

## PMI signals contraction in private sector economy

### Key findings:

- **BLOM PMI™ remains firmly in contraction territory, at 45.5**
- **Output and new order levels drop amid security issues**
- **Prices charged fall at faster rate**

This report contains the fifth 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 health of Lebanon's private sector economy worsened during February, with the seasonally adjusted BLOM Lebanon PMI™ remaining well below the neutral 50.0 mark, at 45.5. Although this was higher than January's record low of 44.7, the reading nevertheless signalled a marked deterioration in overall performance.

Security issues further dampened output levels during February, stretching the current sequence of contraction to nine months. The degree to which business activity decreased was sharp, albeit slightly less marked than in the preceding survey period. New order intakes were also much lower than

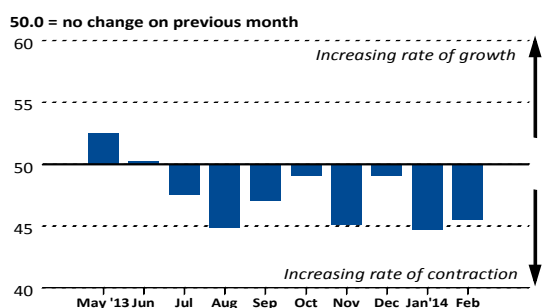
one month before, in part reflecting a second straight monthly decrease in new export orders. Moreover, the latest drop in foreign sales was the sharpest since last September.

February also saw a return to net job shedding in the private sector economy after a slight rise in employment at the start of the year. Despite this (albeit only slight) loss of staffing capacity, outstanding business decreased to the greatest extent in the survey's ten-month history.

The quantity of items bought by private sector companies in Lebanon contracted for the third time in the past four months in February, falling in line with reduced output requirements and weaker inflows of new work. In turn, inventories decreased for the first time since the survey's inception in May 2013, albeit only fractionally. Suppliers' delivery times lengthened on average, which anecdotal evidence suggested was partly due to heightened security checks at borders and internal check points.

Finally, there was little change on the costs front in February. Average purchase prices increased fractionally, while staff costs were marginally lower than in January. The net impact was broadly no change in overall operating costs. Prices charged by private sector firms on the other hand fell at the fastest rate in five months. Discounting was primarily a consequence of attempts to boost new business.

Lebanon Purchasing Managers' Index™ (PMI™)



	Unadj.	Seas. Adj.
2013 Dec	50.2	49.0
2014 Jan	43.3	44.7
Feb	45.9	45.5

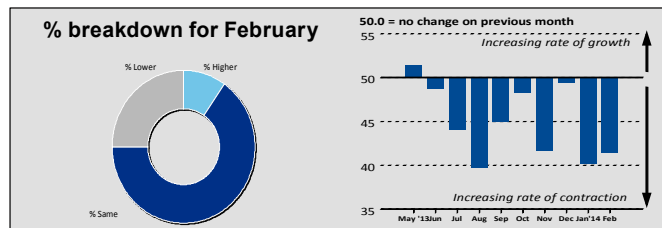
### Index Summary

(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
Dec'13	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
Jan'14	44.7	40.2	39.9	48.0	45.1	50.4	48.8	51.0	51.2	50.5	50.2	48.4	51.5
Feb	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

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

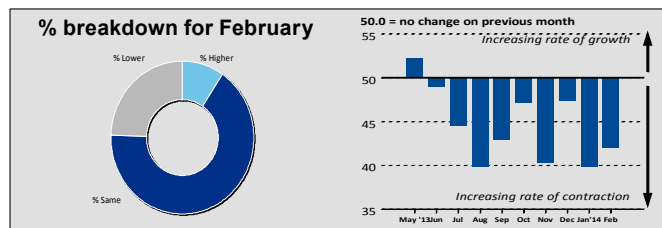
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2013	Oct	6.4	82.3	11.3	-4.8	47.6	48.3
	Nov	1.3	78.3	20.4	-19.2	40.4	41.6
	Dec	14.1	74.9	11.0	3.1	51.5	49.4
2014	Jan	6.1	63.6	30.3	-24.2	37.9	40.2
	Feb	9.6	65.4	25.0	-15.4	42.3	41.5



February's survey signalled another sharp decrease in the level of business activity in Lebanon's private sector economy. Despite having risen from January's five-month low, the seasonally adjusted Output Index remained well below the neutral 50.0 mark that separates growth from contraction. Output has now decreased for nine months in succession.

