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Health of Lebanese private sector declines further, albeit at softer pace

Output and new orders fall at slowest rates for five months...

... but pace of job shedding 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 42.4 in November, pointed to a softer deterioration in Lebanese business conditions during December. That said, the rate of decline was still sharper than the historical average.

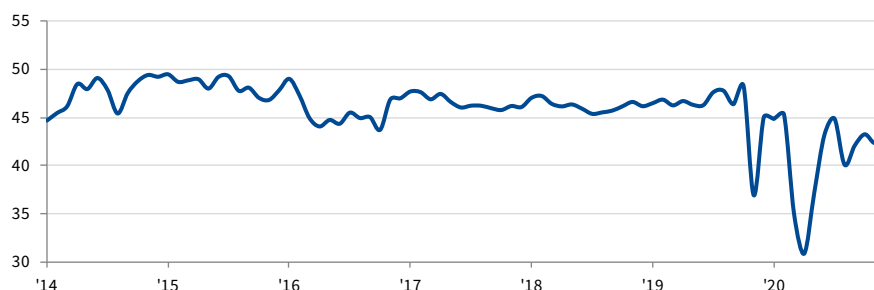
The latest downturn in operating conditions was partially driven by a further contraction in output across the private sector. Anecdotal evidence suggested that demand conditions remained severely subdued due to the ongoing political and economic crisis in the country. Although marked overall, the latest reduction in activity was, however, the softest since July.

Similar to the trend for output, new orders received by private sector companies continued to decline in the final month of 2020. The result extended the current sequence of contraction that began in June 2013. The rate of reduction eased slightly from November but remained marked.

Overall demand received little support from international markets, with new export orders falling further in December. That said, the pace of decline eased to the slowest for five months. Some panellists commented that regional instability had weighed on foreign sales.

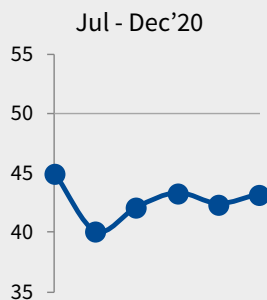
continued...

Lebanon PMI
sa, >50 = improvement since previous month



Lebanon PMI

Dec '20
43.2
 Nov: 42.4



Overview continued...

Amid the continued reduction in both output and new orders, Lebanese business cut their staff numbers at the end of the fourth quarter. Moreover, the rate of job shedding accelerated to the quickest since July.

Lower output requirements and softer demand conditions also saw firms reduce their purchasing activity in December, extending the current run that began in February 2016. Moreover, the rate of decline quickened slightly from November, when it was the softest for nine months.

The decrease in input buying led to a fourteenth successive monthly contraction in inventories. Although slightly faster than in the previous survey period, the pace of contraction was only marginal.

On the supply, input delivery times faced by private sector firms continued to lengthen.

That said, the rate at which vendor performance deteriorated was the softest for six months.

Meanwhile, cost burdens continued to rise at a solid pace, despite the rate of input price inflation softening from November. Underlying data revealed that the latest increase was predominantly driven by higher purchase prices, while staff costs continued to fall, though each at a softer pace.

Private sector firms opted to pass on some of the additional costs to their clients with an increase in average output prices during December. That said, the rate of charge inflation decelerated slightly from the previous survey period and was only slight overall.

Comment

Dr Ali Boblol, Chief Economist/Head of Research at BLOM Bank, commented the following on the BLOM Lebanon PMI for December 2020:

"The Lebanese economy finished the year 2020 worse than it had started it, as the BLOM Lebanon PMI fell from 45.1 in December 2019 to 43.2 in December 2020. Overall, this implies that business conditions for the private sector have declined at an accelerating pace in 2020. And so has private sector employment, an index that points towards further emigration and brain drain for Lebanon."

And it is not like 2021 and the near future is looking better, as the economic crisis, Covid-19, and regional instability continue to rage. Perhaps putting an end to the senseless political deadlock over the formation of a functioning government will turn things around, as the country can't afford the luxury of losing more and more time."



Output and demand

Output

Output in the Lebanese private sector continued to fall markedly in the final month of 2020. That said, the latest contraction was the softest for five months. When explaining lower activity, panellists often mentioned that demand conditions remained severely subdued.

Output Index

sa, >50 = growth since previous month

38.3

Dec '20



New orders

New business received by private sector firms decreased further in December. The result extended the current run of contraction that began in June 2013. Although still historically marked, the rate of reduction eased to the softest since July.

