

Business activity falls at fastest rate for three months in February

Key findings:

- **Output and new orders both contract at sharper rates**
- **Employment holds steady, but firms scale back buying levels**
- **Prices charged fall at quickest rate since October**

This report contains the twenty-ninth 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 headline seasonally adjusted BLOM Lebanon PMI sank to 47.4 in February, from January's 49.1, signalling a faster deterioration in the business conditions of the private sector economy. It was the lowest reading since November, and the thirty-second month in a row that the index has registered below the critical 50.0 threshold.

A modest drop in business activity in January was followed by a solid and faster contraction during February, as the rate of decline in new business accelerated to the quickest in three months. New export orders fell at a softer pace and one that was only modest, suggesting that weaker domestic demand was mostly to blame for the deterioration in performance.

Despite trends in business activity and new orders having worsened, private companies kept payroll numbers broadly unchanged during February, the second month in a row in which this has been the case.

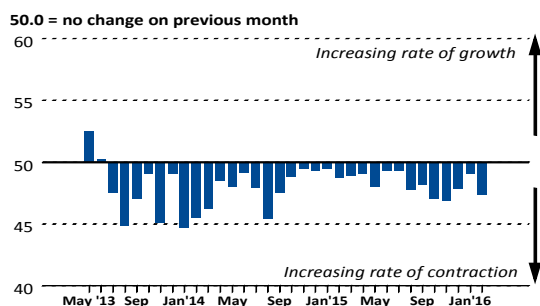
February did, however, see the scaling back of purchasing activity among businesses, with buying levels falling to the greatest extent since August 2014. Stocks of purchases broadly stabilised, halting a three-month sequence of accumulation.

Backlogs of work were reduced for the eighth month in a row, reflective of a lack of incoming new work. Furthermore, February's decrease was the most marked for two years and one of the fastest ever recorded by the survey, which began in May 2013.

Elsewhere, February's data showed a faster decrease in average prices charged for goods and services, the sharpest since October. Competitive pressure was one of the reasons behind the latest fall in output prices, according to anecdotal evidence, although lower average costs also played a part. Both purchase prices and average wages fell slightly during the month.

Finally, businesses reported no change in suppliers' delivery times compared with the previous month. This followed back-to-back improvements in December and January.

Lebanon Purchasing Managers' Index™ (PMI™)



Purchasing Managers' Index			
		Unadj.	Seas. Adj.
2015	Dec	48.4	47.9
2016	Jan	47.3	49.1
	Feb	47.4	47.4

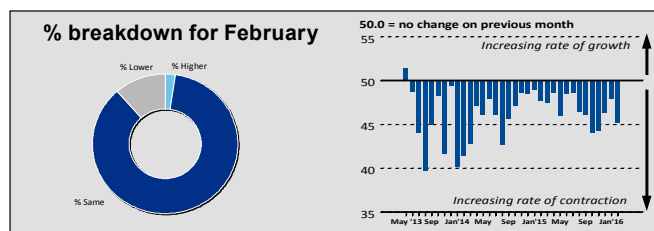
Index Summary

(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'15	47.9	46.3	46.4	48.6	48.1	49.3	49.3	49.7	49.6	49.8	50.2	48.8	50.6
Jan'16	49.1	48.0	48.3	47.9	49.0	50.0	49.4	50.1	50.0	50.2	50.4	50.7	51.2
Feb	47.4	45.1	45.1	49.0	46.0	50.1	48.9	49.2	49.1	49.7	50.0	47.7	50.1

