

PMI shows further deterioration in private sector business conditions

Key findings:

- **Headline PMI at 45.0, down from July's 45.5**
- **Output and new orders fall at faster rates**
- **Businesses continue to trim staff numbers**

This report contains the thirty-fifth public release of data collected from the monthly survey of business conditions in the Lebanese private sector. The survey, sponsored by Blominvest Bank and compiled by Markit, has been conducted since May 2013 and provides an early indication of operating conditions in Lebanon. The headline figure derived from the survey is the *Purchasing Managers' Index™ (PMI™)*.

The PMI is a composite index, calculated as a weighted average of five individual sub-components: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). Readings above 50.0 signal an improvement in business conditions on the previous month, while readings below 50.0 show a deterioration.

The headline BLOM Lebanon PMI registered 45.0 in August, down from July's 45.5. That signalled a further worsening of overall operating conditions across Lebanon's private sector economy, with the rate of deterioration accelerating slightly and remaining faster than the long-run survey average.

Private sector companies recorded a drop in business activity in August, in line with the trend observed in each month since June 2013. Survey evidence suggested that political uncertainty and cashflow issues acted to weigh on market demand, which was manifested in a further decrease in the level of new business received by firms. Moreover, both output and new orders fell at slightly faster rates than in July.

Adding to the picture, August saw a reduction in the amount of new work received from abroad, the thirteenth in as many months.

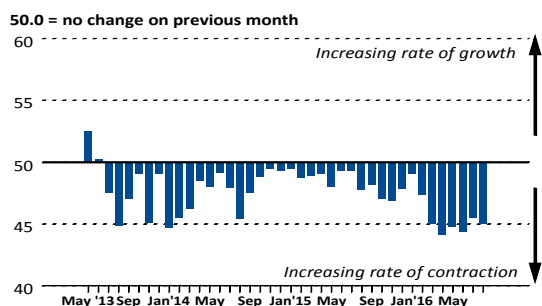
With companies recording falling inflows of new orders as well as lower levels of work-in-hand, further job losses were reported across the private sector economy in August. The extent of the decrease in employment was only marginal, and the weakest recorded in six months.

Quantities of purchases among Lebanon's businesses fell for a seventh consecutive month in August. That said, similar to employment, the rate of decline was the slowest seen since February. Meanwhile, inventory levels rose at the fastest pace since March.

Lower purchasing activity contributed to an improvement in supplier performance in August, with average lead times now having decreased in four of the past five months.

Elsewhere, August's survey showed a decrease in average prices charged for goods and services, amid reports from panellists of strong competitive pressures and efforts to secure new business. The reduction in output prices was the steepest seen since March, belying a further (albeit slower) increase in input costs, which was in turn partly reflective of higher prices paid for purchases. Average staff costs were broadly unchanged compared with the month before.

Lebanon Purchasing Managers' Index™ (PMI™)



		Purchasing Managers' Index	
		Unadj.	Seas. Adj.
2016	Jun	44.9	44.4
	Jul	45.8	45.5
	Aug	45.0	45.0

Index Summary

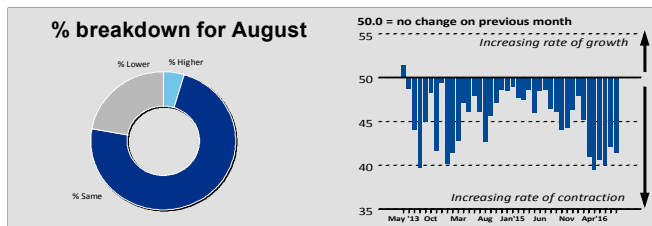
(seasonally adjusted, 50 = no change on previous month)

	PMI	Output	New Orders	Export Orders	Backlogs of Work	Employment	Output Prices	Overall Input Costs	Purchase Costs	Staff Costs	Delivery Times	Quantity of Purchases	Stocks of Purchases
Jun'16	44.4	40.0	40.4	48.4	42.7	49.3	48.8	50.0	50.0	50.2	50.7	46.7	50.1
Jul	45.5	42.1	41.9	47.3	42.8	49.4	48.4	50.4	51.4	49.8	50.0	47.0	50.6
Aug	45.0	41.5	40.7	47.4	43.4	49.5	48.1	50.2	50.2	50.1	51.0	47.6	51.5

