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Rates of new order and output contraction remain pronounced

Business sentiment hits record low

Employment falls further

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 45.4, up slightly from 44.9 in January, pointed to a softer deterioration in Lebanese private sector business conditions during February. However, although the slowest for four

months, the rate of decline remained historically marked.

Contributing to another subdued headline reading was a further contraction in private sector output during February. The pace of reduction was little-changed from January and remained marked overall. When explaining the result, panellists continued to cite political instability.

Similar to the trend in output, new orders placed with Lebanese businesses fell in February. The result extended the current sequence of reduction that began in June 2013. Despite the rate of decline easing to the softest for four months, it remained marked.

Looking forward, sentiment towards the 12-month business outlook fell to the weakest level in survey history, eclipsing the previous low registered in May 2017. Anecdotal evidence suggested that negativity was driven by expectations for prolonged political and economic

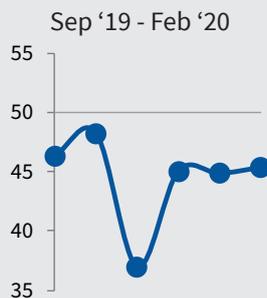
*continued...*

Lebanon PMI  
sa, >50 = improvement since previous month



## Lebanon PMI

Feb '20  
**45.4**  
 Jan: 44.9



## Overview continued...

instability.

Amid weak demand conditions, private sector firms continued to reduce their staff numbers in February. Although the rate of workforce contraction eased slightly from January, the result extended the current run of staff cutting to six months.

Volumes of outstanding business fell further in the latest survey. The pace of contraction decelerated to the slowest for four months, but remained faster than the historical trend. Survey respondents often suggested that a lack of new work allowed them to alleviate backlogs.

On the cost front, input prices faced by Lebanese business continued to rise. Moreover, the rate of inflation accelerated to the quickest for three months and

was marked overall. Underlying data suggested that the increase in cost burdens was driven by purchase prices, as average wages fell for the fourth month in a row.

Firms opted to pass on some of the additional costs to their clients in February with an increase in average charges. The result represented the first rise in output prices for three months. Though only modest overall, the rate of inflation was the fastest since the survey's inception in May 2013.

## Comment

Commenting on the February 2020 PMI results, Dr. Ali Bolbol, Chief Economist of BLOM Bank, said:

*“The BLOM Lebanon PMI for Feb. 2020 at 45.4 is encouraging – the highest in four months. Most of the indices – especially output, new orders, new export orders, and employment – fell at a slower rate, perhaps stimulated by the formation of the new government and the diminution in the intensity of the uprising and street protests. However, input prices and final output prices actually increased, most likely due to weaker exchange rates*

*in the parallel market. Most crucially, future expectations are at their lowest level in survey history, something that can only be reversed if the new government implements meaningfully and soon a structural reform and economic recovery plan.”*



## Output and demand

### Output

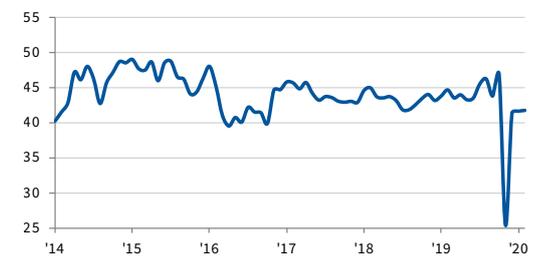
Lebanese private sector firms recorded a further fall in output midway through the first quarter. The rate of contraction was little-changed from that registered in January, remaining historically marked. When explaining the contraction, panellists often cited political instability.

### Output Index

sa, >50 = growth since previous month

41.7

Feb '20



### New orders

In line with the trend for output, new orders across the Lebanese private sector continued to deteriorate. This was indicated by the respective seasonally adjusted index registering below the 50.0 no-change mark. Although the rate of decline eased slightly from January, it remained marked overall.

### New Orders Index

sa, >50 = growth since previous month

41.9

Feb '20



### New export orders

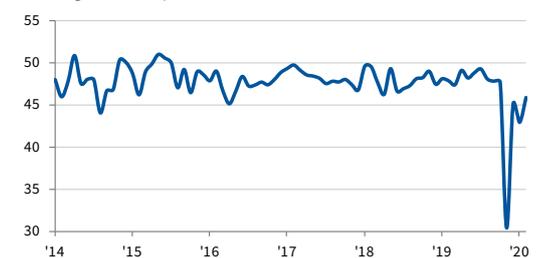
Weighing on total new orders was another fall in international sales for private sector firms. That said, the pace of reduction decelerated to the softest since last October. Some panellists blamed a decrease in new export business on national and regional instability.

