

Lebanon PMI drops to eight-month low of 46.0 in June

Key findings:

- **Faster contractions in output and new orders recorded**
- **Employment shows fourth straight monthly fall**
- **Rate of decline in output prices eases**

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.

Business conditions continued to worsen across Lebanon's private sector economy at the end of the second quarter. This was signalled by the headline BLOM Lebanon PMI registering a reading of 46.0, down from 46.4 in May and the lowest figure seen since October 2017.

The challenging business environment was underlined by a sharp and accelerated drop in inflows of new orders in June. Reports from surveyed businesses indicated that political instability continued to curb demand, while there were also reports of cash flow problems exacerbating the situation. Furthermore, reflecting instability in the wider region, the

level of new orders from abroad also fell during the month.

As was the case for new orders, the level of total output across Lebanon's private sector economy contracted at a faster rate in June. The pace at which business activity declined was in fact the quickest seen in 2018 so far.

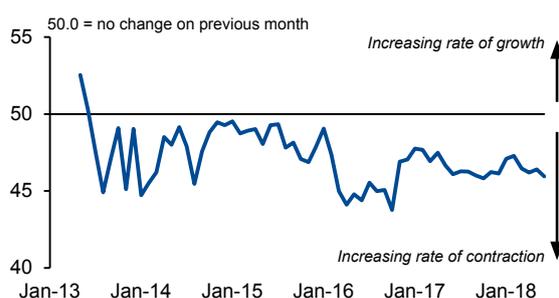
The survey also revealed a gloomy outlook for output in the year ahead, with firms in general expecting a drop in business activity over the next 12 months.

With activity in contraction and fewer new orders received, companies continued to scale back both their employment and purchasing during June. Whereas staffing levels fell only slightly, the rate of decline in buying activity was the quickest seen since October 2016.

Subdued demand conditions also resulted in a further decrease in average prices charged for goods and services in June, the fourth in as many months. That said, the rate of decline was the weakest in this sequence and only marginal overall. Cost pressures faced by businesses meanwhile remained subdued, with input prices up only slightly amid a fractional increase in the cost of purchased items. Average salaries were unchanged on the month.

Elsewhere, latest survey data showed a third consecutive monthly improvement in supplier delivery times, which panellists attributed to a lack of demand for inputs.

Lebanon Purchasing Managers' Index™ (PMI®)



Purchasing Managers' Index			
		Unadj.	Seas. Adj.
2018	Apr	47.1	46.2
	May	46.7	46.4
	Jun	45.8	46.0

Index Summary

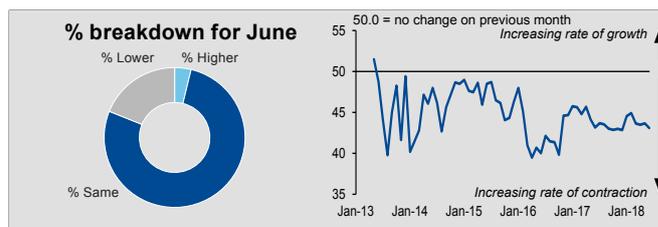
(seasonally adjusted, 50 = no change on previous month)

	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
Apr'18	46.2	43.5	43.1	46.3	45.7	49.3	47.7	50.5	50.5	50.2	50.1	47.3	50.6	35.4
May	46.4	43.7	43.3	49.3	44.9	49.5	47.9	50.2	50.2	49.7	50.2	47.0	51.1	36.9
Jun	46.0	43.1	42.4	46.7	45.1	49.6	49.2	50.2	50.2	50.0	50.2	46.7	50.8	36.7

Output Index

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

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2018	Feb	4.0	80.6	15.5	-11.5	44.2	44.9
	Mar	4.1	79.5	16.4	-12.3	43.8	43.6
	Apr	2.7	85.2	12.1	-9.4	45.3	43.5
	May	2.8	82.3	14.8	-12.0	44.0	43.7
	Jun	3.8	77.3	18.9	-15.1	42.4	43.1

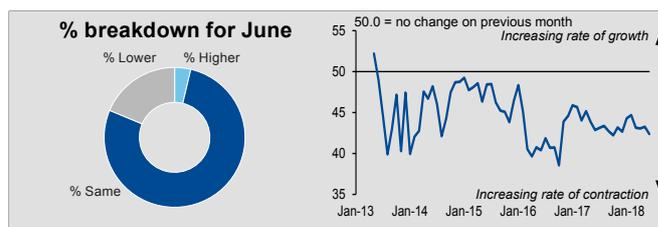


June saw a sharp and accelerated decrease in the level of business activity across Lebanon's private sector economy, with the respective seasonally adjusted index registering its lowest reading in 2018 so far. Around 19% of companies noted drop in output during the month, against only 4% that recorded 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
2018	Feb	4.2	80.0	15.8	-11.6	44.2	44.7
	Mar	3.4	79.1	17.5	-14.1	43.0	43.1
	Apr	2.0	85.7	12.3	-10.3	44.8	43.1
	May	2.3	82.4	15.3	-12.9	43.5	43.3
	Jun	3.7	77.6	18.7	-15.0	42.5	42.4

