

PMI continues to point to challenging conditions for Lebanese firms in August

Key findings:

- **At 45.6, PMI up only slightly from July's 21-month low of 45.4**
- **Further downturns in output and new orders**
- **Employment falls at slowest rate for six months**

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.

The health of Lebanon's private sector economy continued to worsen during August, with the BLOM Lebanon PMI staying well inside contraction territory at 45.6. The latest reading was a slight improvement on July's 21-month low of 45.4, but nevertheless the second-lowest seen since October 2016.

Demand conditions remained especially weak in August, according to latest data, with inflows of new orders continuing to fall across the private sector. Anecdotal evidence alluded to the current economic and political situations affecting client demand in the domestic market. August also saw the level of exports sales drop further, albeit at the slowest rate

for three months.

Accordingly, the output of goods and services in the private sector decreased during August. The rate of contraction was identical to the sharp pace observed in July, which had been the quickest seen since October 2016.

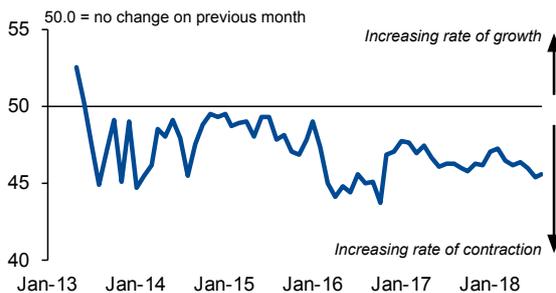
August also saw decreases in both purchasing activity and employment. However, in the case of staff numbers, the latest decline was almost negligible and the least marked in the current six-month sequence of job losses.

Reflective of subdued demand conditions, latest data continued to show a lack of pressure on operating capacity across the private sector. The amount of outstanding business (i.e. orders in progress but not yet completed) fell markedly, while inventories continued to accumulate despite firms scaling back their purchasing activity.

Businesses' efforts to stimulate sales resulted in a further drop in average prices charged for goods and services in August. The rate of decline was quicker than in July but only modest overall. Firms' average costs meanwhile showed little change, rising only fractionally following a slight drop at the start of the third quarter.

Private sector firms generally remained downbeat about the outlook for output over the next 12 months. That said, the degree of pessimism was the least marked since March.

Lebanon Purchasing Managers' Index™ (PMI®)



Purchasing Managers' Index			
		Unadj.	Seas. Adj.
2018	Jun	45.8	46.0
	Jul	45.4	45.4
	Aug	46.1	45.6

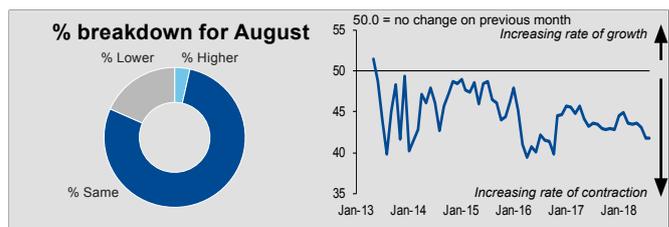
Index Summary

(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
Jun'18	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
Jul	45.4	41.8	41.6	46.9	43.8	49.7	49.8	49.8	49.8	49.8	49.8	46.1	50.4	36.9
Aug	45.6	41.8	41.9	47.3	44.5	49.9	49.6	50.1	50.1	50.0	49.9	46.6	50.6	38.1

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

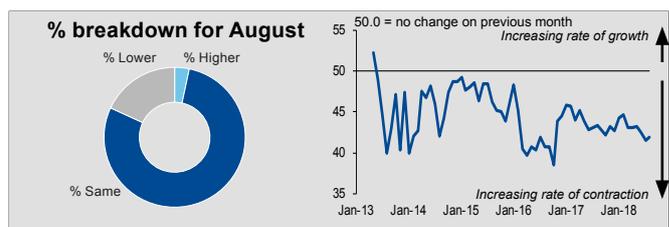
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2018	Apr	2.7	85.2	12.1	-9.4	45.3	43.5
	May	2.8	82.3	14.8	-12.0	44.0	43.7
	Jun	3.8	77.3	18.9	-15.1	42.4	43.1
	Jul	2.3	78.6	19.1	-16.8	41.6	41.8
	Aug	3.5	78.2	18.3	-14.8	42.6	41.8