New Orders Index

sa, >50 = growth since previous month

37.7

Dec '20



New export orders

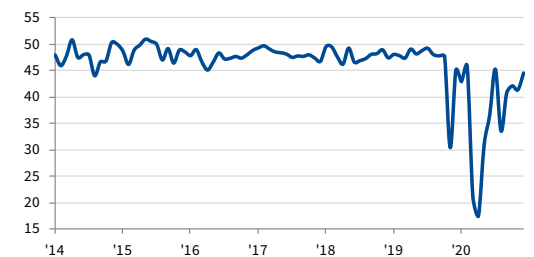
In a further sign of deteriorating international demand conditions, foreign sales at Lebanese businesses fell at the end of the fourth quarter, albeit at the slowest pace for five months. Anecdotal evidence indicated that regional instability was negatively impacting volumes of new export orders.

New Export Orders Index

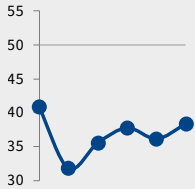
sa, >50 = growth since previous month

44.6

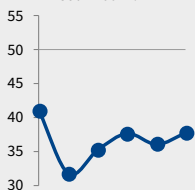
Dec '20



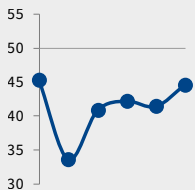
Output Index
Jul - Dec '20



New Orders Index
Jul - Dec '20



New Export Orders Index
Jul - Dec '20



Business expectations

Private sector firms in Lebanon remained pessimistic towards the 12-month business outlook in December. Moreover, the degree of negativity was more severe than any recorded prior to the COVID-19 crisis. Panellists were often uncertain on how long economic conditions would take to recover from the current downturn.

Future Output Index

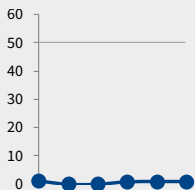
>50 = growth expected over next 12 months

0.9

Dec '20



Future Output Index
Jul - Dec '20



Employment and capacity

Employment

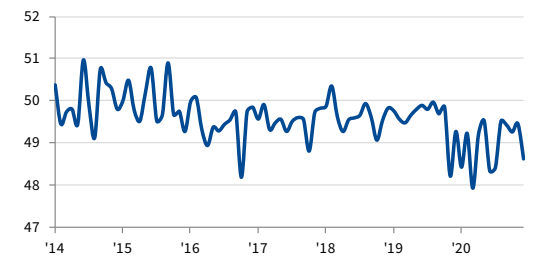
December data indicated that hiring conditions remained challenging in the Lebanese private sector. Employment continued to fall, extending the current sequence of workforce contraction that began in September 2019. Although modest overall, the latest reduction in worker numbers was the strongest since July.

Employment Index

sa, >50 = growth since previous month

48.6

Dec '20



Backlogs of work

Amid a further decline in new business, private sector firms continued to record a fall in backlogs in the latest survey period. Despite remaining historically marked, the rate of reduction decelerated for the fourth month running to reach the lowest since last February.

Backlogs of Work Index

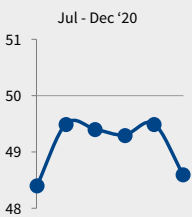
sa, >50 = growth since previous month

42.2

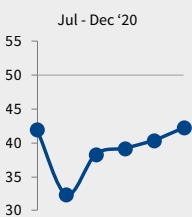
Dec '20



Employment Index
Jul - Dec '20



Backlogs of Work Index
Jul - Dec '20



Purchasing and inventories

Quantity of purchases

Purchasing activity at Lebanese businesses contracted sharply in December. Moreover, the pace of reduction accelerated from November, when the decline was the slowest for nine months. Survey respondents often commented that they cut input buying due to softer inflows of new orders.

Quantity of Purchases Index
sa, >50 = growth since previous month

43.6
Dec '20

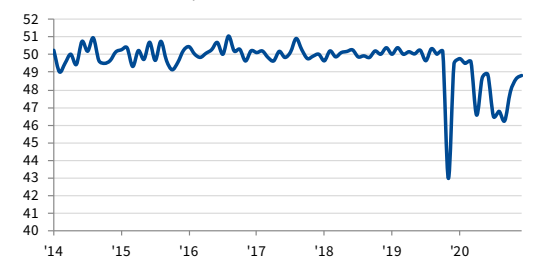


Suppliers' delivery times

Input delivery times faced by private sector companies continued to lengthen in the final month of the year, extending the current run that started in November 2019. That said, the latest deterioration in vendor performance was the softest for six months and marginal overall.

