BLOMINVEST BANK SAL

BLOM Lebanon PMI®

Signs of stabilisation as Lebanon PMI hits 19-month high

Key findings

Rates of decline in output and new orders slow further

Currency weakness widely reported to have hindered operations

Inflationary pressures soften

Data were collected 12-24 May

Lebanon PMI
sa, >50 = improvement since previous month

Sources: BLOMINVEST BANK, IHS Markit.

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.
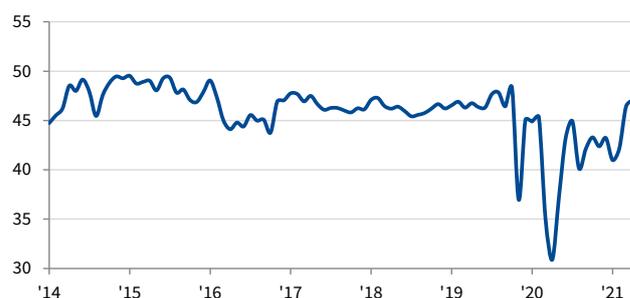
Comment

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."

PMI®
By IHS Markit

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.

Employment Index
sa, >50 = growth since previous month
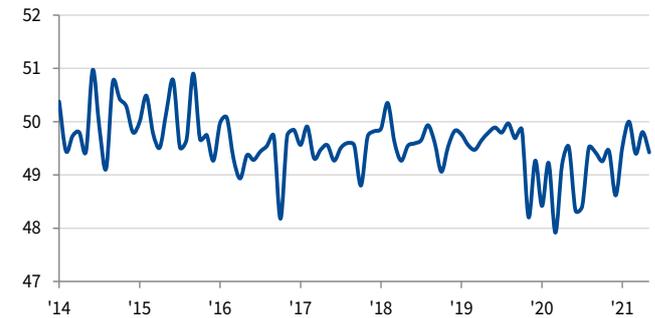
Sources: BLOMINVEST BANK, IHS Markit.

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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.

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.

About IHS Markit

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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