

## 2017 ends with further private sector contraction

### Key findings:

- **At 46.1, PMI signals further deterioration in business conditions**
- **Output falls at fastest rate for 14 months...**
- **...but pace of job shedding eases**

This report contains the latest 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.

A difficult year for the Lebanese private sector ended with a further deterioration in business conditions in December. The headline BLOM Lebanon PMI registered a reading of 46.1, down slightly from 46.2 in November, with the quarterly average being the lowest seen for a year.

The level of business activity in Lebanon's private sector fell sharply again at the end of the fourth quarter, and at the fastest rate seen since October 2016. Political instability was once more highlighted by businesses as the main factor weighing on demand, which was reflected in a further steep reduction in inflows of new business. New export orders also

decreased during the month, falling at the fastest rate since May 2016.

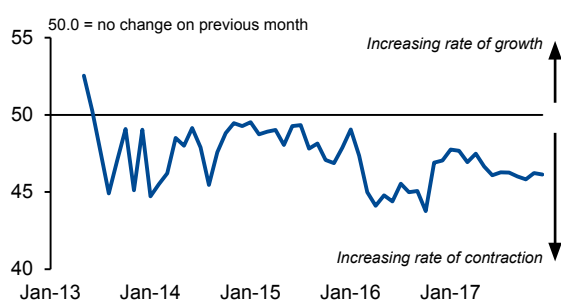
However, the impact of the latest decrease in workloads on the labour market was somewhat limited, with employment declining only marginally and at the slowest rate seen since February. This was despite evidence of ongoing spare capacity among businesses, as signalled by backlogs falling at a solid pace and for the thirtieth month in a row.

Stocks of purchases rose in December, to continue the trend seen in every month since November 2015. This was despite a further (albeit slower) fall in firms' buying activity.

On the price front, December's survey showed a further decrease in average prices charged for goods and services, linked to competitive pressures and efforts by businesses to stimulate new sales. Although only modest overall, the rate of decline was the fastest for three months and slightly quicker than the average over the year as a whole. Cost pressures meanwhile subsided, with input prices stabilising after having increased in each of the previous three months.

Latest data meanwhile showed a deterioration in firms' future expectations. After having reached an 11-month high in November, the survey's measure of sentiment towards the year-ahead outlook for activity retreated and signalled a strong degree of pessimism overall.

### Lebanon Purchasing Managers' Index™ (PMI®)



### Purchasing Managers' Index

		Unadj.	Seas. Adj.
2017	Oct	45.5	45.8
	Nov	45.5	46.2
	Dec	47.1	46.1

### Index Summary

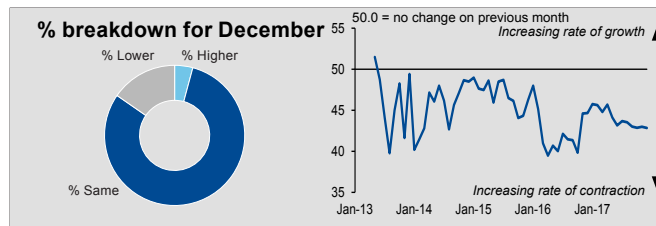
(seasonally adjusted, 50 = no change on previous month)

	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
Oct'17	45.8	42.9	42.2	48.0	45.0	48.8	49.6	52.3	52.4	49.8	49.8	47.7	51.4	40.3
Nov	46.2	43.0	43.2	47.4	44.2	49.7	49.4	50.5	50.8	49.7	49.9	47.1	50.7	43.2
Dec	46.1	42.8	42.7	46.8	45.9	49.8	48.6	50.0	50.4	50.2	50.0	48.5	51.5	41.3

## Output Index

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

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
<b>2017</b>	Aug	3.2	80.3	16.5	-13.3	<b>43.4</b>	<b>43.5</b>
	Sep	2.3	79.4	18.3	-16.1	<b>42.0</b>	<b>43.0</b>
	Oct	1.6	80.8	17.6	-16.0	<b>42.0</b>	<b>42.9</b>
	Nov	1.1	81.3	17.6	-16.5	<b>41.8</b>	<b>43.0</b>
	Dec	4.2	80.5	15.4	-11.2	<b>44.4</b>	<b>42.8</b>