### New Export Orders Index

sa, >50 = growth since previous month

45.9

Feb '20



## Business expectations

Sentiment towards the one-year business outlook plummeted in February, falling below that recorded in protest-hit November to reach a new series low. Anecdotal evidence suggested that negativity was driven by anticipation for prolonged economic and political instability.

### Future Output Index

>50 = growth expected over next 12 months

31.0

Feb '20



### Future Output Index

Sep '19 - Feb '20



## Employment and capacity

### Employment

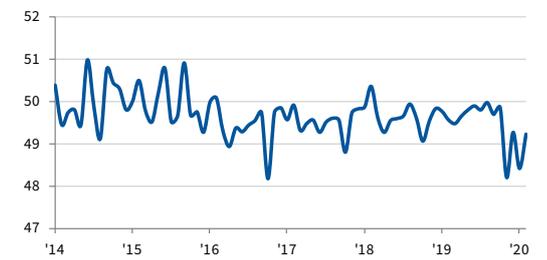
Lebanese businesses continued to reduce their staff numbers in February, extending the current run of workforce contraction to six months. That said, the rate of job cutting was softer than that recorded in January and only marginal overall.

### Employment Index

sa, >50 = growth since previous month

49.2

Feb '20



### Backlogs of work

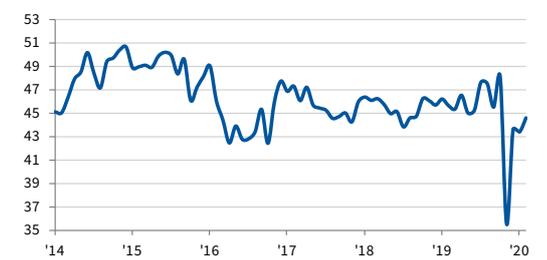
As has been the case in each month since July 2015, volumes of outstanding business fell in February. This was indicated by the seasonally adjusted Backlogs of Work Index registering below the 50.0 neutral mark. Though historically marked, the latest reduction was the softest since October 2019.

### Backlogs of Work Index

sa, >50 = growth since previous month

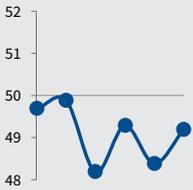
44.6

Feb '20



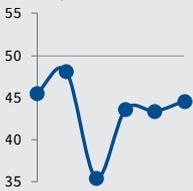
Employment Index

Sep '19 - Feb '20



Backlogs of Work Index

Sep '19 - Feb '20

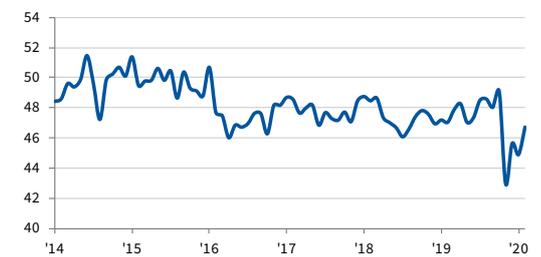


## Purchasing and inventories

### Quantity of purchases

Amid a further decline in demand, purchasing activity at Lebanese private sector firms continued to fall in February. The result extended the current sequence of reduction that began just over four years ago. Though historically marked, the rate of contraction eased to the softest for four months.

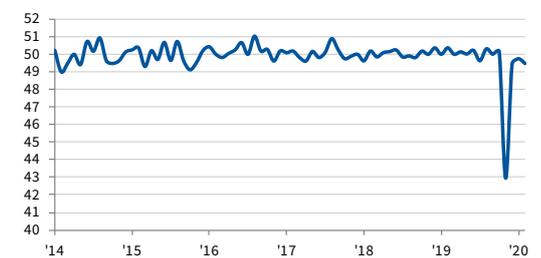
Quantity of Purchases Index 46.7  
 sa, >50 = growth since previous month Feb '20



### Suppliers' delivery times

Supplier delivery times faced by private sector companies in Lebanon deteriorated for the fourth month in a row during February. The rate at which vendor performance worsened was little-changed from January and only marginal overall, however.

