

Slowest deterioration in business conditions for one year

Key findings:

- **Output falls markedly, but at slowest pace for 12 months**
- **New order decline eases**
- **Rate of job cutting 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.

At 46.9 in February, up from 46.5 in January, the headline BLOM Lebanon PMI indicated another marked deterioration in business conditions across the private sector economy. However, the latest decline was the slowest recorded for one year.

February's survey highlighted a softer rate of contraction in output at Lebanese private sector firms. Business activity fell at the slowest pace for 12 months. That said, the latest reduction was still strong overall and panellists continued to mention the negative effects of political instability.

Similar to the trend in activity, new business continued to fall

markedly in February. Panel members cited weak demand conditions due to ongoing political uncertainty. However, the pace of contraction decelerated to the softest for one year.

The challenging business environment continued to have a negative impact on the labour market, with private sector firms cutting staff numbers again in February. The rate of job cutting accelerated compared to January, although the decline was only marginal overall. A quicker fall in backlogs of work underlined a lack of pressure on business capacity.

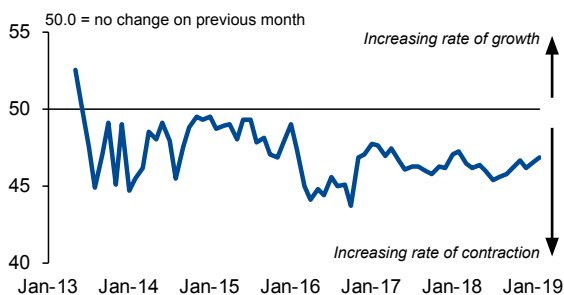
Firms also pared back their input buying midway through the first quarter. Moreover, the rate of decline was slightly faster than in January. However, a lack of sales meant that stocks of purchases continued to grow. In line with the quicker fall in purchasing activity, vendor performance improved marginally.

With demand continuing to falter and amid prevailing competitive pressures, February saw Lebanese firms cut their output charges for the twelfth month in a row. That said, the latest reduction was the softest since last September.

Meanwhile, average costs faced by businesses were unchanged in February. This was driven by a broad stabilisation in purchasing prices, as wages expanded fractionally.

Finally, the latest survey found that companies were still pessimistic towards the business outlook. Many respondents cited ongoing political instability.

Lebanon Purchasing Managers' Index™ (PMI®)



Purchasing Managers' Index			
		Unadj.	Seas. Adj.
2018	Dec	46.8	46.2
2019	Jan	47.3	46.5
	Feb	47.0	46.9

Index Summary

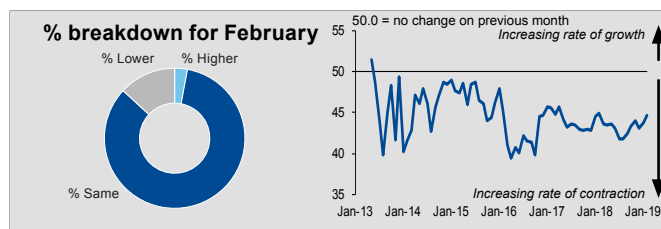
(seasonally adjusted, 50 = no change on previous month)

	PMI	Output	New Orders	Export Orders	Backlogs of Work	Employment	Output Prices	Overall Input Costs	Purchase Costs	Staff Costs	Delivery Times	Quantity of Purchases	Stocks of Purchases	Future Output
Dec'18	46.2	43.1	43.0	47.5	45.7	49.8	48.5	50.6	50.6	50.0	50.4	46.9	51.3	40.7
Jan'19	46.5	43.7	43.5	48.1	46.2	49.8	48.0	49.0	48.8	49.8	50.0	47.2	50.9	44.3
Feb	46.9	44.6	44.3	47.9	45.6	49.6	49.2	50.0	50.1	50.2	50.4	47.0	51.0	42.3

