

PMI moves to nine-month high in January, signals slower decline in private sector business conditions

Key findings:

- **Output, new orders and exports all show moderated rates of decline**
- **Costs and output prices rise amid VAT hike**
- **Employment broadly unchanged following protracted period of job losses**

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.

Business conditions in Lebanon's private sector continued to deteriorate at the start of 2018, but the rate of decline was the slowest seen for nine months. This was highlighted by the headline BLOM Lebanon PMI moving to 47.1 in January, up from 46.1 in December. The month-on-month rise in the index was the biggest upward movement seen for over a year, though the latest reading was still well below the 50.0 level that separates growth from contraction.

Output fell at the slowest rate seen since April last year, the pace of contraction easing from that seen at the end of 2017 when the respective index was at its lowest level in 14 months. It was a similar picture for new orders, which also fell to the

smallest extent since last April. Part of the reason for this was a moderation in the rate of decline in new export orders to the slowest for 11 months.

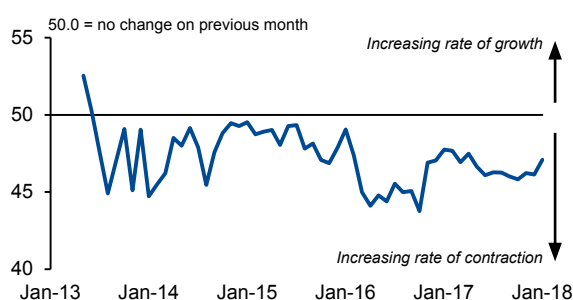
The level of employment across Lebanon's private sector economy was broadly unchanged in January, following job losses throughout most of the past two years. Firms kept staffing numbers broadly the same despite evidence of spare capacity, as backlogs fell for the thirty-first month in a row, albeit at the slowest rate seen in nine months.

January's survey meanwhile revealed a rise in prices, linked largely to the implementation of a higher VAT rate at the beginning of the year. The greater tax burden coupled with higher fees drove an increase in firms' costs, which was in turn reflected in a rise in average prices charged for goods and services. The rate of inflation in selling prices was the highest seen since mid-2014, while the increase in costs was the greatest since mid-2013.

Firms' quantity of purchases decreased at a reduced rate in January, matching the trends in both output and new orders. Stocks of purchases nevertheless continued to build, but at a slower pace than in December.

Expectations for activity in the year ahead generally remained negative; however the degree of pessimism seen in January was less marked than at any time in 2017.

Lebanon Purchasing Managers' Index™ (PMI®)



Purchasing Managers' Index			
		Unadj.	Seas. Adj.
2017	Nov	45.5	46.2
	Dec	47.1	46.1
2018	Jan	47.3	47.1

Index Summary

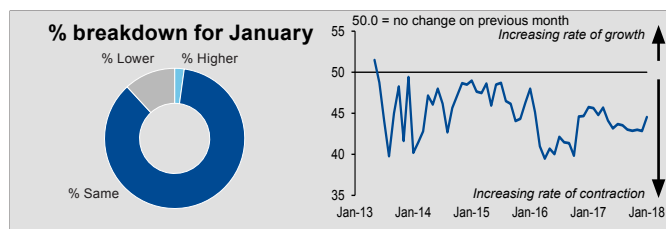
(seasonally adjusted, 50 = no change on previous month)

	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
Nov'17	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
Jan'18	47.1	44.5	44.3	49.6	46.3	49.9	50.7	58.2	57.3	50.0	49.6	48.8	51.3	43.3

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	Sep	2.3	79.4	18.3	-16.1	42.0	43.0
	Oct	1.6	80.8	17.6	-16.0	42.0	42.9
	Nov	1.1	81.3	17.6	-16.5	41.8	43.0
	Dec	4.2	80.5	15.4	-11.2	44.4	42.8
2018	Jan	2.2	86.0	11.8	-9.6	45.2	44.5

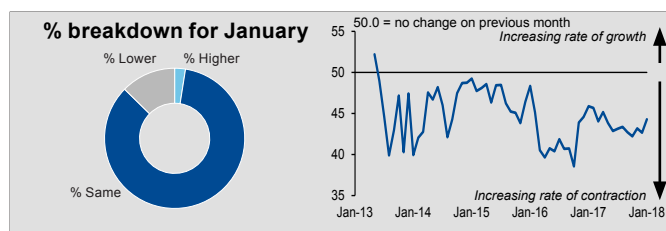


Latest data showed a further substantial drop in the level of business activity across Lebanon's private sector economy at the start of 2018. Around 12% firms noted a reduction in output compared with the month before, against just 2% that recorded a rise. That said, the overall rate of decline eased in January to the weakest seen since April last year.

