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Health of private sector declines at historically marked pace

Slightly softer contraction in output

Employment falls at quicker rate

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.

The latest PMI reading of 44.9, little-changed from 45.1 in December, pointed to another deterioration in business conditions across the Lebanese private sector. The rate of decline was broadly in line with that

registered in December, remaining marked overall.

The deterioration in private sector performance was partially driven by a contraction in output during January. That said, the rate of decline eased slightly to the softest for three months. When explaining the latest reduction, many panellists cited ongoing political instability and liquidity issues emerging within the national banking system.

Another factor that pointed to worsening operating conditions was a further reduction in employment at Lebanese firms. The result extended the current sequence of employment staff cuts to five months. Moreover, the rate of job cutting accelerated from December and was broadly in line with November's joint-series record.

Meanwhile, demand conditions continued to soften, with new orders falling for the eightieth month in a row. The rate of contraction was little-changed from

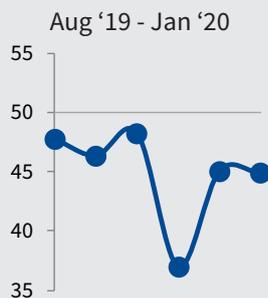
continued...

Lebanon PMI
sa, >50 = improvement since previous month



Lebanon PMI

Jan '20
44.9
Dec: 45.1



Overview continued...

December and historically marked.

Contributing to the decrease in total new business was a decline in international sales at the start of 2020. Exports fell at a marked rate that was the quickest since protest-hit November.

Similar to the trend in employment, firms pared back purchasing activity in January. Moreover, the rate of reduction accelerated from December. Survey respondents typically associated the latest decline with weaker inflows of new orders.

On the price front, input costs continued to rise, extending the current run of cost inflation to nearly a year. The latest increase was the second-fastest in almost two years (slower only than November) and solid overall. Underlying data revealed that the higher costs burdening companies were driven by purchase prices, as average staff

costs fell for the third month in a row.

Despite an increase in input prices, there was no change in average output charges during January. The latest result represented a stabilisation following a reduction in the previous survey period.

Finally, private sector firms were pessimistic towards the business outlook for 2020. Anecdotal evidence suggested that negativity was driven by expectations for prolonged demand weakness. That said, sentiment was the least negative for three months.

Comment

Commenting on the January 2020 PMI results, Dr. Fadi Osseiran, General Manager of BLOMINVEST Bank, said:

“January’s PMI results revealed several recessionary facets of the Lebanese economy going into 2020. The annual GDP growth implied from the BLOM PMI is estimated at -2% in 2019 and was coupled with a stark increase in inflation reaching 3.17% in November. In fact, economic growth in Q4 dipped to the territory of -5% to -6% following October’s protests while investors’ confidence in the sovereign dimmed with

Lebanon’s 5YCDS hitting a historical high of 3,848 basis points by end-January. In turn, the contractions in Output and New orders remained notable while Employee layoffs steepened during January, unveiling another sign of distress. Prompt action is expected by the new government to avert the crisis from steepening.”



Output and demand

Output

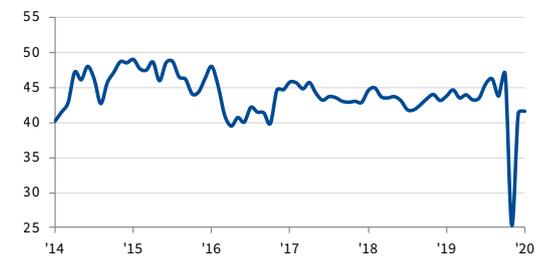
Lebanese private sector output continued to fall in January. Although it remained marked overall, the rate of contraction eased for the second month in a row. When explaining the latest decline, panellists mentioned political instability and liquidity issues that were acting to stifle demand.

Output Index

sa, >50 = growth since previous month

41.6

Jan '20



New orders

New business at firms in Lebanon's private sector fell further at the start of 2020, extending the current run of contraction that began in June 2013. The pace of decline was little-changed from December and remained marked overall.

