

## PMI slips to five-month low in February

### Key findings:

- **Reductions in output and new orders accelerate**
- **Exports post sharpest drop since last August**
- **Rate of decline in output prices quickens slightly**

This report contains the seventeenth public release of data collected from the 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<sup>TM</sup> (PMI<sup>TM</sup>)*.

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 headline BLOM Lebanon PMI fell to its lowest level in five months during February, registering 48.7 from 49.5 in January. That signalled an accelerated deterioration in business conditions within Lebanon's private sector economy. Adjusted for seasonal factors, the headline PMI has now registered below the neutral 50.0 threshold in each of the past 20 months.

Both output and the level of incoming new work at private sector companies decreased at faster rates, with anecdotal evidence citing security and political issues as the main

factors causing operating conditions to worsen. As well as weaker demand in the domestic market, February's survey also indicated an accelerated drop in new business from abroad – the most marked since last August.

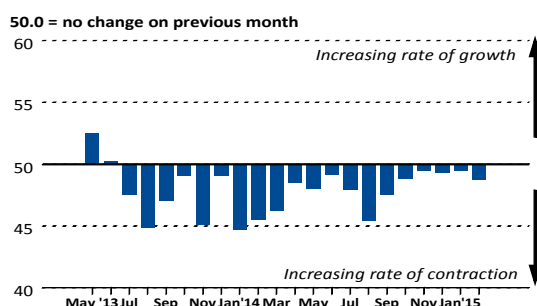
A slight net gain in employment was recorded despite the general downturn in activity. The combination of increased staffing numbers and lower intakes of new work contributed to a reduction in the amount of uncompleted orders at Lebanese firms, the second in consecutive months.

The quantity of inputs bought by Lebanese private sector companies decreased slightly and for the first time in five months in February. As well as leading stocks of purchases to fall, the drop in purchasing activity also helped relieve pressure on suppliers whose delivery times shortened again. Vendor performance improved to a greater extent than in January.

Overall input prices across Lebanon's private sector economy decreased for the third month running in February. Slight falls in both purchase prices and average staff pay contributed to the drop in total cost burdens.

On the output price front, February saw companies lower their charges for the eighth straight month amid reports of competitive pressures. The rate of decline was the most marked since last October, albeit still modest overall.

### Lebanon Purchasing Managers' Index<sup>TM</sup> (PMI<sup>TM</sup>)



### Purchasing Managers' Index

|      |     | Unadj. | Seas. Adj. |
|------|-----|--------|------------|
| 2014 | Dec | 50.5   | 49.3       |
| 2015 | Jan | 47.9   | 49.5       |
|      | Feb | 48.9   | 48.7       |

### Index Summary

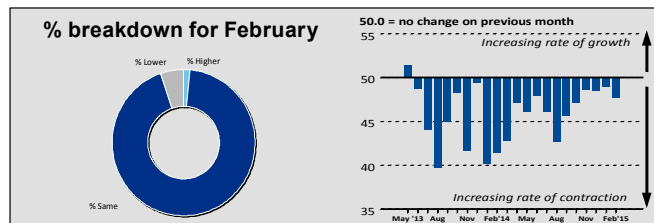
(seasonally adjusted, 50 = no change on previous month)

|        | 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'14 | 49.3 | 48.5   | 48.7       | 50.0          | 50.6             | 49.8       | 49.6          | 49.7                | 49.5           | 49.8        | 50.1           | 50.1                  | 50.8                |
| Jan'15 | 49.5 | 49.0   | 49.2       | 48.7          | 48.8             | 50.0       | 49.8          | 49.8                | 50.2           | 50.0        | 50.3           | 51.4                  | 50.4                |
| Feb    | 48.7 | 47.6   | 47.7       | 46.2          | 48.9             | 50.5       | 49.1          | 49.6                | 49.7           | 49.5        | 50.4           | 49.5                  | 49.6                |