**New Orders Index** Q. Please compare the level of new orders received this month with the situation of one month ago.

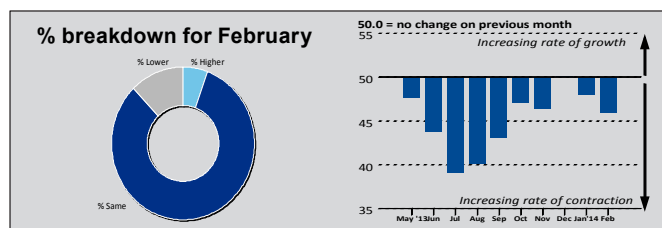
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2013	Oct	7.6	77.2	15.2	-7.6	46.2	47.2
	Nov	2.1	75.2	22.7	-20.7	39.7	40.3
	Dec	11.3	75.9	12.8	-1.5	49.2	47.4
2014	Jan	6.3	62.2	31.5	-25.2	37.4	39.9
	Feb	9.4	66.2	24.4	-15.0	42.5	42.0



Lebanese private sector companies recorded a further decrease in incoming new work in February, which they attributed mainly to ongoing security issues in the country. The rate of decline in new orders was sharp, albeit slower than in the preceding survey period. Around 24% of respondents recorded a drop in new business, versus 9% 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.

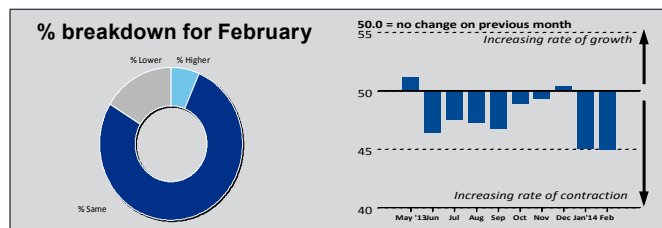
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2013	Oct	4.8	87.8	7.4	-2.6	48.7	47.1
	Nov	1.5	88.6	9.9	-8.4	45.8	46.4
	Dec	2.6	96.4	1.1	1.5	50.7	50.1
2014	Jan	5.6	83.6	10.9	-5.3	47.3	48.0
	Feb	5.6	82.2	12.2	-6.6	46.7	46.0



February saw a solid and accelerated decrease in the level of new export orders placed with private sector companies operating in Lebanon – the most marked since last September. This latest contraction in sales to foreign clients was the ninth in ten months of data collection, with December's negligible increase the only exception.

**Backlogs of Work Index** Q. Please compare the level of outstanding business in your company this month with the situation one month ago.

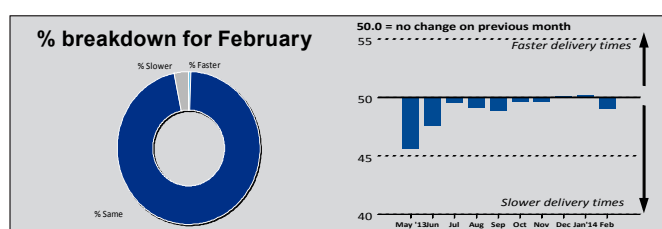
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2013	Oct	1.4	95.4	3.1	-1.7	49.2	48.9
	Nov	0.0	97.4	2.6	-2.6	48.7	49.4
	Dec	6.3	88.9	4.8	1.5	50.7	50.4
2014	Jan	3.8	78.9	17.2	-13.4	43.3	45.1
	Feb	6.5	77.2	16.3	-9.8	45.1	45.0



A lack of new orders to replace completed projects led to a second straight monthly decrease in backlogs of work at Lebanese private sector companies in February. Moreover, having inched lower since January, the respective seasonally adjusted index was at a new series low and indicative of a marked rate of decline overall.

**Suppliers' Delivery Times Index** Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.

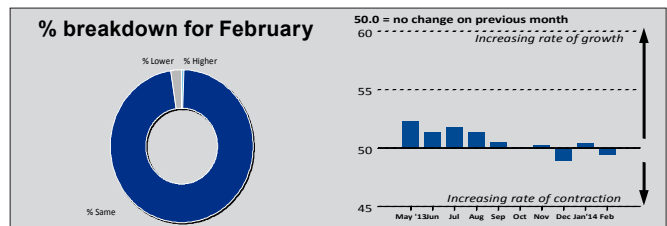
		Faster %	Same %	Slower %	Net +/-	Index	S.Adj. Index
2013	Oct	0.0	99.3	0.7	-0.7	49.7	49.7
	Nov	0.0	100.0	0.0	0.0	50.0	49.6
	Dec	0.6	98.7	0.7	-0.1	49.9	50.2
2014	Jan	1.0	98.1	0.9	0.1	50.1	50.2
	Feb	0.6	95.9	3.5	-2.9	48.6	49.0



Average supplier delivery times lengthened in February, following two consecutive months of improvement. Although only modest, the deterioration in vendor performance was the most marked since last September. Panellists that faced longer lead times sometimes linked this to delays caused by increased security at borders and internal check points.

