

## September sees further deterioration in private sector performance

### Key findings:

- **PMI slips to 11-month low of 46.0**
- **Faster falls in output and new orders**
- **Firms' costs show sharpest rise in four years**

This report contains the latest 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 IHS 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.

September saw a further deterioration in private sector business performance in Lebanon. This was signalled by the headline BLOM Lebanon PMI registering a reading of 46.0, down slightly from August's 46.3 and its lowest position in 11 months.

The level of business activity among Lebanese firms fell sharply at the end of the third quarter, with the rate of contraction accelerating to the fastest seen since October 2016. The downturn reflected a further reduction in demand for goods and services, which the survey's respondents in turn linked to political uncertainty, weakening economic conditions and cash-flow problems.

New export orders also decreased in September – falling for the twenty-sixth month running – to add to the weakness in domestic demand.

With many firms expecting the current challenges to persist, the consensus view remained that business activity would fall further in the next 12 months.

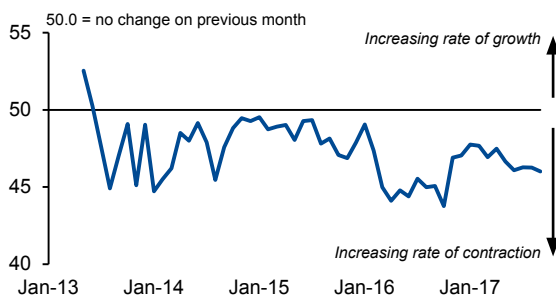
The labour market was again negatively affected by the lack of workplace activity and subdued business confidence, with firms (on average) electing to reduce staffing numbers. That said, the overall extent of the decrease in private sector employment was only slight.

The level of purchasing activity among businesses also fell during the month. However, inventories of raw materials and unsold items continued to accumulate due to falling output and lower sales.

On the price front, September's survey showed a further moderate drop in average prices charged for goods and services, with the rate of decline little-changed since August and broadly in line with the historical trend (since May 2013).

That was despite firms facing a notable increase in cost pressures during the month, linked to higher prices paid for purchases. The overall rate of cost inflation was the fastest seen for four years. Average staff pay was meanwhile unchanged, after having risen fractionally in August.

### Lebanon Purchasing Managers' Index™ (PMI®)



Purchasing Managers' Index			
		Unadj.	Seas. Adj.
2017	Jul	46.3	46.3
	Aug	46.3	46.3
	Sep	45.3	46.0

### Index Summary

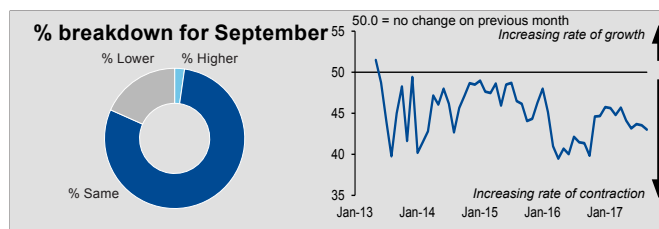
(seasonally adjusted, 50 = no change on previous month)

	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	Future Output
Jul'17	<b>46.3</b>	43.7	43.1	47.6	45.2	49.5	49.1	49.9	50.0	49.8	50.1	47.7	50.2	37.6
Aug	<b>46.3</b>	43.5	43.4	47.8	44.5	49.6	48.7	49.6	49.1	50.2	50.9	47.3	50.8	41.2
Sep	<b>46.0</b>	43.0	42.7	47.7	44.7	49.6	48.5	52.2	52.1	50.0	50.3	47.2	50.6	40.6

## Output Index

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

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
<b>2017</b>	May	2.5	81.4	16.1	-13.6	<b>43.2</b>	<b>44.1</b>
	Jun	3.2	78.2	18.6	-15.5	<b>42.3</b>	<b>43.2</b>
	Jul	2.5	81.9	15.6	-13.1	<b>43.4</b>	<b>43.7</b>
	Aug	3.2	80.3	16.5	-13.3	<b>43.4</b>	<b>43.5</b>
	Sep	2.3	79.4	18.3	-16.1	<b>42.0</b>	<b>43.0</b>

