

January sees the slowest fall in business activity for one year

Key findings:

- **Weakest decreases in output and new orders since January 2016**
- **Private sector employment falls for eleventh month running**
- **Businesses continue to lower prices for goods and services**

This report contains the fortieth 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 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 downturn in Lebanon's private sector economy showed further signs of easing at the start of 2017, with the headline BLOM Lebanon PMI rising for the third month running to 47.7 in January, up from December's 47.0 and well above its average of 45.7 across 2016 as a whole.

The headline PMI moved higher in January amid slower falls in both business output and the level of new orders received by companies. That said, the respective rates of decline remained solid overall. New export orders, on the other hand, fell only slightly, with the pace of decline being the slowest seen in the current 18-month sequence of contraction.

The subdued demand environment continued to lead to job losses among private sector businesses, with January marking the eleventh month in a row in which employment has decreased. However, as has been the case throughout this sequence, the extent of the fall in workforce numbers at the start of the year was only modest.

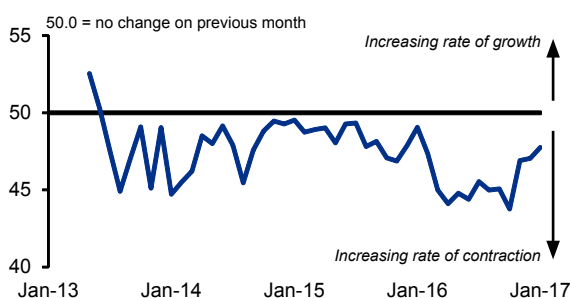
January, meanwhile, saw a further, albeit slower, decrease in Lebanese firms' buying levels. The average time taken for purchased items to be delivered was little-changed from the month before.

Elsewhere, downward pressure continued on prices charged for goods and services, which fell for the twenty-second consecutive month in January. However, this latest decrease in output prices, which was linked by panellists to efforts to stimulate new work, was the least marked since January last year.

Average costs rose slightly over the month, resulting from an increase in purchase prices offsetting a dip in staff pay.

In regards to future output prospects, January's survey showed a degree of pessimism among Lebanese businesses, with more companies expecting a fall in activity over the next 12 months than those predicting an increase. Furthermore, sentiment was at its lowest level for three months, having retreated further from a 27-month high in November.

Lebanon Purchasing Managers' Index™ (PMI™)



Purchasing Managers' Index			
		Unadj.	Seas. Adj.
2016	Nov	46.3	46.9
	Dec	48.6	47.0
2017	Jan	46.6	47.7

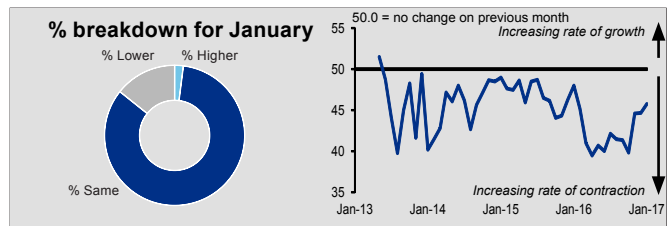
Index Summary

(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
Nov'16	46.9	44.6	43.9	48.0	46.0	49.7	48.9	50.5	50.6	50.3	49.6	48.2	50.8	49.9
Dec	47.0	44.7	44.6	48.9	47.7	49.8	48.5	49.9	49.9	50.0	50.2	48.2	50.6	44.1
Jan'17	47.7	45.8	45.9	49.3	46.8	49.6	49.0	50.2	50.4	49.8	50.1	48.7	51.4	42.5

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

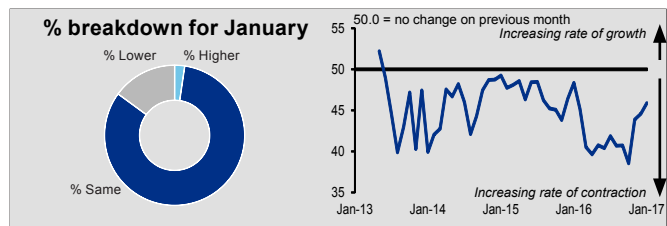
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2016	Sep	3.7	76.6	19.8	-16.1	42.0	41.3
	Oct	1.4	74.0	24.6	-23.2	38.4	39.8
	Nov	2.7	81.6	15.7	-13.0	43.5	44.6
	Dec	5.5	83.1	11.4	-5.9	47.0	44.7
2017	Jan	2.0	83.7	14.3	-12.2	43.9	45.8



January saw the slowest decrease in private sector business activity for one year. That said, the respective seasonally adjusted index remained well below the neutral 50.0 threshold, pointing to a solid rate of decline in output overall. The current downturn in business activity stretches back to mid-2013.