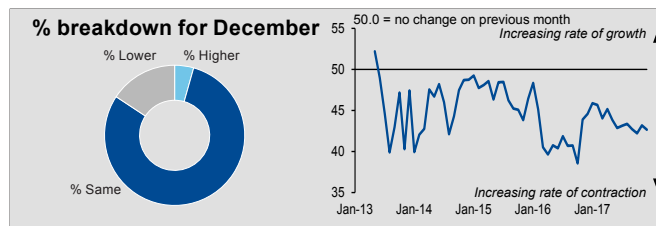


The final survey data for 2017 showed a further slump in the level of business activity across Lebanon's private sector economy. Moreover, the respective seasonally adjusted index ticked down slightly from November's survey and signalled the fastest overall rate of decline in output since October 2016.

## 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
<b>2017</b>	Aug	3.1	80.3	16.7	-13.6	<b>43.2</b>	<b>43.4</b>
	Sep	1.8	78.6	19.6	-17.8	<b>41.1</b>	<b>42.7</b>
	Oct	1.5	80.3	18.1	-16.6	<b>41.7</b>	<b>42.2</b>
	Nov	1.5	80.4	18.1	-16.7	<b>41.7</b>	<b>43.2</b>
	Dec	4.4	79.9	15.7	-11.3	<b>44.3</b>	<b>42.7</b>

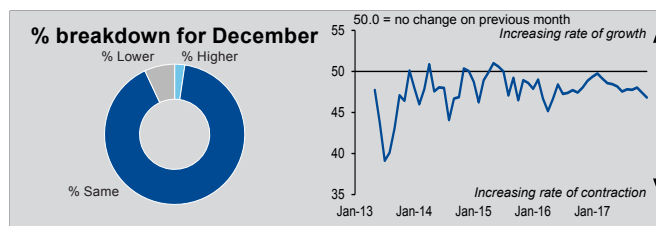


Political instability continued to weigh on demand according to the survey's anecdotal evidence, which was reflected in a further drop in the level of new orders received by private sector companies. The rate at which inflows of new business decreased was sharp and faster than that seen on average over the year.

## 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
<b>2017</b>	Aug	0.0	94.9	5.1	-5.1	<b>47.4</b>	<b>47.8</b>
	Sep	0.5	95.1	4.4	-3.9	<b>48.0</b>	<b>47.7</b>
	Oct	0.0	94.3	5.7	-5.7	<b>47.1</b>	<b>48.0</b>
	Nov	1.5	89.2	9.3	-7.8	<b>46.1</b>	<b>47.4</b>
	Dec	2.3	90.7	7.0	-4.6	<b>47.7</b>	<b>46.8</b>

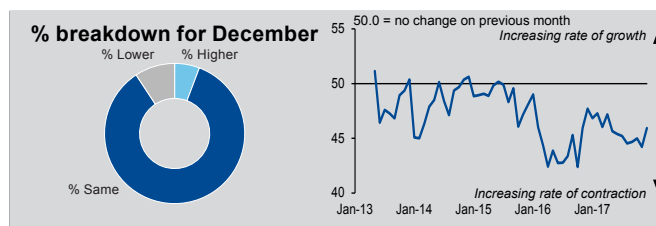


To add to a challenging domestic economic climate, December also saw a reduction in the level of new export orders received by Lebanese businesses. Furthermore, the decrease – which was linked by panellists to instability in the broader region – was the greatest seen for more than one-and-a-half years.

