

Private sector economy remains in contraction at start of second quarter

Key findings:

- **Further, albeit slower, falls in output, new orders and employment**
- **Cost inflation subsides from March's 18-month high**
- **Future expectations reach lowest level since May 2016**

This report contains the forty-third 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.

Business conditions continued to deteriorate across Lebanon's private sector economy at the start of the second quarter, as highlighted by the headline BLOM Lebanon PMI registering a reading of 47.5 in April, below the 50.0 mark that separates growth from contraction. That said, the index increased from March's four-month low of 46.9 to signal a slight slowdown in the rate of decline.

Survey data pointed to a further weakening of demand for Lebanese goods and services, with inflows of new orders falling again in April, albeit more slowly than the month before. The decrease, which included a further reduction in new work from abroad, was reflected in a drop in the amount

of outstanding business held at Lebanese companies.

The reduction in workloads was translated into a further decrease in the level of output across the private sector economy in April, extending the current sequence of decline to nearly four years. However, the rate at which business activity decreased was the weakest seen since January.

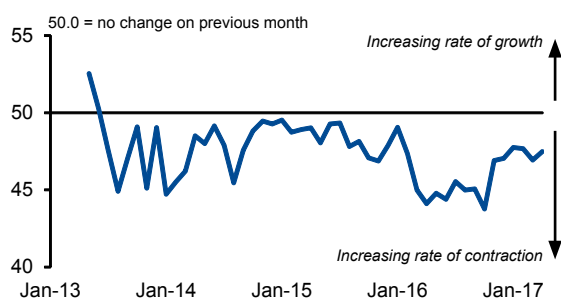
April also saw slower declines in both employment and firms' purchasing activity. Inventory levels continued to rise despite the drop in quantities of purchases, though the pace of accumulation was at a four-month low.

On the supply side, Lebanese firms faced a slight increase in lead times on purchased items for the second month in a row. They also reported paying more (on average) for items, though the rate of inflation was the lowest seen since January. This was also the case for overall cost burdens, which showed a rate of increase that was well below March's 18-month high. Salary pressures meanwhile remained subdued.

Average prices charged for goods and services decreased for the twenty-fifth month in a row in April. That said, the rate of decline was only modest and the slowest seen for 15 months.

Finally, April's survey data showed a drop in firms' confidence towards the year-ahead outlook for business activity. Future expectations were in fact at their lowest since May 2016, having deteriorated in each of the past five months.

Lebanon Purchasing Managers' Index™ (PMI™)



Purchasing Managers' Index

		Unadj.	Seas. Adj.
2017	Feb	47.7	47.7
	Mar	46.3	46.9
	Apr	48.2	47.5

Index Summary

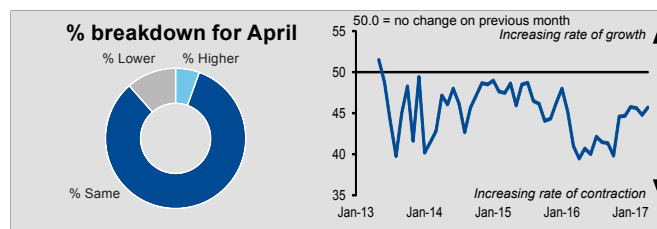
(seasonally adjusted, 50 = no change on previous month)

	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	Future Output
Feb'17	47.7	45.6	45.7	49.8	47.3	49.9	48.1	50.6	50.7	50.2	50.2	48.5	51.1	41.6
Mar	46.9	44.8	44.0	49.1	46.0	49.3	48.1	51.1	51.2	50.2	49.8	47.6	51.3	37.8
Apr	47.5	45.7	45.2	48.6	47.2	49.5	49.2	50.4	50.4	50.3	49.6	48.0	50.6	35.8

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	Dec	5.5	83.1	11.4	-5.9	47.0	44.7
2017	Jan	2.0	83.7	14.3	-12.2	43.9	45.8
	Feb	4.5	82.5	13.0	-8.5	45.7	45.6
	Mar	3.5	80.6	15.9	-12.4	43.8	44.8
	Apr	5.5	83.0	11.5	-6.0	47.0	45.7

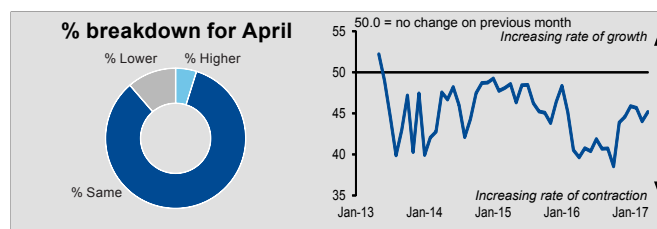


April's survey data showed a further decrease in the level of business activity across Lebanon's private sector economy, marking almost four years of continuous decline. That said, the rate of contraction eased since the previous survey period to the weakest in three months (and the second-slowest since the start of 2016).

