

A Steady and Slow Recovery in the Making

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Contraction in private-sector activity continues to ease near the expansion territory. The private-sector PMI index rose in June to its highest reading since November 2020, but it remained only fractionally below the expansion territory. Contraction in private-sector activity eased as the headline PMI index picked up to 49.9 in June from 48.6 in May 2021. The reading came to reflect the end of partial lockdown measures that eased the pressure on the services sector in addition to the ongoing rebound in tourists influx and export normalization pattern.

Output and new order in expansion territory for the first time in seven months, but labor market dynamics are still unfavorable for the index.

The breakdown of headline sub-indices indicates that domestic demand and exports showed improvements. Output and new orders indices came in expansion territory, and export sales grew at the fastest rate since February. However, labor market dynamics remain weak, and it is still casting its shadows on the whole domestic sale levels.

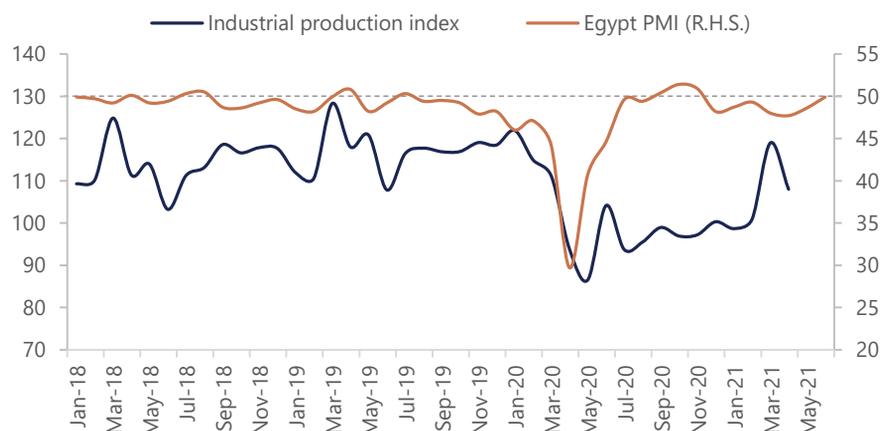
The private sector is also still pressured by a surge in global commodity prices as the prices of most raw materials continue to accelerate.

The sharp acceleration in global commodity prices observed in May has fueled inflationary concerns as input prices rose at the most rapid pace since August 2019. Yet, the survey indicates that firms were still reluctant to reflect these pressures on their final prices as the weak domestic demand is still weighing on sales.

The tourism sector during summer should set the stage for a faster rebound in private-sector activity, yet the Delta variant of COVID-19 is a significant risk.

While the summer and Christmas holidays should push the tourism sector towards faster recovery, the Delta variant of COVID-19 came to remind us that the pandemic risk is still active. In addition, inflation pressures will also weigh on the domestic sales recovery given the unfavorable labor market dynamics.

Chart 1: PMI contraction eased in June, while IPI is still below pre-COVID-19 levels



Source: PMI Markit, CAPMAS.

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