

### Challenging business conditions persist in September

#### Key findings:

- **PMI remains in contraction territory, but ticks up to three-month high of 45.8**
- **Slower falls in output and new orders contrast with quicker rate of job cutting**
- **Businesses maintain negative outlook towards future output**

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.

Challenging business conditions persisted across Lebanon's private sector in September, with companies reporting further declines in output, new orders and employment as a result. However, at 45.8, up from 45.6 in August and its highest reading since June, the headline PMI pointed to a slight moderation in the overall rate of deterioration.

Businesses reported the continuation of a difficult operating environment, with many citing political uncertainty and cash flow issues as reasons for a further contraction in new orders during September. Although remaining sharp overall, the rate of decline in new business was the slowest since June. Export sales also continued to fall due in part to instability in the

broader region, though the rate of contraction was only modest and the slowest since May.

The softening of demand for goods and services was reflected in a further drop in the level of private sector output. As was the case with new orders, the rate of decline in business activity in September was the weakest seen for three months but still sharp overall.

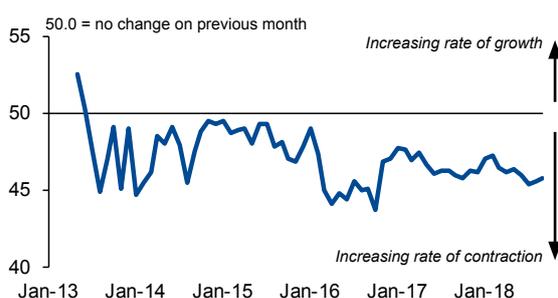
The lack of incoming new orders also resulted in a further reduction in backlogs of work and led businesses to scale back both employment and buying levels. September's decrease in workforce numbers was the seventh in as many months and the most marked since June (albeit still only marginal).

With many of the current issues facing the country expected to continue, businesses in general remained downbeat about the outlook for output in the year ahead. Moreover, the degree of pessimism was slightly greater than in August.

Elsewhere, latest survey data indicated a slight increase in average costs faced by private sector businesses in Lebanon, driven partly by a rise in the cost of purchases. Average staff pay meanwhile exhibited little change, in line with the broad trend seen throughout 2018 so far.

Nevertheless, despite the emergence of modest cost pressures, September saw a further dip in average prices charged for goods and services amid strong competition between firms.

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



Purchasing Managers' Index			
		Unadj.	Seas. Adj.
2018	Jul	45.4	45.4
	Aug	46.1	45.6
	Sep	45.5	45.8

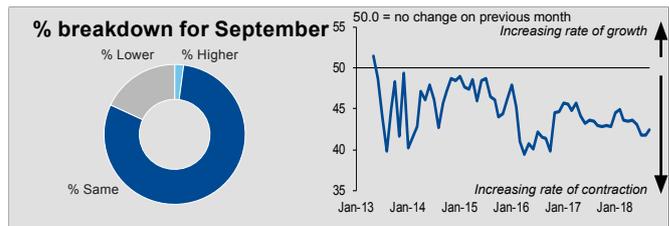
#### Index Summary

(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
Jul'18	45.4	41.8	41.6	46.9	43.8	49.7	49.8	49.8	49.8	49.8	49.8	46.1	50.4	36.9
Aug	45.6	41.8	41.9	47.3	44.5	49.9	49.6	50.1	50.1	50.0	49.9	46.6	50.6	38.1
Sep	45.8	42.5	42.1	48.1	44.7	49.6	49.2	50.5	50.3	49.9	49.8	47.4	50.6	37.8

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

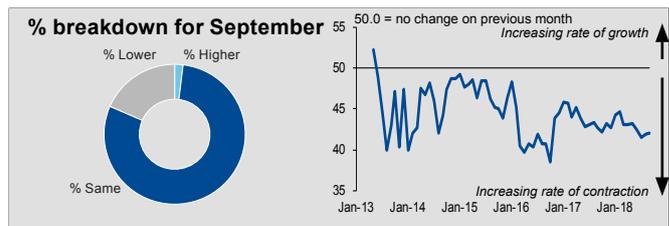
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
<b>2018</b>	May	2.8	82.3	14.8	-12.0	<b>44.0</b>	<b>43.7</b>
	Jun	3.8	77.3	18.9	-15.1	<b>42.4</b>	<b>43.1</b>
	Jul	2.3	78.6	19.1	-16.8	<b>41.6</b>	<b>41.8</b>
	Aug	3.5	78.2	18.3	-14.8	<b>42.6</b>	<b>41.8</b>
	Sep	2.1	79.9	18.1	-16.0	<b>42.0</b>	<b>42.5</b>



