BLOM Lebanon PMI™

BLOM Purchasing Managers' Index™

compiled by markit

November 4th 2015

PMI drops to 14-month low in October, showing sharper economic downturn

Key findings:

- ***Output falls at fastest rate since August 2014***
- ***New export orders post third straight monthly decline***
- ***Cost burdens decrease amid lower purchase prices***

This report contains the twenty-fifth 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 downturn in Lebanon's private sector economy gathered pace at the start of the fourth quarter. October saw the headline seasonally adjusted BLOM Lebanon PMI drop to a 14-month low of 47.1, from 48.1 in September. The index has now registered below the crucial 50.0 threshold for 28 months in a row, with the latest reading lower than the average over this sequence (47.8).

Lebanese businesses recorded an acceleration in the rate of decline in output in October, to the sharpest since August 2014. A further decrease in incoming new work, the twenty-ninth in successive months, was a contributory factor behind the latest contraction in activity.

As well as commenting on difficult conditions within their country, Lebanese businesses also recorded a third straight monthly fall in new orders from abroad. Moreover, the extent of the decrease during October was the most marked for eight months.

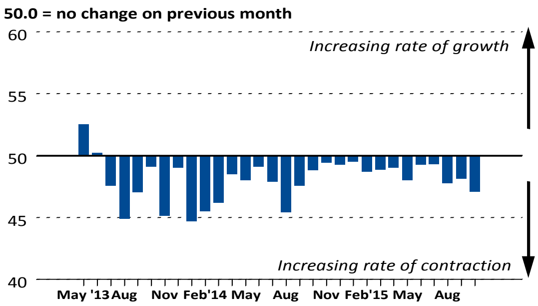
The number of people employed in Lebanon's private sector economy fell slightly during October, thereby partially offsetting the modest rise seen in September.

October also saw a return to contraction in firms' buying levels following a brief upturn at the end of the third quarter. In turn, this contributed to a drop in stocks of purchases for the first time in six months, albeit one that was only marginal.

Suppliers' delivery times lengthened slightly in October, marking the third time in the past four months that vendor performance has deteriorated. A number of respondents cited delays at ports as the reason for longer lead times.

Elsewhere, October's survey showed a drop in average costs faced by businesses amid falling raw material prices. Average staffing costs were broadly unchanged over the month. Reflective of competitive pressures and attempts to generate more work, companies lowered their output charges for the seventh month running, and to the greatest extent since April 2014.

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



Purchasing Managers' Index

		Unadj.	Seas. Adj.
2015	Aug	48.7	47.8
	Sep	48.9	48.1
	Oct	47.0	47.1

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

	PMI	Output	New Orders	Export Orders	Backlogs of Work	Employ-ment	Output Prices	Overall Input Costs	Purchase Costs	Staff Costs	Delivery Times	Quantity of Purchases	Stocks of Purchases
Aug'15	**47.8**	46.5	46.2	47.1	48.3	49.7	49.6	49.6	49.1	49.9	50.7	48.6	50.0
Sep	**48.1**	46.1	45.2	49.2	49.6	50.9	49.4	51.4	51.8	49.5	49.6	50.4	53.0
Oct	**47.1**	44.1	45.1	46.5	46.1	49.7	47.3	49.1	48.9	50.1	49.1	49.3	49.7

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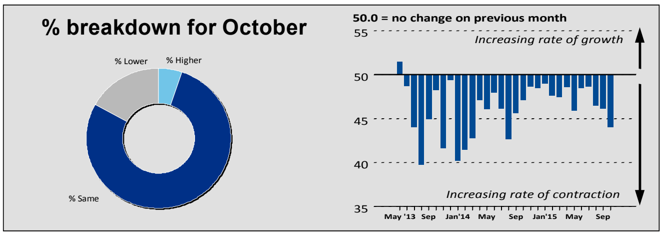
Output Index

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

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2015	Jun	3.2	91.1	5.8	-2.6	**48.7**	**48.5**
	Jul	5.2	88.2	6.5	-1.3	**49.3**	**48.7**
	Aug	3.4	88.4	8.2	-4.8	**47.6**	**46.5**
	Sep	6.3	81.6	12.1	-5.7	**47.1**	**46.1**
	Oct	5.2	77.9	16.9	-11.7	**44.1**	**44.1**