## Output Index

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

|             |     | Higher<br>% | Same<br>% | Lower<br>% | Net<br>+/- | Index       | S.Adj.<br>Index |
|-------------|-----|-------------|-----------|------------|------------|-------------|-----------------|
| <b>2014</b> | Oct | 3.2         | 89.7      | 7.1        | -3.9       | <b>48.0</b> | <b>47.1</b>     |
|             | Nov | 0.8         | 93.7      | 5.5        | -4.8       | <b>47.6</b> | <b>48.7</b>     |
|             | Dec | 3.4         | 94.3      | 2.2        | 1.2        | <b>50.6</b> | <b>48.5</b>     |
| <b>2015</b> | Jan | 3.2         | 85.9      | 10.9       | -7.6       | <b>46.2</b> | <b>49.0</b>     |
|             | Feb | 1.3         | 93.3      | 5.3        | -4.0       | <b>48.0</b> | <b>47.6</b>     |

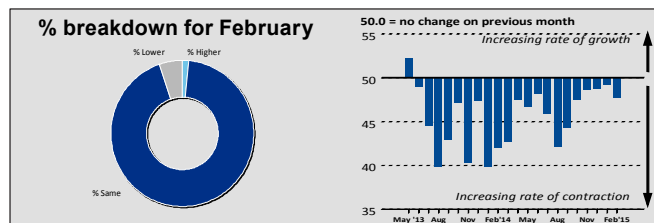


The level of business activity in Lebanon's private sector economy decreased at a faster rate in February. This was highlighted by the seasonally adjusted Output Index falling further below the neutral 50.0 threshold, to its lowest level since last October. Security issues were mentioned by a number of those companies reporting lower output.

## New Orders Index

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

|             |     | Higher<br>% | Same<br>% | Lower<br>% | Net<br>+/- | Index       | S.Adj.<br>Index |
|-------------|-----|-------------|-----------|------------|------------|-------------|-----------------|
| <b>2014</b> | Oct | 3.0         | 89.6      | 7.4        | -4.3       | <b>47.8</b> | <b>47.5</b>     |
|             | Nov | 1.1         | 93.4      | 5.4        | -4.3       | <b>47.8</b> | <b>48.7</b>     |
|             | Dec | 3.5         | 94.1      | 2.4        | 1.1        | <b>50.5</b> | <b>48.7</b>     |
| <b>2015</b> | Jan | 3.1         | 86.0      | 10.9       | -7.9       | <b>46.1</b> | <b>49.2</b>     |
|             | Feb | 1.3         | 93.4      | 5.3        | -3.9       | <b>48.0</b> | <b>47.7</b>     |

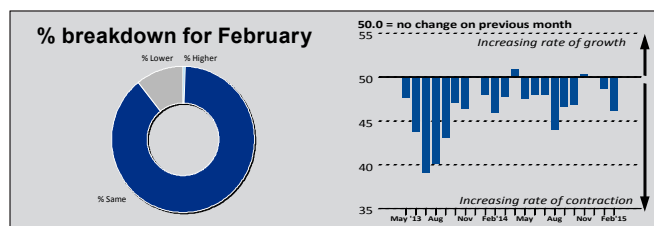


February saw the level of new business at Lebanese private sector firms decrease again, extending the current sequence of contraction to 21 months. Furthermore, after easing to only a marginal pace in the previous month, the rate of decline in new business reaccelerated in the latest period and was solid.

## New Export Orders Index

Q. Please compare the level of new export orders received this month with the situation of one month ago.

|             |     | Higher<br>% | Same<br>% | Lower<br>% | Net<br>+/- | Index       | S.Adj.<br>Index |
|-------------|-----|-------------|-----------|------------|------------|-------------|-----------------|
| <b>2014</b> | Oct | 4.1         | 88.6      | 7.3        | -3.2       | <b>48.4</b> | <b>46.9</b>     |
|             | Nov | 1.5         | 97.4      | 1.1        | 0.4        | <b>50.2</b> | <b>50.4</b>     |
|             | Dec | 3.7         | 93.9      | 2.3        | 1.4        | <b>50.7</b> | <b>50.0</b>     |
| <b>2015</b> | Jan | 0.8         | 94.2      | 5.0        | -4.2       | <b>47.9</b> | <b>48.7</b>     |
|             | Feb | 0.6         | 88.6      | 10.8       | -10.3      | <b>44.9</b> | <b>46.2</b>     |

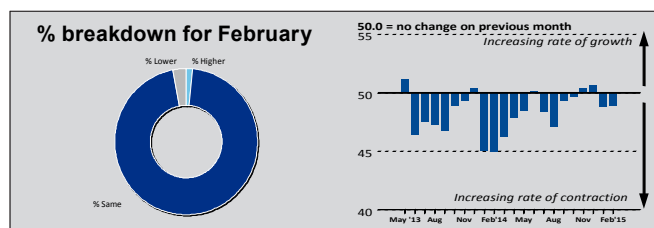


Businesses operating in Lebanon's private sector economy recorded a sharp and accelerated decrease in new work from abroad in February. The degree to which new export orders decreased was in fact the most marked since last August and slightly faster than the average recorded over the series history.

