

PMI at four-month low, signals faster contraction in private sector economy

Key findings:

- **Sharper declines in output and new orders recorded**
- **Staffing levels broadly unchanged**
- **Renewed decline in output prices**

This report contains the tenth 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.

July saw the headline seasonally adjusted BLOM Lebanon PMI™ fall to a four-month low 47.9 from 49.1 in June, signalling a sharper deterioration in overall business conditions in Lebanon's private sector economy. The headline index has now posted below the neutral 50.0 mark for 13 months in a row.

Political uncertainty and security issues continued to dampen market demand during July, contributing to further contractions in the amount of new work placed with businesses and overall output levels. Furthermore, rates of contraction accelerated on both fronts, with the latest

decrease in new orders the most marked since March. There was also a decrease in new export orders in the Lebanese private sector, the third in as many months.

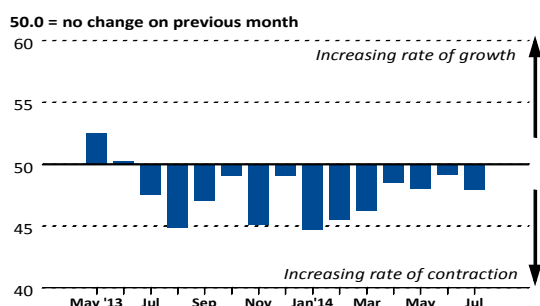
Employment levels were broadly unchanged in July following a rise during the previous month when the downturn had showed signs of easing. A decrease in outstanding business suggested that staffing levels were more than sufficient to cope with the current levels of demand faced by businesses.

While payrolls were kept largely unchanged, businesses reduced their purchasing in accordance with lower workloads. The degree to which buying levels dropped was only slight, however, leading to a rise in inventories as sales fell at a comparatively faster rate. The decrease in purchasing activity, albeit only slight, meanwhile contributed to a marginal improvement in suppliers' delivery times.

July's survey showed a decrease in output prices for the sixth time in the past seven months, with the latest fall the sharpest since April and offsetting a modest rise in June. Firms reported having lowered charges in order to encourage sales.

Providing businesses with the scope to reduce their selling prices were low cost pressures. Overall input price inflation ticked up since June but remained muted, with lower staffing costs negating some the impact of modestly higher purchase prices.

Lebanon Purchasing Managers' Index™ (PMI™)



Purchasing Managers' Index

		Unadj.	Seas. Adj.
2014	May	49.3	48.0
	Jun	50.0	49.1
	Jul	46.9	47.9

Index Summary

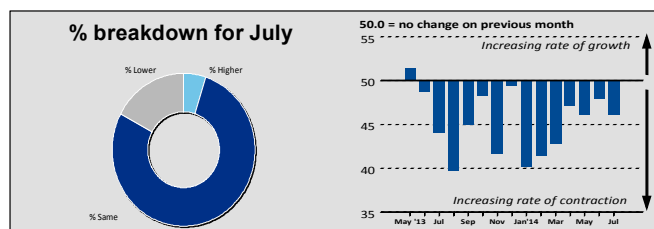
(seasonally adjusted, 50 = no change on previous month)

	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
May'14	48.0	46.1	46.7	47.6	48.5	49.4	48.9	51.2	51.3	50.4	49.4	49.9	49.9
Jun	49.1	48.0	48.2	48.1	50.1	51.0	50.8	50.5	50.7	50.7	50.7	51.5	51.0
Jul	47.9	46.2	46.0	48.0	48.4	49.9	47.9	51.0	51.2	49.7	50.2	49.6	51.1

Output Index

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

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2014	Mar	3.0	80.9	16.1	-13.0	43.5	42.8
	Apr	18.5	60.8	20.7	-2.1	48.9	47.2
	May	8.8	79.6	11.6	-2.8	48.6	46.1
	Jun	8.6	81.6	9.8	-1.3	49.4	48.0
	Jul	5.0	77.8	17.2	-12.2	43.9	46.2

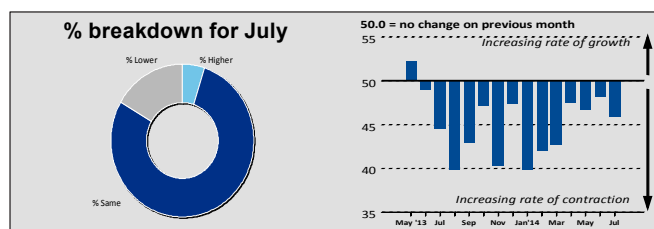


The seasonally adjusted Output Index fell further below the neutral 50.0 threshold in July, signalling a faster decrease in output at private sector companies operating in Lebanon. The current sequence of contraction in output now extends to 14 months. Security issues and the associated negative impact it had on tourism were often mentioned by those firms that recorded a decrease in 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
2014	Mar	2.5	81.8	15.7	-13.2	43.4	42.8
	Apr	17.4	62.8	19.8	-2.5	48.8	47.6
	May	8.1	80.4	11.5	-3.5	48.3	46.7
	Jun	8.7	81.4	9.9	-1.2	49.4	48.2
	Jul	5.0	78.5	16.6	-11.6	44.2	46.0

