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Rates of decline in output and new orders slow further

Currency weakness widely reported to have hindered operations

Inflationary pressures soften

There were signs of stabilisation in the Lebanese private sector during May. Both output and new orders decreased at the slowest rates since October 2019 and employment was down only marginally. That said, companies reported ongoing challenges with the economic and political environment, and currency weakness was a key factor leading to deteriorating business conditions. Meanwhile, there were signs that rates of inflation in purchase costs and selling prices softened from the spikes in March and April.

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 headline BLOM Lebanon PMI rose for the fourth month running in May, posting 47.9 from 47.1 in April. Although still signalling a deterioration in business conditions in the private sector, the latest reading indicated a move towards stabilisation as the decline in operating conditions was the softest since October 2019.

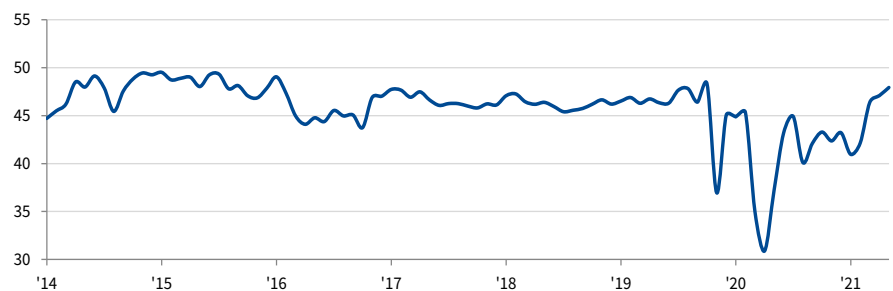
Signs of stabilisation in the headline PMI reflected the trends in output and new orders, both of which decreased at the slowest rates in 19 months. Where falls were recorded, panellists often linked this to weakness of the Lebanese pound against the US dollar and an associated drop in purchasing power. New export orders, meanwhile, were unchanged, thereby ending a 69-month sequence of decline.

With new orders approaching stabilisation, there were some signs that excess capacity had reduced in May. Backlogs of work decreased only modestly, and at the slowest pace since January 2016.

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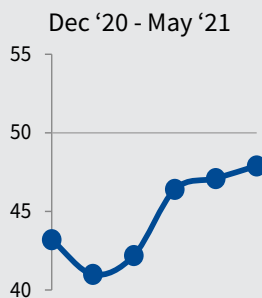
Lebanon PMI

sa, >50 = improvement since previous month



Lebanon PMI

May '21
47.9
 Apr: 47.1



Overview continued...

Meanwhile, employment dropped for the third month running, but the rate of job cuts remained marginal.

After spiking higher in March and remaining elevated in April, the rate of overall input cost inflation slowed during May and was the weakest since January. The trend in overall input prices matched that for purchase costs. Where purchase prices increased, panellists often linked this to exchange rate weakness.

In contrast to the picture for purchase prices, staff costs continued to fall. That said, the latest reduction was only slight and the softest since March 2020.

The inflationary pressures caused by currency weakness led firms to increase their selling prices in May, the sixteenth month running in which that has been the case. The rate of inflation followed a

similar pattern to that seen for input costs, however, and was only marginal.

The loss of purchasing power due to the weakness of the Lebanese pound led companies to lower their input buying. Purchasing volumes moved closer to stabilisation, however, falling to the least extent since October 2019.

Issues with price rises affected supply chains, resulting in a lengthening of delivery times. Problems sourcing some items contributed to a dip in stocks of purchases, following a rise in April.

Companies remained strongly pessimistic regarding the 12-month outlook for business activity, with the ongoing challenges of the economic and political environment set to hinder efforts to expand output.

Comment

Commenting on the BLOM Lebanon PMI for May 2021, Dr Ali Bolbol, Chief Economist/Head of Research at BLOM Bank, said:

“The BLOM Lebanon PMI stood at 47.9 in May 2021, increasing for the fourth consecutive month and signaling one of the softest declines in economic activity in recent memory. This shows the economy’s built-in ability to adjust – albeit slowly – to the country’s current crisis, especially in the case of new exports that hit the 50 mark and were no doubt driven by the weaker exchange rate. That said, the economy by far hasn’t

turned the corner, and still has a long way towards recovery. And it is no secret that the latter will be necessarily helped by the swift formation of a capable and reforming government of experienced specialists.”



Output and demand

Output

May data signalled a further move towards stabilisation for Lebanese output. Although activity continued to fall, the rate of decline softened for the fourth successive month and was the slowest since October 2019. Where output decreased, panellists often linked this to weakness of the Lebanese pound against the US dollar and an associated drop in purchasing power.