Lebanon's private sector failed to gain traction in August, with the latest survey data showing a further steep drop in the level of business activity. The rate of contraction in private sector output was identical to that recorded in the preceding survey period, which had seen the respective seasonally adjusted index move to its lowest level since October 2016.

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

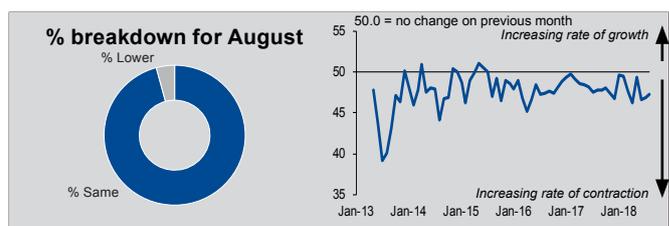
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2018	Apr	2.0	85.7	12.3	-10.3	44.8	43.1
	May	2.3	82.4	15.3	-12.9	43.5	43.3
	Jun	3.7	77.6	18.7	-15.0	42.5	42.4
	Jul	2.3	78.7	19.0	-16.8	41.6	41.6
	Aug	3.3	78.6	18.1	-14.8	42.6	41.9



The latest downturn in activity stemmed from a lack of demand. The level of new orders received by private sector businesses in Lebanon decreased further during the month, linked by some to a backdrop of challenging market conditions, including political instability. Although easing slightly since July, the rate of decline in new business was sharp and the second-fastest seen 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.

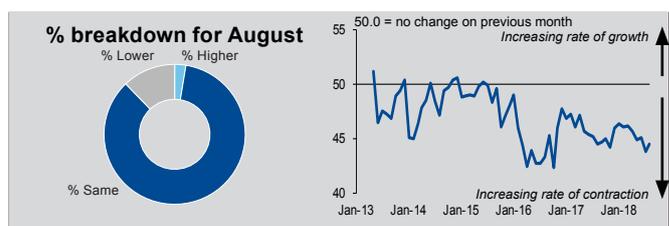
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2018	Apr	0.0	93.1	6.9	-6.9	46.6	46.3
	May	1.6	97.0	1.4	+0.2	50.1	49.3
	Jun	2.4	89.7	7.9	-5.5	47.3	46.7
	Jul	0.0	92.8	7.2	-7.2	46.4	46.9
	Aug	0.0	95.8	4.2	-4.2	47.9	47.3



Adding to the challenging conditions in the domestic market, private sector Lebanese firms also faced a drop in demand from international clients in August. The latest decrease in new export orders was the thirty-seventh in as many months, albeit weaker than those recorded in both June and July.

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

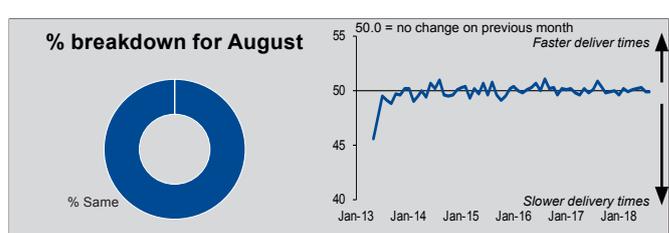
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2018	Apr	1.6	88.6	9.8	-8.2	45.9	45.7
	May	2.1	86.0	11.9	-9.9	45.1	44.9
	Jun	3.3	83.1	13.6	-10.2	44.9	45.1
	Jul	1.9	83.2	15.0	-13.1	43.5	43.8
	Aug	2.6	85.2	12.2	-9.6	45.2	44.5



August saw a further decrease in the level of outstanding businesses at Lebanese private sector firms amid slowing intakes of new work. Around 12% of surveyed companies noted a reduction in their work-in-hand, versus only 3% that registered an increase. The decrease continued the trend seen in every month since July 2015.

