

## Lebanese economic downturn eases at start of Q4 2013

### Key findings:

- **PMI at 49.1 in October (September 47.0)**
- **Output and new orders fall further**
- **Employment little changed**

This report contains the first 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 49.1 in October, the BLOM PMI™ posted a reading below the neutral 50.0 mark, indicating a deterioration in overall operating conditions for the fourth successive month. However, by rising further from a low of 44.9 in August, the rate of contraction is now only marginal, with the PMI having signalled a marked easing in the pace of contraction over the past two months.

Lebanese companies reported that levels of production, new orders and new export orders were all moderately lower than one month ago in October. The main factor driving the trends in these variables remained the challenging economic and political situation within Lebanon and also in neighbouring states.

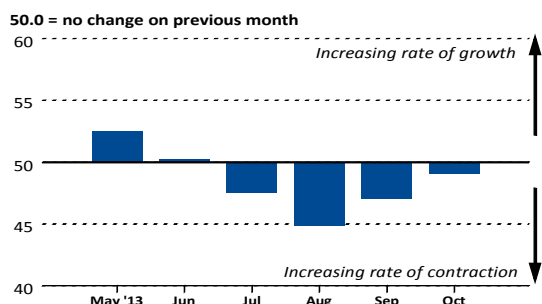
The downturn in the Lebanese private economy was also partly reflected in the labour market, as lower levels of business activity and new orders discouraged companies from taking on additional staff. Employment levels were therefore broadly unchanged since September, while average wages and salaries were also little-changed over the month.

Overall cost inflationary pressure continued to ease in October. Apart of the near-stagnant trend in staff salaries, companies reported a further easing in the rate of increase in average purchase prices as well. Moreover, average purchasing costs rose at the weakest pace in the six-month survey history.

The PMI survey also collects data on suppliers' delivery times, which provide a useful advance indication of likely supply-side inflationary influences. When lead times lengthen, this often indicates that input prices may rise as suppliers struggle to meet current raw material demand. October saw little-change in average vendor lead times, consistent with a benign near-term outlook for supply-chain price pressures.

Efforts to rebuild stocks led to an increase in purchasing activity for the first time in four months during October. Input buying activity rose to a modest extent, with just over 7% of companies reporting an increase. Subsequently, stocks of purchases showed a solid expansion since September, with the rate of growth in inventory levels the steepest since May.

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



Purchasing Managers' Index			
		Unadj.	Seas. Adj.
2013	Aug	46.3	44.9
	Sep	47.8	47.0
	Oct	48.6	49.1

### Index Summary

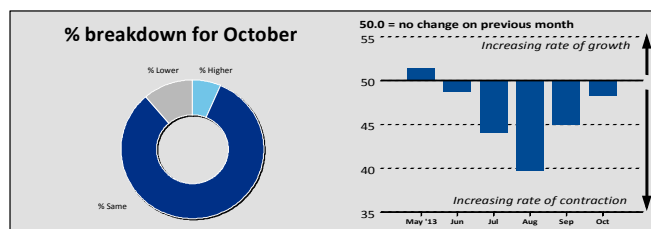
(seasonally adjusted, 50 = no change on previous month)

	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
Aug'13	44.9	39.8	39.9	40.1	47.3	51.4	45.6	55.0	54.1	50.9	49.1	47.9	51.0
Sep	47.0	45.0	43.0	43.1	46.8	50.5	46.3	52.7	53.0	50.1	48.9	49.9	51.3
Oct	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

## Output Index

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

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
<b>2013</b>	Jun	23.0	54.3	22.7	0.3	<b>50.1</b>	<b>48.8</b>
	Jul	15.4	58.3	26.3	-10.9	<b>44.5</b>	<b>44.1</b>
	Aug	14.3	54.5	31.2	-16.9	<b>41.5</b>	<b>39.8</b>
	Sep	11.9	68.2	19.9	-8.0	<b>46.0</b>	<b>45.0</b>
	Oct	6.4	82.3	11.3	-4.8	<b>47.6</b>	<b>48.3</b>

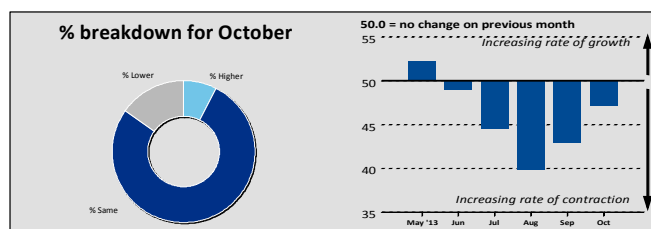


Output in Lebanon's private sector economy continued to decline in October, albeit at a slower rate. This was highlighted by the seasonally adjusted Output Index, which remained below the 50.0 no-change mark that separates growth from contraction but, by rising since September, signalled a weaker fall. Panellists continued to blame falling output on lower market activity and a fall in volumes of new work.