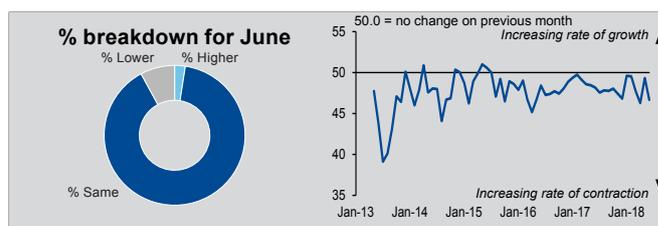


Latest data indicated a further weakening of demand for goods and services, as inflows of new orders fell sharply and at the fastest rate for eight months in June. Where a reduction was recorded, this was linked to challenging economic conditions and instability in the country and wider region.

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
2018	Feb	1.7	95.6	2.7	-0.9	49.5	49.5
	Mar	1.0	92.9	6.1	-5.0	47.5	47.7
	Apr	0.0	93.1	6.9	-6.9	46.6	46.3
	May	1.6	97.0	1.4	+0.2	50.1	49.3
	Jun	2.4	89.7	7.9	-5.5	47.3	46.7

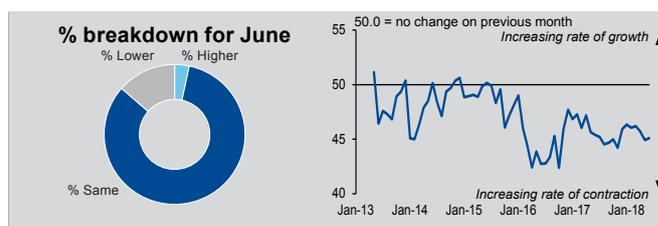


As has been the case in each month since August 2015, June saw a reduction in the level of new export orders placed with Lebanese private sector firms. Moreover, after having signalled only a marginal decrease in new work from external clients in the previous survey period, the rate of decline quickened to the second-fastest seen since May 2016.

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
2018	Feb	3.1	84.4	12.4	-9.3	45.3	46.1
	Mar	4.4	82.8	12.7	-8.3	45.9	46.2
	Apr	1.6	88.6	9.8	-8.2	45.9	45.7
	May	2.1	86.0	11.9	-9.9	45.1	44.9
	Jun	3.3	83.1	13.6	-10.2	44.9	45.1

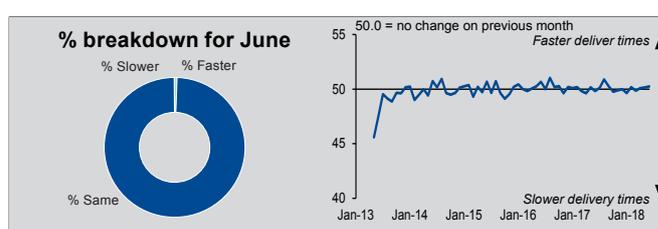


The seasonally adjusted Backlogs of Work Index remained well below the neutral 50.0 threshold in June, signalling a further marked reduction in the level of outstanding business (i.e. orders received but not yet completed) at Lebanese private sector firms. The rate at which work-in-hand decreased eased slightly since May, but was still faster than that seen on average over the series history (since May 2013).

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
2018	Feb	0.0	100.0	0.0	0.0	50.0	50.2
	Mar	0.6	99.1	0.3	+0.3	50.1	49.9
	Apr	0.0	100.0	0.0	0.0	50.0	50.1
	May	0.0	99.7	0.3	-0.3	49.8	50.2
	Jun	0.6	99.4	0.1	+0.5	50.2	50.2

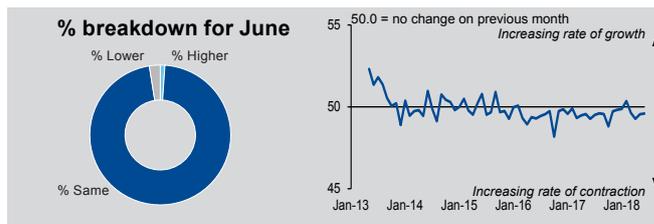


Businesses operating in Lebanon's private sector recorded an improvement in supplier delivery times in June, continuing the trend seen in each of the past three months. Anecdotal evidence indicated that suppliers were able to deliver purchases more quickly due to an overall lack of demand.

