

Downturn in Lebanese economy continues at end of 2013

Key findings:

- **BLOM PMI™ rises to 49.0 in December**
- **Rates of contraction in output and new orders slow sharply**
- **Employment falls following recent economic contraction**

This report contains the third 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 December survey signalled a substantial easing in the rate of contraction of the Lebanese economy. This was highlighted by the seasonally adjusted BLOM PMI™ rising to 49.0, up from 45.1 in November. Although the PMI remained below the 50.0 no-change mark – signalling a deterioration in the health of the economy – it now stands at a level indicative of only a modest pace of decline.

December data signalled a slight fall in overall economic output, a stark contrast to the severe reduction reported in the prior month. Companies indicated that although political and security concerns were still having a noticeable impact,

they had weighed less heavily on business activity than during November. However, panellists also noted that weak demand continued to undermine output.

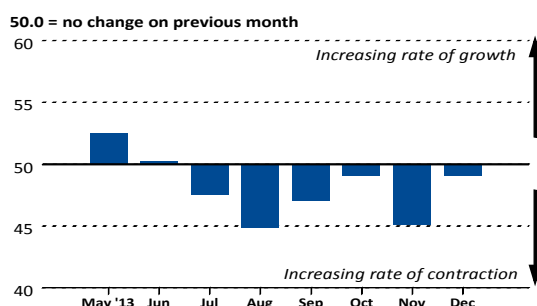
The level of incoming new orders declined at a solid pace during the latest survey period, albeit to a much lesser extent than one month earlier. The difficult political and economic situation in the north of the country continued to be felt in the domestic market. A relatively brighter note was struck by the trend in new export orders, which stabilised following a seven-month period of continuous decline.

The recent poor trends in output and new orders filtered through to the labour market. Lebanese companies reported a reduction in employment for the first time in the eight months of survey data collection. However, the rate of job loss was only marginal, as some firms continued to raise capacity in order to help launch new product lines.

For the first time in the short survey history, Lebanese companies raised their average selling prices. The rate of output charge inflation was only minor, however, and reflected a combination of rising input costs and the launch of new improved product lines.

Average purchase prices rose on the back of a stronger euro on currency markets during December. In contrast, average wages and salaries fell slightly for the first time in the series history.

Lebanon Purchasing Managers' Index™ (PMI™)



Purchasing Managers' Index

		Unadj.	Seas. Adj.
2013	Oct	48.6	49.1
	Nov	44.7	45.1
	Dec	50.2	49.0

Index Summary

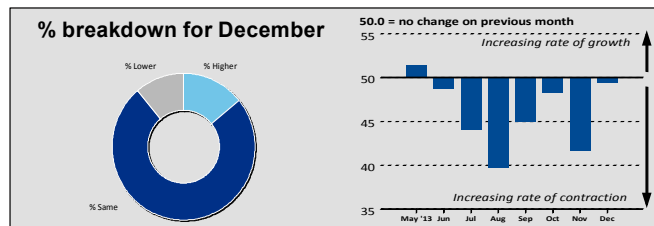
(seasonally adjusted, 50 = no change on previous month)

	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
Oct'13	49.1	48.3	47.2	47.1	48.9	50.1	49.8	51.3	51.5	50.4	49.7	50.8	53.0
Nov	45.1	41.6	40.3	46.4	49.4	50.2	48.2	50.2	50.0	50.7	49.6	48.4	50.2
Dec	49.0	49.4	47.4	50.1	50.4	48.9	50.2	51.9	52.6	49.7	50.2	51.3	52.0

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	Aug	14.3	54.5	31.2	-16.9	41.5	39.8
	Sep	11.9	68.2	19.9	-8.0	46.0	45.0
	Oct	6.4	82.3	11.3	-4.8	47.6	48.3
	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

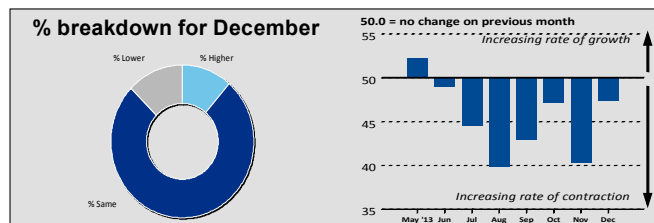


Private sector output in Lebanon was little changed in December, with the seasonally adjusted Output Index registering only slightly below the 50.0 no-change mark. The marginal reduction was in stark contrast to the sharp fall seen in November when political and economic turmoil weighted heavily on production. Panellists reported that relatively weak demand continued to undermine output.

