

PMI drops to record low in October

Key findings:

- **Sharp and accelerated falls in output and new orders**
- **Rate of job losses fastest in survey's three-and-a-half year history**
- **Prices charged fall again despite rise in costs**

This report contains the thirty-seventh 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 43.8 in October, down from September's 45.1, the headline BLOM Lebanon PMI pointed to the steepest deterioration in business conditions across the private sector economy since data collection began in May 2013.

Companies reported sharp contractions in both output and new orders at the start of the fourth quarter, with the rate of decline for the latter being a survey record. Instability and political uncertainty were among the factors reported by businesses as having depressed market demand.

Moreover, October saw a further decrease in new business from abroad, the fifteenth in as many months, although the

rate of decline was much slower than that for total new orders (domestic and international).

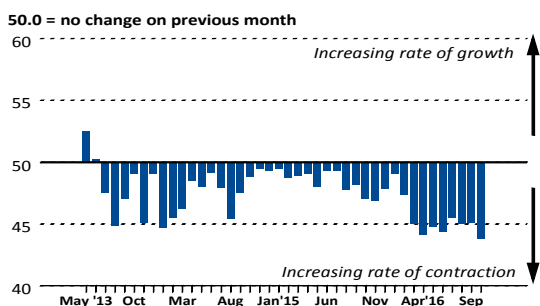
Companies reacted to falling workloads by cutting employee numbers, and at the fastest rate in the survey history. This extended the current sequence of job losses to eight months. Indeed, the existence of excess capacity was underlined by a further sharp drop in firms' backlogs of work (the amount of orders in progress or not yet started).

Quantities of purchases also showed a steep drop by historical standards in October, with the rate of decline second only to that seen in April. However, lower sales meant that stocks of purchases continued to rise during the month.

Reflective of falling demand for materials, businesses reported a further improvement in suppliers' delivery times, the third in as many months. That said, the extent of the improvement in vendor performance was only marginal.

Average prices charged for goods and services fell again in October, with the rate of decline little-changed from the modest pace seen in the previous survey period and broadly in line with the survey average. On the other hand, businesses faced a rise in average costs for the fourth month in succession, albeit marginal. Higher purchase prices contributed to the increase in cost burdens, whereas staff pay was unchanged compared with the month before.

Lebanon Purchasing Managers' Index™ (PMI™)



Purchasing Managers' Index			
		Unadj.	Seas. Adj.
2016	Aug	45.0	45.0
	Sep	45.5	45.1
	Oct	43.3	43.8

Index Summary

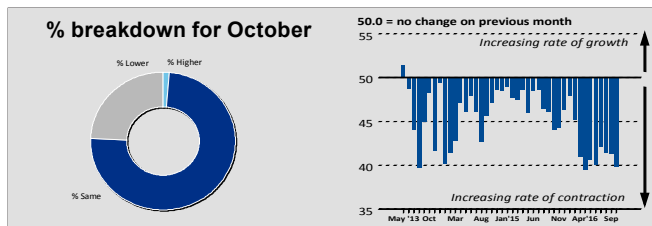
(seasonally adjusted, 50 = no change on previous month)

	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
Aug'16	45.0	41.5	40.7	47.4	43.4	49.5	48.1	50.2	50.2	50.1	51.0	47.6	51.5
Sep	45.1	41.3	40.7	47.7	45.3	49.7	48.6	50.4	50.8	50.2	50.2	47.6	51.0
Oct	43.8	39.8	38.6	47.4	42.4	48.2	48.7	50.7	50.5	50.0	50.3	46.3	51.4

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	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
	Aug	4.6	73.3	22.1	-17.5	41.2	41.5
	Sep	3.7	76.6	19.8	-16.1	42.0	41.3
	Oct	1.4	74.0	24.6	-23.2	38.4	39.8

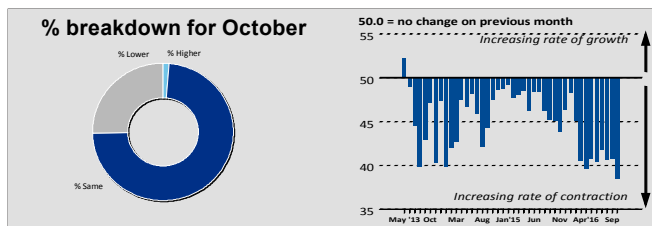


Business activity fell sharply across Lebanon's private sector economy in October. The rate of contraction was in fact the steepest seen since April, with around one-quarter of businesses recording a drop in activity. Those that reported a decline commented on a weak demand environment and instability 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
2016	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
	Aug	4.4	72.1	23.5	-19.1	40.5	40.7
	Sep	3.6	75.8	20.6	-17.1	41.5	40.7
	Oct	1.3	73.3	25.4	-24.1	38.0	38.6

