

Lebanese business conditions continue to deteriorate in October

Key findings:

- **Private sector operating conditions deteriorate, but at the slowest rate since May**
- **Output, new orders and new exports all fall at softer rates**
- **Job cutting accelerates to a one-year high**

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.

At 46.2, up from 45.8 in September, the PMI signalled a slower deterioration of business conditions in the Lebanese private sector during October. The decline was solid but the softest since May.

The strongest headline figure for five months was partly reflective of a slower contraction in output. October production data also signalled the slowest decline since May. However, panellists continued to mention political instability weighing on economic activity.

The pace of reduction in new business also eased, with the rate of decline slowing for the third consecutive month. Data

signalled the softest contraction since February, though the fall was still sharp overall.

Panellists once again cited regional instabilities when explaining falling new export orders. However, the pace of contraction slowed to its weakest in five months.

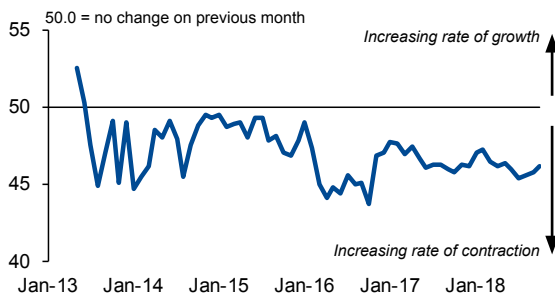
Payroll depletion continued at Lebanese firms in October. Moreover, the rate of job cutting accelerated to its fastest in the past year. Survey participants frequently linked fewer staff to declining new work.

There was an uptick in overall input cost inflation at the start of the final quarter of the year. In contrast, prices charged by Lebanese companies continued to fall, with the pace of decline picking up for the third month in a row. Pressure on profit margins persisted, with input and output prices moving in opposite directions since August.

Alongside lower output, purchasing activity continued to fall in October. Despite this, overall stocks rose again, extending the current run of expansion to three years. Panellists reportedly stockpiled inputs for work on new product lines.

Lebanese firms remained pessimistic about output in a year's time. Many survey participants associated negativity with the currently unresolved political problems. However, sentiment reached a seven-month high.

Lebanon Purchasing Managers' Index™ (PMI®)



Purchasing Managers' Index			
		Unadj.	Seas. Adj.
2018	Aug	46.1	45.6
	Sep	45.5	45.8
	Oct	45.9	46.2

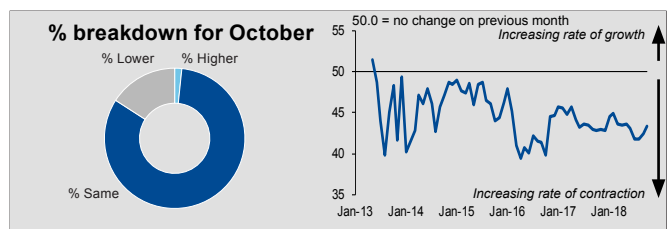
Index Summary

(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
Aug'18	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
Oct	46.2	43.4	43.4	48.3	46.2	49.1	48.7	50.9	50.8	50.2	50.2	47.8	50.5	39.1

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

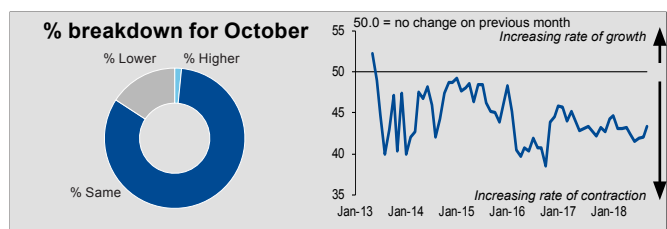
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2018	Jun	3.8	77.3	18.9	-15.1	42.4	43.1
	Jul	2.3	78.6	19.1	-16.8	41.6	41.8
	Aug	3.5	78.2	18.3	-14.8	42.6	41.8
	Sep	2.1	79.9	18.1	-16.0	42.0	42.5
	Oct	1.6	82.5	15.9	-14.2	42.9	43.4



Companies in Lebanon continued to record declines in output during October, extending the current sequence of contraction to 65 months. The pace of reduction remained sharp, but eased for the second month running to the weakest since May. A number of respondents indicated that political instability impacted negatively on activity.

