

PMI falls to 26-month low to signal sharper deterioration in business conditions

Key findings:

- **Output and new orders contract at fastest rates since January 2014**
- **Employment drops for the first time in 2016**
- **Backlogs post sharpest monthly fall in survey's history**

This report contains the thirtieth 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.

At 45.0, down from February's 47.4, the headline seasonally adjusted BLOM Lebanon PMI signalled the sharpest deterioration in overall private sector business conditions for over two years in March. After registering close to the neutral 50.0 mark in January, the headline index has since posted back-to-back falls, and as a result recorded its lowest quarterly average for a year-and-a-half.

The level of output in the private sector economy decreased to the greatest extent since January 2014, weighed on by a sharp and accelerated drop in incoming new work, the fastest for more than two years. Survey evidence pointed to an unstable demand environment in the country, with reports

from panellists of political uncertainty and low tourist numbers combining to reduce new business. Moreover, new work from abroad also fell, with the rate of decline the sharpest seen since last October.

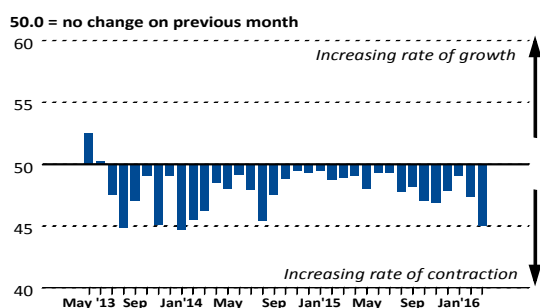
Employment showed the joint-fastest decrease in the past 19 months in March, having remained broadly unchanged in January and February. A steep drop in backlogs of work – the fastest in the survey's near three-year history – was evidence of businesses having a surplus of resources to cope with the current level of demand.

March also saw a decrease in buying levels as companies sought to adapt to lower workplace activity. The reduction was the fifth in the past six months and the most marked since August 2014. Despite this drop in purchasing activity, stocks of purchases were accumulated amid falling output.

Meanwhile, weakness on the demand side led private sector businesses to reduce their output charges during March, with the rate of decline the fastest in five months. However, a slight drop in cost burdens – reflective of lower purchase prices and staff costs – helped to ease the pressure on operating margins.

Finally, March's survey data showed a slight deterioration in supplier lead times faced by the private sector businesses, the first for four months.

Lebanon Purchasing Managers' Index™ (PMI™)



Purchasing Managers' Index

		Unadj.	Seas. Adj.
2016	Jan	47.3	49.1
	Feb	47.4	47.4
	Mar	45.3	45.0

Index Summary

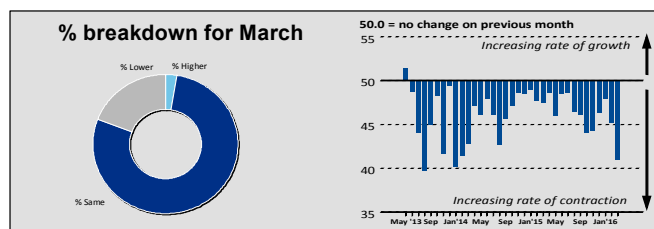
(seasonally adjusted, 50 = no change on previous month)

	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'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
Mar	45.0	41.0	40.5	46.7	44.4	49.3	48.1	49.7	49.4	49.5	49.8	47.5	51.9

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	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
	Mar	2.4	78.3	19.3	-16.8	41.6	41.0

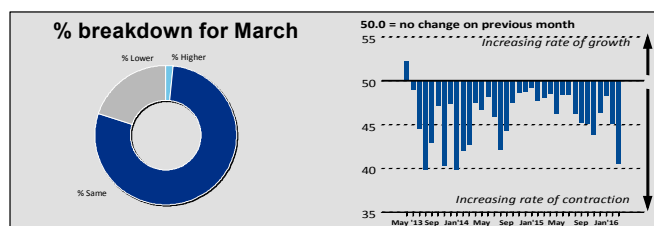


Business activity in Lebanon's private sector economy fell sharply in March, with the corresponding seasonally adjusted index registering its lowest reading for more than two years. Approximately 19% of survey participants recorded a drop in business activity since February, often citing instability in the country, 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	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
	Mar	1.7	78.2	20.1	-18.4	40.8	40.5

