

## March sees further contraction of private sector economy

### Key findings:

- **BLOM PMI™ at 46.2, signals deterioration in business conditions**
- **Sharp falls in output and new business recorded**
- **Employment dips slightly**

This report contains the sixth public release of data collected from the new monthly survey of business conditions in the Lebanese private sector. The survey, sponsored by Blominvest Bank and compiled by 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 seasonally adjusted BLOM Lebanon PMI™ posted at 46.2 in March, up slightly from February's mark of 45.5 but still indicative of a further substantial worsening of business conditions within Lebanon's private sector economy. The headline index recorded an average of 45.5 over the opening quarter as a whole, which was down on the 47.7 registered in the final three months of 2013.

As has been the theme in recent months, security issues weighed heavily on economic performance during March. Output levels fell and the appetite for new business also waned. Rates of decline in both business activity and new

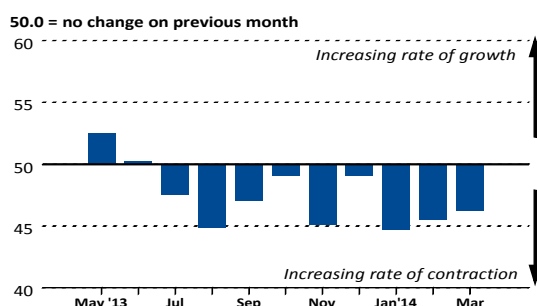
work remained sharp, despite being the slowest in the year thus far. Adding to companies' woes was a further contraction in incoming new orders from abroad, the third in successive months.

In line with deteriorating order books, Lebanese firms lowered their employment levels slightly during March. It was the second consecutive month of net job losses in the private sector economy. Still, staffing capacity was sufficient for further inroads to be made into outstanding business, as has been observed throughout the opening quarter.

Purchasing activity among businesses also decreased for a third straight month in March, though to a lesser extent than output, thereby leading to a rise in stocks of purchases. The average time taken for suppliers to deliver ordered items meanwhile increased slightly, which anecdotal evidence suggested was partly attributable to disruption on transport routes.

March's survey showed a fractional decrease in overall average input prices. The reduction was predominantly a reflection of decreased staffing costs, with prices paid for purchased items virtually unchanged on the month. Output prices in the private sector economy meanwhile decreased for the third month running, though the rate of decline was notably weaker than in February and only modest.

Lebanon Purchasing Managers' Index™ (PMI™)



Purchasing Managers' Index

		Unadj.	Seas. Adj.
2014	Jan	43.3	44.7
	Feb	45.9	45.5
	Mar	46.6	46.2

Index Summary

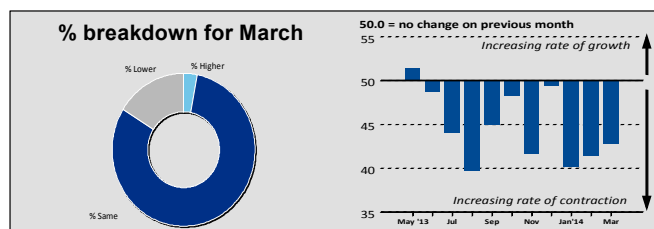
(seasonally adjusted, 50 = no change on previous month)

	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
Jan'14	44.7	40.2	39.9	48.0	45.1	50.4	48.8	51.0	51.2	50.5	50.2	48.4	51.5
Feb	45.5	41.5	42.0	46.0	45.0	49.5	46.6	49.9	50.2	49.6	49.0	48.6	49.8
Mar	46.2	42.8	42.8	47.8	46.3	49.7	49.0	49.8	49.9	49.5	49.5	49.6	51.5

## Output Index

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

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2013	Nov	1.3	78.3	20.4	-19.2	40.4	41.6
	Dec	14.1	74.9	11.0	3.1	51.5	49.4
2014	Jan	6.1	63.6	30.3	-24.2	37.9	40.2
	Feb	9.6	65.4	25.0	-15.4	42.3	41.5
	Mar	3.0	80.9	16.1	-13.0	43.5	42.8

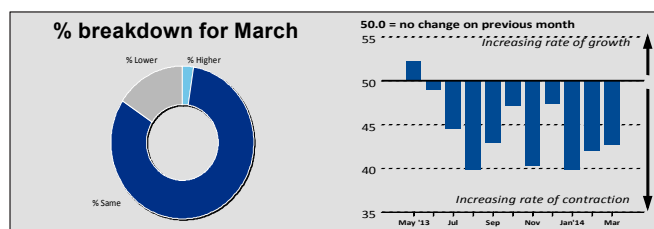


March saw a further decrease in business activity across Lebanon's private sector economy, extending the current sequence of contraction to ten months. Although the rate of decline in business activity was the slowest so far in 2014, it was nonetheless sharp overall. As has been commonplace in recent months, panellists often attributed lower activity to security issues.

