

PMI shows further deterioration in business conditions in July

Key findings:

- **Private sector business activity and employment remain in contraction**
- **New orders decline amid weak demand in domestic market and from abroad**
- **Average prices charged continue to fall at modest rate**

This report contains the forty-sixth 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 economy remained on a weak footing at the start of the third quarter. At 46.3 in July, up slightly from June's 46.1, the headline BLOM Lebanon PMI was at its second-lowest level in the past nine months and showed a further deterioration in overall business conditions.

The sub-50 PMI reading reflected a marked drop in inflows of new orders received by private sector firms, which in turn weighed on the level of output produced in the economy. The respective rates of decline were slower than in June but remained sharp overall.

Alongside a challenging domestic market – with anecdotal

evidence highlighting ongoing political instability and security issues – latest data also showed a solid and accelerated drop in new orders from abroad, the sharpest since October 2016.

Companies continued to reduce staff numbers during July amid a lack of workplace activity. However, the rate of job shedding was only marginal and slightly slower than that seen in the month before.

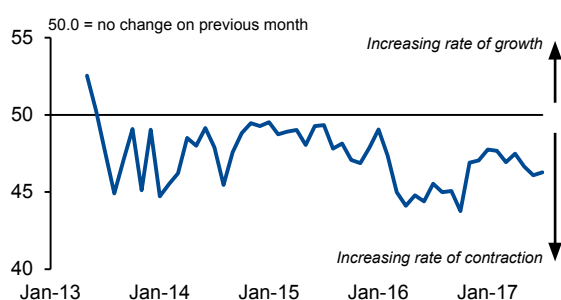
July also saw a further, albeit slower, decrease in businesses' purchasing activity. Meanwhile, inventory levels increased for the twenty-first month in a row, though the rate of stock accumulation was only marginal and the slowest seen for over a year.

Falling backlogs of work and improving supplier delivery times reflected the low capacity utilisation across the economy. The extent to which outstanding business decreased was in fact the most marked in nine months.

On the price front, July's survey showed a further reduction in average prices charged for goods and services, with the rate of decline unchanged from the modest pace seen in June. Firms' total costs meanwhile fell fractionally and for the third month running, partly due to a drop in average staff pay. Purchase prices were unchanged over the month.

Finally, business sentiment towards the year-ahead outlook improved slightly but remained negative overall.

Lebanon Purchasing Managers' Index™ (PMI®)



Purchasing Managers' Index

		Unadj.	Seas. Adj.
2017	May	46.3	46.6
	Jun	45.7	46.1
	Jul	46.3	46.3

Index Summary

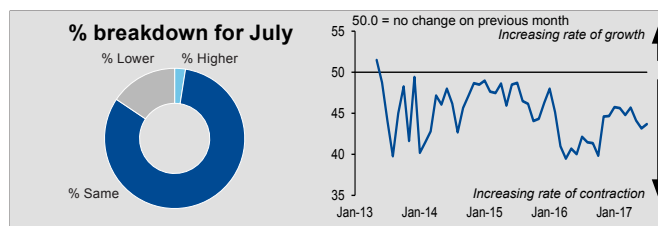
(seasonally adjusted, 50 = no change on previous month)

	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
May'17	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
Jun	46.1	43.2	42.9	48.2	45.4	49.3	49.1	49.8	49.9	49.8	49.8	46.8	50.5	36.4
Jul	46.3	43.7	43.1	47.6	45.2	49.5	49.1	49.9	50.0	49.8	50.1	47.7	50.2	37.6

Output Index

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

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2017	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
	Jun	3.2	78.2	18.6	-15.5	42.3	43.2
	Jul	2.5	81.9	15.6	-13.1	43.4	43.7

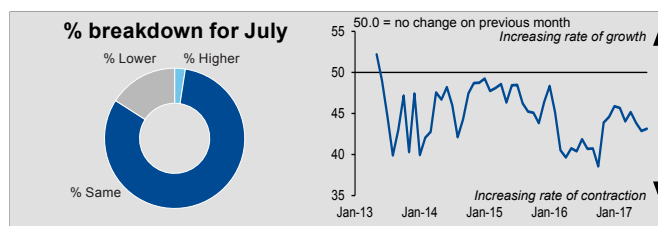


July saw a further decrease in the level of business activity across Lebanon's private sector economy. Although easing slightly since June, the rate of contraction in output remained strong and was the second-fastest seen since October last year. Around 16% of firms noted a reduction in business activity, against just 3% that registered a rise.

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	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
	Jun	3.1	79.0	17.8	-14.7	42.6	42.9
	Jul	2.5	81.6	15.9	-13.5	43.3	43.1

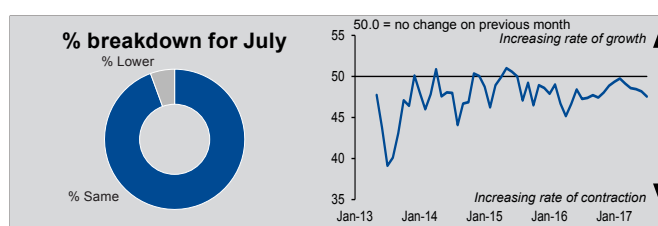


Lebanese businesses recorded a decrease in the level of incoming new orders in July, which they linked to political instability, security issues and a generally challenging economic backdrop. The rate of contraction in new business remained sharp despite easing slightly since the preceding survey period.

