

BLOM Lebanon PMI®

Business conditions deteriorate sharply but at the softest pace in four months

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Health of the private sector declines markedly

Output and new orders slump further

Pace of job cutting accelerates

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 43.2, up from 37.2 in May, pointed to another marked deterioration in Lebanese business conditions during June, albeit one that was softest since February.

The further decline was partially driven by another contraction in output. Although the pace of reduction in activity eased for the second month running, it remained historically marked. Panellists widely mentioned disrupted operations amid liquidity issues caused by the ongoing monetary crisis.

Meanwhile, there were further signs of demand weakness as new orders continued to fall. The result extended the current sequence of decline that began just over seven years ago, with the rate of contraction among the fastest in that period. That said, June's decline was the softest since February.

A contributing factor to the overall reduction in new business was a continued decrease in international sales. New export orders fell drastically for the fourth month in succession, although the latest decrease was softest in that sequence.

Weaker demand conditions led to more job

continued...

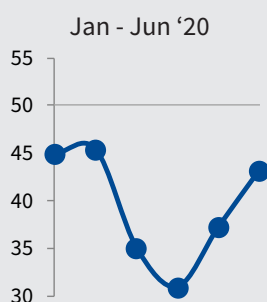
Lebanon PMI

sa, >50 = improvement since previous month



Lebanon PMI

Jun '20
43.2
May: 37.2



Overview continued...

shedding at the end of the second quarter. Moreover, the rate of workforce contraction accelerated to the quickest since March.

Volumes of outstanding business continued to decline markedly, although the rate of depletion eased for the second month running. Survey respondents commented that the fall in backlogs was due to softer inflows of new work.

On the cost front, input prices continued to soar. In fact, the rate of inflation ticked up fractionally to the quickest in over seven years. Underlying data suggested that the rise in cost burdens was primarily driven by a sharp increase in purchase prices, which more than offset a solid reduction in staff costs.

Faced with higher input costs, firms opted to increase their average output prices in June. Moreover, the rate of inflation was by

far the quickest on record, with panellists suggesting that increases were necessary to maintain acceptable margins.

Finally, Lebanese private sector firms were severely pessimistic towards the one-year business outlook in June. In fact, sentiment was the weakest since data collection began over seven years ago. Firms were fearful that the country's monetary and political crises would continue.

Comment

Commenting on the BLOM Lebanon PMI for June 2020, Dr. Ali Bolbol, Chief Economist/Head of Research at BLOM Bank, said:

"The BLOM Lebanon PMI for June 2020 came mostly as expected. With the easing of the Corona lockdown in June, all sub-indices – with the exception of future output and employment – deteriorated but at a much softer pace. These excepted sub-indices show, however, that the core of the Lebanese crisis is yet to be addressed as expectations of future recovery and of employment

worsened even more. That is in addition to the highest rate on record of output price increases caused primarily by the steep exchange rate depreciations. If anything, these results indicate that the government and the financial community should stop arguing about what the exact financial losses are and move on to start implementing growth-enhancing reforms that are badly needed and largely independent of the size of these losses."



Output and demand

Output

Output at Lebanese private sector firms continued to fall in June, with many panellists mentioning the country's ongoing liquidity crisis. Although still quicker than the historical average, the rate of contraction eased further from April's record, set at the height of the coronavirus crisis.

New orders

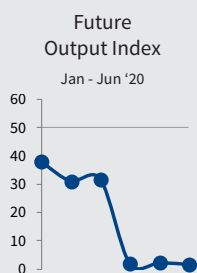
In a further sign of deteriorating demand conditions, new business in Lebanon's private sector continued to plunge in June. The pace of decline decelerated to the slowest since February, but remained among the quickest since data collection began in May 2013.

New export orders

Overall demand received little support from international markets, with new export orders continuing to decrease at the end of the second quarter. Despite slowing for the second month in a row, the rate of reduction was steep overall.



Business expectations



Expectations for output over the next 12 months remained near rock bottom in the latest survey period. Anecdotal evidence suggested that firms anticipate a prolonged economic slowdown amid the ongoing monetary crisis. In fact, sentiment hit a new survey low, surpassing the previous record set in April.