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

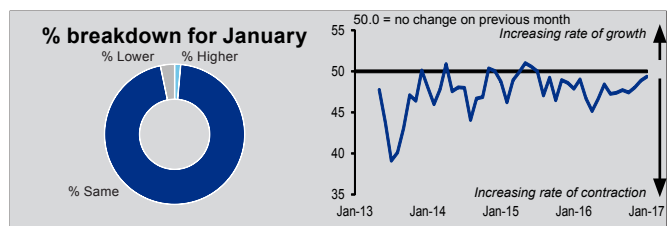
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2016	Sep	3.6	75.8	20.6	-17.1	41.5	40.7
	Oct	1.3	73.3	25.4	-24.1	38.0	38.6
	Nov	3.0	80.6	16.4	-13.5	43.3	43.9
	Dec	5.7	82.8	11.5	-5.8	47.1	44.6
2017	Jan	2.3	82.7	14.9	-12.6	43.7	45.9



Lebanese businesses recorded a further reduction in the level of incoming new orders in January, which they often linked to unstable market conditions. Although easing to the slowest seen since January last year, the rate at which new business decreased remained substantial. Around 15% of firms recorded a drop in new work, versus only 2% reporting an increase.

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

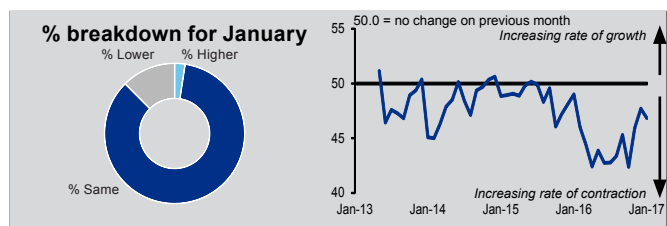
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2016	Sep	0.5	95.9	3.6	-3.1	48.5	47.7
	Oct	0.0	91.3	8.7	-8.7	45.6	47.4
	Nov	1.4	92.5	6.1	-4.7	47.7	48.0
	Dec	2.3	94.7	3.0	-0.7	49.7	48.9
2017	Jan	1.4	95.3	3.3	-1.9	49.1	49.3



Adding to challenging domestic market conditions, the level of new orders received from abroad also decreased in the opening month of the year. That said, the rate of decline in new export orders was only marginal and the weakest in the current 18-month sequence of contraction. Indeed, the vast majority of firms (approximately 95%) reported no change.

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

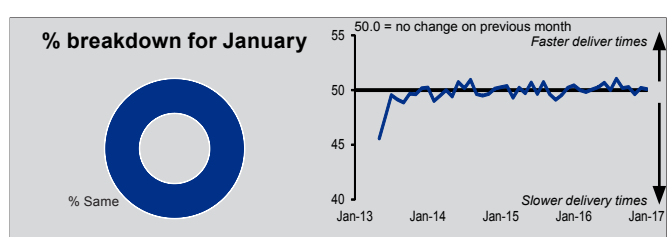
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2016	Sep	4.8	81.6	13.6	-8.8	45.6	45.3
	Oct	2.2	79.0	18.7	-16.5	41.8	42.4
	Nov	3.1	85.4	11.5	-8.4	45.8	46.0
	Dec	6.7	85.3	8.0	-1.2	49.4	47.7
2017	Jan	2.4	85.1	12.5	-10.0	45.0	46.8



A lack of new work to replace completed projects led to a further reduction in outstanding business in January, the nineteenth month in a row in which this has been the case. The respective seasonally adjusted index dipped slightly from December's 11-month high, pointing to a reacceleration in the rate of backlog depletion.

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
2016	Sep	0.0	100.0	0.0	0.0	50.0	50.2
	Oct	0.0	100.0	0.0	0.0	50.0	50.3
	Nov	0.2	99.6	0.2	0.0	50.0	49.6
	Dec	0.6	99.2	0.2	+0.4	50.2	50.2
2017	Jan	0.0	100.0	0.0	0.0	50.0	50.1

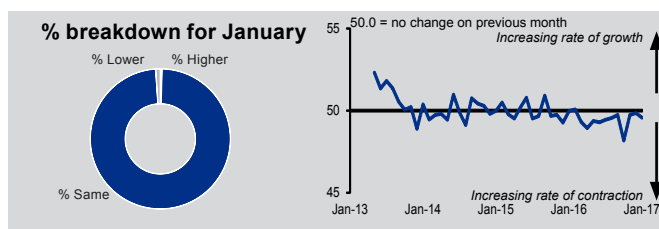


Average delivery times for the supply of purchased items to private sector businesses operating in Lebanon were little-changed in January, as shown by the respective seasonally adjusted index posting a reading broadly in line with the 50.0 no-change mark. That followed a slight improvement in vendor performance in the preceding survey period.