Output Index

sa, >50 = growth since previous month

46.7

May '21



New orders

The trend in output was matched by that for new orders, as May saw the rate of reduction in total new business ease to the slowest for 19 months. New orders continued to decrease at a solid pace, however, with currency weakness, lower purchasing power among clients and political instability all reportedly factors behind the latest decline.

New Orders Index

sa, >50 = growth since previous month

46.1

May '21



New export orders

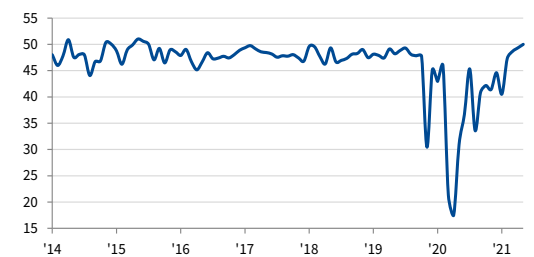
New export orders stabilised in May, thereby ending a 69-month sequence of falling new business from abroad. This was signalled by the seasonally adjusted New Export Orders Index posting at the 50.0 no-change mark.

New Export Orders Index

sa, >50 = growth since previous month

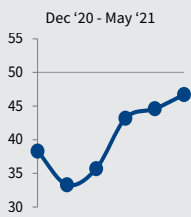
50.0

May '21



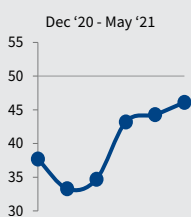
Output Index

Dec '20 - May '21



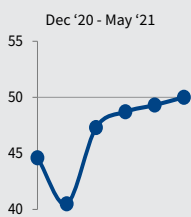
New Orders Index

Dec '20 - May '21



New Export Orders Index

Dec '20 - May '21



Business expectations

Companies in Lebanon remained extremely pessimistic regarding the 12-month outlook for output. A number of respondents indicated that it was impossible to predict where their activity would be in a year's time, given that it would be strongly influenced by wider economic and political events. Those firms that were able to make a prediction indicated that they expect the economic and political climate to have a negative impact on their output.

Future Output Index

>50 = growth expected over next 12 months

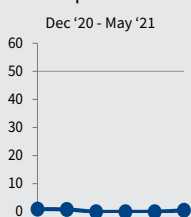
0.5

May '21



Future Output Index

Dec '20 - May '21



Employment and capacity

Employment

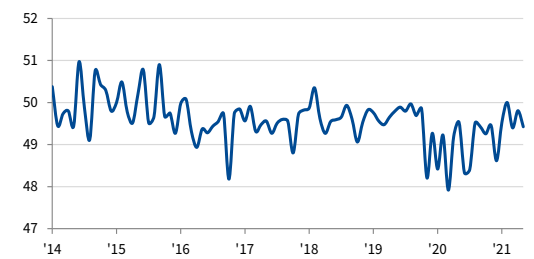
As has been the case in each of the past three months, companies lowered their staffing levels during May in response to ongoing reductions in new orders. That said, the rate of job cuts remained marginal as the vast majority of respondents (99%) kept their workforce numbers unchanged.

Employment Index

sa, >50 = growth since previous month

49.4

May '21



Backlogs of work

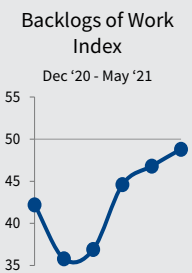
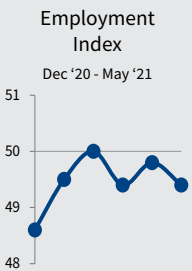
Although backlogs of work continued to decrease during May, the rate of depletion eased for the fourth successive month and was the slowest since January 2016. In fact, latest data suggested a near-stabilisation of outstanding business. Where work-in-hand fell, this was linked to reduced new order levels.

Backlogs of Work Index

sa, >50 = growth since previous month

48.8

May '21



Purchasing and inventories

Quantity of purchases

Deteriorating purchasing power amid currency weakness resulted in a reduction in input buying among Lebanese private sector firms in May. That said, the rate of decline was only modest, having eased for the third month in a row to the weakest since October 2019.

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

47.8
May '21

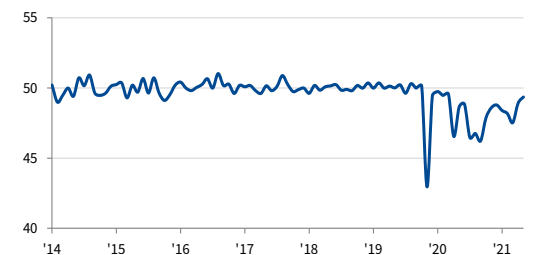


Suppliers' delivery times

May data pointed to a lengthening of suppliers' delivery times, thereby extending the current period of deterioration to 19 months. Where lead times lengthened, this often reflected issues associated with price rises. The rate at which delivery times lengthened was only marginal, however, and the least pronounced since March 2020.