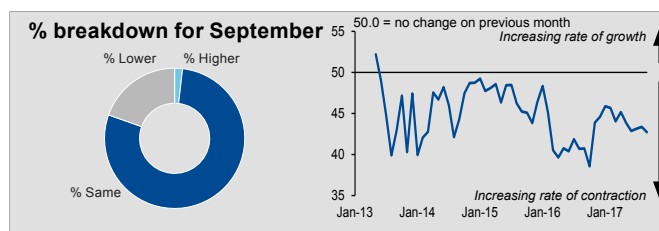


Lebanon's private sector economy ended the third quarter on a low note, with business activity falling sharply and at the fastest rate in 11 months. Around 18% of companies noted a reduction in their level of output, citing an unstable political situation, deteriorating economic conditions and cash-flow problems, compared with only 2% that recorded 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
<b>2017</b>	May	2.5	81.3	16.3	-13.8	<b>43.1</b>	<b>43.8</b>
	Jun	3.1	79.0	17.8	-14.7	<b>42.6</b>	<b>42.9</b>
	Jul	2.5	81.6	15.9	-13.5	<b>43.3</b>	<b>43.1</b>
	Aug	3.1	80.3	16.7	-13.6	<b>43.2</b>	<b>43.4</b>
	Sep	1.8	78.6	19.6	-17.8	<b>41.1</b>	<b>42.7</b>

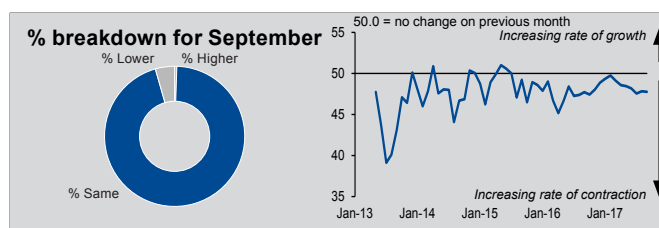


Lebanese private sector firms continued to be affected by a weak demand environment in September, according to latest survey data. The level of incoming new business fell sharply again during the month, with the respective seasonally adjusted index moving further adrift of the 50.0 no-change mark to register its lowest reading since October 2016.

## 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
<b>2017</b>	May	2.9	92.9	4.2	-1.3	<b>49.4</b>	<b>48.4</b>
	Jun	1.9	93.7	4.4	-2.5	<b>48.7</b>	<b>48.2</b>
	Jul	0.0	94.4	5.6	-5.6	<b>47.2</b>	<b>47.6</b>
	Aug	0.0	94.9	5.1	-5.1	<b>47.4</b>	<b>47.8</b>
	Sep	0.5	95.1	4.4	-3.9	<b>48.0</b>	<b>47.7</b>

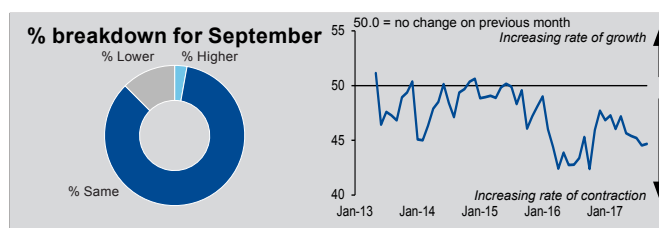


As well as lower domestic demand, Lebanese businesses also faced a reduction in the level of new orders received from abroad in September – the twenty-sixth month in a row in which this has been the case. The rate of contraction was little-changed from that recorded in the preceding survey period and broadly in line with the series average since May 2013.