Latest data indicated another steep monthly fall in the level of business activity in Lebanon's private sector economy, despite the rate of contraction having slowed from those recorded in July and August. A lack of incoming new work was behind the latest decrease in output, according to the survey results.

**New Orders Index** Q. Please compare the level of new orders received this month with the situation of one month ago.

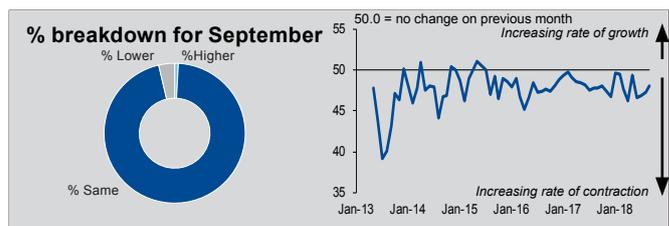
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
<b>2018</b>	May	2.3	82.4	15.3	-12.9	<b>43.5</b>	<b>43.3</b>
	Jun	3.7	77.6	18.7	-15.0	<b>42.5</b>	<b>42.4</b>
	Jul	2.3	78.7	19.0	-16.8	<b>41.6</b>	<b>41.6</b>
	Aug	3.3	78.6	18.1	-14.8	<b>42.6</b>	<b>41.9</b>
	Sep	1.9	79.6	18.5	-16.5	<b>41.7</b>	<b>42.1</b>



The seasonally adjusted New Orders Index registered a reading that was well below the neutral 50.0 mark in September, indicating a further sharp (albeit slightly slower) contraction in the level of demand facing firms in the private sector. Where a decrease in new business was recorded, panellists commented on political uncertainty, cash flow problems and a generally difficult economic situation as the main factors.

**New Export Orders Index** Q. Please compare the level of new export orders received this month with the situation of one month ago.

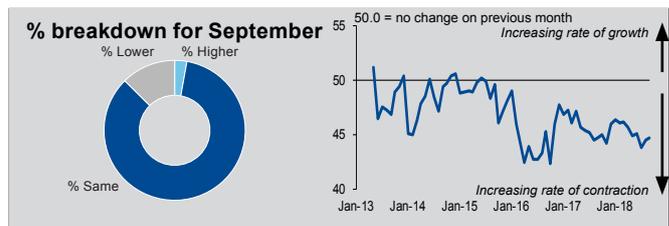
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
<b>2018</b>	May	1.6	97.0	1.4	+0.2	<b>50.1</b>	<b>49.3</b>
	Jun	2.4	89.7	7.9	-5.5	<b>47.3</b>	<b>46.7</b>
	Jul	0.0	92.8	7.2	-7.2	<b>46.4</b>	<b>46.9</b>
	Aug	0.0	95.8	4.2	-4.2	<b>47.9</b>	<b>47.3</b>
	Sep	0.9	95.5	3.6	-2.8	<b>48.6</b>	<b>48.1</b>



Instability in the wider region continued to have a detrimental impact on inflows of new business from abroad, which fell in September for the thirty-eighth month in a row. That said, having eased to the weakest since May, the rate of decline in new export orders was only modest and much less marked than that of total order books.

**Backlogs of Work Index** Q. Please compare the level of outstanding business in your company this month with the situation one month ago.

