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Marked, albeit slightly softer, deterioration in business conditions

Further declines in output and new orders

Rate of job shedding remains modest

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.

September's PMI reading of 42.1, up from 40.1 in August, pointed to another marked deterioration in Lebanese private sector business conditions, albeit one that was softer than in the previous survey period.

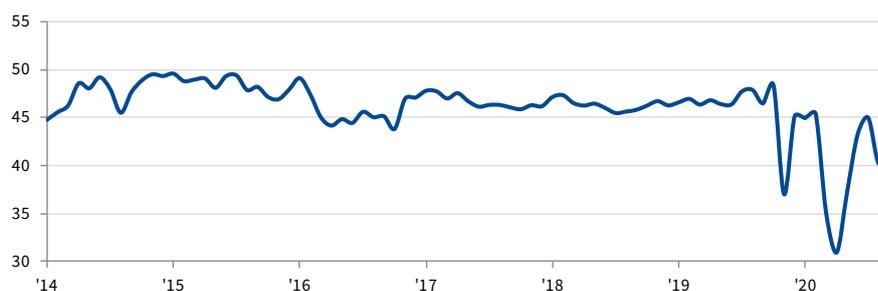
The latest downturn was partially driven by a further decline in output at the end of the third quarter. Although the rate of contraction eased from August, it remained among the quickest since data collection began nearly seven-and-a-half years ago. When explaining the fall in activity, panellists mentioned ongoing disruption related to the Beirut port explosion, as well as difficulties in securing US dollars.

In line with the trend for output, new orders received by Lebanese businesses continued to fall during September. The rate of decline softened from August but remained historically marked. Underlying data indicated that both domestic and foreign demand conditions were subdued, with new export orders falling.

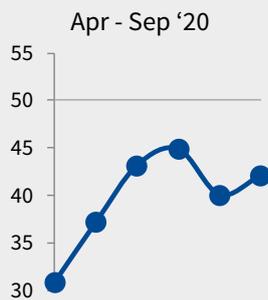
Amid a further reduction in new business, private sector firms continued to cut their staff numbers in September. The result extended the current sequence of workforce contraction that began in September 2019. The rate of job shedding was modest and

continued...

Lebanon PMI
sa, >50 = improvement since previous month



Lebanon PMI



Overview continued...

little-changed from August.

In a sign of continued supply-side disruption, input delivery times lengthened further in the latest survey period. In fact, vendor performance deteriorated to the greatest extent for ten months. Anecdotal evidence suggested that firms struggled to obtain the necessary US dollars to pay their suppliers.

Meanwhile, input prices rose at a quicker pace in September. The result followed the slowest increase in cost burdens for ten months during August. The latest rise was solid overall and driven by higher purchase prices which more than offset a sharp decline in wages.

Private sector firms opted to pass on some of the higher costs to their clients with an increase in average output prices during September. However, the rate of charge

inflation was little-changed from August and only marginal overall.

Looking forward, Lebanese businesses remained severely pessimistic towards the one-year business outlook. Negativity was driven by fears that the ongoing liquidity crisis would persist even with the formation of a new government. Sentiment was at the joint-weakest (level with August) since the survey's inception in May 2013.

Comment

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

“After the August 4, 2020 blast, the Lebanese economy is trying to stand on its wobbly legs again, albeit with little success. Though the PMI increased to 42.1 in September 2020 from 40.1 in August 2020, the business conditions remain markedly bad. Notwithstanding the current Corona epidemic, it is quite apparent that private sector fortunes will not turn around unless there is

a government reform and recovery plan that takes measures to restore confidence in the banking system and the exchange rate regime and to bring good governance to public administrations, aided by sizeable concessional funding from outside. Unfortunately, the urgency of such a plan has yet to dawn on Lebanese politicians.”



Output and demand

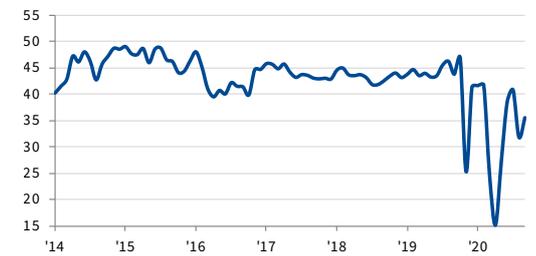
Output

Lebanese private sector output continued to fall markedly at the end of the third quarter. However, the latest contraction was softer than that recorded in August when the economy was severely hampered by the explosion at Beirut's port. When explaining September's downturn, some panellists mentioned ongoing disruption related to the explosion, however, most cited broader political and economic issues.