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	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
	Jun	1.9	93.7	4.4	-2.5	48.7	48.2
	Jul	0.0	94.4	5.6	-5.6	47.2	47.6

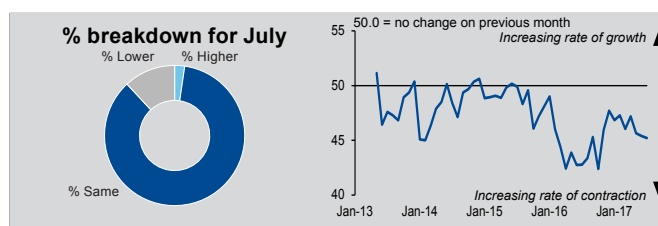


New export orders fell at a faster rate in July. This was signalled by the respective seasonally adjusted index moving further below the neutral 50.0 threshold and registering its lowest reading in nine months. That said, the rate at which new business from abroad decreased was much slower than that of total new orders.

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	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
	Jun	3.1	84.1	12.7	-9.6	45.2	45.4
	Jul	2.3	85.8	11.9	-9.6	45.2	45.2

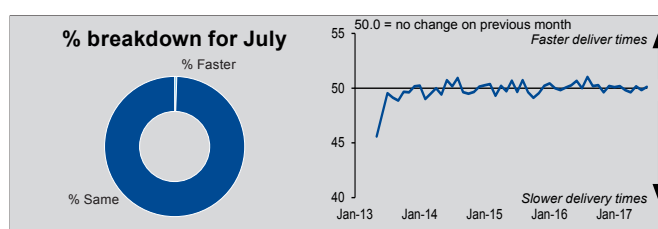


Lebanese businesses continued to make inroads into their incomplete orders during July, pointing to a lack of pressure on capacity. This extended the current sequence of backlog depletion to 25 months, and the rate at which work-in-hand contracted was the fastest seen since October last year.

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	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
	Jun	0.0	100.0	0.0	0.0	50.0	49.8
	Jul	0.5	99.5	0.0	+0.5	50.2	50.1

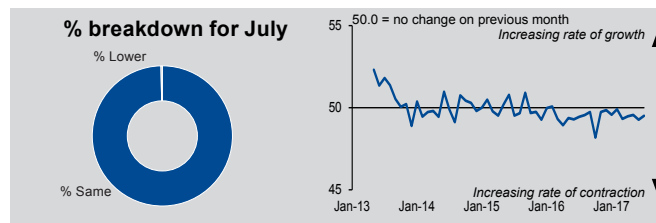


July's survey data showed a fractional decrease in average delivery times faced by Lebanese private sector firms, marking the second time in the past three months that an improvement in vendor performance has been recorded. Where supplier lead times shortened, this was linked to a lack of demand for items.

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	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
	Jun	0.6	96.6	2.9	-2.3	48.9	49.3
	Jul	0.0	99.7	0.3	-0.3	49.8	49.5

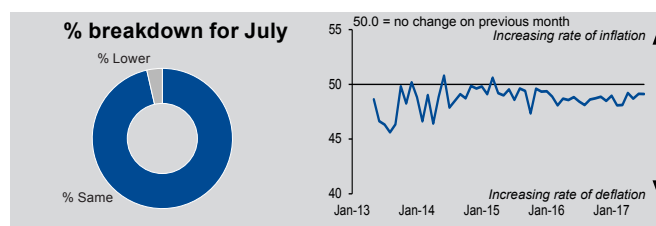


Lebanese private sector employment decreased further during July, extending the current sequence of continuous job losses to 17 months. However, having eased slightly since the preceding survey period, the rate of decline was only marginal and in line with the average recorded over the first half of the year.

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	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
	Jun	0.0	97.9	2.1	-2.1	48.9	49.1
	Jul	0.0	96.4	3.6	-3.6	48.2	49.1

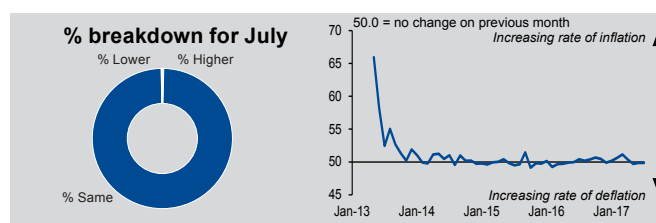


Following a lack of demand, prices charged for goods and services continued to fall on average during July. On a seasonally adjusted basis, the rate of decline was unchanged from that seen in June and slightly slower than the series' long-run average (since May 2013). Discount sales were mentioned by a number of panellists.

