

Business conditions deteriorate at slowest pace for nine months

Key findings:

- **Slowest declines in output and new orders since February**
- **Employment falls for the ninth month in a row**
- **Output prices reduced despite further rise in input costs**

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.

At 46.7, up from 46.2 in October, the PMI signalled a softer deterioration in private sector business conditions during November. Though solid, the rate of decline was the slowest since February.

Underpinning the softer deterioration was a weaker reduction in output. Although the pace of decline remained sharp overall, it decelerated for the third consecutive month in November. Companies continued to mention the negative effects of political uncertainty on the economy.

The same instability continued to weigh on total new orders, which fell for the sixty-sixth month in a row during November.

The latest contraction was also the slowest since February, however. New export orders also fell at a weaker pace as businesses reported only marginal decline.

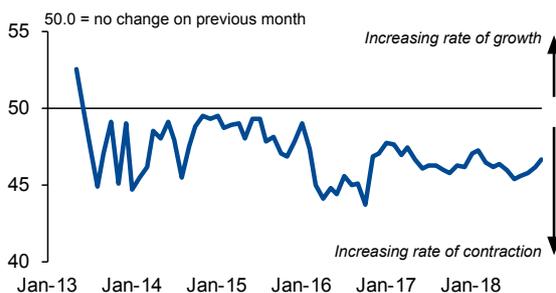
Challenging business conditions continued to impact the labour market as Lebanese private sector firms made further job cuts in November. The latest fall in employment extended the current run of job shedding to nine months. That said, the decline was slower than in October and only marginal overall. Backlogs of work continued to fall as firms reported ample capacity.

Businesses also pared back their purchasing activity midway through the fourth quarter. However, a lack of sales led to further accumulation of inputs. Despite less demand from clients, vendor performance stagnated in November.

The difficult economic environment meant competition remained strong and firms cut output prices for the ninth month in a row. Moreover, pressure on profit margins persisted as a result of a slight uptick in input prices. The latest rise in cost burdens was driven by both higher purchasing prices and staff costs.

Finally, companies remained pessimistic towards the business outlook. Sentiment improved marginally compared to October but remained strongly negative due to fears of continued political impasse.

Lebanon Purchasing Managers' Index™ (PMI®)



		Purchasing Managers' Index	
		Unadj.	Seas. Adj.
2018	Sep	45.5	45.8
	Oct	45.9	46.2
	Nov	46.0	46.7

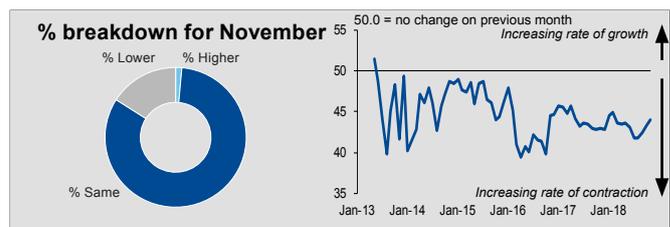
Index Summary

(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
Sep'18	45.8	42.5	42.1	48.1	44.7	49.6	49.2	50.5	50.3	49.9	49.8	47.4	50.6	37.8
Oct	46.2	43.4	43.4	48.3	46.2	49.1	48.7	50.9	50.8	50.2	50.2	47.8	50.5	39.1
Nov	46.7	44.0	43.9	49.0	46.0	49.5	49.0	50.3	50.2	50.2	50.0	47.6	50.8	38.2

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

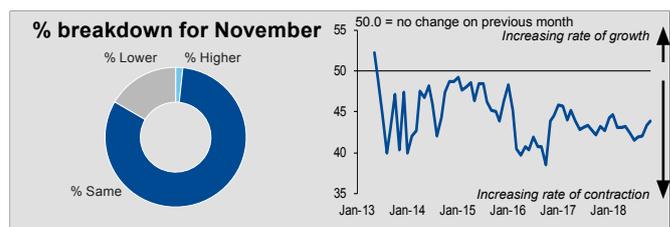
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2018	Jul	2.3	78.6	19.1	-16.8	41.6	41.8
	Aug	3.5	78.2	18.3	-14.8	42.6	41.8
	Sep	2.1	79.9	18.1	-16.0	42.0	42.5
	Oct	1.6	82.5	15.9	-14.2	42.9	43.4
	Nov	1.4	82.6	16.0	-14.5	42.7	44.0



Despite a further contraction of output across the Lebanese private sector during November, the pace of decline softened for the third consecutive month. Though sharp, the latest reduction in output was the least marked since February. Where panellists reported lower output, they often cited political instability and poor economic conditions.