Employment and capacity

Employment

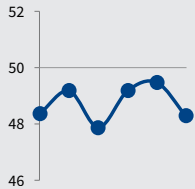
Lebanese private sector employment continued to fall in June, extending the current sequence of workforce contraction that began last September. Though modest overall, the rate of job cutting accelerated to the quickest since March.

Backlogs of work

June data pointed to another contraction in volumes of outstanding business in the private sector. The rate of decline was still historically marked despite easing for the second month in a row. Panellists often attributed the reduction in backlogs to softer inflows of new work.

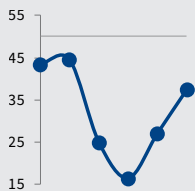
Employment Index

Jan - Jun '20



Backlogs of Work Index

Jan - Jun '20

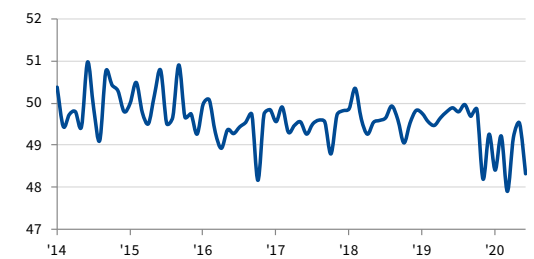


Employment Index

sa, >50 = growth since previous month

48.3

Jun '20



Backlogs of Work Index

sa, >50 = growth since previous month

37.5

Jun '20



Purchasing and inventories

Quantity of purchases

Purchasing activity at Lebanese businesses fell further at the end of the second quarter, extending the current run of contraction that began in February 2016. That said, the rate of reduction continued to ease from April's survey nadir.

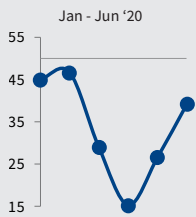
Suppliers' delivery times

Private sector firms recorded another modest deterioration in vendor performance during June. The extent to which supplier delivery times lengthened was little-changed from May, but significantly softer than that seen in April.

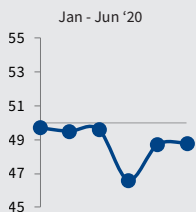
Stocks of purchases

In line with a further softening in demand conditions, Lebanese private sector firms continued to run down input inventories. That said, the latest decrease in stocks of purchases was the softest for four months and moderate overall.

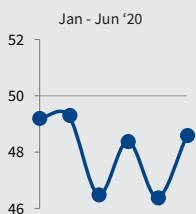
Quantity of Purchases Index
Jan - Jun '20



Suppliers' Delivery Times Index
Jan - Jun '20



Stocks of Purchases Index
Jan - Jun '20



Quantity of Purchases Index

sa, >50 = growth since previous month

39.2

Jun '20

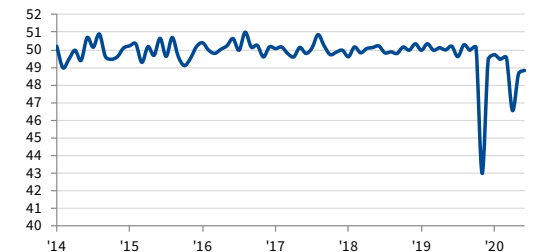


Suppliers' Delivery Times Index

sa, >50 = faster times since previous month

48.8

Jun '20

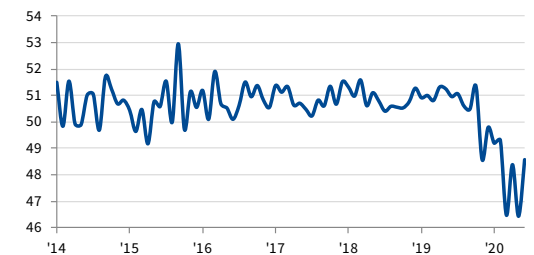


Stocks of Purchases Index

sa, >50 = growth since previous month

48.6

Jun '20



Prices

Overall input prices

Input prices faced by private sector companies rose sharply during June. In fact, the rate of inflation accelerated fractionally from the previous survey period to the quickest since May 2013. Underlying data indicated that the increase was driven by a marked rise in purchase prices, which more than offset a solid fall in wage costs.