## Backlogs of Work Index

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

|             |     | Higher<br>% | Same<br>% | Lower<br>% | Net<br>+/- | Index       | S.Adj.<br>Index |
|-------------|-----|-------------|-----------|------------|------------|-------------|-----------------|
| <b>2014</b> | Oct | 2.8         | 94.7      | 2.5        | 0.3        | <b>50.1</b> | <b>49.7</b>     |
|             | Nov | 1.2         | 97.1      | 1.8        | -0.6       | <b>49.7</b> | <b>50.4</b>     |
|             | Dec | 3.5         | 95.0      | 1.5        | 2.0        | <b>51.0</b> | <b>50.6</b>     |
| <b>2015</b> | Jan | 1.8         | 92.4      | 5.8        | -4.0       | <b>48.0</b> | <b>48.8</b>     |
|             | Feb | 1.4         | 95.6      | 3.0        | -1.7       | <b>49.2</b> | <b>48.9</b>     |

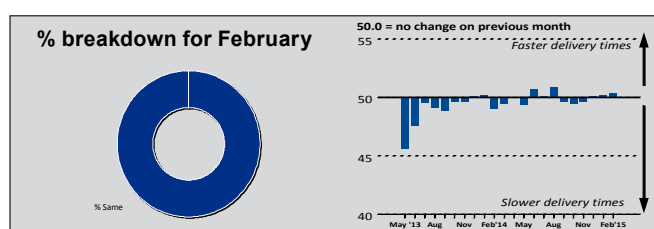


Reflective of lower inflows of new business, the amount of uncompleted work at Lebanese companies dropped during February. The rate at which work-in-hand (both in progress and not yet started) decreased was little-changed from the modest pace recorded in the preceding survey period.

## Suppliers' Delivery Times Index

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

|             |     | Faster<br>% | Same<br>% | Slower<br>% | Net<br>+/- | Index       | S.Adj.<br>Index |
|-------------|-----|-------------|-----------|-------------|------------|-------------|-----------------|
| <b>2014</b> | Oct | 0.0         | 99.7      | 0.3         | -0.3       | <b>49.8</b> | <b>49.5</b>     |
|             | Nov | 0.0         | 100.0     | 0.0         | 0.0        | <b>50.0</b> | <b>49.6</b>     |
|             | Dec | 0.0         | 99.7      | 0.3         | -0.3       | <b>49.9</b> | <b>50.1</b>     |
| <b>2015</b> | Jan | 0.5         | 99.3      | 0.2         | 0.3        | <b>50.2</b> | <b>50.3</b>     |
|             | Feb | 0.0         | 100.0     | 0.0         | 0.0        | <b>50.0</b> | <b>50.4</b>     |



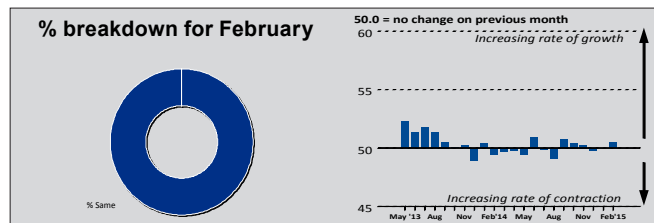
Suppliers' delivery times decreased on average during February, in line with the trend seen since last December. Adjusted for the influence of seasonal variations, the Suppliers' Delivery Times Index was at its highest level in six months, albeit remaining indicative of only a marginal improvement in vendor performance overall.