## 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
<b>2017</b>	Aug	1.8	86.7	11.5	-9.8	<b>45.1</b>	<b>44.5</b>
	Sep	2.8	84.7	12.5	-9.6	<b>45.2</b>	<b>44.7</b>
	Oct	2.2	85.6	12.3	-10.1	<b>44.9</b>	<b>45.0</b>
	Nov	1.5	85.2	13.3	-11.8	<b>44.1</b>	<b>44.2</b>
	Dec	5.7	85.0	9.3	-3.5	<b>48.2</b>	<b>45.9</b>

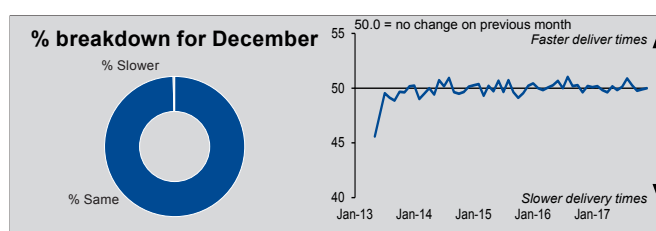


Latest data showed a further decrease in the level of outstanding business (both work in progress and not yet started) at Lebanese firms, to continue the trend seen in every month since July 2015. Although the rate of backlog depletion eased to the weakest seen since April, it remained solid overall and faster than the historical series average (since May 2013).

## 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
<b>2017</b>	Aug	0.3	99.7	0.0	+0.3	<b>50.2</b>	<b>50.9</b>
	Sep	0.5	99.5	0.0	+0.5	<b>50.3</b>	<b>50.3</b>
	Oct	0.0	99.0	1.0	-1.0	<b>49.5</b>	<b>49.8</b>
	Nov	0.2	99.6	0.2	0.0	<b>50.0</b>	<b>49.9</b>
	Dec	0.0	99.7	0.3	-0.3	<b>49.8</b>	<b>50.0</b>

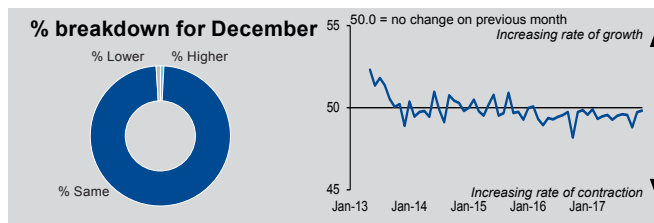


After adjusting for seasonal factors, the Suppliers' Delivery Times Index registered a reading that was in line with the neutral 50.0 threshold in December, pointing to unchanged lead times for purchased items (on average) compared with the situation one month before. This followed two months of slight deterioration in vendor performance.

## 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
<b>2017</b>	Aug	0.0	99.5	0.5	-0.5	<b>49.8</b>	<b>49.6</b>
	Sep	0.2	98.5	1.3	-1.1	<b>49.4</b>	<b>49.6</b>
	Oct	0.0	97.9	2.1	-2.1	<b>49.0</b>	<b>48.8</b>
	Nov	0.3	99.4	0.2	+0.1	<b>50.1</b>	<b>49.7</b>
	Dec	0.8	98.2	1.0	-0.2	<b>49.9</b>	<b>49.8</b>

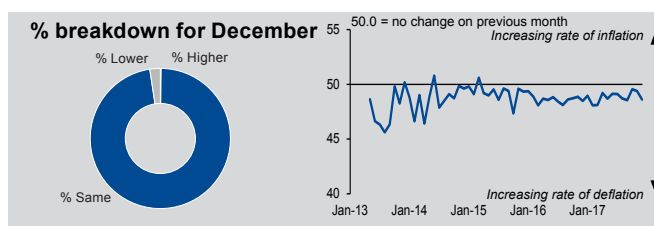


Reflective of falling workplace activity, businesses in Lebanon continued to trim their staffing numbers during December. This extended the current sequence of net job losses to 22 months. That said, the latest decrease in employment was only marginal and the least marked since February 2017.

## 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
<b>2017</b>	Aug	0.0	96.0	4.0	-4.0	<b>48.0</b>	<b>48.7</b>
	Sep	0.8	95.9	3.3	-2.4	<b>48.8</b>	<b>48.5</b>
	Oct	1.9	95.6	2.4	-0.5	<b>49.8</b>	<b>49.6</b>
	Nov	0.0	99.4	0.6	-0.6	<b>49.7</b>	<b>49.4</b>
	Dec	0.2	97.4	2.4	-2.2	<b>48.9</b>	<b>48.6</b>