## 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
2013	Nov	2.1	75.2	22.7	-20.7	39.7	40.3
	Dec	11.3	75.9	12.8	-1.5	49.2	47.4
2014	Jan	6.3	62.2	31.5	-25.2	37.4	39.9
	Feb	9.4	66.2	24.4	-15.0	42.5	42.0
	Mar	2.5	81.8	15.7	-13.2	43.4	42.8

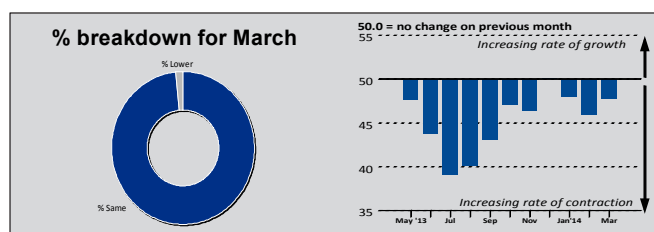


The level of new orders placed with private sector firms in Lebanon decreased sharply in March. This was highlighted by the seasonally adjusted New Orders Index posting well below the 50.0 threshold that separates growth from contraction, albeit at its highest mark in three months. Panel members that noted a drop in sales mainly commented on issues pertaining to security.

## 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
2013	Nov	1.5	88.6	9.9	-8.4	45.8	46.4
	Dec	2.6	96.4	1.1	1.5	50.7	50.1
2014	Jan	5.6	83.6	10.9	-5.3	47.3	48.0
	Feb	5.6	82.2	12.2	-6.6	46.7	46.0
	Mar	0.0	98.2	1.8	-1.8	49.1	47.8

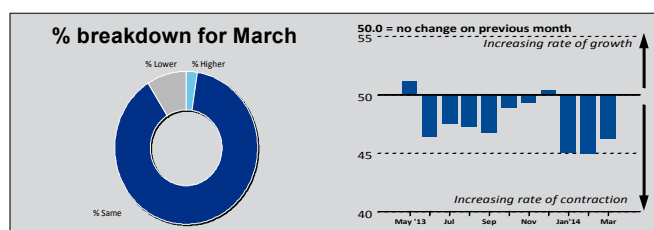


March's survey signalled a third straight monthly decrease in incoming new work from foreign clients. The degree to which new export orders contracted was less marked than in the preceding survey period, and also much slower than the decrease in overall new business indicated by the latest data.

## 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
2013	Nov	0.0	97.4	2.6	-2.6	48.7	49.4
	Dec	6.3	88.9	4.8	1.5	50.7	50.4
2014	Jan	3.8	78.9	17.2	-13.4	43.3	45.1
	Feb	6.5	77.2	16.3	-9.8	45.1	45.0
	Mar	2.5	88.7	8.8	-6.3	46.9	46.3

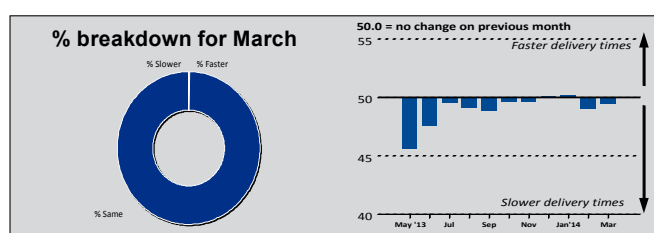


Companies were again able to reduce their outstanding business during March, in line with the trend throughout the opening quarter of the year. This was a consequence of a lack of incoming new work, according to anecdotal evidence. The rate at which backlogs were depleted was the slowest in the current sequence, but solid nevertheless.

## 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
2013	Nov	0.0	100.0	0.0	0.0	50.0	49.6
	Dec	0.6	98.7	0.7	-0.1	49.9	50.2
2014	Jan	1.0	98.1	0.9	0.1	50.1	50.2
	Feb	0.6	95.9	3.5	-2.9	48.6	49.0
	Mar	0.2	99.6	0.1	0.1	50.0	49.5

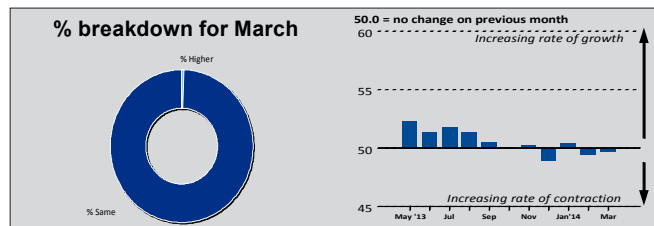


Adjusted for the influence of seasonal variations, the Suppliers' Delivery Times Index remained slightly below the neutral 50.0 mark in March, signalling a marginal lengthening of average lead times. There was some mention among respondents of deliveries being delayed because of road blockades on key transport routes.