## Employment Index

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

|             |     | Higher<br>% | Same<br>% | Lower<br>% | Net<br>+/- | Index       | S.Adj.<br>Index |
|-------------|-----|-------------|-----------|------------|------------|-------------|-----------------|
| <b>2014</b> | Oct | 1.2         | 98.8      | 0.0        | 1.2        | <b>50.6</b> | <b>50.4</b>     |
|             | Nov | 0.3         | 99.7      | 0.0        | 0.3        | <b>50.1</b> | <b>50.3</b>     |
|             | Dec | 0.4         | 99.6      | 0.0        | 0.4        | <b>50.2</b> | <b>49.8</b>     |
| <b>2015</b> | Jan | 0.7         | 99.3      | 0.0        | 0.7        | <b>50.3</b> | <b>50.0</b>     |
|             | Feb | 0.0         | 100.0     | 0.0        | 0.0        | <b>50.0</b> | <b>50.5</b>     |

February's survey indicated a rise in the level of employment in Lebanon's private sector economy, the first in three months following a fractional decrease during the final month of 2014 and no change in January. The rate of job creation was the fastest seen since September 2014, but nevertheless only marginal overall.

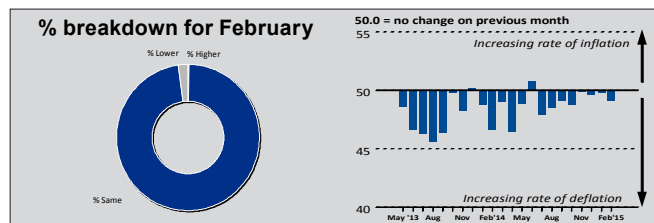


## Output Prices Index

Q. Please compare the average prices you charged this month with the situation one month ago.

|             |     | Higher<br>% | Same<br>% | Lower<br>% | Net<br>+/- | Index       | S.Adj.<br>Index |
|-------------|-----|-------------|-----------|------------|------------|-------------|-----------------|
| <b>2014</b> | Oct | 0.5         | 97.4      | 2.1        | -1.6       | <b>49.2</b> | <b>48.7</b>     |
|             | Nov | 0.0         | 99.4      | 0.6        | -0.6       | <b>49.7</b> | <b>49.9</b>     |
|             | Dec | 0.3         | 99.2      | 0.5        | -0.3       | <b>49.9</b> | <b>49.6</b>     |
| <b>2015</b> | Jan | 0.0         | 96.5      | 3.5        | -3.5       | <b>48.2</b> | <b>49.8</b>     |
|             | Feb | 0.2         | 97.4      | 2.4        | -2.1       | <b>48.9</b> | <b>49.1</b>     |

Continuing the trend observed every month since last July, average prices charged by companies operating in Lebanon's private sector economy decreased in February. Although the fastest in four months, the rate of decline in output prices was only modest, with the vast majority of surveyed firms (97%) reporting no change in their selling prices.

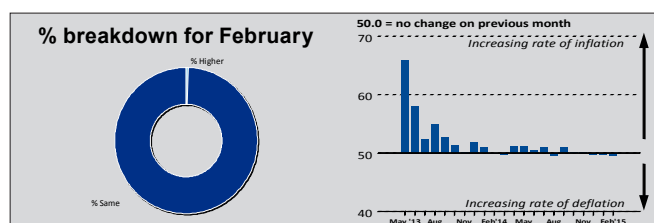


## Overall Input Prices Index

Q. Please compare your overall average input prices this month with the situation one month ago.

|             |     | Higher<br>% | Same<br>% | Lower<br>% | Net<br>+/- | Index       | S.Adj.<br>Index |
|-------------|-----|-------------|-----------|------------|------------|-------------|-----------------|
| <b>2014</b> | Oct | 0.1         | 99.5      | 0.4        | -0.3       | <b>49.8</b> | <b>50.2</b>     |
|             | Nov | 0.3         | 99.6      | 0.2        | 0.1        | <b>50.0</b> | <b>50.2</b>     |
|             | Dec | 0.0         | 99.8      | 0.2        | -0.2       | <b>49.9</b> | <b>49.7</b>     |
| <b>2015</b> | Jan | 0.7         | 98.3      | 1.0        | -0.3       | <b>49.9</b> | <b>49.8</b>     |
|             | Feb | 0.5         | 99.5      | 0.0        | 0.5        | <b>50.2</b> | <b>49.6</b>     |

Overall input prices faced by Lebanese private sector companies decreased marginally and for the third month in succession during February. Contributing to lower total cost burdens were reductions in both purchasing costs and staff pay, with the latter falling at a comparatively sharper rate (although only marginal overall).

