BLOM Lebanon PMI™

BLOM Purchasing Managers' Index™

compiled by markit

7 October 2014

September sees further deterioration in business conditions

Key findings:

- ***Headline PMI™ at 47.6, weighed on by contractions in output and new orders***
- ***Employment rises slightly despite ongoing downturn in activity***
- ***Cost pressures remain muted as staff pay edges lower***

This report contains the twelfth 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.

Business conditions in Lebanon's private sector economy deteriorated further in September, with the headline BLOM Lebanon PMI remaining below the critical 50.0 threshold for the fifteenth month in a row. However, at 47.6, up from 45.5 in August, the latest data showed an easing in the rate of deterioration at the end of the third quarter.

Output levels at businesses fell solidly in September, albeit the rate of contraction was slower than August's six-month record. Lower output corresponded with a downturn in incoming new business, the level of which decreased for the sixteenth month in a row in September, and at a marked pace that was broadly in line with the average recorded over this sequence. Businesses continued to comment on the effects of security issues and political uncertainty, and meanwhile faced a further (albeit slower) drop in export sales. Accordingly, September saw a decrease in backlogs of work.

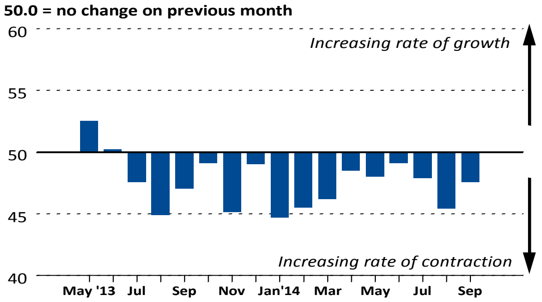
Despite weakness on the demand side, companies left their buying levels little-changed and registered a rise in stocks of purchases for the third time in the past four months in September. Furthermore, the extent of this latest increase in inventories was the most marked in the year to date.

As well as accumulating buffer stocks of goods, businesses also expanded their workforce numbers during September. Albeit only slight, this was the first increase in employment for three months. Staffing costs (average prices paid for salaries/wages) meanwhile fell fractionally.

However, overall cost burdens faced by Lebanese private sector businesses increased on the back of higher average purchase prices which, after having fallen in August for the first time in five months, returned to a modest rate of inflation.

Output prices on the hand remained in decline, falling for a third consecutive month as companies attempted to encourage client spending. That said, the rate at which charges fell was slower than in both July and August.

Lebanon *Purchasing Managers' Index™ (PMI™)*



Purchasing Managers' Index

		Unadj.	Seas. Adj.
2014	Jul	46.9	47.9
	Aug	46.5	45.5
	Sep	48.3	47.6

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

	PMI	Output	New Orders	Export Orders	Backlogs of Work	Employ-ment	Output Prices	Overall Input Costs	Purchase Costs	Staff Costs	Delivery Times	Quantity of Purchases	Stocks of Purchases
Jul'14	**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
Aug	**45.5**	42.7	42.1	44.1	47.1	49.1	48.5	49.5	49.0	49.9	50.9	47.2	49.7
Sep	**47.6**	45.6	44.3	46.7	49.4	50.8	49.1	51.0	51.3	49.5	49.6	49.9	51.7

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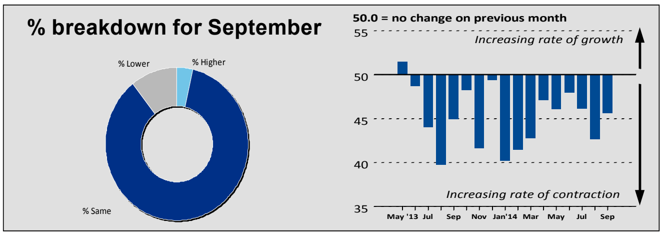
Output Index

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

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2014	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**
	Aug	3.5	81.0	15.5	-12.0	**44.0**	**42.7**
	Sep	3.7	85.7	10.6	-6.8	**46.6**	**45.6**

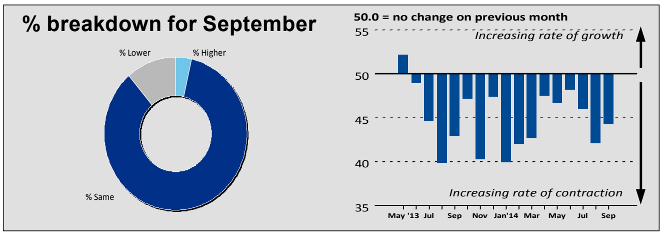


Private sector companies in Lebanon recorded a further decrease in output in September, extending the current sequence of decline to 16 months. Although easing since the previous survey period, the rate of decline in activity nevertheless remained solid overall. Almost 11% of surveyed firms recorded a decrease in output at their units, compared with 4% that noted an increase.

