

### Operating conditions continue to deteriorate in June

#### Key findings:

- **PMI registers in line with May reading**
- **Output contracts further**
- **Quicker decline in new orders**

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 June, the BLOM Lebanon PMI was unchanged since May. The reading represented another decline in operating conditions faced by private sector firms in Lebanon, extending the current sequence of deterioration to six years.

A key factor behind the continued decline was a further contraction in output during June. Although the rate of decrease was slightly softer than in May, it remained historically marked. Panel members typically cited political and economic instability when explaining the latest reduction.

Similarly, new orders placed with firms in the private sector fell at the end of the third quarter, extending the current run of

deterioration to just over six years. Moreover, the pace of reduction accelerated fractionally from May and was sharp overall.

Amid an ongoing slowdown in demand, firms reduced their purchasing activity further in June. Input buying has now fallen in each month for nearly three-and-a-half years. Although the rate of decline slowed from May, it remained sharper than the historical average.

Meanwhile, easing capacity pressure was evident at suppliers with a fractional improvement in vendor performance in June. Following the stabilisation in May, average lead times shortened, with panellists often noting they received faster delivery due to a lack of work at suppliers.

On the price front, input costs faced by Lebanese private sector businesses rose for the fourth month in succession. The rate of inflation was unchanged from May and marginal overall. Underlying data suggested that the increase was driven by both higher paid prices and wages. Firms were unable to pass on elevated costs to their clients, with average output prices reduced further in June.

Finally, private sector companies remained pessimistic towards the business outlook at the end of the second quarter, with some panellists suggesting that current market conditions would persist in the absence of substantial economic reform.

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



Purchasing Managers' Index			
		Unadj.	Seas. Adj.
2019	Apr	47.5	46.7
	May	46.0	46.3
	Jun	45.7	46.3

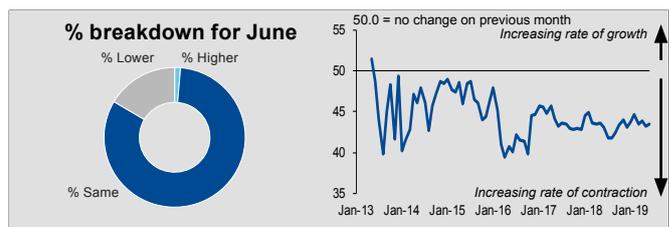
#### Index Summary

(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
Apr'19	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
Jun	46.3	43.5	43.0	48.8	45.2	49.9	48.8	50.5	50.5	50.2	50.2	47.3	51.0	39.2

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

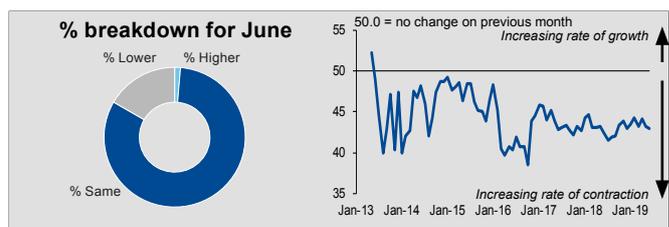
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
<b>2019</b>	Feb	2.9	83.9	13.1	-10.2	<b>44.9</b>	<b>44.6</b>
	Mar	3.3	82.4	14.3	-11.1	<b>44.5</b>	<b>43.5</b>
	Apr	4.0	83.9	12.1	-8.2	<b>45.9</b>	<b>43.9</b>
	May	1.6	82.1	16.3	-14.7	<b>42.7</b>	<b>43.2</b>
	Jun	1.3	82.2	16.5	-15.1	<b>42.4</b>	<b>43.5</b>



Output at Lebanese private sector firms fell further in June, extending the current run of contraction to over six years. Although it remained historically marked overall, the pace of contraction decelerated slightly from May. Many panellists noted political and economic instability when explaining the latest reduction.

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

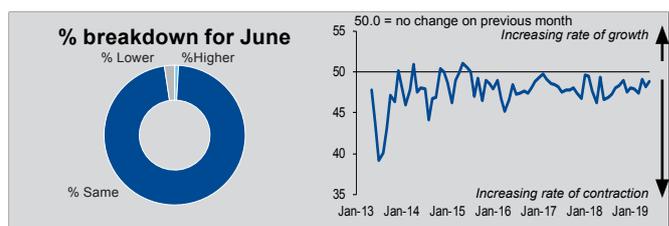
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
<b>2019</b>	Feb	3.1	83.2	13.7	-10.6	<b>44.7</b>	<b>44.3</b>
	Mar	2.4	83.1	14.5	-12.0	<b>44.0</b>	<b>43.2</b>
	Apr	3.1	84.7	12.2	-9.1	<b>45.4</b>	<b>44.1</b>
	May	1.6	81.2	17.2	-15.6	<b>42.2</b>	<b>43.2</b>
	Jun	1.3	82.0	16.6	-15.3	<b>42.3</b>	<b>43.0</b>



June data pointed to another decline in new orders placed with firms in Lebanon's private sector. Sales have fallen in every month since June 2013. Moreover, the rate of decrease was fractionally quicker than in May and marked overall. Approximately 17% of firms recorded a decrease in new business compared to around 1% that saw a rise.

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

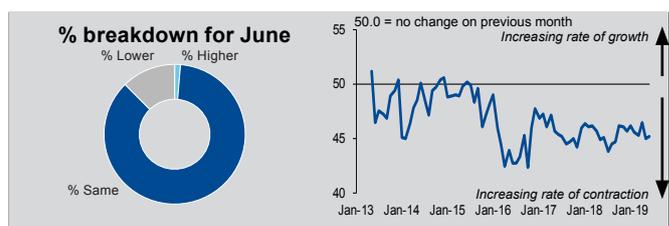
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
<b>2019</b>	Feb	0.7	93.7	5.6	-5.0	<b>47.5</b>	<b>47.9</b>
	Mar	0.0	97.2	2.8	-2.8	<b>48.6</b>	<b>47.4</b>
	Apr	1.1	95.4	3.5	-2.5	<b>48.8</b>	<b>49.1</b>
	May	0.9	93.8	5.4	-4.5	<b>47.8</b>	<b>48.2</b>
	Jun	0.9	96.8	2.3	-1.4	<b>49.3</b>	<b>48.8</b>



Amid reports of regional instability, new export orders fell moderately at the end of the second quarter. The reduction extended the current sequence of decline to almost four years. That said, the rate of decrease eased from that seen in May and was subdued relative to the historical average.

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

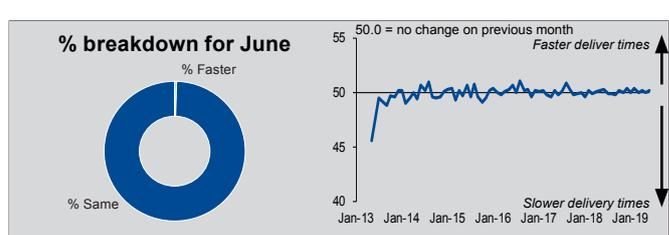
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
<b>2019</b>	Feb	1.5	87.8	10.7	-9.1	<b>45.4</b>	<b>45.6</b>
	Mar	3.3	85.3	11.4	-8.1	<b>45.9</b>	<b>45.3</b>
	Apr	2.9	87.0	10.1	-7.3	<b>46.4</b>	<b>46.5</b>
	May	1.3	86.2	12.5	-11.2	<b>44.4</b>	<b>45.0</b>
	Jun	1.3	86.3	12.4	-11.0	<b>44.5</b>	<b>45.2</b>



Easing capacity pressure in the Lebanese private sector was again evident with a further fall in backlogs of work during June. The latest reading stretched the current run of contraction to four years. Although the rate of deterioration eased fractionally from May, it remained marked overall.

**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>2019</b>	Feb	0.0	100.0	0.0	0.0	<b>50.0</b>	<b>50.4</b>
	Mar	0.0	100.0	0.0	0.0	<b>50.0</b>	<b>50.0</b>
	Apr	0.3	99.7	0.0	+0.3	<b>50.1</b>	<b>50.1</b>
	May	0.3	99.1	0.6	-0.2	<b>49.9</b>	<b>50.0</b>
	Jun	0.5	99.5	0.0	+0.5	<b>50.2</b>	<b>50.2</b>

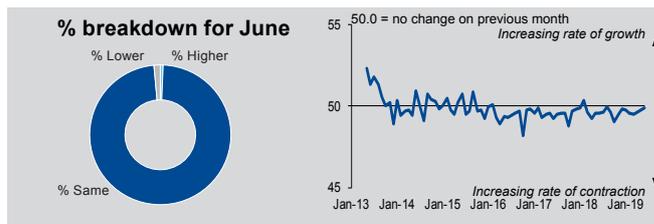


Following a stabilisation in average lead times during May, there was a fractional improvement in vendor performance faced by Lebanese private sector firms in June. Anecdotal evidence suggested that companies were able to receive delivery of inputs faster due to a lack of work at suppliers.

**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>2019</b>	Feb	0.0	98.2	1.8	-1.8	<b>49.1</b>	<b>49.6</b>
	Mar	0.0	99.5	0.5	-0.5	<b>49.7</b>	<b>49.5</b>
	Apr	0.0	98.1	1.9	-1.9	<b>49.1</b>	<b>49.7</b>
	May	0.6	98.9	0.4	+0.2	<b>50.1</b>	<b>49.8</b>
	Jun	0.6	97.9	1.4	-0.8	<b>49.6</b>	<b>49.9</b>

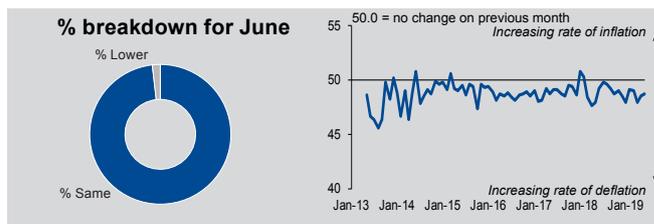


Businesses in Lebanon's private sector recorded broadly unchanged staffing levels at the end of the second quarter. This was signalled by the seasonally adjusted Employment Index registering roughly in line with the 50.0 no-change mark that separates workforce expansion from contraction.

**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>2019</b>	Feb	0.2	96.7	3.0	-2.8	<b>48.6</b>	<b>49.2</b>
	Mar	0.2	96.9	2.9	-2.7	<b>48.7</b>	<b>49.1</b>
	Apr	0.0	95.5	4.5	-4.5	<b>47.8</b>	<b>48.0</b>
	May	0.0	98.7	1.3	-1.3	<b>49.4</b>	<b>48.5</b>
	Jun	0.0	98.2	1.8	-1.8	<b>49.1</b>	<b>48.8</b>

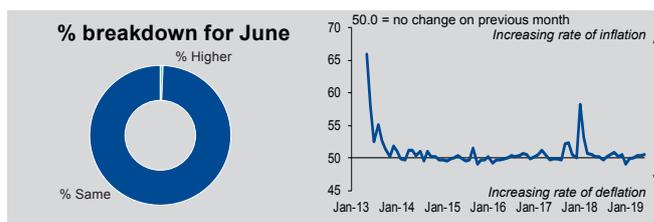


Latest PMI data pointed to another fall in output prices set by private sector businesses in Lebanon. Although the latest reduction was slightly softer than in May and only moderate overall, it extended the current sequence of average charge cutting to 16 months. Some panellists suggested that output prices were reduced in order to obtain 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
<b>2019</b>	Feb	0.2	99.6	0.1	+0.1	<b>50.1</b>	<b>50.0</b>
	Mar	0.5	99.5	0.0	+0.5	<b>50.2</b>	<b>50.1</b>
	Apr	1.5	98.3	0.3	+1.2	<b>50.6</b>	<b>50.4</b>
	May	0.2	99.8	0.0	+0.2	<b>50.1</b>	<b>50.5</b>
	Jun	0.6	99.4	0.0	+0.6	<b>50.3</b>	<b>50.5</b>

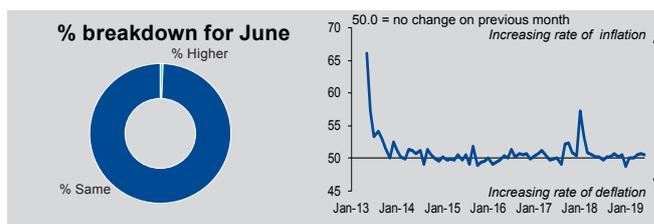


Cost burdens faced by Lebanese private sector firms rose for the fourth month in a row during June. The rate of inflation unchanged from May and marginal overall. Underlying data suggested that the latest rise was driven by slight increases in both average staff costs and purchase prices.

**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
<b>2019</b>	Feb	0.3	99.7	0.0	+0.3	<b>50.1</b>	<b>50.1</b>
	Mar	0.5	99.5	0.0	+0.5	<b>50.3</b>	<b>50.1</b>
	Apr	1.5	98.2	0.3	+1.2	<b>50.6</b>	<b>50.6</b>
	May	0.5	99.5	0.0	+0.5	<b>50.3</b>	<b>50.7</b>
	Jun	0.6	99.4	0.0	+0.6	<b>50.3</b>	<b>50.5</b>

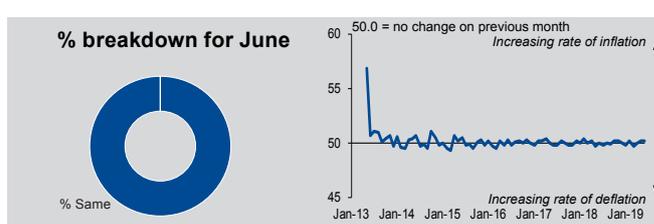


Prices paid by companies in Lebanon's private sector increased slightly in the final month of the second quarter. The result extended the current run of inflation to five months. That said, the latest rise in purchase costs was fractionally slower than in May and remained subdued relative to the historical average.