Purchase prices

Businesses in Lebanon reported another severe increase in purchase prices during June. The rate of inflation was unchanged from May's seven-year high, with panellists continuing to comment on a surge in the value of the US dollar against the Lebanese pound.

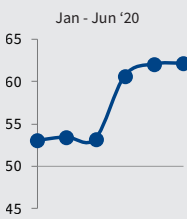
Staff costs

Weighing on the rate of overall cost inflation was a further decrease in wages paid by Lebanese businesses in June. This was indicated by the seasonally adjusted Staff Costs Index registering below the 50.0 no-change mark. The pace of decline was broadly unchanged for the second month in a row and solid overall.

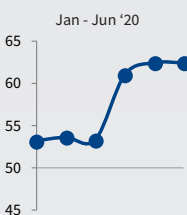
Output prices

Average output prices charged by private sector companies continued to soar in June. In fact, the rate of inflation accelerated from May to set a new survey record. Panellists often cited higher input prices when explaining the latest rise.

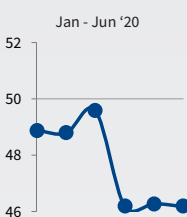
Overall Input Prices Index



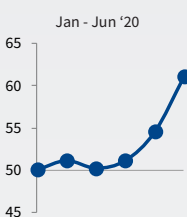
Purchase Prices Index



Staff Costs Index



Output Prices Index

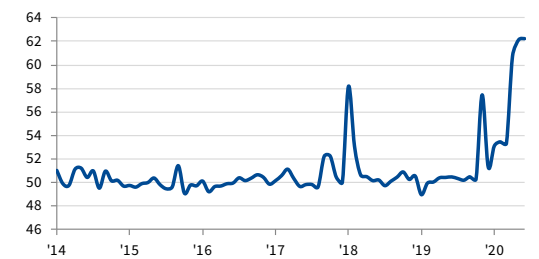


Overall Input Prices Index

sa, >50 = inflation since previous month

62.2

