

BLOM Lebanon PMI®

Lebanese business conditions continue to deteriorate markedly in July

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Health of the Lebanese private sector deteriorates, albeit at softer rate

Declines in output and new orders ease but remain marked

Input cost inflation decelerates from June's near-series record

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, up from 43.2 in June, pointed to another marked deterioration in Lebanese business conditions during July, albeit one that was softest for five months.

The decline in the health of the private sector was partially driven by a further drop in output. Despite the rate of contraction easing to the softest since before the escalation of the coronavirus pandemic in March, it remained faster than the historical average. Anecdotal evidence suggested that firms continued to face liquidity issues.

Also contributing to the latest deterioration in business conditions was a marked fall in new orders during July. Sales have now decreased in each month since June 2013. Some panellists associated the latest decline with the ongoing challenges in the domestic economy.

Overall demand received little support from international markets at the start of the third quarter, with new export orders falling at a strong rate. That said, the latest decline in foreign sales was the softest since February. Survey participants suggested regional demand remained subdued.

In line with softer inflows of new work,

continued...

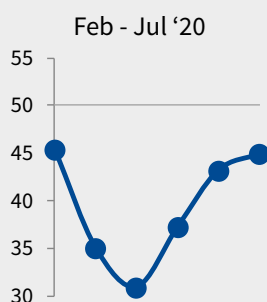
Lebanon PMI

sa, >50 = improvement since previous month



Lebanon PMI

Jul '20
44.9
Jun: 43.2



Overview continued...

private sector firms continued to cut their staff numbers in July. The rate of workforce contraction was broadly consistent with that recorded in June and moderate overall.

On the cost front, overall input prices rose sharply. However, the rate of inflation eased from June's near-series record. Underlying data revealed a slightly slower increase in purchase prices and another decrease in staff costs albeit at a softer rate.

Firms opted to pass on some of the higher costs to their clients during July, with average charges rising for the sixth month in a row. Although the latest increase was softer than that record in June, it was still the second-quickest since data collection began in May 2013.

Looking forward, Lebanese businesses were still severely pessimistic towards the 12-month business outlook. Negativity was

driven by fears that the current liquidity crisis in the domestic economy would persist.

Comment

Commenting on the BLOM Lebanon PMI for July 2020, Sarah Hadchiti, Research Analyst at BLOMINVEST Bank, said:

"During July, Lebanon continued to ease lockdowns and businesses reopened leading to a higher PMI compared to last month. However, the overall Lebanese business environment remained negative. The Lebanese lira's depreciation against the dollar, surge in inflation and lack of reforms are creating an uncertain environment for consumers and liquidity issues for producers. Most importantly, private sector companies

remained pessimistic towards the one-year business outlook which was reflected in the Future Output Index reaching unprecedented low level."



Output and demand

Output

Output at private sector Lebanese firms continued to fall markedly at the start of the third quarter. However, the rate of contraction eased to the softest since before the escalation of coronavirus pandemic in March. When explaining the latest decrease in activity, panellists often cited challenging conditions in the domestic economy.

Output Index

sa, >50 = growth since previous month

40.8

Jul '20



New orders

In a further sign of deteriorating demand conditions, new orders placed with Lebanese businesses continued to decline in July. The pace of contraction decelerated from June to the slowest for five months, but remained sharper than the historical average. Anecdotal evidence suggested that ongoing liquidity issues were causing clients to delay orders.

New Orders Index

sa, >50 = growth since previous month

40.9

Jul '20



New export orders

Lebanese private sector firms recorded another decrease in international sales at the start of the third quarter, extending the current sequence of decline to five years. Though marked overall, the rate of reduction eased to the softest since February. Some survey participants suggested that regional demand remained subdued.

New Export Orders Index

sa, >50 = growth since previous month

45.3

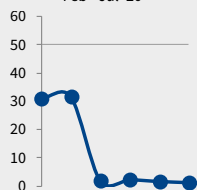
Jul '20



Business expectations

Future Output Index

Feb - Jul '20



Sentiment towards the one-year outlook for output sank to a fresh low in July, surpassing the previous record set in June. Negativity was often associated with fears that the current economic climate would persist.

Future Output Index

>50 = growth expected over next 12 months

1.1

Jul '20



Employment and capacity

Employment

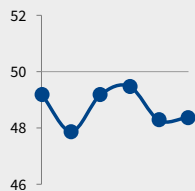
As has been the case in each month for nearly a year, private sector companies cut their staff numbers in July. The rate of workforce contraction was little-changed from June and modest overall. Some panellists associated employment reductions with shrinking new order volumes.