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	Sep	1.8	78.6	19.6	-17.8	41.1	42.7
	Oct	1.5	80.3	18.1	-16.6	41.7	42.2
	Nov	1.5	80.4	18.1	-16.7	41.7	43.2
	Dec	4.4	79.9	15.7	-11.3	44.3	42.7
2018	Jan	2.5	84.9	12.6	-10.2	44.9	44.3

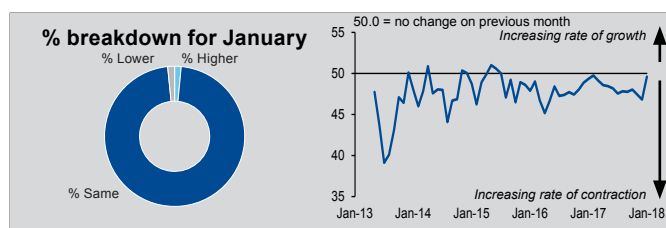


The seasonally adjusted New Orders Index ticked higher in January, registering its highest reading for nine months. However, notwithstanding the relative improvement, the index remained at a level indicative of a marked rate of contraction overall, and one that was slightly faster than the historical series average (since 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
2017	Sep	0.5	95.1	4.4	-3.9	48.0	47.7
	Oct	0.0	94.3	5.7	-5.7	47.1	48.0
	Nov	1.5	89.2	9.3	-7.8	46.1	47.4
	Dec	2.3	90.7	7.0	-4.6	47.7	46.8
2018	Jan	1.5	96.9	1.6	-0.1	50.0	49.6

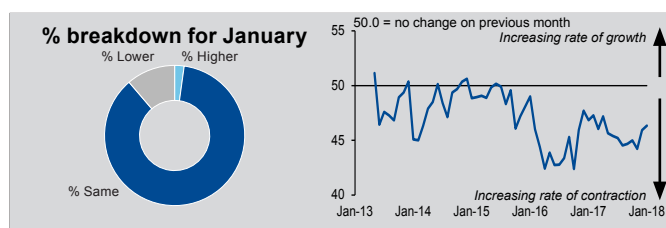


The level of new export orders received by Lebanese private sector firms fell only marginally in the latest survey period, following the steepest decline for over one-and-a-half years in December. The rate at which new business from abroad decreased was in fact the second-slowest in the current sequence of contraction, which stretches back to August 2015.

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	Sep	2.8	84.7	12.5	-9.6	45.2	44.7
	Oct	2.2	85.6	12.3	-10.1	44.9	45.0
	Nov	1.5	85.2	13.3	-11.8	44.1	44.2
	Dec	5.7	85.0	9.3	-3.5	48.2	45.9
2018	Jan	2.2	86.6	11.3	-9.1	45.5	46.3

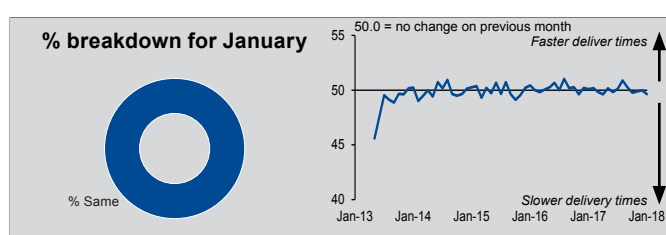


Backlogs of work were reduced further during January as private sector businesses generally continued to operate at below full capacity. However, similar to the indicators for output and new orders, the respective seasonally adjusted index ticked up and signalled the slowest rate of contraction for nine months.

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	Sep	0.5	99.5	0.0	+0.5	50.3	50.3
	Oct	0.0	99.0	1.0	-1.0	49.5	49.8
	Nov	0.2	99.6	0.2	0.0	50.0	49.9
	Dec	0.0	99.7	0.3	-0.3	49.8	50.0
2018	Jan	0.0	100.0	0.0	0.0	50.0	49.6

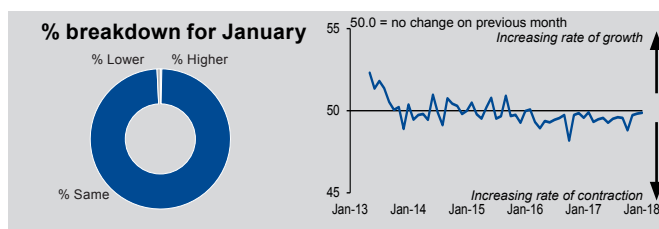


As has been the case in three of the past four months, businesses operating in Lebanon's private sector economy reported an increase in average delivery times for purchased items. Although only modest, the extent of the deterioration in vendor performance was the greatest seen since April last year.