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	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**
	Aug	3.4	80.0	16.6	-13.2	**43.4**	**42.1**
	Sep	3.6	85.0	11.4	-7.8	**46.1**	**44.3**

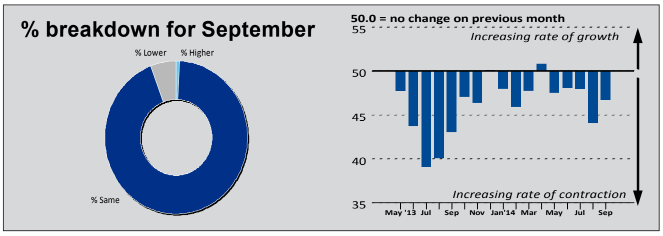


As well as weighing on output levels, ongoing security issues and political uncertainty also had a detrimental impact on inflows of new business during September. The seasonally adjusted New Orders Index posted well below the neutral 50.0 mark, signalling a further solid contraction in new business. That said, the rate of decline was slower than in August.

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	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**
	Aug	5.6	79.8	14.6	-8.9	**45.5**	**44.1**
	Sep	0.8	93.4	5.8	-5.1	**47.5**	**46.7**

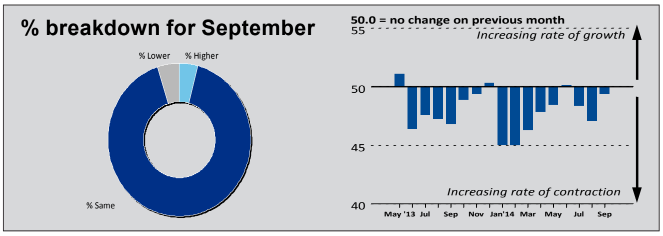


September's survey pointed to a fifth successive monthly decrease in new export orders at companies operating in Lebanon. The rate of contraction in foreign sales eased since the preceding survey period and was slower than the decline in total new business, but nevertheless remained solid overall.

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	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**
	Aug	2.7	91.9	5.4	-2.7	**48.7**	**47.1**
	Sep	4.1	91.0	4.9	-0.8	**49.6**	**49.4**

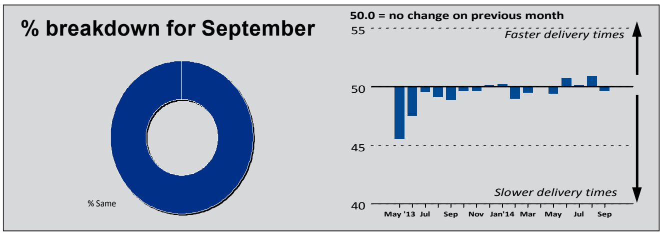


Decreasing inflows of new business meant that companies were able to catch-up on orders outstanding during September. Work-in-hand (both in progress and not yet started) decreased for the third month in a row, although the rate of decline was only marginal and the slowest in this sequence.

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	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**
	Aug	0.5	99.2	0.2	0.3	**50.2**	**50.9**
	Sep	0.0	100.0	0.0	0.0	**50.0**	**49.6**

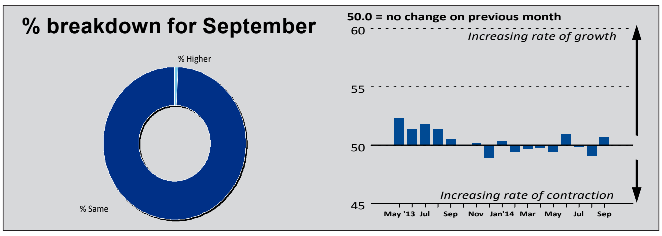


Adjusted for the influence of seasonal factors, the Suppliers' Delivery Times Index dipped below the neutral 50.0 threshold for the first time in four months in September, indicating a lengthening in average vendor lead times. That said, the index was at a level consistent with only a marginal deterioration in supplier performance.

