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Health of private sector declines at fastest pace for three months

Output and new order declines accelerate following Beirut explosion

Rate of workforce contraction slows

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.

August's PMI reading of 40.1, down from 44.9 in July, pointed to the quickest deterioration in Lebanese private sector business conditions for three months, and one that was marked overall.

The result was partially driven by a sharp and accelerated contraction in output at private sector firms. The latest reduction was the quickest since May, with many panellists commenting that the recent explosion in Beirut had caused severe disruption to their operations.

Another factor contributing to the downturn in the headline index was a quicker fall in new orders midway through the third quarter. The result marked the first acceleration in the rate of decline since April. Anecdotal evidence indicated that temporary business closures related to the explosion had hindered demand conditions.

Contributing to the sharper decline in aggregate new work was a marked reduction in foreign sales during August. The fall in new export orders was the quickest for three months.

Adding to the hardship caused by both the ongoing liquidity difficulties and

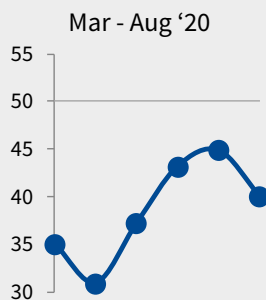
continued...

Lebanon PMI
sa, >50 = improvement since previous month



Lebanon PMI

Aug '20
40.1
Jul: 44.9



Overview continued...

the coronavirus disease 2019 (COVID-19) pandemic, the Beirut explosion saw sentiment towards the 12-month business outlook hit rock bottom in August. The degree of negativity amongst private sector firms was the worst since data collection began in 2013, with some panellists citing expectations that the damage to Beirut's port would prolong the current economic crisis.

In line with the further declines in output and new orders, Lebanese businesses continued to cut staff numbers in August. The result extended the current sequence of workforce contraction that began a year ago. That said, the rate of job shedding continued to trend towards stabilisation and was the softest for three months.

Meanwhile, following sharp increases in each of the previous four months, input

costs faced by private sector firms rose only marginally in August. In fact, the rate of inflation was the slowest since last October, driven by a far softer increase in purchase prices and a further decrease in staff costs.

Finally, firms opted to pass on some of the additional costs to their clients with a further increase in average output charges during August. However, in line with the trend for input prices, the latest rise in output charges was far softer than registered in July and only marginal overall.

Comment

Commenting on the BLOM Lebanon PMI for August 2020, Dr. Fadi Osseiran, General Manager of BLOMINVEST Bank, said:

“As if Lebanon is short of catastrophes, the explosion to the Port of Beirut on August 4th, 2020 has come to add severely to the country’s woes. With three shocks plaguing the country – the economic and financial crisis, the Covid-19 epidemic and the Port of Beirut blast – it is not surprising that output contractions accelerated and future business expectations are at their

lowest ever. The least that can be done in these dire circumstances is to form a competent and active government as soon as possible so as to tackle these difficulties and to garner international support and confidence.”



Output and demand

Output

Output at Lebanese private sector firms continued to fall markedly in August. Moreover, the rate of contraction accelerated for the first time in four months to the quickest since May. When explaining the latest downturn, many panellists commented that the recent explosion in Beirut had caused major disruption to their business operations.

Output Index

sa, >50 = growth since previous month

31.8

Aug '20



New orders

August data pointed to another sharp decline in new orders received by private sector firms. In fact, the latest deterioration in demand conditions was the fastest for three months. Anecdotal evidence suggested that some businesses in Beirut had temporarily closed due to damage caused by the recent explosion.

New Orders Index

sa, >50 = growth since previous month

31.7

Aug '20



New export orders

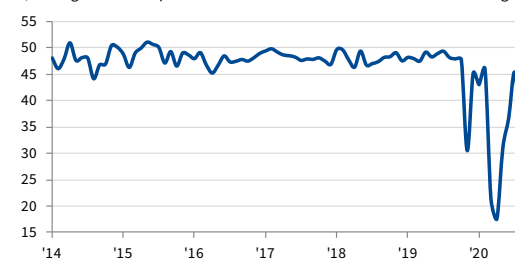
Amid widespread panellist reports of disruption due to the explosion in Beirut's port, new export orders fell sharply in August. The result extended the current sequence of reduction that began just over five years ago, with the pace of decline quickening from July. The decrease was, however, softer than recorded at the nadir of the COVID-19 outbreak.