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

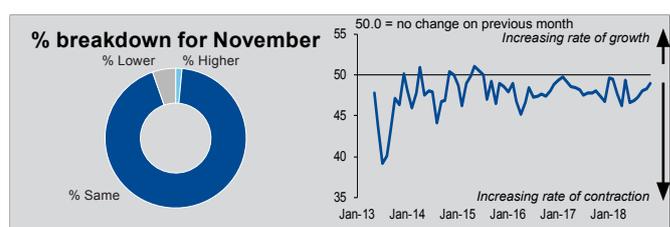
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2018	Jul	2.3	78.7	19.0	-16.8	41.6	41.6
	Aug	3.3	78.6	18.1	-14.8	42.6	41.9
	Sep	1.9	79.6	18.5	-16.5	41.7	42.1
	Oct	1.6	82.6	15.8	-14.2	42.9	43.4
	Nov	1.6	81.8	16.6	-14.9	42.5	43.9



Political instability and challenging economic conditions also contributed to a reduction in new orders during November. However, the pace of contraction eased for the fourth successive month and was the slowest since February. Nonetheless, new business has now decreased in each of the past 66 months.

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

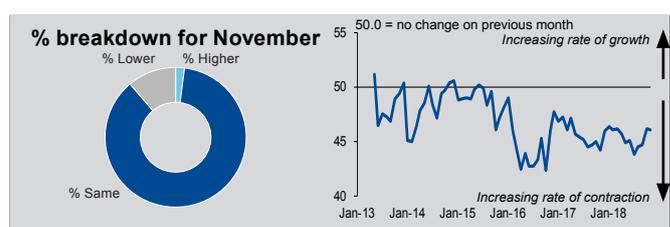
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2018	Jul	0.0	92.8	7.2	-7.2	46.4	46.9
	Aug	0.0	95.8	4.2	-4.2	47.9	47.3
	Sep	0.9	95.5	3.6	-2.8	48.6	48.1
	Oct	0.0	94.8	5.2	-5.2	47.4	48.3
	Nov	1.5	93.2	5.3	-3.9	48.1	49.0



New export orders received by Lebanese private sector firms continued to decline midway through the fourth quarter. However, the pace of contraction was only marginal, having slowed for the fifth month in a row. Survey respondents commonly mentioned regional instability when explaining lower international sales.

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

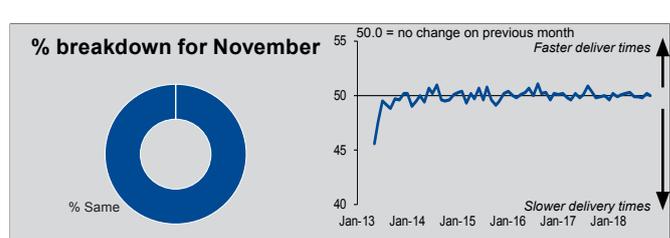
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2018	Jul	1.9	83.2	15.0	-13.1	43.5	43.8
	Aug	2.6	85.2	12.2	-9.6	45.2	44.5
	Sep	2.8	84.7	12.5	-9.7	45.2	44.7
	Oct	2.8	86.7	10.5	-7.8	46.1	46.2
	Nov	2.0	86.8	11.2	-9.2	45.4	46.0



Lebanese private sector firms reported a fall in unfinished work during November. Moreover, the pace of contraction accelerated since October and was solid. The latest data extended the current run of backlog depletion to 41 months. Panellists often linked less unfinished work with spare capacity amid weak demand conditions.

