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### Health of private sector declines at fastest rate since Beirut port explosion

### Firms see marked contractions in both output and new orders

### Employment continues to fall, albeit at a slower pace

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 41.0, down from 43.2 in December, pointed to a sharper deterioration in Lebanese business conditions at the start of 2021. In fact, the rate of decline was the strongest since the

Beirut port explosion in August 2020 and among the fastest since data collection began in May 2013.

January's downturn was partially driven by a further contraction in output at Lebanese businesses. The latest reduction was the quickest for five months. Panellists often commented that restrictions related to the coronavirus disease 2019 (COVID-19) pandemic continued to reduce operating capacity.

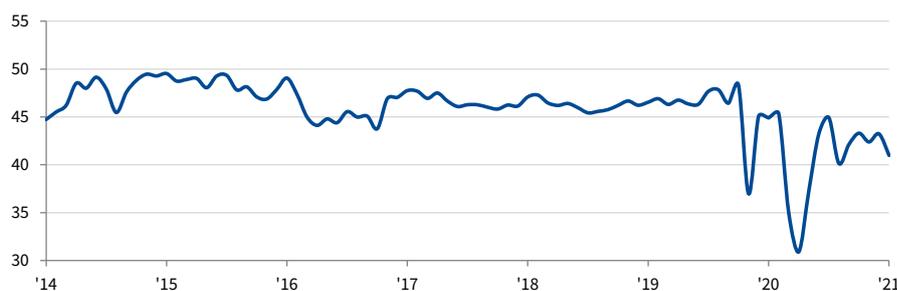
Latest data also signalled a further deterioration in demand conditions faced by private sector firms. New orders fell sharply and at the quickest rate since last August. The reduction was partially driven by weaker international demand, with foreign sales continuing to decline.

Amid lower output capacity and subdued demand conditions, businesses continued to cut their staff numbers in January. The decrease extended the current run that began in September 2019. That said, the

*continued...*

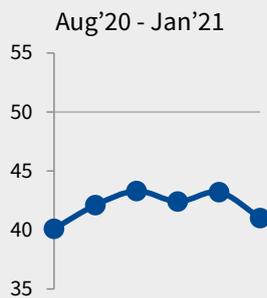
Lebanon PMI

sa, >50 = improvement since previous month



## Lebanon PMI

Jan '21  
**41.0**  
 Dec: 43.2



## Overview continued...

rate of job shedding eased from December and was marginal overall.

On the supply-side, input delivery times lengthened further in the latest survey period. The rate at which vendor performance deteriorated was slightly stronger than in the previous two months, but still only modest overall. Some panellists commented that US dollar liquidity issues had contributed to delivery delays.

Cost burdens faced by private sector firms continued to rise in opening month of 2021, extending the current run of input price inflation to almost two years. However, the latest increase was the slowest for four months and moderate overall. Underlying data indicated that the rise in input prices was driven by higher purchasing costs, while wage expenditure continued to fall.

In response to higher input costs, Lebanese

businesses increased their average output prices in January. Moreover, the rate of charge inflation was one of the quickest since the series was inception, surpassed only by those recorded in May, June and July last year.

Looking forward, firms remained severely pessimistic towards the one-year business outlook. Anecdotal evidence suggested that negativity was driven by fears of a prolonged economic downturn due to the COVID-19 crisis.

## Comment

Dr Fadi Osseiran, GM of BLOMINVEST Bank, commented on the January 2021 BLOM Lebanon PMI:

*“In terms of BLOM Lebanon PMI, it was really no surprise that the beginning of year 2021 has picked up where the year 2020 has ended. At 41, the January 2021 PMI was in fact notably lower than the December 2020 PMI of 43.2. Moreover, what especially marked the January 2021 PMI was the deterioration in output, new orders and export orders, and higher inflation. These were explained by a worsening in the usual suspects*

*of factors, ranging from exchange rate depreciations to liquidity shortages to adverse demand conditions, not to mention the total lockdown due to the Corona epidemic. But what casts the darkest shadow on business conditions is the absence so far of any government action to deal with the country’s deepening economic crisis.”*



## Output and demand

### Output

Output in the Lebanese private sector continued to fall in the opening month of 2021, extending the current run that began in June 2013. The latest contraction was the sharpest for five months and far quicker than the historical average. Anecdotal evidence suggested that the COVID-19 pandemic was continuing to severely hamper economic activity.