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

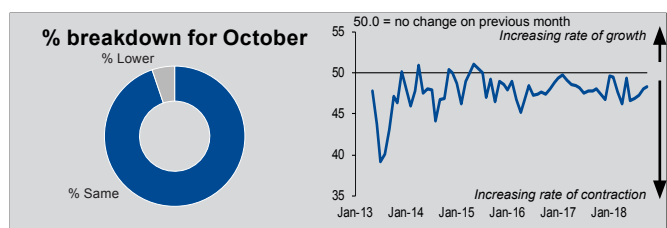
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2018	Jun	3.7	77.6	18.7	-15.0	42.5	42.4
	Jul	2.3	78.7	19.0	-16.8	41.6	41.6
	Aug	3.3	78.6	18.1	-14.8	42.6	41.9
	Sep	1.9	79.6	18.5	-16.5	41.7	42.1
	Oct	1.6	82.6	15.8	-14.2	42.9	43.4



Political instability and challenging economic conditions also contributed to a reduction in new orders during October. The pace of decline eased for the third successive month and was the slowest since February, but was still marked overall. New business has now decreased in each of the past 65 months.

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

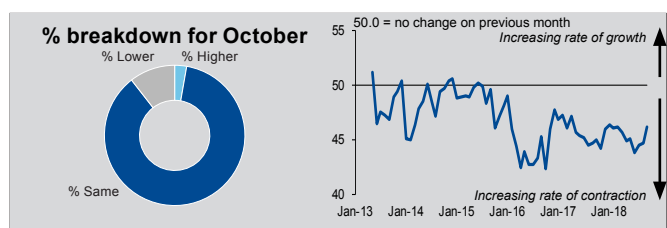
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2018	Jun	2.4	89.7	7.9	-5.5	47.3	46.7
	Jul	0.0	92.8	7.2	-7.2	46.4	46.9
	Aug	0.0	95.8	4.2	-4.2	47.9	47.3
	Sep	0.9	95.5	3.6	-2.8	48.6	48.1
	Oct	0.0	94.8	5.2	-5.2	47.4	48.3



As has been the case in each month since August 2015, new export orders decreased in the Lebanese private sector at the start of the fourth quarter of the year. That said, the pace of reduction was the weakest in five months and much slower than that seen for total new business. Some panellists indicated that difficulties in the region acted to reduce new business from abroad.

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

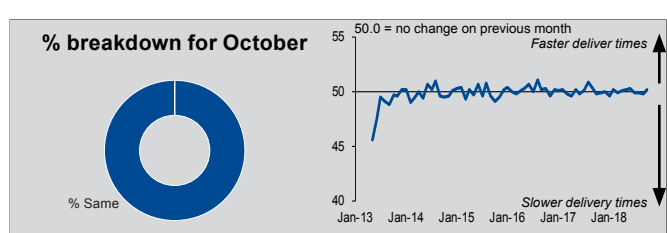
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2018	Jun	3.3	83.1	13.6	-10.2	44.9	45.1
	Jul	1.9	83.2	15.0	-13.1	43.5	43.8
	Aug	2.6	85.2	12.2	-9.6	45.2	44.5
	Sep	2.8	84.7	12.5	-9.7	45.2	44.7
	Oct	2.8	86.7	10.5	-7.8	46.1	46.2



With volumes of new work declining, companies were able to reduce their outstanding business in October. Backlogs decreased for the fortieth consecutive month. The rate of depletion was solid, but eased to the weakest since March. Around 11% of respondents noted a fall in outstanding business, against 3% that posted a rise.

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
2018	Jun	0.6	99.4	0.1	+0.5	50.2	50.2
	Jul	0.1	99.9	0.0	+0.1	50.0	49.8
	Aug	0.0	100.0	0.0	0.0	50.0	49.9
	Sep	0.0	100.0	0.0	0.0	50.0	49.8
	Oct	0.0	100.0	0.0	0.0	50.0	50.2

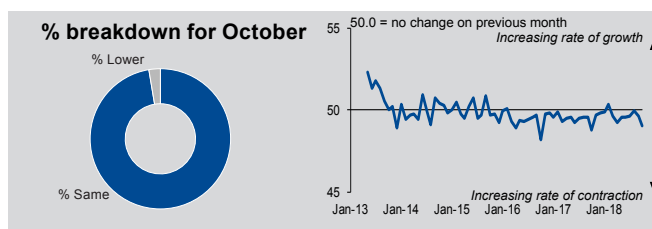


October data pointed to a marginal improvement in suppliers' delivery times faced by Lebanese companies, as evidenced by the seasonally adjusted Suppliers' Delivery Times Index posting just above the 50.0 no-change mark. The improvement in vendor performance ended a three-month sequence of deterioration.

