

PMI signals deepening economic downturn in May

Key findings:

- **Headline PMI at seven-month low of 46.6**
- **Output and new orders fall at faster rates**
- **Business confidence hits lowest in four-year survey history**

This report contains the forty-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 IHS 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.

Lebanon's private sector economic conditions deteriorated at a faster rate in May. This was shown by the headline BLOM Lebanon PMI registering 46.6, down from 47.5 in April and its lowest score since October last year. The latest reading was also below the average (47.4) recorded since the survey began over four years ago.

Businesses reported a sharp drop in overall output in May, with the rate of decline being the fastest seen for seven months. Panel evidence pointed to weak underlying demand in the domestic market due to an unstable political situation as well as issues over cash flow and security. There were also reports of a lack of tourism, while the latest survey data

showed a further drop in new export orders.

Firms continued to scale back operations in May, reporting further declines in employment and quantities of purchases. In both cases the rates of decline were the slowest for three months, however.

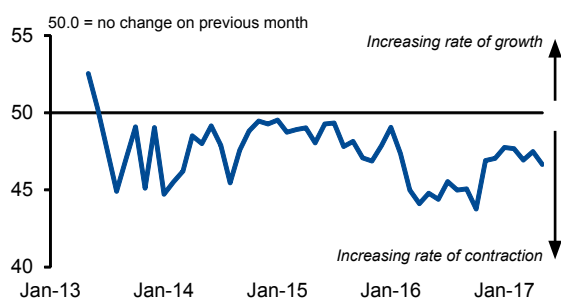
A sharp decrease in backlogs of work meanwhile pointed to ongoing spare capacity across the private sector economy.

Data on firms' future expectations showed a further deterioration in sentiment. The level of confidence signalled was in fact the lowest in the series history. Businesses generally reported that they expect output to decrease over the next 12 months, citing the continuation of the difficult operating environment.

On the price front, latest data showed a reduction in average prices charged for goods and services. This was linked by panellists to strong competitive pressures. The rate at which output charges decreased was moderate, but slightly faster than in April.

Businesses were given some respite in the form of lower overall input costs, which decreased for the first time in five months. The reduction reflected a fall in average prices paid for purchases, which likewise dipped slightly and for the first time in 2017 so far. Staff pay was meanwhile unchanged (on average) during the month.

Lebanon Purchasing Managers' Index™ (PMI™)



Purchasing Managers' Index

		Unadj.	Seas. Adj.
2017	Mar	46.3	46.9
	Apr	48.2	47.5
	May	46.3	46.6

Index Summary

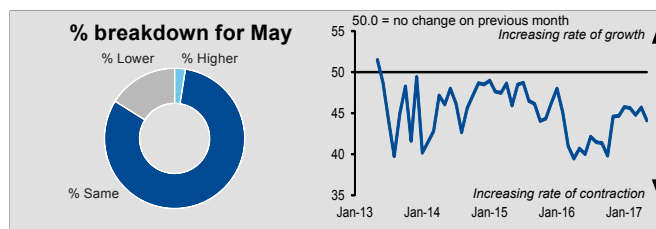
(seasonally adjusted, 50 = no change on previous month)

	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
Mar'17	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
May	46.6	44.1	43.8	48.4	45.6	49.6	48.7	49.7	49.7	50.0	50.2	48.2	50.7	32.3

Output Index

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

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
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
	May	2.5	81.4	16.1	-13.6	43.2	44.1

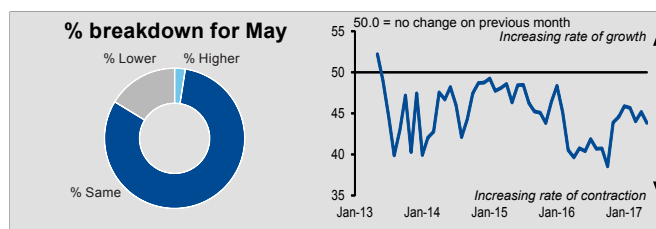


Lebanese private sector economic activity decreased in May, as shown by the seasonally adjusted Output Index registering a reading below the 50.0 no-change mark. Furthermore, the rate of contraction signalled by the index was the fastest seen since last October. Where a decrease was recorded (at approximately 16% of firms), there were mentions of political and economic difficulties as well as a lack of tourism.

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
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
	May	2.5	81.3	16.3	-13.8	43.1	43.8

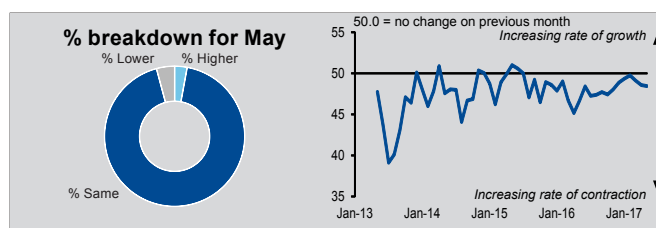


Latest data showed a deterioration in underlying demand faced by Lebanese businesses. This was highlighted by a further decrease in the amount of new work received by companies in May, continuing the trend seen in every month throughout the past four years. The extent to which new orders contracted was the most marked since last October.