## 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
<b>2013</b>	Jun	21.8	56.0	22.2	-0.4	<b>49.8</b>	<b>49.0</b>
	Jul	14.7	61.2	24.1	-9.4	<b>45.3</b>	<b>44.6</b>
	Aug	17.8	48.0	34.2	-16.4	<b>41.8</b>	<b>39.9</b>
	Sep	12.6	64.4	23.0	-10.3	<b>44.8</b>	<b>43.0</b>
	Oct	7.6	77.2	15.2	-7.6	<b>46.2</b>	<b>47.2</b>

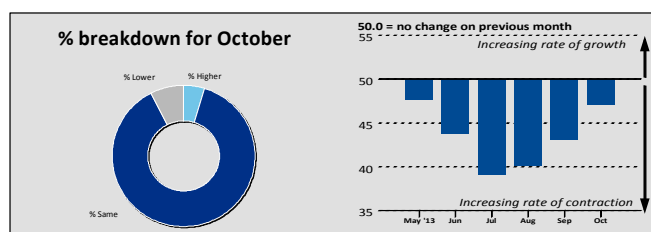


The seasonally adjusted New Orders Index remained below the crucial 50.0 no-change mark for a fifth successive month in October. A rise in the index since September did, however, point to a slower pace of decline. Anecdotal evidence from panellists suggested that the challenging economic and political situation within Lebanon and neighbouring states was continuing to weigh on demand.

## 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
<b>2013</b>	Jun	8.9	71.8	19.2	-10.3	<b>44.9</b>	<b>43.8</b>
	Jul	5.2	62.9	31.9	-26.7	<b>36.6</b>	<b>39.1</b>
	Aug	8.2	67.8	24.0	-15.9	<b>42.1</b>	<b>40.1</b>
	Sep	3.9	80.0	16.2	-12.3	<b>43.9</b>	<b>43.1</b>
	Oct	4.8	87.8	7.4	-2.6	<b>48.7</b>	<b>47.1</b>

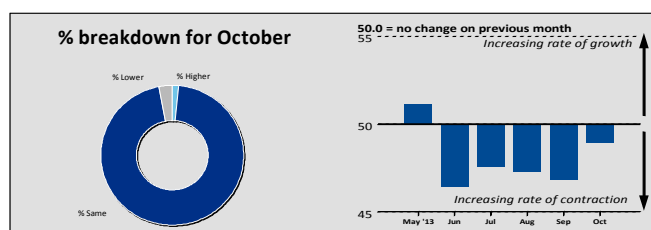


As has been the case throughout the short survey-history, the level of new export orders received by companies operating within Lebanon's private sector continued to fall during October. Rising for a third successive month to its best reading since May, the seasonally adjusted New Export Orders Index did, however, show a weaker fall in export orders.

## 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
<b>2013</b>	Jun	12.7	67.1	20.2	-7.5	<b>46.3</b>	<b>46.4</b>
	Jul	7.5	82.1	10.4	-3.0	<b>48.5</b>	<b>47.6</b>
	Aug	14.0	71.1	15.0	-1.0	<b>49.5</b>	<b>47.3</b>
	Sep	6.4	81.3	12.3	-5.9	<b>47.0</b>	<b>46.8</b>
	Oct	1.4	95.4	3.1	-1.7	<b>49.2</b>	<b>48.9</b>

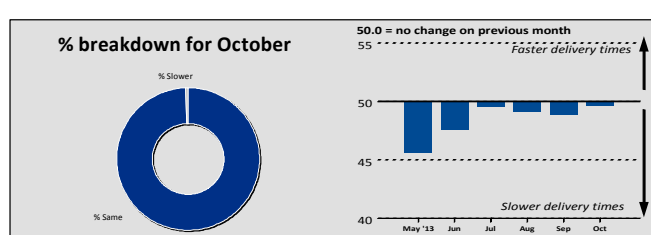


A lack of new orders received by Lebanese private sector companies meant they were again able to make inroads into their work outstanding during October. Posting below the 50.0 no-change mark for the fifth month running, but rising to its highest level since May, the seasonally adjusted Backlogs of Work Index registered a reading indicative of a modest fall in work outstanding during October.

