

Lebanon PMI at four-month low amid faster falls in output and new orders

Key findings:

- **March sees solid and accelerated drop in business activity**
- **Falling inflows of new work contribute to further job losses**
- **Input prices rise at fastest rate for 18 months**

This report contains the forty-second 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 fell to a four-month low of 46.9 in March, down from February's 47.7. Nevertheless, the index average over the first quarter of 2017 as a whole (47.4) was the highest for one-and-a-half years.

Faster decreases in both output and new orders were the two main factors behind March's lower reading. The rates of decline were the steepest for three and four months respectively.

New export orders also decreased during the month, and although remaining only modest overall, the rate of decline in new business from abroad was the fastest seen in 2017 so far.

March also saw a slight acceleration in the rate of job losses as businesses adjusted to a lower level of business activity. Backlogs of work meanwhile fell to the greatest extent since last November, signalling the existence of spare capacity despite 13 months of continuous job cuts.

Businesses' input buying showed the steepest drop for five months in March. Nevertheless, lower sales meant that stocks of purchases continued to rise.

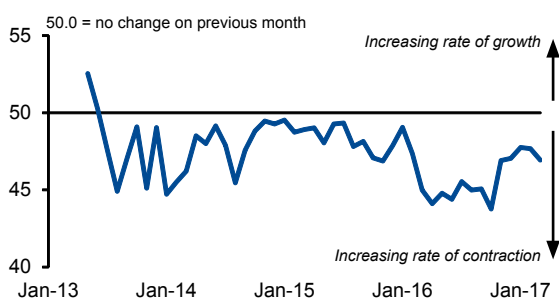
Average delivery times for purchased items lengthened slightly in the latest survey period. That marked the first deterioration in supplier performance for four months.

On the price front, March's survey data showed a pick-up in the rate of input cost inflation facing Lebanese businesses, to the highest for one-and-a-half years. Behind the increase in overall cost burdens were rises in both prices paid for purchases and salaries/wages, with the former showing the sharper increase.

Input prices have now risen for three months in a row, but companies continued to absorb the burden of higher costs and reduced average prices charged for goods and services, citing weak underlying demand and competitive pressures.

The year-ahead outlook for business activity meanwhile worsened in March, with latest survey data signalling that firms were the most pessimistic for five months.

Lebanon Purchasing Managers' Index™ (PMI™)



Purchasing Managers' Index

		Unadj.	Seas. Adj.
2017	Jan	46.6	47.7
	Feb	47.7	47.7
	Mar	46.3	46.9

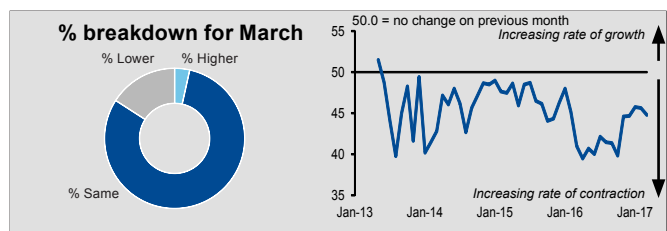
Index Summary

(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	Future Output
Jan'17	47.7	45.8	45.9	49.3	46.8	49.6	49.0	50.2	50.4	49.8	50.1	48.7	51.4	42.5
Feb	47.7	45.6	45.7	49.8	47.3	49.9	48.1	50.6	50.7	50.2	50.2	48.5	51.1	41.6
Mar	46.9	44.8	44.0	49.1	46.0	49.3	48.1	51.1	51.2	50.2	49.8	47.6	51.3	37.8

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

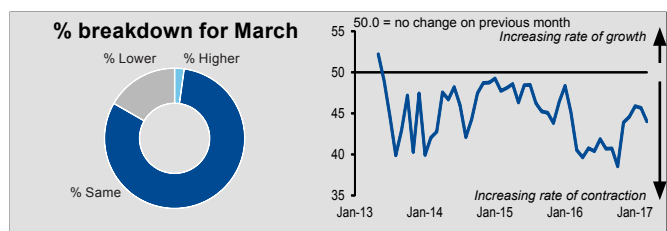
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2016	Nov	2.7	81.6	15.7	-13.0	43.5	44.6
	Dec	5.5	83.1	11.4	-5.9	47.0	44.7
2017	Jan	2.0	83.7	14.3	-12.2	43.9	45.8
	Feb	4.5	82.5	13.0	-8.5	45.7	45.6
	Mar	3.5	80.6	15.9	-12.4	43.8	44.8



The level of business activity across Lebanon's private sector economy fell at a faster rate in March. This was highlighted by the seasonally adjusted Output Index dropping further below the neutral 50.0 threshold, to its lowest level in 2017 so far. Approximately 16% of companies recorded a decrease, versus only 4% that noted a rise.