New Export Orders Index

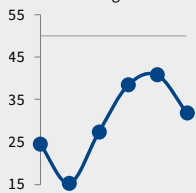
sa, >50 = growth since previous month

33.6

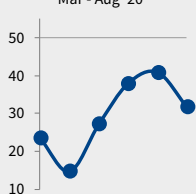
Aug '20



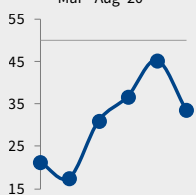
Output Index
Mar - Aug '20



New Orders Index
Mar - Aug '20



New Export Orders Index
Mar - Aug '20



Business expectations

For the fifth month running, private sector firms in Lebanon remained severely pessimistic towards the 12-month business outlook. In fact, the degree of negativity was the strongest since data collection began in May 2013. Firms often cited fears that the explosion at Beirut's port would prolong the current economic crisis.

Future Output Index

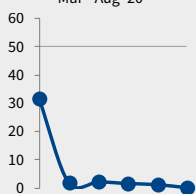
>50 = growth expected over next 12 months

0.0

Aug '20



Future Output Index
Mar - Aug '20



Employment and capacity

Employment

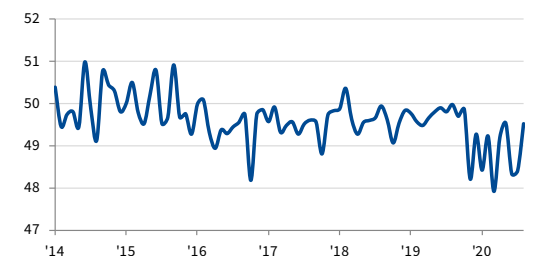
Although employment in the Lebanese private sector continued to fall in August, the rate of workforce contraction continued to trend towards stabilisation. The latest reduction in staff numbers extended the current sequence to a year, but it was the softest for three months and only marginal overall.

Employment Index

sa, >50 = growth since previous month

49.5

Aug '20



Backlogs of work

Despite employing fewer staff, a softer inflow of new business saw backlogs of work fall during August. The latest contraction in volumes of outstanding business was the fastest for three months and sharp overall.

Backlogs of Work Index

sa, >50 = growth since previous month

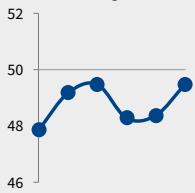
32.4

Aug '20



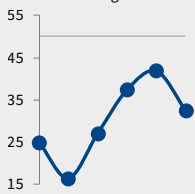
Employment Index

Mar - Aug '20



Backlogs of Work Index

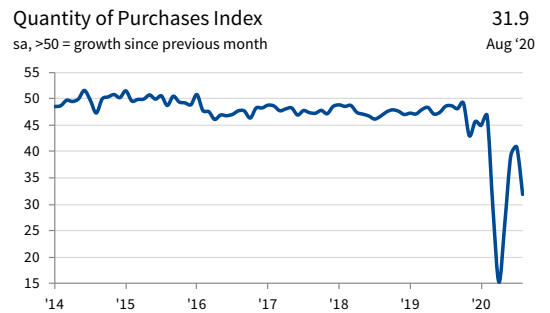
Mar - Aug '20



Purchasing and inventories

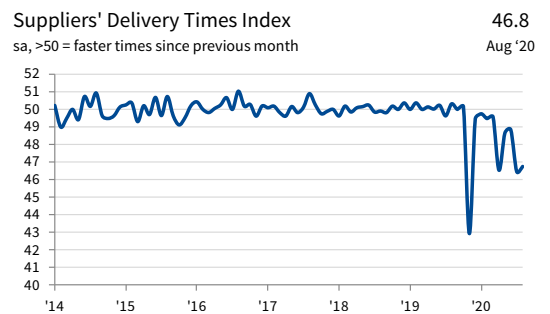
Quantity of purchases

As has been the case in each month since February 2016, purchasing activity at Lebanese businesses decreased during August. Moreover, the rate of reduction accelerated to the fastest for three months and was among the quickest since data collection began in May 2013.