Output Index

Q. Please compare your production/output this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2018	Oct	1.6	82.5	15.9	-14.2	42.9	43.4
	Nov	1.4	82.6	16.0	-14.5	42.7	44.0
	Dec	3.8	79.9	16.3	-12.4	43.8	43.1
2019	Jan	3.0	84.5	12.4	-9.4	45.3	43.7
	Feb	2.9	83.9	13.1	-10.2	44.9	44.6

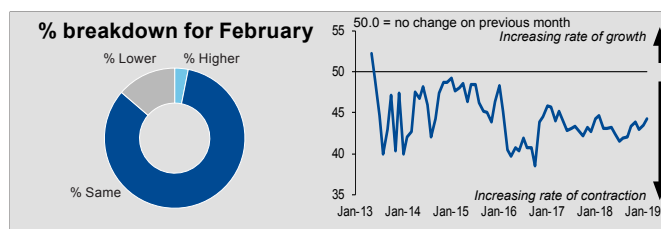


Output at private sector firms in Lebanon continued to fall in February. Panellists often mentioned ongoing political instability when explaining the solid decline. However, the latest reduction was the slowest recorded for a year after a second successive monthly deceleration in the rate of contraction.

New Orders Index

Q. Please compare the level of new orders received this month with the situation of one month ago.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2018	Oct	1.6	82.6	15.8	-14.2	42.9	43.4
	Nov	1.6	81.8	16.6	-14.9	42.5	43.9
	Dec	4.0	79.6	16.5	-12.5	43.7	43.0
2019	Jan	3.2	83.1	13.7	-10.5	44.8	43.5
	Feb	3.1	83.2	13.7	-10.6	44.7	44.3

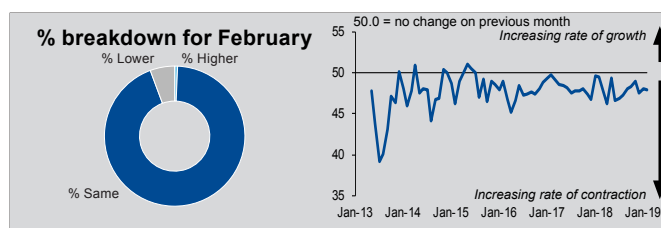


Similar to the trend for output, new business fell at the slowest pace for a year in February. That said, the latest contraction was again sharp overall and extended the current sequence of reduction to 69 months. Panel members cited faltering demand amid the continued uncertainty surrounding the government.

New Export Orders Index

Q. Please compare the level of new export orders received this month with the situation of one month ago.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2018	Oct	0.0	94.8	5.2	-5.2	47.4	48.3
	Nov	1.5	93.2	5.3	-3.9	48.1	49.0
	Dec	1.5	91.3	7.2	-5.7	47.1	47.5
2019	Jan	1.4	96.1	2.5	-1.1	49.4	48.1
	Feb	0.7	93.7	5.6	-5.0	47.5	47.9

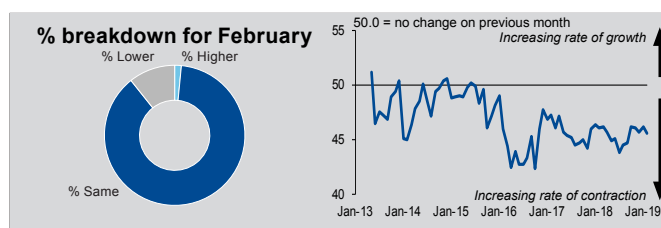


February's decline in new orders was partly driven by a contraction in new business from abroad. The moderate fall in export sales was reportedly driven by instability within neighbouring countries. Moreover, the rate of deterioration accelerated in the latest survey period, registering a slightly faster pace than the average in 2018.