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

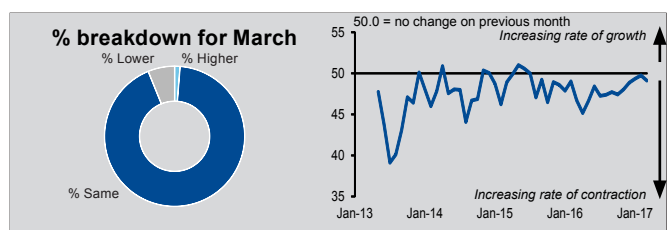
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2016	Nov	3.0	80.6	16.4	-13.5	43.3	43.9
	Dec	5.7	82.8	11.5	-5.8	47.1	44.6
2017	Jan	2.3	82.7	14.9	-12.6	43.7	45.9
	Feb	4.7	82.9	12.4	-7.8	46.1	45.7
	Mar	2.2	81.1	16.7	-14.5	42.8	44.0



Underpinning the latest drop in business activity was a further reduction in the amount of new business received by Lebanese businesses. Furthermore, having accelerated for the second successive month, the rate at which new work decreased was the fastest seen since November last year and slightly quicker than the long-run series average.

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

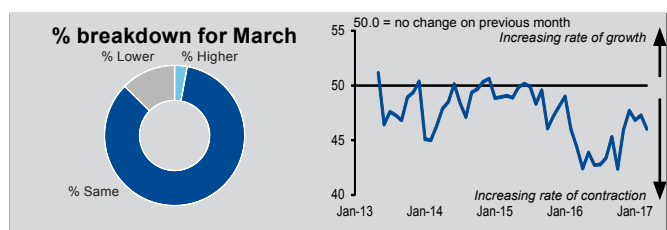
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2016	Nov	1.4	92.5	6.1	-4.7	47.7	48.0
	Dec	2.3	94.7	3.0	-0.7	49.7	48.9
2017	Jan	1.4	95.3	3.3	-1.9	49.1	49.3
	Feb	1.5	96.1	2.5	-1.0	49.5	49.8
	Mar	1.3	92.6	6.1	-4.9	47.6	49.1



The rate of decline in new export orders reaccelerated in March, after having been at its slowest for 19 months in the preceding survey period. That said, the respective seasonally adjusted index remained relatively close to the 50.0 no-change mark and indicated of only a modest rate of decline in new business from abroad overall.

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

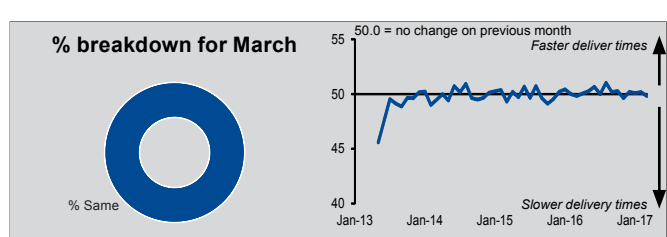
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2016	Nov	3.1	85.4	11.5	-8.4	45.8	46.0
	Dec	6.7	85.3	8.0	-1.2	49.4	47.7
2017	Jan	2.4	85.1	12.5	-10.0	45.0	46.8
	Feb	4.4	84.5	11.1	-6.7	46.6	47.3
	Mar	2.9	84.5	12.6	-9.7	45.1	46.0



March saw a decrease in the amount of outstanding business (both work-in-progress and not yet started) among Lebanon's private sector companies, thereby extending the current sequence of decline to 21 months. Moreover, the rate of backlog depletion was solid, having picked up to the fastest since last November.

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	Nov	0.2	99.6	0.2	0.0	50.0	49.6
	Dec	0.6	99.2	0.2	+0.4	50.2	50.2
2017	Jan	0.0	100.0	0.0	0.0	50.0	50.1
	Feb	0.0	100.0	0.0	0.0	50.0	50.2
	Mar	0.0	100.0	0.0	0.0	50.0	49.8

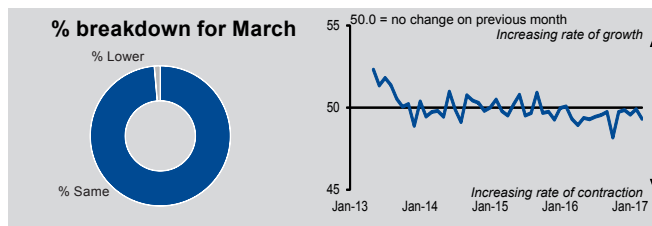


Lebanese businesses faced a slight deterioration in supplier delivery times (on average) in March. The seasonally adjusted Suppliers' Delivery Times Index was below the neutral 50.0 threshold – separating faster from slower lead times – for the first time in four months, following successive marginal improvements in vendor performance.

