

Private sector business conditions worsen in August

Key findings:

- **PMI unchanged since July at 46.3**
- **Output and employment fall due to weak demand**
- **Faster decline in average prices charged for goods and services**

This report contains the forty-seventh 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.

Business conditions continued to deteriorate across Lebanon's private sector economy mid-way through the third quarter. This was highlighted by the headline BLOM Lebanon PMI registering a reading of 46.3 in August, unchanged since July and below the average for the year so far (46.9).

The survey data pointed to ongoing weakness in demand, with the level of new work placed with businesses falling sharply during the month. This reflected not only political uncertainty and difficult economic conditions within the domestic market, but also a drop in new orders from abroad. As a result, private sector output decreased, continuing a

trend observed in every month since mid-2013. The rate of contraction was sharp and little-changed from that recorded in the preceding survey period.

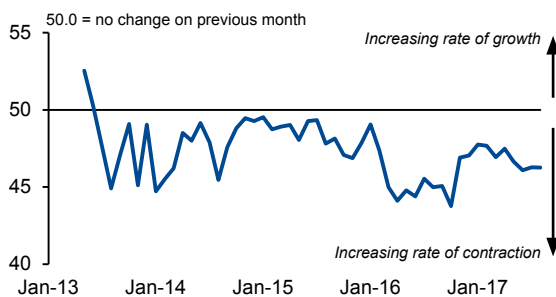
The lack of workplace activity in the private sector was underlined by a further decline in backlogs of work, which fell for the twenty-sixth month running and at the fastest rate seen since last October. Spare capacity among businesses led them to reduce workforce numbers, though the overall extent of the decrease in employment in August was only slight.

Latest data also showed a further scaling back of purchasing activity among businesses. Inventories, however, continued to rise due to weak sales, growing at the fastest rate for five months in August. The drop in buying levels meanwhile contributed to an improvement in average supplier delivery times.

Elsewhere, average prices charged for goods and services decreased at the fastest rate for three months in August, with companies commenting on competitive pressures and having to sell at discounted prices in order to support sales. However, a fourth straight monthly decrease in average input costs helped to relieve the pressure on firms' margins.

Business sentiment remained negative in August, with firms in general expecting activity to fall in the year ahead. That said, the degree of pessimism was the least marked for six months.

Lebanon Purchasing Managers' Index™ (PMI®)



Purchasing Managers' Index			
		Unadj.	Seas. Adj.
2017	Jun	45.7	46.1
	Jul	46.3	46.3
	Aug	46.3	46.3

Index Summary

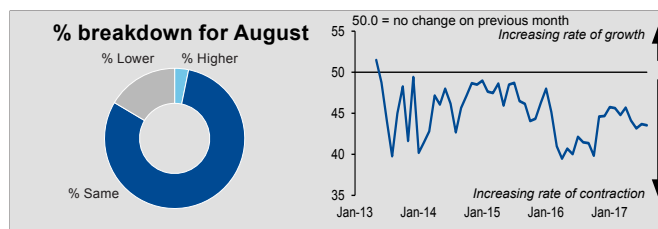
(seasonally adjusted, 50 = no change on previous month)

	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
Jun'17	46.1	43.2	42.9	48.2	45.4	49.3	49.1	49.8	49.9	49.8	49.8	46.8	50.5	36.4
Jul	46.3	43.7	43.1	47.6	45.2	49.5	49.1	49.9	50.0	49.8	50.1	47.7	50.2	37.6
Aug	46.3	43.5	43.4	47.8	44.5	49.6	48.7	49.6	49.1	50.2	50.9	47.3	50.8	41.2

Output Index

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

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2017	Apr	5.5	83.0	11.5	-6.0	47.0	45.7
	May	2.5	81.4	16.1	-13.6	43.2	44.1
	Jun	3.2	78.2	18.6	-15.5	42.3	43.2
	Jul	2.5	81.9	15.6	-13.1	43.4	43.7
	Aug	3.2	80.3	16.5	-13.3	43.4	43.5

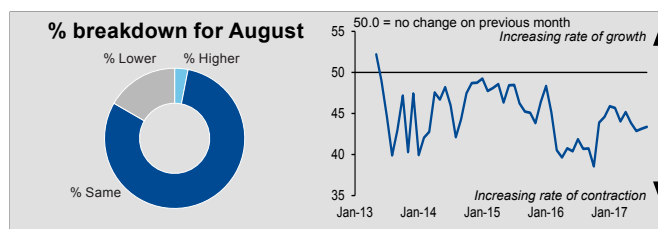


The level of business activity in Lebanon's private sector economy decreased in August. This was highlighted by the respective seasonally adjusted index registering a reading below the 50.0 no-change threshold, as has been the case in every month since June 2013. The rate of contraction was sharp and little-changed from that recorded in the preceding survey period.