Backlogs of Work Index

Q. Please compare the level of outstanding business in your company this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2018	Oct	2.8	86.7	10.5	-7.8	46.1	46.2
	Nov	2.0	86.8	11.2	-9.2	45.4	46.0
	Dec	4.9	84.9	10.2	-5.3	47.3	45.7
2019	Jan	3.3	85.4	11.3	-8.0	46.0	46.2
	Feb	1.5	87.8	10.7	-9.1	45.4	45.6

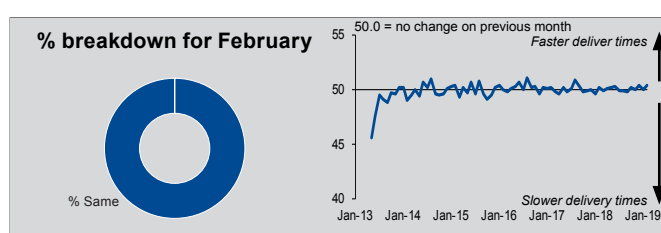


Lebanese private sector firms saw a further decline in unfinished business during February. The latest contraction extended the current sequence of reduction to 44 months and was sharp overall. Moreover, the rate of decrease accelerated compared to January and was the quickest since September 2018.

Suppliers' Delivery Times Index

Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.

		Faster %	Same %	Slower %	Net +/-	Index	S.Adj. Index
2018	Oct	0.0	100.0	0.0	0.0	50.0	50.2
	Nov	0.0	100.0	0.0	0.0	50.0	50.0
	Dec	0.0	100.0	0.0	0.0	50.0	50.4
2019	Jan	0.0	100.0	0.0	0.0	50.0	50.0
	Feb	0.0	100.0	0.0	0.0	50.0	50.4

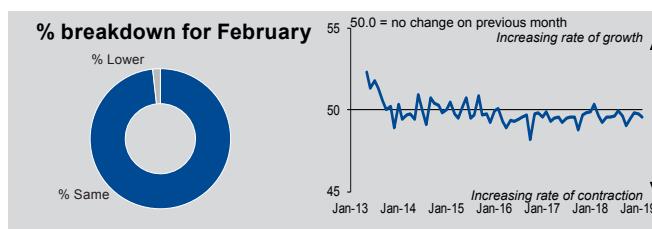


Following the stagnation of supplier delivery times recorded in January, firms reported a marginal improvement in lead times midway through the first quarter of the year. This was highlighted by the seasonally adjusted Suppliers' Delivery Times Index registering above the 50.0 no-change mark.

Employment Index

Q. Please compare the level of employment at your unit with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2018	Oct	0.0	97.4	2.6	-2.6	48.7	49.1
	Nov	0.3	99.3	0.4	-0.1	50.0	49.5
	Dec	0.9	99.0	0.1	+0.9	50.4	49.8
2019	Jan	0.2	99.5	0.2	0.0	50.0	49.8
	Feb	0.0	98.2	1.8	-1.8	49.1	49.6

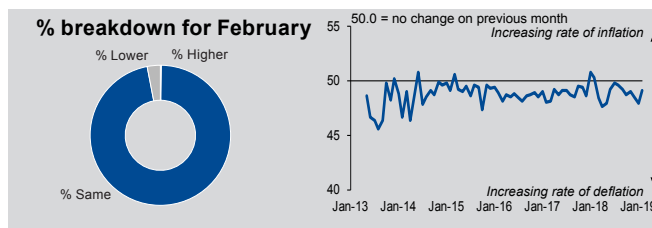


February data pointed to a sustained decline in employment levels at private sector firms in Lebanon. Some survey participants explained that falling workloads made it unprofitable to maintain previous staff numbers. The rate of job cutting was slightly faster than that recorded in January.

Output Prices Index

Q. Please compare the average prices you charged this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2018	Oct	0.7	97.0	2.3	-1.5	49.2	48.7
	Nov	0.0	99.3	0.7	-0.7	49.7	49.0
	Dec	0.0	98.0	2.0	-2.0	49.0	48.5
2019	Jan	0.0	94.2	5.8	-5.8	47.1	48.0
	Feb	0.2	96.7	3.0	-2.8	48.6	49.2

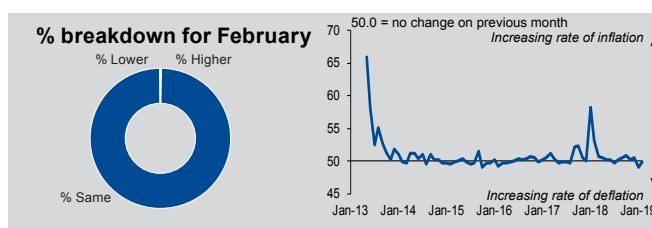


Output price reduction continued in Lebanon's private sector midway through the opening quarter of the year. The latest fall extended the current sequence of price cuts to one year. Firms suggested that reducing charges had become common practice, in an attempt to capture a larger share of shrinking markets.