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	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
	Jul	0.1	99.9	0.0	+0.1	50.0	49.8
	Aug	0.0	100.0	0.0	0.0	50.0	49.9

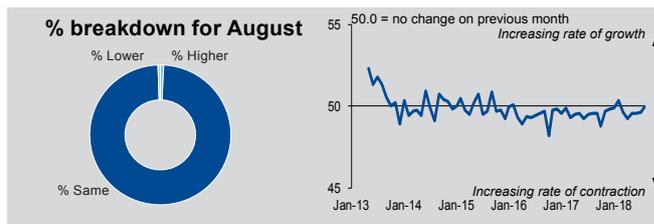


Adjusted for the influence of normal seasonal factors, the Suppliers' Delivery Times Index remained just below the neutral 50.0 threshold in August, pointing to a further slight lengthening of lead times for purchased items. Vendor performance had previously improved throughout the second quarter, albeit only marginally.

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	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
	Jul	0.6	98.4	1.0	-0.4	49.8	49.7
	Aug	0.8	98.7	0.5	+0.3	50.1	49.9

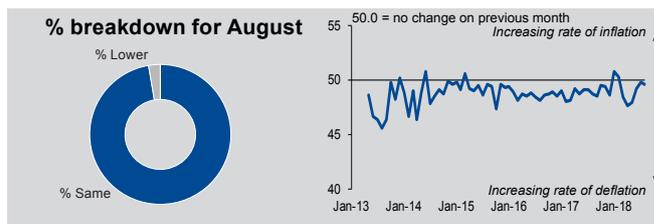


The seasonally adjusted Employment Index rose for the fourth month in a row in August, to record its highest reading since February. Nevertheless, the Index was still fractionally below the 50.0 no-change mark and, therefore, indicative of a slight drop in staffing numbers across the private sector economy.

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	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
	Jul	0.0	98.4	1.6	-1.6	49.2	49.8
	Aug	0.0	97.3	2.7	-2.7	48.7	49.6

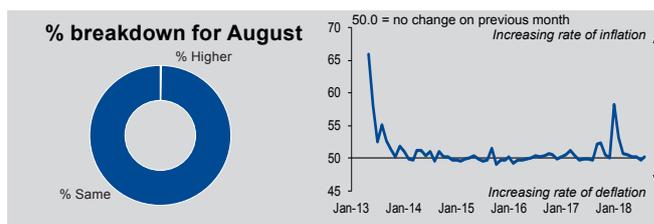


Reflective of muted demand conditions and efforts by businesses to stimulate sales through promotions and discounts, August saw a further decrease in average prices charged for goods and services. That said, despite accelerating slightly since July, the rate of decline in selling prices was only modest.

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	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
	Jul	0.3	99.3	0.4	-0.1	49.9	49.8
	Aug	0.3	99.7	0.0	+0.3	50.1	50.1

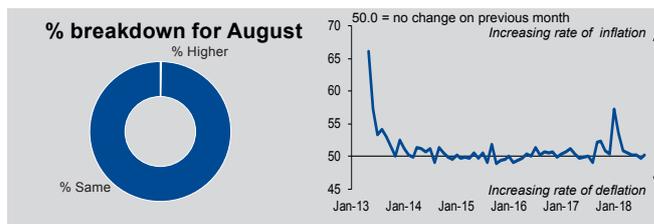


Latest data continued to show the absence of any meaningful cost pressures in the Lebanese private sector economy. Average prices paid for inputs rose only fractionally in August, to partly reverse the slight decrease seen at the beginning of the third quarter. The vast majority of firms reported no change in their average costs compared with the situation the month before.