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
2017	Apr	4.8	83.9	11.3	-6.5	46.8	45.2
	May	2.5	81.3	16.3	-13.8	43.1	43.8
	Jun	3.1	79.0	17.8	-14.7	42.6	42.9
	Jul	2.5	81.6	15.9	-13.5	43.3	43.1
	Aug	3.1	80.3	16.7	-13.6	43.2	43.4

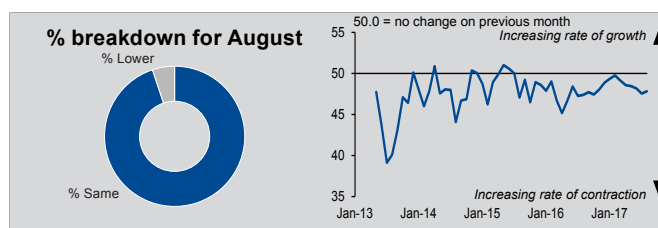


August data showed the continuation of weak demand conditions facing businesses in Lebanon, with the level of incoming new orders falling during the month. Although easing slightly to the weakest level seen since May, the rate of decline in new business remained sharp overall. Where a decrease was recorded, a number of businesses linked this to the current political and economic situation.

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
2017	Apr	0.9	94.2	4.9	-3.9	48.0	48.6
	May	2.9	92.9	4.2	-1.3	49.4	48.4
	Jun	1.9	93.7	4.4	-2.5	48.7	48.2
	Jul	0.0	94.4	5.6	-5.6	47.2	47.6
	Aug	0.0	94.9	5.1	-5.1	47.4	47.8

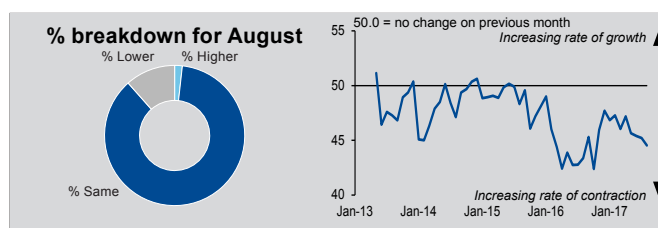


August saw a decrease in the level of new orders received from abroad, thereby extending the current sequence of contraction to 25 months. The rate of decline was moderate and broadly in line with the average recorded over this sequence (albeit slightly slower than that seen in July). Around 5% of firms noted a drop in new export orders, whereas none reported an increase.

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
2017	Apr	3.8	86.7	9.5	-5.6	47.2	47.2
	May	2.1	87.3	10.6	-8.4	45.8	45.6
	Jun	3.1	84.1	12.7	-9.6	45.2	45.4
	Jul	2.3	85.8	11.9	-9.6	45.2	45.2
	Aug	1.8	86.7	11.5	-9.8	45.1	44.5

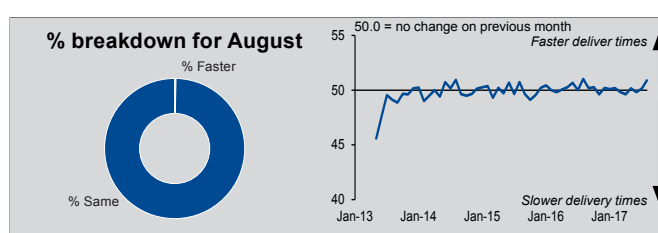


Capacity utilisation remained low among Lebanese businesses mid-way through the third quarter, as evidenced by a twenty-sixth straight monthly decrease in backlogs of work. Furthermore, having accelerated for the fourth month in a row, the rate of depletion was sharp and the fastest seen since October 2016.

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
2017	Apr	0.0	100.0	0.0	0.0	50.0	49.6
	May	0.0	99.7	0.3	-0.3	49.8	50.2
	Jun	0.0	100.0	0.0	0.0	50.0	49.8
	Jul	0.5	99.5	0.0	+0.5	50.2	50.1
	Aug	0.3	99.7	0.0	+0.3	50.2	50.9

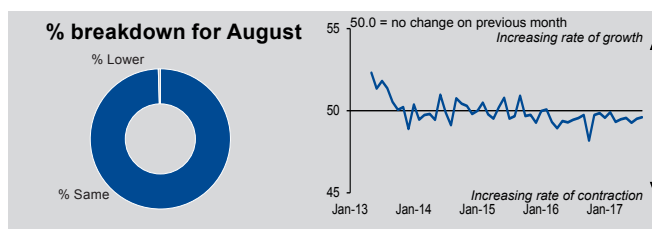


Average lead times faced by the Lebanese private sector improved in August, after having barely changed during the month before. In fact, the seasonally adjusted Suppliers' Delivery Times Index registered its highest reading for 12 months, albeit one that was indicative of only a slight improvement in vendor performance overall.