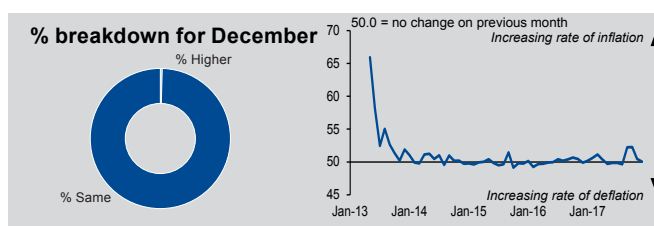


Average prices charged for goods and services fell at a faster rate at the end of the fourth quarter, as highlighted by the seasonally adjusted Output Prices Index moving further below the 50.0 no-change mark to its lowest level since September. Where a decrease in selling prices was recorded, this was linked to competitive pressures and attempts to stimulate 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
<b>2017</b>	Aug	0.0	100.0	0.0	0.0	<b>50.0</b>	<b>49.6</b>
	Sep	5.1	94.6	0.3	+4.8	<b>52.4</b>	<b>52.2</b>
	Oct	3.6	96.4	0.0	+3.6	<b>51.8</b>	<b>52.3</b>
	Nov	0.2	99.8	0.0	+0.2	<b>50.1</b>	<b>50.5</b>
	Dec	0.4	99.6	0.0	+0.4	<b>50.2</b>	<b>50.0</b>

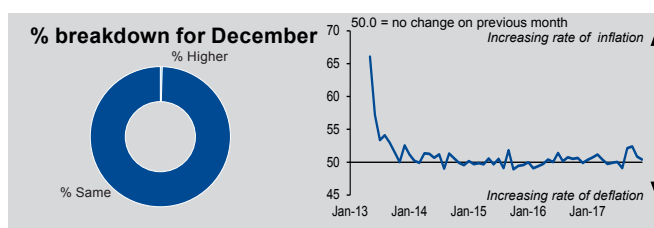


After having signalled higher input prices in each of the previous three months, including the steepest rise in costs for over four years in October, the respective seasonally adjusted index signalled no change in average cost burdens in December by registering a reading that was in line with neutral 50.0 mark.

## 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
<b>2017</b>	Aug	0.0	100.0	0.0	0.0	<b>50.0</b>	<b>49.1</b>
	Sep	5.2	94.5	0.3	+4.9	<b>52.4</b>	<b>52.1</b>
	Oct	3.7	96.3	0.0	+3.7	<b>51.8</b>	<b>52.4</b>
	Nov	0.2	99.8	0.0	+0.2	<b>50.1</b>	<b>50.8</b>
	Dec	0.4	99.6	0.0	+0.4	<b>50.2</b>	<b>50.4</b>

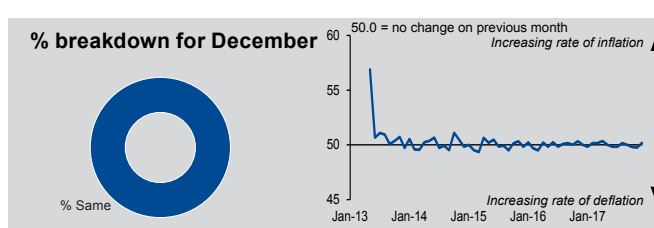


Average prices paid for purchases (e.g. raw materials and items for resale) by Lebanese private sector businesses increased for the fourth month in succession in December. That said, having eased further from October's recent peak, the rate of inflation was the weakest in this sequence and only marginal overall.

## 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
<b>2017</b>	Aug	0.0	100.0	0.0	0.0	<b>50.0</b>	<b>50.2</b>
	Sep	0.0	99.7	0.3	-0.3	<b>49.8</b>	<b>50.0</b>
	Oct	0.0	98.8	1.2	-1.2	<b>49.4</b>	<b>49.8</b>
	Nov	0.0	100.0	0.0	0.0	<b>50.0</b>	<b>49.7</b>
	Dec	0.0	100.0	0.0	0.0	<b>50.0</b>	<b>50.2</b>

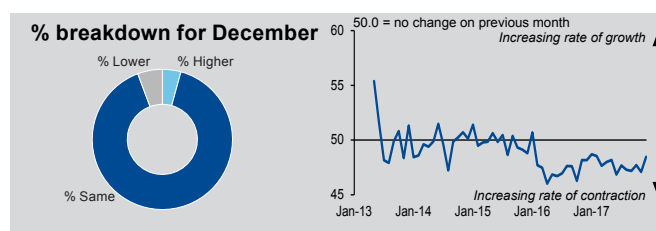


December's survey data indicated a slight rise in average prices paid for salaries/wages on a seasonally adjusted basis. This reversed the marginal decreases in staff remuneration observed in each of the previous two months, and meant that the trend for 2017 as a whole was one of no change in pay.

