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Sharp, but softer, deterioration in health of Lebanese private sector

Output and new order contractions ease

Input price inflation 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 42.2 in February, up from 41.0 in January, pointed to a slightly softer deterioration in Lebanese business conditions. However, the rate of decline remained far quicker than the series

average.

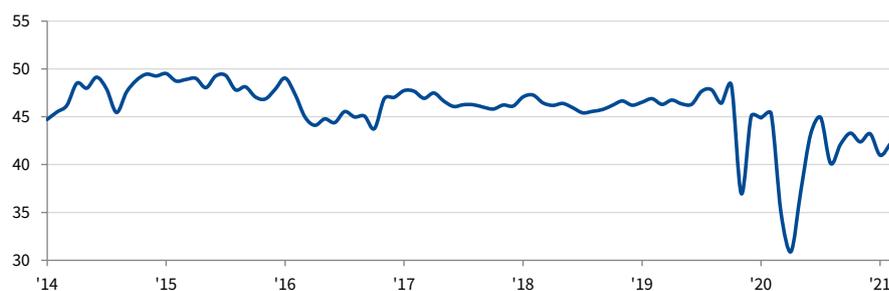
The latest downturn in business conditions was partially driven by a further contraction in output across the Lebanese private sector. Although the rate of reduction eased from January's five-month record, it remained marked overall. When explaining lower activity levels, panellists often cited restrictions related to the coronavirus disease 2019 (COVID-19) pandemic.

Similar to the trend for output, there was another marked decrease in new orders received by Lebanese businesses. Demand conditions have now deteriorated in every month since June 2013. The pandemic was mentioned a key factor behind the latest decline.

Contributing to the reduction in new business was a further contraction in exports midway through the first quarter. However, the rate of decline eased to the softest since October 2019 and was slower than the historical average (since May 2013).

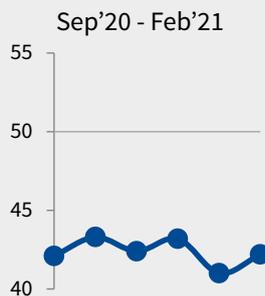
continued...

Lebanon PMI
sa, >50 = improvement since previous month



Lebanon PMI

Feb '21
42.2
 Jan: 41.0



Overview continued...

Meanwhile, input prices faced by private sector firms in Lebanon continued to rise in February. Moreover, the rate of cost inflation accelerated to the quickest for three months and was solid overall. Underlying data indicated that the increase in cost burdens was predominantly driven by a quicker rise in purchase prices. This more than offset the sharpest reduction in staff costs for five months.

Amid rising input prices, firms opted to pass on some of the additional costs onto their clients through an increase in average output prices. That said, the rate of charge inflation eased from January and was modest overall.

On the jobs front, Lebanese business reported a stabilisation in employment during February. The result ended a 17-month sequence of reduction.

Looking forward, firms remained extremely pessimistic towards the one-year business outlook. In fact, sentiment levels were at a record low, in line with readings recorded in August and September last year. Panellists often mentioned fears that further political instability would lead to a prolonged economic downturn.

Comment

Dr Ali Bolbol, Chief Economist/Head of Research at BLOM Bank, commented on the February 2021 BLOM Lebanon PMI:

“The Lebanese private sector seems to have gotten a bit of a breather in February 2021, as the BLOM Lebanon PMI increased to 42.2 from 41.0 in January 2021. All of output, new orders, and especially new export orders, witnessed declines that were less than before, while employment stabilized. These are positive developments, and perhaps they show that Lebanese firms are eager to resume activity after

months of retrenchment. But negative circumstances vastly remain, not least the pessimistic sentiments concerning the future because of the disastrous political deadlock and instability.”



Output and demand

Output

Lebanese private sector firms registered a further contraction in output during February. Albeit historically marked, the rate of decline eased from January's five-month record. When explaining lower levels of activity, panellists cited restrictions related to the COVID-19 pandemic.