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	Nov	0.4	98.9	0.7	-0.3	49.8	49.7
	Dec	1.4	97.4	1.2	+0.2	50.1	49.8
2017	Jan	0.4	98.6	1.1	-0.7	49.7	49.6
	Feb	0.0	98.9	1.1	-1.1	49.4	49.9
	Mar	0.0	98.6	1.4	-1.4	49.3	49.3

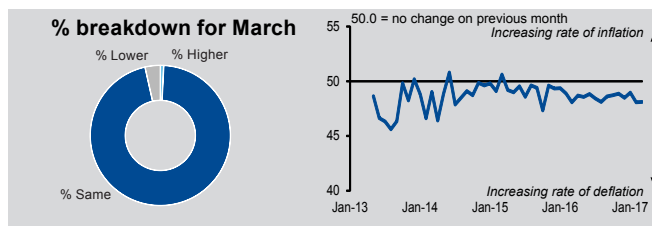


Consistent with the trends recorded for both output and new orders, employment fell at slightly faster rate across Lebanon's private sector economy in March. The pace of job losses was the quickest seen since October last year, albeit still only modest overall. Lower workforce numbers were mainly linked by panellists to a lack of new work.

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	Nov	0.0	98.4	1.6	-1.6	49.2	48.9
	Dec	0.2	96.6	3.2	-3.0	48.5	48.5
2017	Jan	0.0	94.9	5.1	-5.1	47.5	49.0
	Feb	0.7	94.5	4.9	-4.2	47.9	48.1
	Mar	0.8	95.7	3.5	-2.7	48.6	48.1

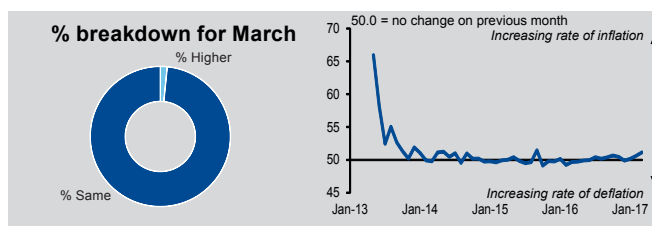


Lebanese businesses generally had limited pricing power in March due to weak underlying demand and competitive pressures, leading to a further decrease in average prices charged for goods and services. That extended the current sequence of decline to two years. The rate at which output charges fell was moderate and unchanged from that recorded in the preceding survey period.

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	Nov	0.8	99.1	0.2	+0.6	50.3	50.5
	Dec	0.0	99.8	0.2	-0.2	49.9	49.9
2017	Jan	0.0	100.0	0.0	0.0	50.0	50.2
	Feb	0.7	99.1	0.2	+0.5	50.3	50.6
	Mar	1.6	98.4	0.0	+1.6	50.8	51.1

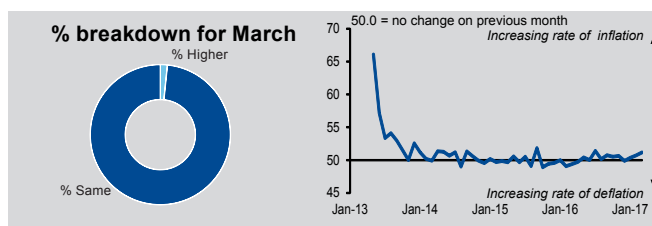


The drop in output charges in March contrasted with a further rise in overall input prices facing Lebanese businesses, the third in as many months. Furthermore, the rate of increase in overall cost burdens was at an 18-month high and the second-fastest seen since May 2014. Purchase prices and staff costs both contributed to the overall increase.

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	Nov	0.9	98.9	0.2	+0.7	50.4	50.6
	Dec	0.0	99.8	0.2	-0.2	49.9	49.9
2017	Jan	0.0	100.0	0.0	0.0	50.0	50.4
	Feb	0.7	99.1	0.2	+0.5	50.3	50.7
	Mar	1.6	98.4	0.0	+1.6	50.8	51.2

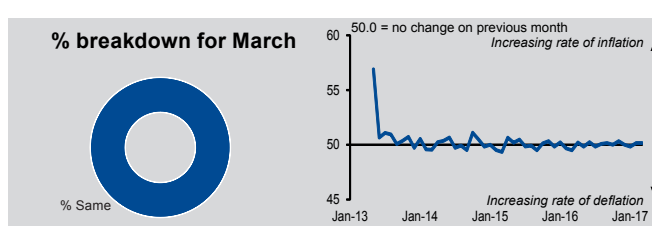


As has been the case in eight of the past nine months, average prices paid for purchases increased in March. Although remaining at a level consistent with only a modest rate of inflation, the respective seasonally adjusted index climbed for the third month in a row to its highest mark since July 2016.