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
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
	May	2.9	92.9	4.2	-1.3	49.4	48.4

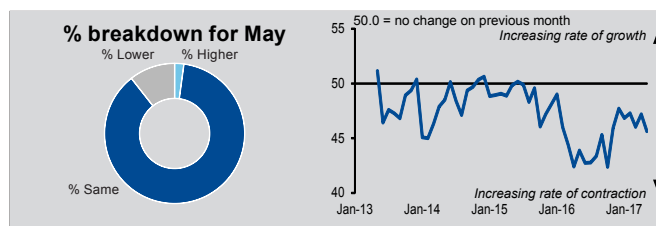


Part of the reason for lower overall inflows of new orders was a further decrease in export sales. May saw a reduction in the level of new business from abroad for the twenty-second month in a row. That said, although picking up to the fastest since last November, the rate of decline in new export orders remained moderate and much slower than that of total new business (from the domestic market and abroad).

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
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
	May	2.1	87.3	10.6	-8.4	45.8	45.6

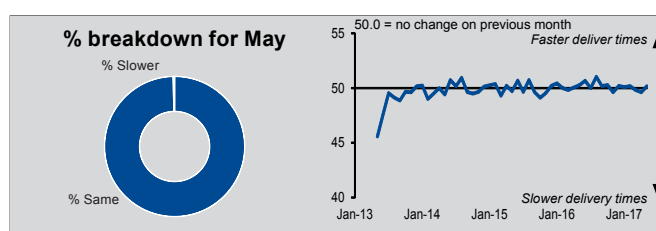


The amount of work-in-hand (both in progress and not yet started) at Lebanese businesses contracted in May. The rate of depletion was marked, having accelerated to the fastest seen since October 2016. Around 11% of companies noted a decrease in backlogs of work, versus only 2% that recorded an increase.

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
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
	May	0.0	99.7	0.3	-0.3	49.8	50.2

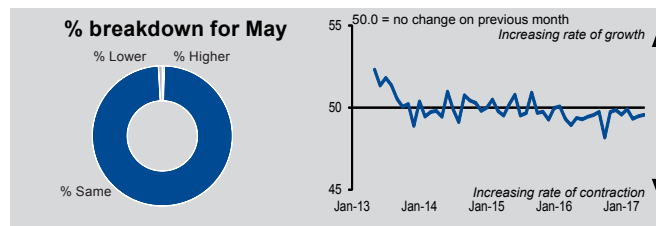


Adjusted for seasonal influences, delivery times for purchased items shortened slightly (on average) during the latest survey period. The improvement in vendor performance was the first recorded since February, following marginal increases in supplier lead times in each of the previous two months.

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
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
	May	0.5	98.7	0.9	-0.4	49.8	49.6

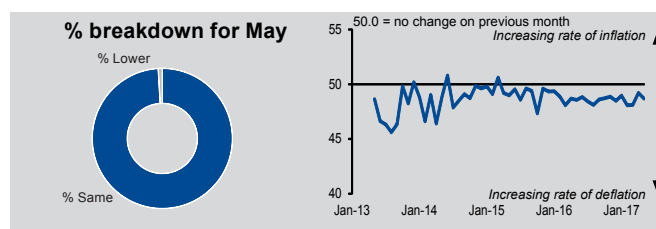


Lebanese businesses maintained a preference for lower staff numbers in May, citing falling workloads. Overall private sector employment has now contracted for 15 months in a row, although the rate of job losses in the latest survey period was only marginal and the slowest seen since February.

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
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
	May	0.0	99.1	0.9	-0.9	49.5	48.7

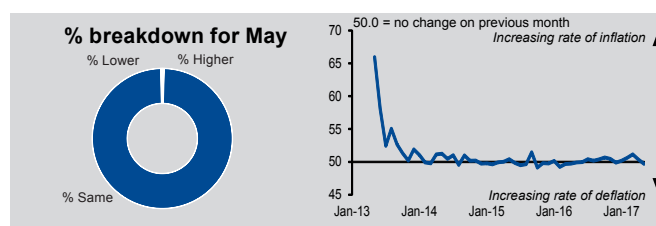


Average prices charged by businesses in Lebanon fell at a faster rate in May. This was indicated by the seasonally adjusted Output Prices Index moving further below the neutral 50.0 threshold, registering a reading that was broadly in line with its long-run series' average (48.6). Firms cited strong competition as the main reason for having reduced output charges.