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	Dec	5.7	82.8	11.5	-5.8	47.1	44.6
2017	Jan	2.3	82.7	14.9	-12.6	43.7	45.9
	Feb	4.7	82.9	12.4	-7.8	46.1	45.7
	Mar	2.2	81.1	16.7	-14.5	42.8	44.0
	Apr	4.8	83.9	11.3	-6.5	46.8	45.2

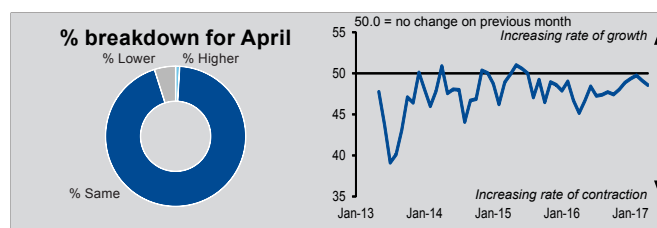


The level of new orders received by companies operating in Lebanon decreased again in April, as signalled by the respective seasonally adjusted index staying below the neutral 50.0 threshold. Although rising from March's four-month low, the index remained at a level indicative of a marked rate of contraction in new business.

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	Dec	2.3	94.7	3.0	-0.7	49.7	48.9
2017	Jan	1.4	95.3	3.3	-1.9	49.1	49.3
	Feb	1.5	96.1	2.5	-1.0	49.5	49.8
	Mar	1.3	92.6	6.1	-4.9	47.6	49.1
	Apr	0.9	94.2	4.9	-3.9	48.0	48.6

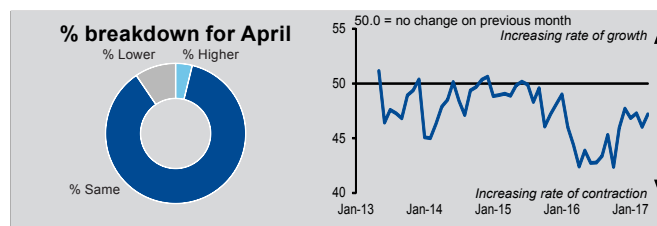


Lebanese businesses recorded a further drop in the level of new orders received from abroad in April, which they predominantly linked to instability in both the domestic market and the broader region. Having accelerated for the second month in a row, the rate at which new export orders decreased was the fastest seen since November 2016.

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	Dec	6.7	85.3	8.0	-1.2	49.4	47.7
2017	Jan	2.4	85.1	12.5	-10.0	45.0	46.8
	Feb	4.4	84.5	11.1	-6.7	46.6	47.3
	Mar	2.9	84.5	12.6	-9.7	45.1	46.0
	Apr	3.8	86.7	9.5	-5.6	47.2	47.2

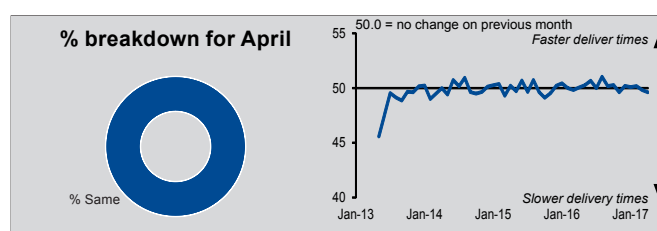


The ongoing decline in inflows of new work was reflected in a further decrease in the amount of outstanding business (both projects in progress and not yet started) among Lebanese firms. Around one-in-ten firms noted a reduction in backlogs, versus 4% that recorded an increase. However, the overall rate of depletion was slightly slower than that of 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	Dec	0.6	99.2	0.2	+0.4	50.2	50.2
2017	Jan	0.0	100.0	0.0	0.0	50.0	50.1
	Feb	0.0	100.0	0.0	0.0	50.0	50.2
	Mar	0.0	100.0	0.0	0.0	50.0	49.8
	Apr	0.0	100.0	0.0	0.0	50.0	49.6