New Orders Index

sa, >50 = growth since previous month

41.2

Jan '20



New export orders

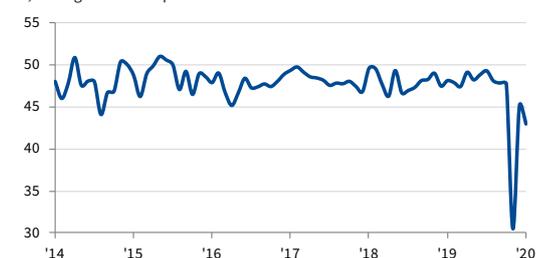
January data pointed to another decline in international sales across Lebanon's private sector. The latest reduction was faster than that registered in December and sharp overall. Anecdotal evidence suggested that regional tension weighed on demand conditions.

New Export Orders Index

sa, >50 = growth since previous month

43.0

Jan '20



Business expectations

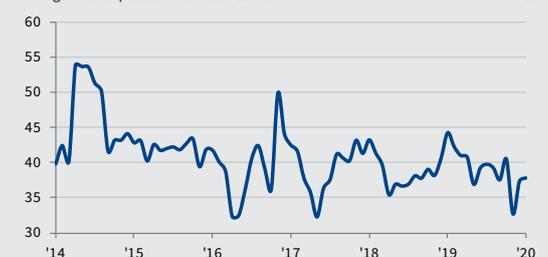
Private sector companies remained pessimistic towards the one-year business outlook in January, with sentiment hampered by anticipation for prolonged demand weakness. That said the degree of negativity was the weakest for three months.

Future Output Index

>50 = growth expected over next 12 months

37.8

Jan '20



Future Output Index

Aug '19 - Jan '20



Employment and capacity

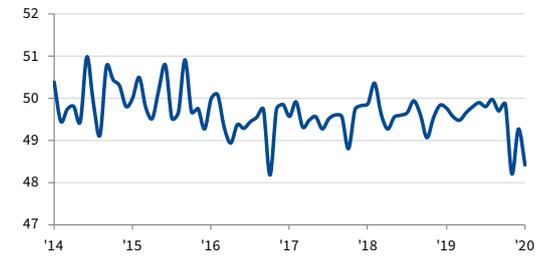
Employment

Lebanese businesses continued to reduce their staff numbers in the first month of 2020. The result extended the current run of workforce contraction to five months. Moreover, the rate of job cutting accelerated from December.

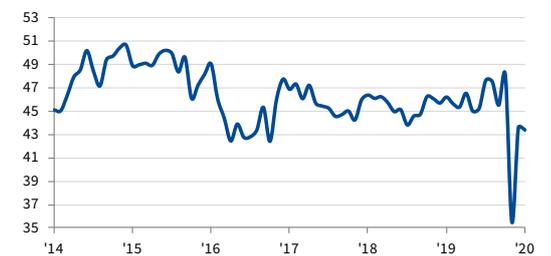
Backlogs of work

Despite a fall in employment across the Lebanese private sector, firms were able to alleviate backlogs of work during January. Outstanding business fell at a fractionally quicker rate than in December. Panellists commonly associated the reduction with a decline in new business.

Employment Index 48.4
 sa, >50 = growth since previous month Jan '20



Backlogs of Work Index 43.4
 sa, >50 = growth since previous month Jan '20

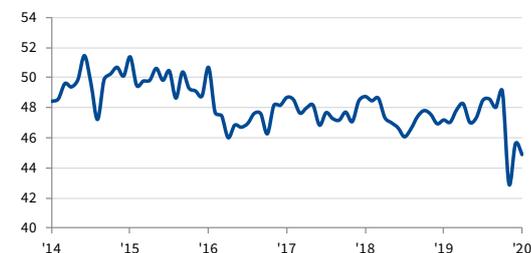


Purchasing and inventories

Quantity of purchases

Purchasing activity continued to fall markedly in the first month of the year. This was indicated by the seasonally adjusted Quantity of Purchases Index remaining well below the 50.0 no-change threshold. Moreover, the rate of decline was sharper than that registered in the previous survey period.

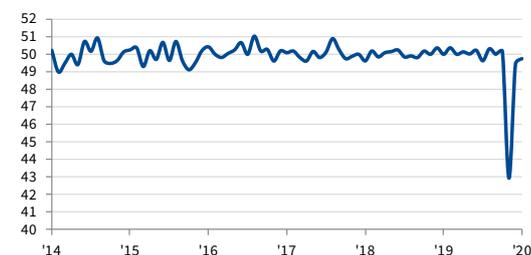
Quantity of Purchases Index 44.9
 sa, >50 = growth since previous month Jan '20



Suppliers' delivery times

Vendor performance faced by Lebanese businesses worsened for the third month in a row during January. However, supplier delivery times lengthened to the least extent in the current sequence and only fractionally overall.