Output Index

Q. Please compare your production/output this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2016	Apr	5.2	70.7	24.1	-18.9	40.5	39.5
	May	2.4	77.9	19.7	-17.2	41.4	40.7
	Jun	4.2	73.4	22.4	-18.2	40.9	40.0
	Jul	3.5	77.9	18.7	-15.2	42.4	42.1
	Aug	4.6	73.3	22.1	-17.5	41.2	41.5

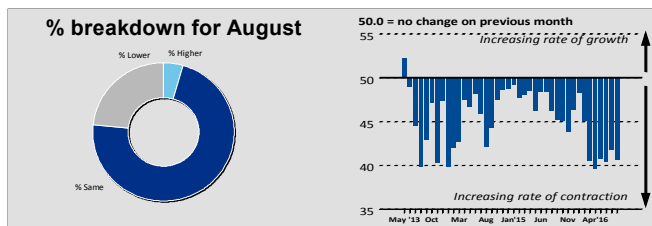


August saw a further decrease in the level of business activity across Lebanon's private sector economy. Furthermore, the rate of contraction was sharp and slightly faster than in the preceding month. Over 22% of surveyed companies recorded a decrease in business activity compared with the month before, versus 5% that noted an increase.

New Orders Index

Q. Please compare the level of new orders received this month with the situation of one month ago.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2016	Apr	4.5	71.7	23.8	-19.4	40.3	39.6
	May	2.4	78.1	19.5	-17.1	41.4	40.7
	Jun	4.2	73.7	22.1	-17.9	41.0	40.4
	Jul	3.4	77.6	19.0	-15.5	42.2	41.9
	Aug	4.4	72.1	23.5	-19.1	40.5	40.7

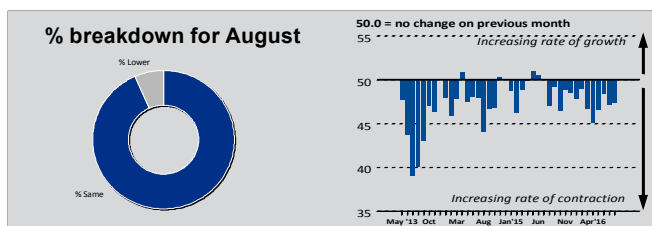


August's survey continued to show signs of weak underlying demand for goods and services across Lebanon, with the amount of new work received by businesses falling for the thirty-ninth month in a row. Moreover, the corresponding seasonally adjusted index fell further below the neutral 50.0 threshold, to signal a stronger rate of decline than in July.

New Export Orders Index

Q. Please compare the level of new export orders received this month with the situation of one month ago.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2016	Apr	0.8	90.3	8.8	-8.0	46.0	45.2
	May	0.6	92.7	6.7	-6.1	47.0	46.7
	Jun	2.9	93.9	3.2	-0.3	49.8	48.4
	Jul	0.0	93.6	6.4	-6.4	46.8	47.3
	Aug	0.0	93.3	6.7	-6.7	46.6	47.4

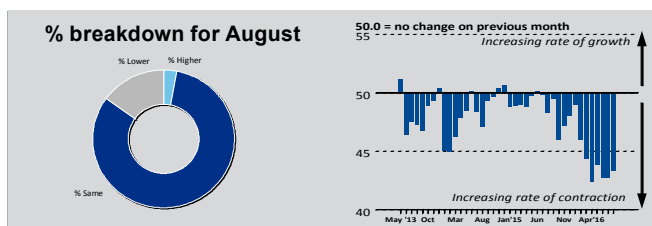


Continuing the trend observed in every month since August last year, private sector firms in Lebanon recorded a reduction in the amount of new work received from abroad. The rate at which new export orders decreased was little-changed from the solid pace recorded in the previous month. When reporting a decline, panellists mentioned the current political situation and instability in the region as contributory factors.