## 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
<b>2017</b>	May	2.1	87.3	10.6	-8.4	<b>45.8</b>	<b>45.6</b>
	Jun	3.1	84.1	12.7	-9.6	<b>45.2</b>	<b>45.4</b>
	Jul	2.3	85.8	11.9	-9.6	<b>45.2</b>	<b>45.2</b>
	Aug	1.8	86.7	11.5	-9.8	<b>45.1</b>	<b>44.5</b>
	Sep	2.8	84.7	12.5	-9.6	<b>45.2</b>	<b>44.7</b>

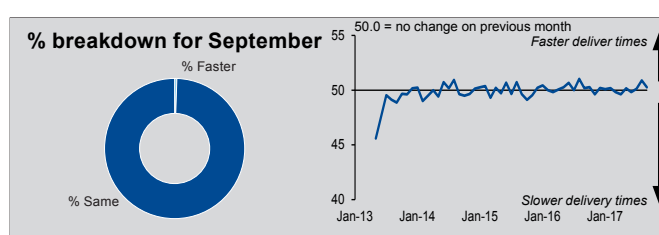


A lack of incoming new work to replace completed projects meant that firms' backlogs of work decreased again in September. This extended the current sequence of decline in outstanding business to 27 months. Easing only slightly since August, the rate of contraction seen in the latest survey period was the second-fastest in the past 11 months.

## 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
<b>2017</b>	May	0.0	99.7	0.3	-0.3	<b>49.8</b>	<b>50.2</b>
	Jun	0.0	100.0	0.0	0.0	<b>50.0</b>	<b>49.8</b>
	Jul	0.5	99.5	0.0	+0.5	<b>50.2</b>	<b>50.1</b>
	Aug	0.3	99.7	0.0	+0.3	<b>50.2</b>	<b>50.9</b>
	Sep	0.5	99.5	0.0	+0.5	<b>50.3</b>	<b>50.3</b>

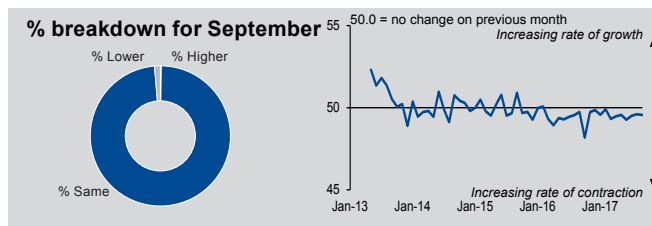


Delivery times for purchased items improved, on average, for the third month running in September, albeit to a lesser degree than seen in August. Panel member reports indicated that in some cases suppliers had sought to improve delivery times in order to recover payments more quickly.

**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
<b>2017</b>	May	0.5	98.7	0.9	-0.4	<b>49.8</b>	<b>49.6</b>
	Jun	0.6	96.6	2.9	-2.3	<b>48.9</b>	<b>49.3</b>
	Jul	0.0	99.7	0.3	-0.3	<b>49.8</b>	<b>49.5</b>
	Aug	0.0	99.5	0.5	-0.5	<b>49.8</b>	<b>49.6</b>
	Sep	0.2	98.5	1.3	-1.1	<b>49.4</b>	<b>49.6</b>

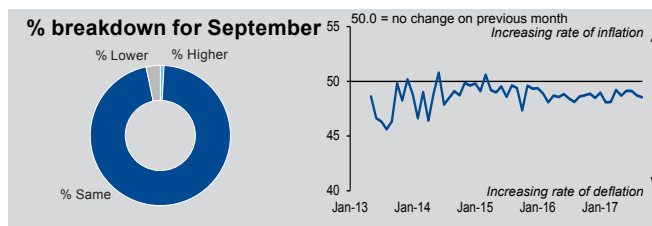


Private sector employment in Lebanon continued to fall at the end of the third quarter, as a number of firms trimmed staff numbers in line with falling workplace activity. That said, as has been the general theme throughout the current sequence of job losses (which stretches back to March 2016), the extent to which employment decreased was only marginal overall.

**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
<b>2017</b>	May	0.0	99.1	0.9	-0.9	<b>49.5</b>	<b>48.7</b>
	Jun	0.0	97.9	2.1	-2.1	<b>48.9</b>	<b>49.1</b>
	Jul	0.0	96.4	3.6	-3.6	<b>48.2</b>	<b>49.1</b>
	Aug	0.0	96.0	4.0	-4.0	<b>48.0</b>	<b>48.7</b>
	Sep	0.8	95.9	3.3	-2.4	<b>48.8</b>	<b>48.5</b>