**Employment Index** Q. Please compare the level of employment at your unit with the situation one month ago.

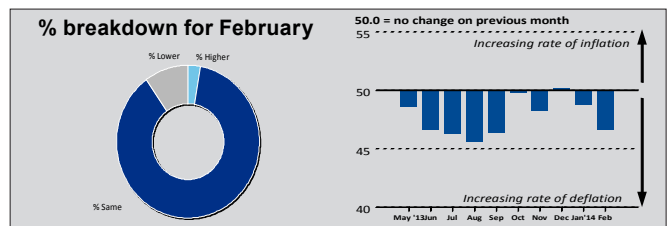
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2013	Oct	0.5	99.1	0.4	0.1	50.1	50.1
	Nov	1.3	98.5	0.2	1.1	50.5	50.2
	Dec	2.1	93.9	3.9	-1.8	49.1	48.9
2014	Jan	1.9	96.6	1.5	0.4	50.2	50.4
	Feb	0.6	96.8	2.6	-2.0	49.0	49.5



February data showed a decrease in private sector employment for the second time in the past three months, following a marginal increase during the opening month of the year. That said, the overall rate of net job losses was only marginal, with the vast majority (almost 97%) of respondents recording no change in their staff numbers since the previous month.

**Output Prices Index** Q. Please compare the average prices you charged this month with the situation one month ago.

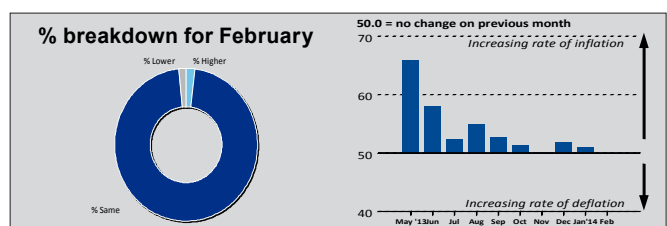
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2013	Oct	2.2	95.6	2.3	-0.1	49.9	49.8
	Nov	0.0	96.1	3.9	-3.9	48.1	48.2
	Dec	5.6	89.8	4.7	0.9	50.4	50.2
2014	Jan	2.7	89.0	8.3	-5.5	47.2	48.8
	Feb	2.8	87.3	9.9	-7.1	46.4	46.6



Output prices in Lebanon's private sector economy fell at the fastest rate for five months in February. According to anecdotal evidence, a number of companies reduced their charges as part of attempts to boost new business inflows. February's decrease in output prices followed a more modest reduction during the prior month.

**Overall Input Prices Index** Q. Please compare your overall average input prices this month with the situation one month ago.

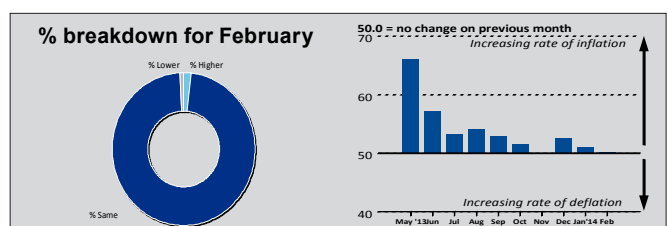
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2013	Oct	2.5	97.4	0.2	2.3	51.1	51.3
	Nov	0.2	99.6	0.2	0.0	50.0	50.2
	Dec	4.7	95.1	0.2	4.6	52.3	51.9
2014	Jan	2.0	97.6	0.3	1.7	50.9	51.0
	Feb	1.9	96.5	1.7	0.2	50.1	49.9



Posting broadly in line with the neutral 50.0 threshold, the seasonally adjusted Overall Input Prices Index indicated virtually no change in total cost burdens faced by Lebanese private sector firms in February. Prior to this, the index posted above the 50.0 mark in each month since data collection began in May 2013.

**Input Costs: Purchase Prices Index** Q. Please compare the price of your purchases (volume-weighted) this month with the situation one month ago.

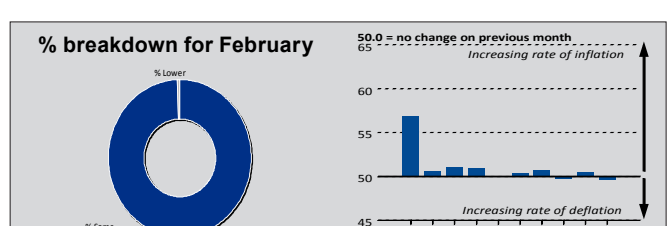
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2013	Oct	2.5	97.4	0.2	2.3	51.1	51.5
	Nov	0.4	99.4	0.2	0.2	50.1	50.0
	Dec	5.7	94.1	0.2	5.5	52.8	52.6
2014	Jan	2.8	96.2	1.0	1.9	50.9	51.2
	Feb	1.7	97.6	0.7	0.9	50.5	50.2



Average purchase prices increased for the third month in a row in February, but the rate of inflation was the weakest in this sequence and only marginal overall. Where increased in purchasing costs were registered (at just 2% of companies), this was attributed to higher prices for flowers and a range of meats.