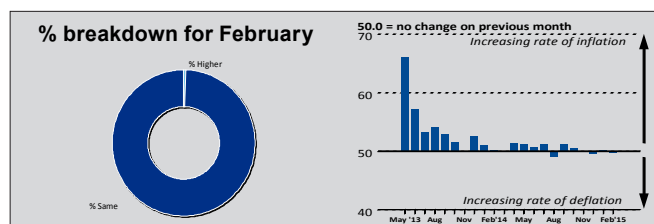


## Input Costs: Purchase Prices Index

Q. Please compare the price of your purchases (volume-weighted) this month with the situation one month ago.

|             |     | Higher<br>% | Same<br>% | Lower<br>% | Net<br>+/- | Index       | S.Adj.<br>Index |
|-------------|-----|-------------|-----------|------------|------------|-------------|-----------------|
| <b>2014</b> | Oct | 1.2         | 97.9      | 0.9        | 0.3        | <b>50.1</b> | <b>50.6</b>     |
|             | Nov | 0.3         | 99.6      | 0.2        | 0.1        | <b>50.0</b> | <b>49.9</b>     |
|             | Dec | 0.0         | 99.8      | 0.2        | -0.2       | <b>49.9</b> | <b>49.5</b>     |
| <b>2015</b> | Jan | 0.9         | 98.0      | 1.1        | -0.2       | <b>49.9</b> | <b>50.2</b>     |
|             | Feb | 0.5         | 99.5      | 0.0        | 0.5        | <b>50.2</b> | <b>49.7</b>     |

Average purchase prices decreased for the third time in the past four months in February, following January's marginal increase. The rate at which purchase prices decreased was only fractional, however, as highlighted by the respective seasonally adjusted index posting just below the critical 50.0 mark.

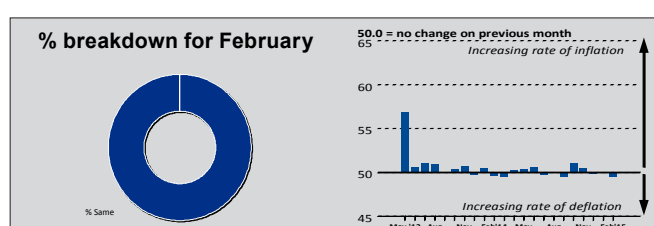


## Input Costs: Staff Costs Index

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

|             |     | Higher<br>% | Same<br>% | Lower<br>% | Net<br>+/- | Index       | S.Adj.<br>Index |
|-------------|-----|-------------|-----------|------------|------------|-------------|-----------------|
| <b>2014</b> | Oct | 1.6         | 98.4      | 0.0        | 1.6        | <b>50.8</b> | <b>51.1</b>     |
|             | Nov | 0.0         | 100.0     | 0.0        | 0.0        | <b>50.0</b> | <b>50.5</b>     |
|             | Dec | 0.0         | 100.0     | 0.0        | 0.0        | <b>50.0</b> | <b>49.8</b>     |
| <b>2015</b> | Jan | 0.7         | 99.3      | 0.0        | 0.7        | <b>50.3</b> | <b>50.0</b>     |
|             | Feb | 0.0         | 100.0     | 0.0        | 0.0        | <b>50.0</b> | <b>49.5</b>     |

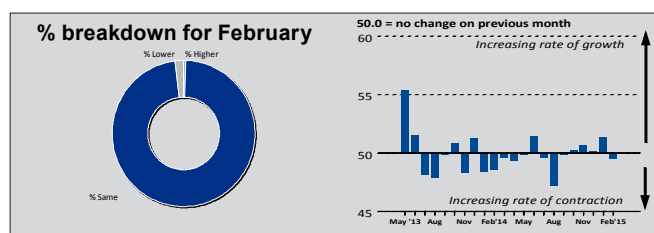
February data pointed to a marginal decrease in average prices paid by Lebanese companies for salaries/wages. Adjusted for seasonal factors, the Staff Costs Index was at its joint-lowest level seen over the survey's history (matching those registered in March and September 2014), though one that was consistent with only a marginal decrease in average staff pay overall.



