

PMI ticks up to ten-month high but remains firmly in contraction territory

Key findings:

- **Slower downturns in output and new orders recorded**
- **Employment rises for first time in two years, albeit marginally**
- **Rates of input cost and output price inflation moderate**

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.

Lebanon's private sector economy remained in a state of overall contraction mid-way through the first quarter, though the pace of decline continued to moderate. The headline BLOM Lebanon PMI rose for the second month running to 47.3 in February, from January's 47.1, to record its highest reading since April 2017. A figure below 50.0 indicates deterioration in the health of the private sector; however the PMI has now moved closer to the neutral level in three of the past four months.

Although rates of decline in business activity and new orders in the private sector remained solid in February, they eased to the slowest seen in ten months. Most weakness stemmed

from difficult conditions in the domestic market, with the level of new orders received from abroad down only fractionally compared with the month before.

Encouragingly, latest data showed a rise in the level of private sector employment in February. Although only marginal, the increase ended a sequence of net job losses stretching back almost two years.

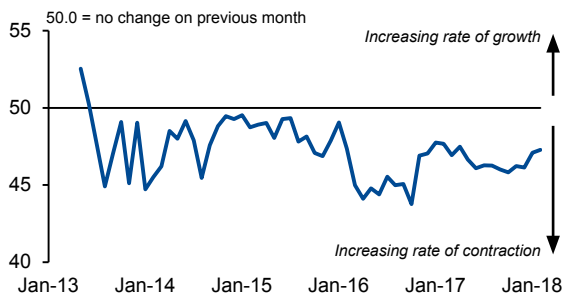
Staffing levels rose despite businesses generally remaining pessimistic towards the outlook for output over the next 12 months. Moreover, after having reached a 13-month high at the start of the year, the survey's measure of future expectations deteriorated slightly in February.

On the price front, February saw prices charged for goods and services rise for the second month in a row. However, the rate of inflation eased from that recorded in January to show only a marginal increase in selling prices overall.

Firms' costs likewise rose more slowly in February, though the rate of input price inflation was still the second-quickest seen since August 2013. A rise in purchase prices was the main driver, with staff costs up only fractionally.

The quantity of purchases made by Lebanese private sector businesses decreased in February. Inventory levels meanwhile rose, albeit only modestly and at the slowest rate for three months.

Lebanon Purchasing Managers' Index™ (PMI®)



Purchasing Managers' Index			
		Unadj.	Seas. Adj.
2017	Dec	47.1	46.1
2018	Jan	47.3	47.1
	Feb	46.8	47.3

Index Summary

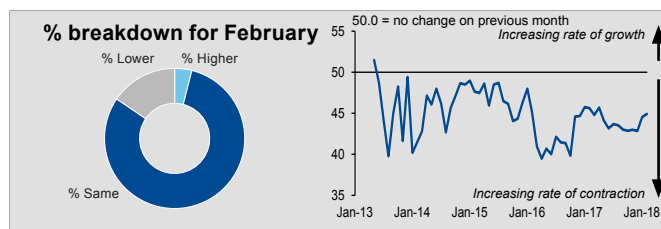
(seasonally adjusted, 50 = no change on previous month)

	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
Dec'17	46.1	42.8	42.7	46.8	45.9	49.8	48.6	50.0	50.4	50.2	50.0	48.5	51.5	41.3
Jan'18	47.1	44.5	44.3	49.6	46.3	49.9	50.7	58.2	57.3	50.0	49.6	48.8	51.3	43.3
Feb	47.3	44.9	44.7	49.5	46.1	50.4	50.3	53.1	53.5	50.3	50.2	48.5	51.0	41.4

Output Index

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

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2017	Oct	1.6	80.8	17.6	-16.0	42.0	42.9
	Nov	1.1	81.3	17.6	-16.5	41.8	43.0
	Dec	4.2	80.5	15.4	-11.2	44.4	42.8
2018	Jan	2.2	86.0	11.8	-9.6	45.2	44.5
	Feb	4.0	80.6	15.5	-11.5	44.2	44.9