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	Sep	0.2	98.5	1.3	-1.1	49.4	49.6
	Oct	0.0	97.9	2.1	-2.1	49.0	48.8
	Nov	0.3	99.4	0.2	+0.1	50.1	49.7
	Dec	0.8	98.2	1.0	-0.2	49.9	49.8
2018	Jan	0.3	98.9	0.8	-0.4	49.8	49.9

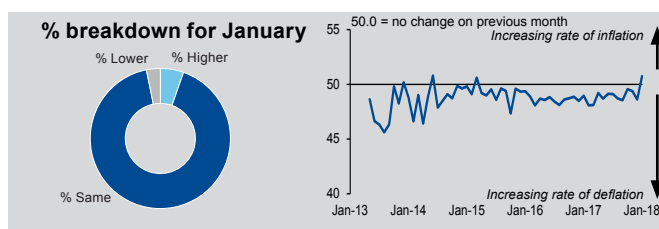


January saw virtually no change in the level of employment across Lebanon's private sector economy, following only marginal job losses at the end of 2017. This was highlighted by the respective seasonally adjusted index registering a reading that was broadly in line with the neutral 50.0 threshold, and one that was its joint-highest since February 2016.

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	Sep	0.8	95.9	3.3	-2.4	48.8	48.5
	Oct	1.9	95.6	2.4	-0.5	49.8	49.6
	Nov	0.0	99.4	0.6	-0.6	49.7	49.4
	Dec	0.2	97.4	2.4	-2.2	48.9	48.6
2018	Jan	5.4	91.4	3.2	+2.2	51.1	50.7

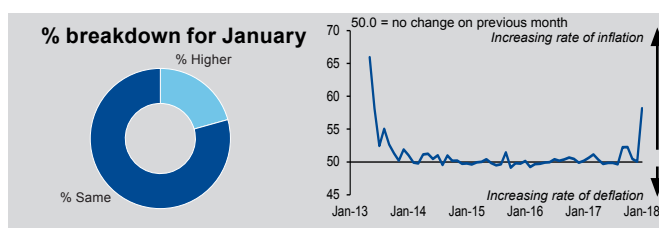


Prices charged for goods and services in Lebanon's private sector rose on average in January, bringing to an end a sequence of falling prices seen in every month since April 2015. The rate of increase was the second-fastest ever recorded by the survey, behind that seen in June 2014, albeit only modest overall. Firms mainly linked higher charges to the recent VAT increase.

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	Sep	5.1	94.6	0.3	+4.8	52.4	52.2
	Oct	3.6	96.4	0.0	+3.6	51.8	52.3
	Nov	0.2	99.8	0.0	+0.2	50.1	50.5
	Dec	0.4	99.6	0.0	+0.4	50.2	50.0
2018	Jan	20.7	79.3	0.0	+20.7	60.3	58.2

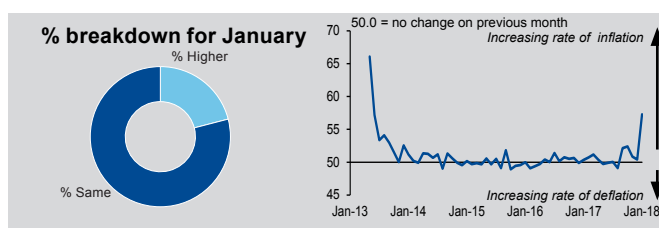


Lebanese businesses reported a renewed rise in average costs in January, after no change during the previous month. Over one-in-five firms noted an increase, the highest proportion for more than four-and-a-half years, with the survey's anecdotal evidence generally linking this to greater taxes and fees.

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	Sep	5.2	94.5	0.3	+4.9	52.4	52.1
	Oct	3.7	96.3	0.0	+3.7	51.8	52.4
	Nov	0.2	99.8	0.0	+0.2	50.1	50.8
	Dec	0.4	99.6	0.0	+0.4	50.2	50.4
2018	Jan	21.0	79.0	0.0	+21.0	60.5	57.3

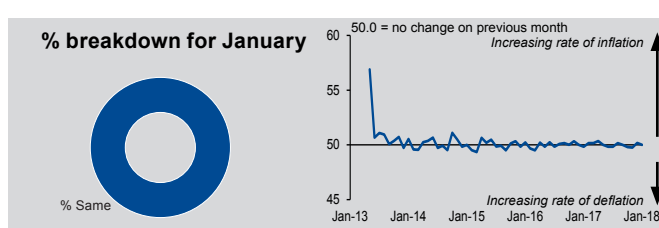


The seasonally adjusted Purchase Prices Index rose sharply in the latest survey period, recording its highest reading since May 2013 – the first ever month of data collection. Firms that recorded an increase in prices paid for purchases attributed this to a rise in VAT and also new fees across a range of areas, including real estate, cement production and imports.