Output Index

sa, >50 = growth since previous month

35.5
Sep '20



New orders

September data pointed to another sharp reduction in new orders received by private sector firms in Lebanon. Despite easing from August, the rate of decline remained among the quickest in nearly seven-and-a-half years of data collection. Many survey respondents cited a substantial decrease in purchasing power caused by the ongoing liquidity crisis.

New Orders Index

sa, >50 = growth since previous month

35.2
Sep '20



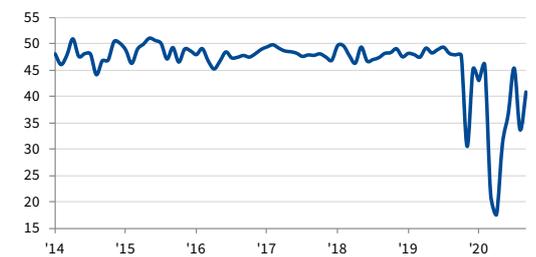
New export orders

As has been the case in each month since August 2015, international demand conditions faced by Lebanese businesses deteriorated in September. That said, despite remaining marked, the rate of decline eased from the previous survey period. When explaining lower export orders, some panellists cited disruption related to the Beirut port explosion.

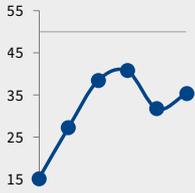
New Export Orders Index

sa, >50 = growth since previous month

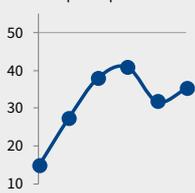
40.8
Sep '20



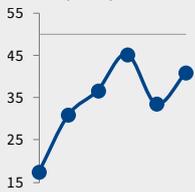
Output Index
Apr - Sep '20



New Orders Index
Apr - Sep '20

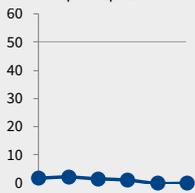


New Export Orders Index
Apr - Sep '20



Business expectations

Future Output Index
Apr - Sep '20



Private sector firms remained extremely pessimistic towards the one-year business outlook in September. Anecdotal evidence suggested that firms expect the current liquidity issues to persist. The level of sentiment was in line with the series low registered in August.

Future Output Index

>50 = growth expected over next 12 months

0.0
Sep '20



Employment and capacity

Employment

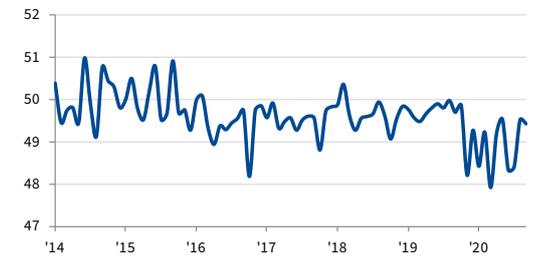
Lebanese businesses continued to cut their staff numbers in the latest survey period, extending the current sequence of workforce contraction that began in September 2019. Although only marginal overall, the latest reduction in employment was slightly quicker than that registered in August.

Employment Index

sa, >50 = growth since previous month

49.4

Sep '20



Backlogs of work

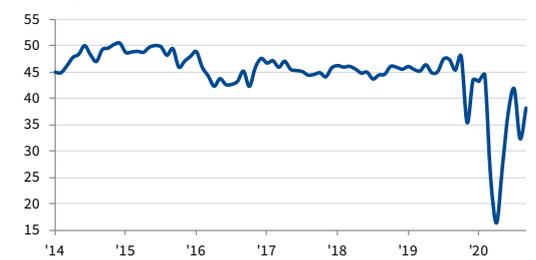
September data pointed to another marked decrease in backlogs of work at private sector firms in Lebanon. That said, the rate of reduction eased from August when demand conditions were heavily subdued due to the explosion at Beirut's port. When explaining the latest fall in volumes of outstanding business, panellists often mentioned a softer inflow of new work.

Backlogs of Work Index

sa, >50 = growth since previous month

38.3

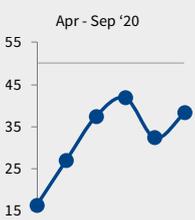
Sep '20



Employment Index
Apr - Sep '20



Backlogs of Work Index
Apr - Sep '20



Purchasing and inventories

Quantity of purchases

Amid a further deterioration in demand conditions, purchasing activity in the Lebanese private sector continued to decline in September. Although the rate of reduction eased, it remained among the quickest since the survey's inception in May 2013.