Output Index

sa, >50 = growth since previous month

35.7

Feb '21



New orders

February data pointed to a further deterioration in demand conditions faced by Lebanese businesses, as new orders fell sharply. That said, the rate of decline eased from January when it was quickest since last August.

New Orders Index

sa, >50 = growth since previous month

34.7

Feb '21



New export orders

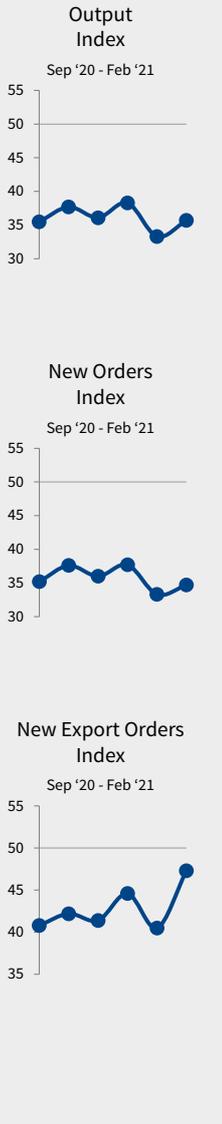
New export orders placed with private sector firms fell in February. However, the result marked the softest decline in foreign sales since October 2019 and one that was slower than the historical average. Anecdotal evidence suggested that international demand conditions remained subdued because of the COVID-19 pandemic.

New Export Orders Index

sa, >50 = growth since previous month

47.3

Feb '21



Business expectations

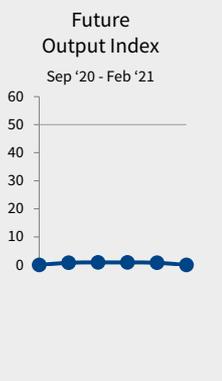
Sentiment regarding the 12-month outlook for business activity remained deep in negative territory during February. In fact, the degree of pessimism was the most severe for five months. Panellists commented that they anticipate a prolonged economic downturn due to political instability.

Future Output Index

>50 = growth expected over next 12 months

0.0

Feb '21



Employment and capacity

Employment

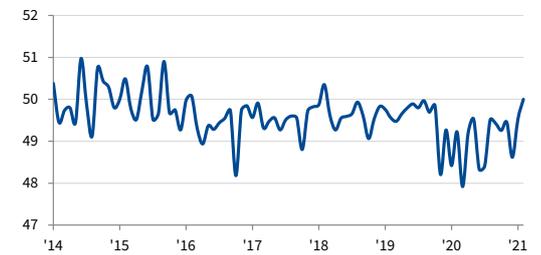
Following 17 months of successive decline, private sector employment in Lebanon stabilised during February. This was indicated by the respective seasonally adjusted index registering in line with the 50.0 no-change mark.

Employment Index

sa, >50 = growth since previous month

50.0

Feb '21



Backlogs of work

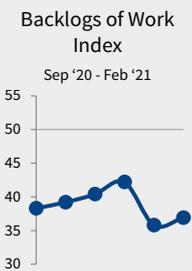
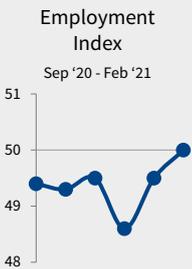
Volumes of outstanding business continued to fall markedly midway through the first quarter. However, the rate of decrease eased slightly from January's five-month record. Panellists often associated the reduction in backlogs with declines in new work.

Backlogs of Work Index

sa, >50 = growth since previous month

36.9

Feb '21

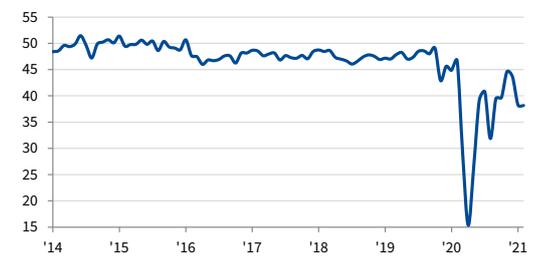


Purchasing and inventories

Quantity of purchases

As has been the case in each month since February 2016, purchasing activity at Lebanese businesses fell during the latest survey period. The rate of reduction was little-changed from January and marked by historical standards.