## 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
<b>2013</b>	Jun	4.2	83.6	12.2	-7.9	<b>46.0</b>	<b>47.6</b>
	Jul	3.3	93.7	3.1	0.2	<b>50.1</b>	<b>49.5</b>
	Aug	3.7	89.2	7.2	-3.5	<b>48.2</b>	<b>49.1</b>
	Sep	0.0	98.4	1.6	-1.6	<b>49.2</b>	<b>48.9</b>
	Oct	0.0	99.3	0.7	-0.7	<b>49.7</b>	<b>49.7</b>

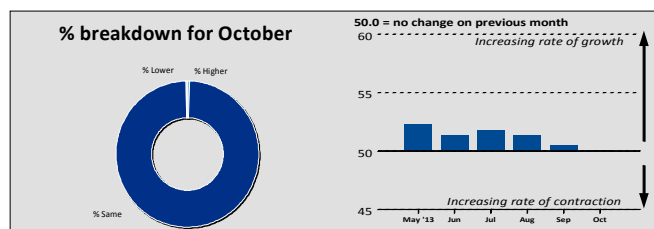


Delivery times continued to lengthen during October, albeit only marginally. This was highlighted by the seasonally adjusted Suppliers' Delivery Times Index which registered a reading close to the 50.0 no-change mark that separates improving from deteriorating vendor performance. Where lead times did lengthen, panellists reported delays at ports and borders, in part reflective of a heightened security situation.

**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
<b>2013</b>	Jun	7.3	86.6	6.1	1.2	<b>50.6</b>	<b>51.4</b>
	Jul	7.1	90.5	2.3	4.8	<b>52.4</b>	<b>51.8</b>
	Aug	6.0	91.3	2.8	3.2	<b>51.6</b>	<b>51.4</b>
	Sep	2.3	95.8	1.9	0.4	<b>50.2</b>	<b>50.5</b>
	Oct	0.5	99.1	0.4	0.1	<b>50.1</b>	<b>50.1</b>

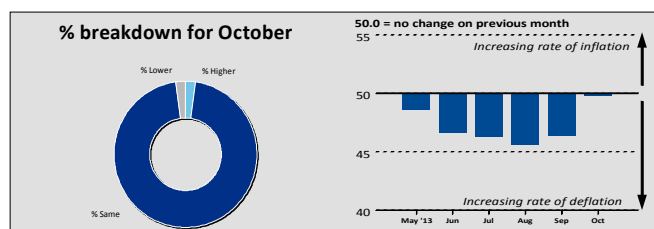


Employment in Lebanon was broadly unchanged over the month in October. This was highlighted by the seasonally adjusted Employment Index falling to a level close to the no-change mark of 50.0, with the vast majority of the survey panel (99%) reporting that staffing levels were unchanged over the month. Companies linked the muted trend in the labour market to the current economic downturn.

**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
<b>2013</b>	Jun	6.9	77.7	15.5	-8.6	<b>45.7</b>	<b>46.6</b>
	Jul	2.4	88.1	9.6	-7.2	<b>46.4</b>	<b>46.3</b>
	Aug	4.8	79.7	15.6	-10.8	<b>44.6</b>	<b>45.6</b>
	Sep	4.8	84.1	11.1	-6.3	<b>46.8</b>	<b>46.3</b>
	Oct	2.2	95.6	2.3	-0.1	<b>49.9</b>	<b>49.8</b>

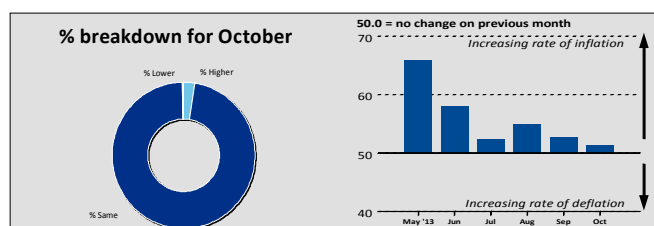


After accounting for seasonal factors, the Output Prices Index rose to a level close to the neutral 50.0 mark, consistent with little change in selling prices over the month. Approximately 96% of panellists reported no change in output charges, while similar proportions of firms reported an increase as reported a decrease (around 2% in both cases). Weak pricing power was often linked to strong competition.