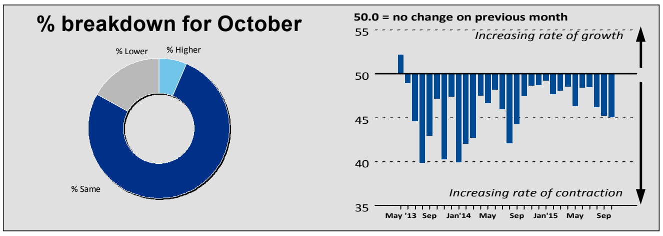


Business activity in Lebanon's private sector economy fell markedly in October. This was highlighted by the seasonally adjusted Output Index posting well below the neutral 50.0 threshold, at its lowest level since August 2014. This latest decrease in business activity – the twenty-ninth in successive months – was linked by a number of panellists to the uncertain political situation in the country.

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
2015	Jun	3.1	91.3	5.6	-2.5	**48.8**	**48.4**
	Jul	5.1	88.5	6.4	-1.3	**49.4**	**48.5**
	Aug	3.3	88.0	8.7	-5.3	**47.3**	**46.2**
	Sep	6.2	81.8	12.0	-5.8	**47.1**	**45.2**
	Oct	6.5	76.6	16.9	-10.5	**44.8**	**45.1**

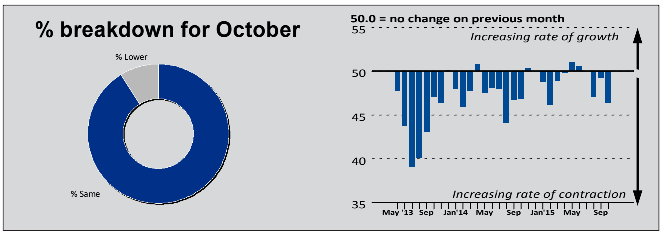


October saw the level of new orders received by private sector companies in Lebanon fall further, with the rate of contraction little-changed from the solid pace recorded in the preceding survey period. Close to 17% of respondents recorded a drop in incoming new business, against less than 7% that noted 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
2015	Jun	5.7	93.1	1.1	+4.6	**52.3**	**50.6**
	Jul	4.6	93.1	2.3	+2.3	**51.1**	**50.0**
	Aug	2.4	91.8	5.9	-3.5	**48.2**	**47.1**
	Sep	2.9	94.6	2.5	+0.4	**50.2**	**49.2**
	Oct	0.0	91.2	8.8	-8.8	**45.6**	**46.5**

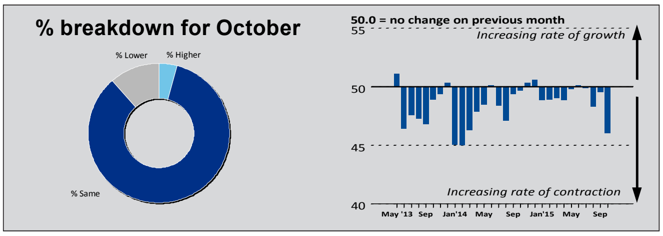


Lebanese businesses recorded a solid and accelerated decrease in the level of new export orders in October, the fastest since February. This extended the current sequence of contraction in new business from abroad to three months. According to anecdotal evidence, there was a mixture of internal and external factors leading new export orders to fall.

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
2015	Jun	3.2	94.9	1.9	+1.3	**50.6**	**50.2**
	Jul	4.6	92.5	3.0	+1.6	**50.8**	**49.9**
	Aug	2.7	93.5	3.8	-1.0	**49.5**	**48.3**
	Sep	7.4	85.3	7.3	+0.1	**50.1**	**49.6**
	Oct	4.1	84.6	11.3	-7.2	**46.4**	**46.1**

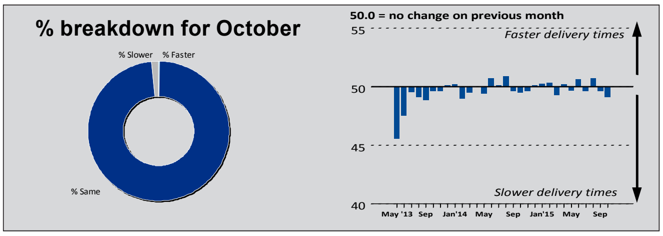


Reflective of the lack of incoming new business, companies in Lebanon were able to make considerable inroads into their backlogs of work during October. The degree to which work-in-hand (both in progress and not yet started) decreased was in fact the most marked since February 2014, and much sharper than the marginal fall seen in September.