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	Nov	0.0	100.0	0.0	0.0	50.0	50.3
	Dec	0.0	100.0	0.0	0.0	50.0	50.0
2017	Jan	0.0	100.0	0.0	0.0	50.0	49.8
	Feb	0.0	100.0	0.0	0.0	50.0	50.2
	Mar	0.0	100.0	0.0	0.0	50.0	50.2

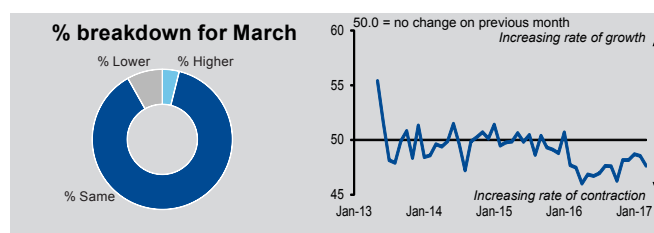


March's survey indicated a second successive monthly increase in average prices paid for salaries/wages by Lebanese private sector businesses. That said, unchanged from the preceding survey period, the rate of increase in staff remuneration was only marginal and slower than that of purchase prices.

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	Nov	3.9	88.8	7.3	-3.3	48.3	48.2
	Dec	5.8	86.7	7.5	-1.8	49.1	48.2
2017	Jan	1.6	90.0	8.4	-6.8	46.6	48.7
	Feb	3.4	88.6	8.0	-4.6	47.7	48.5
	Mar	3.9	87.9	8.2	-4.3	47.9	47.6

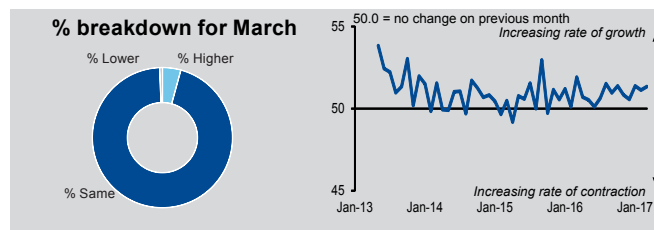


Buying levels among Lebanon's private sector businesses fell at the fastest rate for five months in March. Around 8% of companies recorded a drop in purchasing activity, citing a lack of incoming new work, versus only 4% that registered an increase. Lower quantities of purchases have now been seen in each of the past 14 months.

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	Nov	2.7	95.3	2.0	+0.7	50.3	50.8
	Dec	5.9	93.7	0.4	+5.6	52.8	50.6
2017	Jan	0.9	99.1	0.0	+0.9	50.4	51.4
	Feb	1.1	97.7	1.2	-0.1	49.9	51.1
	Mar	4.3	95.1	0.6	+3.6	51.8	51.3

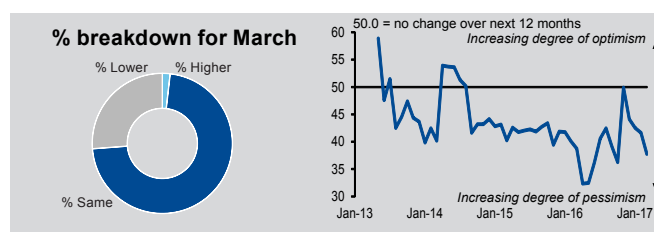


The amount of purchased items (both materials and semi-completed goods) held in stock by Lebanese businesses increased in March, marking 17 straight months of inventory accumulation. The rate of growth picked up since February and was faster than the average recorded over the current sequence of rising stocks.

Future Output Index

Q. In 12 months' time do you expect the overall volume of output to be higher, the same or lower than now?

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2016	Nov	13.8	72.2	14.0	-0.2	49.9	n/a
	Dec	3.6	81.1	15.3	-11.8	44.1	n/a
2017	Jan	2.7	79.6	17.7	-15.0	42.5	n/a
	Feb	5.3	72.6	22.0	-16.7	41.6	n/a
	Mar	1.8	72.0	26.2	-24.4	37.8	n/a



March saw a further deterioration in Lebanese firms' confidence towards the year-ahead outlook for activity. The Future Output Index fell further from last November's recent peak, registering at its lowest level since October 2016 and signalling a marked degree of pessimism overall.

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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