**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
<b>2013</b>	Jun	21.7	74.2	4.1	17.6	<b>58.8</b>	<b>58.1</b>
	Jul	7.0	92.6	0.4	6.5	<b>53.3</b>	<b>52.4</b>
	Aug	11.3	88.4	0.3	11.0	<b>55.5</b>	<b>55.0</b>
	Sep	5.5	93.6	0.9	4.7	<b>52.3</b>	<b>52.7</b>
	Oct	2.5	97.4	0.2	2.3	<b>51.1</b>	<b>51.3</b>

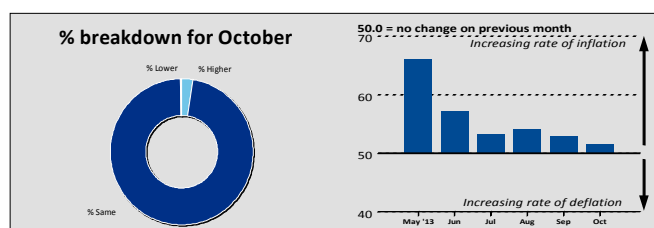


Average overall input costs rose again in October, continuing a trend observed since data were first collected in May. Although the seasonally adjusted Overall Input Costs Index remained above the 50.0 mark – signalling a cost increase – its level fell for the second month running to indicate an easing in the overall rate of inflation. Indeed, the latest cost increase was the weakest during the six months of data collection.

**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
<b>2013</b>	Jun	19.8	75.9	4.2	15.6	<b>57.8</b>	<b>57.2</b>
	Jul	6.0	93.6	0.4	5.5	<b>52.8</b>	<b>53.4</b>
	Aug	10.9	88.6	0.5	10.4	<b>55.2</b>	<b>54.1</b>
	Sep	5.5	93.6	0.8	4.7	<b>52.3</b>	<b>53.0</b>
	Oct	2.5	97.4	0.2	2.3	<b>51.1</b>	<b>51.5</b>

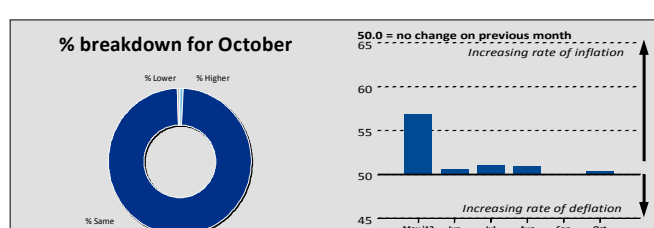


Average purchasing costs increased at a modest pace during October. The seasonally adjusted Purchase Prices Index – which tracks the trend in the costs of raw materials and semi-manufactured goods bought by Lebanese companies – remained above the no-change mark of 50.0, as it has throughout the six months of data collection. However, the rate of inflation eased further to the weakest during that sequence.

**Input Costs: Staff Costs Index**

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

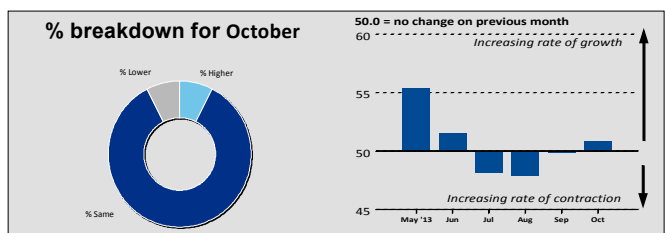
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
<b>2013</b>	Jun	5.1	89.8	5.1	0.0	<b>50.0</b>	<b>50.7</b>
	Jul	4.4	93.8	1.8	2.6	<b>51.3</b>	<b>51.1</b>
	Aug	3.2	94.9	1.8	1.4	<b>50.7</b>	<b>50.9</b>
	Sep	1.9	97.2	0.9	1.1	<b>50.5</b>	<b>50.1</b>
	Oct	0.7	98.7	0.6	0.1	<b>50.1</b>	<b>50.4</b>



Lebanon private sector companies reported a further increase in average staff costs in October. However, the rate of increase in average wages and salaries signalled by the seasonally adjusted Staff Costs Index remained only marginal, in part reflecting the recent near-stagnant trend in the job market. The vast majority of the panel reported no change in staff costs during the latest survey period.

