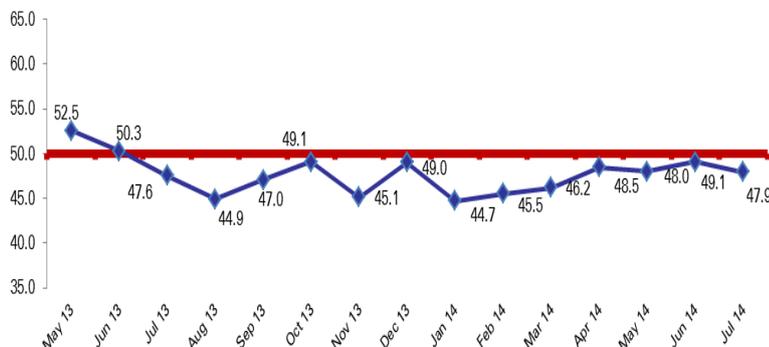




BLOM Lebanon PMI Historical Readings



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Source: Markit, Blominvest Bank

More than a year after its creation, BLOM Lebanon Purchasing Manager's Index TM (PMI) is still providing relevant early insights about the private sector's monthly performance, hence the Lebanese economic activity, for local and foreign investors, policy makers and economic analysts. Noting that the recently introduced index is calculated on a monthly basis, the PMI is based on a survey questioning more than 400 selected companies about modifications in their business activity compared to the previous month. The selection of firms goes in line with the national accounts' breakdown of GDP in term of activities. As for the gauge's composition, it is a composite index calculated as a weighted average of 5 individual sub-components: New orders (30%), Output (25%), Employment (25%), supplies' delivery times (15%) and Stocks of Purchases (10%)

The gauge only posted economic expansion in the first 2 months of the survey (May and June 2013) and crossed down the 50.0 mark in July on rising security concerns. The PMI contracted at a faster pace to reach a bottom of 44.9 in August on several explosions on the Lebanese territory holding sectarian nature and targeting civilians. However, the following two months were more promising with October's PMI standing at 49.1 compared to 47.0 in September 2013, alluding to a slowing economic contraction, as the PMI remained below the neutral 50.0 mark.

Yet, the twin bombings of the Iranian Embassy that took place in November deteriorated the economic recovery of the country. This was reflected in the performance of the PMI that tumbled to 45.1 which indicates the worsening of operating conditions in the Lebanese private sector at a faster pace than October. Waves of violence continued through December starting with Tripoli's clashes and the political assassination of former minister Mohamad Shatah, two days after Christmas festivities. However, BLOM Lebanon PMI rose to 49.0 in December indicating that the rate of contraction slowed sharply and that the index climbed closer to the 50-mark separating economic expansion from economic contraction. The impact of political and security concerns on business activity was less significant in December than it was in November as investors held optimistic prospects about the upcoming year.

The PMI reached a 9-Month low in January 2014 despite the positive expectations of an approaching breakthrough in the long awaited Cabinet formation. However, the two bombings that took place within a three weeks' timeframe pulled down the PMI to its lowest level of data collection at 44.7.

Over the next 4 months, the PMI managed to show a slowing contraction yet the reading still signaled deterioration in the performance of the private sector. “Investors and private sector agents remain on the sidelines as political and security situations did not improve” commented Mr. Marwan Mikhael, Head of research at BLOMINVEST Bank. As a result, the PMI continued to show a contraction in private sector activity with weakness in tourism, retail, and construction sectors pulling down the index.

This was reflected by the numerous downticks witnessed in car sales, tourists and construction permits’ numbers’. First, the registration of new passenger and commercial cars dropped by 0.52% in the first four months of 2014, to reach 11,505 vehicles compared to 11,565 vehicles in the same period last year. On the tourism front, the total number of incomers plummeted by 11.91% y-o-y during the first four months of 2014 to 331,708. The number of permits also slumped by 22.88%y-o-y in April alone, to reach 1,466 from the previous year’s level. In parallel, the construction area authorized by permits dropped 4.22% to 1.26M sqm.

The private sector’s economy lost momentum in May on the back of political and social concerns. BLOM PMI scored 48 points down from 48.5 points in the previous month, still below the neutral threshold of 50 points separating economic growth from contraction. “Uncertainties surrounding the Presidential elections and the public sector’s wage scale have restrained consumers and consequently demand”, noted Dr. Fadi Osseiran, GM of Blominvest bank.