**Input Costs: Staff Costs Index** Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.

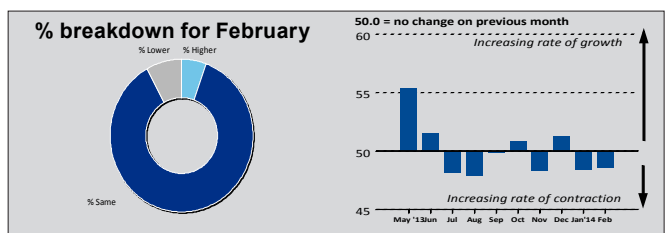
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2013	Oct	0.7	98.7	0.6	0.1	50.1	50.4
	Nov	1.3	98.5	0.2	1.1	50.6	50.7
	Dec	2.4	95.1	2.5	-0.1	50.0	49.7
2014	Jan	1.4	97.8	0.7	0.7	50.4	50.5
	Feb	0.0	99.5	0.5	-0.5	49.7	49.6



Albeit only fractional, the latest increase in purchase prices contrasted with a renewed decline in staffing costs in February. After having climbed above the 50.0 no-change mark in the opening month of the year to signal a marginal increase in labour costs, the respective seasonally adjusted index dipped back below neutrality and was consistent with a slight drop in staffing costs.

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

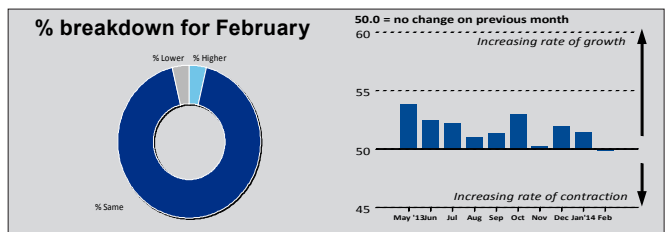
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2013	Oct	7.4	85.2	7.4	0.0	50.0	50.8
	Nov	2.4	93.1	4.5	-2.1	49.0	48.4
	Dec	10.1	85.9	4.1	6.0	53.0	51.3
2014	Jan	3.7	85.1	11.2	-7.4	46.3	48.4
	Feb	5.5	86.5	8.0	-2.6	48.7	48.6



Faced with falling order intakes and lower business activity, private sector firms in Lebanon reduced their buying levels in February. The decrease in quantities of items purchased was only modest relative to the downturn in output, however, and slightly slower than the decline observed in the preceding survey period.

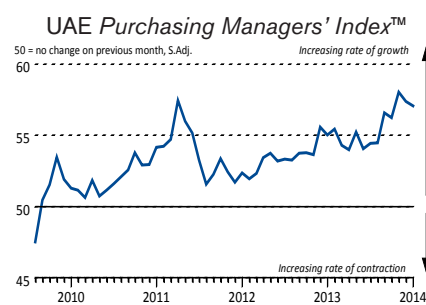
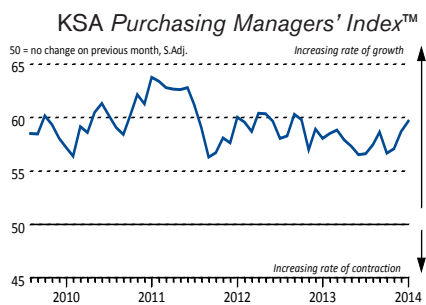
**Stocks of Purchases Index** Q. Please compare your stocks of purchases (in units) with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2013	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
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



February's fall in buying activity contributed to a first (albeit only marginal) decrease in stocks of purchases at Lebanese private sector companies in ten months of data collection. A number of companies reported setting their inventory levels according to new order intakes which, having fallen in February, led to deliberate stock trimming.

**International PMI summary**



The headline HSBC Egypt PMI slipped from December's 52.0 to 48.7 in January, signalling the first deterioration in operating conditions in three months. The rate of contraction was modest, however, and weaker than those seen throughout most of last year. Private sector companies reported declines in both output and new orders in January, following growth in the previous two months.

At 59.7, the HSBC/SABB Saudi Arabia PMI remained comfortably above the 50.0 no-change mark during January to signal a further marked expansion of the Saudi Arabian non-oil producing private sector economy. Up from 58.7 in December and rising for a third month in succession, the PMI signalled the sharpest expansion since October 2012.

The headline HSBC United Arab Emirates PMI fell slightly from December's 57.4 to 57.1 in January, signalling a further improvement in operating conditions in the UAE's non-oil producing private sector. Operating conditions in the sector have now improved continuously on a monthly basis since September 2009, with the latest reading among the highest seen in the survey history.

**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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