Backlogs of Work Index

Q. Please compare the level of outstanding business in your company this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2016	Apr	3.6	77.8	18.6	-15.1	42.5	42.4
	May	2.1	84.2	13.8	-11.7	44.2	43.9
	Jun	3.8	78.2	18.0	-14.2	42.9	42.7
	Jul	3.1	80.3	16.5	-13.4	43.3	42.8
	Aug	3.0	82.0	15.0	-12.1	44.0	43.4

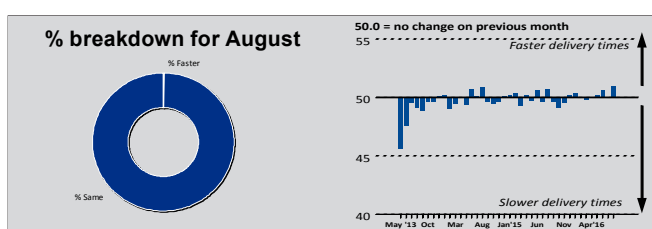


The seasonally adjusted Backlogs of Work Index remained at a historically low level in August, indicating a further marked monthly reduction in work-in-hand (both in progress and not yet started). Where a decrease in outstanding business was recorded (at 15% of companies), this was generally linked to a lack of incoming new work.

Suppliers' Delivery Times Index

Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.

		Faster %	Same %	Slower %	Net +/-	Index	S.Adj. Index
2016	Apr	0.7	98.3	1.0	-0.2	49.9	50.1
	May	0.2	99.7	0.2	0.0	50.0	50.3
	Jun	1.0	99.0	0.0	+1.0	50.5	50.7
	Jul	0.5	99.5	0.0	+0.5	50.2	50.0
	Aug	0.2	99.8	0.0	+0.2	50.1	51.0

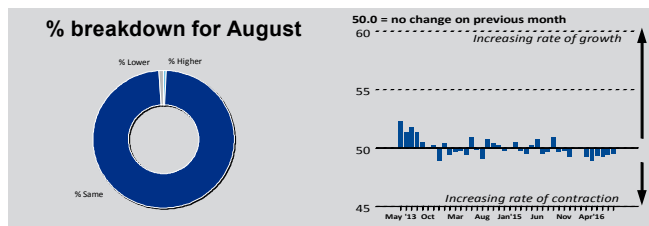


The average time taken for suppliers to deliver purchased items to Lebanese businesses decreased in August. That marked the fourth time in the past five months that an improvement in vendor performance has been recorded, following no change in lead times in July. Although only modest, the extent to which delivery times shortened was the greatest in the series history.

Employment Index

Q. Please compare the level of employment at your unit with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2016	Apr	0.0	98.2	1.8	-1.8	49.1	48.9
	May	0.6	98.1	1.3	-0.6	49.7	49.4
	Jun	0.5	98.1	1.4	-1.0	49.5	49.3
	Jul	1.2	97.1	1.7	-0.5	49.7	49.4
	Aug	0.5	98.4	1.1	-0.7	49.7	49.5

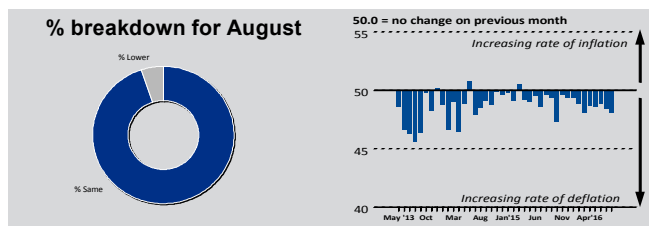


The level of employment in Lebanon's private sector economy decreased for the sixth month in succession during August, which anecdotal evidence suggested was largely a reflection of a lack of workplace activity. However, having eased for the second month in a row, the rate of job losses was only marginal and the slowest in the current sequence.

Output Prices Index

Q. Please compare the average prices you charged this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2016	Apr	0.9	95.5	3.6	-2.8	48.6	48.7
	May	0.0	98.5	1.5	-1.5	49.2	48.6
	Jun	0.0	96.1	3.9	-3.9	48.1	48.8
	Jul	0.3	93.5	6.1	-5.8	47.1	48.4
	Aug	0.0	95.1	4.9	-4.9	47.6	48.1

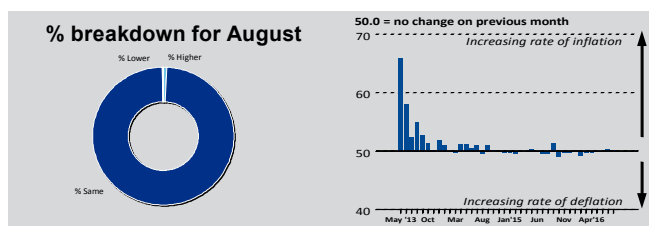


Competition in the market, coupled with efforts among companies to secure new business, led to a further decrease in average output charges in August, the seventeenth month in a row in which this has been the case. Moreover, the latest decrease was the joint-steepest seen since October last year, matching that recorded in March.