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	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
	Jun	0.4	99.6	0.0	+0.4	50.2	49.8
	Jul	0.3	99.4	0.3	+0.1	50.0	49.9

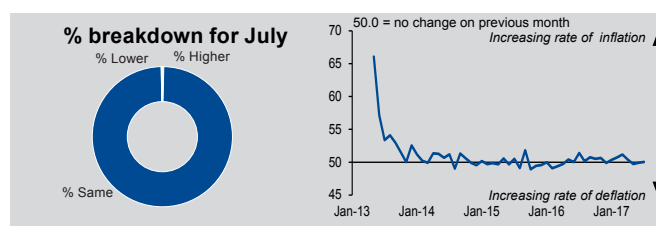


Although remaining below the 50.0 no-change mark for the third month in succession in July, the seasonally adjusted Overall Input Prices Index moved to its highest level in this sequence and pointed to a negligible decrease in total average cost burdens faced by Lebanese private sector companies.

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	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
	Jun	0.4	99.6	0.0	+0.4	50.2	49.9
	Jul	0.3	99.4	0.3	+0.1	50.0	50.0

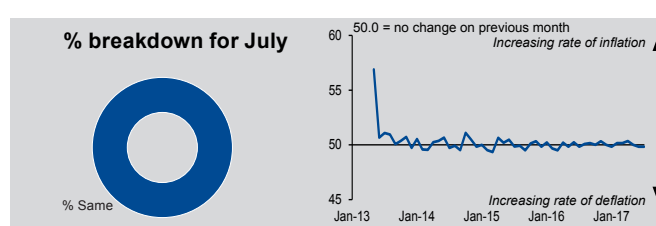


After having fallen in each of the previous two months (albeit only fractionally in the preceding survey period), average prices paid for purchases stayed unchanged in July. Indeed, the vast majority of businesses (approximately 99%) reported facing the same average purchase prices as the month before.

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
2017	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
	Jun	0.0	99.3	0.7	-0.7	49.7	49.8
	Jul	0.0	100.0	0.0	0.0	50.0	49.8

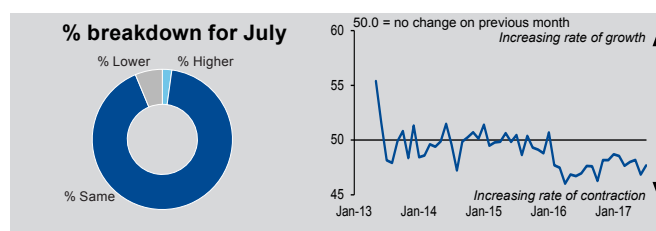


The seasonally adjusted Staff Costs Index registered below the neutral 50.0 threshold for the second month running in July, indicating a further reduction in average pay levels. That said, as was the case in June, the extent to which employee remuneration decreased was only marginal overall.

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
2017	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
	Jun	2.4	89.3	8.3	-5.9	47.0	46.8
	Jul	2.2	91.6	6.3	-4.1	48.0	47.7

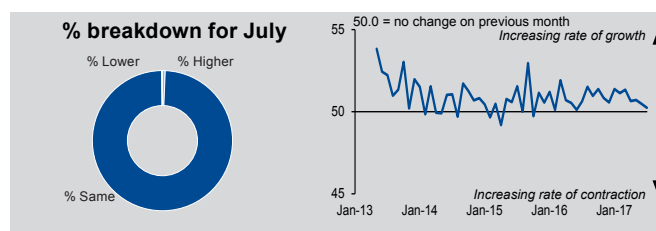


Quantities of purchases among Lebanese businesses decreased at a slower rate in July, matching the trends recorded for both output and new orders. Nevertheless, buying levels have now fallen for 18 months in a row, and the rate of contraction in the latest survey period was broadly in line with the average seen over this sequence.

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	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
	Jun	2.5	96.6	0.9	+1.6	50.8	50.5
	Jul	0.6	99.2	0.2	+0.5	50.2	50.2

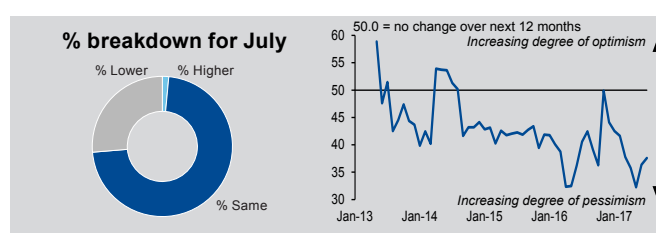


Stocks of purchases held at Lebanese companies barely rose in July. Having slowed for the second month in a row, the pace of inventory accumulation was the weakest seen since June 2016 and below the historical series average. The current sequence of growth in stocks of purchases now extends to 21 months.

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	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
	Jun	1.4	70.0	28.6	-27.3	36.4	n/a
	Jul	1.5	72.2	26.3	-24.8	37.6	n/a



Sentiment among Lebanese businesses towards the year-ahead outlook for activity improved in July compared with the month before, after having slipped to a survey-record low in May. That said, the Future Output Index remained at a level indicative of a strong degree of pessimism, with more than one-quarter of firms expecting activity to contract over the next 12 months (compared with only 2% forecasting 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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