

Business activity falls at sharpest rate for three months in March

Key findings:

- **March sees steepest declines in output and new orders in year-to-date**
- **Employment returns to contraction after edging higher in February**
- **Firms lower charges as cost pressures continue to moderate**

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 worsened across Lebanon's private sector at the end of the first quarter. March saw the headline BLOM Lebanon PMI move further into contraction territory to 46.5, down from a ten-month high of 47.3 in February. The quarterly average was nonetheless slightly higher than that seen for the final three months of 2017.

The level of business activity in the private sector economy decreased at the fastest rate for three months in March. Behind the downturn in output was a sharp and accelerated reduction in incoming new business, which the survey found to be the result of weaker domestic demand and also a drop in new export orders.

A lack of incoming new work to replace completed projects was meanwhile reflected in a further decrease in the level of outstanding business across the private sector. Furthermore, with firms working below full capacity, there was a renewed decline in the level of employment following a brief upturn mid-way through the opening quarter.

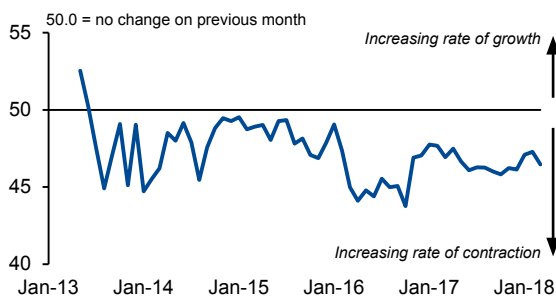
Businesses also scaled back their purchasing activity in March, to extend the current sequence of falling buying levels to 26 months. Stocks of purchases nevertheless rose, and at the fastest rate seen for two years.

In line with the setbacks seen for output, new orders and employment, latest data showed a weakening in firms' confidence towards the outlook over the next 12 months. Sentiment was in fact at its most negative level since July last year, with many firms expecting the current challenges to continue.

On the price front, March saw average prices charged for goods and services decrease for the first time in three months. The rate of decline was only modest, but it was nevertheless the fastest seen since March 2017.

Cost pressures faced by businesses meanwhile continued to moderate from the high level seen at the start of the year. Average purchase prices rose only modestly and at the slowest rate for three months, while staff costs stagnated after having

Lebanon Purchasing Managers' Index™ (PMI®)



Purchasing Managers' Index			
		Unadj.	Seas. Adj.
2018	Jan	47.3	47.1
	Feb	46.8	47.3
	Mar	46.4	46.5

Index Summary

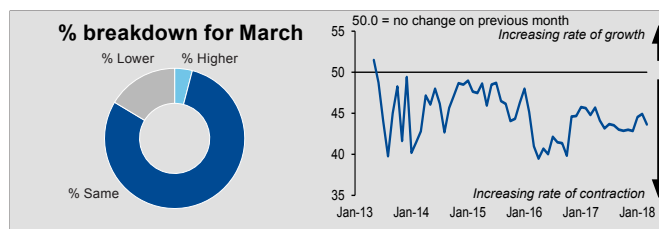
(seasonally adjusted, 50 = no change on previous month)

	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
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
Feb	47.3	44.9	44.7	49.5	46.1	50.4	50.3	53.1	53.5	50.3	50.2	48.5	51.0	41.4
Mar	46.5	43.6	43.1	47.7	46.2	49.6	48.4	50.7	50.8	50.0	49.9	48.6	51.6	39.6

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	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
	Feb	4.0	80.6	15.5	-11.5	44.2	44.9
	Mar	4.1	79.5	16.4	-12.3	43.8	43.6

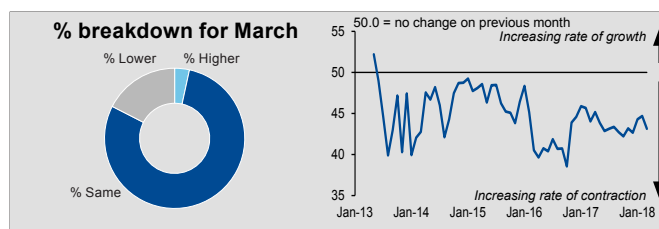


Business activity fell sharply across Lebanon's private sector in March. The rate of decline accelerated from that seen in February, when it had eased to the slowest for ten months, and it was quicker than the average seen in 2017. Firms primarily linked lower output to difficult economic conditions and political instability.

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	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
	Feb	4.2	80.0	15.8	-11.6	44.2	44.7
	Mar	3.4	79.1	17.5	-14.1	43.0	43.1

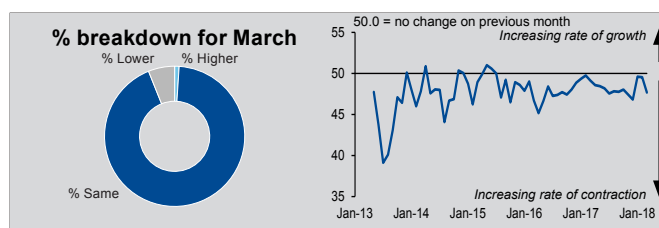


March's survey showed a decrease in the level of total new business received by Lebanese private sector firms. Moreover, the extent of the fall was the greatest seen in the year-to-date. Around 18% of companies recorded a reduction in their intakes of new work, versus only 3% that noted an increase.

