

Faster deterioration in private sector business conditions during May

Key findings:

- **Quickest fall in output for five months**
- **New order decline accelerates**
- **Confidence reaches a ten-month low**

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 46.3 in May, the BLOM Lebanon PMI fell from 46.7 in April. The latest reading pointed a continued deterioration in Lebanese private sector operating conditions, with the rate of decline accelerating slightly from April.

The faster deterioration was partly driven by the sharpest fall in output at private sector firms for five months. Survey respondents continued to cite a lack of political and economic stability when explaining the latest contraction.

New orders received by businesses in Lebanon continued to decline in May, extending the current sequence of contraction to six years. Moreover, the rate of decrease accelerated from

April and was historically marked. Anecdotal evidence suggested that demand conditions remained weak.

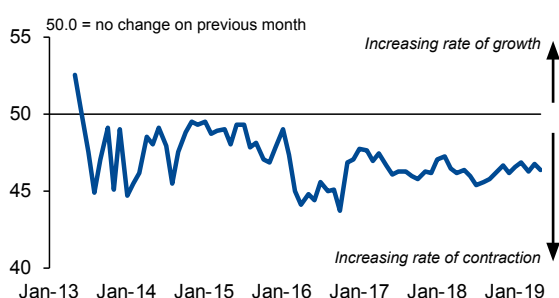
Contributing to the further fall in new business was another deterioration in international sales. Moreover, after the slowest reduction in new export orders for 11 months during April, the pace of contraction accelerated in May.

Firms were again pessimistic towards the business outlook midway through the second quarter. Moreover, amid expectations for continued instability, confidence levels reached a ten-month low. There were no panel members anticipating a rise in output over the coming year, compared to 26% predicting a contraction.

Meanwhile, purchasing activity fell for the fortieth month in a row, with the pace of decline accelerating from April. In fact, input buying by firms in Lebanon's private sector fell at the fastest rate for three months. Panellists continued to mention softening economic demand.

On the price front, input costs rose for the third month in a row. The rate of inflation was broadly unchanged from May, remaining slightly slower than the historical average. According to underlying data, the latest increase in costs burdens was driven by purchase prices. Firms were unable to pass on higher prices to their clients, instead cutting output charges in an attempt to gain market share.

Lebanon Purchasing Managers' Index™ (PMI®)



Purchasing Managers' Index			
		Unadj.	Seas. Adj.
2019	Mar	46.9	46.3
	Apr	47.5	46.7
	May	46.0	46.3

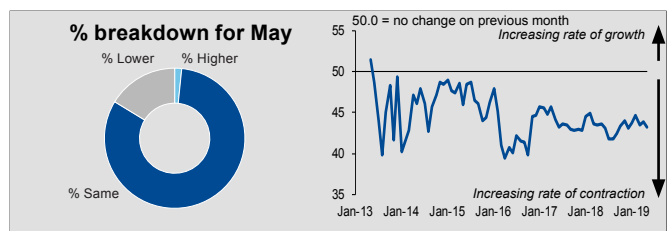
Index Summary

(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
Mar'19	46.3	43.5	43.2	47.4	45.3	49.5	49.1	50.1	50.1	49.7	50.0	47.9	50.8	41.0
Apr	46.7	43.9	44.1	49.1	46.5	49.7	48.0	50.4	50.6	50.0	50.1	48.3	51.3	40.8
May	46.3	43.2	43.2	48.2	45.0	49.8	48.5	50.5	50.7	50.1	50.0	47.0	51.3	36.9

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

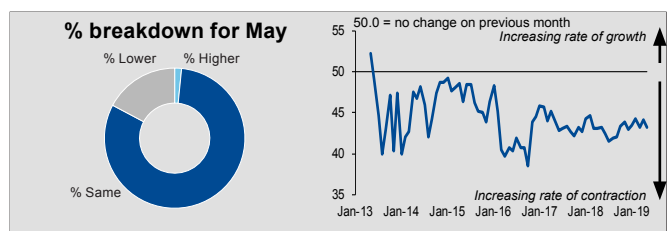
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2019	Jan	3.0	84.5	12.4	-9.4	45.3	43.7
	Feb	2.9	83.9	13.1	-10.2	44.9	44.6
	Mar	3.3	82.4	14.3	-11.1	44.5	43.5
	Apr	4.0	83.9	12.1	-8.2	45.9	43.9
	May	1.6	82.1	16.3	-14.7	42.7	43.2



Lebanese private sector firms recorded another fall in output midway through the second quarter, extending the current sequence of contraction to six years. Moreover, the latest reduction was the quickest since last December and sharp overall. Survey respondents continued to note a lack of political and economic stability.

