

PMI moves higher but still shows steep downturn in business conditions

Key findings:

- **Headline PMI ticks up following second quarter record low**
- **Further sharp, albeit slower, decreases in output and new orders**
- **Higher purchase prices behind the slight rise in cost pressures**

This report contains the thirty-fourth 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 45.5, the headline BLOM Lebanon PMI showed a deterioration in overall business conditions across Lebanon's private sector economy in July. Although the index was above its second quarter average (44.4), the lowest in the survey's history, it remained well below its historical series trend level (47.6).

Business activity fell sharply in Lebanon during July, with panel members commenting on an unstable operating environment amid ongoing economic, political and security issues. That said, the rate of decline in output eased to the slowest for five months.

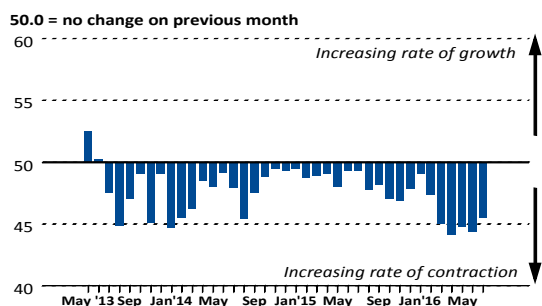
There was a similar trend in new business, with the latest decrease – being the thirty-eighth in consecutive months – the least marked since February but still sharp overall. The rate of decline in total new orders remained much faster than that of new business from abroad, despite the latter having quickened slightly since June.

Private sector companies continued to trim headcounts during July, thereby extending the current sequence of falling employment to five months. The modest decrease in staffing numbers was reflective of a lack of workplace activity, which was further evidenced by a steep drop in the amount of work-in-hand (both in progress and not yet started) among Lebanese businesses.

July saw a decrease in companies' purchasing activity, the sixth in as many months. However, inventory levels rose slightly, in line with the depicted trend since November last year. Average delivery times for purchased items were unchanged in July, ending a three-month sequence of improving supplier performance.

Average prices charged for goods and services decreased at a modest pace that was slightly faster than that of June. That was despite cost burdens having increased for the first time in six months amid a rise in purchase prices facing businesses. Meanwhile, average staff costs fell slightly.

Lebanon Purchasing Managers' Index™ (PMI™)



		Purchasing Managers' Index	
		Unadj.	Seas. Adj.
2016	May	45.3	44.8
	Jun	44.9	44.4
	Jul	45.8	45.5

Index Summary

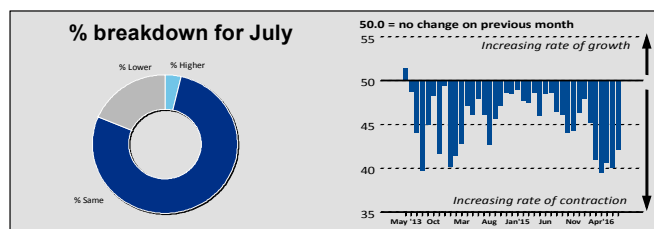
(seasonally adjusted, 50 = no change on previous month)

	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
May'16	44.8	40.7	40.7	46.7	43.9	49.4	48.6	49.9	50.4	49.8	50.3	46.8	50.5
Jun	44.4	40.0	40.4	48.4	42.7	49.3	48.8	50.0	50.0	50.2	50.7	46.7	50.1
Jul	45.5	42.1	41.9	47.3	42.8	49.4	48.4	50.4	51.4	49.8	50.0	47.0	50.6

Output Index

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

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2016	Mar	2.4	78.3	19.3	-16.8	41.6	41.0
	Apr	5.2	70.7	24.1	-18.9	40.5	39.5
	May	2.4	77.9	19.7	-17.2	41.4	40.7
	Jun	4.2	73.4	22.4	-18.2	40.9	40.0
	Jul	3.5	77.9	18.7	-15.2	42.4	42.1