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

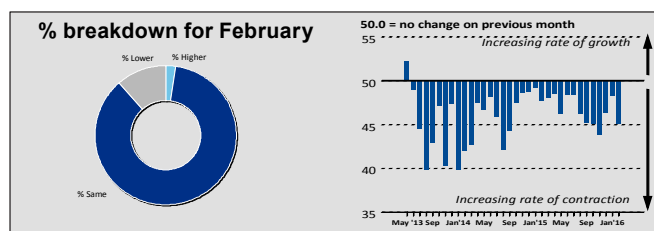
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2015	Oct	5.2	77.9	16.9	-11.7	44.1	44.1
	Nov	2.7	80.9	16.4	-13.7	43.1	44.3
	Dec	0.6	93.1	6.3	-5.7	47.2	46.3
2016	Jan	2.8	84.9	12.4	-9.6	45.2	48.0
	Feb	2.3	86.2	11.5	-9.2	45.4	45.1



February saw a solid and accelerated reduction in the level of business activity in Lebanon's private sector economy. Output had decreased only modestly in January, but the rate of contraction picked up to the fastest in three months during the latest survey period. Around 12% of surveyed firms recorded lower business activity, versus only 2% that noted an increase.

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

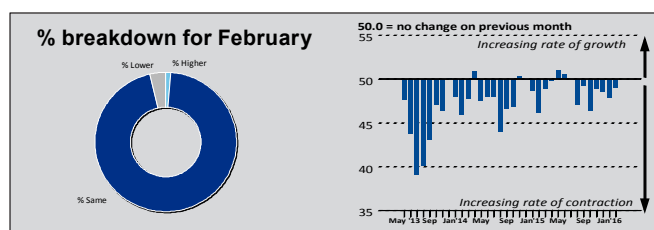
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2015	Oct	6.5	76.6	16.9	-10.5	44.8	45.1
	Nov	2.9	80.5	16.6	-13.8	43.1	43.8
	Dec	0.6	93.2	6.2	-5.5	47.2	46.4
2016	Jan	2.7	85.2	12.2	-9.5	45.3	48.3
	Feb	2.3	86.5	11.3	-9.0	45.5	45.1



Matching the trend for business activity, the level of new work received by Lebanese businesses decreased at a faster rate in February. This was signalled by the respective seasonally adjusted index dropping from January's six-month high to its lowest level since November. New orders have fallen continuously on a monthly basis since June 2013.

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

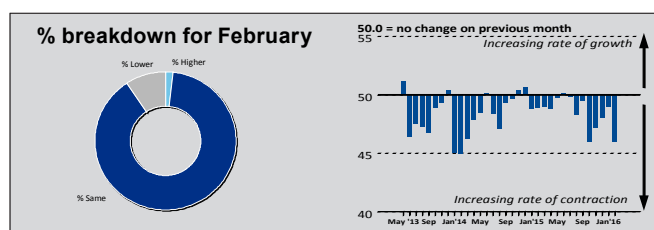
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2015	Oct	0.0	91.2	8.8	-8.8	45.6	46.5
	Nov	1.8	93.4	4.8	-2.9	48.5	48.9
	Dec	1.2	96.3	2.5	-1.3	49.3	48.6
2016	Jan	0.0	94.4	5.6	-5.6	47.2	47.9
	Feb	1.0	95.3	3.7	-2.7	48.7	49.0



New orders from abroad decreased for the seventh month in succession during February, the joint-longest sequence ever recorded by the survey. That said, having eased to the weakest since last September, the rate of contraction was only marginal. The vast majority of survey participants (95%) reported no change in new export orders, with only 4% noting a fall.

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

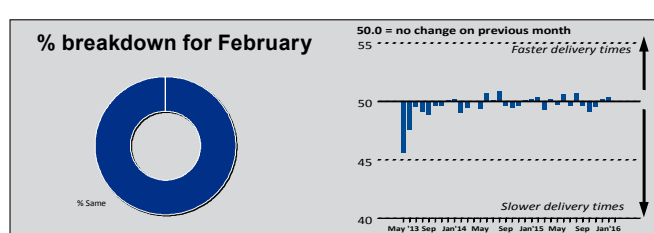
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2015	Oct	4.1	84.6	11.3	-7.2	46.4	46.1
	Nov	3.0	86.8	10.1	-7.1	46.4	47.2
	Dec	0.6	95.8	3.6	-2.9	48.5	48.1
2016	Jan	2.5	90.2	7.3	-4.8	47.6	49.0
	Feb	1.7	89.0	9.3	-7.6	46.2	46.0



With a lack of incoming new orders to replace completed projects, backlogs of work at Lebanese private sector companies decreased during February. Furthermore, the rate of decline accelerated sharply since January to one of the fastest ever recorded by the survey, surpassed only by those recorded during the opening two months of 2014.