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	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
	Sep	0.0	100.0	0.0	0.0	50.0	49.8
	Oct	0.0	100.0	0.0	0.0	50.0	50.2
	Nov	0.0	100.0	0.0	0.0	50.0	50.0

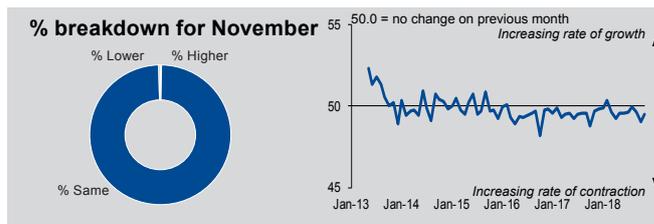


November data signalled no change in vendor performance across the Lebanese private sector since the previous month. This was indicated by the seasonally adjusted Suppliers' Delivery Times Index posting at the crucial 50.0 no-change mark. The result followed a slight improvement to average lead times in October.

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	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
	Sep	0.1	98.7	1.2	-1.0	49.5	49.6
	Oct	0.0	97.4	2.6	-2.6	48.7	49.1
	Nov	0.3	99.3	0.4	-0.1	50.0	49.5

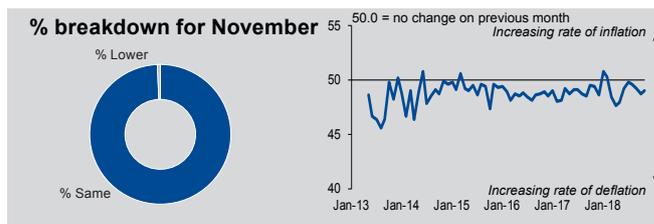


Coinciding with lower volumes of new orders, private sector businesses in Lebanon reported a marginal contraction in staff numbers midway through the fourth quarter. The decline was softer than that reported during October and marginal overall. Employment has now fallen in each of the past nine months.

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	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
	Sep	0.4	97.1	2.4	-2.0	49.0	49.2
	Oct	0.7	97.0	2.3	-1.5	49.2	48.7
	Nov	0.0	99.3	0.7	-0.7	49.7	49.0

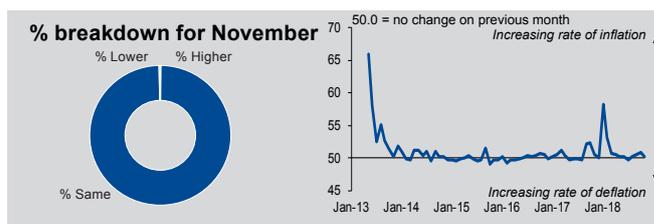


Output prices continued to fall in November, extending the current run of price cuts to nine months. However, the pace of decline in charges was softer than in October and slower than the series average. Some panellists indicated that promotional pricing strategies had contributed to output charge decreases.

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	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
	Sep	1.7	98.3	0.0	+1.7	50.8	50.5
	Oct	1.5	98.5	0.0	+1.5	50.7	50.9
	Nov	0.2	99.5	0.3	-0.1	49.9	50.3

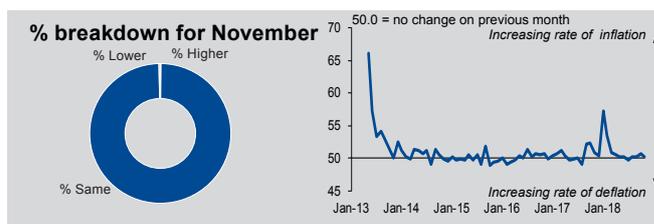


The seasonally adjusted Overall Input Prices Index registered above the crucial 50.0 no-change mark for the fourth month in a row during November. However, the rate of input price inflation cooled compared to October, and was at a three month low.