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	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
	Feb	1.7	95.6	2.7	-0.9	49.5	49.5
	Mar	1.0	92.9	6.1	-5.0	47.5	47.7

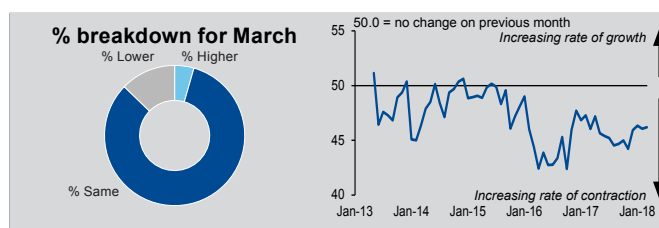


As well as facing weak domestic demand, private sector businesses in Lebanon also noted a drop in the level of new orders received from non-domestic based clients in March. The rate of decline in new export orders picked up to the fastest seen since last December, though it remained much slower than that of total new business.

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	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
	Feb	3.1	84.4	12.4	-9.3	45.3	46.1
	Mar	4.4	82.8	12.7	-8.3	45.9	46.2

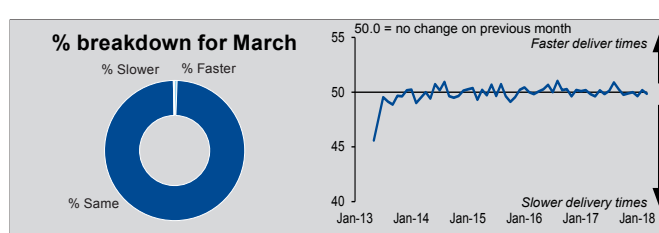


One of the consequences of a lack of incoming new work was a further drop in the level of outstanding business (i.e. work in hand but not yet completed) across the private sector. Backlogs of work have fallen in every month since July 2015, with the rate of decline in the latest survey period little-changed from the solid pace seen in February.

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	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
	Feb	0.0	100.0	0.0	0.0	50.0	50.2
	Mar	0.6	99.1	0.3	+0.3	50.1	49.9

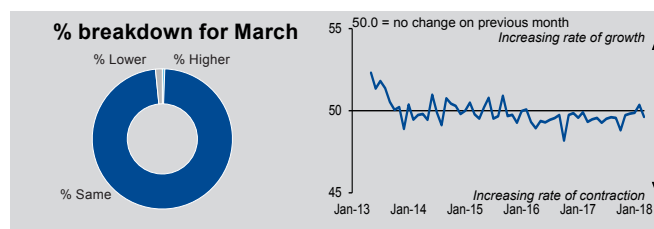


After having improved slightly on average in February, lead times for purchased items were virtually unchanged during March. This was highlighted by the survey's seasonally adjusted Suppliers' Delivery Times Index registering a reading that was broadly in line with the neutral 50.0 threshold.

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	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
	Feb	0.0	99.7	0.3	-0.3	49.8	50.4
	Mar	0.6	97.9	1.6	-1.0	49.5	49.6

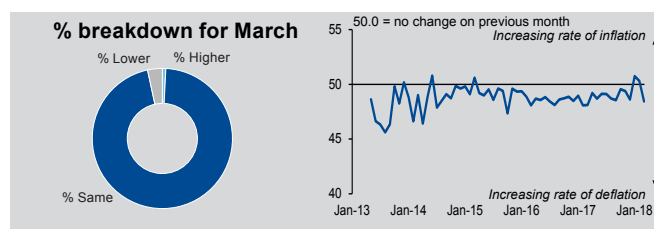


Employment in Lebanon's private sector returned to contraction in March after having risen slightly and for the first time in two years during the preceding survey period. The modest decrease in workforce numbers was a result of a lack of incoming new business, according to the survey's anecdotal evidence.

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	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
	Feb	0.6	94.8	4.6	-4.0	48.0	50.3
	Mar	0.8	95.8	3.4	-2.6	48.7	48.4

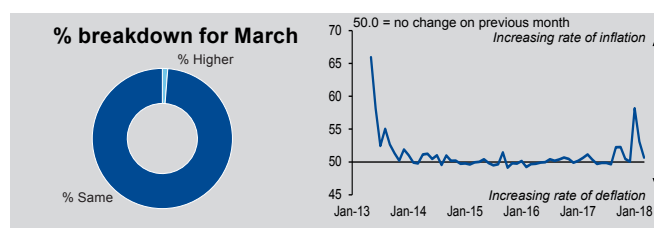


Average prices charged for goods and services decreased on a monthly basis in March, thereby ending a brief period of inflation seen at the start of the year. Although only modest, the rate of decline in selling prices was the fastest seen since March 2017. Where a decrease in charges was recorded (at approximately 3% of firms), this was linked to competitive pressures and attempts to boost sales using promotions.