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
2018	Jun	1.1	96.5	2.5	-1.4	49.3	49.6
	Jul	0.6	98.4	1.0	-0.4	49.8	49.7
	Aug	0.8	98.7	0.5	+0.3	50.1	49.9
	Sep	0.1	98.7	1.2	-1.0	49.5	49.6
	Oct	0.0	97.4	2.6	-2.6	48.7	49.1

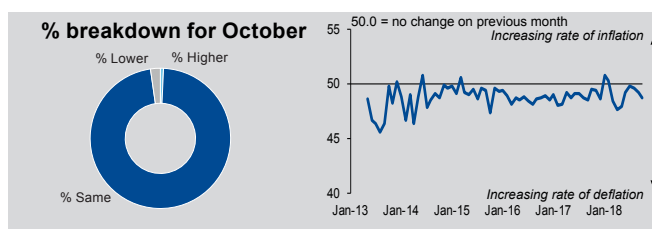


Companies operating in Lebanon's private sector lowered staffing levels for the eighth month running during October, with panellists generally linking the latest fall to decreasing new work. The rate of job shedding was slight, but quickened from that seen in the previous month to the fastest for a year.

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
2018	Jun	0.0	97.8	2.2	-2.2	48.9	49.2
	Jul	0.0	98.4	1.6	-1.6	49.2	49.8
	Aug	0.0	97.3	2.7	-2.7	48.7	49.6
	Sep	0.4	97.1	2.4	-2.0	49.0	49.2
	Oct	0.7	97.0	2.3	-1.5	49.2	48.7

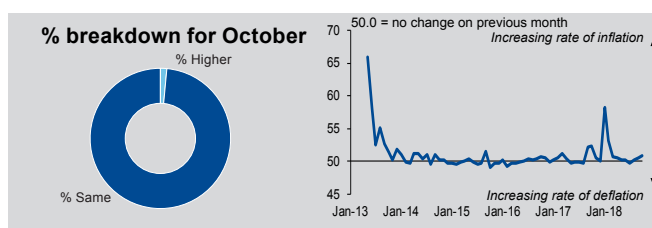


Output prices decreased for the eighth successive month during October. As has been the case since August, the rate of decline gathered pace in the latest survey period. That said, the latest fall was still modest. According to respondents, lower output prices reflected promotions being offered as part of efforts to generate 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
2018	Jun	0.5	99.5	0.0	+0.5	50.2	50.2
	Jul	0.3	99.3	0.4	-0.1	49.9	49.8
	Aug	0.3	99.7	0.0	+0.3	50.1	50.1
	Sep	1.7	98.3	0.0	+1.7	50.8	50.5
	Oct	1.5	98.5	0.0	+1.5	50.7	50.9

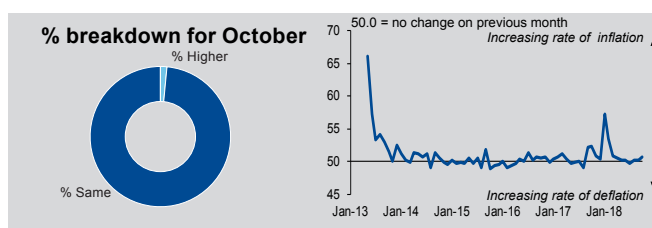


The seasonally adjusted Overall Input Prices Index posted above the 50.0 no-change mark in October, thereby signalling a rise in overall cost burdens. Inflation has now been recorded in three successive months. Although slight, the latest increase in overall input prices was the fastest since February.

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
2018	Jun	0.5	99.5	0.0	+0.5	50.2	50.2
	Jul	0.3	99.3	0.4	-0.1	49.9	49.8
	Aug	0.3	99.7	0.0	+0.3	50.1	50.1
	Sep	1.7	98.3	0.0	+1.7	50.8	50.3
	Oct	1.5	98.5	0.0	+1.5	50.8	50.8

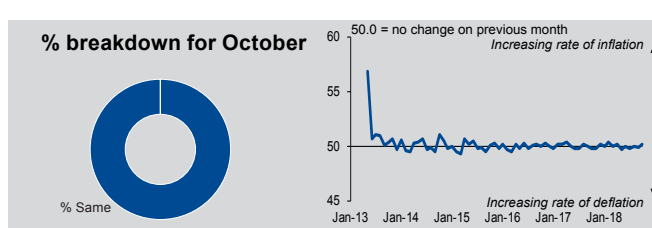


As was the case with overall input prices, purchase costs rose for the third month running in October. Panellists generally attributed higher purchase prices to increased charges by suppliers. That said, the rate of inflation was only marginal as the vast majority of respondents (almost 99%) saw no change in purchase costs.

