

Still Downbeat

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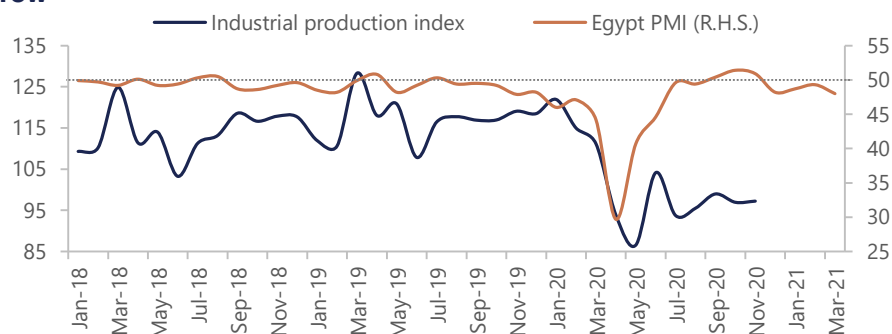
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Egypt's PMI retreated in March, signaling that the quick recovery in recent months was temporary. The index remains in the contraction territory for the fourth consecutive month, registering 48 in March, down from 49.3 in February 2021. The decline in PMI shows the cracks in the recovery's momentum as it fell to its lowest reading since June 2020. The reading came despite growing efforts to accelerate the vaccination roll-out process to contain the potential implications of another wave. PMI readings in March also suggest that the sharp recovery since the great collapse in April 2020 was mainly driven by temporary pent-up demand, and it would be difficult to sustain given the risk of another pandemic wave, a slower rebound in labor-intensive services such as tourism, and global lockdown measures.

Weaknesses in the private sector activity were notable since late 2020 and early 2021 despite the acceleration in economic growth in Q2 FY21. The PMI's sub-components fell in March, including output and new orders, which declined at the fastest pace since June 2020. Moreover, exports also fell for the first time in three months, indicating that global headwind pressures have not abated yet. The persistence of pandemic-driven global headwinds and muted demand forces are still hindering the rebound in private sector activity since late 2020. This came despite the acceleration in the economic growth rate. According to the most recently released data, Egypt's economy grew by 2% y/y in Q2 FY21, accelerating from 0.7% y/y in Q1 FY21. The growth was driven by state-dominated sectors, including agriculture, education, and health care. This is in line with our expectation that the path to post-pandemic normalization and recovery will be dominated by public-sector investments given the pandemic-related liquidity strain and low demand facing the private sector.

We still expect future PMI readings to remain in contraction during H1 2021. Given a narrowing probability of an immediate rate cut and limited fiscal space, we believe both the Central Bank of Egypt's (CBE) and the government's policies will focus more on targeted accommodative measures, such as export support programs and lending initiatives to hard-hit sectors that are still struggling to recover. Weak consumer demand will weigh on the private sector's path to recovery, which is still expected to remain muted due to labor market dynamics.

Chart 1: Private sector remains in contraction for the fourth month in a row



Source: PMI Markit, CAPMAS.

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