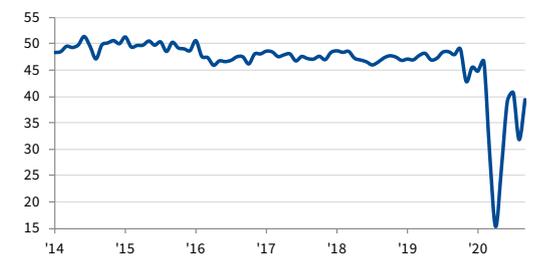
Suppliers' delivery times

Input delivery times faced by private sector firms continued to lengthen at the end of the third quarter. Moreover, the rate at which vendor performance deteriorated was the sharpest for ten months. When explaining delays, some panellists commented on difficulties in obtaining the US dollars required to pay suppliers.

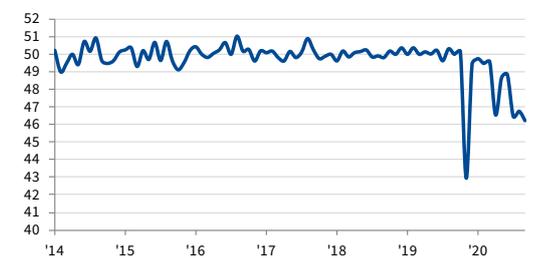
Stocks of purchases

Inventories contracted further in September, extending the current sequence that began in November 2019. Moreover, the latest reduction was the sharpest for four months and solid overall. Some panellists mentioned difficulties in obtaining some items.

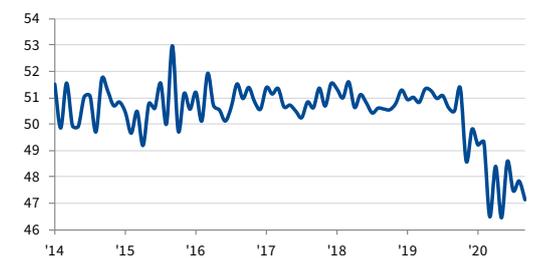
Quantity of Purchases Index 39.5
sa, >50 = growth since previous month Sep '20



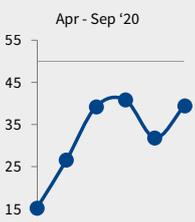
Suppliers' Delivery Times Index 46.2
sa, >50 = faster times since previous month Sep '20



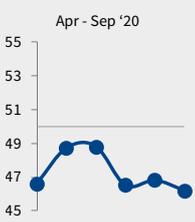
Stocks of Purchases Index 47.1
sa, >50 = growth since previous month Sep '20



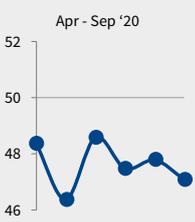
Quantity of Purchases Index



Suppliers' Delivery Times Index



Stocks of Purchases Index



Prices

Overall input prices

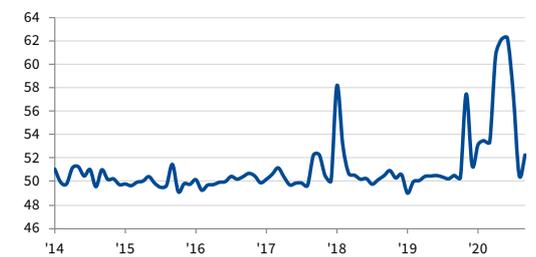
Following the slowest rise in overall input prices for ten months during August, the rate of inflation accelerated in September. The latest increase was, however, far softer than those recorded throughout the second quarter. Underlying data revealed a solid rise in purchase prices which more than offset a sharp decline in staff costs.

Overall Input Prices Index

sa, >50 = inflation since previous month

52.3

Sep '20



Purchase prices

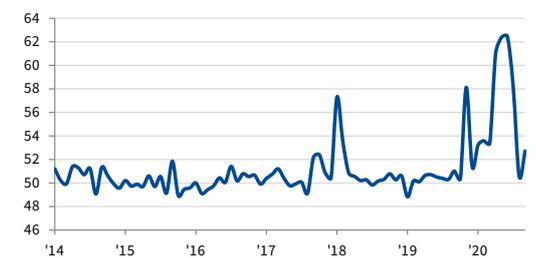
Purchase costs faced by private sector firms in Lebanon continued to rise in September, extending the current run of inflation that began in February 2019. The latest increase was faster than in August and solid overall.

Purchase Prices Index

sa, >50 = inflation since previous month

52.7

Sep '20



Staff costs

As was the case in each of the previous ten months, staff costs at Lebanese businesses fell in September. However, the latest decrease was by far the sharpest since data collection began almost seven-and-a-half years ago. Some survey participants commented that wage cuts were required to maintain current staffing levels.