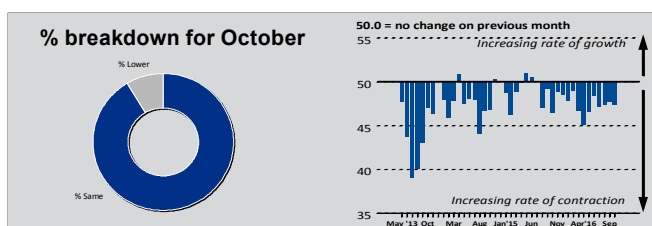


October saw a sharp and accelerated decrease in the level of new orders received by private sector businesses operating in Lebanon. This was highlighted by the corresponding seasonally adjusted index moving further below the neutral 50.0 threshold, to its lowest level since data collection began in May 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
2016	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
	Aug	0.0	93.3	6.7	-6.7	46.6	47.4
	Sep	0.5	95.9	3.6	-3.1	48.5	47.7
	Oct	0.0	91.3	8.7	-8.7	45.6	47.4

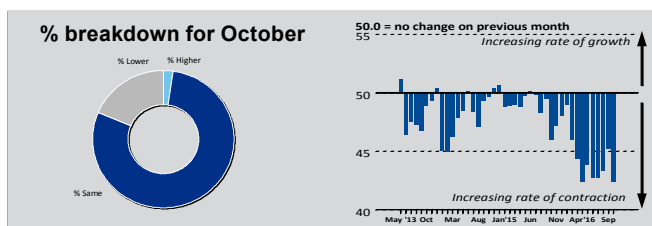


Lebanese businesses recorded a further decrease in the level of new business from abroad at the start of the fourth quarter, thereby continuing the trend observed in each month since August last year. However, the rate of decline in new export orders was much slower than that of total new business (domestic and international).

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	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
	Aug	3.0	82.0	15.0	-12.1	44.0	43.4
	Sep	4.8	81.6	13.6	-8.8	45.6	45.3
	Oct	2.2	79.0	18.7	-16.5	41.8	42.4

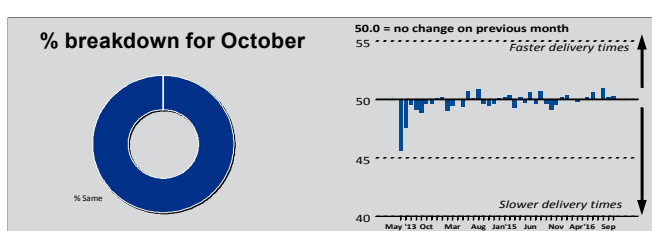


Reflective of a lack of incoming new orders to replace completed projects, October's survey pointed to a further decrease in the level of work-in-hand (both in progress and not yet started) at Lebanese firms. Furthermore, the rate at which backlogs of work decreased was the joint-fastest in the survey history, matching that recorded in April.

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	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
	Aug	0.2	99.8	0.0	+0.2	50.1	51.0
	Sep	0.0	100.0	0.0	0.0	50.0	50.2
	Oct	0.0	100.0	0.0	0.0	50.0	50.3

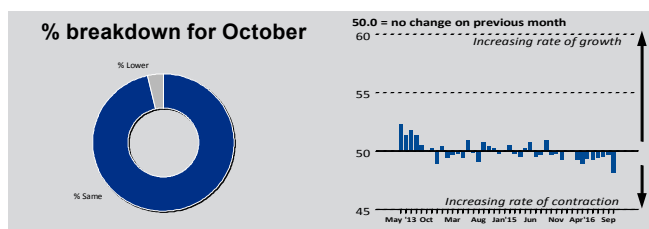


Adjusted for the influence of seasonal factors, the Suppliers' Delivery Times Index registered above the 50.0 no-change level for the third month in succession in October, pointing to a further improvement in vendor performance. That said, as was the case in September, the extent to which lead times shortened was only marginal overall.

