

Further solid deterioration in business conditions in December

Key findings:

- **PMI registers below 50.0 for sixty-sixth month in a row**
- **Marked contraction in output**
- **Fastest fall in new orders for three 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.

At 46.2 in December, down from 46.7 in November, the BLOM Lebanon PMI pointed to a faster deterioration in business conditions at the end of the fourth quarter. The latest reading registered fractionally below the average for the year (46.3).

Contributing to the decline was a quicker rate of output contraction in December. The fall extended the current sequence of reduction to 67 months and was the sharpest recorded since September. Panellists overwhelmingly blamed the current political impasse for persistently weak demand.

In line with the trend for output, new orders continued to fall sharply, with the latest decline the fastest for three months.

Panellists again mentioned that political instability was weighing heavily on demand. Similarly, new export orders fell at an accelerated pace in December. That said, the contraction was moderate overall.

Despite sharper falls in new orders and output, Lebanese private sector firms cut jobs at the slowest pace since August, registering only a fractional reduction in employment overall. Firms compensated for this with faster contraction in purchasing activity. Many survey respondents noted weak demand conditions in explaining the cutbacks.

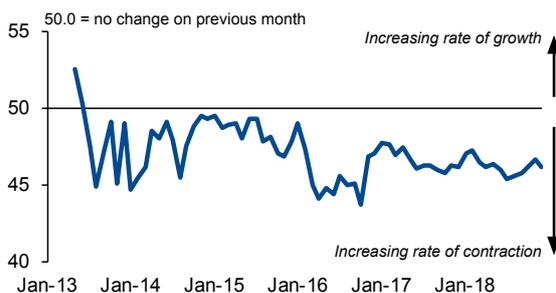
Falling order intakes saw firms alleviate backlogs at the fastest pace in the fourth quarter. Volumes of incomplete business fell sharply in December, extending the current sequence of decline to 42 months.

On the price front, input cost inflation accelerated, driven by a faster rise in purchasing prices. Meanwhile, wages stagnated following two months of fractional growth.

Profit margins were squeezed further as firms cut output charges for the tenth month in a row. Moreover, the rate of decline was the fastest registered since May.

Finally, although sentiment was at its highest level in ten months, private sector companies remained pessimistic about the business outlook. Panellists continued to express fears that the current political impasse could remain unresolved.

Lebanon Purchasing Managers' Index™ (PMI®)



Purchasing Managers' Index			
		Unadj.	Seas. Adj.
2018	Oct	45.9	46.2
	Nov	46.0	46.7
	Dec	46.8	46.2

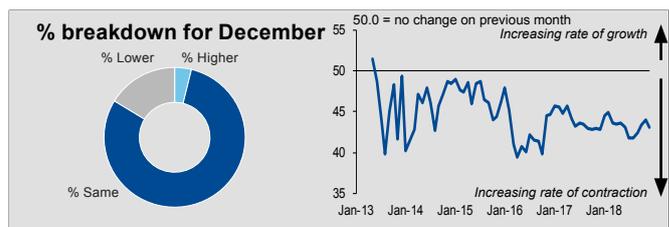
Index Summary

(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
Oct'18	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
Dec	46.2	43.1	43.0	47.5	45.7	49.8	48.5	50.6	50.6	50.0	50.4	46.9	51.3	40.7

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

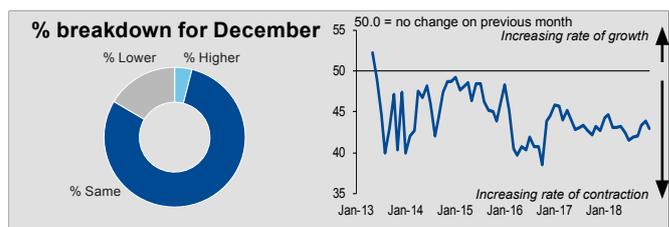
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2018	Aug	3.5	78.2	18.3	-14.8	42.6	41.8
	Sep	2.1	79.9	18.1	-16.0	42.0	42.5
	Oct	1.6	82.5	15.9	-14.2	42.9	43.4
	Nov	1.4	82.6	16.0	-14.5	42.7	44.0
	Dec	3.8	79.9	16.3	-12.4	43.8	43.1



Output at Lebanese private sector firms continued to fall in December. The latest data extended the current sequence of decline to 67 months. Moreover, the contraction was faster than in November and sharp overall. Panellists continued to mention that current political instability was weighing heavily on the economy.