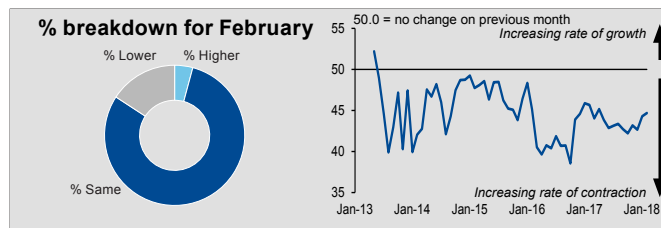


The seasonally adjusted Output Index moved closer to the 50.0 no-change threshold in February, signalling the slowest decrease in private sector business activity for ten months. Nevertheless, the index remained at a level indicative of a marked rate of contraction overall, with almost four times as many firms noting a decrease in output as those that recorded 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
2017	Oct	1.5	80.3	18.1	-16.6	41.7	42.2
	Nov	1.5	80.4	18.1	-16.7	41.7	43.2
	Dec	4.4	79.9	15.7	-11.3	44.3	42.7
2018	Jan	2.5	84.9	12.6	-10.2	44.9	44.3
	Feb	4.2	80.0	15.8	-11.6	44.2	44.7

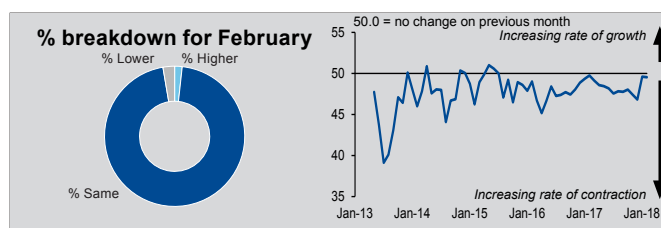


Latest data showed a further decrease in the level of new orders received by private sector businesses, which the survey's anecdotal evidence linked to weak economic conditions, political instability and ongoing security issues. The rate of contraction in order books eased to the weakest seen since April last year, but it remained substantial overall.

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
2017	Oct	0.0	94.3	5.7	-5.7	47.1	48.0
	Nov	1.5	89.2	9.3	-7.8	46.1	47.4
	Dec	2.3	90.7	7.0	-4.6	47.7	46.8
2018	Jan	1.5	96.9	1.6	-0.1	50.0	49.6
	Feb	1.7	95.6	2.7	-0.9	49.5	49.5

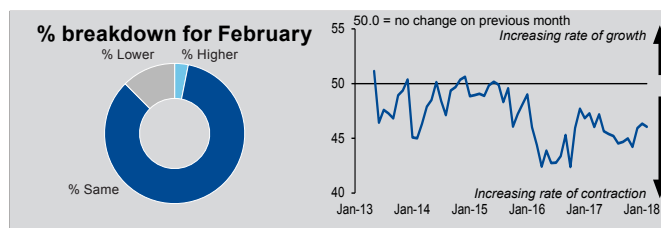


Weak domestic demand remained the main drag on the private sector's performance mid-quarter, with new export orders again falling only slightly and at a much slower rate than total new business. The respective seasonally adjusted index was in fact little-changed from its level in January, which was an 11-month high.

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
2017	Oct	2.2	85.6	12.3	-10.1	44.9	45.0
	Nov	1.5	85.2	13.3	-11.8	44.1	44.2
	Dec	5.7	85.0	9.3	-3.5	48.2	45.9
2018	Jan	2.2	86.6	11.3	-9.1	45.5	46.3
	Feb	3.1	84.4	12.4	-9.3	45.3	46.1

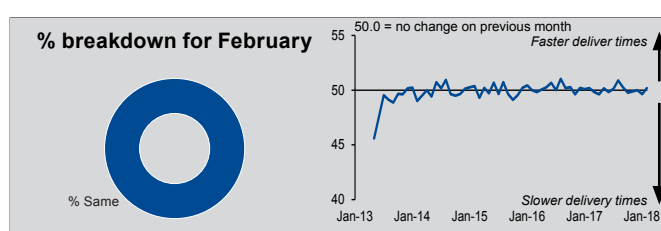


A lack of incoming new work was reflected in a further decrease in the level of outstanding business across the private sector in February. Lower backlogs have now been recorded in each of the past 32 months. Moreover, the rate of contraction was solid, having accelerated slightly from that seen in the previous survey period.

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
2017	Oct	0.0	99.0	1.0	-1.0	49.5	49.8
	Nov	0.2	99.6	0.2	0.0	50.0	49.9
	Dec	0.0	99.7	0.3	-0.3	49.8	50.0
2018	Jan	0.0	100.0	0.0	0.0	50.0	49.6
	Feb	0.0	100.0	0.0	0.0	50.0	50.2

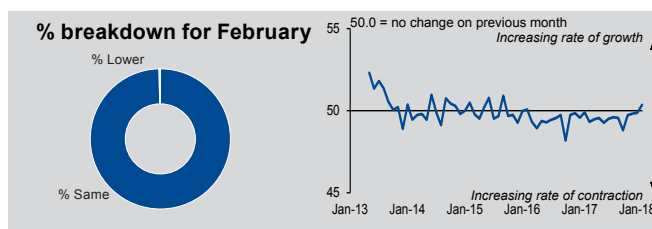


Suppliers' delivery times improved on a seasonally adjusted basis in February, thereby reversing the slight deterioration in vendor performance seen during the opening month of the year. The respective index was above the neutral 50.0 threshold for the first time in five months, albeit indicative of only a fractional reduction in average lead times.