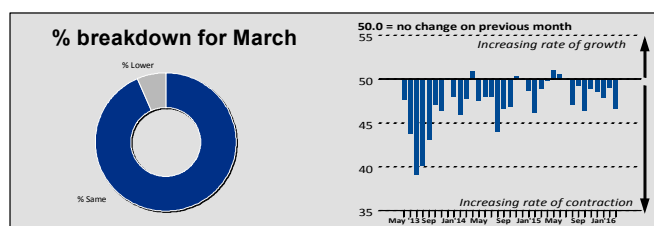


In line with the contracting output, March also saw a considerable drop in the level of new orders received by private sector businesses. The extent to which new work decreased was much sharper than in the previous month and the most marked overall since January 2014. A number of panellists mentioned the ongoing political situation and a lack of tourists as reasons for the fall in new work.

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	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
	Mar	0.0	93.4	6.6	-6.6	46.7	46.7

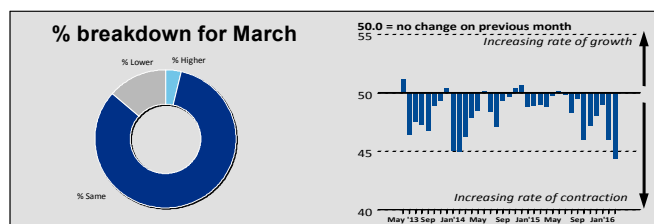


Continuing the trend seen throughout the past eight months, the amount of incoming new work from abroad in Lebanon's private sector economy decreased in March. Moreover, the rate of contraction was solid, having accelerated to the fastest seen since last October. Instability in the wider region was to blame for the decrease, according to anecdotal evidence.

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	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
	Mar	3.5	82.9	13.6	-10.1	45.0	44.4

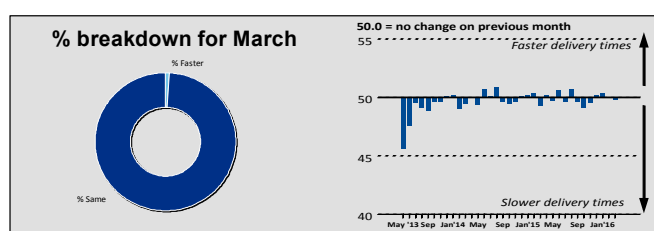


Backlogs of work fell at a sharp and accelerated rate in March, pointing to an increasing degree of excess capacity among Lebanese private sector companies. This latest decrease in work-in-hand (both in progress and not yet started) was actually the sharpest ever recorded by the survey, which began in May 2013.

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	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
	Mar	0.7	99.3	0.0	+0.7	50.4	49.8

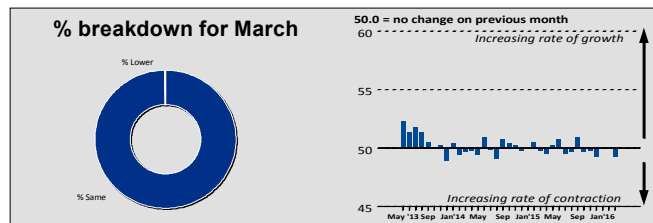


Lebanese businesses faced a slight increase in supplier lead times in March, marking the first time in four months that vendor performance has worsened. This was highlighted by the seasonally adjusted Suppliers' Delivery Times Index registering just below the 50.0 no-change threshold, down from February's neutral reading.