Backlogs of work

July survey data pointed to another marked reduction in backlogs of work at Lebanese businesses. The result extended the current run of depletion that began in July 2015. That said, the latest contraction in volumes of outstanding business was the softest since February.

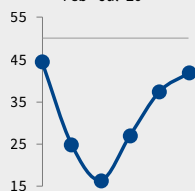
Employment Index

Feb - Jul '20



Backlogs of Work Index

Feb - Jul '20



Employment Index

sa, >50 = growth since previous month

48.4

Jul '20



Backlogs of Work Index

sa, >50 = growth since previous month

41.9

Jul '20



Purchasing and inventories

Quantity of purchases

In line with a further reduction in new work, purchasing activity at Lebanese businesses continued to fall in July. Though the softest since before the escalation of the coronavirus pandemic in March, the latest was still historically marked.

Suppliers' delivery times

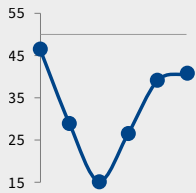
Input delivery times faced by private sector companies in Lebanon continued to lengthen at the start of the third quarter. Moreover, vendor performance deteriorated to the greatest extent since last November's survey record. Some panellists cited particular difficulties in obtaining foreign inputs, with suppliers often requiring prepayment.

Stocks of purchases

Purchased inventories in the Lebanese private sector contracted for the ninth month in a row at the start of the third quarter. Moreover, the rate of depletion accelerated from June and was solid overall. Anecdotal evidence indicated that stocks were run down amid subdued demand conditions.

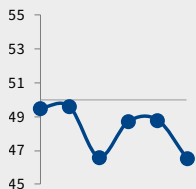
Quantity of Purchases Index

Feb - Jul '20



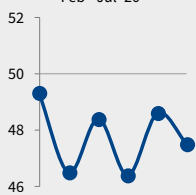
Suppliers' Delivery Times Index

Feb - Jul '20



Stocks of Purchases Index

Feb - Jul '20



Quantity of Purchases Index

sa, >50 = growth since previous month

40.8

Jul '20

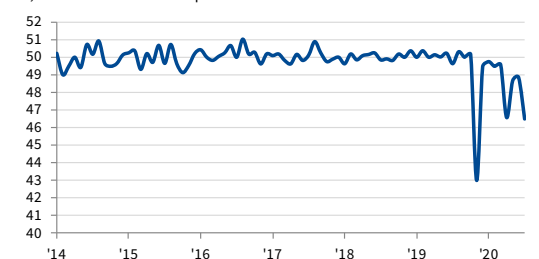


Suppliers' Delivery Times Index

sa, >50 = faster times since previous month

46.5

Jul '20

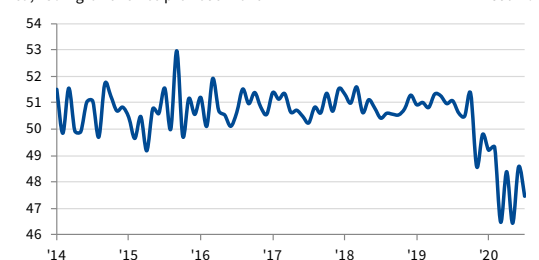


Stocks of Purchases Index

sa, >50 = growth since previous month

47.5

Jul '20



Prices

Overall input prices

Although input prices faced by private sector firms continued to rise markedly in July, the rate of inflation eased to the softest for four months. Underlying data suggested the deceleration was primarily driven by a slower increase in purchase prices, while staff costs fell further.

Purchase prices

Prices paid for raw materials and other non-staff inputs rose for the eighteenth month in a row at the start of the third quarter. Despite easing from May and June's recent highs, the rate of inflation was still among the quickest since data collection began in May 2013.

Staff costs

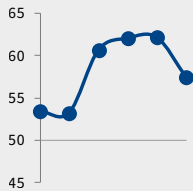
In line with the continued reduction in employment, average wages at Lebanese businesses further fell during July. This was indicated by the seasonally adjusted Staff Costs Index registering below the 50.0 no-change threshold. However, the latest reduction was the softest for four months and modest overall.

Output prices

Firms opted to pass on some of the higher input prices to their clients, with another increase in average output charges in July. The rate of inflation eased from June's series record, but was still the second-quickest in the survey's 87-month history.