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
2016	Sep	0.2	98.4	1.4	-1.3	49.4	49.7
	Oct	0.0	96.5	3.5	-3.5	48.3	48.2
	Nov	0.4	98.9	0.7	-0.3	49.8	49.7
	Dec	1.4	97.4	1.2	+0.2	50.1	49.8
2017	Jan	0.4	98.6	1.1	-0.7	49.7	49.6

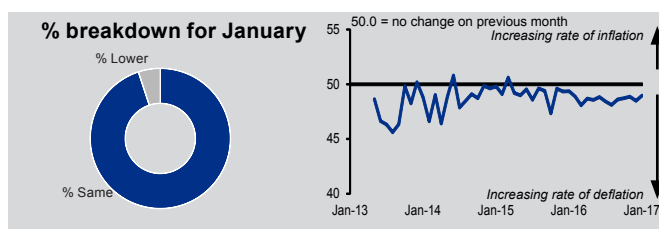


January's survey showed a further decrease in the level of employment across Lebanon's private sector economy, continuing a trend seen in every month since March last year. Where a reduction in staff numbers was recorded, firms often commented on a lack of work. However, the overall rate of job losses was only marginal and slightly slower than the average across 2016 as a whole.

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
2016	Sep	1.4	96.1	2.4	-1.0	49.5	48.6
	Oct	0.7	95.5	3.9	-3.2	48.4	48.7
	Nov	0.0	98.4	1.6	-1.6	49.2	48.9
	Dec	0.2	96.6	3.2	-3.0	48.5	48.5
2017	Jan	0.0	94.9	5.1	-5.1	47.5	49.0

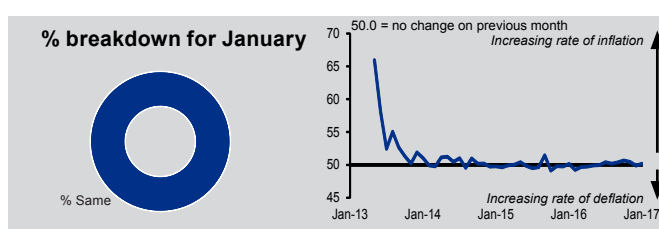


As well as leading to job cuts, the lack of new work also contributed to the reduction of firms' their output charges in January. Average prices charged for goods and services fell for the twenty-second month in a row, although the rate of decline eased to a marginal pace that was the slowest seen since January last year.

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
2016	Sep	0.4	99.6	0.0	+0.4	50.2	50.4
	Oct	0.9	98.5	0.6	+0.3	50.1	50.7
	Nov	0.8	99.1	0.2	+0.6	50.3	50.5
	Dec	0.0	99.8	0.2	-0.2	49.9	49.9
2017	Jan	0.0	100.0	0.0	0.0	50.0	50.2

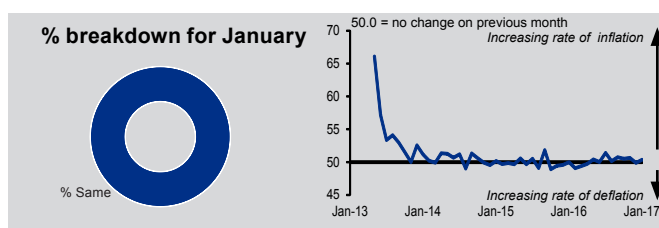


Adjusted for the influence of seasonal factors, the Overall Input Prices Index registered a reading just above the 50.0 no-change threshold in January, thereby pointing to a slight increase in Lebanese businesses' overall cost burdens. That marked the sixth time in the past seven months that an increase in average input prices has been recorded, following little-change in December.

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
2016	Sep	0.4	99.6	0.0	+0.4	50.2	50.8
	Oct	0.9	98.5	0.6	+0.3	50.1	50.5
	Nov	0.9	98.9	0.2	+0.7	50.4	50.6
	Dec	0.0	99.8	0.2	-0.2	49.9	49.9
2017	Jan	0.0	100.0	0.0	0.0	50.0	50.4

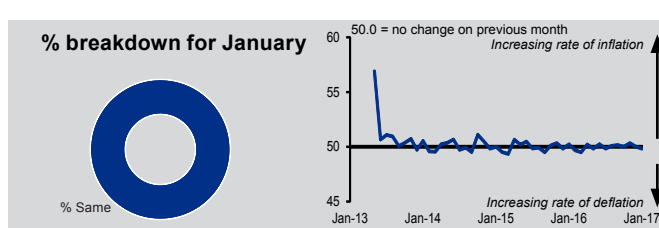


One factor that contributed to the rise in overall cost burdens was an increase in average prices paid for purchases. After having shown negligible movement during the final month of 2016, purchasing costs returned to growth at the start of 2017, albeit rising only marginally overall.