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	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
	Mar	0.0	99.6	0.4	-0.4	49.8	49.3

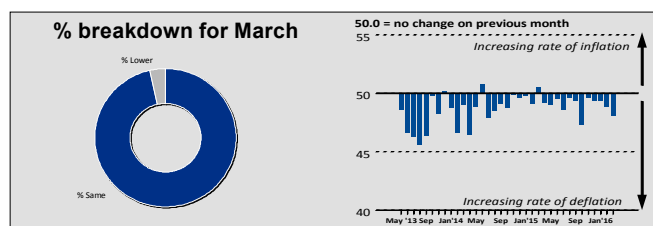


March's survey showed a fall in the number of people employed in Lebanon's private sector economy, which panel member reports suggested was a consequence of a lack of workplace activity. Although only modest, the rate of job cuts was the joint-fastest recorded for more than a year-and-a-half, matching that seen last December.

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	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
	Mar	0.0	96.5	3.5	-3.5	48.2	48.1

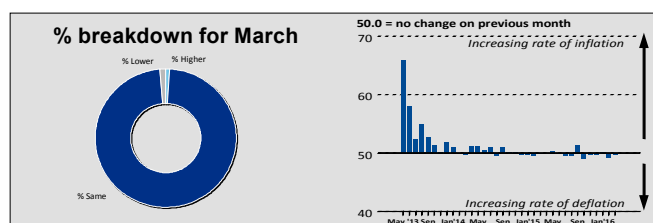


For the twelfth month in succession, weakness on the demand side led to a further reduction in average prices charged for goods and services in March. Moreover, the rate of decline in output prices accelerated for the second month running, deteriorating at the fastest pace since last October.

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	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
	Mar	0.7	97.9	1.4	-0.6	49.7	49.7

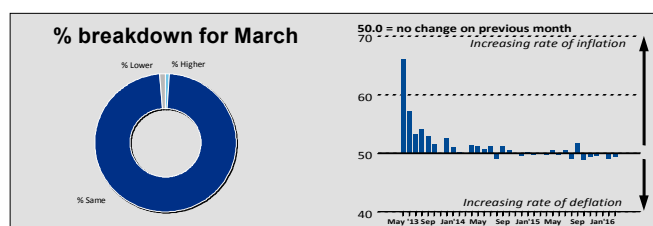


Providing businesses in Lebanon with some respite, overall input prices fell for the second successive month in March. Decreases in both purchase prices and staff remuneration helped to reduce overall cost burdens. That said, the degree to which total input prices declined was less marked than in February and 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 %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2015	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
	Mar	0.7	97.9	1.4	-0.6	49.7	49.4

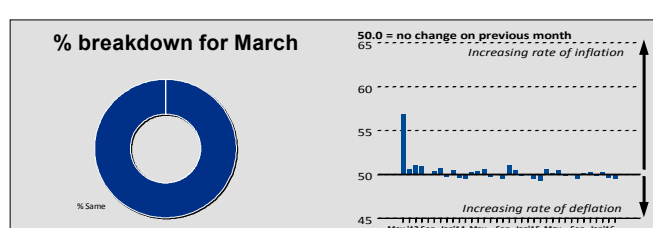


Average purchase prices of the Lebanese private sector businesses decreased in March, as has been the case in five of the past six months. Those companies that recorded a reduction in purchase prices commented on weaker demand for inputs and falling raw material costs. There were some specific mentions of prices falling internationally.

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	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
	Mar	0.0	100.0	0.0	0.0	50.0	49.5

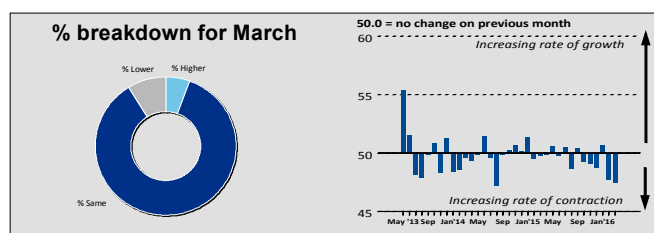


Adjusted for seasonality, average prices paid for salaries/wages in Lebanon's private sector economy decreased during March. The reduction was the third in the past four months and the most marked since September last year, albeit only marginal overall.