Jun '20

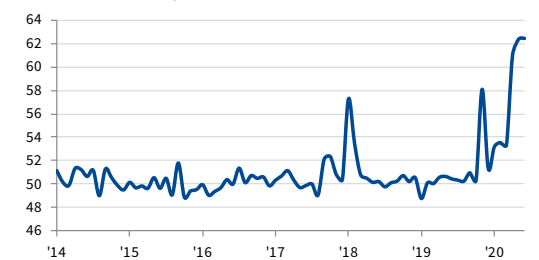


Purchase Prices Index

sa, >50 = inflation since previous month

62.4

Jun '20

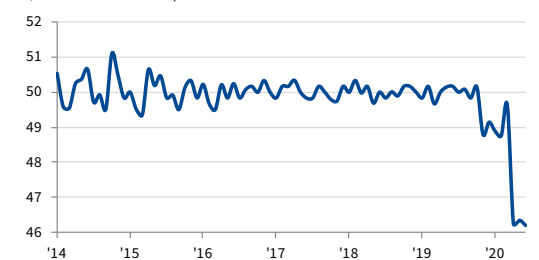


Staff Costs Index

sa, >50 = inflation since previous month

46.2

Jun '20

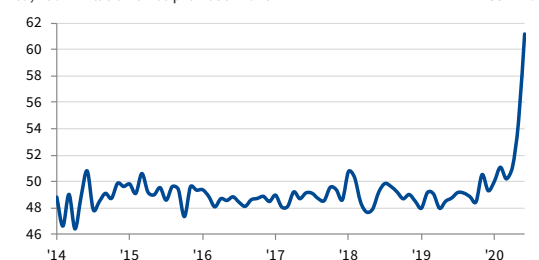


Output Prices Index

sa, >50 = inflation since previous month

61.1

Jun '20

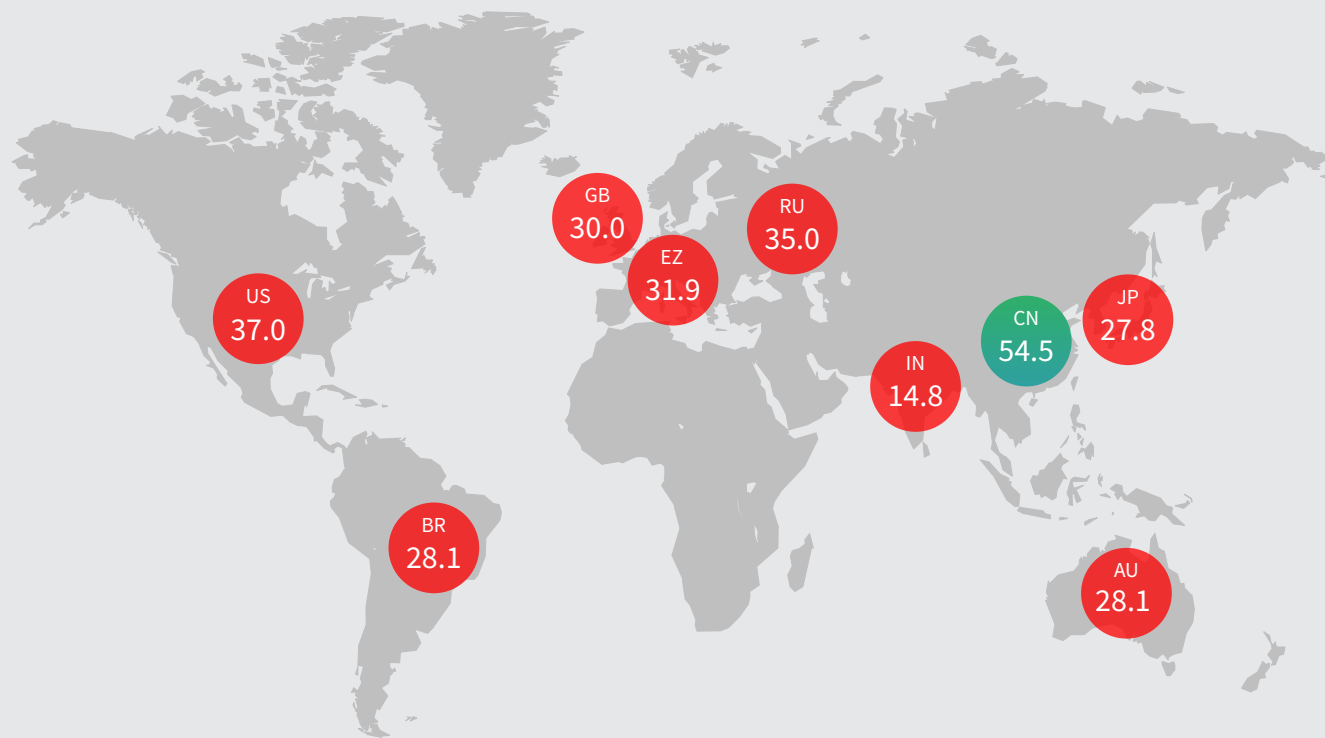


International PMI

Composite Output Index, May '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
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
03 '20	35.0	24.6	23.5	21.3	31.7	47.9	25.0	29.0	49.6	46.5	53.3	53.3	49.6	50.2
04 '20	30.9	15.2	14.7	17.5	1.7	49.2	16.4	15.3	46.6	48.4	60.7	61.0	46.2	51.1
05 '20	37.2	27.3	27.2	30.9	2.1	49.5	27.1	26.6	48.7	46.4	62.1	62.4	46.3	54.5
06 '20	43.2	38.5	38.0	36.7	1.5	48.3	37.5	39.2	48.8	48.6	62.2	62.4	46.2	61.1

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.

June 2020 data were collected 12-24 June 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.

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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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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