

PMI at four-month high, signals slower contraction in private sector economy

Key findings:

- Rates of decline in output and new orders ease sharply
- Export sales return to growth, albeit at modest rate
- Cost burdens rise amid higher purchase prices

This report contains the seventh 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.

At 48.5 in April, up from 46.2 in March, the seasonally adjusted BLOM Lebanon PMI™ showed a further, albeit slower, deterioration in the underlying health of Lebanon's private sector economy. The headline index's latest reading was a four-month high, and above the average recorded over survey's 12-month history (47.5).

Output levels and new order intakes continued to fall in April, but rates of decline eased sharply since March to the slowest in four and ten months respectively. While there were widespread reports of security issues depressing activity, a number of firms commented on a more stable situation during

the latest survey period.

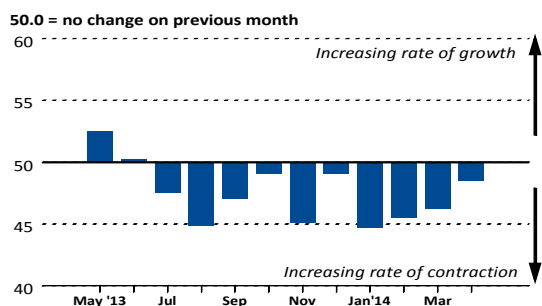
There was also some mention among panellists of output prices being reduced in order to boost new business. April saw average charges fall to the greatest extent since last September, which consequently extended the current sequence of decline to four months.

Also helping to support the overall level of incoming new work was a rise in export sales. Although only modest, the increase in export business was the most marked in the short series history.

Companies generally maintained a preference for lower staff numbers in April. That said, the latest round of job cuts was only marginal and the weakest in the current three-month sequence of falling employment. Purchasing levels were also lowered slightly by businesses, falling in accordance with the downturn in output requirements and leaving stocks of purchases little changed on the month.

On the supply side, companies faced no change in suppliers' delivery times but did see their purchase prices rise on average. Inflation in purchasing costs was the most marked in 2014 so far (albeit only modest in the context of historical survey data), and the principal factor behind an overall increase in cost burdens, with staffing costs up only fractionally on the month.

Lebanon Purchasing Managers' Index™ (PMI™)



Purchasing Managers' Index			
		Unadj.	Seas. Adj.
2014	Feb	45.9	45.5
	Mar	46.6	46.2
	Apr	49.6	48.5

Index Summary

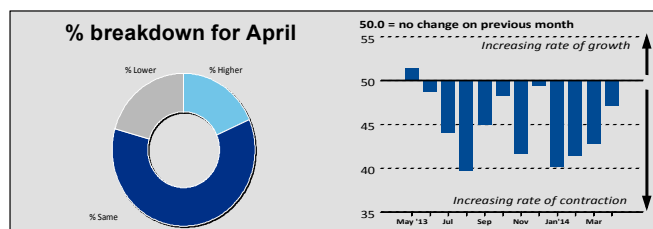
(seasonally adjusted, 50 = no change on previous month)

	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
Feb'14	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
Apr	48.5	47.2	47.6	50.9	47.9	49.8	46.4	51.1	51.4	50.2	50.0	49.4	49.9

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	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
	Apr	18.5	60.8	20.7	-2.1	48.9	47.2

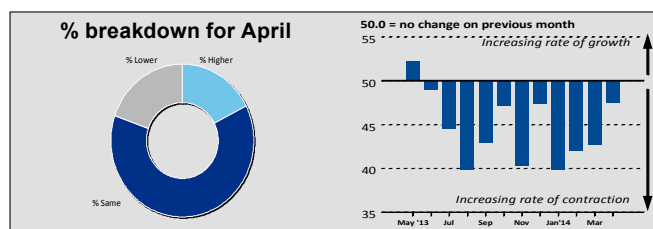


The level of output in Lebanon's private sector economy decreased for the eleventh straight month in April, although the rate of contraction eased sharply since the previous survey period to the weakest in 2014 so far. Security issues were again reported to have weighed on output levels, albeit to a lessening extent. A number of panellists also commented that cash-flow problems had been a drag on activity.