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	Oct	0.4	97.9	1.8	-1.4	49.3	49.1
	Nov	0.1	99.6	0.3	-0.2	49.9	49.5
	Dec	0.0	99.9	0.1	-0.1	50.0	50.2
2016	Jan	0.8	99.2	0.0	+0.8	50.4	50.4
	Feb	0.0	100.0	0.0	0.0	50.0	50.0

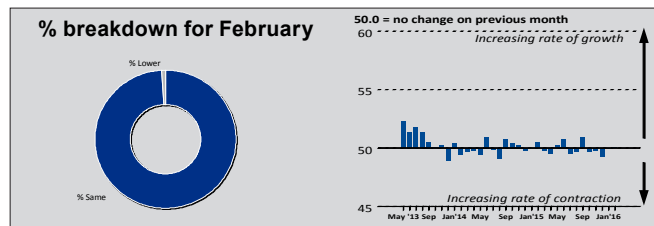


February's data showed no change in the length of supplier delivery times faced by businesses operating in Lebanon. The respective seasonally adjusted index stood in line with the 50.0 no-change threshold, after having signalled slight improvements in vendor performance in each of the previous two months.

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	Oct	2.6	94.6	2.8	-0.2	49.9	49.7
	Nov	0.3	99.2	0.5	-0.2	49.9	49.7
	Dec	0.0	99.2	0.8	-0.8	49.6	49.3
2016	Jan	0.6	98.5	1.0	-0.4	49.8	50.0
	Feb	0.0	99.2	0.8	-0.8	49.6	50.1

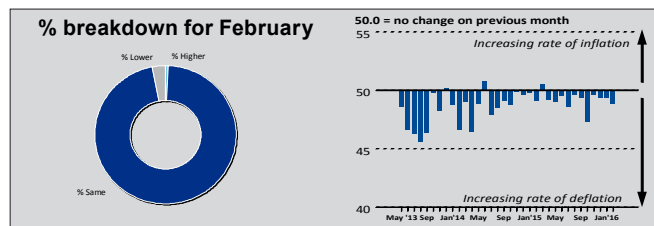


Adjusted for the influence of seasonal factors, the level of employment in Lebanon's private sector economy remained broadly unchanged in February. Payroll numbers had been stable during the opening month of the year, with no meaningful change in employment seen since December last year when marginal job losses were recorded.

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	Oct	0.2	94.9	5.0	-4.8	47.6	47.3
	Nov	0.0	98.9	1.1	-1.1	49.5	49.6
	Dec	0.0	99.3	0.7	-0.7	49.7	49.3
2016	Jan	0.0	95.6	4.4	-4.4	47.8	49.4
	Feb	0.4	96.6	3.0	-2.6	48.7	48.9

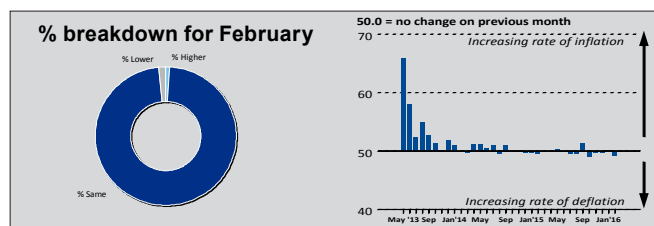


Average prices charged for goods and services decreased again in February, extending the current sequence of falling tariffs to 11 months. Competitive pressures were one of the factors leading businesses to lower output charges, according to anecdotal evidence. Although the fastest since last October, the rate of decline remained only modest overall.