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	Aug	17.8	48.0	34.2	-16.4	41.8	39.9
	Sep	12.6	64.4	23.0	-10.3	44.8	43.0
	Oct	7.6	77.2	15.2	-7.6	46.2	47.2
	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

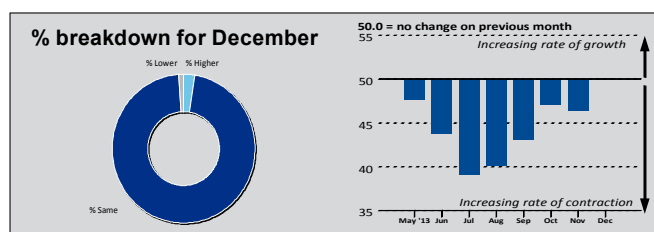


The seasonally adjusted New Orders Index remained below the 50.0 no-change mark in December to indicate a further fall in new business. Following November's considerable decline, December's fall was notably slower, but nonetheless marked. The difficult political and economic situation in the north of the country was again reported to have impacted on business.

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	Aug	8.2	67.8	24.0	-15.9	42.1	40.1
	Sep	3.9	80.0	16.2	-12.3	43.9	43.1
	Oct	4.8	87.8	7.4	-2.6	48.7	47.1
	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

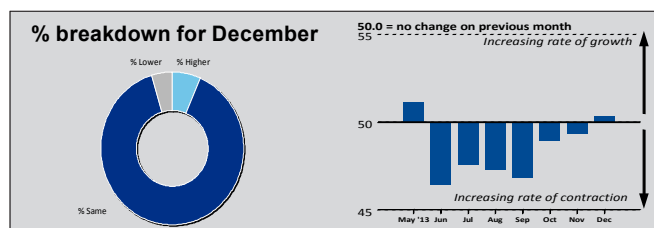


There was little change in new export orders in December. That said, the marginal increase in export sales signalled by the New Export Orders Index put an end to seven months of continuous decline. The vast majority of companies (over 96%) registered no change in exports during December.

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	Aug	14.0	71.1	15.0	-1.0	49.5	47.3
	Sep	6.4	81.3	12.3	-5.9	47.0	46.8
	Oct	1.4	95.4	3.1	-1.7	49.2	48.9
	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

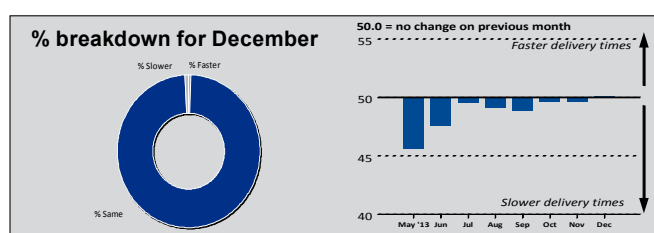


Following six consecutive months of contraction, backlogs of work held by Lebanese private sector companies were marginally higher during the latest survey period. Where a rise in orders was recorded, a number of companies signalled capacity constraints at their plants as a reason for higher backlogs.

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	Aug	3.7	89.2	7.2	-3.5	48.2	49.1
	Sep	0.0	98.4	1.6	-1.6	49.2	48.9
	Oct	0.0	99.3	0.7	-0.7	49.7	49.7
	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

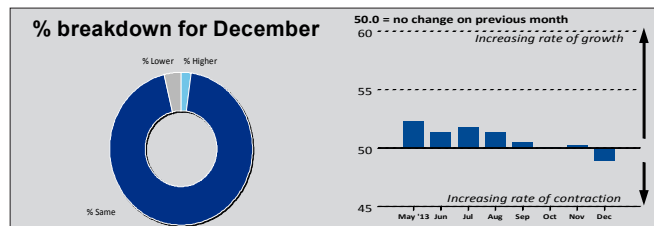


Average lead times improved slightly during December. This was signalled by the seasonally adjusted Suppliers' Delivery Times Index recording fractionally above the 50.0 no change mark. Latest data marked the first time a reading above 50.0 has been recorded in the short series history.