## 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
2013	Nov	1.3	98.5	0.2	1.1	50.5	50.2
	Dec	2.1	93.9	3.9	-1.8	49.1	48.9
2014	Jan	1.9	96.6	1.5	0.4	50.2	50.4
	Feb	0.6	96.8	2.6	-2.0	49.0	49.5
	Mar	0.5	99.5	0.0	0.5	50.3	49.7

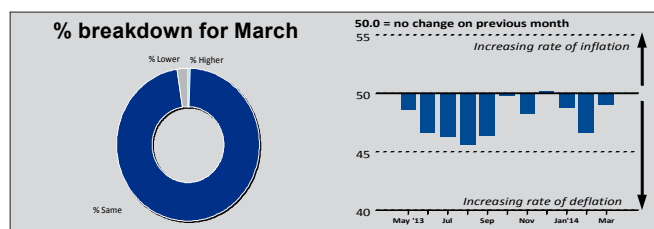


Employment in Lebanon's private sector economy decreased for the third time in the past four months during March. The overall rate of job shedding was again only marginal, however, with the vast majority of survey respondents reporting no change in their payroll numbers since February.

## 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
2013	Nov	0.0	96.1	3.9	-3.9	48.1	48.2
	Dec	5.6	89.8	4.7	0.9	50.4	50.2
2014	Jan	2.7	89.0	8.3	-5.5	47.2	48.8
	Feb	2.8	87.3	9.9	-7.1	46.4	46.6
	Mar	0.4	97.2	2.4	-2.0	49.0	49.0

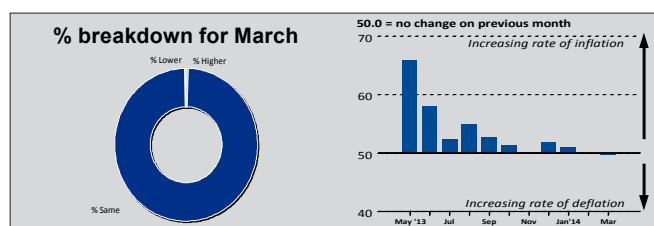


Prices charged by Lebanese private sector firms decreased again during March, although the rate of decline eased notably since the previous survey period and was only modest. Companies that lowered their output prices sometimes cited promotional activity. Selling prices have fallen continuously in the year-to-date.

## 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
2013	Nov	0.2	99.6	0.2	0.0	50.0	50.2
	Dec	4.7	95.1	0.2	4.6	52.3	51.9
2014	Jan	2.0	97.6	0.3	1.7	50.9	51.0
	Feb	1.9	96.5	1.7	0.2	50.1	49.9
	Mar	0.4	99.4	0.2	0.3	50.1	49.8

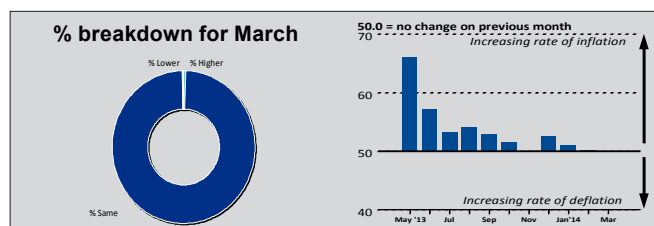


After having been broadly stable during the previous month, overall average input prices in Lebanon's private sector economy decreased fractionally in March. The respective seasonally adjusted index posted marginally below the no-change threshold of 50.0, at its lowest level in the 11-month survey history.

## 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
2013	Nov	0.4	99.4	0.2	0.2	50.1	50.0
	Dec	5.7	94.1	0.2	5.5	52.8	52.6
2014	Jan	2.8	96.2	1.0	1.9	50.9	51.2
	Feb	1.7	97.6	0.7	0.9	50.5	50.2
	Mar	0.5	99.4	0.2	0.3	50.1	49.9

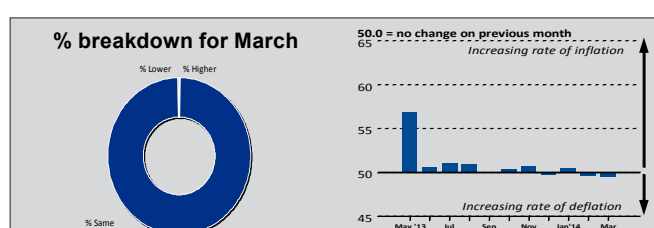


Average purchase prices in Lebanon's private sector economy were broadly unchanged in March. Highlighting this, the vast majority of panel members reported having faced the same average purchasing costs as one month earlier. This stabilisation brought an end to a three-month sequence of cost inflation.