Overall Input Prices Index

Q. Please compare your overall average input prices this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2016	Apr	0.7	98.8	0.5	+0.2	50.1	49.7
	May	0.2	99.4	0.4	-0.2	49.9	49.9
	Jun	0.9	98.8	0.3	+0.7	50.3	50.0
	Jul	1.8	97.9	0.3	+1.5	50.8	50.4
	Aug	1.0	98.8	0.2	+0.7	50.4	50.2

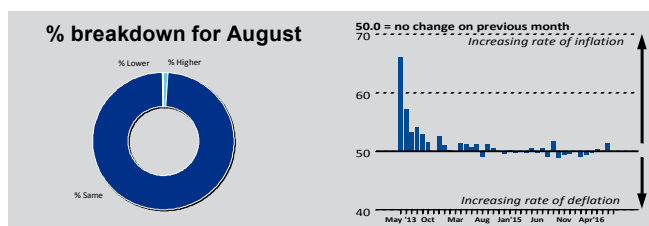


August data showed a second straight monthly increase in average input prices faced by private sector companies operating in Lebanon. That said, the corresponding seasonally adjusted index remained close to the 50.0 no-change mark, signalling the continuation of only a marginal rate of cost inflation.

Input Costs: Purchase Prices Index

Q. Please compare the price of your purchases (volume-weighted) this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2016	Apr	0.7	98.7	0.6	+0.1	50.1	49.7
	May	0.2	99.4	0.4	-0.2	49.9	50.4
	Jun	0.9	98.8	0.3	+0.7	50.3	50.0
	Jul	2.0	97.8	0.3	+1.7	50.9	51.4
	Aug	1.1	98.7	0.2	+0.9	50.4	50.2

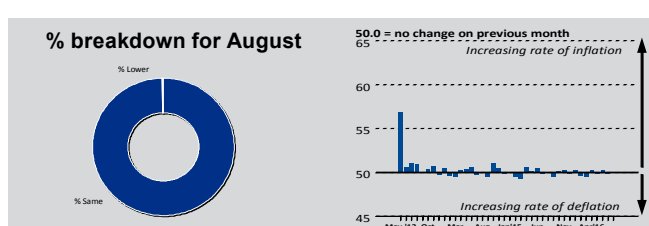


One factor leading overall cost burdens to rise in August was an increase in average prices paid for purchases. August's rise was the second in successive months, albeit only marginal and slower than that recorded in July, when the seasonally adjusted Purchase Prices Index was at a ten-month high.

Input Costs: Staff Costs Index

Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.

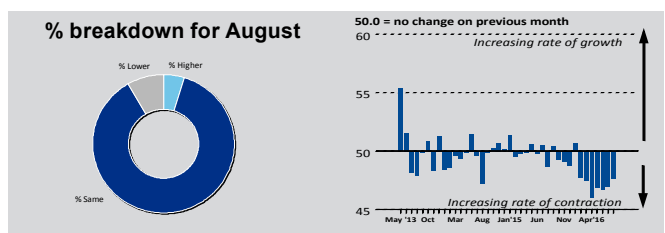
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2016	Apr	0.0	99.8	0.2	-0.2	49.9	50.2
	May	0.0	100.0	0.0	0.0	50.0	49.8
	Jun	0.0	99.8	0.2	-0.2	49.9	50.2
	Jul	0.0	100.0	0.0	0.0	50.0	49.8
	Aug	0.0	99.8	0.2	-0.2	49.9	50.1



There was a negligible increase in average staff costs among Lebanese businesses in August. Indeed, the overwhelming majority of survey participants recorded no change in salaries/wages. That followed a fractional decrease in staff remuneration at the start of the third quarter.

Quantity of Purchases Index Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.