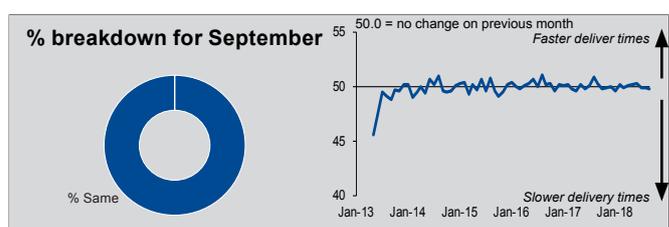
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
<b>2018</b>	May	2.1	86.0	11.9	-9.9	<b>45.1</b>	<b>44.9</b>
	Jun	3.3	83.1	13.6	-10.2	<b>44.9</b>	<b>45.1</b>
	Jul	1.9	83.2	15.0	-13.1	<b>43.5</b>	<b>43.8</b>
	Aug	2.6	85.2	12.2	-9.6	<b>45.2</b>	<b>44.5</b>
	Sep	2.8	84.7	12.5	-9.7	<b>45.2</b>	<b>44.7</b>



With firms struggling to source new work, the amount of outstanding business across the private sector continued to fall during September. This continued the trend seen in every month since July 2015. One-in-eight companies recorded a decrease in their backlogs of work, versus only 3% that registered 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
<b>2018</b>	May	0.0	99.7	0.3	-0.3	<b>49.8</b>	<b>50.2</b>
	Jun	0.6	99.4	0.1	+0.5	<b>50.2</b>	<b>50.2</b>
	Jul	0.1	99.9	0.0	+0.1	<b>50.0</b>	<b>49.8</b>
	Aug	0.0	100.0	0.0	0.0	<b>50.0</b>	<b>49.9</b>
	Sep	0.0	100.0	0.0	0.0	<b>50.0</b>	<b>49.8</b>

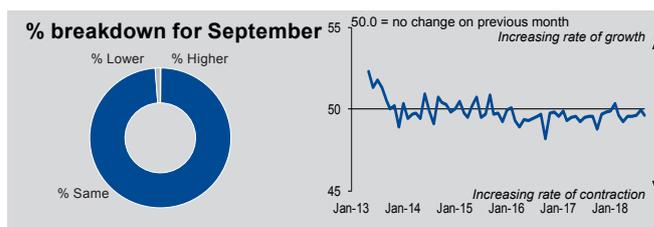


September saw a further slight lengthening of average lead times on items purchased by Lebanon private sector firms. This was highlighted by the seasonally adjusted Suppliers' Delivery Times Index registering another reading that was just below the 50.0 no-change mark, the third in as many months.

**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
<b>2018</b>	May	0.8	98.3	0.9	-0.1	<b>49.9</b>	<b>49.5</b>
	Jun	1.1	96.5	2.5	-1.4	<b>49.3</b>	<b>49.6</b>
	Jul	0.6	98.4	1.0	-0.4	<b>49.8</b>	<b>49.7</b>
	Aug	0.8	98.7	0.5	+0.3	<b>50.1</b>	<b>49.9</b>
	Sep	0.1	98.7	1.2	-1.0	<b>49.5</b>	<b>49.6</b>

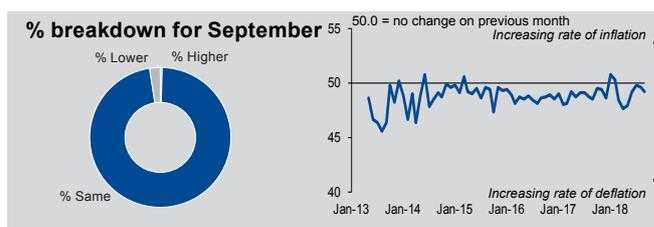


The level of employment in Lebanon's private sector economy fell during September, to extend the current sequence of net job losses to seven months. Despite picking up to the fastest since June, the rate of decline in workforce numbers remained only marginal overall. A lack of incoming new work was the main reason for firms cutting employment, according to 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
<b>2018</b>	May	0.0	96.9	3.1	-3.1	<b>48.4</b>	<b>47.9</b>
	Jun	0.0	97.8	2.2	-2.2	<b>48.9</b>	<b>49.2</b>
	Jul	0.0	98.4	1.6	-1.6	<b>49.2</b>	<b>49.8</b>
	Aug	0.0	97.3	2.7	-2.7	<b>48.7</b>	<b>49.6</b>
	Sep	0.4	97.1	2.4	-2.0	<b>49.0</b>	<b>49.2</b>