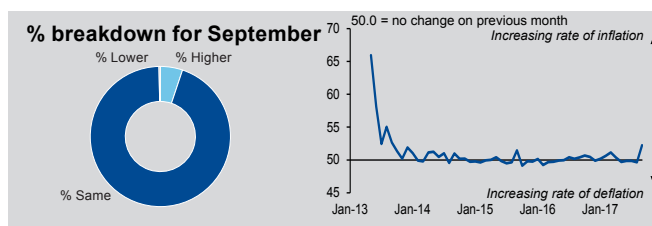


Average prices charged for goods and services fell at a faster rate in September. Adjusted for the influence of seasonal factors, the Output Prices Index dipped for the second month in a row to register its lowest reading since March. Competitive pressure was one of the reasons given by survey respondents for lower output charges.

**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
<b>2017</b>	May	0.4	99.3	0.3	+0.1	<b>50.0</b>	<b>49.7</b>
	Jun	0.4	99.6	0.0	+0.4	<b>50.2</b>	<b>49.8</b>
	Jul	0.3	99.4	0.3	+0.1	<b>50.0</b>	<b>49.9</b>
	Aug	0.0	100.0	0.0	0.0	<b>50.0</b>	<b>49.6</b>
	Sep	5.1	94.6	0.3	+4.8	<b>52.4</b>	<b>52.2</b>

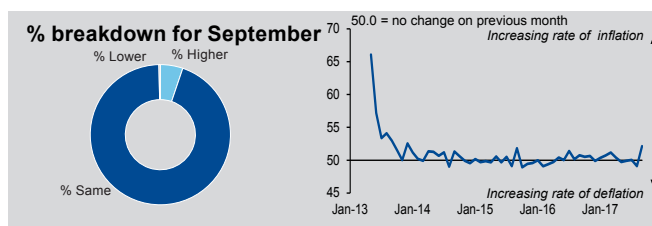


September saw an increase in Lebanese private sector firms' average costs, thereby ending a four-month sequence of reductions. Although only moderate overall, the rate of cost inflation was in fact the fastest seen since September 2013. A rise in purchase prices was the principal factor leading to higher overall costs.

**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
<b>2017</b>	May	0.4	99.3	0.3	+0.1	<b>50.0</b>	<b>49.7</b>
	Jun	0.4	99.6	0.0	+0.4	<b>50.2</b>	<b>49.9</b>
	Jul	0.3	99.4	0.3	+0.1	<b>50.0</b>	<b>50.0</b>
	Aug	0.0	100.0	0.0	0.0	<b>50.0</b>	<b>49.1</b>
	Sep	5.2	94.5	0.3	+4.9	<b>52.4</b>	<b>52.1</b>

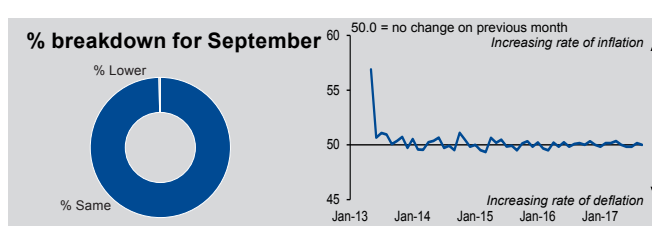


Lebanese businesses reported facing an increase in average prices paid for purchases in September, citing the impact of a stronger euro and higher raw material costs. Moreover, the rise in purchase prices was the first seen for five months and the most marked in over three-and-a-half years.

**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
<b>2017</b>	May	0.0	100.0	0.0	0.0	<b>50.0</b>	<b>50.0</b>
	Jun	0.0	99.3	0.7	-0.7	<b>49.7</b>	<b>49.8</b>
	Jul	0.0	100.0	0.0	0.0	<b>50.0</b>	<b>49.8</b>
	Aug	0.0	100.0	0.0	0.0	<b>50.0</b>	<b>50.2</b>
	Sep	0.0	99.7	0.3	-0.3	<b>49.8</b>	<b>50.0</b>

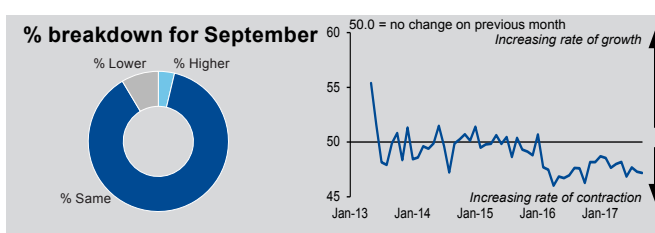


The seasonally adjusted Staff Costs Index registered in line with the neutral 50.0 threshold at the end of the third quarter, to signal renewed stagnation of wages/salaries following a marginal rise in August. The vast majority of surveyed businesses reported no change in average staff remuneration.