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
2015	Jun	0.3	99.3	0.3	0.0	**50.0**	**50.7**
	Jul	0.0	100.0	0.0	0.0	**50.0**	**49.6**
	Aug	0.0	100.0	0.0	0.0	**50.0**	**50.7**
	Sep	0.0	100.0	0.0	0.0	**50.0**	**49.6**
	Oct	0.4	97.9	1.8	-1.4	**49.3**	**49.1**

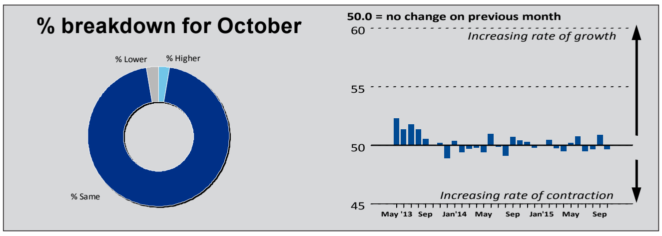


Adjusted for the influence of seasonal factors, the Suppliers' Delivery Times Index registered below the 50.0 no-change mark – signalling longer lead times – for the third time in the past four months in October. Although slight, the deterioration in vendor performance was the most marked since February 2014. A number of panellists commented on delays at ports.

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
2015	Jun	0.3	99.7	0.0	+0.3	**50.2**	**50.8**
	Jul	0.0	100.0	0.0	0.0	**50.0**	**49.5**
	Aug	0.0	100.0	0.0	0.0	**50.0**	**49.7**
	Sep	2.4	96.3	1.2	+1.2	**50.6**	**50.9**
	Oct	2.6	94.6	2.8	-0.2	**49.9**	**49.7**

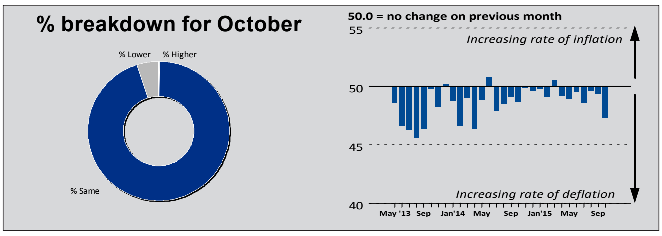


October's survey showed a return to contraction in private sector employment in Lebanon following a rise during September. Staffing levels have now fallen in three of the past four months, although the latest decrease was only slight. The vast majority of surveyed firms (approximately 95%) reported no change in payroll numbers.

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
2015	Jun	0.3	96.6	3.1	-2.8	**48.6**	**49.5**
	Jul	0.6	95.2	4.2	-3.5	**48.2**	**48.6**
	Aug	0.0	97.7	2.3	-2.3	**48.8**	**49.6**
	Sep	3.6	92.6	3.8	-0.2	**49.9**	**49.4**
	Oct	0.2	94.9	5.0	-4.8	**47.6**	**47.3**

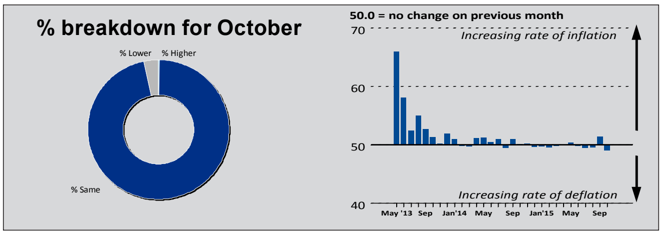


Average prices charged for goods and services decreased further in October, extending the current sequence of decline to seven months. Furthermore, the rate at which output prices were reduced was the fastest since April 2014. A number of firms offering discounts commented on efforts to increase incoming new work.