## 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
<b>2017</b>	Aug	3.3	89.0	7.7	-4.4	<b>47.8</b>	<b>47.3</b>
	Sep	3.7	87.7	8.6	-4.9	<b>47.6</b>	<b>47.2</b>
	Oct	3.2	89.2	7.6	-4.5	<b>47.8</b>	<b>47.7</b>
	Nov	1.7	90.9	7.4	-5.6	<b>47.2</b>	<b>47.1</b>
	Dec	4.3	90.0	5.7	-1.4	<b>49.3</b>	<b>48.5</b>

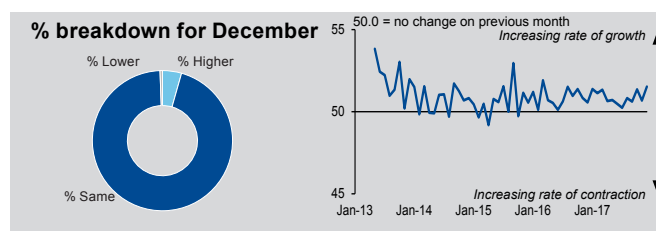


As has been the case in each month since February 2016, Lebanese private sector businesses reduced their purchasing activity in December, citing a lack of new work. However, the rate at which buying levels decreased was only modest, having eased to the weakest seen for ten months.

## 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
<b>2017</b>	Aug	2.0	98.0	0.0	+2.0	<b>51.0</b>	<b>50.8</b>
	Sep	2.7	96.9	0.4	+2.4	<b>51.2</b>	<b>50.6</b>
	Oct	2.7	96.7	0.6	+2.1	<b>51.1</b>	<b>51.4</b>
	Nov	0.9	98.9	0.2	+0.8	<b>50.4</b>	<b>50.7</b>
	Dec	4.4	95.0	0.6	+3.8	<b>51.9</b>	<b>51.5</b>

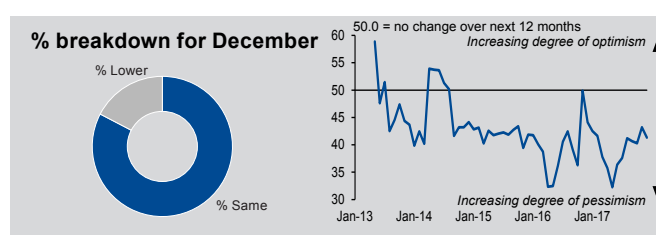


Lebanese businesses recorded a further increase in their stocks of purchases in the final month of 2017. Although the fastest seen since August 2016, the rate of accumulation was only modest, with just 4% of firms noting an increase in inventory levels (versus 1% that registered a decrease).

## 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
<b>2017</b>	Aug	3.5	75.4	21.1	-17.6	<b>41.2</b>	<b>n/a</b>
	Sep	2.9	75.6	21.6	-18.7	<b>40.6</b>	<b>n/a</b>
	Oct	4.5	71.6	23.9	-19.4	<b>40.3</b>	<b>n/a</b>
	Nov	5.1	76.2	18.7	-13.6	<b>43.2</b>	<b>n/a</b>
	Dec	0.0	82.6	17.4	-17.4	<b>41.3</b>	<b>n/a</b>



The Future Output Index moved further below the neutral 50.0 threshold in December, retreating from an 11-month high in the preceding survey period and signalling increased pessimism towards the year-ahead outlook for business activity. Those firms expecting a contraction in output linked this to the perpetuation of political instability and difficult operating conditions locally and in the broader region.

## 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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