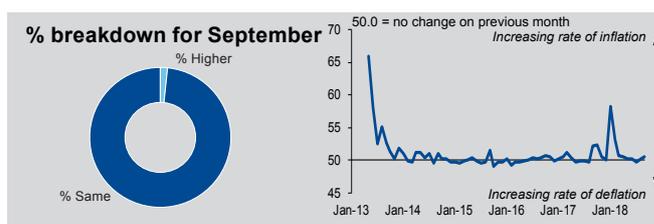


Average prices charged for goods and services decreased during September. It marked the seventh time in as many months that a reduction in output prices has been recorded. Reports from panel members pointed to strong competitive pressures and associated efforts to boost sales. Although the rate of decline in prices charged was the quickest seen since June, it remained only modest overall.

**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>2018</b>	May	0.3	99.1	0.6	-0.4	<b>49.8</b>	<b>50.2</b>
	Jun	0.5	99.5	0.0	+0.5	<b>50.2</b>	<b>50.2</b>
	Jul	0.3	99.3	0.4	-0.1	<b>49.9</b>	<b>49.8</b>
	Aug	0.3	99.7	0.0	+0.3	<b>50.1</b>	<b>50.1</b>
	Sep	1.7	98.3	0.0	+1.7	<b>50.8</b>	<b>50.5</b>

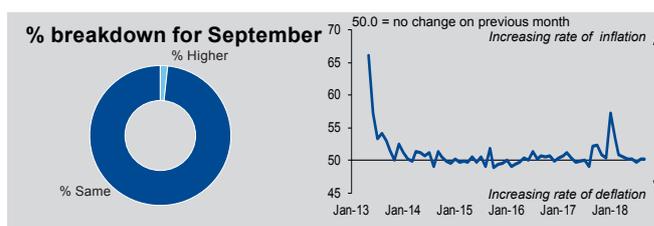


Businesses operating in Lebanon's private sector faced an increase in overall input prices at the end of the third quarter. The respective seasonally adjusted index was at a five-month high, though it signalled only a marginal rate of cost inflation overall. The rise in overall input prices was partly driven by an increase in the average cost of purchases.

**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>2018</b>	May	0.3	99.1	0.6	-0.4	<b>49.8</b>	<b>50.2</b>
	Jun	0.5	99.5	0.0	+0.5	<b>50.2</b>	<b>50.2</b>
	Jul	0.3	99.3	0.4	-0.1	<b>49.9</b>	<b>49.8</b>
	Aug	0.3	99.7	0.0	+0.3	<b>50.1</b>	<b>50.1</b>
	Sep	1.7	98.3	0.0	+1.7	<b>50.8</b>	<b>50.3</b>

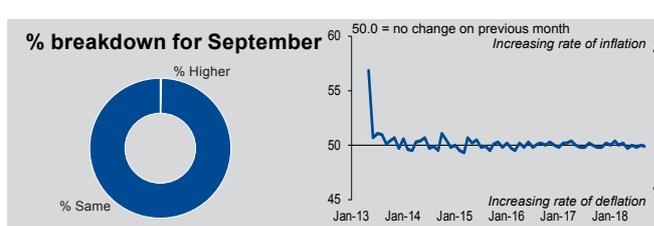


As has been the case in 12 of the past 13 months, Lebanese private sector firms recorded an increase in average purchase prices in September. Although only marginal, the latest increase in average purchasing costs was the steepest seen since April. Anecdotal evidence pointed to an increase in the price of some imported items.

**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>2018</b>	May	0.0	99.7	0.3	-0.3	<b>49.9</b>	<b>49.7</b>
	Jun	0.0	100.0	0.0	0.0	<b>50.0</b>	<b>50.0</b>
	Jul	0.0	100.0	0.0	0.0	<b>50.0</b>	<b>49.8</b>
	Aug	0.0	99.7	0.3	-0.3	<b>49.8</b>	<b>50.0</b>
	Sep	0.3	99.7	0.0	+0.3	<b>50.1</b>	<b>49.9</b>