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

48.8
Dec '20

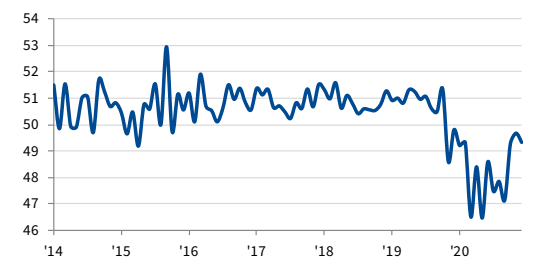


Stocks of purchases

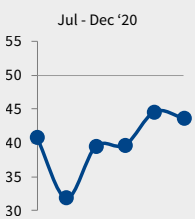
Stocks of raw materials and other inputs contracted for the fourteenth month in a row during December. Despite accelerating slightly from November, the rate of reduction remained marginal overall.

Stocks of Purchases Index
sa, >50 = growth since previous month

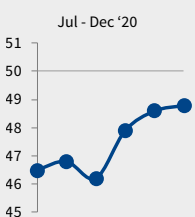
49.3
Dec '20



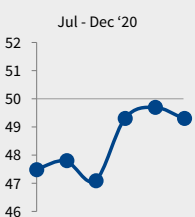
Quantity of Purchases Index



Suppliers' Delivery Times Index



Stocks of Purchases Index

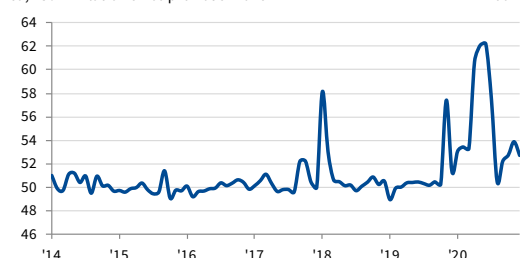


Prices

Overall input prices

Cost burdens faced by Lebanese businesses continued to rise at a solid pace in the latest survey period. That said, the rate of inflation eased from November's four-month high. Underlying data revealed that input prices were driven higher by purchase costs, while wage expenditure fell.

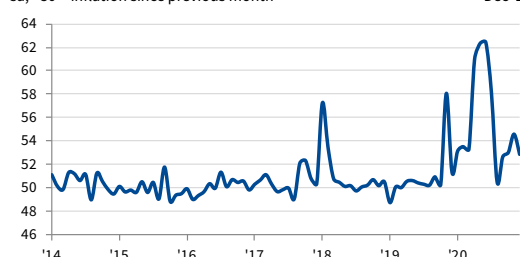
Overall Input Prices Index 52.8
 sa, >50 = inflation since previous month Dec '20



Purchase prices

Latest survey data pointed to another increase purchase prices paid by private sector firms. This was signalled by the respective seasonally adjusted index registering above the 50.0 no-change threshold. The rate of inflation eased from November but remained solid overall.

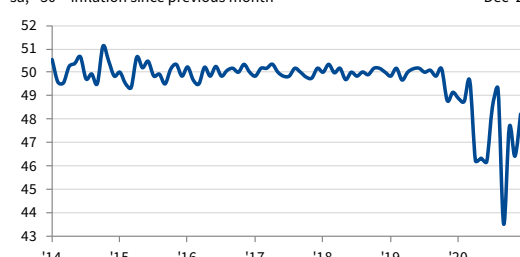
Purchase Prices Index 52.9
 sa, >50 = inflation since previous month Dec '20



Staff costs

As has been the case in each month since November 2019, staff costs in the Lebanese private sector fell in December. That said, the latest reduction was the softest for four months and moderate overall. Anecdotal evidence suggested that firms cut wages in an effort to decrease costs amid subdued demand conditions.

Staff Costs Index 48.2
 sa, >50 = inflation since previous month Dec '20



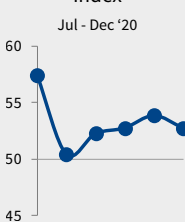
Output prices

In line with higher input prices, private sector companies continued to increase their average output prices at the end of the year. That said, the rate of charge inflation was fractionally slower than in November and remained marginal overall.