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	Aug	6.0	91.3	2.8	3.2	51.6	51.4
	Sep	2.3	95.8	1.9	0.4	50.2	50.5
	Oct	0.5	99.1	0.4	0.1	50.1	50.1
	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

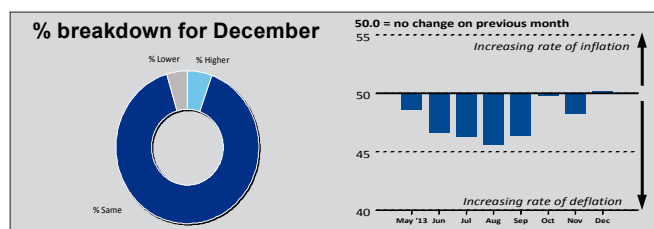


Staffing levels in the Lebanese private sector were cut in December. The net fall, albeit modest, was the first recorded in eight months of data collection. Where a cut in employment was signalled, panellists reduced staff given the recent poor trends in output and new orders. Some of those companies that indicated a rise in employment did so to help launch new products.

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	Aug	4.8	79.7	15.6	-10.8	44.6	45.6
	Sep	4.8	84.1	11.1	-6.3	46.8	46.3
	Oct	2.2	95.6	2.3	-0.1	49.9	49.8
	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

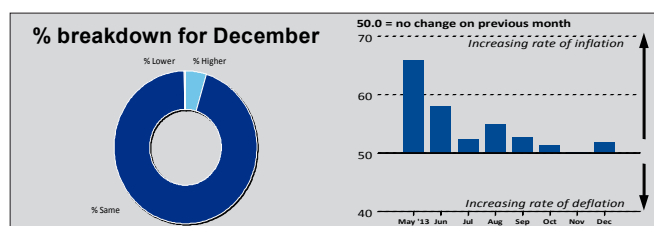


For the first time in the short series history, Lebanese private sector companies reported an increase in average output charges. That said, the degree of inflation was marginal. Where a rise in output charges was signalled, a number of panellists reported that the launch of new product lines had boosted average selling prices.

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	Aug	11.3	88.4	0.3	11.0	55.5	55.0
	Sep	5.5	93.6	0.9	4.7	52.3	52.7
	Oct	2.5	97.4	0.2	2.3	51.1	51.3
	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

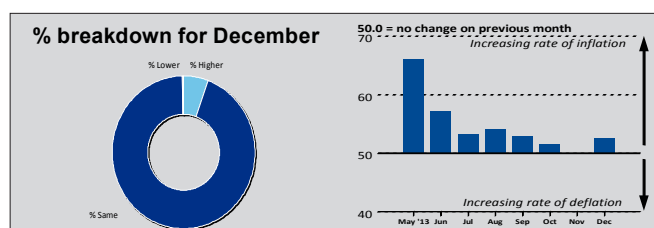


The seasonally adjusted Overall Input Prices Index edged higher in December to reach a three-month high and indicate a faster rate of inflation. Modest inflation was largely the result of a sharper rise in purchase prices as average salaries declined slightly since the previous month.

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	Aug	10.9	88.6	0.5	10.4	55.2	54.1
	Sep	5.5	93.6	0.8	4.7	52.3	53.0
	Oct	2.5	97.4	0.2	2.3	51.1	51.5
	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

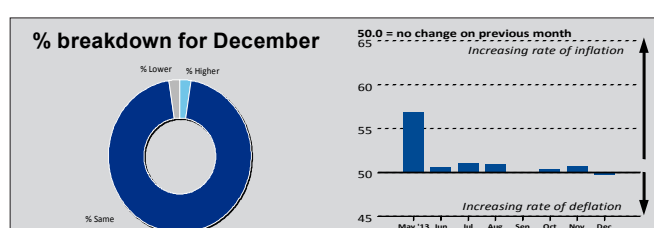


Average purchase prices increased in December following stagnation during November. There was evidence from panellists that an increase in purchase prices was reflective of a stronger euro on currency markets. The solid overall increase in purchase prices signalled during December was the sharpest recorded in three 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
2013	Aug	3.2	94.9	1.8	1.4	50.7	50.9
	Sep	1.9	97.2	0.9	1.1	50.5	50.1
	Oct	0.7	98.7	0.6	0.1	50.1	50.4
	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

