

Private sector downturn continues in March

Key findings:

- **Output, new orders and exports all continue to decline**
- **Output prices increase for first time since June 2014**
- **Marginal fall in employment signalled**

This report contains the eighteenth 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™ (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 BLOM Lebanon PMI remained below the no-change mark of 50.0 for the twenty-first successive month in March, indicating an overall deterioration in private sector operating conditions in the Lebanese economy. The PMI posted 48.9, up slightly from 48.7, indicating a further modest rate of contraction. It was also greater than the series average of 48.0. The rise in the headline figure during the month reflected the new orders, suppliers' delivery times and stocks of purchases components.

Private sector output in Lebanon declined in March, continuing the trend shown every month since June 2013. The rate of

contraction accelerated slightly to the fastest since last October, but nonetheless remained weaker than the trend pace over the current sequence of decline. A number of survey respondents linked lower business activity to economic and political instability, as well as security concerns. The survey also highlighted a third successive monthly drop in backlogs of work, signalling spare capacity.

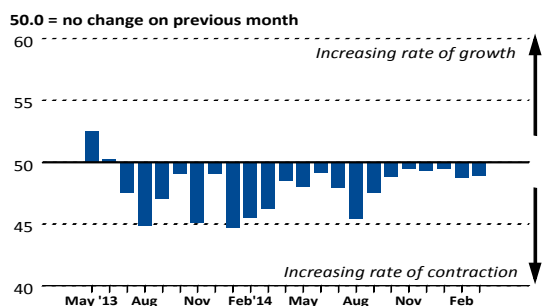
The volume of new business received also fell for the twenty-second consecutive month, albeit at a weaker rate than in February. New export business declined at the slowest pace in 2015 so far.

Reacting to the ongoing slump in workloads, Lebanese firms cut their purchasing activity for the second month in a row in March, albeit at a marginal rate that was slower than one month previously. Despite this, the level of inputs held in stock rose slightly during the month.

Firms adjusted their workforces in line with falling workloads in March. Private sector employment declined for the first time in three months, albeit only fractionally.

March data indicated an absence of cost pressures, with average input costs and purchase prices both broadly unchanged since February. Staff costs fell for the third time in four months, albeit only slightly. In contrast, prices charged for goods and services rose for the first time in nine months.

Lebanon Purchasing Managers' Index™ (PMI™)



Purchasing Managers' Index

	Unadj.	Seas. Adj.
2015 Jan	47.9	49.5
Feb	48.9	48.7
Mar	49.4	48.9

Index Summary

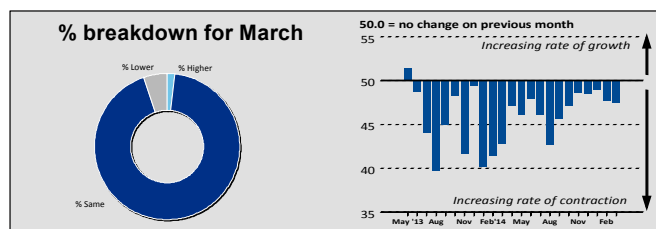
(seasonally adjusted, 50 = no change on previous month)

	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
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
Mar	48.9	47.5	48.1	48.9	49.1	49.8	50.6	49.9	49.9	49.4	49.3	49.8	50.5

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	Nov	0.8	93.7	5.5	-4.8	47.6	48.7
	Dec	3.4	94.3	2.2	+1.2	50.6	48.5
2015	Jan	3.2	85.9	10.9	-7.6	46.2	49.0
	Feb	1.3	93.3	5.3	-4.0	48.0	47.6
	Mar	1.8	92.8	5.4	-3.6	48.2	47.5

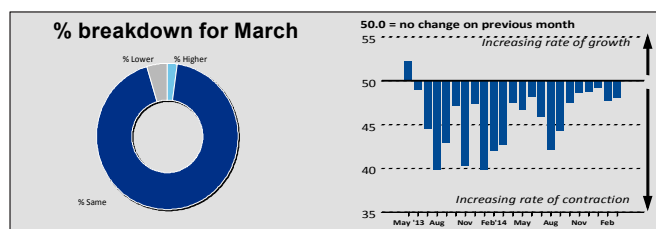


Private sector output in Lebanon declined for the twenty-second consecutive month in March. Moreover, the rate of contraction accelerated slightly since February to the fastest since last October. A number of survey respondents reported economic and political instability, as well as security concerns.