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	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
	Mar	5.5	85.7	8.8	-3.3	48.3	47.5

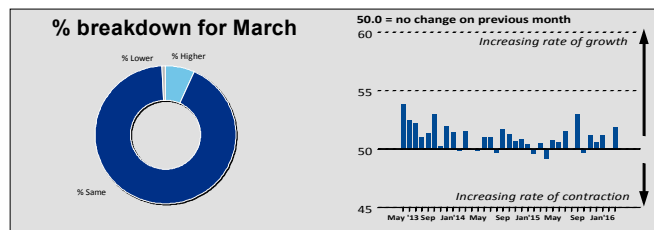


The level of purchasing activity among private sector businesses in Lebanon fell solidly again in March, continuing the trend witnessed in February. The extent to which buying levels decreased was in fact the second-sharpest in the survey's near three-year history, only slower than that recorded in August 2014.

Stocks of Purchases Index

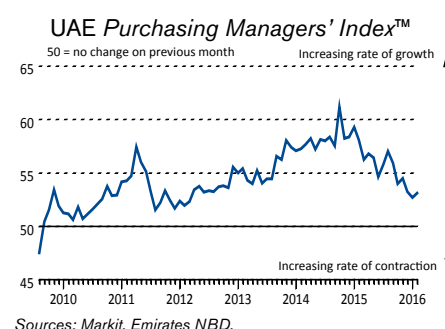
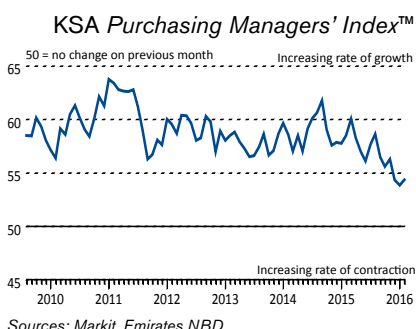
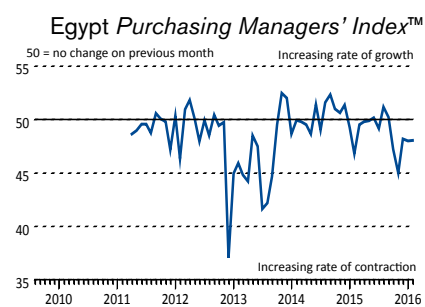
Q. Please compare your stocks of purchases (in units) with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2015	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
	Mar	6.7	92.4	0.9	+5.7	52.9	51.9



Despite companies scaling back their purchasing activity during the month, falling sales meant that stocks of purchases nevertheless rose in March. This extended the current sequence of inventory accumulation to five months. Furthermore, the rate of growth picked up to a solid pace that was the fastest seen since last September.

International PMI summary



At 48.1 in February, the headline seasonally adjusted Emirates NBD Egypt Purchasing Managers' Index™ (PMI) was little-changed from January's reading of 48.0. The index was under the crucial 50.0 threshold for the fifth successive month, and pointed to a modest deterioration in overall business conditions.

The headline seasonally adjusted Emirates NBD Saudi Arabia Purchasing Managers' Index™ (PMI) posted 54.4 in February, up from January's survey-record low of 53.9. Though signalling a rebound in growth, the latest figure was well below the long-run series average of 58.8. Nevertheless, it pointed to a solid improvement in business conditions overall.

The headline Emirates NBD UAE Purchasing Managers' Index™ (PMI) climbed to 53.1 in February, from 52.7 in January. With the previous reading being the lowest since March 2012, the latest figure was still below the series average of 54.5. Nonetheless, it bucked the recent trend of slowing growth, and was consistent with a solid improvement in business conditions overall.

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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