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
2017	Oct	0.0	97.9	2.1	-2.1	49.0	48.8
	Nov	0.3	99.4	0.2	+0.1	50.1	49.7
	Dec	0.8	98.2	1.0	-0.2	49.9	49.8
2018	Jan	0.3	98.9	0.8	-0.4	49.8	49.9
	Feb	0.0	99.7	0.3	-0.3	49.8	50.4

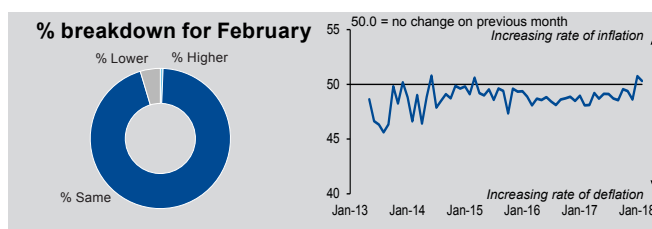


In spite of a further contraction in the level of business activity across the private sector in February, Lebanese firms noted a rise in employment during the month (on a seasonally adjusted basis). The increase in staffing numbers was only slight, but it nevertheless ended a sequence of net job losses stretching back to March 2016.

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
2017	Oct	1.9	95.6	2.4	-0.5	49.8	49.6
	Nov	0.0	99.4	0.6	-0.6	49.7	49.4
	Dec	0.2	97.4	2.4	-2.2	48.9	48.6
2018	Jan	5.4	91.4	3.2	+2.2	51.1	50.7
	Feb	0.6	94.8	4.6	-4.0	48.0	50.3

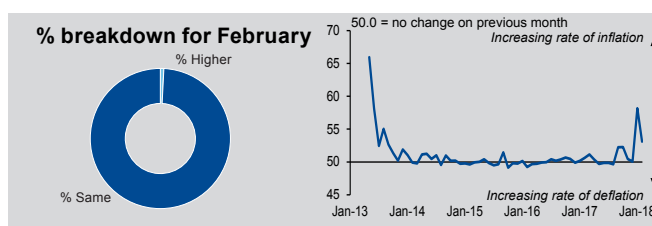


After having risen in January for the first time in almost three years, average prices charged for goods and services increased again in February. That said, the rate of inflation was only marginal and slower than that recorded during the month before, when firms had noted the implementation of higher taxes and fees.

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
2017	Oct	3.6	96.4	0.0	+3.6	51.8	52.3
	Nov	0.2	99.8	0.0	+0.2	50.1	50.5
	Dec	0.4	99.6	0.0	+0.4	50.2	50.0
2018	Jan	20.7	79.3	0.0	+20.7	60.3	58.2
	Feb	0.8	99.2	0.0	+0.8	50.4	53.1

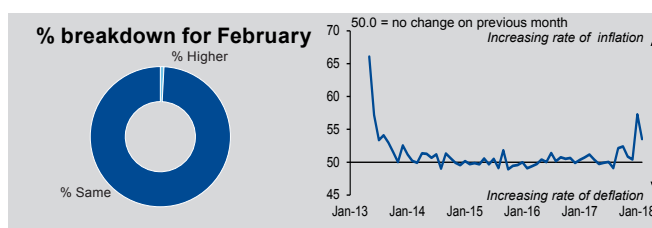


Lebanese private sector businesses recorded an increase in average costs for the fifth time in the past six months in February. The rate of inflation was solid, but much slower than January's 56-month high. Survey data suggested that a rise in purchase prices was a key driver of the overall cost increase.

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
2017	Oct	3.7	96.3	0.0	+3.7	51.8	52.4
	Nov	0.2	99.8	0.0	+0.2	50.1	50.8
	Dec	0.4	99.6	0.0	+0.4	50.2	50.4
2018	Jan	21.0	79.0	0.0	+21.0	60.5	57.3
	Feb	0.8	99.2	0.0	+0.8	50.4	53.5

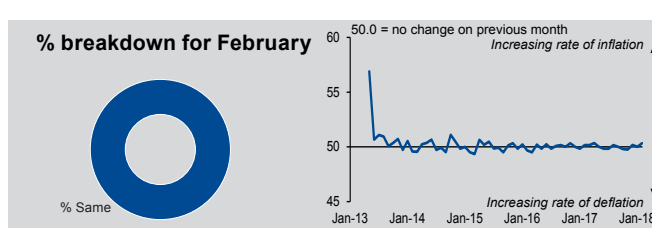


As has been the case in every month since last September, Lebanese firms faced an increase in purchase prices in February. The respective seasonally adjusted index retreated from its 56-month high in January, though the latest reading was still the second-highest seen since August 2013.