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

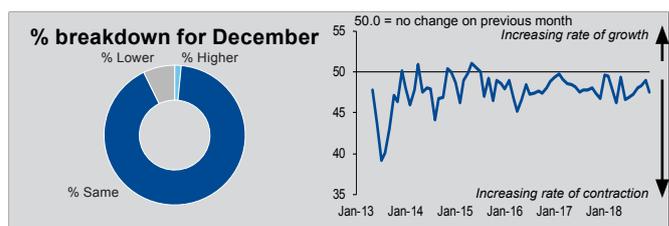
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2018	Aug	3.3	78.6	18.1	-14.8	42.6	41.9
	Sep	1.9	79.6	18.5	-16.5	41.7	42.1
	Oct	1.6	82.6	15.8	-14.2	42.9	43.4
	Nov	1.6	81.8	16.6	-14.9	42.5	43.9
	Dec	4.0	79.6	16.5	-12.5	43.7	43.0



In line with the trend for output, new work fell in December. The reduction in new business was again sharp overall and the quickest for three months. New work has now decreased in every month since June 2013. Many private sector firms suggested that the current political impasse was to blame for the latest decline.

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

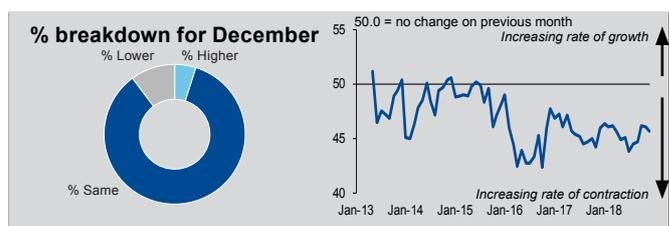
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2018	Aug	0.0	95.8	4.2	-4.2	47.9	47.3
	Sep	0.9	95.5	3.6	-2.8	48.6	48.1
	Oct	0.0	94.8	5.2	-5.2	47.4	48.3
	Nov	1.5	93.2	5.3	-3.9	48.1	49.0
	Dec	1.5	91.3	7.2	-5.7	47.1	47.5



Lebanese private sector firms recorded a fall in new business from abroad for the forty-first month in a row during December. Panellists often described the market as stagnant amid the current government impasse. In fact, the pace of decline accelerated at the end of the fourth quarter to the fastest since August.

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

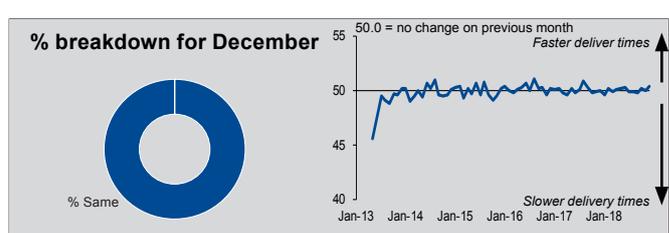
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2018	Aug	2.6	85.2	12.2	-9.6	45.2	44.5
	Sep	2.8	84.7	12.5	-9.7	45.2	44.7
	Oct	2.8	86.7	10.5	-7.8	46.1	46.2
	Nov	2.0	86.8	11.2	-9.2	45.4	46.0
	Dec	4.9	84.9	10.2	-5.3	47.3	45.7



Capacity pressures in Lebanon's private sector eased for the forty-second month in a row during December. Unfinished work fell sharply, registering the fastest decline in the past three months. Some panellists suggested that they were able to alleviate backlogs due to the lack of incoming work.

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	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
	Dec	0.0	100.0	0.0	0.0	50.0	50.4



Lebanese private sector firms reported faster supplier delivery times in December. Although vendor performance improved only marginally overall, it was the strongest advancement since August 2017. Shorter average lead times meant there had been no lengthening throughout the fourth quarter.

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	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
	Dec	0.9	99.0	0.1	+0.9	50.4	49.8

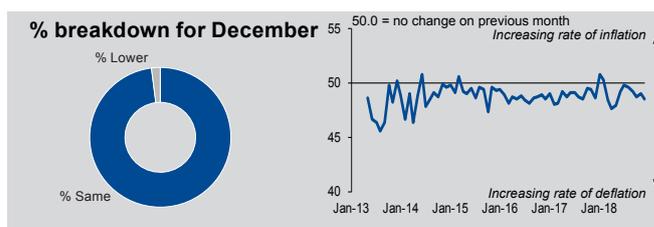


Amid falls in output and new orders, firms cut jobs at the end of the fourth quarter. Employment has now decreased in each of the past ten months. That said, the latest contraction in staff numbers was only fractional overall and the softest for four months, as the vast majority (99%) of the panel reported no change in employment.

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	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
	Dec	0.0	98.0	2.0	-2.0	49.0	48.5

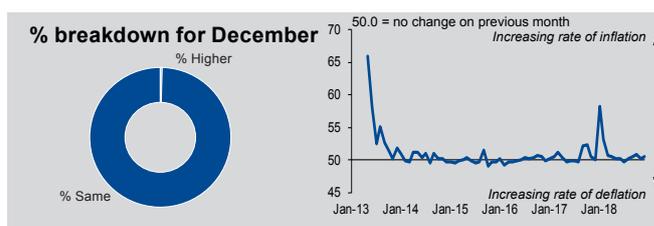


Private sector firms in Lebanon decreased their charges for the tenth month in a row during December. Although the cut was only modest overall, it was the quicker than the average for 2018 as a whole and the fastest since May. Some survey respondents explained that the fall in output prices was an attempt to attract new customers.