### New orders

January data pointed to a further deterioration in demand conditions faced by Lebanese businesses. The rate of decline in new orders accelerated to the fastest since last August and was sharp overall. When explaining the reduction in new business, panellists overwhelmingly cited the ongoing health crisis and the associated restrictions.

### New export orders

As has been the case in each month since August 2015, new export orders received by private sector firms in Lebanon decreased in January. The latest decline was the quickest for five months, as international demand conditions remained subdued because of the COVID-19 pandemic.

### Output Index

sa, >50 = growth since previous month

33.3

Jan '21



### New Orders Index

sa, >50 = growth since previous month

33.3

Jan '21



### New Export Orders Index

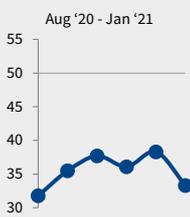
sa, >50 = growth since previous month

40.5

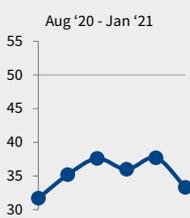
Jan '21



Output Index  
Aug '20 - Jan '21



New Orders Index  
Aug '20 - Jan '21



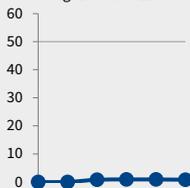
New Export Orders Index  
Aug '20 - Jan '21



## Business expectations

### Future Output Index

Aug '20 - Jan '21



Private sector firms were severely pessimistic towards the 2021 outlook for business activity during January. Negativity was driven by fears of a prolonged economic downturn as a result of the pandemic. Approximately 98% of panellists expected output to decline over the course of 2021, while the remainder anticipated no change from current levels.

### Future Output Index

>50 = growth expected over next 12 months

0.8

Jan '21



## Employment and capacity

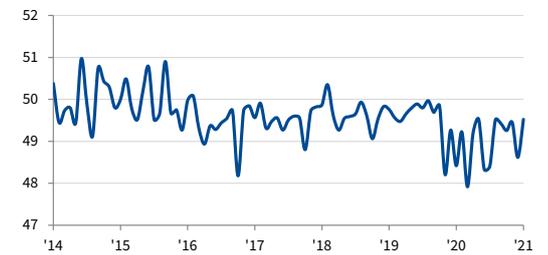
### Employment

Latest survey data suggested that hiring conditions in the Lebanese private sector remained challenging at the start of 2021. That said, the rate of job shedding eased from December's five-month record and was only marginal overall.

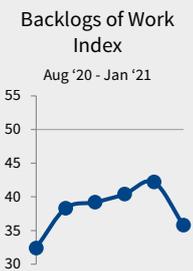
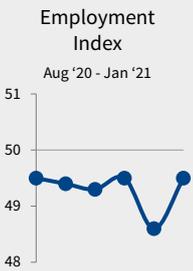
### Backlogs of work

Lebanese business recorded a further decrease in backlogs of work during the latest survey period. In fact, the rate of reduction was the quickest for five months and sharp overall. Panellists often commented that they had focused on existing orders in the absence of new work.

Employment Index 49.5  
sa, >50 = growth since previous month Jan '21



Backlogs of Work Index 35.8  
sa, >50 = growth since previous month Jan '21



## Purchasing and inventories

### Quantity of purchases

Purchasing activity at firms in Lebanon's private sector continued to decline in the opening month of 2021. The pace contraction quickened for the second month running and was the sharpest since last August. Anecdotal evidence indicated that input buying fell due to a lack of new orders.