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	Nov	1.1	93.4	5.4	-4.3	47.8	48.7
	Dec	3.5	94.1	2.4	+1.1	50.5	48.7
2015	Jan	3.1	86.0	10.9	-7.9	46.1	49.2
	Feb	1.3	93.4	5.3	-3.9	48.0	47.7
	Mar	2.3	92.8	4.8	-2.5	48.8	48.1

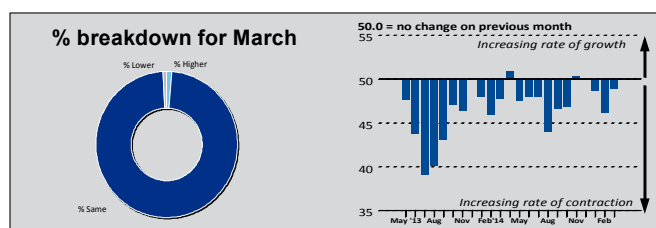


The seasonally adjusted New Orders Index remained below the no-change mark of 50.0 for the twenty-second month in a row in March, signalling an ongoing downturn in the volume of new business received by Lebanese private sector companies. The rate of decline eased since February, however, and was weaker than the trend pace over the survey history.

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	Nov	1.5	97.4	1.1	+0.4	50.2	50.4
	Dec	3.7	93.9	2.3	+1.4	50.7	50.0
2015	Jan	0.8	94.2	5.0	-4.2	47.9	48.7
	Feb	0.6	88.6	10.8	-10.3	44.9	46.2
	Mar	1.2	97.9	1.0	+0.2	50.1	48.9

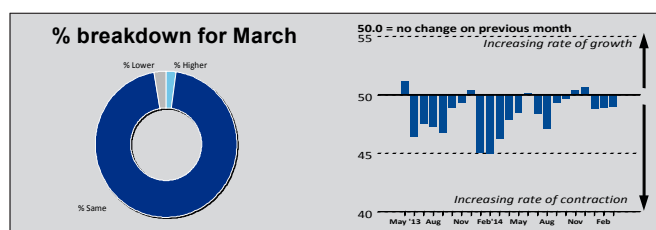


New export business declined for the third month running in March, with low demand partly attributed to regional instability. That said, the rate of decline eased to a modest pace that was the slowest over this sequence, and the seasonally adjusted Index was greater than its long-run average of 46.8.

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	Nov	1.2	97.1	1.8	-0.6	49.7	50.4
	Dec	3.5	95.0	1.5	+2.0	51.0	50.6
2015	Jan	1.8	92.4	5.8	-4.0	48.0	48.8
	Feb	1.4	95.6	3.0	-1.7	49.2	48.9
	Mar	2.2	94.9	2.9	-0.7	49.7	49.1

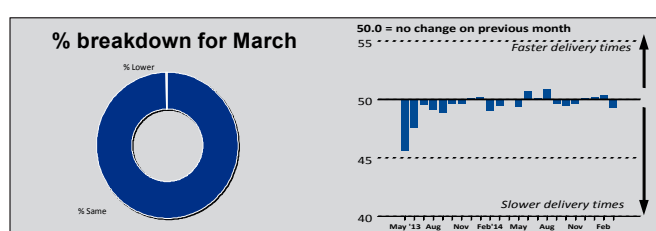


The volume of outstanding business declined for the third consecutive month in March, having previously increased over the final two months of 2014. The seasonally adjusted Backlogs of Work Index rose to a three-month high, however, signalling only a marginal rate of contraction. Firms linked lower backlogs to slow incoming workloads.