Quantity of Purchases Index 38.2
 sa, >50 = growth since previous month Feb '21



Suppliers' delivery times

Businesses in Lebanon reported another lengthening of input delivery times during February. The rate at which vendor performance deteriorated was most marked for four months, although modest overall. Anecdotal evidence suggested delays were caused by US dollar liquidity issues and restrictions related to COVID-19.

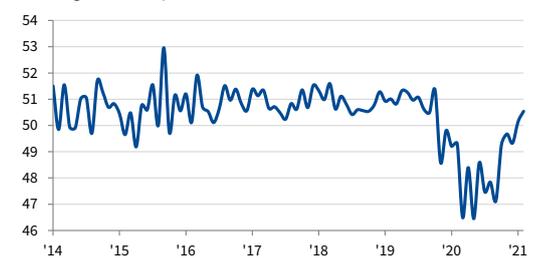
Suppliers' Delivery Times Index 48.2
 sa, >50 = faster times since previous month Feb '21



Stocks of purchases

Following the broad stabilisation in January, stocks of purchases expanded during the latest survey period. Albeit marginal overall, the rate of growth was broadly in line with the historical average.

Stocks of Purchases Index 50.5
 sa, >50 = growth since previous month Feb '21



Quantity of Purchases Index



Suppliers' Delivery Times Index



Stocks of Purchases Index

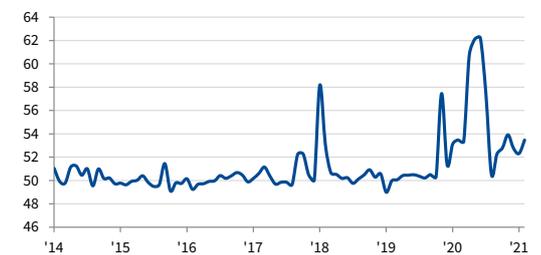


Prices

Overall input prices

Cost burdens faced by businesses in Lebanon continued to rise in February, extending the current sequence of inflation that began in March 2019. Moreover, the latest increase was the quickest for three months and solid overall.

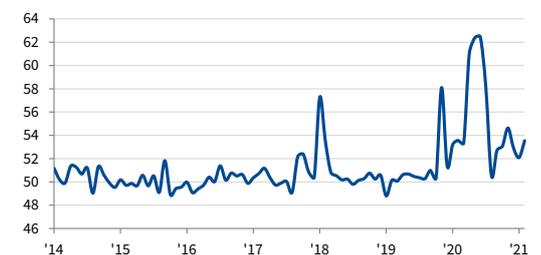
Overall Input Prices Index **53.5**
 sa, >50 = inflation since previous month Feb '21



Purchase prices

Prices paid for raw materials and other physical inputs continued to increase in February. Notably, the rate of inflation was quickest for three months and historically elevated. Anecdotal evidence indicated costs were primarily driven higher by an appreciation in the value of the US dollar.

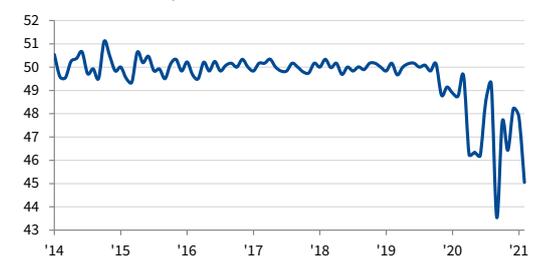
Purchase Prices Index **53.5**
 sa, >50 = inflation since previous month Feb '21



Staff costs

Average wages at firms in the Lebanese private sector continued to fall in February. The result extended the current run that began in November 2019. Moreover, the rate of reduction accelerated to the quickest for five months and was marked overall.