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	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
	Dec	0.4	99.6	0.0	+0.4	50.2	50.6

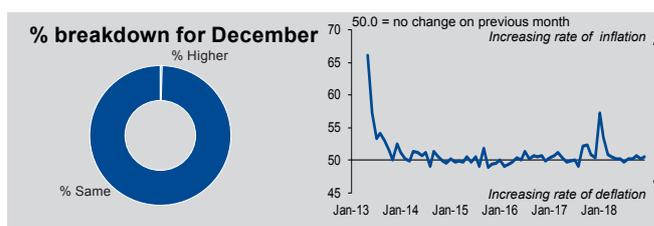


Lebanese private sector firms continued to report a rise in cost burdens at the end of the fourth quarter. This was signalled by the seasonally adjusted Overall Input Prices Index registering above the 50.0 no-change mark. The pace of overall input cost inflation accelerated to the quickest recorded since October. That said, the latest rise in input costs was only marginal overall.

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	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
	Dec	0.4	99.6	0.0	+0.4	50.2	50.6

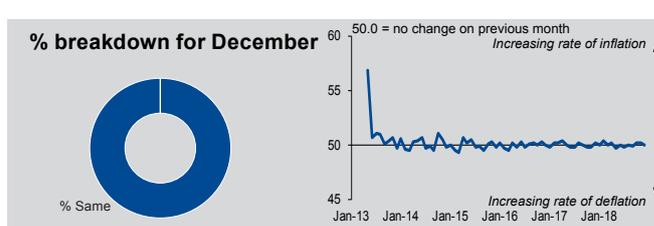


A key factor behind the increase in overall input prices was a rise in purchasing costs faced by Lebanese private sector businesses. The latest increase was faster than that recorded in November, albeit only marginal overall. Purchasing prices have now increased for five consecutive months.

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	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
	Dec	0.0	100.0	0.0	0.0	50.0	50.0

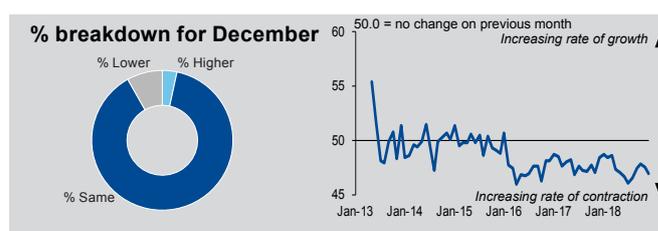


Following back-to-back fractional increases in October and November, wages stagnated at the end of the fourth quarter. This was indicated by the seasonally adjusted Staff Costs Index registering at the crucial 50.0 no-change mark. The latest result was in line with average seen across 2018.

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	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
	Dec	3.4	88.5	8.1	-4.8	47.6	46.9

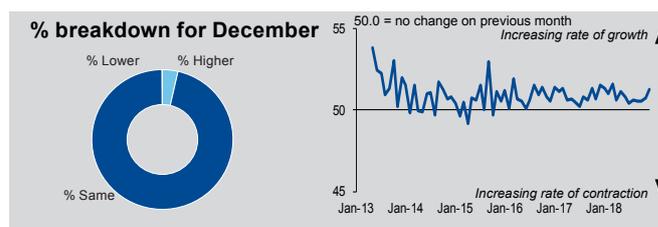


With output and new orders falling, Lebanese private sector firms pared-back purchasing activity in December. The rate of decline accelerated for the second month in a row to register a sharp contraction overall. The latest decrease in input buying was the fastest recorded since August as panellists cited an ongoing demand slowdown.

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	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
	Dec	3.6	96.4	0.1	+3.5	51.7	51.3

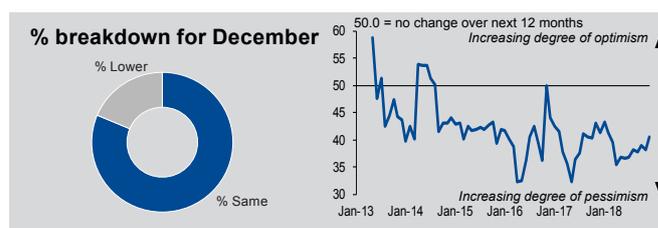


Despite the decline in buying activity, input stocks rose for the thirty-eighth month in a row during December. This was signalled by the seasonally adjusted Stocks of Purchases Index registering above the 50.0 no-change mark. Moreover, the rate of accumulation was the fastest recorded in the past nine months, albeit moderate 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	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
	Dec	0.0	81.3	18.7	-18.7	40.7	n/a



Although sentiment was the highest recorded for ten months, Lebanese private sector firms remained pessimistic towards output growth over the next year. Panellists overwhelmingly cited the current political impasse when explaining negative sentiment towards the business outlook. There were no panellists expecting a rise in output over the coming year and approximately 19% anticipating a fall.

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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