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	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
	Jul	0.3	99.3	0.4	-0.1	49.9	49.8
	Aug	0.3	99.7	0.0	+0.3	50.1	50.1

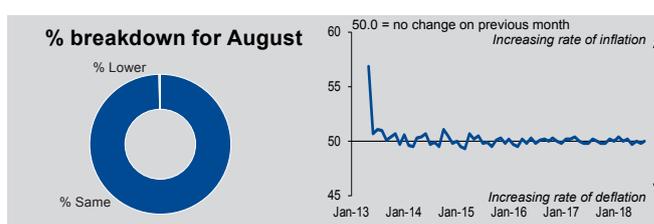


After having dipped below the 50.0 no-change mark for the first time in nearly a year in July, the seasonally adjusted Purchase Prices Index moved back into inflation territory at the midway point in the third quarter. However, the rate of increase in average purchase prices signalled by the Index was only fractional.

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	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
	Jul	0.0	100.0	0.0	0.0	50.0	49.8
	Aug	0.0	99.7	0.3	-0.3	49.8	50.0

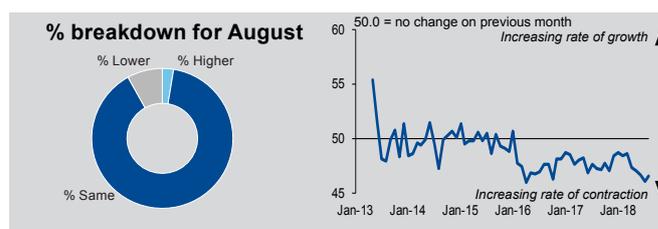


With private sector firms maintaining a preference for lower staff numbers, workers continued to lack wage bargaining power during August. Indeed, average wages/salaries paid to staff showed no change from the month before, the second time this has been the case in the past three months.

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	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
	Jul	1.6	89.1	9.2	-7.6	46.2	46.1
	Aug	2.6	89.3	8.1	-5.5	47.3	46.6

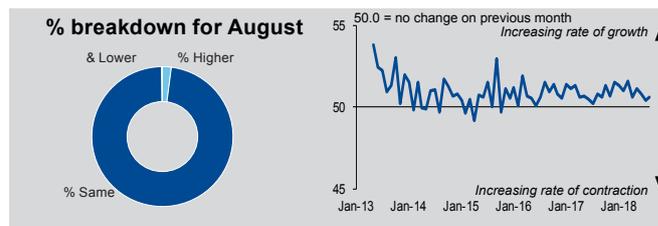


A lack of incoming new orders and lower output requirements meant that Lebanese firms continued to streamline their purchasing activity during August. Despite the rate of decline easing from July's 27-month record, buying levels still fell markedly overall and to one of the greatest extents in the survey 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	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
	Jul	0.8	99.0	0.1	+0.7	50.3	50.4
	Aug	2.0	97.8	0.2	+1.9	50.9	50.6

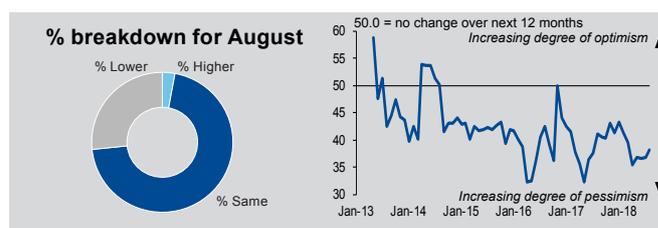


In spite of businesses selling at discounted prices and lowering their purchasing activity, stocks of purchases (both pre-production inputs and unsold stock) continued to increase during August. The rate of accumulation accelerated slightly since July, although it remained only modest overall.

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	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
	Jul	1.6	70.8	27.7	-26.1	36.9	n/a
	Aug	2.9	70.5	26.6	-23.7	38.1	n/a



The general outlook among private sector businesses towards future output remained a negative one in August. The number of firms expecting business activity to decrease over the coming year remained much greater than those forecasting it to rise. That said, the degree of pessimism was the least marked for five months.

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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