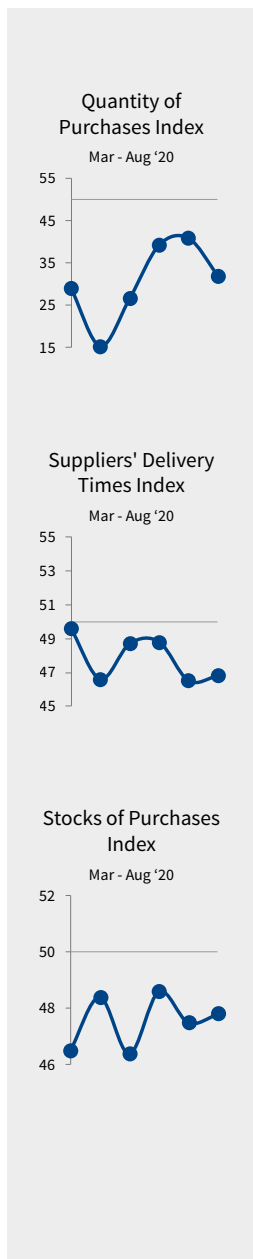
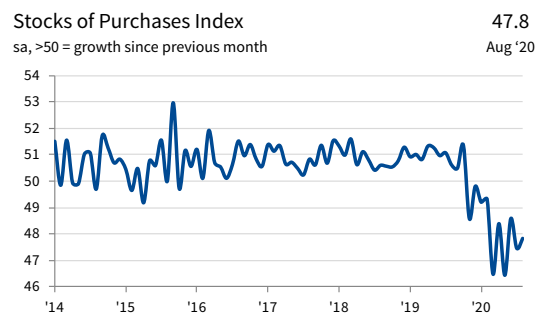
Suppliers' delivery times

Input delivery times continued to lengthen midway through the third quarter. Though solid, the deterioration in vendor performance was less marked than in July. Some panellists mentioned that a shortage of US dollars had caused disruption to the delivery process.



Stocks of purchases

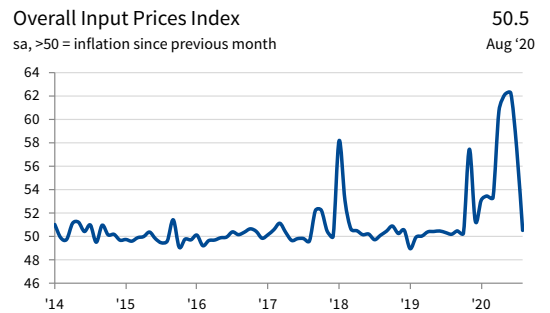
Although input inventories contracted further during August, the rate of decline eased and was moderate overall. This was indicated by the seasonally adjusted Stocks of Purchases Index increasing from July, but remaining below the 50.0 no-change mark.



Prices

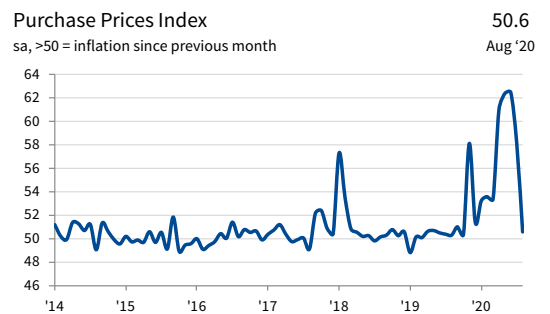
Overall input prices

Following sharp increases in the previous four months, overall input prices faced by private sector firms rose only marginally in August. The rate of inflation was the slowest for ten months, with purchase prices rising only slightly and staff costs continuing to fall.



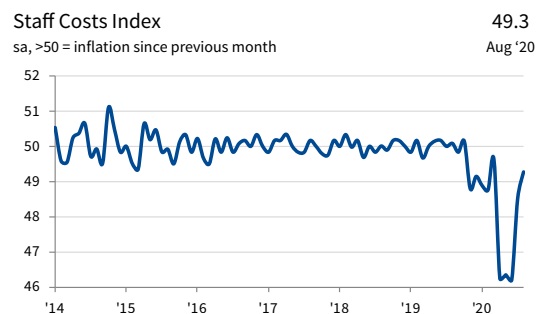
Purchase prices

Prices paid for raw materials and other inputs rose further midway through the third quarter, extending the current run of inflation that began in February 2019. That said, the latest increase was the slowest for ten months and only marginal overall.



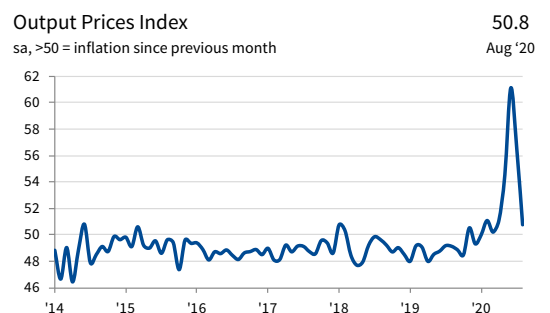
Staff costs

Average wages at Lebanese business fell for the tenth month in a row during August. This was signalled by the seasonally adjusted Staff Costs Index remaining below the 50.0 no-change threshold. However, the rate of reduction was the softest since March and slight overall.