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	Nov	0.0	100.0	0.0	0.0	50.0	49.6
	Dec	0.0	99.7	0.3	-0.3	49.9	50.1
2015	Jan	0.5	99.3	0.2	+0.3	50.2	50.3
	Feb	0.0	100.0	0.0	0.0	50.0	50.4
	Mar	0.0	99.7	0.3	-0.3	49.9	49.3

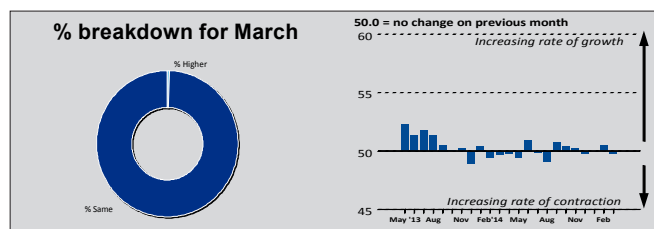


Lebanese private sector companies reported a slight deterioration in vendor performance in March. That followed a three-month sequence of slightly quicker input delivery times. The seasonally adjusted Index declined to a 13-month low in the latest period, but still signalled only a fractional lengthening in times.

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	Nov	0.3	99.7	0.0	+0.3	50.1	50.3
	Dec	0.4	99.6	0.0	+0.4	50.2	49.8
2015	Jan	0.7	99.3	0.0	+0.7	50.3	50.0
	Feb	0.0	100.0	0.0	0.0	50.0	50.5
	Mar	0.6	99.4	0.0	+0.6	50.3	49.8

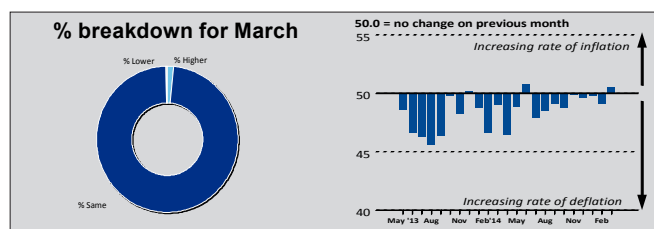


Private sector employment in Lebanon declined for the first time in three months in March, as firms adjusted capacity in line with falling workloads. That said, the rate of job shedding signalled in the latest period was only marginal. Private sector employment has declined only twice in the past seven months.

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	Nov	0.0	99.4	0.6	-0.6	49.7	49.9
	Dec	0.3	99.2	0.5	-0.3	49.9	49.6
2015	Jan	0.0	96.5	3.5	-3.5	48.2	49.8
	Feb	0.2	97.4	2.4	-2.1	48.9	49.1
	Mar	1.5	98.3	0.3	+1.2	50.6	50.6

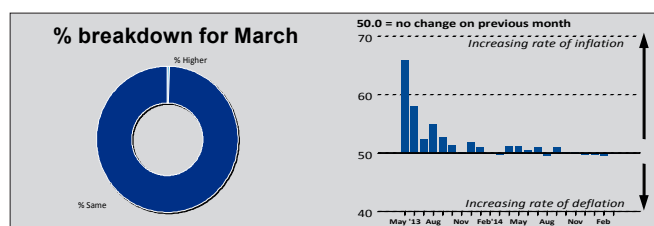


The seasonally adjusted Output Prices Index rose above the no-change mark of 50.0 for the first time in nine months in March, signalling inflation of prices charged by private sector companies for their goods and services. That said, the rate of inflation was only marginal. Higher charges were partly linked to new products and suppliers.