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

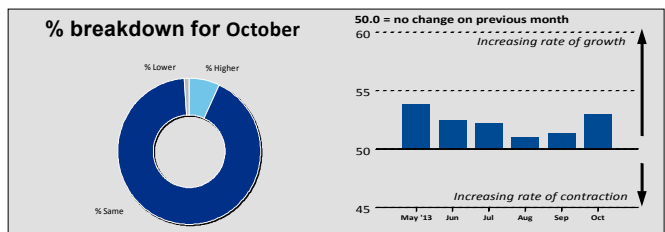
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
<b>2013</b>	Jun	22.6	60.9	16.5	6.1	<b>53.1</b>	<b>51.6</b>
	Jul	11.4	74.1	14.5	-3.1	<b>48.4</b>	<b>48.2</b>
	Aug	15.0	70.2	14.9	0.1	<b>50.1</b>	<b>47.9</b>
	Sep	11.4	79.3	9.3	2.1	<b>51.1</b>	<b>49.9</b>
	Oct	7.4	85.2	7.4	0.0	<b>50.0</b>	<b>50.8</b>



The seasonally adjusted Quantity of Purchases Index rose back above the no-change mark of 50.0 in October, to signal an increase in input purchasing following declines in the prior three months. However, the rate of growth in purchasing volumes indicated by the index was only moderate. Where an increase was reported, companies generally linked this to the rebuilding of stocks.

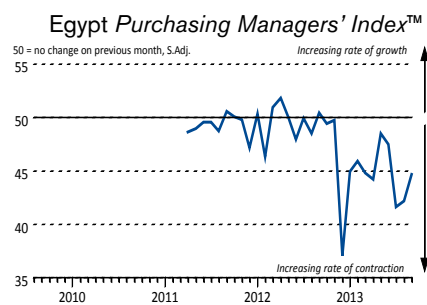
**Stocks of Purchases Index** Q. Please compare your stocks of purchases (in units) with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
<b>2013</b>	Jun	22.0	62.9	15.1	6.9	<b>53.5</b>	<b>52.4</b>
	Jul	12.0	81.3	6.7	5.3	<b>52.6</b>	<b>52.2</b>
	Aug	14.8	76.8	8.5	6.3	<b>53.2</b>	<b>51.0</b>
	Sep	6.8	90.5	2.7	4.1	<b>52.1</b>	<b>51.3</b>
	Oct	6.8	92.1	1.1	5.7	<b>52.9</b>	<b>53.0</b>

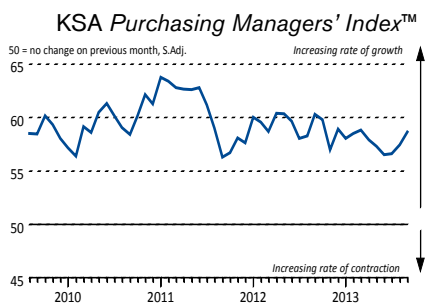


Lebanon private sector companies reported a further increase in their stock holdings during October. The level of inventories has now risen in each month since the survey began in May. Furthermore, the latest survey period saw the rate of increase accelerate to the fastest for five months. Companies generally linked increased inventory holdings to higher levels of input purchasing.

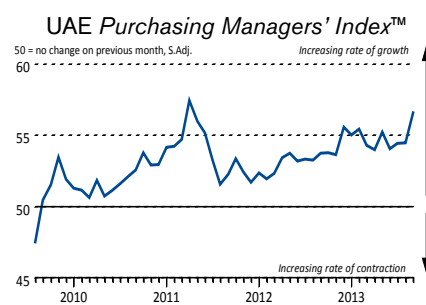
**International PMI summary**



Sources: Markit, HSBC.



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Operating conditions in Egypt's non-oil producing private sector continued to deteriorate in September, with the headline PMI posting 44.7, up from August's 42.2. September data marked the twelfth consecutive monthly deterioration in operating conditions. A further fall in activity in September was mainly linked to a lack of raw materials and low business.

Following a trend observed throughout the 50-month survey history, operating conditions in Saudi Arabia's non-oil producing private sector improved in September. The headline PMI registered a six-month high of 58.7, up from August's 57.5. September data signalled a further rise in output levels, with growth accelerating to a five-month high. Order book volumes also rose at a faster pace.

The seasonally adjusted UAE PMI posted a 29-month high of 56.6 in September, up from August's 54.5. Operating conditions in the non-oil producing sector have improved continuously since September 2009. The latest survey results signalled a sharp increase in activity. Output growth was the highest since May 2011 and largely attributed to increased new business.

**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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