## Quantity of Purchases Index

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

|             |     | Higher<br>% | Same<br>% | Lower<br>% | Net<br>+/- | Index       | S.Adj.<br>Index |
|-------------|-----|-------------|-----------|------------|------------|-------------|-----------------|
| <b>2014</b> | Oct | 3.8         | 93.5      | 2.7        | 1.1        | <b>50.5</b> | <b>50.3</b>     |
|             | Nov | 1.0         | 98.7      | 0.3        | 0.8        | <b>50.4</b> | <b>50.7</b>     |
|             | Dec | 2.9         | 95.9      | 1.2        | 1.7        | <b>50.8</b> | <b>50.1</b>     |
| <b>2015</b> | Jan | 2.2         | 93.9      | 4.0        | -1.8       | <b>49.1</b> | <b>51.4</b>     |
|             | Feb | 0.5         | 97.7      | 1.8        | -1.3       | <b>49.3</b> | <b>49.5</b>     |

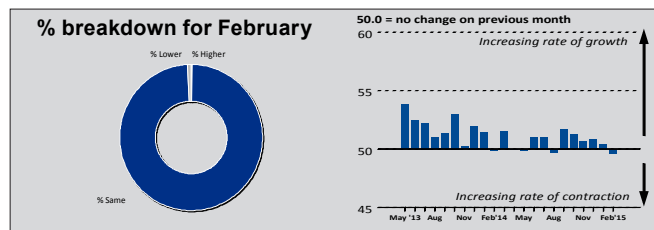


The quantity of items purchased by Lebanese private sector companies decreased in February, thereby ending a four-month sequence of growth in buying levels. Where a reduction in purchasing activity was recorded, this was linked by panellists to a lack of demand and decreasing workloads.

## Stocks of Purchases Index

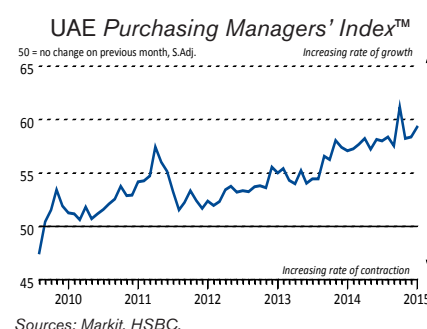
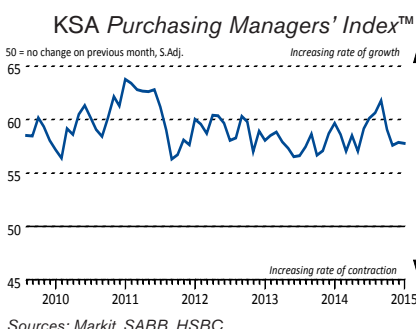
Q. Please compare your stocks of purchases (in units) with the situation one month ago.

|             |     | Higher<br>% | Same<br>% | Lower<br>% | Net<br>+/- | Index       | S.Adj.<br>Index |
|-------------|-----|-------------|-----------|------------|------------|-------------|-----------------|
| <b>2014</b> | Oct | 2.6         | 96.6      | 0.8        | 1.8        | <b>50.9</b> | <b>51.3</b>     |
|             | Nov | 0.3         | 99.7      | 0.0        | 0.3        | <b>50.1</b> | <b>50.7</b>     |
|             | Dec | 2.6         | 96.4      | 0.9        | 1.7        | <b>50.8</b> | <b>50.8</b>     |
| <b>2015</b> | Jan | 0.0         | 99.1      | 0.9        | -0.9       | <b>49.5</b> | <b>50.4</b>     |
|             | Feb | 0.2         | 99.1      | 0.7        | -0.5       | <b>49.8</b> | <b>49.6</b>     |



Lower buying levels contributed to a reduction in stocks of purchases at Lebanese companies during February. This marked the first time since August 2014 that pre-production inventories have decreased. That said, the degree to which stocks of purchases fell was only marginal overall.

## International PMI summary



Egypt's non-oil private sector slid into contraction territory at the start of 2015, with output and new orders falling for the first time since July of last year. The headline seasonally adjusted HSBC Egypt PMI fell from December's 51.4 to 49.3 in January, signalling the first deterioration in operating conditions for six months.

Saudi Arabia's non-oil private sector economy continued to grow at a strong pace during January, with the seasonally adjusted SABB HSBC Saudi Arabia PMI remaining well above the 50.0 no-change mark. January's reading of 57.8 was little moved on December's 57.9 with the headline index supported by ongoing increases in output, new orders and employment.

The headline seasonally adjusted HSBC UAE PMI posted at 59.3 in January, up from 58.4, pointing to a strengthened pace of improvement compared to December. Moreover, the latest reading was the highest in three months. Production remained in strong growth territory, underpinned by a sharp expansion in new orders.

## 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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