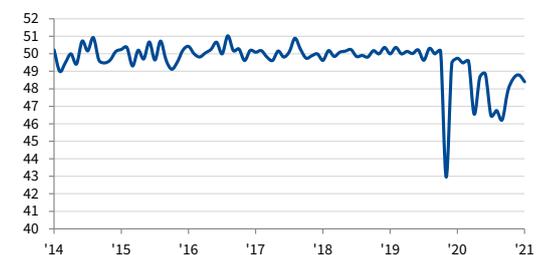
Quantity of Purchases Index 38.3  
 sa, >50 = growth since previous month Jan '21



### Suppliers' delivery times

Input delivery times faced by Lebanese businesses lengthened in the latest survey period. The rate at which vendor performance deteriorated was slightly stronger than in December, but moderate overall. Some panellists commented that supply-side disruption was driven by US dollar liquidity issues.

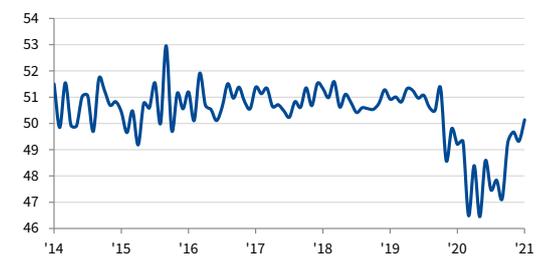
Suppliers' Delivery Times Index 48.4  
 sa, >50 = faster times since previous month Jan '21



### Stocks of purchases

January data pointed to a fractional increase in stocks of purchases at Lebanese businesses. This was indicated by the respective seasonally adjusted index registering just above the 50.0 no-change threshold. The result marked the first expansion since October 2019.

Stocks of Purchases Index 50.1  
 sa, >50 = growth since previous month Jan '21



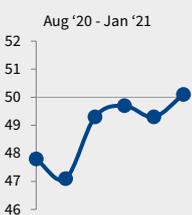
Quantity of Purchases Index



Suppliers' Delivery Times Index



Stocks of Purchases Index

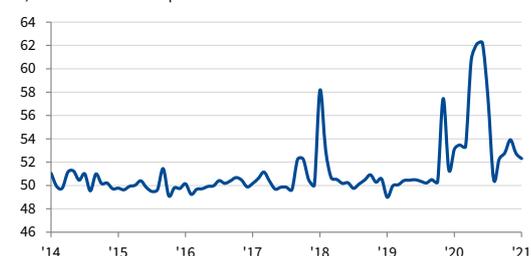


## Prices

### Overall input prices

Cost burdens faced by businesses in Lebanon continued to rise in January, extending the current run to almost two years. The rate of input price inflation eased for the second month running to the lowest since last September, however. The modest increase in costs was driven by higher purchase prices, while staff costs fell further.

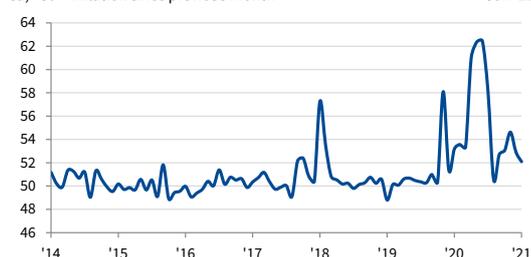
Overall Input Prices Index 52.3  
 sa, >50 = inflation since previous month Jan '21



### Purchase prices

Although prices paid for raw materials and other physical inputs continued to increase in January, the rate of inflation remained modest. In fact, the latest increase in purchase prices was the slowest since August, with approximately 5% of panellists recording an increase compared to December, while the remainder saw no change.

Purchase Prices Index 52.1  
 sa, >50 = inflation since previous month Jan '21



### Staff costs

As has been the case in each month since November 2019, staff costs in the Lebanese private sector fell in January. This was indicated by the respective seasonally adjusted index remaining below the 50.0 no-change mark. The rate of reduction was slightly quicker than in December but modest overall.