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
2018	Feb	0.0	99.7	0.3	-0.3	49.8	50.4
	Mar	0.6	97.9	1.6	-1.0	49.5	49.6
	Apr	0.0	97.9	2.1	-2.1	49.0	49.3
	May	0.8	98.3	0.9	-0.1	49.9	49.5
	Jun	1.1	96.5	2.5	-1.4	49.3	49.6

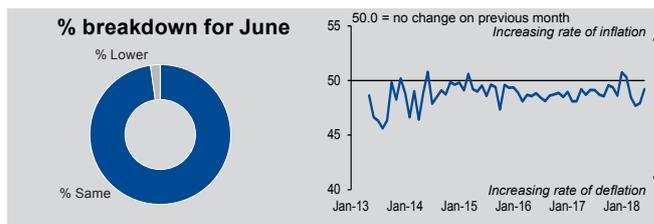


In line with a sustained reduction in workloads, private sector businesses continued to streamline their staffing capacity during June. This marked the fourth time in as many months that a decrease in employment has been recorded. That said, the rate of job losses was only marginal and the least marked since March.

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
2018	Feb	0.6	94.8	4.6	-4.0	48.0	50.3
	Mar	0.8	95.8	3.4	-2.6	48.7	48.4
	Apr	0.0	96.4	3.6	-3.6	48.2	47.7
	May	0.0	96.9	3.1	-3.1	48.4	47.9
	Jun	0.0	97.8	2.2	-2.2	48.9	49.2

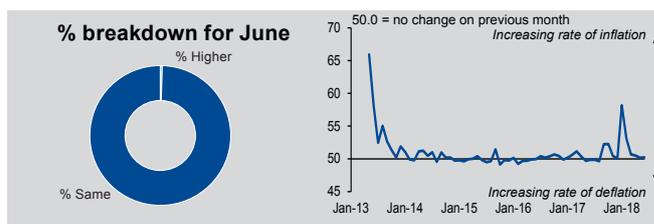


Average prices charged for goods and services in Lebanon's private sector economy fell at a slower rate in June. The respective seasonally adjusted index climbed further from April's recent low and recorded its highest reading in four months. The modest decrease in output charged was attributed by surveyed firms to competitive pressures and attempts to enhance sales.

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
2018	Feb	0.8	99.2	0.0	+0.8	50.4	53.1
	Mar	1.2	98.8	0.0	+1.2	50.6	50.7
	Apr	0.3	99.7	0.0	+0.3	50.2	50.5
	May	0.3	99.1	0.6	-0.4	49.8	50.2
	Jun	0.5	99.5	0.0	+0.5	50.2	50.2

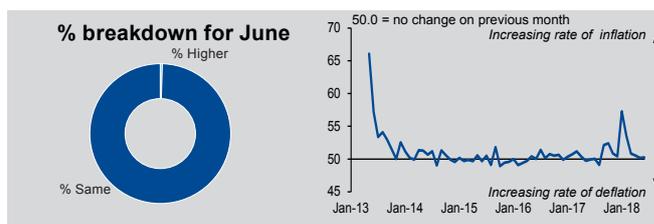


Overall input prices faced by private sector businesses operating in Lebanon increased for the sixth month in succession in June. That said, the rate of cost inflation was unchanged from the modest pace recorded in the preceding survey period and remained below the historical series average.

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
2018	Feb	0.8	99.2	0.0	+0.8	50.4	53.5
	Mar	1.3	98.7	0.0	+1.3	50.6	50.8
	Apr	0.3	99.7	0.0	+0.3	50.2	50.5
	May	0.3	99.1	0.6	-0.4	49.8	50.2
	Jun	0.5	99.5	0.0	+0.5	50.2	50.2

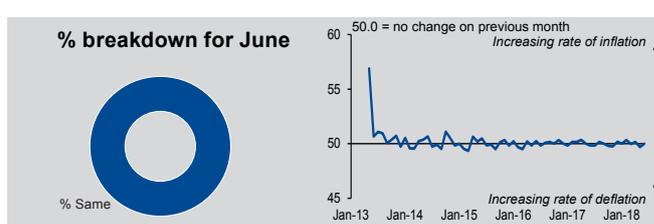


Lebanese businesses signalled a slight rise in average purchase prices in June, the tenth month in succession in which an increase has been recorded. Where a rise in the cost of purchases was reported, this was linked by surveyed businesses to higher prices paid for vegetables and other foodstuffs.

