The rebound of Egypt's private sector is still constrained by weak demand as both output and new orders declined for the third consecutive month, yet at a slower pace. Thus, the private sector PMI index remains in the contraction territory, registering 49.3 in February up from 48.7 in January 2021. The reading came amid growing efforts to accelerate the vaccination roll-out process, globally and domestically; continued recovery in global trade; and soaring global commodity prices driven by growing optimism over the global economic recovery. One of the positive implications of these developments translated into a strong upturn in export contracts and a slight improvement in tourism activity.

**Q4 2020 earnings season so far suggests the government policy, which has been friendly to earnings, has not helped all sectors.** Indeed, the government policy has been friendly to earnings for one main reason, mitigating the effect of COVID-19 through accommodative policies and targeted measures for the economy in general and for the most-hit sectors in specific. Several sectors struggled to restore their lost capacity on the back of muted demand, mostly tourism and the manufacturing industries. According to the most available data, the industrial production index is still well-below pre-COVID-19 level. However, there are certain industries that have managed to achieve positive results. For instance, (1) the automotive industry which was buoyed by the 400pbs cut in the interest rates in 2020. GB Auto's **[AUTO]** passenger car revenues were up 26% y/y in Q4 2020 and 1.3% y/y in 2020, and (2) exporters gained support from the government export rebate program. For example, Oriental Weavers Carpet **[ORWE]** received EGP482mn in export rebates in 2020, while total revenues increased by 10.5% y/y in Q4 2020.

**The structure of the "Decent Life" initiative should set the stage for further acceleration in private sector activity.** The initiative aims to improve conditions in low-income rural areas through an active partnership with the private sector. The initiative's main projects should focus on infrastructure in sanitation services, roads network, and generating job opportunities in the country's most populated areas.

**Chart 1: Private sector remains in contraction for the third month in a row; industrial production index is still below pre-COVID-19 levels**



Source: PMI Markit, CAPMAS.

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