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

49.4
May '21

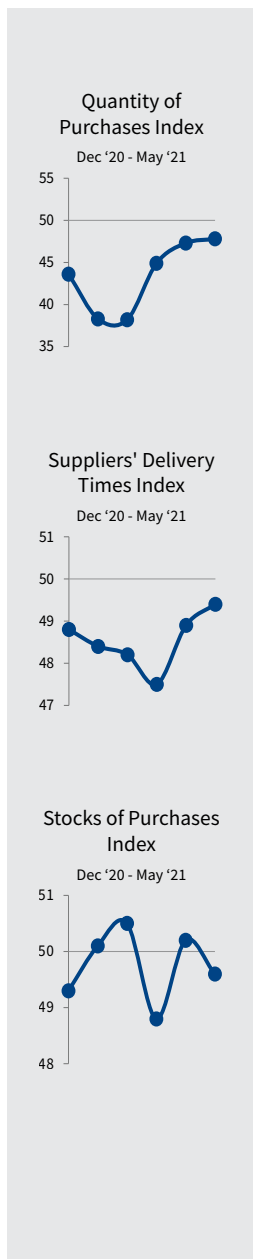


Stocks of purchases

Stocks of purchases ticked down midway through the second quarter of the year, after having risen in April. Inventories have now decreased in two of the past three months. The lack of availability of some goods was reportedly behind the drop in stocks.

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

49.6
May '21



Prices

Overall input prices

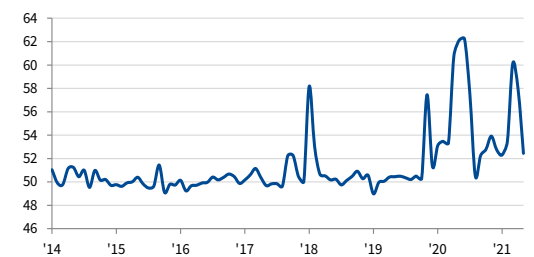
Overall input costs continued to increase in May. That said, after having spiked in March and April, the rate of inflation slowed to the weakest since January. The trend in total input costs remained similar to that seen for purchase prices. Meanwhile, staff costs continued to fall.

Overall Input Prices Index

sa, >50 = inflation since previous month

52.4

May '21



Purchase prices

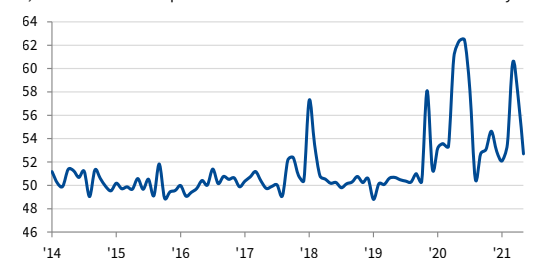
Exchange rate weakness was the principal factor leading purchase prices to increase during May. That said, the rate of inflation slowed further from March's recent peak and was the weakest in four months. The increase was still sharper than the series average, however.

Purchase Prices Index

sa, >50 = inflation since previous month

52.7

May '21



Staff costs

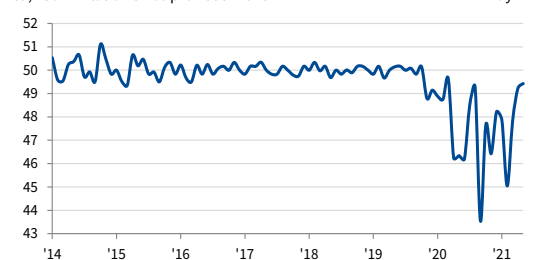
Companies in Lebanon recorded a further reduction in staff costs during May, extending the current sequence of falling wages and salaries to 19 months. That said, the pace of decline eased for the third month running and was only marginal. In fact, the fall in staff costs was the softest since March 2020.

Staff Costs Index

sa, >50 = inflation since previous month

49.4

May '21



Output prices

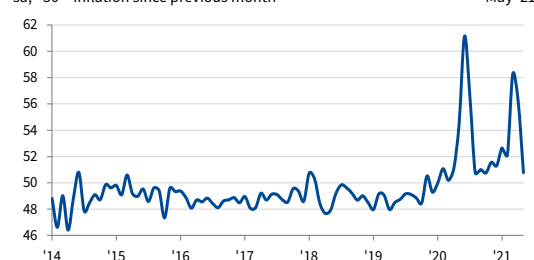
Latest data pointed to only a marginal increase in selling prices in the Lebanese private sector as the rate of inflation continued to slow following the spike in March. The latest rise was the weakest since October last year. Where output prices increased, respondents closely linked this to the inflationary pressures caused by weakness of the Lebanese pound to the US dollar.