## 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
<b>2017</b>	May	2.1	92.4	5.5	-3.5	<b>48.3</b>	<b>48.2</b>
	Jun	2.4	89.3	8.3	-5.9	<b>47.0</b>	<b>46.8</b>
	Jul	2.2	91.6	6.3	-4.1	<b>48.0</b>	<b>47.7</b>
	Aug	3.3	89.0	7.7	-4.4	<b>47.8</b>	<b>47.3</b>
	Sep	3.7	87.7	8.6	-4.9	<b>47.6</b>	<b>47.2</b>

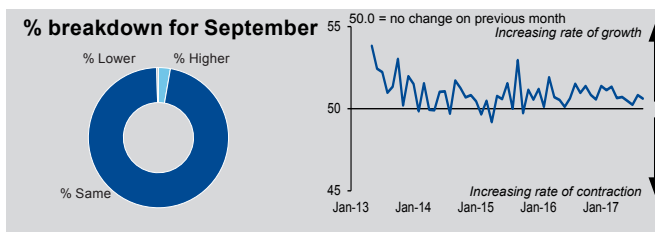


Reflective of lower sales and reduced output requirements, Lebanese businesses' purchasing activity showed a further fall in September. Furthermore, the rate of contraction in buying levels was solid overall, having accelerated for the second month in succession to the fastest seen since June.

## 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
<b>2017</b>	May	2.0	97.7	0.3	+1.7	<b>50.8</b>	<b>50.7</b>
	Jun	2.5	96.6	0.9	+1.6	<b>50.8</b>	<b>50.5</b>
	Jul	0.6	99.2	0.2	+0.5	<b>50.2</b>	<b>50.2</b>
	Aug	2.0	98.0	0.0	+2.0	<b>51.0</b>	<b>50.8</b>
	Sep	2.7	96.9	0.4	+2.4	<b>51.2</b>	<b>50.6</b>

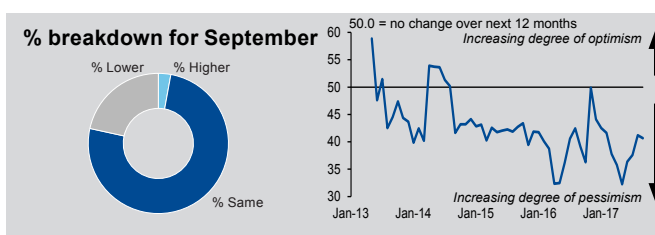


Latest data indicated a further increase in inventories held by Lebanese private sector businesses. The seasonally adjusted Stocks of Purchases Index registered a reading that was above the 50.0 no-change mark for the twenty-third month in a row, albeit one that signalled only a modest rate of accumulation.

## 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
<b>2017</b>	May	0.0	64.5	35.5	-35.5	<b>32.3</b>	<b>n/a</b>
	Jun	1.4	70.0	28.6	-27.3	<b>36.4</b>	<b>n/a</b>
	Jul	1.5	72.2	26.3	-24.8	<b>37.6</b>	<b>n/a</b>
	Aug	3.5	75.4	21.1	-17.6	<b>41.2</b>	<b>n/a</b>
	Sep	2.9	75.6	21.6	-18.7	<b>40.6</b>	<b>n/a</b>



Lebanese businesses maintained a negative outlook towards future output at the end of the third quarter, as has been the case in each month since September 2014. Approximately 22% of firms noted that they expect activity to decrease over the next 12 months, mentioning economic and political instability, versus only 3% anticipating an increase.

## 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. IHS 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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