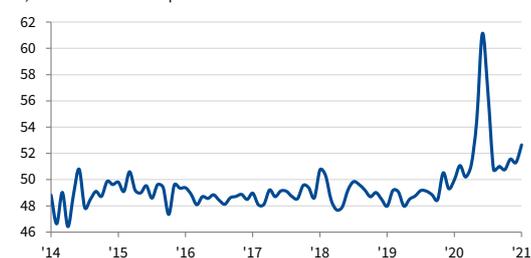
Staff Costs Index 47.9  
 sa, >50 = inflation since previous month Jan '21



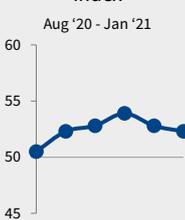
### Output prices

Average output prices at Lebanese companies continued to increase in the opening month of the year. Moreover, the rate change inflation was among the quickest since the series began, surpassed only by those recorded in May, June and July last year.

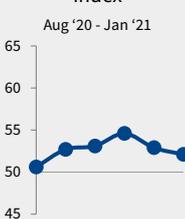
Output Prices Index 52.6  
 sa, >50 = inflation since previous month Jan '21



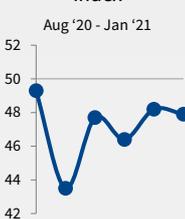
Overall Input Prices Index



Purchase Prices Index



Staff Costs Index



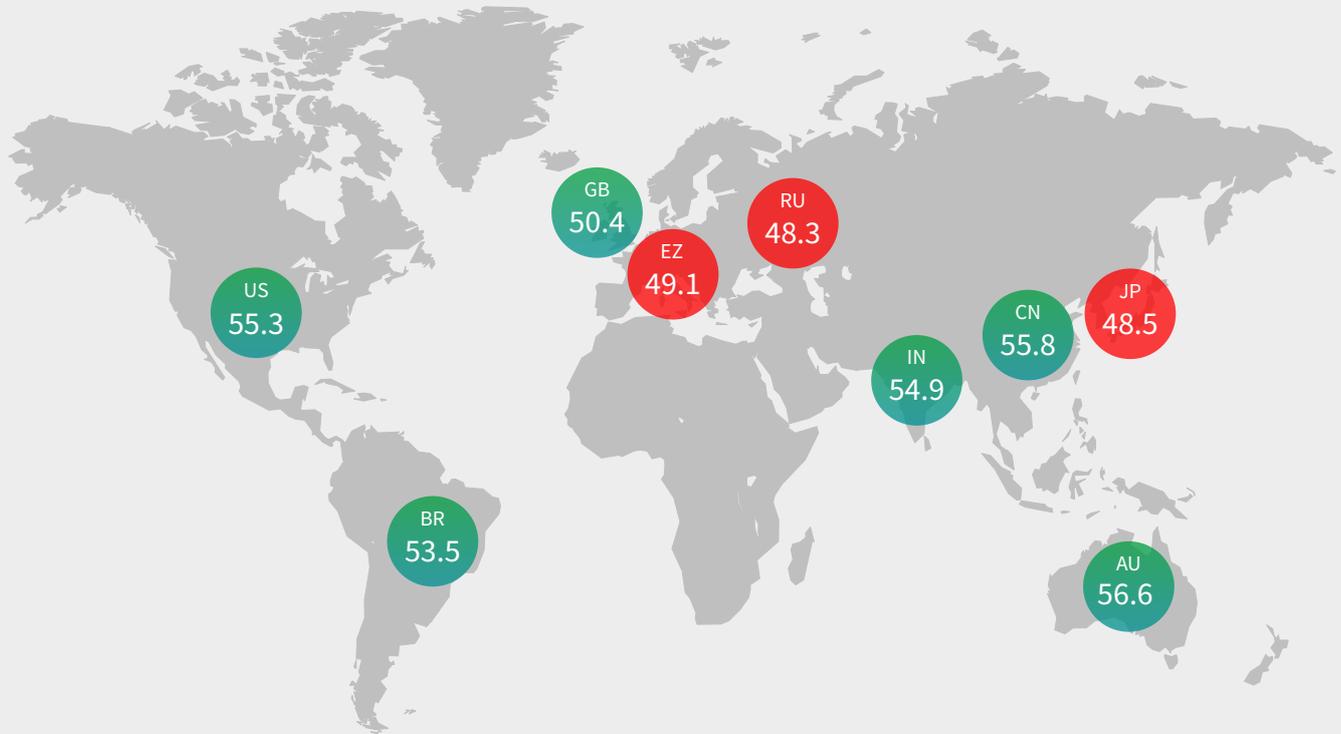