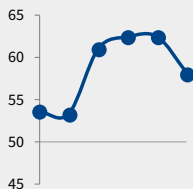
Overall Input Prices Index

Feb - Jul '20



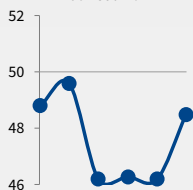
Purchase Prices Index

Feb - Jul '20



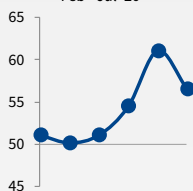
Staff Costs Index

Feb - Jul '20



Output Prices Index

Feb - Jul '20

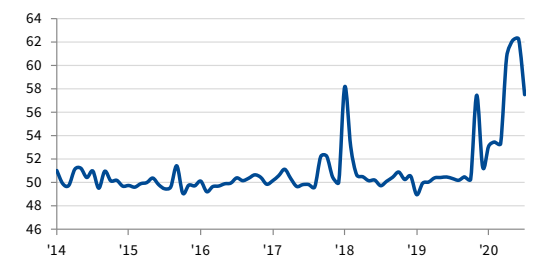


Overall Input Prices Index

sa, >50 = inflation since previous month

57.5

Jul '20

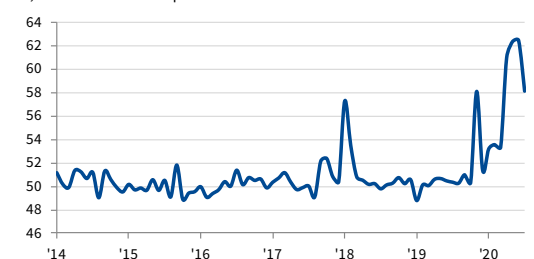


Purchase Prices Index

sa, >50 = inflation since previous month

58.1

Jul '20

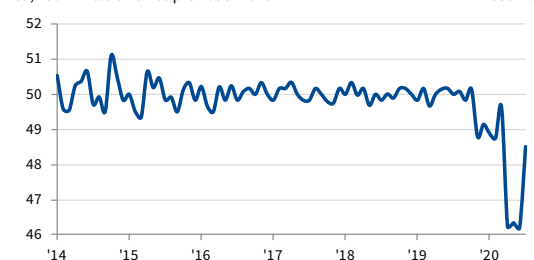


Staff Costs Index

sa, >50 = inflation since previous month

48.5