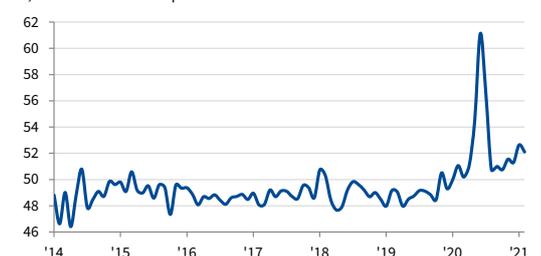
Staff Costs Index **45.0**
 sa, >50 = inflation since previous month Feb '21



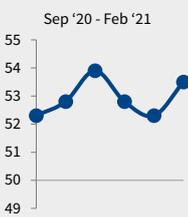
Output prices

In line with a further rise in input costs, businesses recorded another increase in their average output prices during February. That said, the rate of charge inflation eased from January's six-month high and was modest overall.

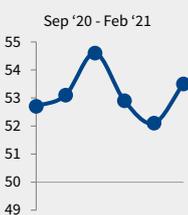
Output Prices Index **52.1**
 sa, >50 = inflation since previous month Feb '21



Overall Input Prices Index



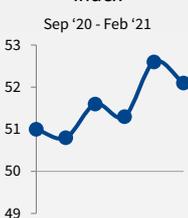