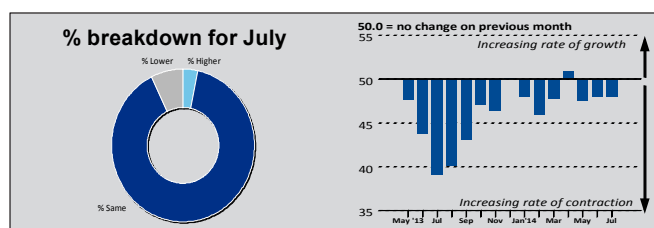


Continuing the trend observed in each month since June 2013, the level of new orders placed with Lebanese private sector companies decreased in July. Furthermore, the rate of contraction was sharp, having accelerated to the fastest in four months. Around 17% of survey participants recorded a decrease in new orders, compared with 5% that noted an increase.

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
2014	Mar	0.0	98.2	1.8	-1.8	49.1	47.8
	Apr	10.5	82.9	6.6	3.9	51.9	50.9
	May	3.0	90.3	6.7	-3.7	48.1	47.6
	Jun	0.0	96.8	3.2	-3.2	48.4	48.1
	Jul	3.5	89.3	7.2	-3.7	48.1	48.0

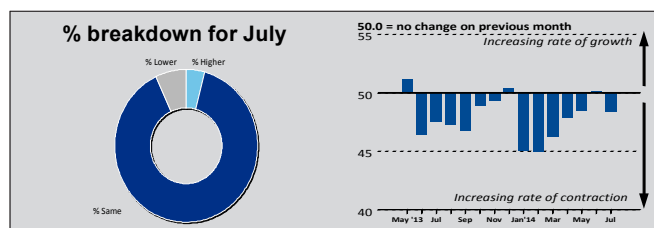


July's survey pointed to a third successive monthly decrease in new export orders in the Lebanese private sector economy. The rate of decline in international new business was little-changed from the moderate pace recorded in each of the previous two survey periods. Anecdotal evidence attributed the decrease to security issues across the broader region.

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
2014	Mar	2.5	88.7	8.8	-6.3	46.9	46.3
	Apr	13.0	71.7	15.3	-2.3	48.8	47.9
	May	6.2	87.8	6.1	0.1	50.0	48.5
	Jun	5.5	88.9	5.6	-0.2	49.9	50.1
	Jul	4.2	88.9	6.9	-2.7	48.6	48.4

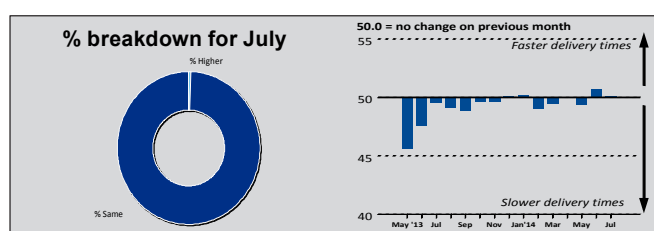


In July, the level of outstanding business in Lebanon's private sector returned to contraction having been broadly stable during June. This marked the sixth time in the past seven months that backlogs have decreased. Panellists reported having been able to make progress on unfinished work due to a lack of incoming new orders.

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
2014	Mar	0.2	99.6	0.1	0.1	50.0	49.5
	Apr	0.0	99.5	0.5	-0.5	49.7	50.0
	May	1.5	96.5	2.0	-0.5	49.8	49.4
	Jun	0.0	100.0	0.0	0.0	50.0	50.7
	Jul	0.7	99.3	0.0	0.7	50.3	50.2

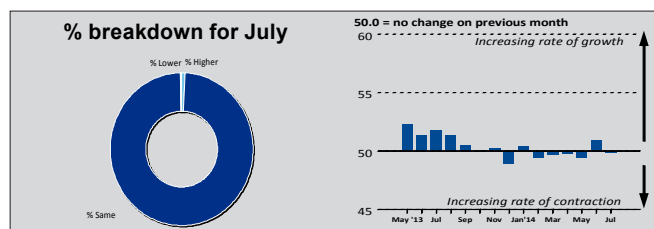


The seasonally adjusted Suppliers' Delivery Times Index remained above the 50.0 no-change mark for the second month running in July, although dipped from June's reading to signal only a fractional decrease in average vendor lead times. Where an improvement in supplier performance was recorded, this was linked to weaker demand for inputs.