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

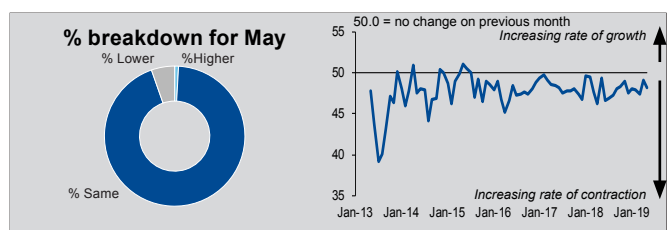
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2019	Jan	3.2	83.1	13.7	-10.5	44.8	43.5
	Feb	3.1	83.2	13.7	-10.6	44.7	44.3
	Mar	2.4	83.1	14.5	-12.0	44.0	43.2
	Apr	3.1	84.7	12.2	-9.1	45.4	44.1
	May	1.6	81.2	17.2	-15.6	42.2	43.2



Similar to the trend for output, new orders placed at private sector companies in Lebanon deteriorated sharply in May. When explaining the latest decline, many panellists cited stagnant demand conditions. The rate of decrease was quicker than in April, with around 17% of firms recording a reduction.

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

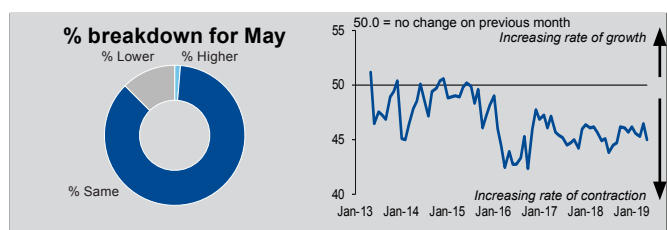
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2019	Jan	1.4	96.1	2.5	-1.1	49.4	48.1
	Feb	0.7	93.7	5.6	-5.0	47.5	47.9
	Mar	0.0	97.2	2.8	-2.8	48.6	47.4
	Apr	1.1	95.4	3.5	-2.5	48.8	49.1
	May	0.9	93.8	5.4	-4.5	47.8	48.2



Further reduction in new orders at Lebanese private sector businesses was partly driven by another decline in international sales. New export orders have now fallen in each month since August 2015. Following the slowest fall for 11 months in April, the rate of decrease accelerated, but was modest overall.

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

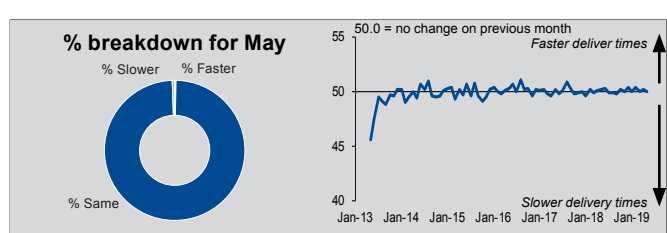
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2019	Jan	3.3	85.4	11.3	-8.0	46.0	46.2
	Feb	1.5	87.8	10.7	-9.1	45.4	45.6
	Mar	3.3	85.3	11.4	-8.1	45.9	45.3
	Apr	2.9	87.0	10.1	-7.3	46.4	46.5
	May	1.3	86.2	12.5	-11.2	44.4	45.0



May data pointed to a further easing of capacity pressures in the private sector, as outstanding business fell for the forty-seventh month in a row. The contraction was the fastest since September 2018 and marked overall. Anecdotal evidence suggested that the latest reduction was due to fewer new orders.

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
2019	Jan	0.0	100.0	0.0	0.0	50.0	50.0
	Feb	0.0	100.0	0.0	0.0	50.0	50.4
	Mar	0.0	100.0	0.0	0.0	50.0	50.0
	Apr	0.3	99.7	0.0	+0.3	50.1	50.1
	May	0.3	99.1	0.6	-0.2	49.9	50.0

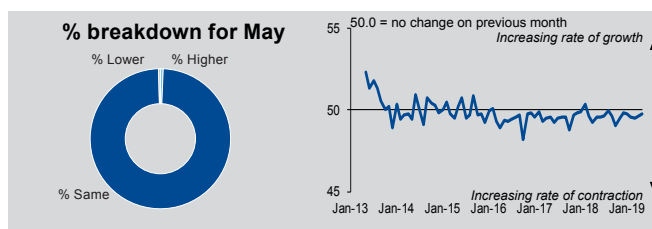


Private sector firms in Lebanon reported unchanged input lead times midway through the second quarter. This was indicated by the seasonally adjusted Suppliers' Delivery Times Index registering in line with the 50.0 no-change mark. Vendor performance has now been broadly stable for three months.

