

Gathering Clouds

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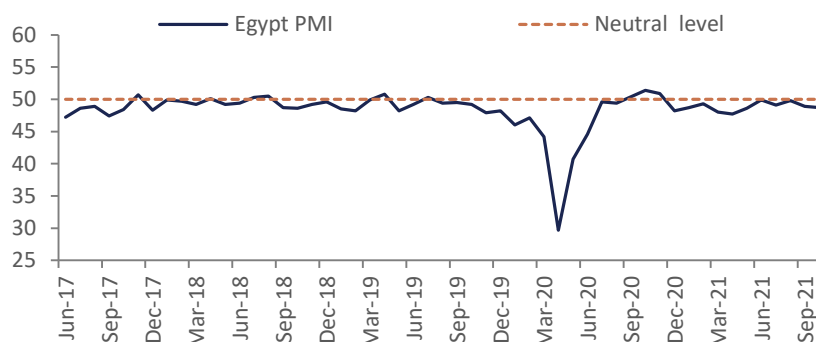
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Global supply disruptions continued to take their toll on the private sector recovery, dampening optimism over the outlook: Egypt's PMI index fell again in October to 48.7 from 48.9 in September, posting its lowest reading since May 2021 and remained in contraction territory for the eleventh consecutive month. Foreign demand continued to fall as export sales dropped at the fastest pace in 17 months, but domestic demand stayed relatively strong. Despite the positive domestic demand conditions, thanks to the fast rebound in the tourism sector and its related activities, new orders index declined to its lowest since July 2021 against the backdrop of the fall in export orders.

Domestic demand still supporting employment index expansion: The employment index remained in expansion territory for the fourth consecutive month, recording 50.5 in September, up from 50.3 in August. The solid recovery in the services sector, particularly in tourism, supports the favorable labor market dynamics as many firms continued to report an improvement in sales, particularly in tourist hotspots. The number of tourist arrivals reached 3.5mn in H1 2021, up from 2.5mn in the same period last year, and we expect it to end the year at around 8mn, thanks to major developments including Britain's removal of Egypt from the red list and the acceleration in the vaccination process.

Global supply bottlenecks accumulated more pressure on production costs and clouded the outlook: Driven by rising raw materials prices and shipment delays, many firms raised their input buying for the third month in a row during October. This resulted in the sharpest increases in both input costs and output prices since August 2018. As the global supply-side bottlenecks proved to be stubbornly persistent than initially thought, firms' projections for future output posted their largest monthly decline. This came at a time when global headwinds were also affecting the fiscal space available for the government to continue supporting the private sector recovery from COVID-19. Indeed, the increase in international gas prices has forced the government to raise the prices by as much as 28% for manufacturing. Meanwhile, these accumulated inflationary pressures will keep the Central Bank of Egypt (CBE) alert as inflation appears to be heating up, with input and output gauges accelerating at an increasing rate across all sectors.

Chart 1: PMI falls again to its lowest in four months



Source: PMI Markit.

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