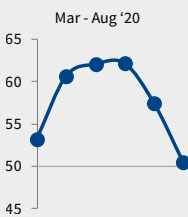


Output prices

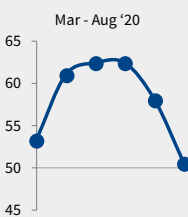
Amid a further rise in cost burdens, private sector companies opted to continue increasing their average output charges in August. That said, the rate of inflation was slowest since March, following sharp increases in prices in each of the previous three months.



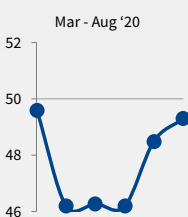
Overall Input Prices Index



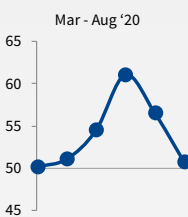
Purchase Prices Index



Staff Costs Index



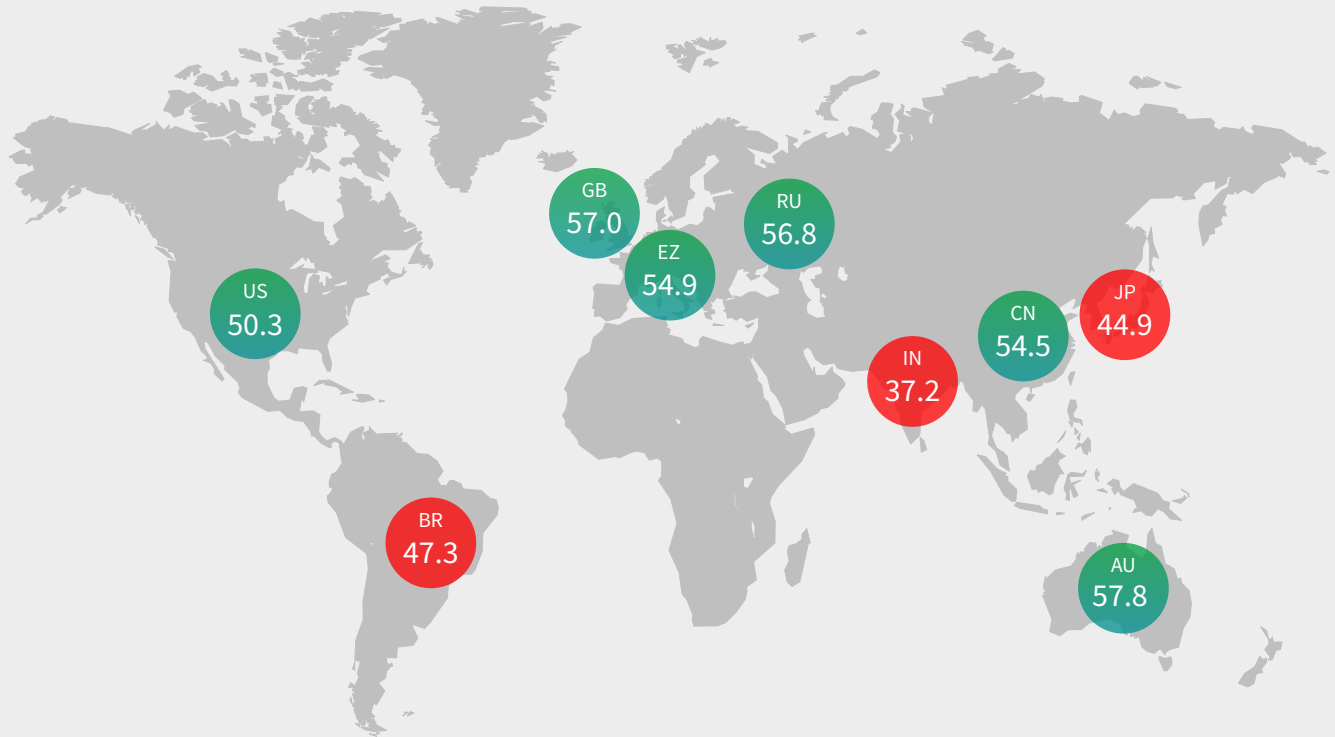
Output Prices Index



International PMI

Composite Output Index, Jul '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
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
08 '20	40.1	31.8	31.7	33.6	0.0	49.5	32.4	31.9	46.8	47.8	50.5	50.6	49.3	50.8

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.

August 2020 data were collected 12-28 August 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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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.

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