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
2017	Apr	0.0	98.7	1.3	-1.3	49.4	49.5
	May	0.5	98.7	0.9	-0.4	49.8	49.6
	Jun	0.6	96.6	2.9	-2.3	48.9	49.3
	Jul	0.0	99.7	0.3	-0.3	49.8	49.5
	Aug	0.0	99.5	0.5	-0.5	49.8	49.6

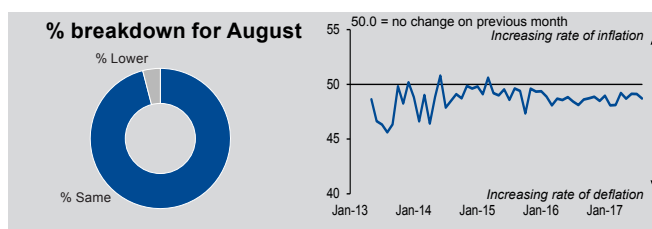


Lower levels of output and new business were translated into further job losses across the Lebanese private sector economy during August. Employment has now fallen in each of the past 18 months. That said, the extent to which workforce numbers declined was only slight and the least marked since May.

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
2017	Apr	0.6	97.8	1.6	-1.0	49.5	49.2
	May	0.0	99.1	0.9	-0.9	49.5	48.7
	Jun	0.0	97.9	2.1	-2.1	48.9	49.1
	Jul	0.0	96.4	3.6	-3.6	48.2	49.1
	Aug	0.0	96.0	4.0	-4.0	48.0	48.7

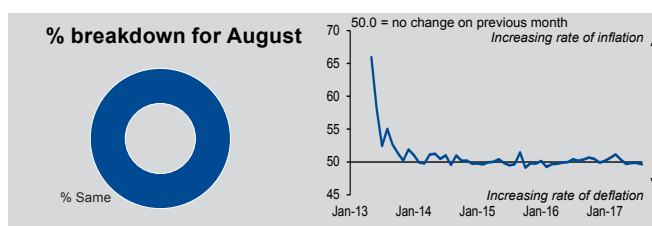


Lebanese businesses (on average) maintained a preference for lower output prices in August, citing competitive pressures and the need to use discounts in order to support sales. The respective seasonally adjusted index dipped since July to indicate a slight acceleration in the rate of decline.

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
2017	Apr	0.0	100.0	0.0	0.0	50.0	50.4
	May	0.4	99.3	0.3	+0.1	50.0	49.7
	Jun	0.4	99.6	0.0	+0.4	50.2	49.8
	Jul	0.3	99.4	0.3	+0.1	50.0	49.9
	Aug	0.0	100.0	0.0	0.0	50.0	49.6

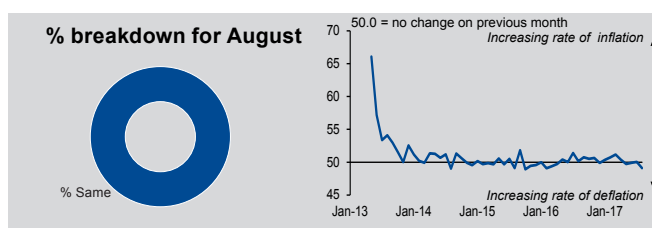


Overall input prices fell on a seasonally adjusted basis in August. Average costs have now decreased in each of the past four months (albeit only fractionally in July), with the latest reduction being the most pronounced since February 2016. A drop in purchase prices was the principal factor behind lower cost burdens.

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
2017	Apr	0.0	100.0	0.0	0.0	50.0	50.4
	May	0.4	99.3	0.3	+0.1	50.0	49.7
	Jun	0.4	99.6	0.0	+0.4	50.2	49.9
	Jul	0.3	99.4	0.3	+0.1	50.0	50.0
	Aug	0.0	100.0	0.0	0.0	50.0	49.1

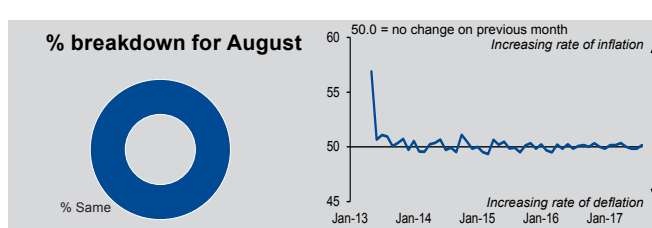


Adjusted for seasonal factors, the Purchase Prices Index moved back below the 50.0 no-change mark in August, signalling a decrease in the average cost of procured items for the third time in the past four months. The rate of decline was slight, but nevertheless the fastest recorded in one-and-a-half years.