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
2018	Jun	0.0	100.0	0.0	0.0	50.0	50.0
	Jul	0.0	100.0	0.0	0.0	50.0	49.8
	Aug	0.0	99.7	0.3	-0.3	49.8	50.0
	Sep	0.3	99.7	0.0	+0.3	50.1	49.9
	Oct	0.0	100.0	0.0	0.0	50.0	50.2

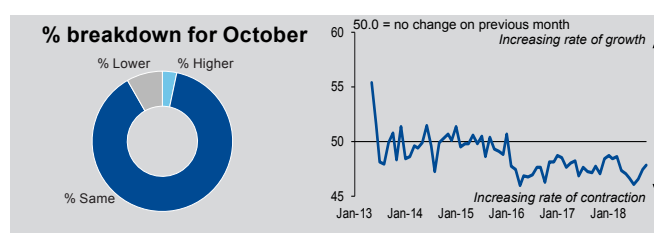


Wages and salaries among Lebanese private sector firms rose marginally at the start of the final quarter of the year, as signalled by the seasonally adjusted Staff Costs Index posting just above the 50.0 no-change mark. This followed a fractional decrease in staff costs in the previous month.

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
2018	Jun	2.6	88.8	8.5	-5.9	47.1	46.7
	Jul	1.6	89.1	9.2	-7.6	46.2	46.1
	Aug	2.6	89.3	8.1	-5.5	47.3	46.6
	Sep	4.2	88.2	7.6	-3.4	48.3	47.4
	Oct	3.3	88.4	8.3	-5.0	47.5	47.8

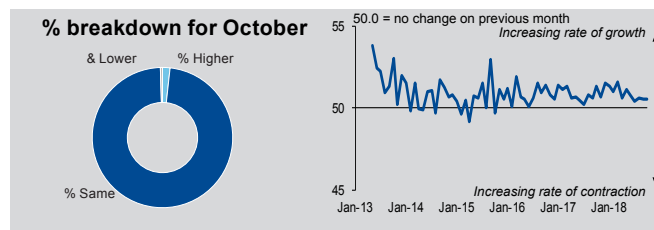


As has been the case in each of the past 33 months, purchasing activity decreased among Lebanese companies during October. The pace of decline was solid, but eased for the third successive month and was the weakest since March. Respondents generally attributed the fall in input buying to a lack of new work.

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
2018	Jun	3.1	95.7	1.2	+1.9	51.0	50.8
	Jul	0.8	99.0	0.1	+0.7	50.3	50.4
	Aug	2.0	97.8	0.2	+1.9	50.9	50.6
	Sep	2.6	97.3	0.2	+2.4	51.2	50.6
	Oct	1.7	97.8	0.5	+1.3	50.6	50.5

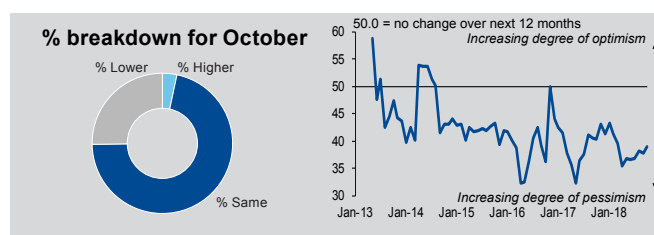


Despite a reduction in purchasing activity in October, companies recorded a rise in inventories during the month. Stocks of purchases have now increased on a monthly basis throughout the past three years. Panellists reportedly built inventory holdings as part of work on new product lines.

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
2018	Jun	1.5	70.2	28.2	-26.7	36.7	n/a
	Jul	1.6	70.8	27.7	-26.1	36.9	n/a
	Aug	2.9	70.5	26.6	-23.7	38.1	n/a
	Sep	2.8	70.0	27.2	-24.4	37.8	n/a
	Oct	3.3	71.4	25.2	-21.9	39.1	n/a



Companies were again pessimistic about the 12-month outlook for output, although the level of negative sentiment was the weakest since March. Those respondents that expect activity to decrease linked this to the current political and economic difficulties, while a number of companies were uncertain as to how the economy will develop.

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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