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
2016	Sep	0.0	100.0	0.0	0.0	50.0	50.2
	Oct	0.0	99.2	0.8	-0.8	49.6	50.0
	Nov	0.0	100.0	0.0	0.0	50.0	50.3
	Dec	0.0	100.0	0.0	0.0	50.0	50.0
2017	Jan	0.0	100.0	0.0	0.0	50.0	49.8

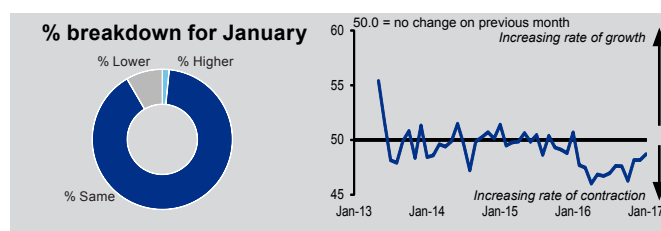


A decrease in average salaries/wages helped in offsetting the rise in purchase prices faced by private sector Lebanese businesses in January. The reduction in staff remuneration, albeit only slight, was the first seen since last July and compared with no change in pay during the final month of 2016.

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
2016	Sep	6.2	85.1	8.8	-2.6	48.7	47.6
	Oct	3.0	85.7	11.4	-8.4	45.8	46.3
	Nov	3.9	88.8	7.3	-3.3	48.3	48.2
	Dec	5.8	86.7	7.5	-1.8	49.1	48.2
2017	Jan	1.6	90.0	8.4	-6.8	46.6	48.7

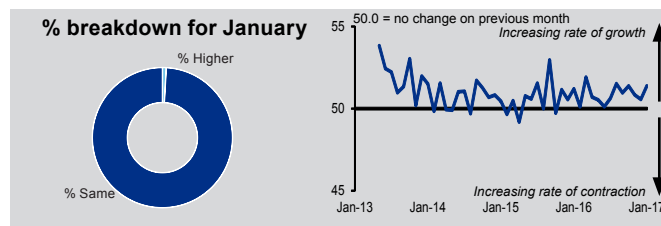


Trends in both output and new orders were mirrored by companies' purchasing activity in January, as buying levels fell at a slower rate. The pace at which quantities of purchases decreased was in fact the weakest in the current 12-month sequence of contraction and considerably slower than that seen at the start of the fourth quarter of 2016.

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
2016	Sep	5.0	94.4	0.6	+4.4	52.2	51.0
	Oct	3.0	96.3	0.7	+2.3	51.1	51.4
	Nov	2.7	95.3	2.0	+0.7	50.3	50.8
	Dec	5.9	93.7	0.4	+5.6	52.8	50.6
2017	Jan	0.9	99.1	0.0	+0.9	50.4	51.4

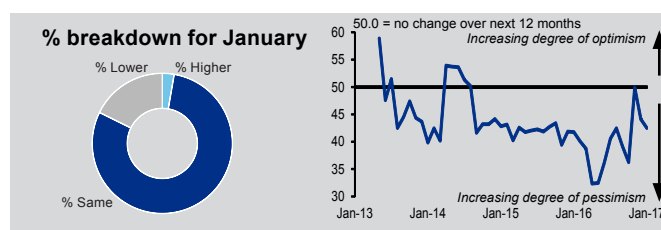


Stocks of purchases held by businesses operating in Lebanon increased during January, as has been the case in every month since November 2015. Furthermore, the rate of accumulation accelerated from the modest pace recorded in the previous survey period to the strongest seen since October last year.

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
2016	Sep	6.6	65.2	28.2	-21.7	39.2	n/a
	Oct	4.5	63.4	32.0	-27.5	36.3	n/a
	Nov	13.8	72.2	14.0	-0.2	49.9	n/a
	Dec	3.6	81.1	15.3	-11.8	44.1	n/a
2017	Jan	2.7	79.6	17.7	-15.0	42.5	n/a



Lebanese businesses maintained a negative outlook towards output prospects in the year ahead of January. Moreover, having fallen further from November's 27-month high, the Future Output Index pointed to an increased degree of pessimism, with a number of surveyed companies citing instability and a lack of hope of market conditions improving.

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. 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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