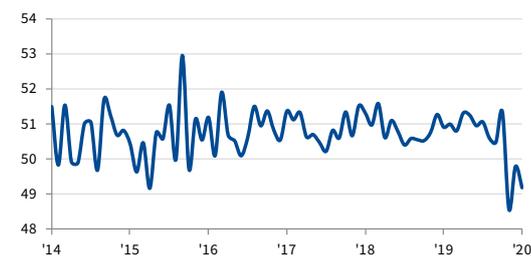
Suppliers' Delivery Times Index 49.7
 sa, >50 = faster times since previous month Jan '20



Stocks of purchases

Following a broad stabilisation during December, there was a renewed contraction in stocks of purchases at the start of 2020. That said, the latest reduction was only marginal overall and softer than November's survey record.

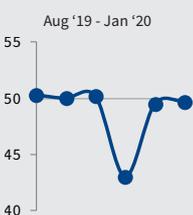
Stocks of Purchases Index 49.2
 sa, >50 = growth since previous month Jan '20



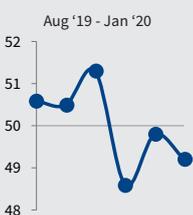
Quantity of Purchases Index



Suppliers' Delivery Times Index



Stocks of Purchases Index



Prices

Overall input prices

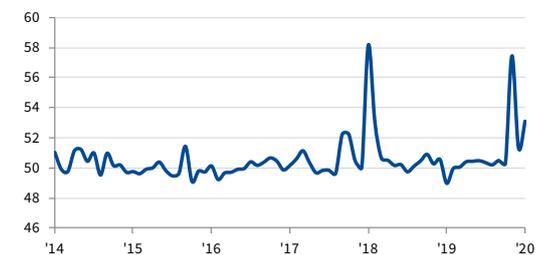
Input prices faced by private sector companies in Lebanon continued to rise in January. Moreover, the rate of inflation accelerated from the previous survey period and was solid overall. Underlying data suggested that the latest increase was driven by purchase prices.

Overall Input Prices Index

sa, >50 = inflation since previous month

53.1

Jan '20



Purchase prices

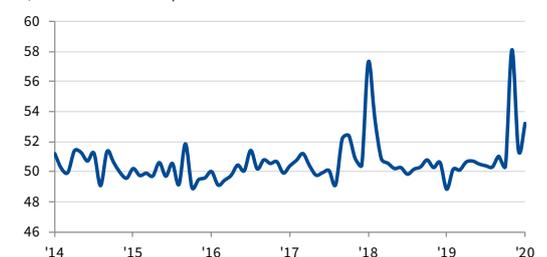
As has been the case in each month for the past year, purchase prices in the Lebanese private sector increased in January. The latest rise was quicker than that registered in December and solid overall. Panellists often mentioned an unfavourable LBP to USD exchange rate.

Purchase Prices Index

sa, >50 = inflation since previous month

53.2

Jan '20



Staff costs

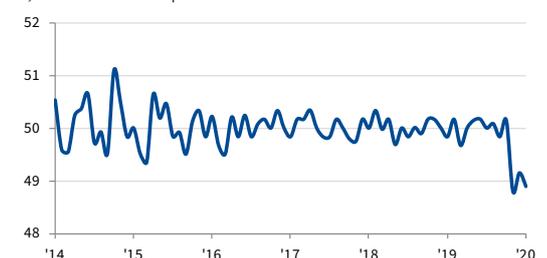
Firms reduced average wages for the third month in a row during January. This was indicated by the seasonally adjusted Staff Costs Index registering below the 50.0 no-change threshold. The rate of reduction accelerated slightly but remained marginal overall.