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	Nov	0.3	99.6	0.2	+0.1	50.0	50.2
	Dec	0.0	99.8	0.2	-0.2	49.9	49.7
2015	Jan	0.7	98.3	1.0	-0.3	49.9	49.8
	Feb	0.5	99.5	0.0	+0.5	50.2	49.6
	Mar	0.5	99.5	0.0	+0.5	50.3	49.9

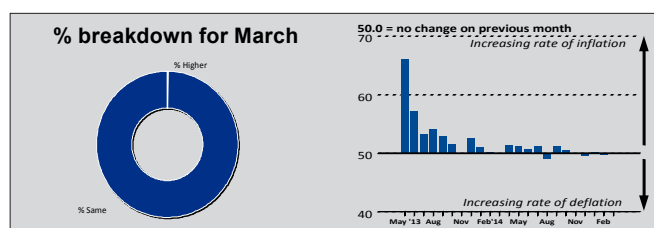


Average input costs in the Lebanese private sector economy were broadly unchanged from one month previously in March. That followed a three-month period of marginal deflation. The seasonally adjusted Overall Input Prices Index remained below its long-run average of 51.8 during the month.

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	Nov	0.3	99.6	0.2	+0.1	50.0	49.9
	Dec	0.0	99.8	0.2	-0.2	49.9	49.5
2015	Jan	0.9	98.0	1.1	-0.2	49.9	50.2
	Feb	0.5	99.5	0.0	+0.5	50.2	49.7
	Mar	0.3	99.7	0.0	+0.3	50.1	49.9

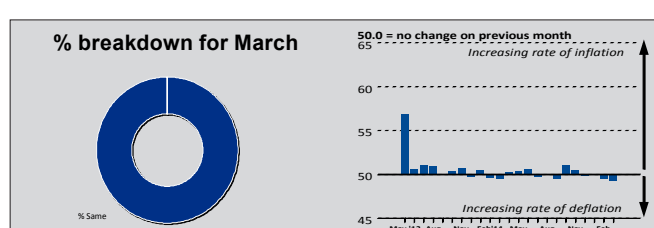


In line with the trend for average input costs, purchase prices in the Lebanese private sector economy were broadly flat compared with one month previously in March. This compared with a marginal fall in February, and a slight increase in January. The seasonally adjusted Purchase Prices Index remained below its long-run average of 51.9 during the month.

Input Costs: Staff Costs Index

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

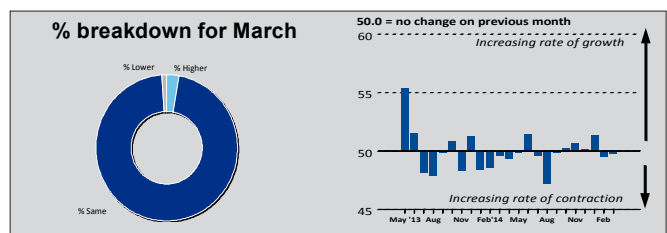
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2014	Nov	0.0	100.0	0.0	0.0	50.0	50.5
	Dec	0.0	100.0	0.0	0.0	50.0	49.8
2015	Jan	0.7	99.3	0.0	+0.7	50.3	50.0
	Feb	0.0	100.0	0.0	0.0	50.0	49.5
	Mar	0.0	100.0	0.0	0.0	50.0	49.4



After adjusting for seasonal factors, the Staff Costs Index registered below 50.0 for the third time in four months in March. The Index fell to a survey record low during the latest period, but the rate of reduction in average labour costs signalled was only marginal.