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
2015	Jun	0.3	99.7	0.0	+0.3	**50.2**	**49.8**
	Jul	0.0	100.0	0.0	0.0	**50.0**	**49.5**
	Aug	0.0	100.0	0.0	0.0	**50.0**	**49.6**
	Sep	2.2	97.8	0.0	+2.2	**51.1**	**51.4**
	Oct	0.2	96.3	3.4	-3.2	**48.4**	**49.1**

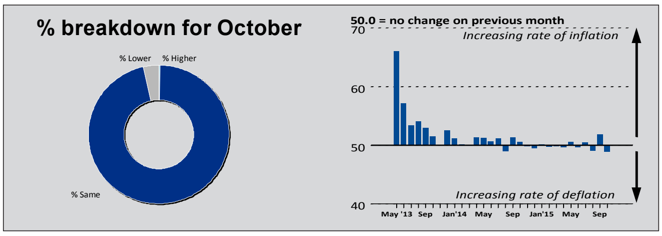


Overall cost burdens faced by Lebanese businesses decreased in October, thereby reversing the increase recorded during the previous survey period. The corresponding seasonally adjusted index pointed to only a modest rate of decline in total input prices, but one that was nevertheless the fastest in the 30-month series history.

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
2015	Jun	0.3	99.7	0.0	+0.3	**50.2**	**49.7**
	Jul	0.0	100.0	0.0	0.0	**50.0**	**50.5**
	Aug	0.0	100.0	0.0	0.0	**50.0**	**49.1**
	Sep	2.2	97.8	0.0	+2.2	**51.1**	**51.8**
	Oct	0.2	96.3	3.5	-3.2	**48.4**	**48.9**

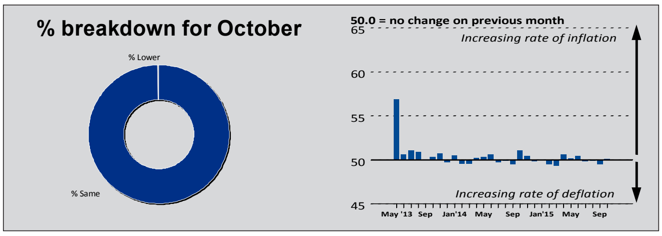


A key factor behind falling overall costs in October was a reduction in average prices paid for purchases, the second in the past three months. According to panel member reports, lower purchasing costs were partly a reflection of falling material prices (particularly iron) in world markets and a weak 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
2015	Jun	0.0	100.0	0.0	0.0	**50.0**	**50.5**
	Jul	0.0	100.0	0.0	0.0	**50.0**	**49.8**
	Aug	0.0	100.0	0.0	0.0	**50.0**	**49.9**
	Sep	0.0	100.0	0.0	0.0	**50.0**	**49.5**
	Oct	0.0	99.6	0.4	-0.4	**49.8**	**50.1**

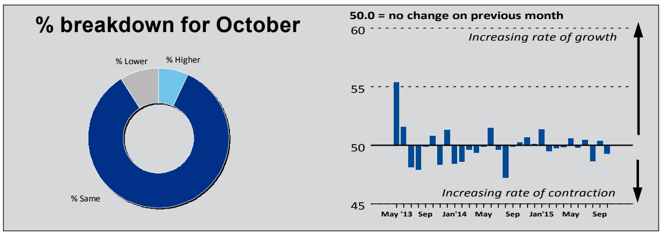


Whereas purchase prices decreased, average staffing costs at private sector firms in Lebanon were broadly unchanged in October. In the previous three months the corresponding seasonally adjusted index had posted below the crucial 50.0 threshold (albeit showing a negligible decrease in salaries/wages in August).