Overall Input Prices Index

Q. Please compare your overall average input prices this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2018	Oct	1.5	98.5	0.0	+1.5	50.7	50.9
	Nov	0.2	99.5	0.3	-0.1	49.9	50.3
	Dec	0.4	99.6	0.0	+0.4	50.2	50.6
2019	Jan	0.0	99.7	0.3	-0.3	49.9	49.0
	Feb	0.2	99.6	0.1	+0.1	50.1	50.0

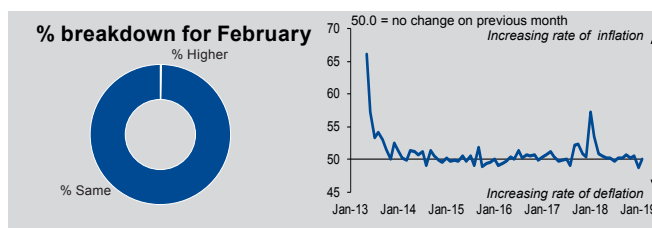


Following the fastest fall since the survey began in May 2013 during January, input prices faced by private sector firms in Lebanon stabilised in February. This was indicated by the seasonally adjusted Overall Input Prices Index registering in line with the crucial 50.0 no-change threshold.

Input Costs: Purchase Prices Index

Q. Please compare the price of your purchases (volume-weighted) this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2018	Oct	1.5	98.5	0.0	+1.5	50.8	50.8
	Nov	0.2	99.5	0.3	-0.1	49.9	50.2
	Dec	0.4	99.6	0.0	+0.4	50.2	50.6
2019	Jan	0.0	99.7	0.3	-0.3	49.9	48.8
	Feb	0.3	99.7	0.0	+0.3	50.1	50.1

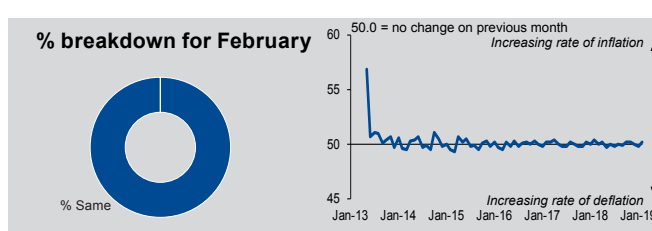


Prices paid by private sector firms in Lebanon were broadly unchanged midway through the first quarter. Indeed, the vast majority of surveyed businesses reported no change in average purchase prices. The result represented stabilisation after the quickest decline on record during January.

Input Costs: Staff Costs Index

Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2018	Oct	0.0	100.0	0.0	0.0	50.0	50.2
	Nov	0.0	100.0	0.0	0.0	50.0	50.2
	Dec	0.0	100.0	0.0	0.0	50.0	50.0
2019	Jan	0.0	100.0	0.0	0.0	50.0	49.8
	Feb	0.0	100.0	0.0	0.0	50.0	50.2

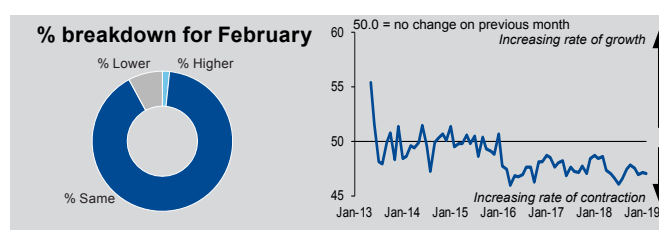


Following the slight decline recorded in January, Lebanese private sector firms reported a rise in staff costs during February. This was indicated by the respective seasonally adjusted index registering above the 50.0 no-change mark. The latest increase was only fractional overall but the first recorded since last November.