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	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
	Sep	1.7	98.3	0.0	+1.7	50.8	50.3
	Oct	1.5	98.5	0.0	+1.5	50.8	50.8
	Nov	0.2	99.5	0.3	-0.1	49.9	50.2

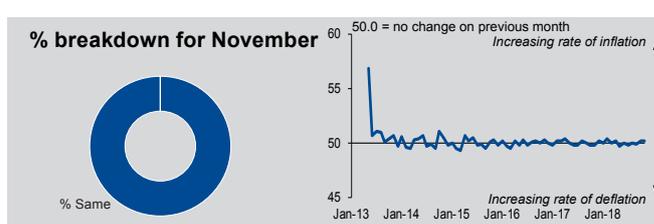


Contributing to November's increase in overall input prices was a rise in average purchasing costs faced by private sector companies in Lebanon. Despite registering higher paid prices for the fourth month in a row, the latest increase was the softest in since August and only fractional overall.

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	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
	Sep	0.3	99.7	0.0	+0.3	50.1	49.9
	Oct	0.0	100.0	0.0	0.0	50.0	50.2
	Nov	0.0	100.0	0.0	0.0	50.0	50.2

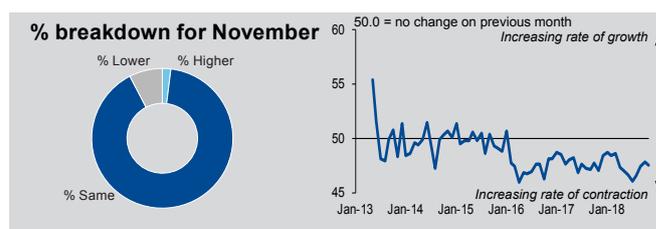


Wages and salaries among Lebanese private sector firms rose midway through the final quarter of the year, as signalled by the seasonally adjusted Staff Costs Index posting just above the 50.0 no-change mark. The pace of inflation was unchanged from that reported in October and fractional.

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	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
	Sep	4.2	88.2	7.6	-3.4	48.3	47.4
	Oct	3.3	88.4	8.3	-5.0	47.5	47.8
	Nov	2.0	90.4	7.6	-5.6	47.2	47.6

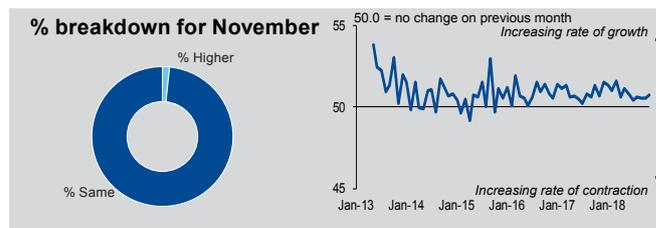


A further fall in purchasing activity by private sector firms in Lebanon during November extended the current run of contraction to 34 months. The modest rate of decline was stronger than in October and faster than the series average. Panellists frequently commented on weak market demand when explaining reduced buying activity.

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	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
	Sep	2.6	97.3	0.2	+2.4	51.2	50.6
	Oct	1.7	97.8	0.5	+1.3	50.6	50.5
	Nov	1.6	98.4	0.0	+1.6	50.8	50.8

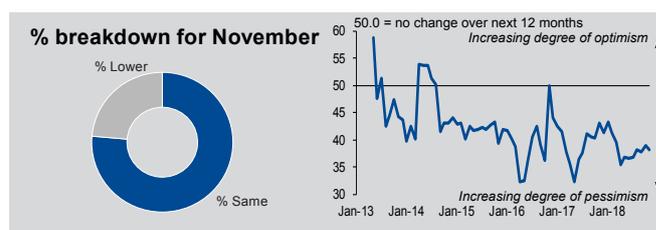


Inventories at Lebanese private sector businesses continued to expand in November. The pace of accumulation was the fastest in the past five months, albeit marginal overall. Stocks of purchases have now risen in each month since November 2015.

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	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
	Sep	2.8	70.0	27.2	-24.4	37.8	n/a
	Oct	3.3	71.4	25.2	-21.9	39.1	n/a
	Nov	0.0	76.4	23.6	-23.6	38.2	n/a



Lebanese private sector businesses remained pessimistic towards future output in November. The level of negative sentiment was historically marked and worse than that reported in October. Panellists continued to express fears that the political situation may not improve, which in turn is expected to weigh on future output.

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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