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
2015	Jun	3.3	95.7	1.0	+2.3	**51.2**	**49.8**
	Jul	5.1	93.2	1.7	+3.4	**51.7**	**50.5**
	Aug	3.9	92.3	3.9	0.0	**50.0**	**48.6**
	Sep	7.9	87.4	4.7	+3.2	**51.6**	**50.4**
	Oct	7.0	84.1	8.9	-1.9	**49.0**	**49.3**

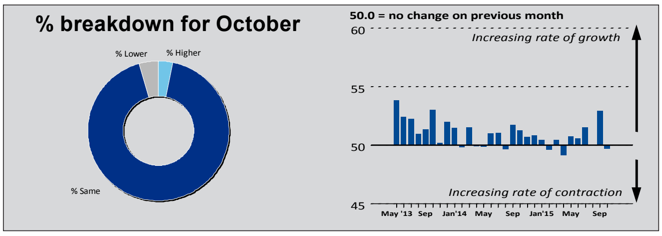


Lebanese businesses adjusted their purchasing activity in line with decreasing workloads in October. Buying levels posted a renewed decline, offsetting the marginal increase recorded during the month before. The extent of the reduction in quantities of raw materials and semi-manufactured goods purchased was only marginal, however.

Stocks of Purchases Index

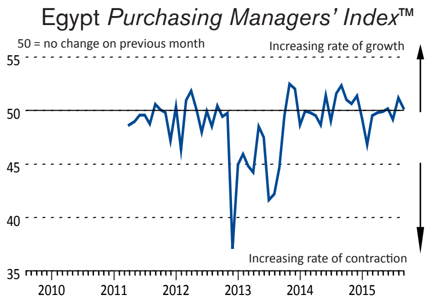
Q. Please compare your stocks of purchases (in units) with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2015	Jun	2.7	97.3	0.0	+2.7	**51.4**	**50.6**
	Jul	4.3	95.7	0.0	+4.3	**52.1**	**51.5**
	Aug	1.9	98.1	0.0	+1.9	**50.9**	**50.0**
	Sep	7.6	92.1	0.3	+7.3	**53.7**	**53.0**
	Oct	3.2	92.3	4.5	-1.3	**49.4**	**49.7**



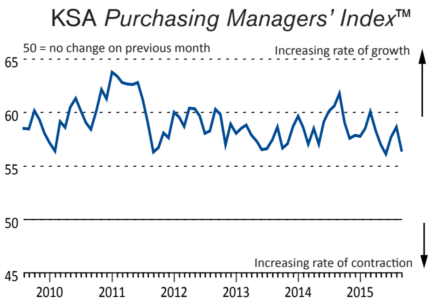
Stocks of purchases held by private sector companies in Lebanon decreased for the first time in six months during October, albeit only fractionally. This followed a solid rise in pre-production inventories in September, the joint-fastest recorded since May 2013. Where a reduction in stocks of purchases was recorded (at roughly 5% of firms), this was often linked to a lack of new work and an associated fall in buying levels.

International PMI summary



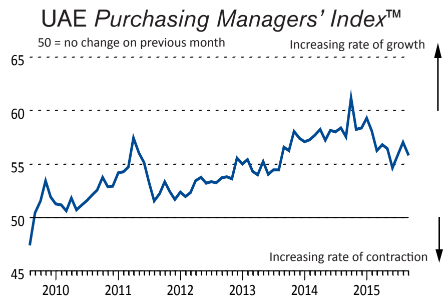
Sources: Markit, Emirates NBD.

At 50.2, the headline seasonally adjusted Emirates NBD Egypt Purchasing Managers' Index™ (PMI) was indicative of only a slight improvement in business conditions during September. Despite falling from August's eight-month high (51.2), the latest reading was in line with the average over Q3 as a whole (50.2).



Sources: Markit, Emirates NBD.

After adjusting for seasonality, the headline Emirates NBD Saudi Arabia Purchasing Managers' Index™ (PMI) dropped to a three-month low of 56.5 in September, from 58.7 in August. The reading pointed to a solid improvement in business conditions, but also signalled a deceleration in growth at the end of Q3.



Sources: Markit, Emirates NBD.

The headline seasonally adjusted Emirates NBD UAE Purchasing Managers' Index™ (PMI) posted 56.0 in September, down from 57.1 in August but still indicative of a solid improvement in business conditions. Growth has been relatively strong throughout the third quarter, with the respective average (56.3) coming in only just below the trend observed so far in 2015 (56.7).

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, and by company workforce size. 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.

Warning