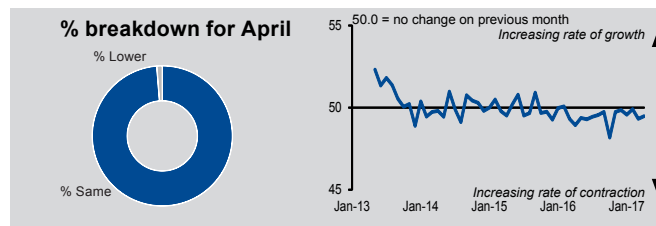


Adjusted for the influence of seasonal factors, the Suppliers' Delivery Times Index registered a reading below the 50.0 no-change mark for the second month in succession in April. Although dropping to its lowest level since last November, the index continued to point to a marginal deterioration in vendors' performance 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	Dec	1.4	97.4	1.2	+0.2	50.1	49.8
2017	Jan	0.4	98.6	1.1	-0.7	49.7	49.6
	Feb	0.0	98.9	1.1	-1.1	49.4	49.9
	Mar	0.0	98.6	1.4	-1.4	49.3	49.3
	Apr	0.0	98.7	1.3	-1.3	49.4	49.5

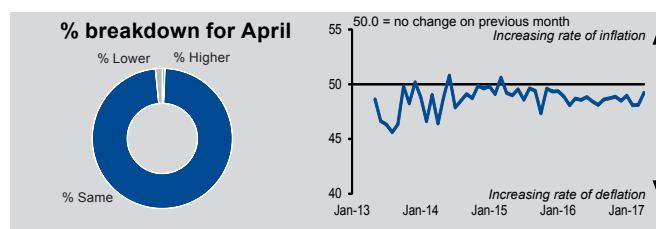


Continuing the trend seen in each of the past 14 months, April saw a decrease in the level of employment across Lebanon's private sector economy. However, the rate of decline was only marginal and slower than the month before, with the vast majority of businesses (around 99%) reporting no change in staff 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
2016	Dec	0.2	96.6	3.2	-3.0	48.5	48.5
2017	Jan	0.0	94.9	5.1	-5.1	47.5	49.0
	Feb	0.7	94.5	4.9	-4.2	47.9	48.1
	Mar	0.8	95.7	3.5	-2.7	48.6	48.1
	Apr	0.6	97.8	1.6	-1.0	49.5	49.2

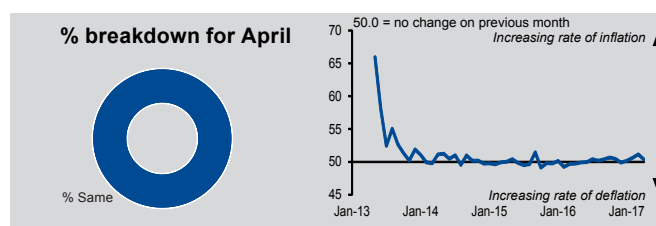


Reflecting weak demand conditions, Lebanese businesses continued to offer discounts and promotions to clients in order to support sales. That said, the seasonally adjusted Output Prices Index moved closer to the 50.0 no-change mark in April, to signal the slowest decrease in average prices charged for goods and services since January 2016.

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	Dec	0.0	99.8	0.2	-0.2	49.9	49.9
2017	Jan	0.0	100.0	0.0	0.0	50.0	50.2
	Feb	0.7	99.1	0.2	+0.5	50.3	50.6
	Mar	1.6	98.4	0.0	+1.6	50.8	51.1
	Apr	0.0	100.0	0.0	0.0	50.0	50.4

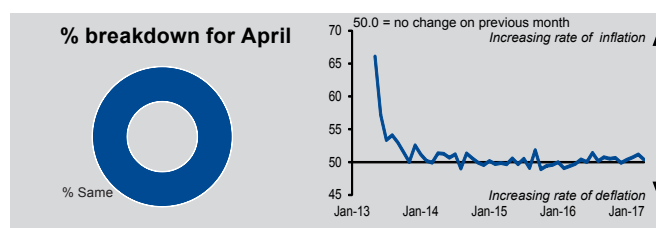


Average input prices faced by Lebanese businesses increased for the fourth month in a row in April, with both purchasing costs and staff pay contributing to the rise in cost burdens. The rate of input price of inflation was only marginal, however, having eased from March's 18-month high to the lowest seen since January.

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	Dec	0.0	99.8	0.2	-0.2	49.9	49.9
2017	Jan	0.0	100.0	0.0	0.0	50.0	50.4
	Feb	0.7	99.1	0.2	+0.5	50.3	50.7
	Mar	1.6	98.4	0.0	+1.6	50.8	51.2
	Apr	0.0	100.0	0.0	0.0	50.0	50.4

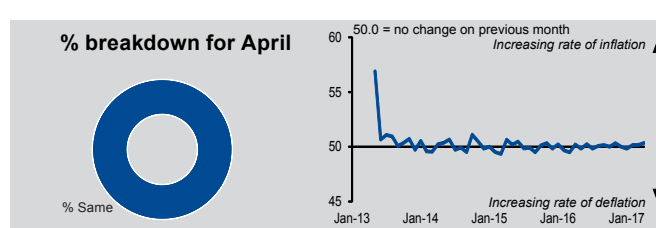


As was the case for total cost burdens, average purchase prices facing Lebanese businesses increased at a slower rate in the latest survey period. The respective seasonally adjusted index registered its joint-lowest reading in 2017 so far, matching that recorded in the opening month of the year.