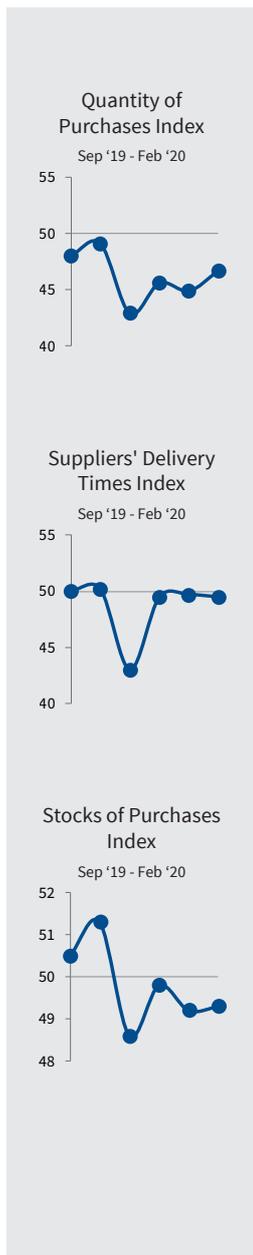
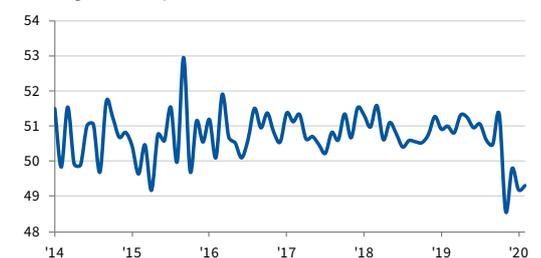
Suppliers' Delivery Times Index 49.5  
 sa, >50 = faster times since previous month Feb '20



### Stocks of purchases

Stocks of raw materials and other inputs at private sector firms continued to fall in the latest survey period. This was indicated by the seasonally adjusted Stocks of Purchases Index remaining below the 50.0 no-change mark. The rate of reduction was broadly in line with January and marginal overall.

Stocks of Purchases Index 49.3  
 sa, >50 = growth since previous month Feb '20



## Prices

### Overall input prices

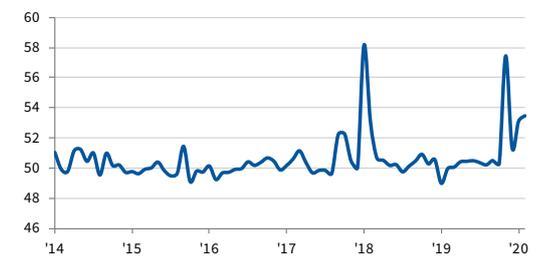
Cost burdens faced by Lebanese businesses increased further in February, extending the current run of inflation to one year. The latest increase was the fastest for three months and solid overall. Underlying data suggested the rise was driven by purchase prices, while staff costs fell.

### Overall Input Prices Index

sa, >50 = inflation since previous month

53.5

Feb '20



### Purchase prices

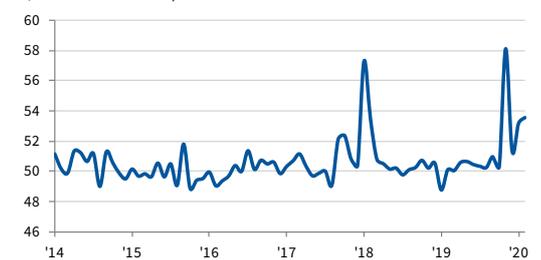
Amid widespread panellist reports of USD liquidity issues, purchase prices continued to increase midway through the first quarter. Moreover, the rate of inflation accelerated to the fastest for three months and was solid overall.

### Purchase Prices Index

sa, >50 = inflation since previous month

53.6

Feb '20



### Staff costs

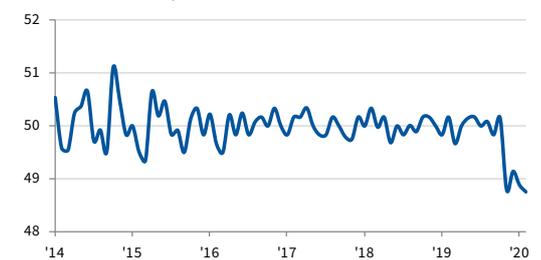
Putting downward pressure on overall input costs faced by Lebanese businesses was another fall in average wages during February. The result extended the current run to four months, with the rate of reduction accelerating to the joint-quickest in that sequence. Panellists suggested that wage cuts were essential amid the current demand weakness.

### Staff Costs Index

sa, >50 = inflation since previous month

48.8

Feb '20



### Output prices

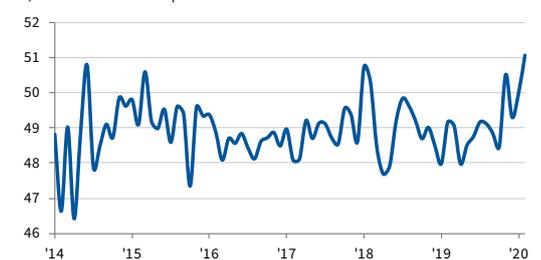
Lebanese businesses reported a renewed increase in output average charges during the latest survey period. When explaining the rise, panellists often cited higher input prices and the need to maintain margins. Though only modest, the increase was the fastest in the survey's history (since May 2013).