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	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
	Apr	17.4	62.8	19.8	-2.5	48.8	47.6

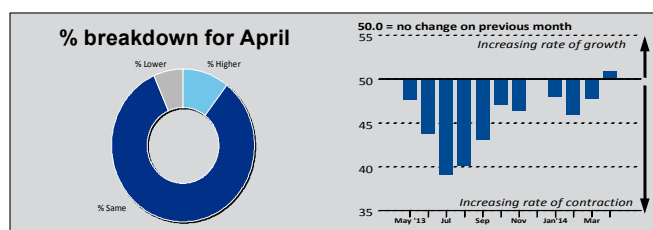


Adjusted for the influence of seasonal variations, the New Orders Index climbed for the third straight month to its highest level since June 2013. Nevertheless, the latest reading indicated a further decline in new work, the eleventh in as many months. According to panel member reports, lower output prices helped soften the downturn in new 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	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
	Apr	10.5	82.9	6.6	3.9	51.9	50.9

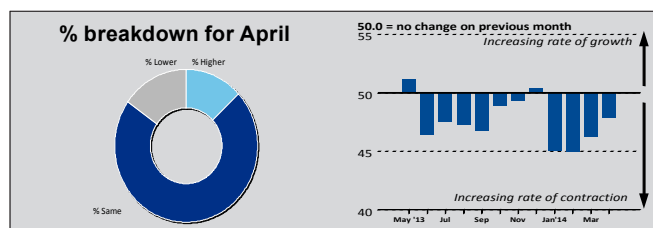


April saw intakes of new export orders at Lebanese private sector firms rise for the first time in four months. Although indicative of only a modest gain in new export business, the seasonally adjusted index was the highest in the history of the series which began in May 2013. Roughly 11% of surveyed companies recorded a rise in new orders from foreign clients, compared with 7% that noted a reduction.

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	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
	Apr	13.0	71.7	15.3	-2.3	48.8	47.9

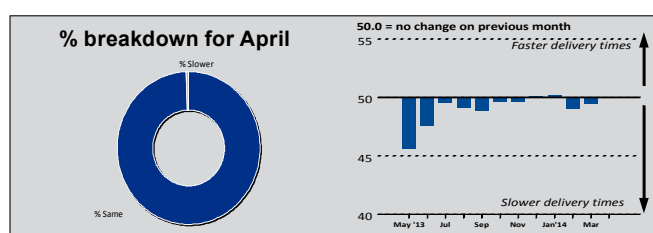


Backlogs of work at private sector firms operating in Lebanon decreased for the fourth consecutive month during April. That said, having eased further from February's series record, the rate of decline in outstanding business was the weakest in this sequence and overall only moderate. Lower intakes of new work was the main reason cited by those firms that registered a decrease in their unfinished business.

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	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
	Apr	0.0	99.5	0.5	-0.5	49.7	50.0

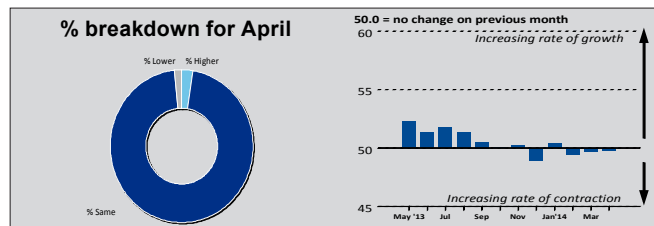


April's survey showed no change in average supplier delivery times faced by Lebanese private sector companies. This was indicated by the respective seasonally adjusted index posting at the 50.0 no-change threshold that separates faster and slower lead times from vendors. This ended a two-month run of deteriorating 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
2013	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
	Apr	2.5	95.8	1.7	0.8	50.4	49.8

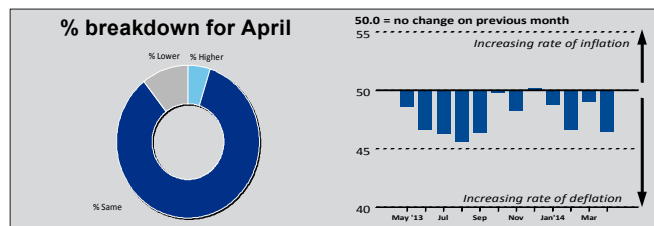


Lebanese private sector companies recorded another marginal decrease in their employment levels in April, in line with the trend since February. Lower workloads and corresponding efforts to reduce expenses were the main factors leading businesses to cut their payroll numbers, according to anecdotal evidence.