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	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
	Feb	0.8	99.2	0.0	+0.8	50.4	53.1
	Mar	1.2	98.8	0.0	+1.2	50.6	50.7

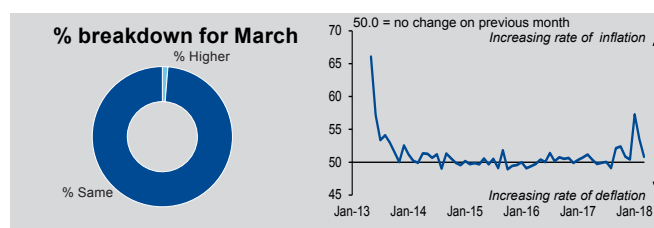


Cost pressures faced by Lebanese businesses continued to moderate in March. The seasonally adjusted Overall Input Prices Index registered a reading that was above the 50.0 no-change mark for the third month running; however it eased further from January's 56-month high and signalled only a modest rate of cost inflation overall.

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	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
	Feb	0.8	99.2	0.0	+0.8	50.4	53.5
	Mar	1.3	98.7	0.0	+1.3	50.6	50.8

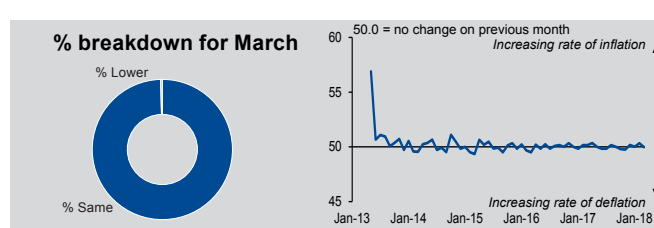


Driving an increase in businesses' overall costs burdens in March was a rise in average purchase prices – the seventh in as many months. That said, having softened for the second month in a row, the rate of purchase price inflation was only modest and the weakest seen since December last year.

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
2017	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
	Feb	0.0	100.0	0.0	0.0	50.0	50.3
	Mar	0.0	99.6	0.4	-0.4	49.8	50.0

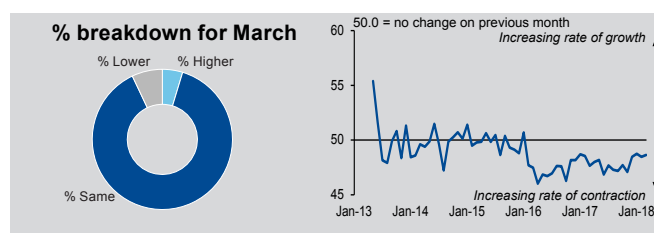


Adjusted for the influence of regular seasonal factors, latest data showed no change in average prices paid for salaries/wages by private sector Lebanese businesses in March. The stagnation followed a rise in staff remuneration in February that was the fastest seen in ten months (albeit only modest overall).

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	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
	Feb	3.7	87.1	9.2	-5.5	47.3	48.5
	Mar	4.7	88.3	7.0	-2.4	48.8	48.6

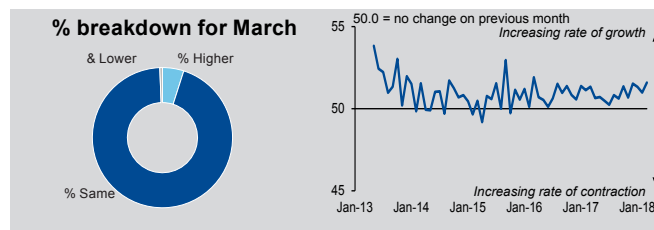


Lower levels of activity and incoming new business led Lebanese private sector firms to further reduce their quantities of purchases in March, thereby extending the current sequence of falling buying activity to 26 months. That said, the rate of decline was only moderate and little-changed from that recorded in February.

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	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
	Feb	1.6	96.5	2.0	-0.4	49.8	51.0
	Mar	4.9	94.5	0.6	+4.3	52.2	51.6

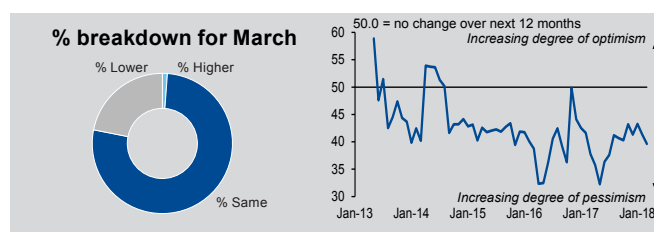


As has been the case in each of the past 29 months, stocks of purchases held by Lebanese private sector businesses increased in March. Furthermore, having picked up from that seen in the preceding survey period, the rate of inventory accumulation was the fastest seen for two years.

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	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
	Feb	3.6	75.6	20.8	-17.3	41.4	n/a
	Mar	1.2	77.0	21.9	-20.7	39.6	n/a



The Future Output Index – which tracks firms' expectations towards output over the next 12 months – dipped for the second month running in March, signalling a sustained deterioration in private sector business confidence. Many surveyed firms believed that a continuation of current economic and political difficulties would result in a further loss of output.

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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