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
2014	Mar	0.5	99.5	0.0	0.5	50.3	49.7
	Apr	2.5	95.8	1.7	0.8	50.4	49.8
	May	1.3	97.2	1.5	-0.2	49.9	49.4
	Jun	1.0	99.0	0.0	1.0	50.5	51.0
	Jul	0.8	99.0	0.2	0.6	50.3	49.9

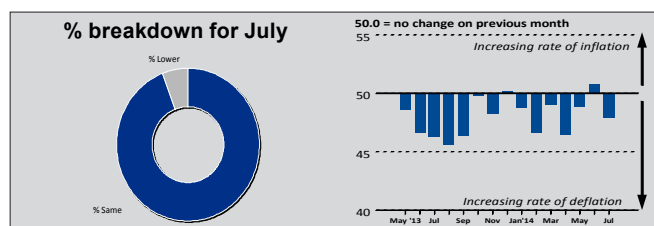


The level of employment in Lebanon's private sector was virtually unmoved during July, having risen in June for the first time in five months. Indeed, the vast majority of surveyed businesses (exactly 99%) registered no change in their staffing numbers compared with the situation one month ago.

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
2014	Mar	0.4	97.2	2.4	-2.0	49.0	49.0
	Apr	5.1	84.4	10.5	-5.5	47.3	46.4
	May	1.1	96.7	2.1	-1.0	49.5	48.9
	Jun	3.1	94.3	2.6	0.5	50.2	50.8
	Jul	0.0	94.0	6.0	-6.0	47.0	47.9

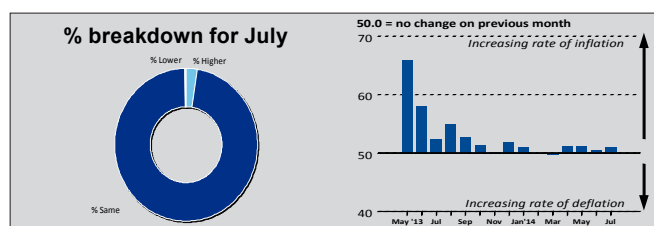


July saw a decrease in average output prices as a number of businesses sought to boost their intakes of new work. The reduction in selling prices was the most marked since April and offset a modest increase during the preceding survey period. Exactly 6% of panellists lowered their output prices during the month, while there were no reports of firms having raised charges.

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
2014	Mar	0.4	99.4	0.2	0.3	50.1	49.8
	Apr	3.5	96.4	0.1	3.3	51.7	51.1
	May	2.7	96.5	0.8	1.8	50.9	51.2
	Jun	2.1	97.7	0.2	2.0	51.0	50.5
	Jul	2.5	97.3	0.2	2.4	51.2	51.0

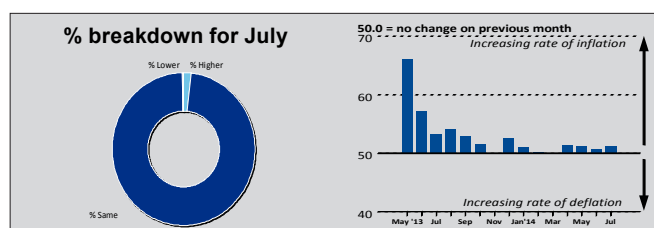


Overall cost pressures in the Lebanese private sector economy remained muted in July, as highlighted by the seasonally adjusted Overall Input Prices Index posting just above the neutral 50.0 threshold. The rate of cost inflation was slightly faster than one month earlier, but still below the series average.

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
2014	Mar	0.5	99.4	0.2	0.3	50.1	49.9
	Apr	3.5	96.4	0.1	3.4	51.7	51.4
	May	2.7	96.5	0.8	1.8	50.9	51.3
	Jun	2.1	97.7	0.2	2.0	51.0	50.7
	Jul	1.7	98.1	0.2	1.5	50.8	51.2

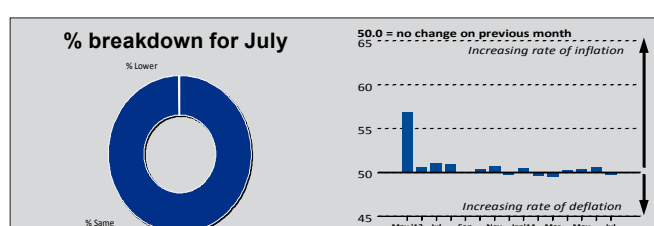


The primary factor placing upward pressure on cost burdens in July was higher purchase prices. Average purchase prices faced by companies operating in Lebanon's private sector economy rose at a slightly accelerated rate, albeit one that was still only modest in the context of historical survey data.