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	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**
	Aug	0.1	98.4	1.5	-1.4	**49.3**	**49.1**
	Sep	0.9	99.1	0.0	0.9	**50.4**	**50.8**

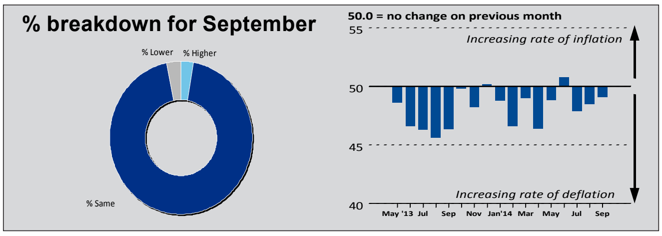


Despite further downturns in output and new business intakes, September saw a marginal rise in the level of employment in Lebanon's private sector economy. The increase in staffing numbers was only the second in the past eight months (the previous being a similarly modest rise in June).

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	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**
	Aug	0.1	95.8	4.1	-3.9	**48.0**	**48.5**
	Sep	2.7	93.9	3.4	-0.7	**49.7**	**49.1**

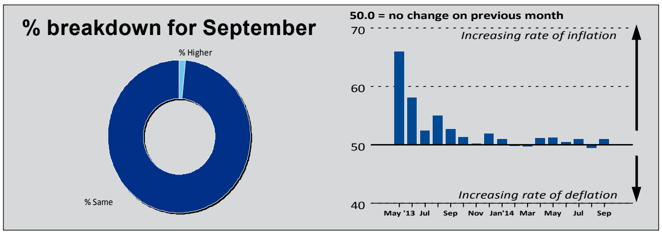


Average output charges decreased in September, as has been the case in eight of the past nine months. The rate of decline was only slight, however, as highlighted by the seasonally adjusted Output Prices Index registering close to the 50.0 no-change mark. Where a decrease in charges was noted, this was linked by panellists to attempts to encourage business activity.

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	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**
	Aug	0.1	99.9	0.0	0.1	**50.1**	**49.5**
	Sep	1.5	98.5	0.0	1.5	**50.7**	**51.0**

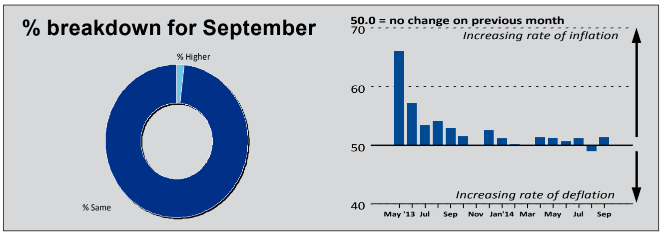


September saw a return to growth in overall input prices faced by Lebanese private sector companies following a slight decrease in August. The rate of cost inflation was only slight, however, in line with the general trend seen over the past year. Leading overall cost burdens to rise was an increase in average purchase prices.

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	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**
	Aug	0.6	99.4	0.0	0.6	**50.3**	**49.0**
	Sep	1.6	98.4	0.0	1.6	**50.8**	**51.3**

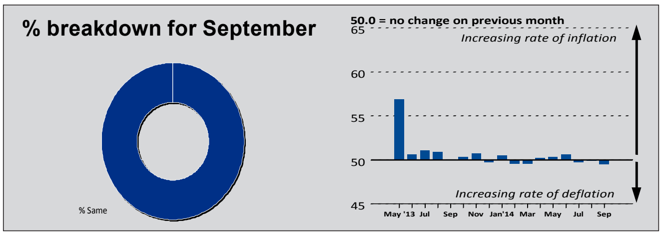


Average purchase prices in Lebanon's private sector economy rose moderately in September, reversing the decrease observed one month earlier. Prices paid for inputs have now increased in all but one of the past six months, with August's marginal decrease the only blip in the recent upward trend in purchasing costs.