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	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
	Aug	0.5	98.4	1.1	-0.7	49.7	49.5
	Sep	0.2	98.4	1.4	-1.3	49.4	49.7
	Oct	0.0	96.5	3.5	-3.5	48.3	48.2

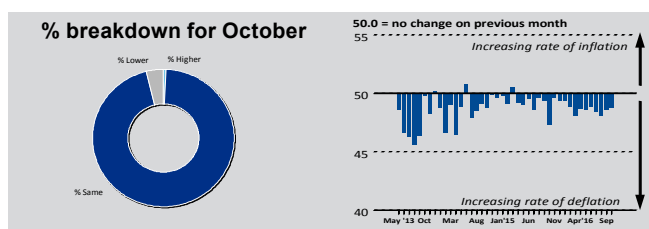


Lower workplace activity was translated into further job losses across Lebanon's private sector economy during October. The rate at which employment decreased was actually a survey record, despite being only moderate overall. Lower staffing numbers have now been recorded in each of the past eight months.

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
2016	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
	Aug	0.0	95.1	4.9	-4.9	47.6	48.1
	Sep	1.4	96.1	2.4	-1.0	49.5	48.6
	Oct	0.7	95.5	3.9	-3.2	48.4	48.7

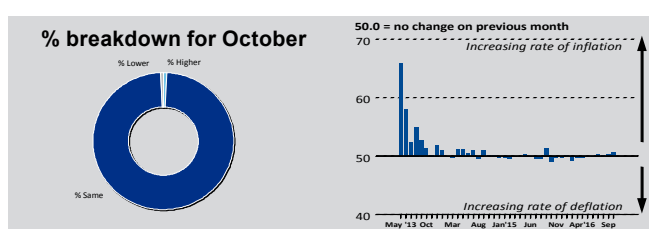


Weakness on the demand side was reflected in a further drop in average prices charged for goods and services, with a number of panellists commenting on efforts to boost new work. The rate of decline in output charges was moderate and little-changed from that recorded in the preceding survey period.

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	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
	Aug	1.0	98.8	0.2	+0.7	50.4	50.2
	Sep	0.4	99.6	0.0	+0.4	50.2	50.4
	Oct	0.9	98.5	0.6	+0.3	50.1	50.7

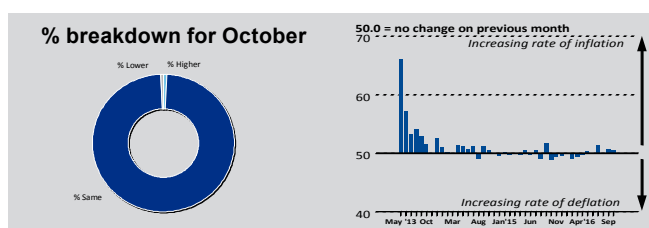


Average input prices faced by private sector companies operating in Lebanon increased in October, marking a four-month sequence of cost inflation – the longest seen since mid-2014. Although picking up to the fastest in just over a year, the rate of increase in input costs remained only marginal overall.

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
2016	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
	Aug	1.1	98.7	0.2	+0.9	50.4	50.2
	Sep	0.4	99.6	0.0	+0.4	50.2	50.8
	Oct	0.9	98.5	0.6	+0.3	50.1	50.5

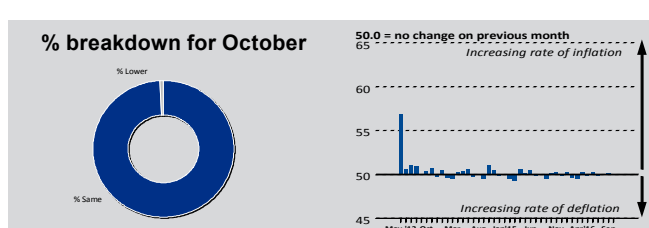


One factor leading overall cost burdens to rise was an increase in average prices paid for purchases. October's rise in purchasing costs was the fifth in the past six months. That said, the rate of inflation was only slight, with the vast majority of surveyed businesses reporting no change compared with the situation one month before.