Staff Costs Index

sa, >50 = inflation since previous month

43.5

Sep '20



Output prices

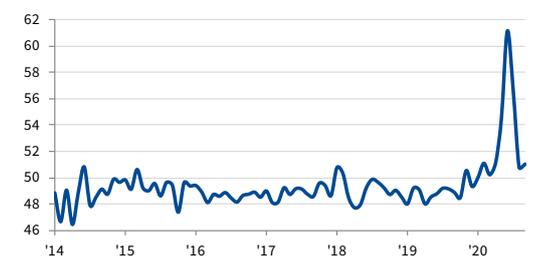
In response to higher input prices, Lebanese businesses continued to increase their average output charges in September. However, the rate of inflation was little-changed from August's marginal pace, with panellists fearful of losing customers while demand conditions were subdued.

Output Prices Index

sa, >50 = inflation since previous month

51.0

Sep '20



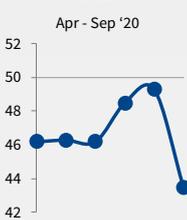
Overall Input Prices Index
Apr - Sep '20



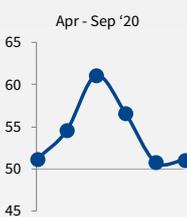
Purchase Prices Index
Apr - Sep '20



Staff Costs Index
Apr - Sep '20



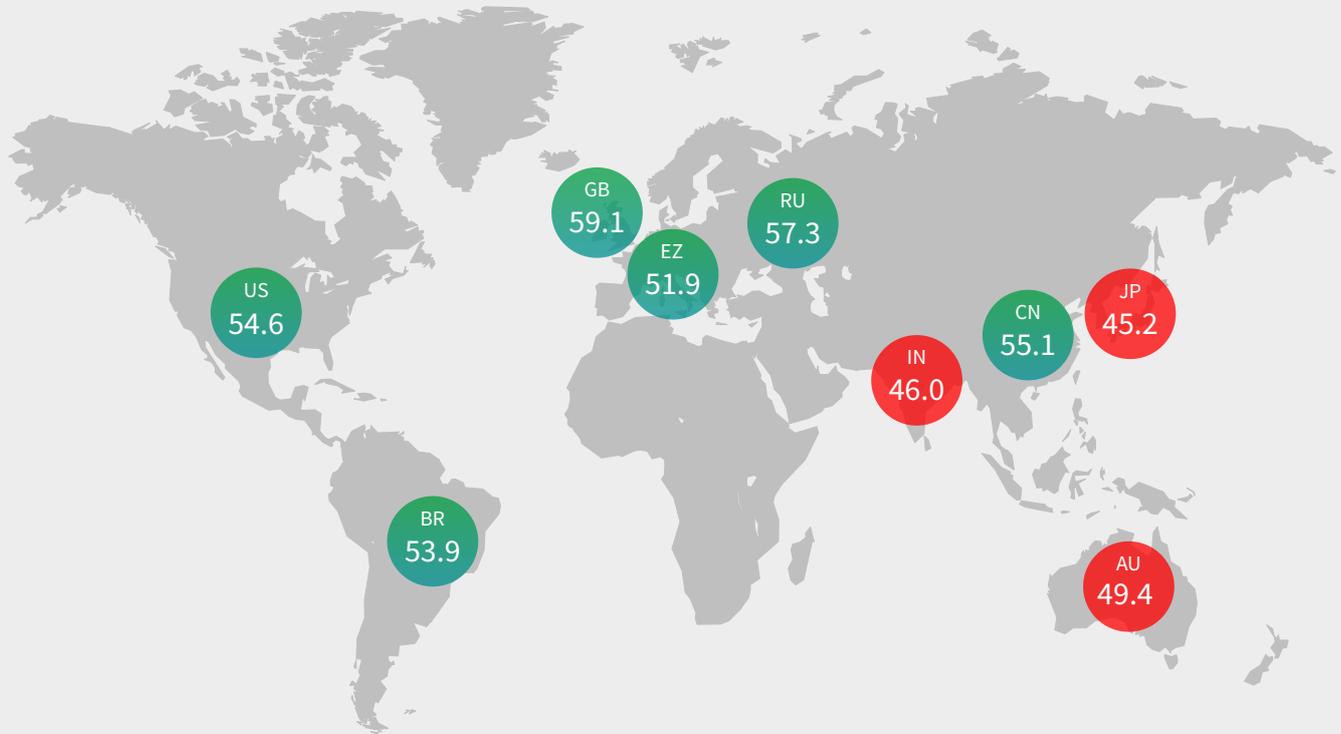
Output Prices Index
Apr - Sep '20



International PMI

Composite Output Index, Aug '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
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
09 '20	42.1	35.5	35.2	40.8	0.0	49.4	38.3	39.5	46.2	47.1	52.3	52.7	43.5	51.0

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.

September 2020 data were collected 11-24 September 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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