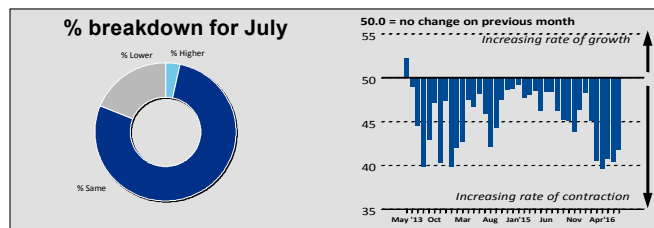


July's survey data showed another sharp decrease in the level of business activity across Lebanon's private sector economy. Around 19% of companies recorded a reduction in output, linked by many to instability in the country, versus only 4% that noted an increase. That said, the rate of contraction was the slowest since February.

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
2016	Mar	1.7	78.2	20.1	-18.4	40.8	40.5
	Apr	4.5	71.7	23.8	-19.4	40.3	39.6
	May	2.4	78.1	19.5	-17.1	41.4	40.7
	Jun	4.2	73.7	22.1	-17.9	41.0	40.4
	Jul	3.4	77.6	19.0	-15.5	42.2	41.9

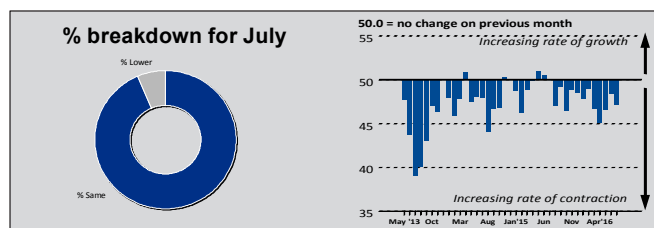


The seasonally adjusted New Orders Index stayed well below the neutral 50.0 threshold in July, pointing to a further steep decrease in the level of incoming new business placed with private sector Lebanese firms. Despite picking up to its highest level in five months, the index remained much lower than its average over the current 38-month sequence of contraction (45.2).

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
2016	Mar	0.0	93.4	6.6	-6.6	46.7	46.7
	Apr	0.8	90.3	8.8	-8.0	46.0	45.2
	May	0.6	92.7	6.7	-6.1	47.0	46.7
	Jun	2.9	93.9	3.2	-0.3	49.8	48.4
	Jul	0.0	93.6	6.4	-6.4	46.8	47.3

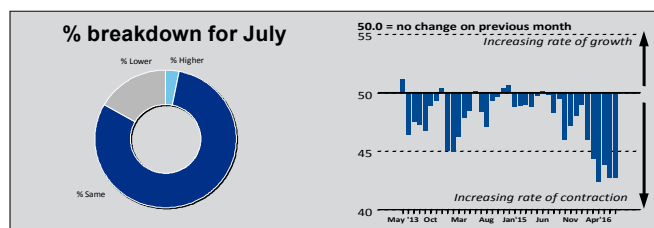


As has been the case in every month throughout the past year, Lebanese businesses recorded a reduction in new business from abroad in July. The rate of decline in new export orders quickened from the previous month and was solid, although remained much slower than that of total new business.

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
2016	Mar	3.5	82.9	13.6	-10.1	45.0	44.4
	Apr	3.6	77.8	18.6	-15.1	42.5	42.4
	May	2.1	84.2	13.8	-11.7	44.2	43.9
	Jun	3.8	78.2	18.0	-14.2	42.9	42.7
	Jul	3.1	80.3	16.5	-13.4	43.3	42.8

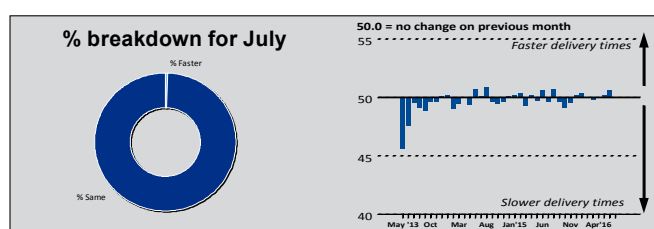


The lack of new orders placed with Lebanese businesses was reflected in a further decrease in backlogs of work, the level of which has now fallen continuously for more than a year. The rate at which outstanding business was reduced was little-changed from the sharp pace recorded in the preceding survey period.