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	Dec	0.0	100.0	0.0	0.0	50.0	50.0
2017	Jan	0.0	100.0	0.0	0.0	50.0	49.8
	Feb	0.0	100.0	0.0	0.0	50.0	50.2
	Mar	0.0	100.0	0.0	0.0	50.0	50.2
	Apr	0.0	100.0	0.0	0.0	50.0	50.3

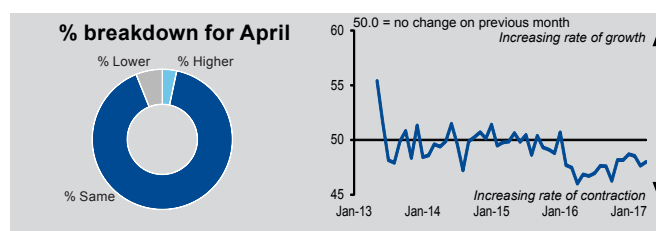


Lebanese businesses continued to report subdued growth in average salaries/wages. Although the seasonally adjusted Staff Costs Index registered a reading above the neutral 50.0 mark, as has been the case in each month since February, the rate of increase signalled in April was again negligible and slower 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
2016	Dec	5.8	86.7	7.5	-1.8	49.1	48.2
2017	Jan	1.6	90.0	8.4	-6.8	46.6	48.7
	Feb	3.4	88.6	8.0	-4.6	47.7	48.5
	Mar	3.9	87.9	8.2	-4.3	47.9	47.6
	Apr	3.3	90.6	6.1	-2.8	48.6	48.0

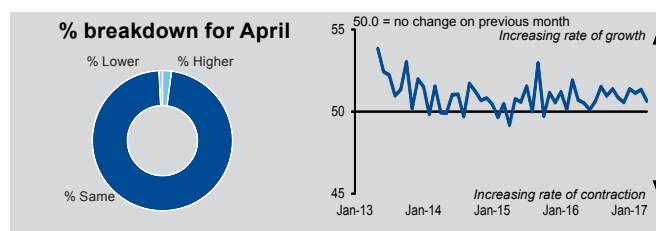


The latest data showed a slight slowdown in the rate of decline of Lebanese businesses' purchasing activity in April. Nevertheless, lower buying levels have now been recorded in each of the past 15 months, with the latest decrease attributed by survey participants to a lack of incoming new work.

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	Dec	5.9	93.7	0.4	+5.6	52.8	50.6
2017	Jan	0.9	99.1	0.0	+0.9	50.4	51.4
	Feb	1.1	97.7	1.2	-0.1	49.9	51.1
	Mar	4.3	95.1	0.6	+3.6	51.8	51.3
	Apr	2.1	97.1	0.8	+1.3	50.7	50.6

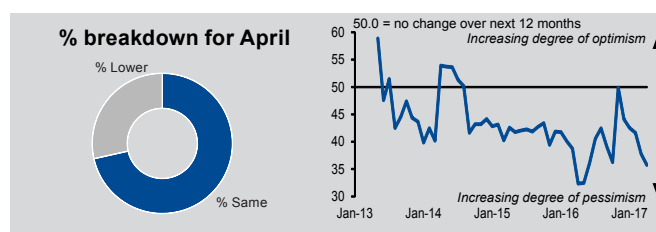


Stocks of purchases held by Lebanese businesses continued to grow during April despite the sustained contraction in buying levels. That said, having eased to the weakest in 2017 so far, the rate at which inventory levels increased was only marginal. The current sequence of expansion in stocks began in November 2015.

Future Output Index

Q. In 12 months' time do you expect the overall volume of output to be higher, the same or lower than now?

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2016	Dec	3.6	81.1	15.3	-11.8	44.1	n/a
2017	Jan	2.7	79.6	17.7	-15.0	42.5	n/a
	Feb	5.3	72.6	22.0	-16.7	41.6	n/a
	Mar	1.8	72.0	26.2	-24.4	37.8	n/a
	Apr	0.0	71.5	28.5	-28.5	35.8	n/a



The degree of confidence among Lebanese businesses continued to weaken in April. Since reaching a 27-month high in November 2016, the Future Output Index has fallen in each of the subsequent five surveys, reaching its lowest level since May 2016 at the start of the second quarter of 2017. Negative sentiment was often linked to fears of a continuation of the current difficult operating environment.

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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