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
2017	Apr	0.0	100.0	0.0	0.0	50.0	50.3
	May	0.0	100.0	0.0	0.0	50.0	50.0
	Jun	0.0	99.3	0.7	-0.7	49.7	49.8
	Jul	0.0	100.0	0.0	0.0	50.0	49.8
	Aug	0.0	100.0	0.0	0.0	50.0	50.2

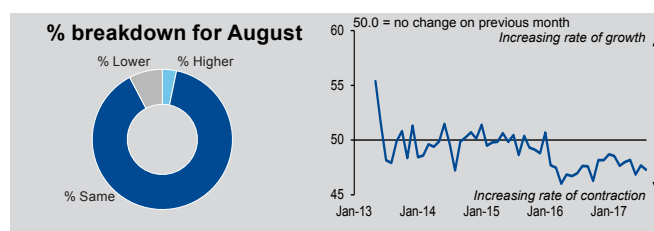


After having fallen in each of the previous two survey periods, average staff pay across Lebanon's private sector economy returned to growth in August. That said, the rate of increase was only marginal, and the overall trend for the year as a whole continued to show stagnation in salaries/wages.

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
2017	Apr	3.3	90.6	6.1	-2.8	48.6	48.0
	May	2.1	92.4	5.5	-3.5	48.3	48.2
	Jun	2.4	89.3	8.3	-5.9	47.0	46.8
	Jul	2.2	91.6	6.3	-4.1	48.0	47.7
	Aug	3.3	89.0	7.7	-4.4	47.8	47.3

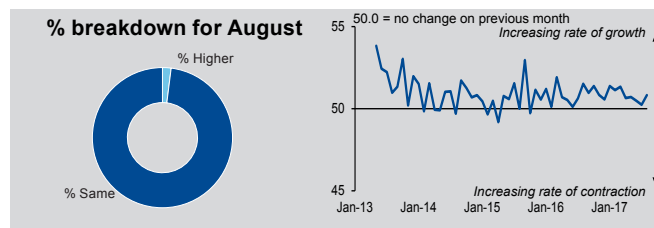


Purchasing activity among Lebanese private sector businesses fell at a faster rate in August. The seasonally adjusted Quantity of Purchases Index moved to its second-lowest level since October last year, registering a reading just above June's recent low. Approximately 8% of firms noted a drop in buying levels, predominantly citing a lack of workplace activity, versus only 3% that recorded a rise.

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
2017	Apr	2.1	97.1	0.8	+1.3	50.7	50.6
	May	2.0	97.7	0.3	+1.7	50.8	50.7
	Jun	2.5	96.6	0.9	+1.6	50.8	50.5
	Jul	0.6	99.2	0.2	+0.5	50.2	50.2
	Aug	2.0	98.0	0.0	+2.0	51.0	50.8

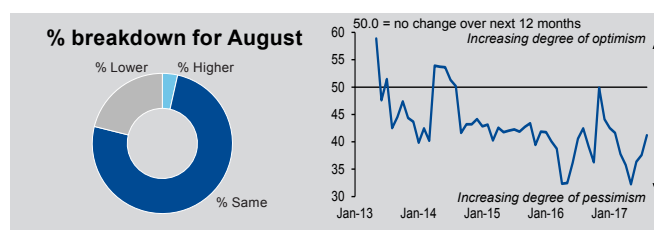


Reflective of falling sales and a reduction in the use of inputs in the production process among manufacturers, August saw a rise in inventories across Lebanon's private sector economy. Moreover, the rate of stock accumulation accelerated for the first time in three months, to show the steepest rise in inventory holdings since March.

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
2017	Apr	0.0	71.5	28.5	-28.5	35.8	n/a
	May	0.0	64.5	35.5	-35.5	32.3	n/a
	Jun	1.4	70.0	28.6	-27.3	36.4	n/a
	Jul	1.5	72.2	26.3	-24.8	37.6	n/a
	Aug	3.5	75.4	21.1	-17.6	41.2	n/a



Lebanese businesses in general remained pessimistic about the year-ahead outlook for output in August, with a greater number of firms expecting activity to fall (21%) than those forecasting growth (4%). That said, the Future Output Index rose for the third month running to its highest level since February, signalling a reduction in the degree of negative sentiment.

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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