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
2017	Oct	0.0	98.8	1.2	-1.2	49.4	49.8
	Nov	0.0	100.0	0.0	0.0	50.0	49.7
	Dec	0.0	100.0	0.0	0.0	50.0	50.2
2018	Jan	0.0	100.0	0.0	0.0	50.0	50.0
	Feb	0.0	100.0	0.0	0.0	50.0	50.3

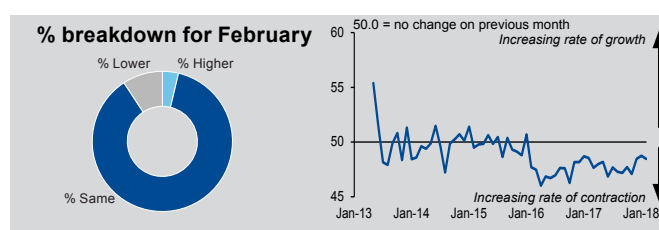


Comparative to purchase prices, average staff pay showed little change during February, rising only fractionally and for just the second time in the past six months. The seasonally adjusted Staff Costs Index stayed close to the 50.0 no-change mark and was broadly in line with its average over the survey history (since May 2013).

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
2017	Oct	3.2	89.2	7.6	-4.5	47.8	47.7
	Nov	1.7	90.9	7.4	-5.6	47.2	47.1
	Dec	4.3	90.0	5.7	-1.4	49.3	48.5
2018	Jan	1.6	91.3	7.1	-5.5	47.2	48.8
	Feb	3.7	87.1	9.2	-5.5	47.3	48.5

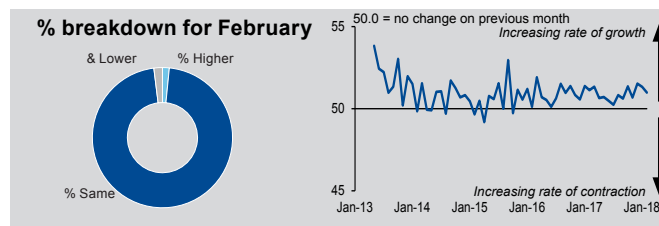


Private sector businesses continued to scale back their quantity of purchases during the latest survey period, citing a lack of new work and weaker demand. The rate of decline in purchasing activity was slightly quicker than in January, though it remained among the slowest seen over the current 25-month sequence of contraction.

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
2017	Oct	2.7	96.7	0.6	+2.1	51.1	51.4
	Nov	0.9	98.9	0.2	+0.8	50.4	50.7
	Dec	4.4	95.0	0.6	+3.8	51.9	51.5
2018	Jan	1.0	99.0	0.0	+1.0	50.5	51.3
	Feb	1.6	96.5	2.0	-0.4	49.8	51.0

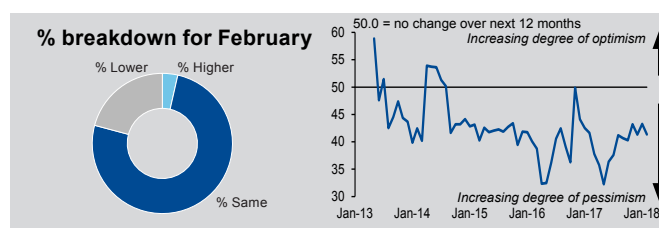


Stocks of purchases held at private sector businesses rose more slowly in February, the rate of accumulation having eased further from December's recent high to the weakest seen since last November. Nevertheless, higher inventories have now been recorded in each of the past 28 months.

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
2017	Oct	4.5	71.6	23.9	-19.4	40.3	n/a
	Nov	5.1	76.2	18.7	-13.6	43.2	n/a
	Dec	0.0	82.6	17.4	-17.4	41.3	n/a
2018	Jan	2.2	82.1	15.7	-13.5	43.3	n/a
	Feb	3.6	75.6	20.8	-17.3	41.4	n/a



February saw a slight deterioration in the mood among businesses towards the outlook for output over the next 12 months. This was highlighted by the Future Output Index moving further below the neutral 50.0 threshold, down from January's 13-month high. Around one-in-five firms believed activity would fall, linked in most cases to the continuation of difficult operating conditions.

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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