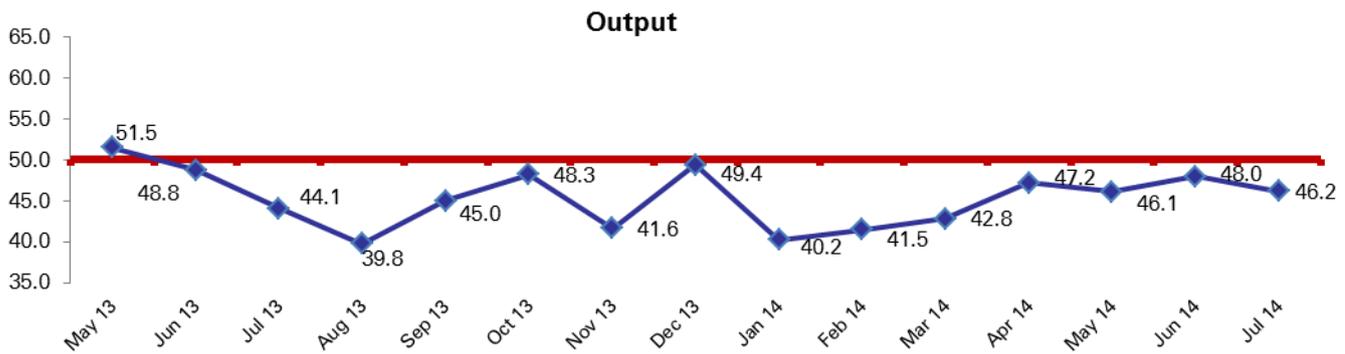
The presidential vacuum and the wage-hike strikes failed to deepen the private sector’s contraction in June. In contrast, the rate of decline eased considerably and was marginal. BLOM PMI registered an 8-month high of 49.1, still below the neutral mark of 50. The relative calm on the security front boosted by the Cabinet security plan outweighed the political void and led companies to expect a return to growth. In this context, Ms Maya Mantach, Head of Equities at BLOMINVEST bank said that “the PMI is mimicking the private sector’s will and efforts to rise after each slowdown ”.

A closer look to the PMI’s main components can provide a clearer insight into the private sector’s activity over the period May 2013- July 2014.

Historical Readings of BLOM Lebanon’s PMI Sub-Components

Returning to the Beirut Stock Exchange, 3 traded shares, in the banking sector, increased in price, while 2 stocks decreased in price. Audi GDRs and listed shares surged by 4.00% and 5.66% to \$6.50 and \$6.35, respectively. Moreover, Byblos listed shares added 1.87% to \$1.63. In contrast, Bank of Beirut listed shares and BLC listed shares fell by 3.21% and 5.56%, over the week to close at \$18.39 and \$1.70, respectively.





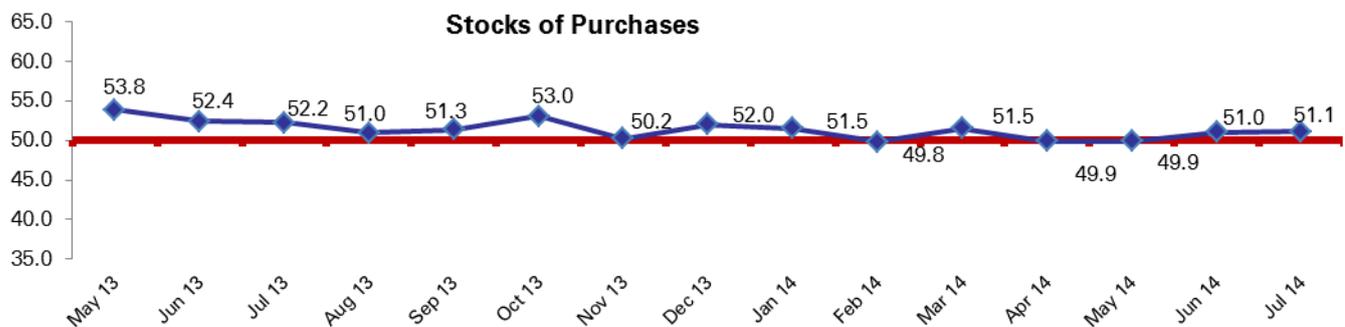
Starting with new orders and output levels' variation, a declining trend was observed since June 2013. The level of new orders placed with the Lebanese private sector decreased over the period June 2013-July 2014 as the related index failed to surpass the 50.0 neutral mark. This could be explained by the steep losses witnessed within the tourism and real estate sectors that resulted from the ongoing security and political instabilities. "The number of tourists is falling and Arab investors in real estate are shying away following repetitive security warnings from their governments" added Mr. Mikhael.

Foreign demand also had a negative impact on new orders. The 14-month survey indicated that 2 out of 14 months showed an increase in new export orders, while the remaining months saw respective contractions in the incoming new work from foreign clients.

Accordingly, output levels witnessed over the past 14 months continuous downticks, yet at an altering pace. The rate of contraction varied from sharp in specific months when the country was suffering security uprisings to slighter when the political and security developments were soothing.