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
2019	Jan	0.2	99.5	0.2	0.0	50.0	49.8
	Feb	0.0	98.2	1.8	-1.8	49.1	49.6
	Mar	0.0	99.5	0.5	-0.5	49.7	49.5
	Apr	0.0	98.1	1.9	-1.9	49.1	49.7
	May	0.6	98.9	0.4	+0.2	50.1	49.8

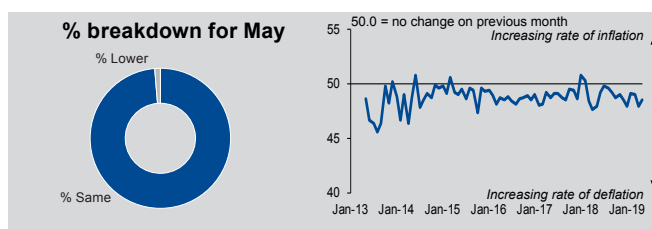


Private sector businesses in Lebanon reduced their worker numbers in May, extending the current run of contraction to 15 months. The pace of job shedding was only fractional overall and broadly in line with that in April. Some panellists suggested that staff cuts were necessary to support profit margins.

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
2019	Jan	0.0	94.2	5.8	-5.8	47.1	48.0
	Feb	0.2	96.7	3.0	-2.8	48.6	49.2
	Mar	0.2	96.9	2.9	-2.7	48.7	49.1
	Apr	0.0	95.5	4.5	-4.5	47.8	48.0
	May	0.0	98.7	1.3	-1.3	49.4	48.5

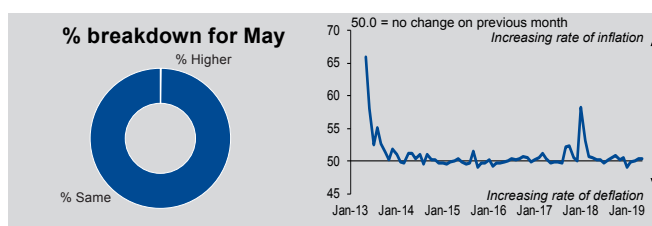


Firms in Lebanon's private sector cut their output charges in an attempt to gain market share during May. This was indicated by the seasonally adjusted Output Prices Index posting below the crucial 50.0 no-change threshold. The rate of decrease was softer than in April, although it remained fractionally quicker than the long-run average.

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
2019	Jan	0.0	99.7	0.3	-0.3	49.9	49.0
	Feb	0.2	99.6	0.1	+0.1	50.1	50.0
	Mar	0.5	99.5	0.0	+0.5	50.2	50.1
	Apr	1.5	98.3	0.3	+1.2	50.6	50.4
	May	0.2	99.8	0.0	+0.2	50.1	50.5

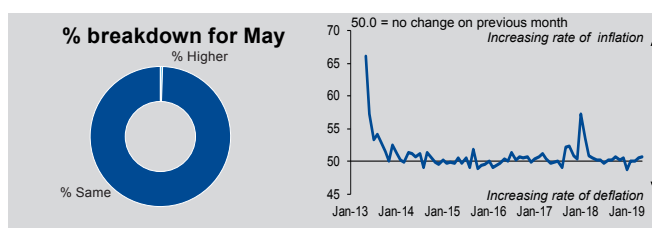


Input costs faced by private sector businesses rose for the third month in a row during May. The rate of inflation was broadly unchanged from April and slightly softer than the historical average. Underlying data suggested that the increase was primary driven by an increase in purchase prices.

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
2019	Jan	0.0	99.7	0.3	-0.3	49.9	48.8
	Feb	0.3	99.7	0.0	+0.3	50.1	50.1
	Mar	0.5	99.5	0.0	+0.5	50.3	50.1
	Apr	1.5	98.2	0.3	+1.2	50.6	50.6
	May	0.5	99.5	0.0	+0.5	50.3	50.7

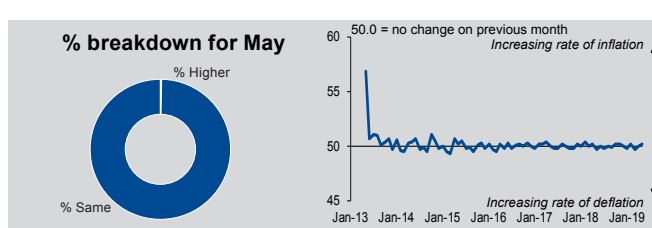


Private sector firms in Lebanon paid slightly higher prices for purchases midway through the second quarter. This was indicated by seasonally adjusted Purchase Prices Index registering marginally above the 50.0 no-change threshold. The pace of inflation was roughly consistent with that in April.