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

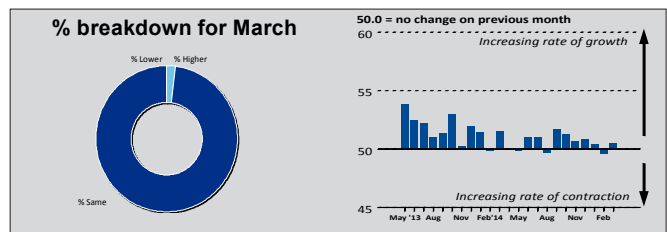
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2014	Nov	1.0	98.7	0.3	+0.8	50.4	50.7
	Dec	2.9	95.9	1.2	+1.7	50.8	50.1
2015	Jan	2.2	93.9	4.0	-1.8	49.1	51.4
	Feb	0.5	97.7	1.8	-1.3	49.3	49.5
	Mar	2.6	96.3	1.1	+1.5	50.8	49.8



March survey data indicated a further decline in average purchasing volumes by Lebanese private sector companies. The pace of contraction signalled by the latest figure was only marginal, however, and eased since February. Firms linked lower input orders to lacklustre workflows. Prior to February, purchasing activity had risen for four successive months.

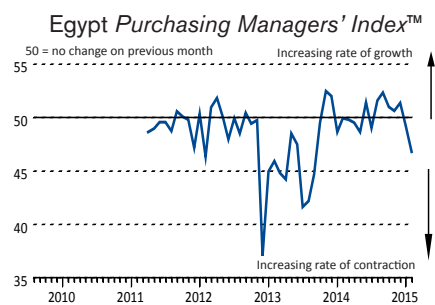
Stocks of Purchases Index Q. Please compare your stocks of purchases (in units) with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2014	Nov	0.3	99.7	0.0	+0.3	50.1	50.7
	Dec	2.6	96.4	0.9	+1.7	50.8	50.8
2015	Jan	0.0	99.1	0.9	-0.9	49.5	50.4
	Feb	0.2	99.1	0.7	-0.5	49.8	49.6
	Mar	2.1	97.8	0.1	+2.0	51.0	50.5

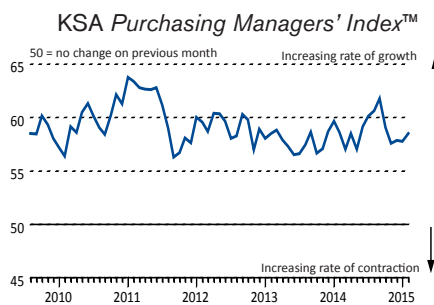


Private sector firms' input inventories expanded in March, reversing a marginal decline in February. The seasonally adjusted Stocks of Purchases Index registered above 50.0 for the sixth time in seven months, although the latest figure signalled only a fractional rate of growth. Stockbuilding was partly linked to new products.

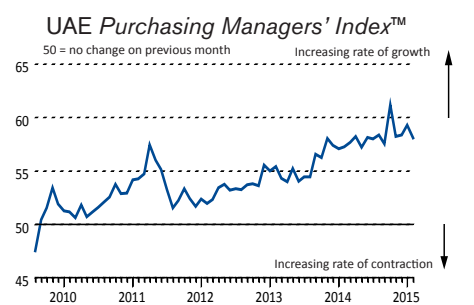
International PMI summary



Sources: Markit, HSBC.



Sources: Markit, SABB, HSBC.



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The HSBC Egypt PMI dropped to a 17-month low of 46.8 in February. The latest reading was consistent with a solid deterioration in non-oil private sector operating conditions. New orders fell at the quickest rate in almost a year-and-a-half. A number of survey participants attributed weaker order books to an appreciation of the US dollar against the Egyptian pound.

The SABB HSBC Saudi Arabia PMI climbed to a four-month high of 58.5 in February, up from 57.8 in January. The latest reading highlighted a robust improvement in non-oil private sector operating conditions, reflected by steep expansions in output, new orders and employment. The increase in total new work was supported by a robust expansion in foreign orders during the month.

The HSBC UAE PMI dropped to a five-month low of 58.1 in February, having posted the highest reading since last October at the start of 2015 (59.3). That said, despite cooling since January, the rate of non-oil expansion remained sharp in the context of historical data. The overall slowdown was driven by milder growth in output, new orders and new export 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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