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
2014	Mar	0.4	99.5	0.2	0.2	50.1	49.5
	Apr	0.0	99.5	0.5	-0.5	49.8	50.2
	May	0.7	98.7	0.6	0.1	50.1	50.4
	Jun	0.0	100.0	0.0	0.0	50.0	50.7
	Jul	0.0	99.8	0.2	-0.2	49.9	49.7

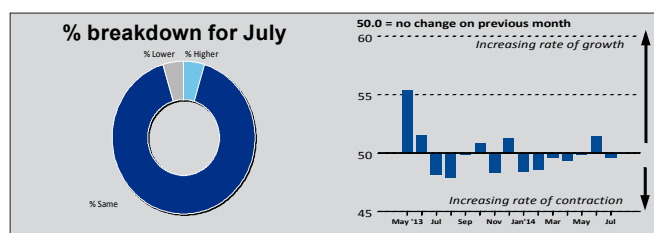


In contrast with higher purchase prices, staffing costs among Lebanese private sector companies decreased during latest survey period. This ended a three-month sequence of pay inflation, which in June had reached a seven-month high. That said, the degree which staff costs decreased in July was only fractional.

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
2014	Mar	3.5	94.2	2.3	1.1	50.6	49.6
	Apr	7.1	86.1	6.8	0.3	50.2	49.4
	May	5.4	91.1	3.5	1.9	51.0	49.9
	Jun	5.7	94.0	0.3	5.4	52.7	51.5
	Jul	4.9	90.5	4.7	0.2	50.1	49.6

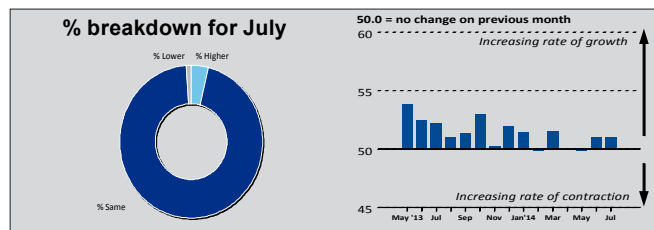


The downward trend in purchasing activity resumed in July after a brief uptick in buying levels at the end of the second quarter (June's increase was the first in six months). Reduced workloads and new orders – in some cases linked by panellists to ongoing political and security issues – led firms to lower their purchasing activity.

Stocks of Purchases Index

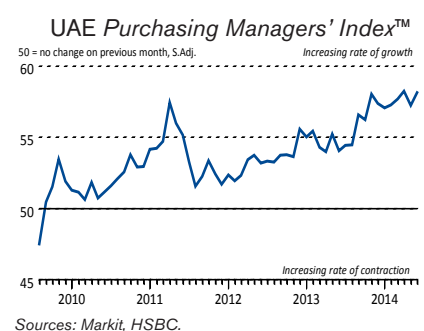
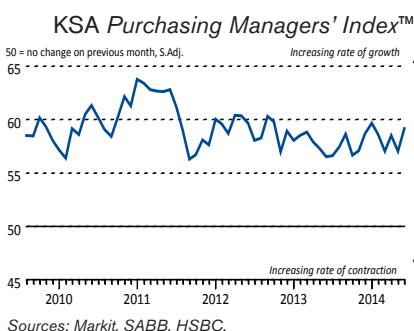
Q. Please compare your stocks of purchases (in units) with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2014	Mar	4.5	95.2	0.3	4.2	52.1	51.5
	Apr	7.1	87.9	5.0	2.2	51.1	49.9
	May	3.7	95.4	0.9	2.8	51.4	49.9
	Jun	3.9	96.0	0.2	3.7	51.8	51.0
	Jul	3.9	94.9	1.2	2.7	51.3	51.1



Stocks of purchases increased for the second month in succession during July, which panel member reports suggested was partly a consequence of falling sales. The extent of the accumulation of inventories was modest, and broadly in line with that registered in the preceding survey period.

International PMI summary



The seasonally adjusted headline HSBC Egypt PMI index rose from 48.7 in May to a six-month high of 51.5 in June, signalling an improvement in operating conditions at Egypt's non-oil producing private sector companies. Business conditions strengthened for the first time since December.

June data signalled the continued expansion of the Saudi Arabian non-oil private sector, with the seasonally adjusted headline SABB HSBC Saudi Arabia PMI recording 59.2, up from 57.0 in May. This highlights a strong improvement in operating conditions and the highest since January.

June data showed a further marked improvement in operating conditions at the UAE's non-oil producing private sector companies. The headline HSBC UAE PMI rose from 57.3 in May to 58.2, just shy of April's record-high and well above the long-run series average of 53.8.

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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