Suppliers' Delivery Times Index

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

		Faster %	Same %	Slower %	Net +/-	Index	S.Adj. Index
2016	Mar	0.7	99.3	0.0	+0.7	50.4	49.8
	Apr	0.7	98.3	1.0	-0.2	49.9	50.1
	May	0.2	99.7	0.2	0.0	50.0	50.3
	Jun	1.0	99.0	0.0	+1.0	50.5	50.7
	Jul	0.5	99.5	0.0	+0.5	50.2	50.0

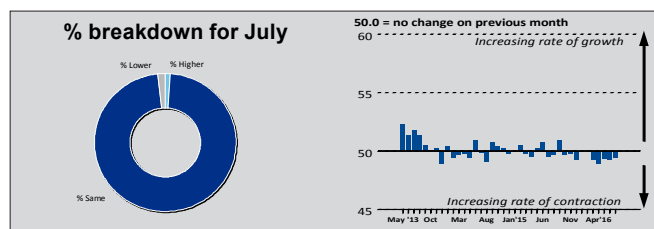


Adjusted for the influence of seasonal factors, the Suppliers' Delivery Times Index registered in line with the critical 50.0 threshold to signal no change in average vendor lead times. That followed improvements in supplier performance in each of the previous three months, albeit only marginal.

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
2016	Mar	0.0	99.6	0.4	-0.4	49.8	49.3
	Apr	0.0	98.2	1.8	-1.8	49.1	48.9
	May	0.6	98.1	1.3	-0.6	49.7	49.4
	Jun	0.5	98.1	1.4	-1.0	49.5	49.3
	Jul	1.2	97.1	1.7	-0.5	49.7	49.4

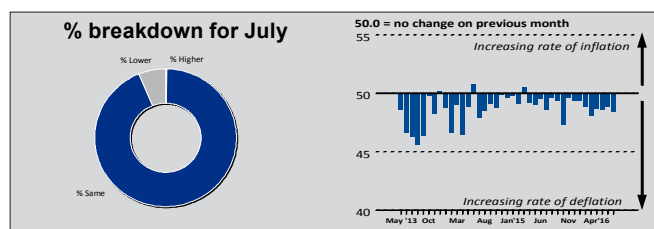


July saw a slight decrease in the level of employment across Lebanon's private sector economy, thereby continuing the trend seen over each of the past five months. Where a reduction in staff numbers was recorded (at approximately 2% of the survey panel), this was often linked to lower workloads.

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
2016	Mar	0.0	96.5	3.5	-3.5	48.2	48.1
	Apr	0.9	95.5	3.6	-2.8	48.6	48.7
	May	0.0	98.5	1.5	-1.5	49.2	48.6
	Jun	0.0	96.1	3.9	-3.9	48.1	48.8
	Jul	0.3	93.5	6.1	-5.8	47.1	48.4

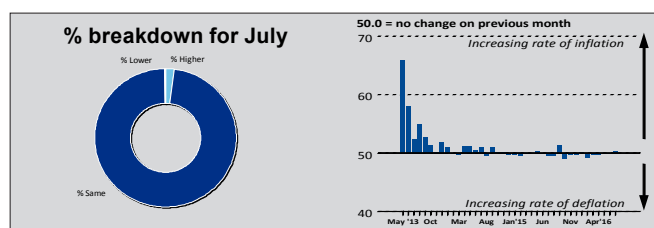


Average prices charged for goods and services decreased across Lebanon's private sector economy in July, the sixteenth month in a row in which this has been the case. The rate of decline was the fastest seen since March, although only modest overall. A number of panel members commented that output prices were lowered in order to attract new business.