The overall decreasing demand directly compressed backlogs of work between May 2013 and July 2014. The lack of new orders allowed companies in the Lebanese private sector to make progress on outstanding work

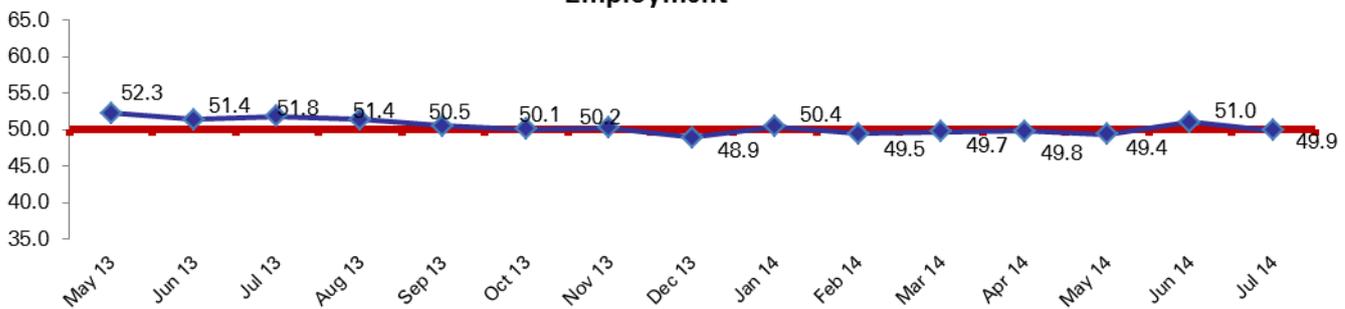
In an attempt to regain the dwindling demand, the Lebanese private sector was regularly decreasing output prices. Besides the rises during high seasons, companies went towards aggressive marketing and promotional strategies to boost demand for their products especially due to the fading local and international appeal.



However, the costs encountered by the Lebanese private companies were subject to inflation. The average of overall input prices stood at 52.8 between May 2013 and July 2014, signaling a rise in input costs mainly due to an increase in imports' prices. However, this increase was not transmitted to the consumers as output prices fell over the same period given the low demand .

Purchasing activity among businesses wasn't stable as well. Companies' expectations varied accordingly to the upcoming status of the country in terms of security and political standings. Even the timid increases that took place were moderate and temporary due to the overall gloomy sentiment. Given that declines in sales were higher than the declines in input purchases, the level of inventory holdings continued to rise.

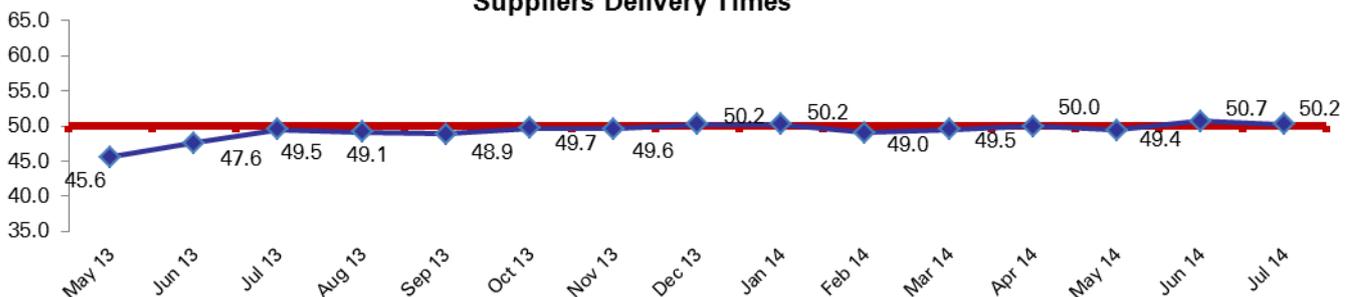
Employment



Employment in the Lebanese private sector remained almost immune to the shaky situation despite the deteriorating order books. The employment index barely moved in the past 14 months between a higher band of 52.3 and a lower reading of 48.9. In this context, changes in the staffing numbers hardly occurred which means that the overall rate of net job losses was marginal. Meanwhile, the average staff cost was barely moving over the period, in part reflecting the recent near-stagnant trend in the job market .

The heightening of the regional uprisings, mainly in Syria and Iraq, has lengthened suppliers' delivery times on average. Noting that the Lebanese trade activity largely counts on land shipping, the insecure roads of transit through Syria prolonged delivery times of supplies since security precautions are heavily implemented at borders and internal check points.

Suppliers' Delivery Times



Finally, BLOM Lebanon PMI managed to underline the strong relationship between the Lebanese economy and the local and regional political and security conditions. It also highlighted the interaction of local and foreign demand for the private sector's output that varies according to the same criteria of political and security stability. Accordingly, performance within the private sector can get back on track in a contained situation coupled with consensus on the political front. The Lebanese index could slip in August following the recent clashes between the Lebanese Army and the Militants in Aarsal that took place in the first week of the month. However, economic activity may pick up in the coming period once domestic and regional developments show signs of improvement, which could give a promising outlook about an awaited economic breakthrough by the end of the year.

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