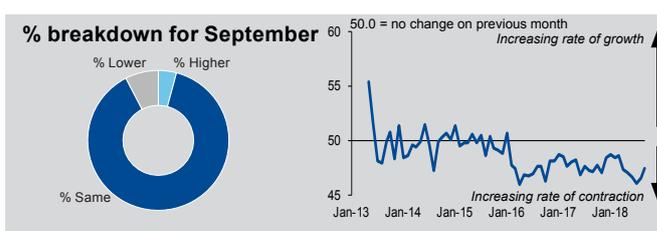


Average prices paid for salaries/wages remained broadly flat during the latest survey period, to continue the general trend seen throughout 2018 so far. The seasonally adjusted Staff Costs Index has now registered either slightly below or in line with the 50.0 no-change mark in each of the past five months, thereby failing to signal an increase in remuneration since April.

## 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>2018</b>	May	2.0	90.3	7.7	-5.6	<b>47.2</b>	<b>47.0</b>
	Jun	2.6	88.8	8.5	-5.9	<b>47.1</b>	<b>46.7</b>
	Jul	1.6	89.1	9.2	-7.6	<b>46.2</b>	<b>46.1</b>
	Aug	2.6	89.3	8.1	-5.5	<b>47.3</b>	<b>46.6</b>
	Sep	4.2	88.2	7.6	-3.4	<b>48.3</b>	<b>47.4</b>

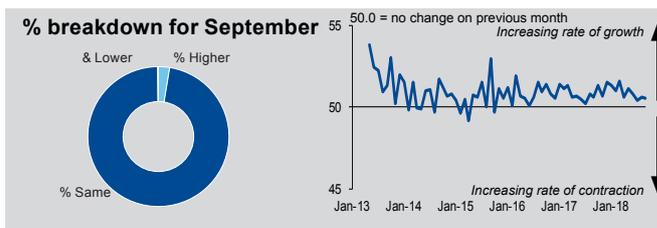


Reflective of lower sales and falling output requirements, the level of purchasing activity among Lebanese private sector businesses decreased during September. However, having eased further from July's near-survey record, the rate of decline in buying levels was the slowest seen since March.

## 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>2018</b>	May	3.4	96.2	0.4	+3.0	<b>51.5</b>	<b>51.1</b>
	Jun	3.1	95.7	1.2	+1.9	<b>51.0</b>	<b>50.8</b>
	Jul	0.8	99.0	0.1	+0.7	<b>50.3</b>	<b>50.4</b>
	Aug	2.0	97.8	0.2	+1.9	<b>50.9</b>	<b>50.6</b>
	Sep	2.6	97.3	0.2	+2.4	<b>51.2</b>	<b>50.6</b>

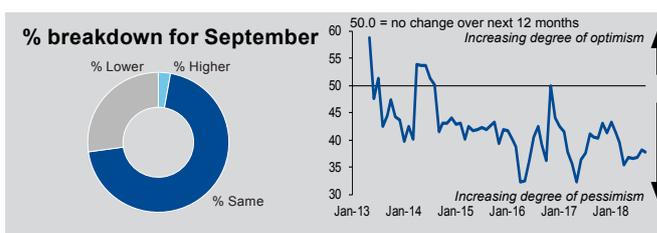


Latest data indicated another marginal increase in stocks of purchases (both raw materials and goods for resale) held by Lebanon's private sector firms, thereby extending the current sequence of accumulation to 35 months. The rate of growth in inventory levels was identical to that recorded in the preceding 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
<b>2018</b>	May	0.0	73.8	26.2	-26.2	<b>36.9</b>	<b>n/a</b>
	Jun	1.5	70.2	28.2	-26.7	<b>36.7</b>	<b>n/a</b>
	Jul	1.6	70.8	27.7	-26.1	<b>36.9</b>	<b>n/a</b>
	Aug	2.9	70.5	26.6	-23.7	<b>38.1</b>	<b>n/a</b>
	Sep	2.8	70.0	27.2	-24.4	<b>37.8</b>	<b>n/a</b>



On balance, private sector firms operating in Lebanon maintained a negative outlook for business activity over the next 12 months. Moreover, September saw the Future Output Index retreat slightly from August's five-month high and signalled a strong degree of pessimism overall. The general feeling among businesses was that the current challenges facing the country would continue for the foreseeable future.

## 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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