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	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**
	Aug	0.1	99.1	0.8	-0.7	**49.7**	**49.9**
	Sep	0.0	100.0	0.0	0.0	**50.0**	**49.5**

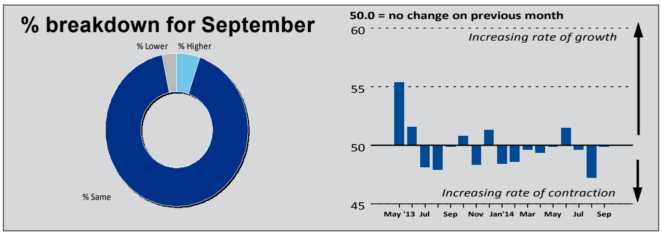


Offsetting some of the burden of higher purchase prices, labour costs decreased on average in September. This marked the third straight monthly fall in employee remuneration. Although only marginal overall, the rate of decline in staffing costs was the joint-fastest in the short series history – matching that seen in March.

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	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**
	Aug	3.9	90.2	5.9	-2.0	**49.0**	**47.2**
	Sep	5.2	91.4	3.4	1.8	**50.9**	**49.9**

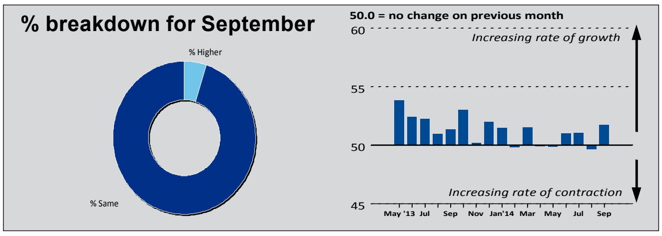


Latest data pointed to broadly no change in the level of purchasing activity among Lebanese companies at the end of the third quarter. This was indicated by the seasonally adjusted Quantity of Purchases Index posting close to the critical 50.0 no-change mark, up notably from August's series-record low.

Stocks of Purchases Index

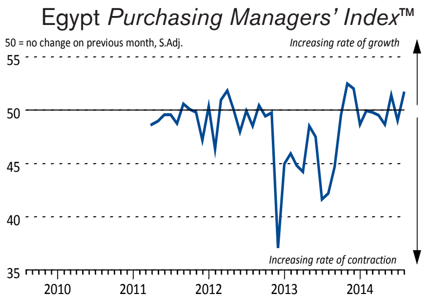
Q. Please compare your stocks of purchases (in units) with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2014	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**
	Aug	2.7	96.2	1.1	1.7	**50.8**	**49.7**
	Sep	5.1	94.9	0.0	5.1	**52.6**	**51.7**

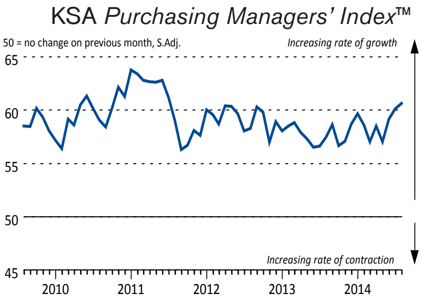


With production requirements having fallen but buying levels little changed, stocks of purchases accumulated during September. Furthermore, the degree to which inventories increased was the most marked in the year thus far. Stocks of purchases have now risen in three of the past four months, the only break in this sequence being August's fractional contraction.

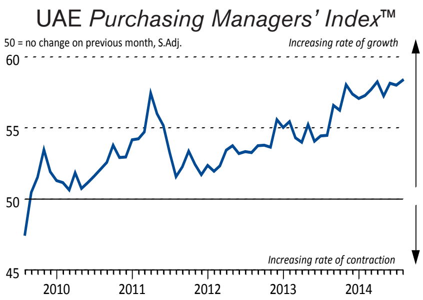
International PMI summary



Sources: Markit, HSBC.



Sources: Markit, SABB, HSBC.



Sources: Markit, HSBC.

Operating conditions in Egypt's non-oil private sector improved in August, as highlighted by the seasonally adjusted headline HSBC Egypt PMI™ posting above the neutral 50.0 mark. At 51.6, up from 49.0 in July, the index signalled the most marked improvement in 2014 so far.

The headline seasonally adjusted SABB HSBC Saudi Arabia Purchasing Managers' Index™ (PMI™) improved in August to a level of 60.7, from July's 60.1. That was the best reading since July 2011 and signalled an acceleration in growth for the third month in a row.

The upturn in the UAE's non-oil producing private sector gained momentum in August, with the headline seasonally adjusted HSBC United Arab Emirates PMI™ rising to a record high of 58.4, up from July's 58.0. This surpassed the previous record seen in April.

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.

Warning