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
2018	Feb	0.0	100.0	0.0	0.0	50.0	50.3
	Mar	0.0	99.6	0.4	-0.4	49.8	50.0
	Apr	0.0	100.0	0.0	0.0	50.0	50.2
	May	0.0	99.7	0.3	-0.3	49.9	49.7
	Jun	0.0	100.0	0.0	0.0	50.0	50.0

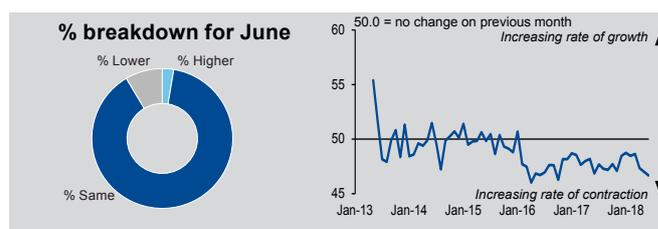


After having fallen slightly and for the first time in six months in May, average prices paid by Lebanese private sector businesses for salaries/wages stabilised in June. This was indicated by the seasonally adjusted Staff Costs Index registering a reading that was in line with the 50.0 no-change threshold.

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
2018	Feb	3.7	87.1	9.2	-5.5	47.3	48.5
	Mar	4.7	88.3	7.0	-2.4	48.8	48.6
	Apr	1.5	91.3	7.1	-5.6	47.2	47.3
	May	2.0	90.3	7.7	-5.6	47.2	47.0
	Jun	2.6	88.8	8.5	-5.9	47.1	46.7

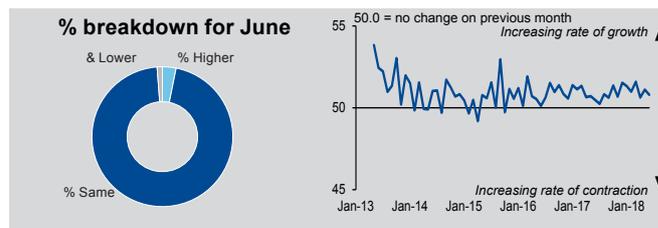


As well as trimming staffing numbers in June, Lebanese private sector businesses also scaled back their quantity of purchases during the month. Furthermore, the rate at which buying levels decreased was the quickest seen since October 2016, and the joint-third fastest in the survey's five-year history.

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
2018	Feb	1.6	96.5	2.0	-0.4	49.8	51.0
	Mar	4.9	94.5	0.6	+4.3	52.2	51.6
	Apr	0.5	98.9	0.6	-0.1	49.9	50.6
	May	3.4	96.2	0.4	+3.0	51.5	51.1
	Jun	3.1	95.7	1.2	+1.9	51.0	50.8

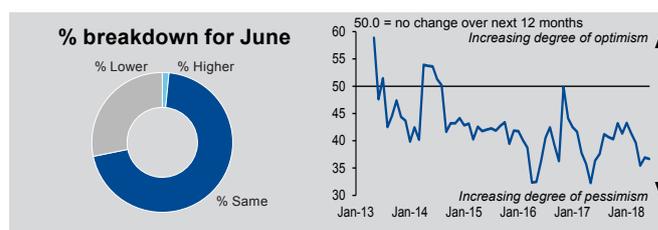


With sales continuing to fall sharply, stocks of purchases accumulated during June despite a sustained drop in the level of purchasing activity. Higher inventories have now been recorded in each of the past 32 months, although the latest increase was only modest and less marked than that seen in May.

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
2018	Feb	3.6	75.6	20.8	-17.3	41.4	n/a
	Mar	1.2	77.0	21.9	-20.7	39.6	n/a
	Apr	0.1	70.6	29.2	-29.1	35.4	n/a
	May	0.0	73.8	26.2	-26.2	36.9	n/a
	Jun	1.5	70.2	28.2	-26.7	36.7	n/a



The Future Output Index remained below the neutral 50.0 threshold in June, signalling overall pessimism among Lebanese private sector firms towards the year-ahead outlook for activity. Around 28% of surveyed firms reported they believed output would fall in the next 12 months, versus only 2% 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.

Warning

The intellectual property rights to the BLOM Lebanon PMI® provided herein are owned by or licensed to IHS Markit. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without IHS Markit's prior consent. IHS Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall IHS Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. *Purchasing Managers' Index™* and *PMI®* are either registered trademarks of Markit Economics Limited or licensed to Markit Economics Limited. BLOMINVEST Bank use the above marks under licence. IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates.