

BLOM Lebanon PMI®

Marked deterioration in business conditions, but rate of decline eases

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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.

Despite rising from a record low of 37.0 in November, the latest PMI reading of 45.1 pointed to another sharp deterioration in business conditions across the Lebanese private sector in December.

The result was partially driven by a decline in output that was faster than the long-run average. However, similar to the trend for the headline index, the rate of contraction in output eased from November's. Many panellists stated that lower activity was driven by political uncertainty.

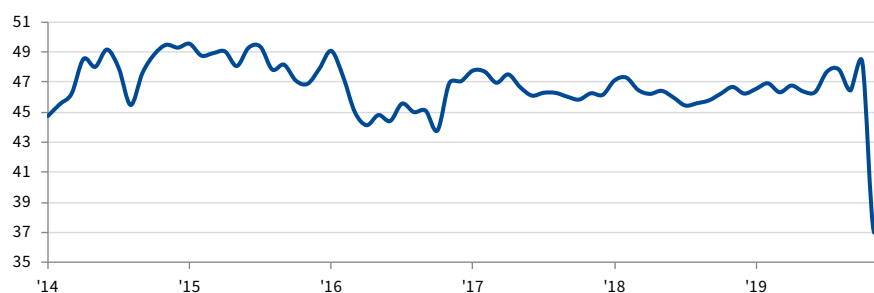
Another contributing factor to the deterioration in the performance of companies in the private sector was a decrease in new business during December. The result extended the current run of decrease that began in June 2013. The rate of decline was historically strong overall, but eased compared to protest-hit November.

Weighing on total new orders was another decline in international sales in the final month of the year. The decline was softer than that registered in November, but remained historically marked overall. Some survey respondents attributed the decrease in exports to regional instability.

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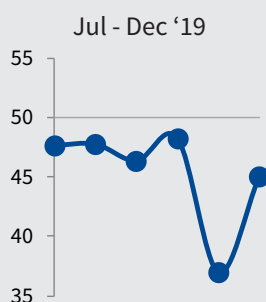
Lebanon PMI

sa, >50 = improvement since previous month



Lebanon PMI

Dec '19
45.1
Nov: 37.0



Overview continued...

Amid softening demand conditions, Lebanese businesses recorded a further cut to worker numbers at the end of 2019. The reduction extended the current sequence to four months and was the second-quickest in that period (after November). That said, the rate of workforce contraction was only slight overall.

Similarly, private sector firms pared back input buying in December, with many panellists citing a fall in new business. The pace of decline was slower than that registered in November, but marked overall.

On the cost front, input prices continued to rise, but the rate of inflation eased from the previous survey period. The moderate increase was slightly quicker than the long-run trend and driven by higher purchasing costs. Meanwhile, average wages fell for the second month in a row.

Despite higher average cost burdens, firms opted to resume cuts to average output charges in December. The slight reduction followed a brief rise in November.

Finally, private sector firms anticipated a contraction in output during 2020. The degree of positivity was softer than that registered in November, but panellists continued to cite fears that political turmoil would persist.

Comment

Commenting on the December 2019 PMI results, Rouba Chbeir, Senior Economist at BLOMINVEST Bank, said:

"In Lebanon, the PMI benchmark of '45' correlates to a below-zero real GDP growth. The stakes remain high in December 2019, with Lebanon's 5-year credit default swaps averaging 1,733 basis points in November and heightened to 2,413 bps by December. Corporates anticipate further reductions in output and new business in 2020 with the future output index standing at 37.4 points in December. Other

indicators corroborated the PMI results as the new cars' market slumped by an unprecedented 78% in November 2019 and the number of real estate transactions also fell by an annual 34.5% during the same month."



Output and demand

Output

Although private sector firms recorded a further decline in output during the final month of 2019, the rate of contraction eased drastically from November. Activity in November's survey was severely hampered by political protests which led to widespread business closures. Panellists often cited political uncertainty when explaining decisions to further reduce output.

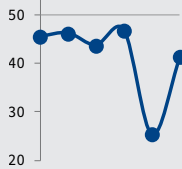
New orders

New orders placed with Lebanese private sector firms continued to fall in December. The result extended the current run of contraction that began in June 2013. Though the rate of reduction eased from November's series record, it remained historically marked.

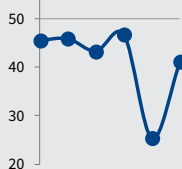
New export orders

Contributing to the continued decrease in overall new business was a further fall in international sales at the end of 2019. New business from abroad fell markedly, but the pace of decline decelerated from that registered in November. Anecdotal evidence suggested that the fall in exports was driven by instability in neighbouring countries.

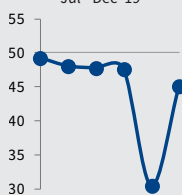
Output Index
Jul - Dec '19



New Orders Index
Jul - Dec '19



New Export Orders Index
Jul - Dec '19



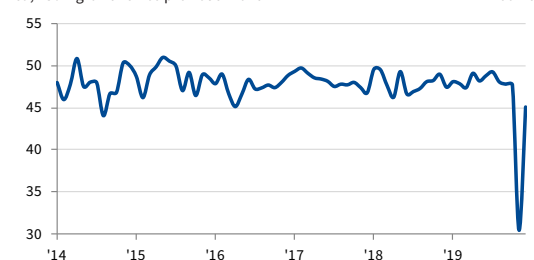
Output Index
sa, >50 = growth since previous month
41.3
Dec '19



New Orders Index
sa, >50 = growth since previous month
41.1
Dec '19

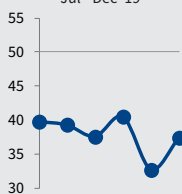


New Export Orders Index
sa, >50 = growth since previous month
45.1
Dec '19



Business expectations

Future Output Index
Jul - Dec '19



December survey data suggested that private sector firms in Lebanon anticipate a fall in business activity during 2020. Some panellists commented that they expected political uncertainty to persist. That said, the degree of negativity towards the one-year outlook for output was softer than in November.

Future Output Index
>50 = growth expected over next 12 months
37.4
Dec '19



Employment and capacity

Employment

Firms in Lebanon's private sector reduced staff numbers for the fourth month in a row during December. This was signalled by the seasonally adjusted Employment Index registering below the 50.0 no-change mark. However, the pace of job cutting was slower than that registered in November's survey period and only slight overall.

Employment Index 49.3
 sa, >50 = growth since previous month Dec '19



Backlogs of work

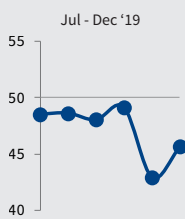
Lebanese businesses saw another reduction in volumes of unfinished work in the final month of the year. Moreover, excluding protest-hit November, the rate of decrease was the sharpest since October 2016. Many panellists suggested they were able to alleviate backlogs due to weaker inflows of new orders.

Backlogs of Work Index 43.6
 sa, >50 = growth since previous month Dec '19



Purchasing and inventories

Quantity of Purchases Index
Jul - Dec '19



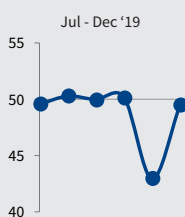
Quantity of purchases

Purchasing activity at private sector firms in Lebanon fell further at the end of 2019. Although the rate of decline eased from November, it remained marked overall. Panellists associated the reduction with softening demand conditions.

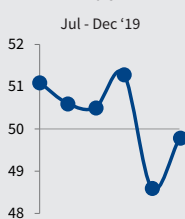
Suppliers' delivery times

Average lead times faced by Lebanese businesses lengthened for the second month in row. This was indicated by the seasonally adjusted Suppliers' Delivery Times Index registering below the 50.0 no-change mark. That said, the latest deterioration in vendor performance was only marginal overall.

Suppliers' Delivery Times Index
Jul - Dec '19



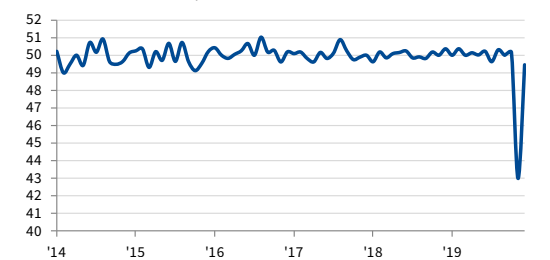
Stocks of Purchases Index
Jul - Dec '19



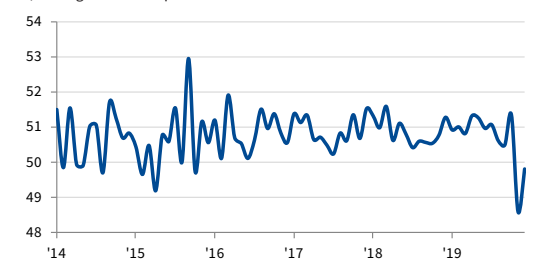
Quantity of Purchases Index
sa, >50 = growth since previous month



Suppliers' Delivery Times Index
sa, >50 = faster times since previous month



Stocks of Purchases Index
sa, >50 = growth since previous month



Prices

Overall input prices

Input costs faced by firms in Lebanon continued to rise at the end of the fourth quarter. The rate of inflation decelerated from November, but remained slightly quicker than the historical average. Underlying data suggested that the latest increase was driven by purchase prices.

Purchase prices

Underpinning the trend in overall prices was another rise in purchasing costs during December. The latest result extended the current run of inflation to almost a year. That said, the rate of inflation eased from November's six-and-a-half-year high and was only modest overall.

Staff costs

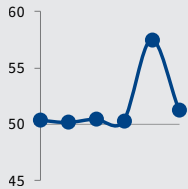
Average wages at Lebanese companies fell for the second month in a row. This was signalled by the seasonally adjusted Staff Costs Index registering below the 50.0 no-change mark. However, the latest decrease was softer than that registered in November and slight overall.

Output prices

Despite a further rise in input prices, there was a renewed decline in average output charges across the Lebanese private sector in December. Notably, output prices registered their first uptick since February 2018 in November. In December, the rate of reduction was slower than the historical average.

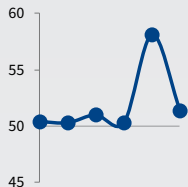
Overall Input Prices Index

Jul - Dec '19



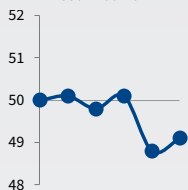
Purchase Prices Index

Jul - Dec '19



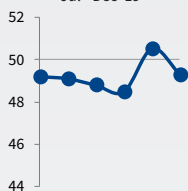
Staff Costs Index

Jul - Dec '19



Output Prices Index

Jul - Dec '19

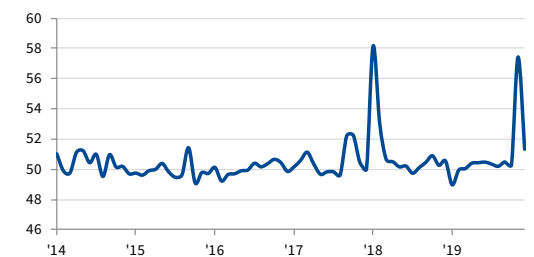


Overall Input Prices Index

sa, >50 = inflation since previous month

51.3

Dec '19

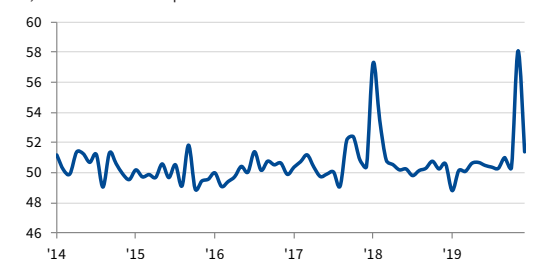


Purchase Prices Index

sa, >50 = inflation since previous month

51.4

Dec '19

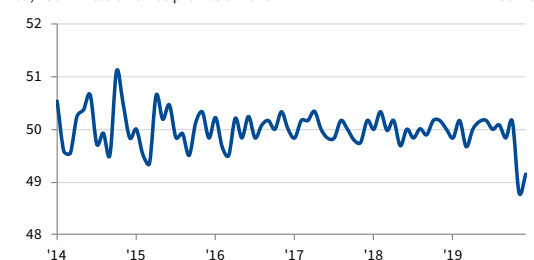


Staff Costs Index

sa, >50 = inflation since previous month

49.1

Dec '19

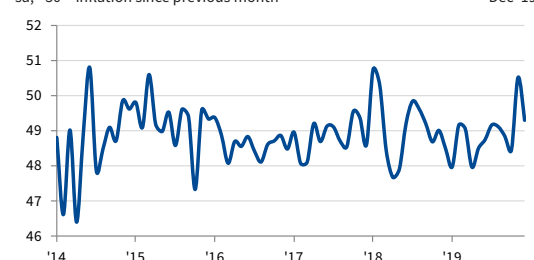


Output Prices Index

sa, >50 = inflation since previous month

49.3

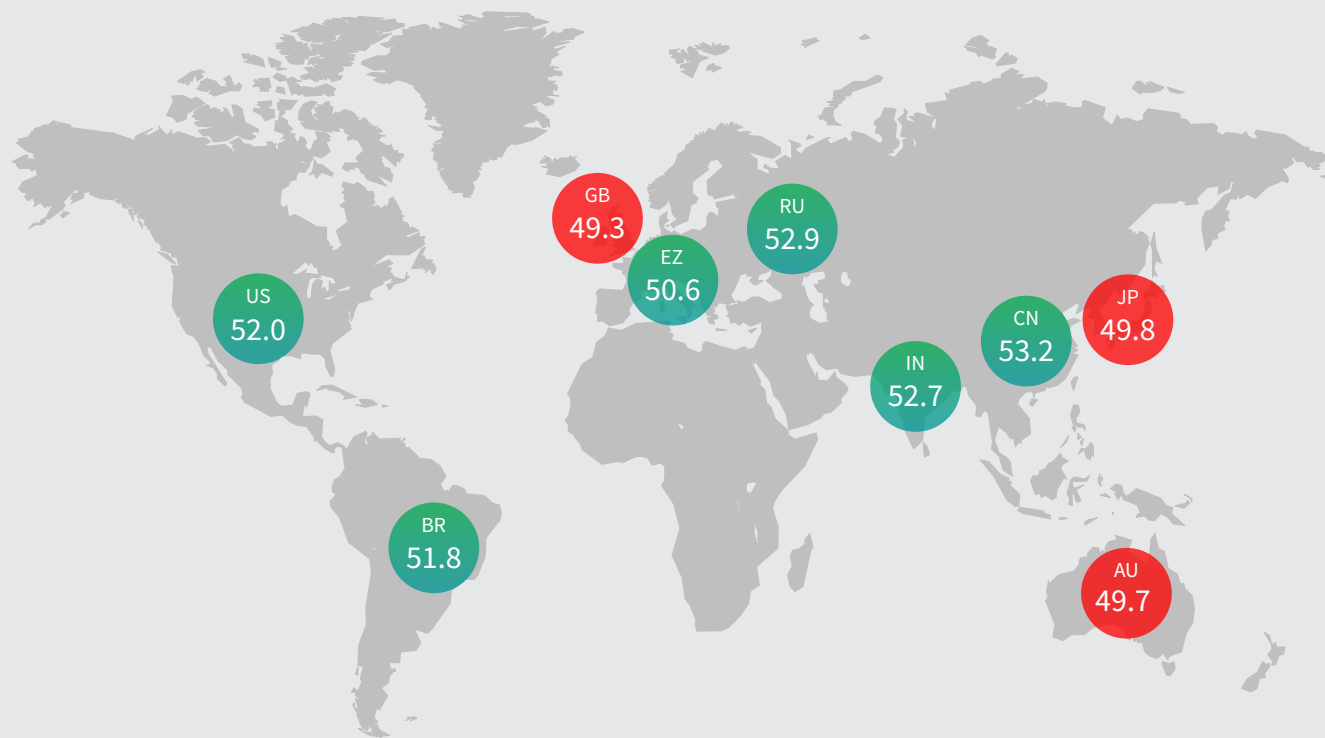
Dec '19



International PMI

Composite Output Index, Nov '19
sa, >50 = growth since previous month

The Composite Output Index is a GDP-weighted average of the Manufacturing Output Index and the Services Business Activity Index.



Composite Output Index
sa, >50 = growth since previous month



Index summary

sa, 50 = no change over previous month. *50 = no change over next 12 months.

	PMI	Output	New Orders	New Export Orders	Future Output*	Employment	Backlogs of Work	Quantity of Purchases	Suppliers' Delivery Times	Stocks of Purchases	Overall Input Prices	Purchase Prices	Staff Costs	Output Prices
07 '19	47.7	45.5	45.6	49.3	39.8	49.8	47.6	48.5	49.6	51.1	50.4	50.4	50.0	49.2
08 '19	47.8	46.2	45.9	48.1	39.3	50.0	47.5	48.6	50.3	50.6	50.2	50.3	50.1	49.1
09 '19	46.4	43.7	43.3	47.8	37.6	49.7	45.5	48.0	50.0	50.5	50.5	51.0	49.8	48.8
10 '19	48.3	46.8	46.7	47.7	40.5	49.9	48.1	49.1	50.2	51.3	50.3	50.3	50.1	48.5
11 '19	37.0	25.3	25.3	30.4	32.7	48.2	35.5	42.9	43.0	48.6	57.5	58.1	48.8	50.5
12 '19	45.1	41.3	41.1	45.1	37.4	49.3	43.6	45.6	49.5	49.8	51.3	51.4	49.1	49.3

Methodology

The BLOM Lebanon PMI® is compiled by IHS Markit from responses to questionnaires sent to purchasing managers in a panel of around 400 private sector companies. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP. The sectors covered by the survey include manufacturing, construction, wholesale, retail and services.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Purchasing Managers' Index™ (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers' Delivery Times Index is inverted so that it moves in a comparable direction to the other indices.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

December 2019 data were collected 5-17 December 2019.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

About PMI

Purchasing Managers' Index™ (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to ihsmarkit.com/products/pmi.html.

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BLOMINVEST BANK, established in 1994, is the investment arm of BLOM Bank SAL, one of the largest banks in Lebanon. As part of its expansionary vision towards the MENA region, the bank has established one investment arm in Saudi Arabia, "BLOMINVEST KSA" and launched three brokerage and trading firms in Egypt, Syria, and Jordan, namely "BLOM Bank Egypt Securities", "Syria and Overseas for Financial Services", and "Financial Services Experts Company". BLOMINVEST BANK is one of few institutions within the greater Levant region that offer Private banking, Investment banking, Asset Management, Brokerage, and Research services under one roof. Based on its track record, BLOMINVEST BANK to date remains the most awarded local investment bank. For more information, see www.blominvestbank.com.

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