**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>2019</b>	Feb	0.0	100.0	0.0	0.0	<b>50.0</b>	<b>50.2</b>
	Mar	0.0	100.0	0.0	0.0	<b>50.0</b>	<b>49.7</b>
	Apr	0.0	100.0	0.0	0.0	<b>50.0</b>	<b>50.0</b>
	May	0.3	99.7	0.0	+0.3	<b>50.1</b>	<b>50.1</b>
	Jun	0.0	100.0	0.0	0.0	<b>50.0</b>	<b>50.2</b>

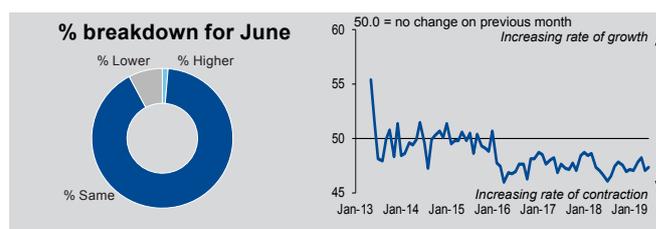


As indicated by the respective seasonally adjusted index registering above the 50.0 no-change mark, Lebanese private sector firms recorded an increase in staff costs during June. However, the rate of inflation was broadly in line with that observed in May and only fractional overall.

## 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
<b>2019</b>	Feb	1.7	90.5	7.9	-6.2	<b>46.9</b>	<b>47.0</b>
	Mar	3.7	90.9	5.4	-1.7	<b>49.2</b>	<b>47.9</b>
	Apr	2.9	90.4	6.7	-3.7	<b>48.1</b>	<b>48.3</b>
	May	1.3	90.4	8.3	-7.0	<b>46.5</b>	<b>47.0</b>
	Jun	1.3	90.9	7.8	-6.4	<b>46.8</b>	<b>47.3</b>

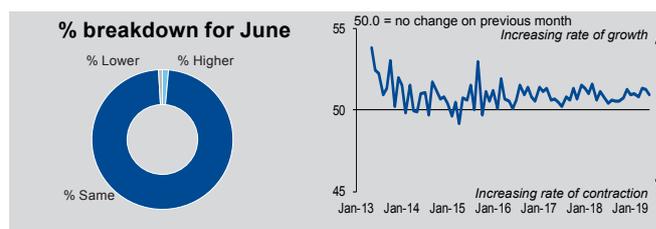


Purchasing activity at Lebanese private sector firms continued to fall in June, extending the current sequence of decline to nearly three-and-a-half years. The rate of contraction eased slightly from May, but remained historically marked. Survey participants commonly associated the deterioration with a reduction in business activity.

## 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>2019</b>	Feb	0.5	99.3	0.1	+0.4	<b>50.2</b>	<b>51.0</b>
	Mar	3.7	96.3	0.0	+3.7	<b>51.8</b>	<b>50.8</b>
	Apr	2.3	97.3	0.4	+1.9	<b>51.0</b>	<b>51.3</b>
	May	2.9	97.0	0.1	+2.9	<b>51.4</b>	<b>51.3</b>
	Jun	1.4	97.7	0.9	+0.5	<b>50.3</b>	<b>51.0</b>

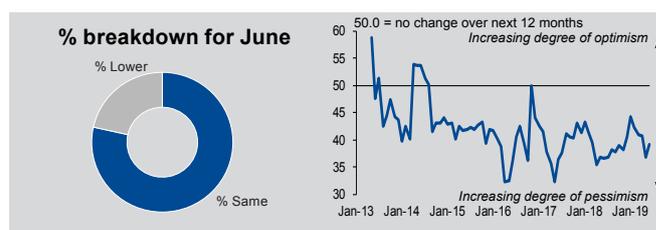


Inventories at companies in the private sector grew for the forty-fourth month in succession at the end of the second quarter. This was indicated by the seasonally adjusted Stocks of Purchases Index registering above the 50.0 no-change threshold. However, the rate of growth eased from the previous survey period, reaching the slowest since March.

## 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>2019</b>	Feb	1.9	80.8	17.3	-15.5	<b>42.3</b>	<b>n/a</b>
	Mar	0.0	82.0	18.0	-18.0	<b>41.0</b>	<b>n/a</b>
	Apr	0.0	81.6	18.4	-18.4	<b>40.8</b>	<b>n/a</b>
	May	0.0	73.8	26.2	-26.2	<b>36.9</b>	<b>n/a</b>
	Jun	0.0	78.5	21.5	-21.5	<b>39.2</b>	<b>n/a</b>



Private sector firms maintained their pessimism towards the business outlook in June, with approximately 22% of firms expecting a fall in output over the coming year, compared to none anticipating an increase. Businesses typically expressed beliefs that in the absence of political reform, the current economic stagnation would persist.

## 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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