Purchase Prices Index



Staff Costs Index



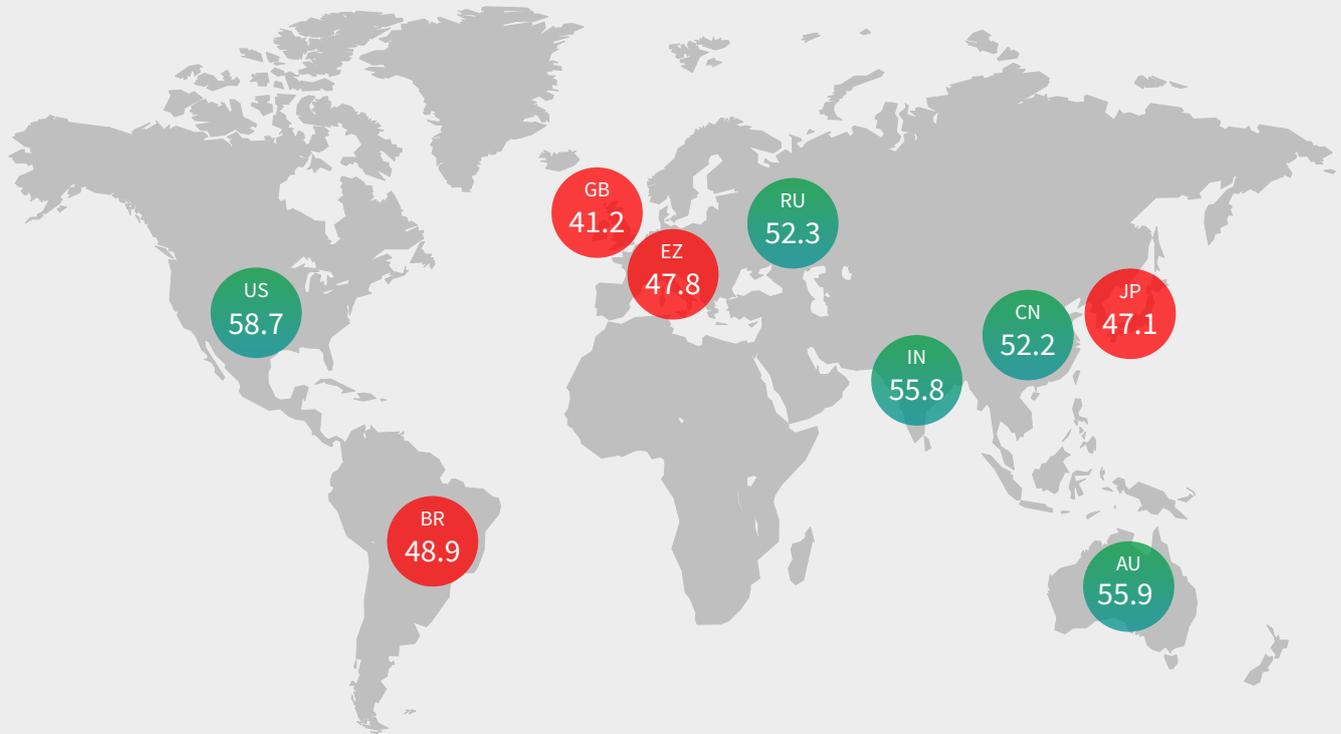
Output Prices Index



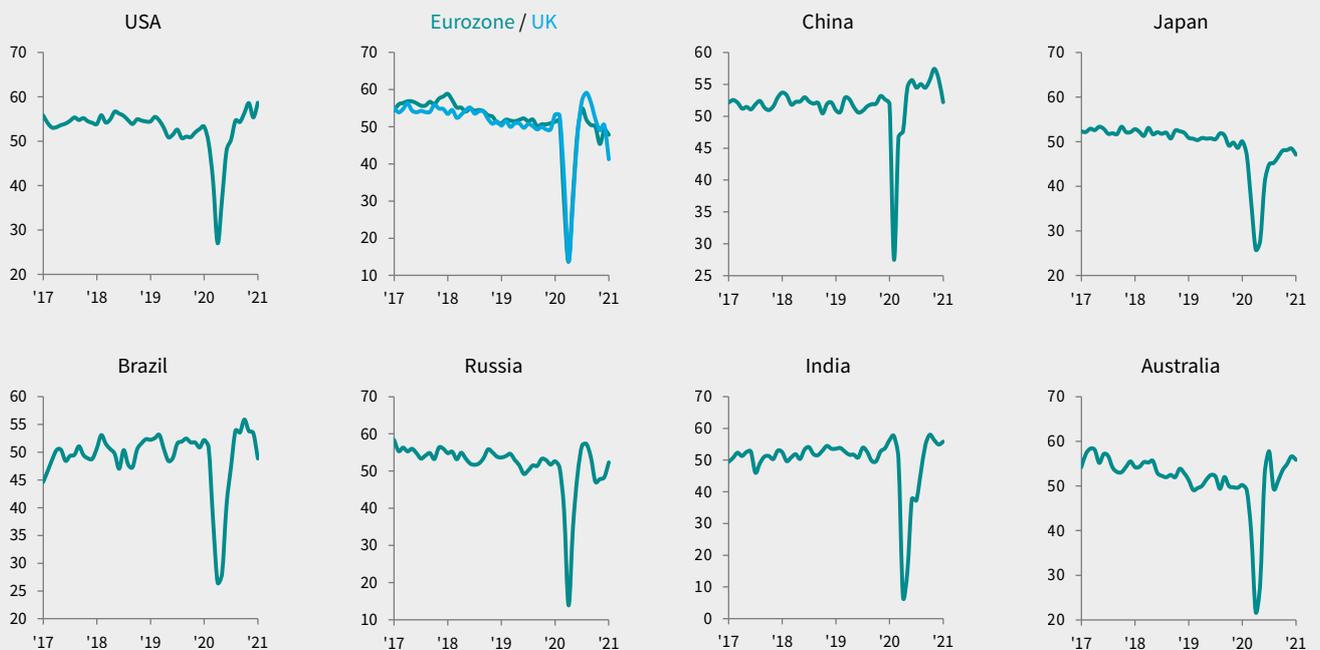
International PMI

Composite Output Index, Jan '21
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
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
02 '21	42.2	35.7	34.7	47.3	0.0	50.0	36.9	38.2	48.2	50.5	53.5	53.5	45.0	52.1

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.

February 2021 data were collected 11-22 February 2021.

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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