### Output Prices Index

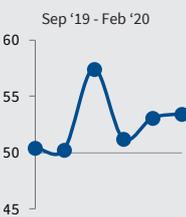
sa, >50 = inflation since previous month

51.1

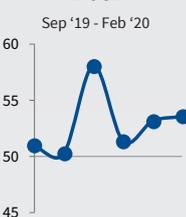
Feb '20



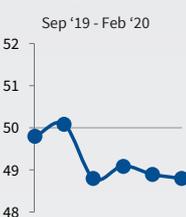
Overall Input Prices Index



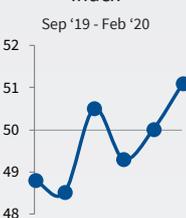
Purchase Prices Index



Staff Costs Index



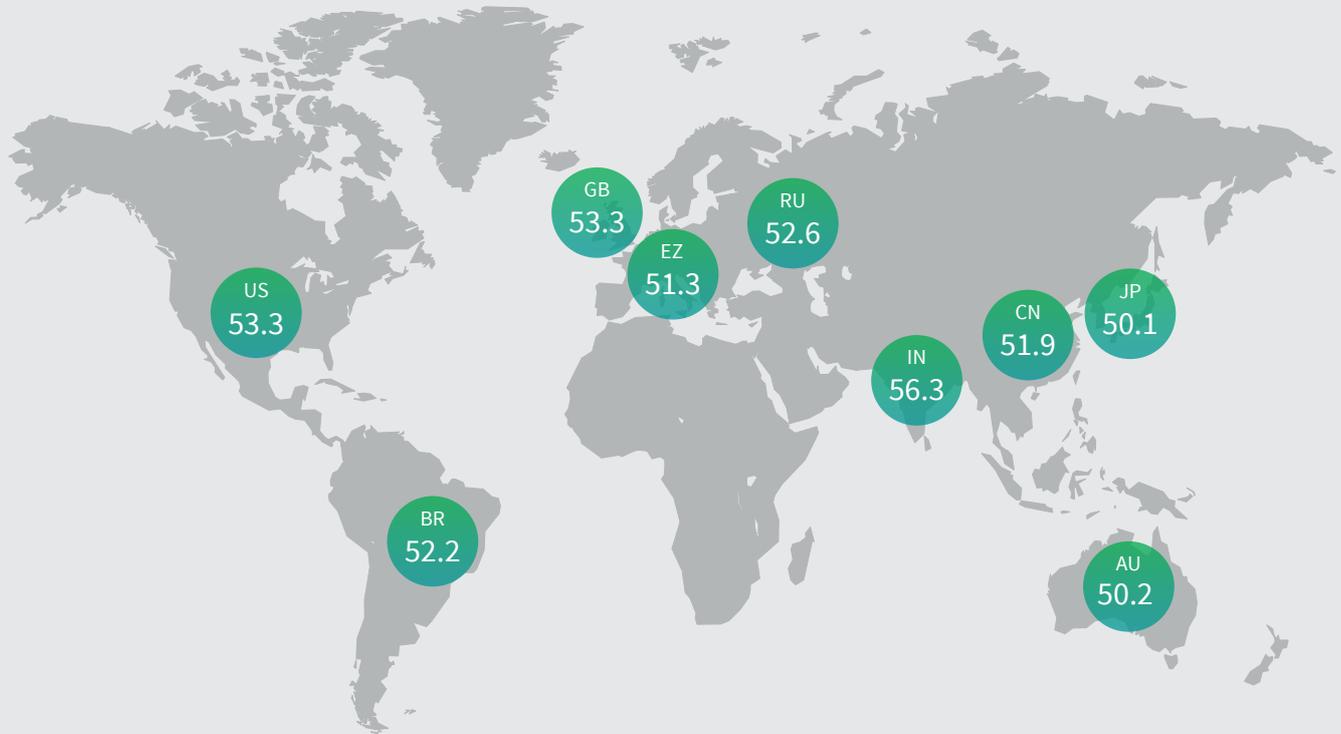
Output Prices Index



## International PMI

Composite Output Index, Jan '20  
 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
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
02 '20	45.4	41.7	41.9	45.9	31.0	49.2	44.6	46.7	49.5	49.3	53.5	53.6	48.8	51.1

### 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.

February 2020 data were collected 12-24 February 2020.

For further information on the PMI survey methodology, please contact [economics@ihsmarkit.com](mailto: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.

[ihsmarkit.com/products/pmi.html](https://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](http://www.blominvestbank.com).

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