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
2019	Jan	0.0	100.0	0.0	0.0	50.0	49.8
	Feb	0.0	100.0	0.0	0.0	50.0	50.2
	Mar	0.0	100.0	0.0	0.0	50.0	49.7
	Apr	0.0	100.0	0.0	0.0	50.0	50.0
	May	0.3	99.7	0.0	+0.3	50.1	50.1

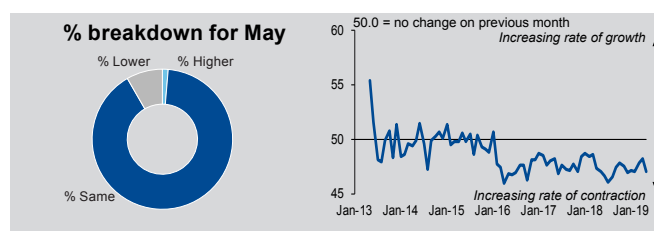


May data suggested that staff costs faced by Lebanese private sector companies were virtually unchanged. This was indicated by the respective seasonally adjusted index registering broadly in line with the 50.0 mark that separates inflation from deflation. Wages have now been roughly stable for two months in a row.

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
2019	Jan	1.7	89.8	8.5	-6.8	46.6	47.2
	Feb	1.7	90.5	7.9	-6.2	46.9	47.0
	Mar	3.7	90.9	5.4	-1.7	49.2	47.9
	Apr	2.9	90.4	6.7	-3.7	48.1	48.3
	May	1.3	90.4	8.3	-7.0	46.5	47.0

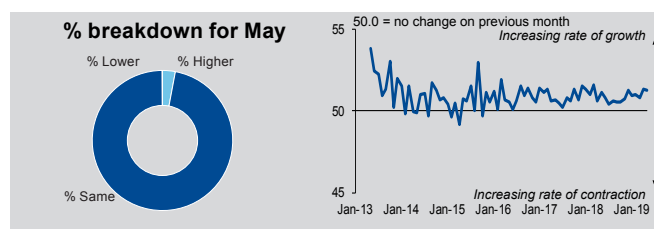


Purchasing activity fell for the fortieth month in a row during May, with the pace of decline accelerating from April. In fact, input buying decreased at the fastest rate for three months, as survey participants continued to mention a weak demand environment driven by political and economic instability.

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
2019	Jan	1.0	98.8	0.2	+0.8	50.4	50.9
	Feb	0.5	99.3	0.1	+0.4	50.2	51.0
	Mar	3.7	96.3	0.0	+3.7	51.8	50.8
	Apr	2.3	97.3	0.4	+1.9	51.0	51.3
	May	2.9	97.0	0.1	+2.9	51.4	51.3

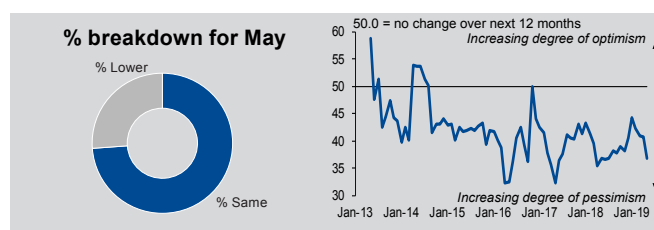


Inventories at businesses in Lebanon's private sector grew moderately midway through the second quarter, driven by a fall in output. The latest rise extended the current run of expansion to just over three-and-a-half years. The rate of increase was unchanged from April's four-month high.

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
2019	Jan	0.0	88.6	11.4	-11.4	44.3	n/a
	Feb	1.9	80.8	17.3	-15.5	42.3	n/a
	Mar	0.0	82.0	18.0	-18.0	41.0	n/a
	Apr	0.0	81.6	18.4	-18.4	40.8	n/a
	May	0.0	73.8	26.2	-26.2	36.9	n/a



Firms were again pessimistic towards the business outlook over the coming year. Confidence levels fell for the fourth month in a row and were the weakest overall since last July. There were no panellists that reported expectations for a rise in output, compared to around 26% that anticipated a reduction in activity.

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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