Input Costs: Staff Costs Index

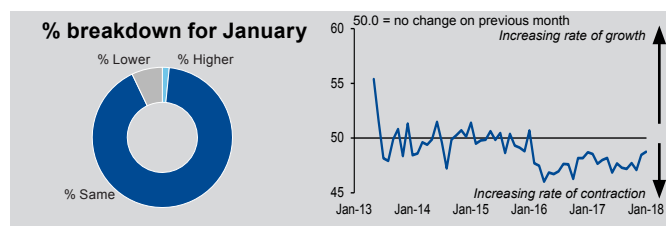
Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2017	Sep	0.0	99.7	0.3	-0.3	49.8	50.0
	Oct	0.0	98.8	1.2	-1.2	49.4	49.8
	Nov	0.0	100.0	0.0	0.0	50.0	49.7
	Dec	0.0	100.0	0.0	0.0	50.0	50.2
2018	Jan	0.0	100.0	0.0	0.0	50.0	50.0



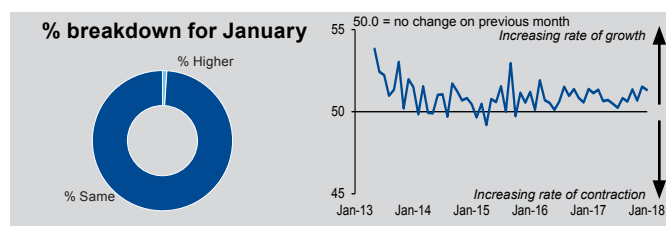
While private sector businesses in Lebanon endured higher average costs for purchased items, there was no added pressure from staff pay which held steady during the month. This followed a slight increase in average wages/salaries in December, though the picture for 2017 was one of broad stagnation.

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	Sep	3.7	87.7	8.6	-4.9	47.6	47.2
	Oct	3.2	89.2	7.6	-4.5	47.8	47.7
	Nov	1.7	90.9	7.4	-5.6	47.2	47.1
	Dec	4.3	90.0	5.7	-1.4	49.3	48.5
2018	Jan	1.6	91.3	7.1	-5.5	47.2	48.8



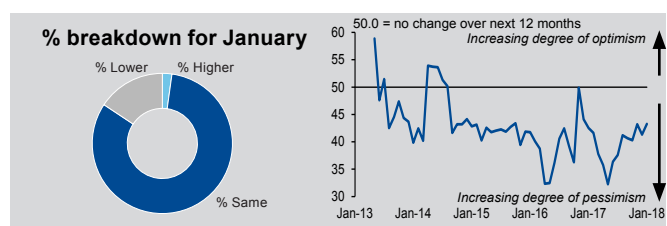
Businesses' purchasing activity decreased in January, the twenty-fourth month in a row in which this has been the case. However, the rate at which buying levels declined was only modest, having eased for the second month running to the weakest in the current two-year sequence of contraction.

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	Sep	2.7	96.9	0.4	+2.4	51.2	50.6
	Oct	2.7	96.7	0.6	+2.1	51.1	51.4
	Nov	0.9	98.9	0.2	+0.8	50.4	50.7
	Dec	4.4	95.0	0.6	+3.8	51.9	51.5
2018	Jan	1.0	99.0	0.0	+1.0	50.5	51.3



Reflective of a further (albeit slower) decrease in the amount of new business received by Lebanese businesses, January saw sustained growth in stocks of purchases – which includes unsold items, components and raw materials. The rate of accumulation was modest and slightly slower than 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	Sep	2.9	75.6	21.6	-18.7	40.6	n/a
	Oct	4.5	71.6	23.9	-19.4	40.3	n/a
	Nov	5.1	76.2	18.7	-13.6	43.2	n/a
	Dec	0.0	82.6	17.4	-17.4	41.3	n/a
2018	Jan	2.2	82.1	15.7	-13.5	43.3	n/a



Although remaining below the neutral 50.0 threshold and thereby continuing to signal overall pessimism towards the year-ahead outlook, the Future Output Index moved to its highest level for more than a year in January. Subsequently, the index was also slightly above its long-run series average of 42.6.

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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