Quantity of Purchases Index

Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2018	Oct	3.3	88.4	8.3	-5.0	47.5	47.8
	Nov	2.0	90.4	7.6	-5.6	47.2	47.6
	Dec	3.4	88.5	8.1	-4.8	47.6	46.9
2019	Jan	1.7	89.8	8.5	-6.8	46.6	47.2
	Feb	1.7	90.5	7.9	-6.2	46.9	47.0

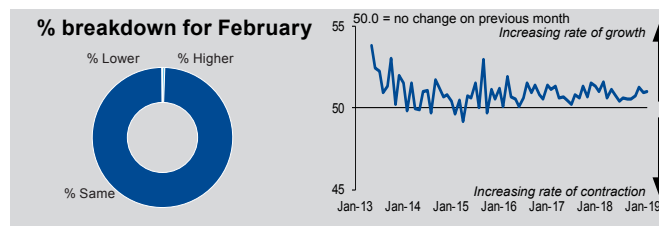


Amid a further contraction in output, private sector firms in Lebanon reduced purchasing activity again in February. This was indicated by the seasonally adjusted Quantity of Purchases Index registering below the 50.0 no-change threshold. The latest decline extended the current sequence to just over three years.

Stocks of Purchases Index

Q. Please compare your stocks of purchases (in units) with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2018	Oct	1.7	97.8	0.5	+1.3	50.6	50.5
	Nov	1.6	98.4	0.0	+1.6	50.8	50.8
	Dec	3.6	96.4	0.1	+3.5	51.7	51.3
2019	Jan	1.0	98.8	0.2	+0.8	50.4	50.9
	Feb	0.5	99.3	0.1	+0.4	50.2	51.0

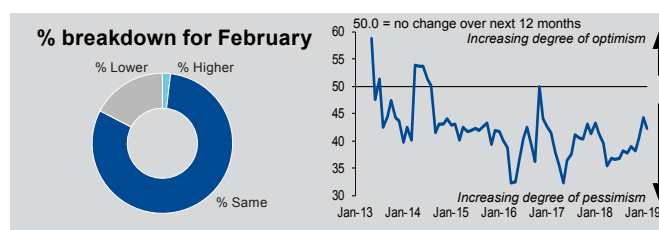


Stocks of purchases (including raw materials, semi-manufactured good and items for resale) held by private sector Lebanese firms expanded marginally midway through the first quarter. The rate of increase was broadly consistent with that registered in January, remaining in line with the long-run average.

Future Output Index

Q. In 12 months' time do you expect the overall volume of output to be higher, the same or lower than now?

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2018	Oct	3.3	71.4	25.2	-21.9	39.1	n/a
	Nov	0.0	76.4	23.6	-23.6	38.2	n/a
	Dec	0.0	81.3	18.7	-18.7	40.7	n/a
2019	Jan	0.0	88.6	11.4	-11.4	44.3	n/a
	Feb	1.9	80.8	17.3	-15.5	42.3	n/a



Overall, companies remained pessimistic towards the business outlook in February. Approximately 2% of survey respondents thought output would rise over the next 12 months compared to roughly 17% that believed it would fall. Moreover, the degree of pessimism increased compared to January, when sentiment was at a 26-month high.

Notes on the Data and Method of Presentation

The *Purchasing Managers' Index™* is based on data compiled from monthly replies to questionnaires sent to purchasing executives in approximately 400 private sector companies, which have been carefully selected to accurately represent the true structure of the Lebanese economy, including manufacturing, services, construction and retail. The panel is stratified by Standard Industrial Classification (SIC) group, based on industry contribution to GDP, and by company workforce size. Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

The *Purchasing Managers' Index (PMI®)* is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times index inverted so that it moves in a comparable direction.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease. IHS Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

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