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	Oct	0.2	96.3	3.4	-3.2	48.4	49.1
	Nov	0.0	99.2	0.8	-0.8	49.6	49.8
	Dec	0.0	99.8	0.2	-0.2	49.9	49.7
2016	Jan	1.0	97.6	1.4	-0.4	49.8	50.1
	Feb	0.9	97.4	1.7	-0.8	49.6	49.2

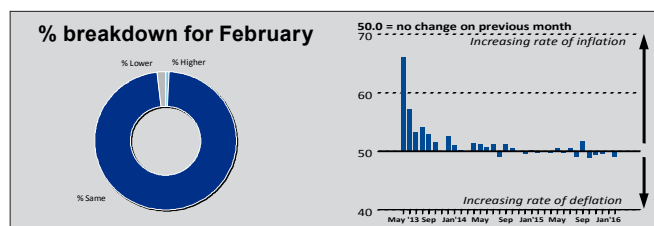


As has been the case in four of the past five months, overall input prices faced by private sector Lebanese companies decreased during February. The reduction reversed the fractional increase seen at the start of the year and was a reflection of falls in both average prices paid for purchases and labour costs.

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	Oct	0.2	96.3	3.5	-3.2	48.4	48.9
	Nov	0.0	99.2	0.8	-0.8	49.6	49.4
	Dec	0.0	99.8	0.2	-0.2	49.9	49.6
2016	Jan	1.0	97.4	1.6	-0.6	49.7	50.0
	Feb	0.9	97.2	1.9	-0.9	49.5	49.1

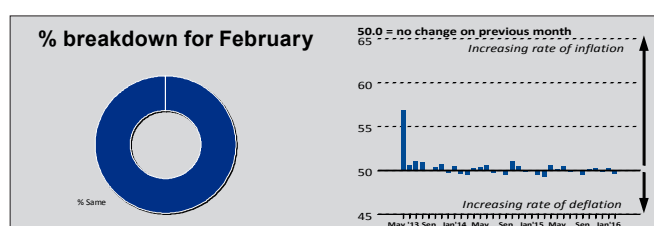


After being unchanged in January, average purchase prices declined during February, in line with the trend seen throughout the final quarter of 2015. The extent of the fall in the latest survey period was the most marked since last October, but only modest overall. Panel member reports highlighted a drop in prices paid for a number of primary products including oil.

Input Costs: Staff Costs Index

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

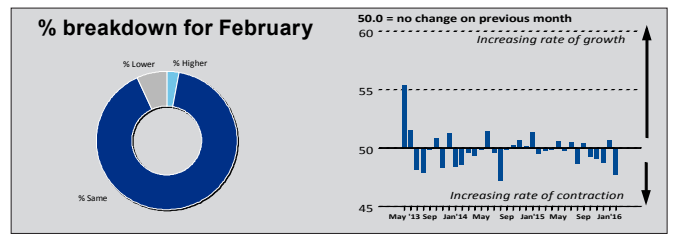
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2015	Oct	0.0	99.6	0.4	-0.4	49.8	50.1
	Nov	0.0	100.0	0.0	0.0	50.0	50.3
	Dec	0.0	100.0	0.0	0.0	50.0	49.8
2016	Jan	0.6	99.4	0.0	+0.6	50.3	50.2
	Feb	0.0	100.0	0.0	0.0	50.0	49.7



Lebanese private sector companies recorded a slight decrease in average prices paid for salaries/wages for the second in the past three months in February, following a marginal increase in January. However, the degree to which staff costs fell was less marked than that of purchase prices.