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
2016	Mar	0.7	97.9	1.4	-0.6	49.7	49.7
	Apr	0.7	98.8	0.5	+0.2	50.1	49.7
	May	0.2	99.4	0.4	-0.2	49.9	49.9
	Jun	0.9	98.8	0.3	+0.7	50.3	50.0
	Jul	1.8	97.9	0.3	+1.5	50.8	50.4

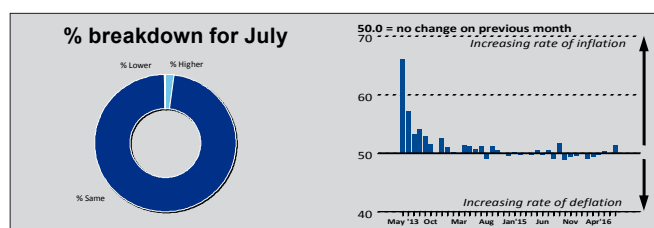


Overall input prices faced by Lebanese businesses rose slightly and for the first time in six months during July. The corresponding seasonally adjusted index was in fact at its highest level since September last year, albeit pointing to only a marginal rate of cost inflation overall. A rise in purchase prices was a key factor behind the increase in overall cost burdens.

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
2016	Mar	0.7	97.9	1.4	-0.6	49.7	49.4
	Apr	0.7	98.7	0.6	+0.1	50.1	49.7
	May	0.2	99.4	0.4	-0.2	49.9	50.4
	Jun	0.9	98.8	0.3	+0.7	50.3	50.0
	Jul	2.0	97.8	0.3	+1.7	50.9	51.4

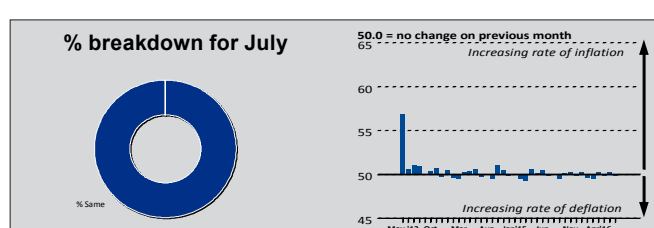


After holding steady during June, average purchase prices increased for the second time in the past three months in July. According to anecdotal evidence, the main driver was a rise in prices paid for foodstuffs. The rate of inflation was only modest, however, despite being the second-fastest since April 2014.

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
2016	Mar	0.0	100.0	0.0	0.0	50.0	49.5
	Apr	0.0	99.8	0.2	-0.2	49.9	50.2
	May	0.0	100.0	0.0	0.0	50.0	49.8
	Jun	0.0	99.8	0.2	-0.2	49.9	50.2
	Jul	0.0	100.0	0.0	0.0	50.0	49.8

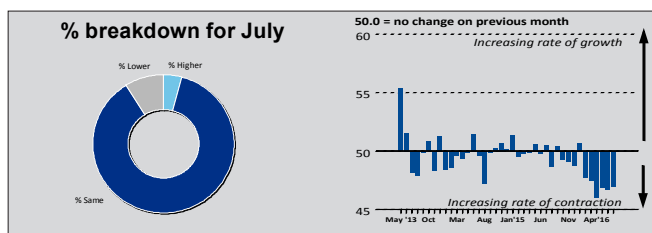


In contrast to the modest rise in purchase prices faced by private sector companies during July, average staff costs decreased over the month. Adjusted for seasonal factors, the respective index was at a level consistent with a marginal rate of decline, maintaining a broadly flat trend in salaries/wages seen throughout 2016 so far.