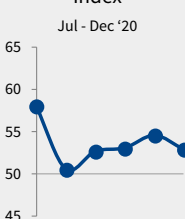
Output Prices Index 51.3
 sa, >50 = inflation since previous month Dec '20



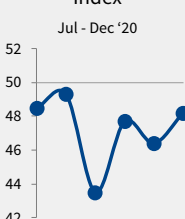
Overall Input Prices Index



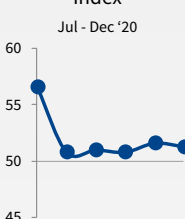
Purchase Prices Index



Staff Costs Index



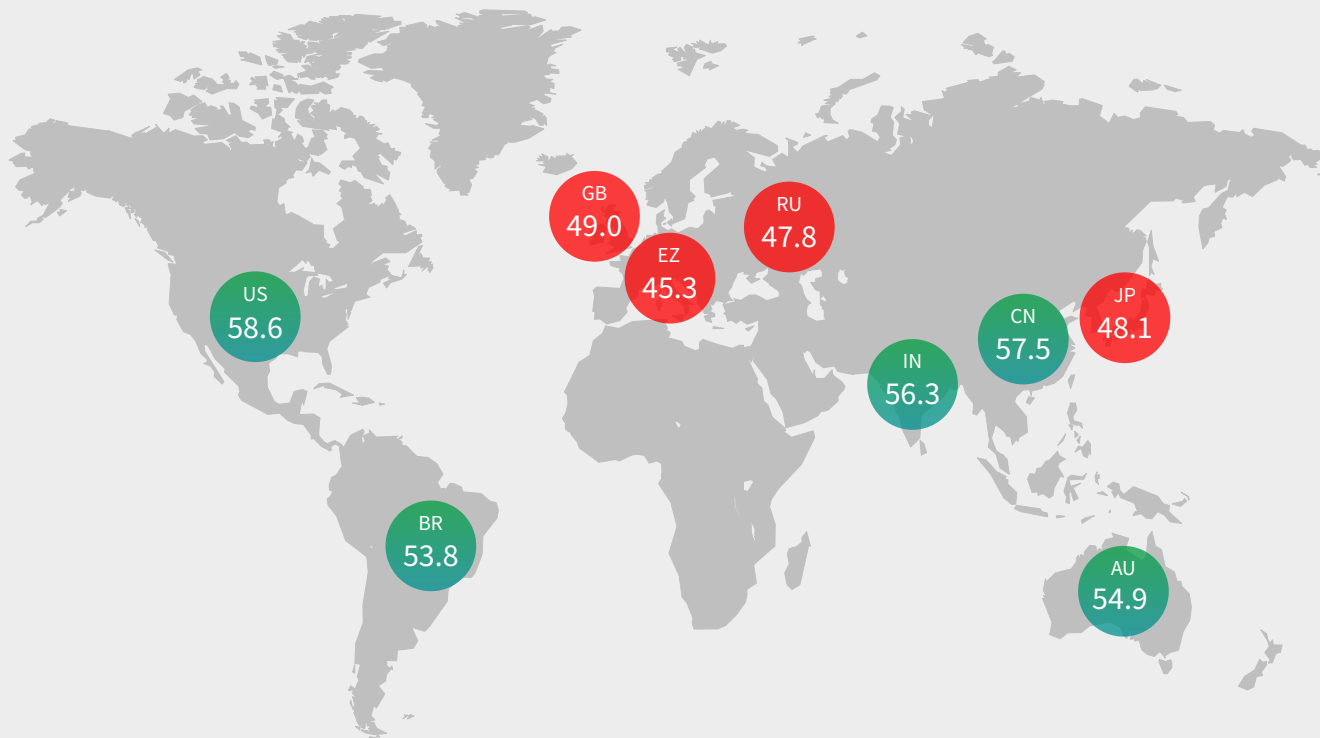
Output Prices Index



International PMI

Composite Output Index, Nov '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
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
10 '20	43.3	37.7	37.6	42.2	0.8	49.3	39.2	39.7	47.9	49.3	52.8	53.1	47.7	50.8
11 '20	42.4	36.1	36.0	41.4	0.9	49.5	40.4	44.6	48.6	49.7	53.9	54.6	46.4	51.6
12 '20	43.2	38.3	37.7	44.6	0.9	48.6	42.2	43.6	48.8	49.3	52.8	52.9	48.2	51.3

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.

December 2020 data were collected 4-17 December 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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