Output Prices Index

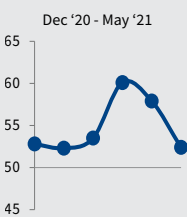
sa, >50 = inflation since previous month

50.8

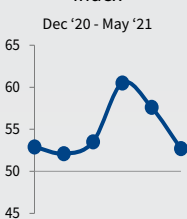
May '21



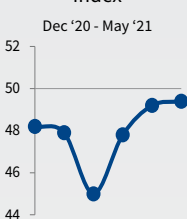
Overall Input Prices Index



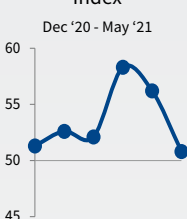
Purchase Prices Index



Staff Costs Index



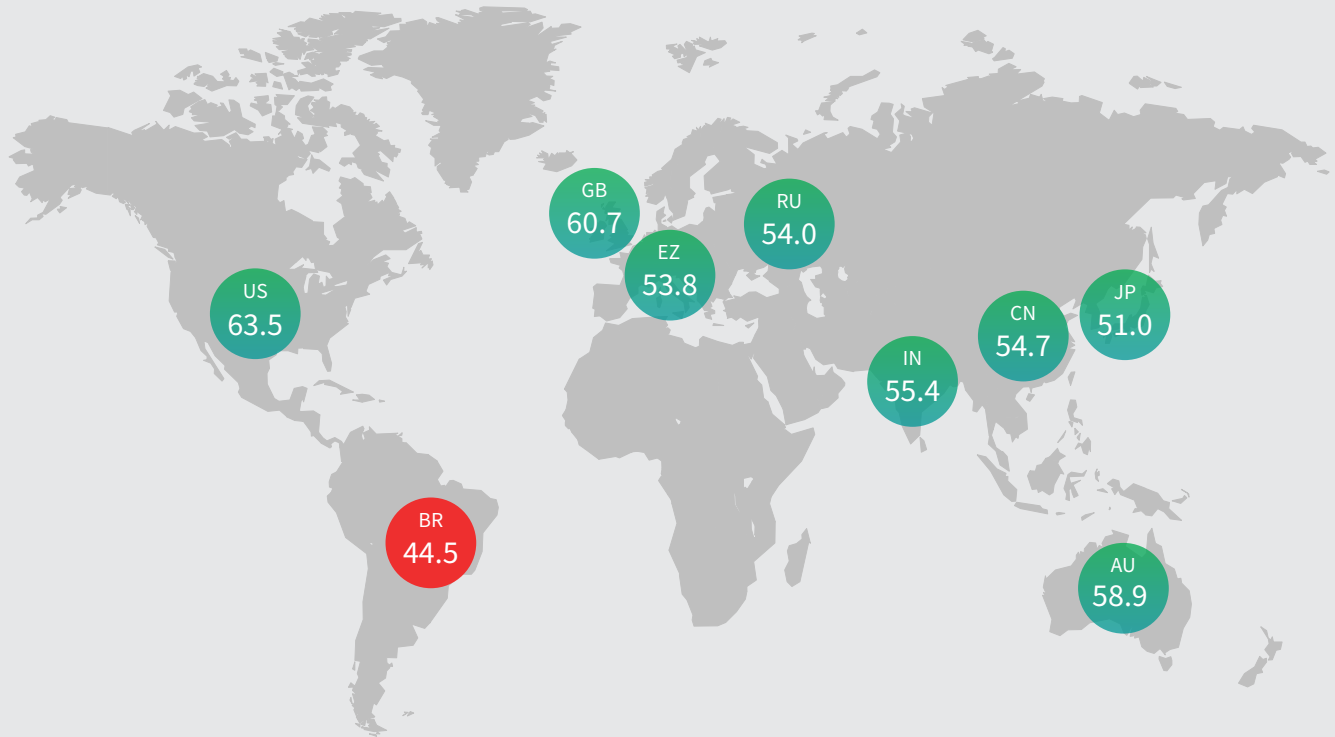
Output Prices Index



International PMI

Composite Output Index, Apr '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
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
03 '21	46.4	43.2	43.2	48.7	0.0	49.4	44.6	44.9	47.5	48.8	60.1	60.5	47.8	58.3
04 '21	47.1	44.6	44.3	49.3	0.0	49.8	46.8	47.3	48.9	50.2	57.9	57.6	49.2	56.2
05 '21	47.9	46.7	46.1	50.0	0.5	49.4	48.8	47.8	49.4	49.6	52.4	52.7	49.4	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.

May 2021 data were collected 12-24 May 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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