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
2016	Mar	5.5	85.7	8.8	-3.3	48.3	47.5
	Apr	2.9	85.7	11.3	-8.4	45.8	46.0
	May	1.7	90.5	7.7	-6.0	47.0	46.8
	Jun	3.4	88.9	7.6	-4.2	47.9	46.7
	Jul	4.2	87.0	8.9	-4.7	47.7	47.0

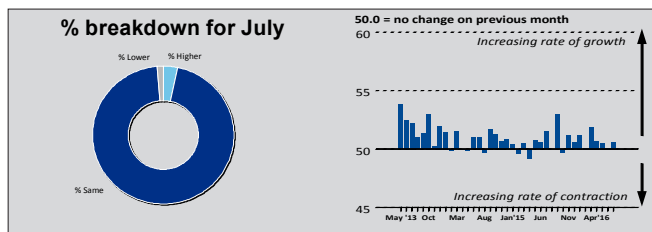


Lower workloads led businesses to scale back their purchasing activity in July, with the rate of decline easing only slightly since the previous survey period and remaining solid overall. Quantities of purchases have now fallen in each of the past six months, which is the longest sequence of contraction since data collection began in May 2013.

Stocks of Purchases Index

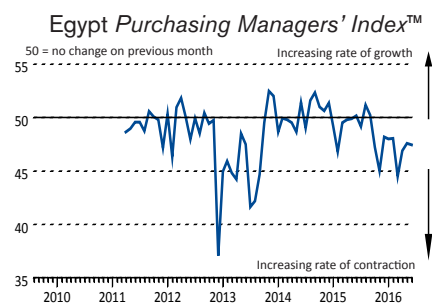
Q. Please compare your stocks of purchases (in units) with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2016	Mar	6.7	92.4	0.9	+5.7	52.9	51.9
	Apr	1.7	96.3	2.0	-0.2	49.9	50.7
	May	2.2	96.7	1.1	+1.1	50.5	50.5
	Jun	1.6	98.0	0.4	+1.2	50.6	50.1
	Jul	3.3	95.4	1.3	+2.0	51.0	50.6

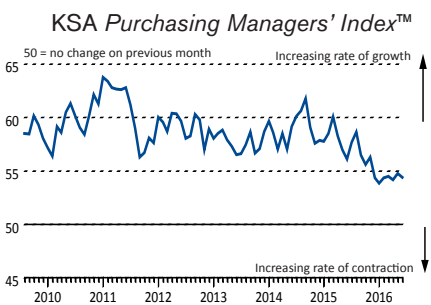


Despite the ongoing downturn in buying levels among Lebanon's private sector companies, July saw a further increase in stocks of purchases, the ninth in as many months. The rate of accumulation was the fastest seen since April, but nevertheless only marginal overall and slower than the series average.

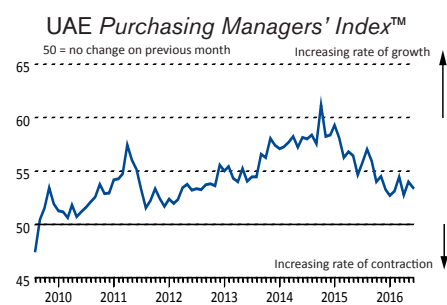
International PMI summary



Sources: IHS Markit, Emirates NBD.



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At 47.5, the headline Emirates NBD Egypt Purchasing Managers' Index™ (PMI) was little-changed from May's 47.6 in June. The non-oil private sector downturn now stretches to nine months, though the rate of contraction has eased slightly over the second quarter. The Q2 average of 47.3 was marginally higher than those seen in the Q1 2016 (46.9) and Q4 2015 (46.8).

The headline Emirates NBD Saudi Arabia Purchasing Managers' Index™ (PMI) posted 54.4 in June, down slightly from 54.8 in May. The latest reading rounded off a second quarter which has seen moderate growth (54.5) in line with the average recorded in 2016 to date (54.4). However, the improvement in business conditions remained subdued when compared to the long-run series trend.

The headline Emirates NBD UAE Purchasing Managers' Index™ (PMI) slipped to 53.4 in June, from 54.0 in May. While still pointing to growth of the non-oil private sector, the latest figure was much lower than the average over the past three years (56.3). The reading was nevertheless in line with the second quarter trend (53.4).

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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