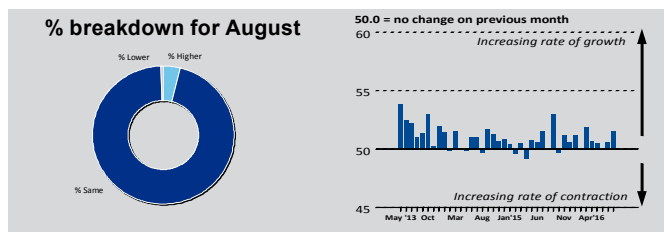
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2016	Apr	2.9	85.7	11.3	-8.4	45.8	46.0
	May	1.7	90.5	7.7	-6.0	47.0	46.8
	Jun	3.4	88.9	7.6	-4.2	47.9	46.7
	Jul	4.2	87.0	8.9	-4.7	47.7	47.0
	Aug	4.6	87.1	8.3	-3.7	48.2	47.6



In line with contracting levels of business activity and new orders, Lebanese companies recorded a further drop in their buying levels during August. Purchasing activity has now decreased in each of the past seven months, and the latest reduction, although the least marked since February, was again solid overall.

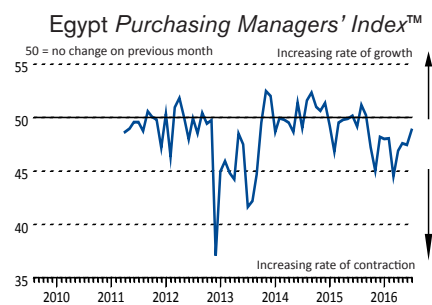
Stocks of Purchases Index Q. Please compare your stocks of purchases (in units) with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2016	Apr	1.7	96.3	2.0	-0.2	49.9	50.7
	May	2.2	96.7	1.1	+1.1	50.5	50.5
	Jun	1.6	98.0	0.4	+1.2	50.6	50.1
	Jul	3.3	95.4	1.3	+2.0	51.0	50.6
	Aug	3.9	95.6	0.5	+3.5	51.7	51.5

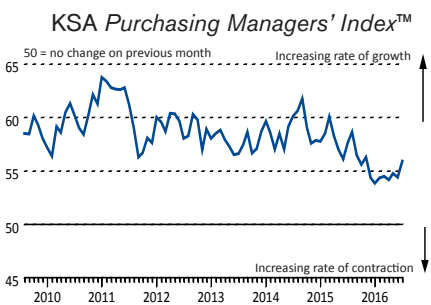


Stocks of purchases held by Lebanese businesses increased in August. Furthermore, the rate of accumulation was the fastest seen since March and slightly quicker than the long-run series average. The current sequence of inventory growth now extends to ten months, the longest recorded since the survey commenced in May 2013.

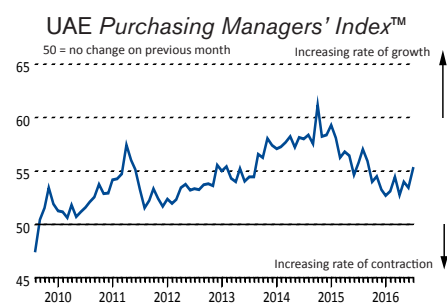
International PMI summary



Sources: IHS Markit, Emirates NBD.



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The headline seasonally adjusted Emirates NBD Egypt Purchasing Managers' Index™ (PMI) posted below the crucial 50.0 threshold for the tenth straight month in July. That said, up from 47.5 in June to 48.9, the latest reading was closer to neutrality than any time during the current downturn.

Rising from 54.4 in June to 56.0, the headline Emirates NBD Saudi Arabia Purchasing Managers' Index™ (PMI) posted the highest reading in eight months during July. That signalled a notable acceleration in growth, particularly in the context of the trend over the past year (55.3). That said, the rate of improvement in business conditions remained below the long-run series average.

At 55.3, the headline seasonally adjusted Emirates NBD UAE Purchasing Managers' Index™ (PMI) was consistent with a robust improvement in business conditions in July. The index also signalled a rebound in growth, having slipped to 53.4 in June. Moreover, the latest reading was the highest in ten months and above the long-run series average (54.5).

Notes on the Data and Method of Presentation

The *Purchasing Managers' Index™* is based on data compiled from monthly replies to questionnaires sent to purchasing executives in approximately 400 private sector companies, which have been carefully selected to accurately represent the true structure of the Lebanese economy, including manufacturing, services, construction and retail. The panel is stratified by Standard Industrial Classification (SIC) group, based on industry contribution to GDP, and by company workforce size. Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

The *Purchasing Managers' Index™ (PMI™)* is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times index inverted so that it moves in a comparable direction.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease. Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

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