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

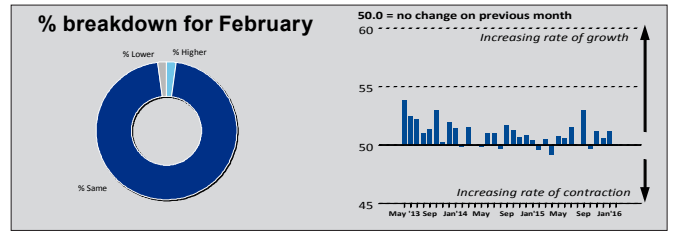
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2015	Oct	7.0	84.1	8.9	-1.9	49.0	49.3
	Nov	4.3	90.1	5.6	-1.3	49.3	49.1
	Dec	0.8	96.3	2.9	-2.1	48.9	48.8
2016	Jan	2.1	92.6	5.4	-3.3	48.3	50.7
	Feb	2.7	90.3	7.0	-4.4	47.8	47.7



February's survey showed a solid reduction in the quantity of items purchased by Lebanese businesses. The respective seasonally adjusted index was in fact at its second-lowest level in the survey's history, with August 2014 the only month in which purchasing activity has fallen at a comparatively faster rate.

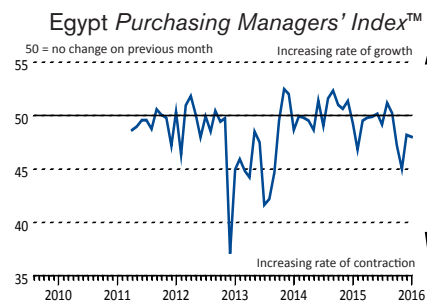
Stocks of Purchases Index Q. Please compare your stocks of purchases (in units) with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2015	Oct	3.2	92.3	4.5	-1.3	49.4	49.7
	Nov	3.9	95.1	1.0	+3.0	51.5	51.2
	Dec	1.1	98.3	0.5	+0.6	50.3	50.6
2016	Jan	1.2	98.0	0.8	+0.4	50.2	51.2
	Feb	2.3	95.8	1.8	+0.5	50.3	50.1

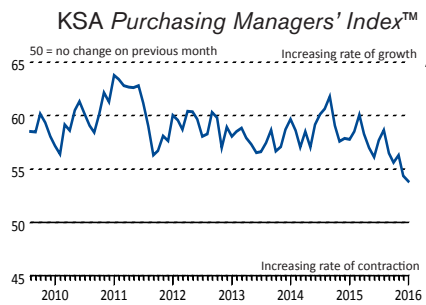


Stocks of purchases held by private sector companies in Lebanon broadly stabilised in February, following continuous growth in each of the previous three months. The proportion of survey respondents that recorded higher inventory levels was virtually the same as that which registered a decrease, with most panellists (almost 96%) noting no change.

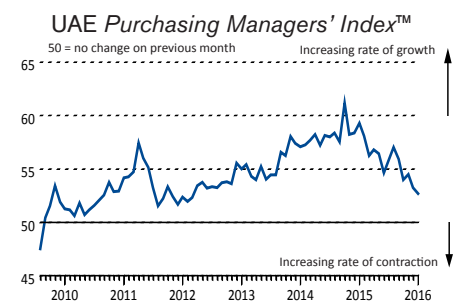
International PMI summary



Sources: Markit, Emirates NBD.



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At 48.0, the headline seasonally adjusted Emirates NBD Egypt Purchasing Managers' Index™ (PMI) posted below the crucial 50.0 mark for the fourth consecutive month in January. Though dropping slightly from 48.2 in December, the latest figure was above the Q4 average (46.8) and pointed to only a moderate worsening in business conditions overall.

The headline Emirates NBD Saudi Arabia Purchasing Managers' Index™ (PMI) slipped to a survey-record low (53.9) for the third time in the past four months during January. Previous low points came in October (55.7) and December (54.4), and the latest reading signalled a continuation of the general trend seen towards the end of 2015. However, the index still signalled solid growth overall.

Falling from 53.3 in December to 52.7, the headline Emirates NBD UAE Purchasing Managers' Index™ (PMI) was at its lowest level in 46 months during January. The latest slowdown continued the recent trend seen across the sector as a whole – Q4 2015 was the weakest on average in over three years (53.9).

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.

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