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	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
	Aug	0.0	99.8	0.2	-0.2	49.9	50.1
	Sep	0.0	100.0	0.0	0.0	50.0	50.2
	Oct	0.0	99.2	0.8	-0.8	49.6	50.0

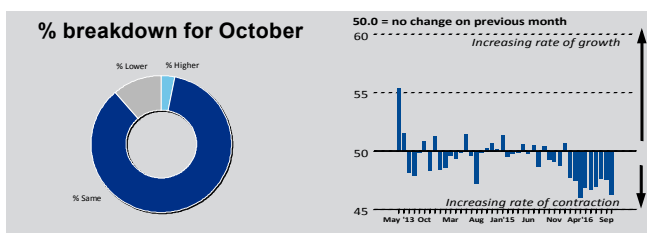


The seasonally adjusted Staff Costs Index registered a reading in line with the neutral 50.0 threshold in October, thereby signalling no change in average salaries/wages across Lebanon's private sector economy. That followed marginal growth in staff remuneration in each of the previous two months.

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	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
	Aug	4.6	87.1	8.3	-3.7	48.2	47.6
	Sep	6.2	85.1	8.8	-2.6	48.7	47.6
	Oct	3.0	85.7	11.4	-8.4	45.8	46.3

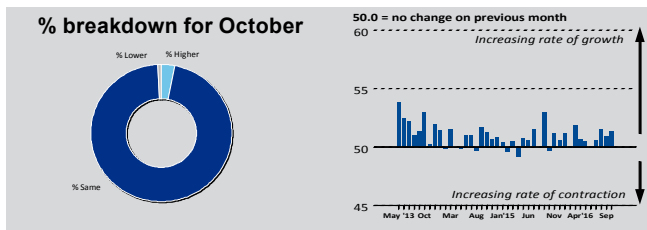


Matching the trends recorded for both output and new orders, businesses' purchasing activity showed a sharp and accelerated contraction in October. The rate of decline in buying levels was the second-fastest seen in the survey's three-and-a-half year history, behind that registered in April.

Stocks of Purchases Index

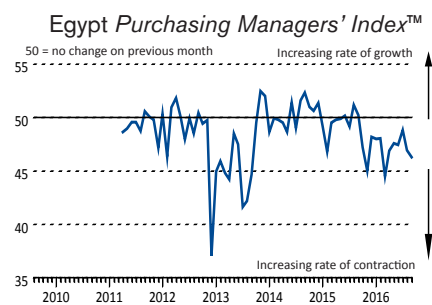
Q. Please compare your stocks of purchases (in units) with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2016	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
	Aug	3.9	95.6	0.5	+3.5	51.7	51.5
	Sep	5.0	94.4	0.6	+4.4	52.2	51.0
	Oct	3.0	96.3	0.7	+2.3	51.1	51.4

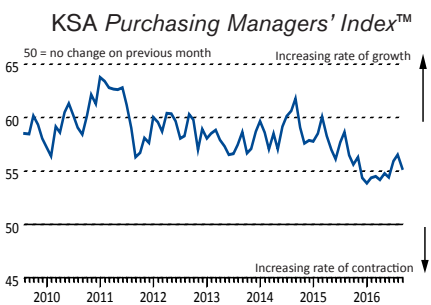


Lebanese businesses continued to report rising stocks of purchases in October, as has been the case in each month throughout the past year. Although remaining moderate, the rate of accumulation was faster than that of September and slightly quicker than the long-run series average. Where an increase in inventories was recorded (at 3% of companies), this was sometimes linked to a lack of sales.

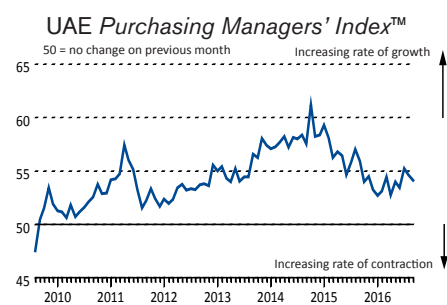
International PMI summary



Sources: IHS Markit, Emirates NBD.



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The headline seasonally adjusted Emirates NBD Egypt Purchasing Managers' Index™ (PMI) dropped to 46.3 in September, from 47.0 in August. As well as marking a one-year downturn, the latest reading pointed to an accelerated contraction for the second straight month.

At 55.3, the headline seasonally adjusted Emirates NBD Saudi Arabia Purchasing Managers' Index™ (PMI) sank to its lowest reading in the third quarter in September. Down from August's one-year high of 56.6, the latest figure was well below the long-run trend (58.5).

The headline seasonally adjusted Emirates NBD UAE Purchasing Managers' Index™ (PMI) slipped closer to the 50.0 no-change mark for the second month running in September. Down from 54.7 in August, the latest reading of 54.1 was still consistent with a solid improvement in business conditions.

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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