## 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
2013	Nov	1.3	98.5	0.2	1.1	50.6	50.7
	Dec	2.4	95.1	2.5	-0.1	50.0	49.7
2014	Jan	1.4	97.8	0.7	0.7	50.4	50.5
	Feb	0.0	99.5	0.5	-0.5	49.7	49.6
	Mar	0.4	99.5	0.2	0.2	50.1	49.5

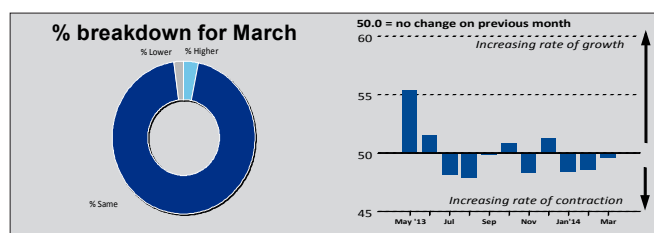


March data pointed to a decrease in Lebanese businesses' staffing costs, with the rate of decline little-changed from the marginal pace registered in the preceding survey period. Staffing costs have now decreased in three of the past four months – a slight rise in January the only break in this run.

## 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
2013	Nov	2.4	93.1	4.5	-2.1	49.0	48.4
	Dec	10.1	85.9	4.1	6.0	53.0	51.3
2014	Jan	3.7	85.1	11.2	-7.4	46.3	48.4
	Feb	5.5	86.5	8.0	-2.6	48.7	48.6
	Mar	3.5	94.2	2.3	1.1	50.6	49.6

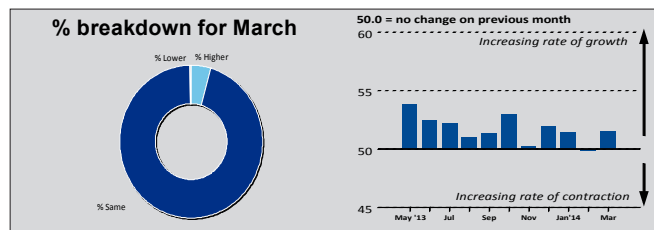


A drop in workloads led Lebanese companies to purchase fewer inputs in March. This stretched the current sequence of decline in buying levels to three months. That said, having eased for the second survey period running, the rate of contraction in purchasing activity was overall only marginal.

## Stocks of Purchases Index

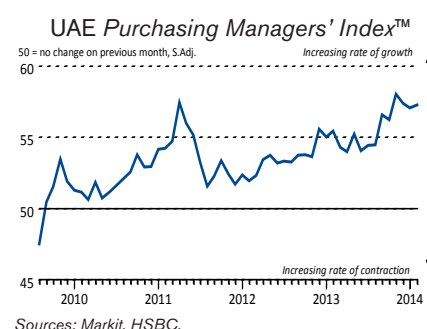
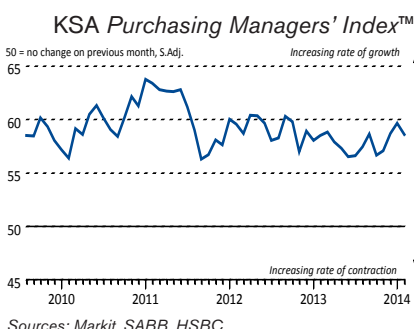
Q. Please compare your stocks of purchases (in units) with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2013	Nov	2.9	96.0	1.1	1.8	50.9	50.2
	Dec	6.2	91.8	2.0	4.2	52.1	52.0
2014	Jan	4.8	91.6	3.6	1.2	50.6	51.5
	Feb	4.0	92.0	3.9	0.1	50.0	49.8
	Mar	4.5	95.2	0.3	4.2	52.1	51.5



Stocks of purchases returned to growth in March, after having fallen marginally during the previous month. Where an increase in inventory levels was recorded (at approximately 5% of surveyed businesses), this was sometimes reported to have been unintentional and a consequence of falling sales. Stocks of purchases have risen in ten of the 11 months of data collection.

## International PMI summary



The headline HSBC Egypt PMI improved from January's 48.7 to 50.0 in February, signalling unchanged operating conditions in the sector compared to the previous month. Three of the five sub components of the headline PMI had a positive contribution: output and new orders increased and suppliers' delivery times lengthened.

February data indicated the continued expansion of Saudi Arabia's non-oil private sector economy, with output, new orders, and employment all continuing to rise. However, growth rates were a little softer, which was reflected by a fall the headline SABB HSBC Saudi Arabia PMI to a three-month low of 58.6 (January: 59.7).

Operating conditions in the UAE's non-oil producing private sector continued to improve in February, with the headline HSBC UAE PMI posting 57.3, little-changed from January's 57.1. The latest improvement was one of the steepest seen in the series history and stretches the current period of growth to 54 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. 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. 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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