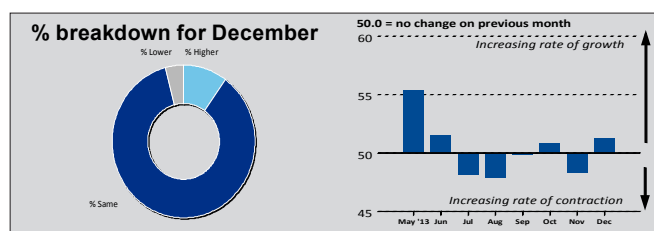


For the first time since survey data collection began in May, average salaries paid by Lebanese private sector companies was down during December. That said, the degree to which staff costs declined was marginal as the majority of companies (95%) indicated no change in salaries paid compared to the previous month.

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	Aug	15.0	70.2	14.9	0.1	50.1	47.9
	Sep	11.4	79.3	9.3	2.1	51.1	49.9
	Oct	7.4	85.2	7.4	0.0	50.0	50.8
	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

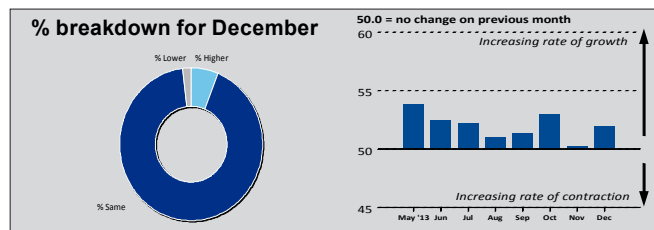


Lebanese private sector companies indicated an increase of purchasing activity for the second time in the past three months during December. Although modest, the rate of growth signalled by the seasonally adjusted Quantity of Purchases Index was the sharpest since June. Purchasing was largely raised to bolster stocks.

Stocks of Purchases Index

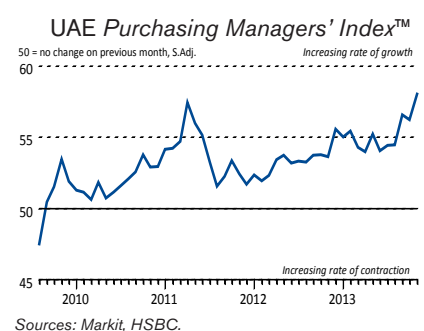
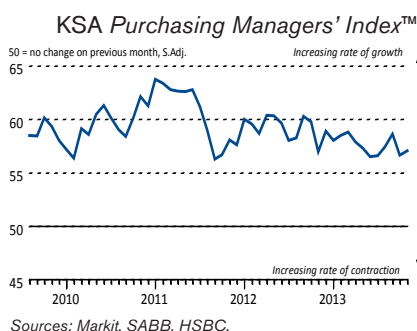
Q. Please compare your stocks of purchases (in units) with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2013	Aug	14.8	76.8	8.5	6.3	53.2	51.0
	Sep	6.8	90.5	2.7	4.1	52.1	51.3
	Oct	6.8	92.1	1.1	5.7	52.9	53.0
	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



Inventories of raw materials and semi-manufactured goods continued to rise during December. Growth was solid, and improved since November as signalled by the seasonally adjusted Stocks of Purchases Index recording a higher reading. A number of panellists indicated that stock levels had been raised in line with expected growth in production.

International PMI summary



At 52.5, the HSBC Egypt PMI edged back into expansion territory in November, ending a 13-month period of deteriorating operating conditions in Egypt's non-oil producing private sector. The latest reading was up from October's 49.5 and marked the strongest improvement in operating conditions in the 32-month survey history.

At 57.1 in November, up from a reading of 56.7 in October, the HSBC/SABB Saudi Arabia PMI signalled an improvement in overall operating conditions at Saudi Arabian non-oil producing private sector companies. The rate of expansion was up slightly from the previous month, but remained below the series average.

The upturn in the UAE's non-oil producing private sector accelerated in November, with the headline seasonally adjusted HSBC United Arab Emirates PMI rising to a record high of 58.1, up from October's 56.3. November saw the sharpest increase in activity at the UAE's non-oil producing private sector companies in just over two-and-a-half years.

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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