Jul '20

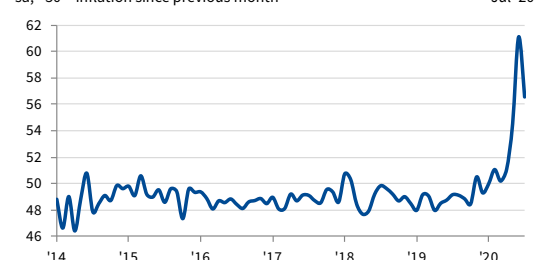


Output Prices Index

sa, >50 = inflation since previous month

56.6

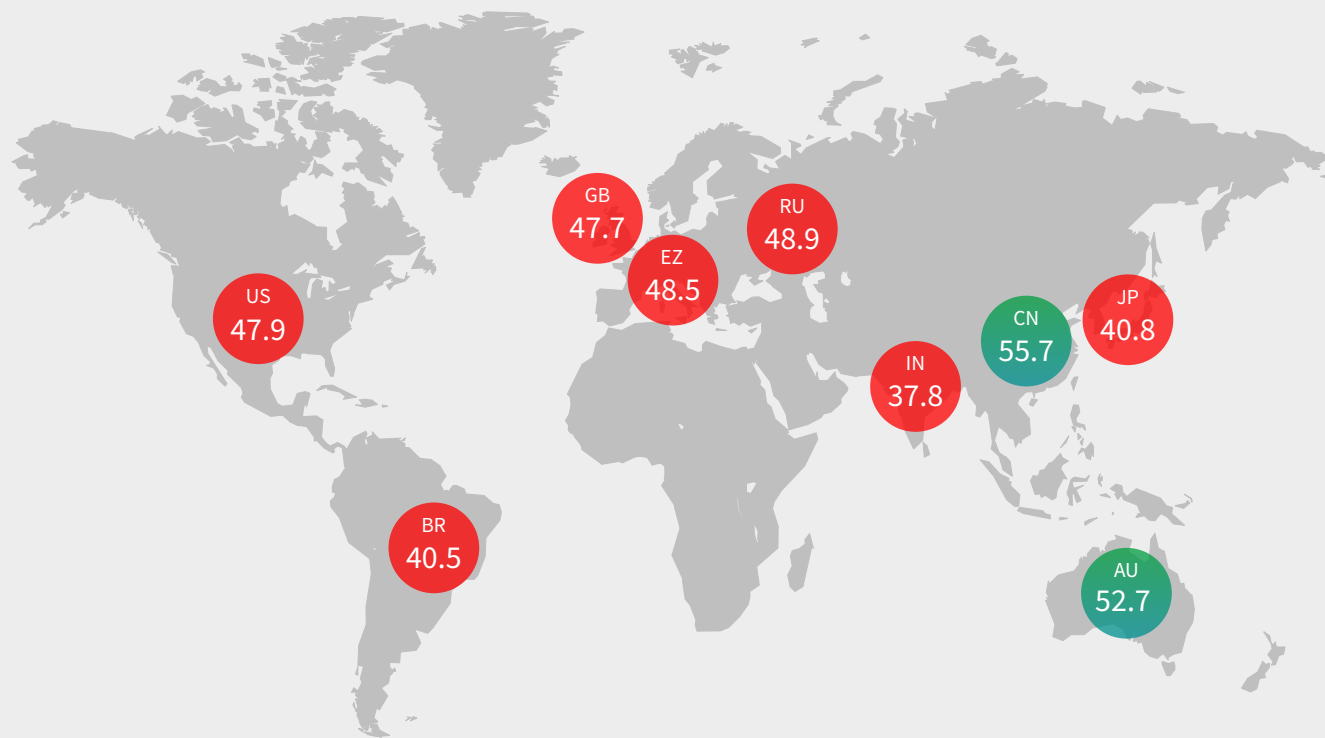
Jul '20



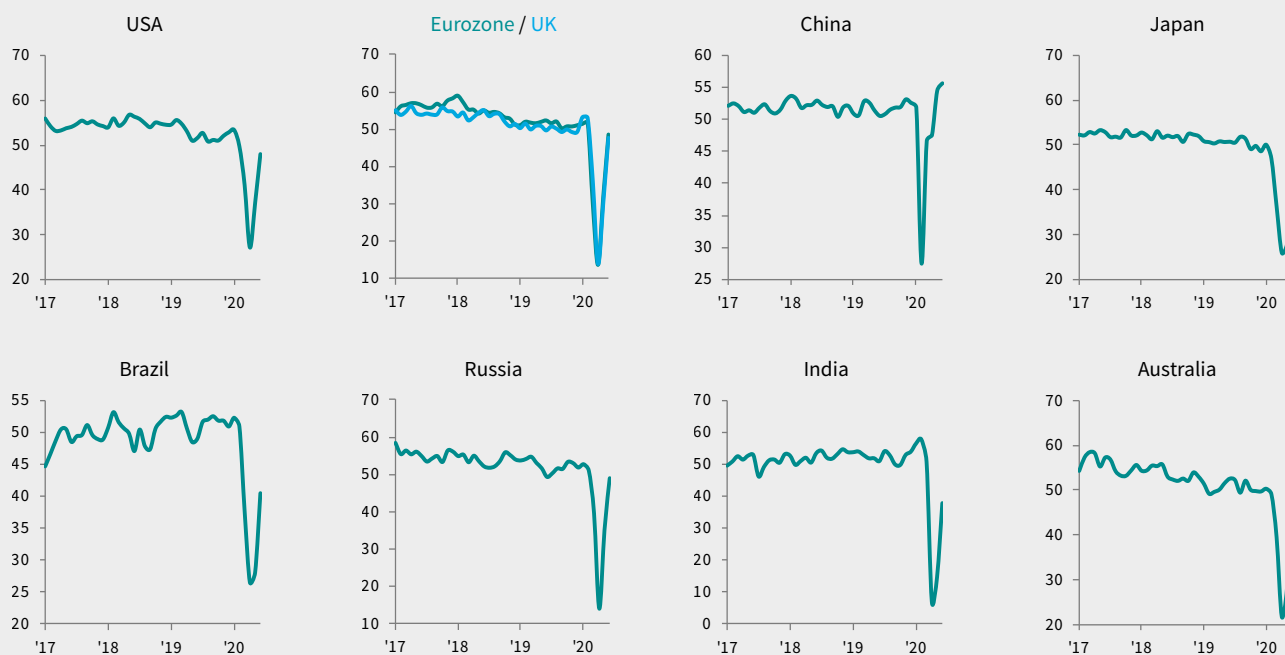
International PMI

Composite Output Index, Jun '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
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
07 '20	44.9	40.8	40.9	45.3	1.1	48.4	41.9	40.8	46.5	47.5	57.5	58.1	48.5	56.6

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.

July 2020 data were collected 13-27 July 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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