Staff Costs Index

sa, >50 = inflation since previous month

48.9

Jan '20



Output prices

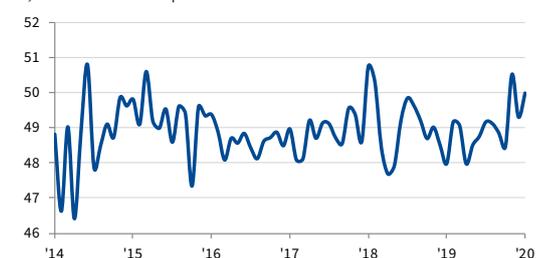
Despite a further rise in costs burdens, businesses recorded no change in their average output charges during January. The result represented only the second month without an average charge reduction for almost two years.

Output Prices Index

sa, >50 = inflation since previous month

50.0

Jan '20



Overall Input Prices Index



Purchase Prices Index



Staff Costs Index



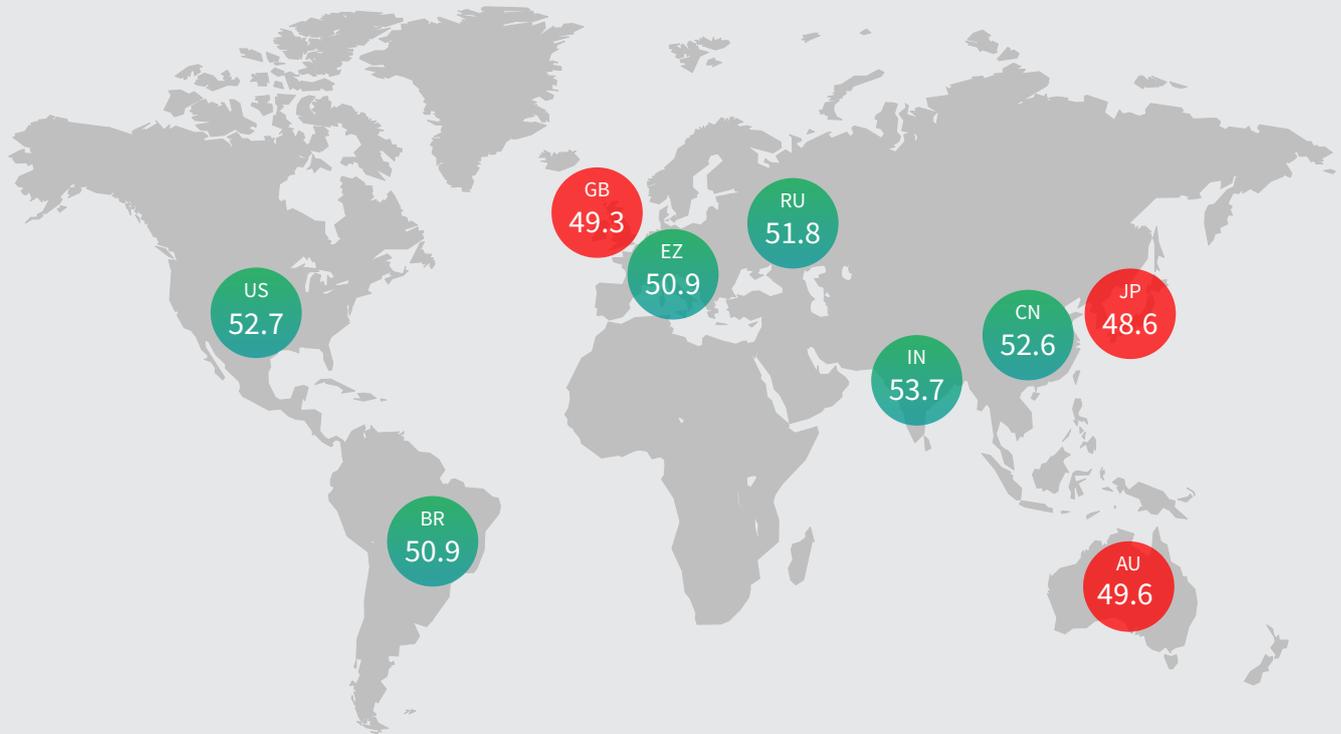
Output Prices Index



International PMI

Composite Output Index, Dec '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
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
01 '20	44.9	41.6	41.2	43.0	37.8	48.4	43.4	44.9	49.7	49.2	53.1	53.2	48.9	50.0

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.

January 2020 data were collected 13-27 January 2020.

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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About BLOMINVEST BANK

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.

About IHS Markit

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

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