Output Prices Index



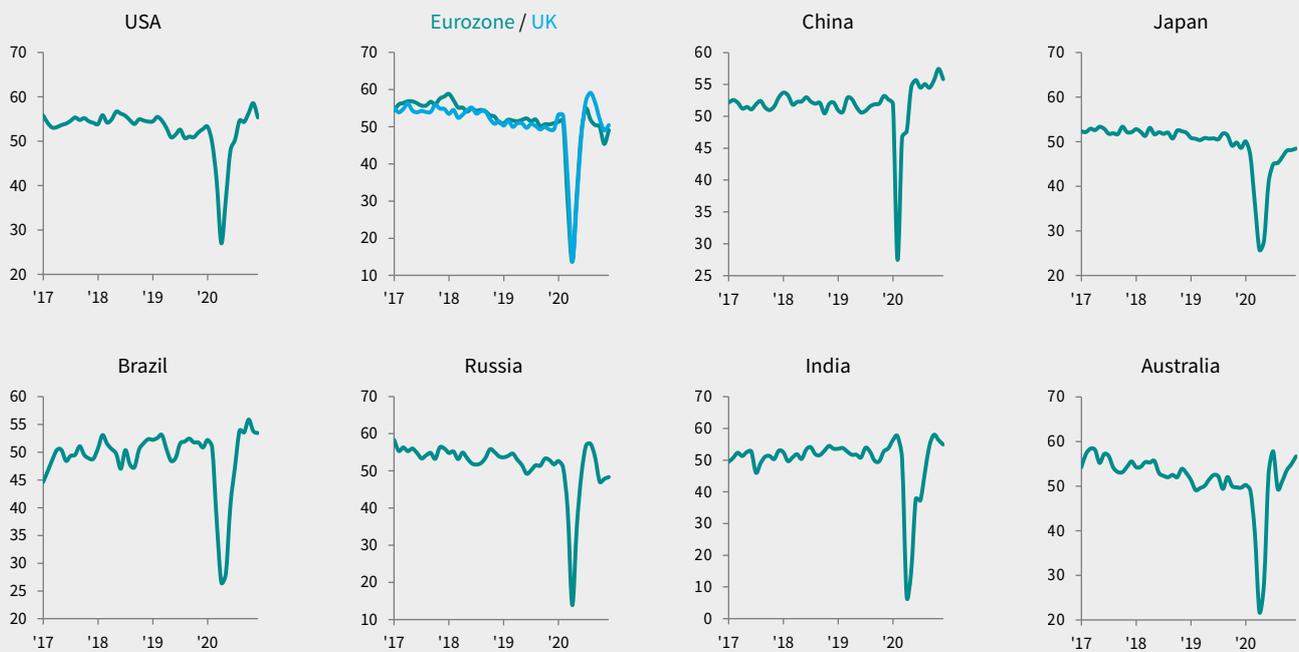
## International PMI

Composite Output Index, Dec '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
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
01 '21	41.0	33.3	33.3	40.5	0.8	49.5	35.8	38.3	48.4	50.1	52.3	52.1	47.9	52.6

### 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.

January 2021 data were collected 12-25 January 2021.

For further information on the PMI survey methodology, please contact [economics@ihsmarkit.com](mailto: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](https://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](http://www.blominvestbank.com).

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