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
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
	May	0.4	99.3	0.3	+0.1	50.0	49.7

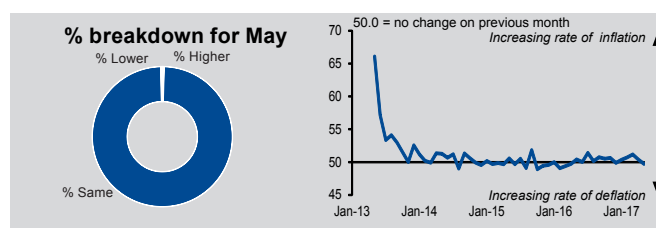


Latest data showed some let-up on the cost front in May, as overall input prices faced by Lebanese private sector businesses decreased for the first time in five months. Although the fastest recorded for over a year, the rate at which average cost burdens decreased was only marginal overall. Underlying data indicated that the reduction in overall costs reflected falling purchase prices.

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
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
	May	0.4	99.3	0.3	+0.1	50.0	49.7

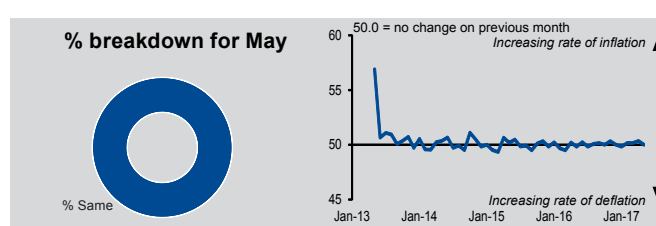


The seasonally adjusted Purchase Prices Index moved below the 50.0 no-change mark in May, thereby ending a four-month sequence of rising prices for bought items. The rate of decline as signalled by the index was only fractional, however, with the vast majority of businesses reporting no change in the cost of purchases.

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
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
	May	0.0	100.0	0.0	0.0	50.0	50.0

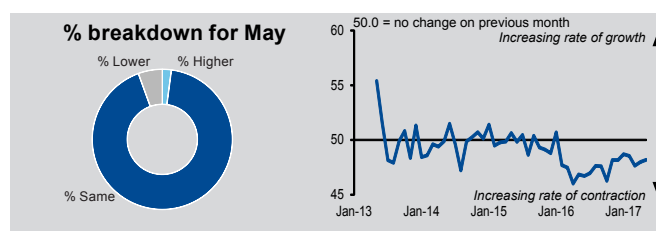


Prices paid for salaries/wages in May remained at the same level (on average) as the month before. This was highlighted by the seasonally adjusted Staff Costs Index registering a reading in line with the 50.0 neutral mark, and it followed three consecutive months of marginal pay growth.

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
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
	May	2.1	92.4	5.5	-3.5	48.3	48.2

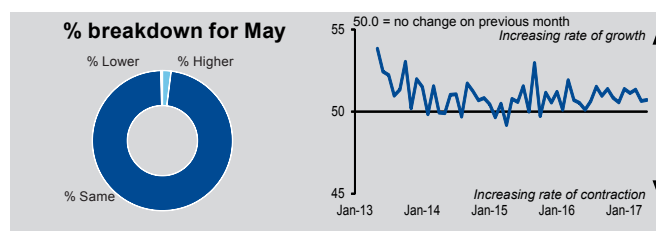


Lebanese private sector businesses continued to pare back their quantities of purchases in May. The latest decrease in buying levels, the sixteenth in as many months, was linked by panellists to lower workloads. The rate at which purchasing activity contracted was the slowest for three months, however.

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
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
	May	2.0	97.7	0.3	+1.7	50.8	50.7

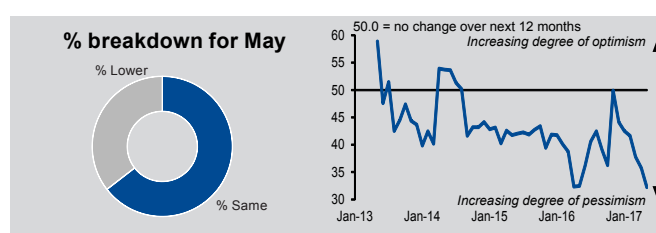


May saw a further increase in stocks of purchases held by Lebanese private sector businesses, stretching the current sequence of accumulation to 19 months. The rate of expansion in inventory levels was only modest, however, and little-changed from that recorded in the preceding survey period.

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
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
	May	0.0	64.5	35.5	-35.5	32.3	n/a



Firms' expectations towards future output weakened further in May. The Future Output Index was in fact at its lowest level in the four-year series history, signalling a strong degree of negative sentiment overall. Around 36% of companies reported that they expect business activity to fall in the year ahead, while no firms forecast a rise.

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. IHS 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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