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	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
	Apr	5.1	84.4	10.5	-5.5	47.3	46.4

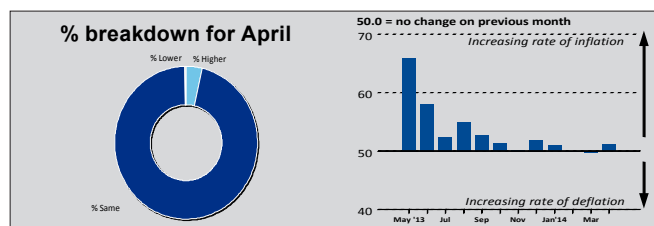


April data pointed to a sharp and accelerated decrease in average output prices – the most marked since September 2013. Where a reduction in charges was recorded (at approximately 11% of businesses), this was attributed to discounting and promotional activity amid attempts to boost client demand. Output prices have fallen throughout 2014 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	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
	Apr	3.5	96.4	0.1	3.3	51.7	51.1

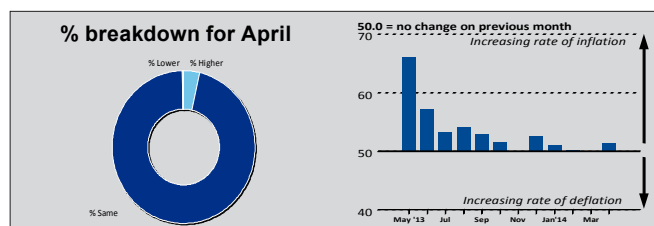


Average input prices faced by Lebanese private sector companies increased in April, following two successive months of broadly stable costs. However, the increase, primarily a consequence of higher purchases prices, was only modest overall, with the vast majority of panellists (a little over 96%) registering no change in cost burdens.

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	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
	Apr	3.5	96.4	0.1	3.4	51.7	51.4

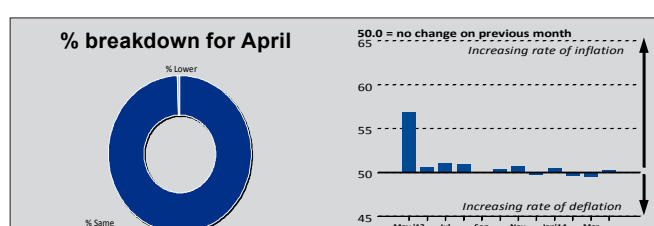


Latest data showed a return to purchase price inflation in April, following a broad stabilisation in average input prices during the previous month. Albeit only modest, the rate of increase was the fastest in 2014 so far. Panel members cited higher food prices and also commented on the impact of a stronger euro.

Input Costs: Staff Costs Index

Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.

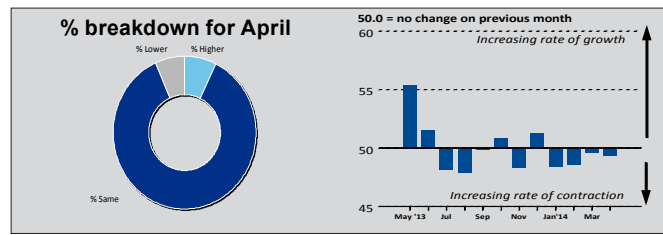
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2013	Dec	2.4	95.1	2.5	-0.1	50.0	49.7
2014	Jan	1.4	97.8	0.7	0.7	50.4	50.5
	Feb	0.0	99.5	0.5	-0.5	49.7	49.6
	Mar	0.4	99.5	0.2	0.2	50.1	49.5
	Apr	0.0	99.5	0.5	-0.5	49.8	50.2



Average staffing costs at Lebanese private sector companies rose for the first time in three months during April. That said, registering only fractionally above the 50.0 no-change threshold, the seasonally adjusted Staffing Costs Index signalled that the increase was marginal and slower than the concurrent rise in purchasing costs.

Quantity of Purchases Index Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.

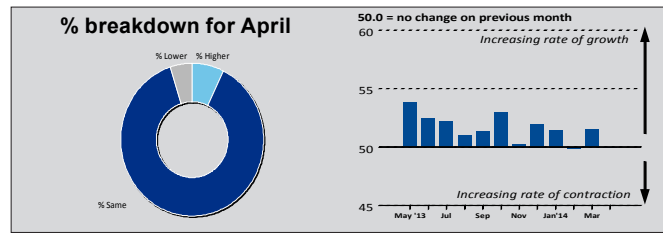
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2013	Dec	10.1	85.9	4.1	6.0	53.0	51.3
2014	Jan	3.7	85.1	11.2	-7.4	46.3	48.4
	Feb	5.5	86.5	8.0	-2.6	48.7	48.6
	Mar	3.5	94.2	2.3	1.1	50.6	49.6
	Apr	7.1	86.1	6.8	0.3	50.2	49.4



The quantity of items purchased by private sector companies in Lebanon decreased in April, with the rate of decline modest and little changed from that recorded in the preceding survey period. This extended the current sequence of decline in buying levels to four months, the longest in the short series history. A lack of incoming new work was main reason for lower purchasing activity according to panellists.

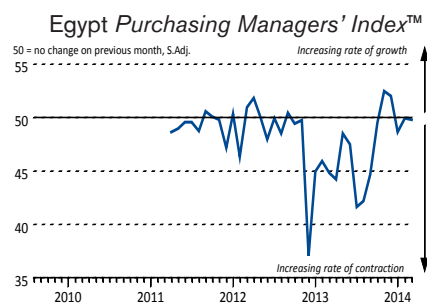
Stocks of Purchases Index Q. Please compare your stocks of purchases (in units) with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2013	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
	Apr	7.1	87.9	5.0	2.2	51.1	49.9

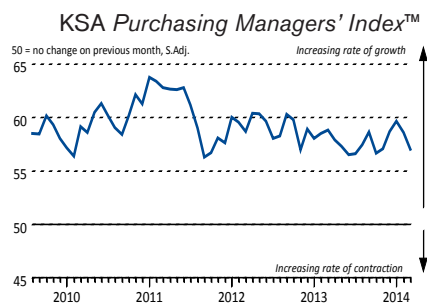


After having risen in March, inventory levels held broadly steady during April as purchasing activity fell in line with reduced output requirements. This was only the second time in the survey's 12-month history that stocks of purchases have not increased (following February's marginal decrease).

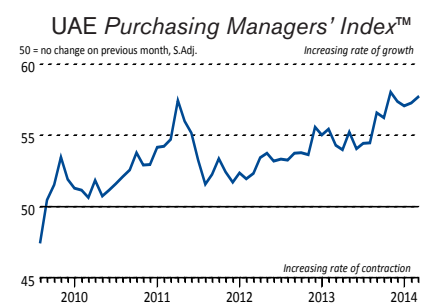
International PMI summary



Sources: Markit, HSBC.



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March data signalled a renewed deterioration in operating conditions in Egypt's non-oil producing private sector, with the headline HSBC Egypt PMI falling slightly from February's 50.0 to 49.8. That said, the latest reading was indicative of only a marginal contraction, with companies recording a fractional rise in output but lower order intakes and employment.

Market conditions in the Saudi Arabian non-oil private sector continued to strengthen but, according to panellists, at a slower pace. This weighed on total new order and output growth. Subsequently, the headline HSBC Saudi Arabia PMI slipped to a reading of 57.0 in March. That was down from February's 58.6 and a five-month low.

Operating conditions in the UAE's non-oil producing private sector improved at an accelerated pace in March, with the headline HSBC UAE PMI posting 57.7, up slightly from February's 57.3. The latest reading was the second-highest in the series history and stretched the current sequence of improvement to 55 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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