

Downturn in private sector economy deepens in January

Key findings:

- **BLOM PMI™ falls to record low of 44.7**
- **Sharp and accelerated decreases in output and new orders**
- **Job creation recommences, albeit at marginal pace**

This report contains the fourth public release of data collected from the new 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.

January saw Lebanon's private sector economy contract at a faster rate, as signalled by the seasonally adjusted BLOM PMI™ falling further below the neutral 50.0 threshold. At 44.7, down sharply from 49.0 in December, the headline index was the lowest in nine months of survey data collection and indicative of a marked deterioration in overall business conditions.

Weighing on the headline number were sharp and accelerated decreases in output and new orders, the most marked since August in both cases. Behind these latest falls – the eighth in successive months respectively – were political instability and

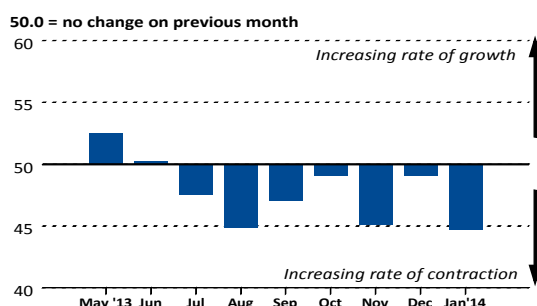
concerns over security, according to anecdotal evidence. Similarly, instability in the broader region also contributed to a fall in new export orders.

Despite these weaker trends in output and new business, there was a renewed increase in private sector employment following a slight fall at the end of 2013. That said, the pace of job creation was only marginal. This additional staffing capacity helped companies make further inroads into their outstanding business during the month, with the rate of backlog depletion the fastest in the short survey history.

Prices charged by private sector companies operating in Lebanon fell in January, reversing a fractional increase observed one month earlier. A number of firms had sought to boost sales through discounting, simultaneously absorbing higher input costs. Both purchase prices and staffing costs rose on the month, though the overall rate of inflation was only modest and weaker than in December.

January's survey showed a fall in purchasing activity amid decreased workloads. Stocks of purchases rose, however, as the degree to which buying levels decreased was much less marked than the concurrent drop in production. Lower purchasing activity meanwhile relieved some pressure on supply chains, with vendor lead times improving slightly for a second consecutive month.

Lebanon Purchasing Managers' Index™ (PMI™)



Purchasing Managers' Index

		Unadj.	Seas. Adj.
2013	Nov	44.7	45.1
	Dec	50.2	49.0
2014	Jan	43.3	44.7

Index Summary

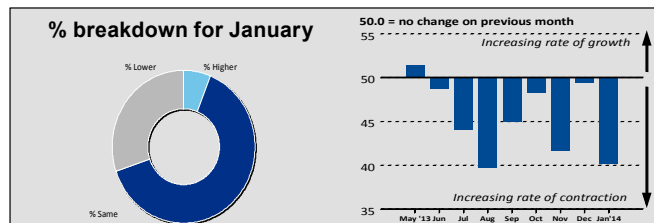
(seasonally adjusted, 50 = no change on previous month)

	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
Nov'13	45.1	41.6	40.3	46.4	49.4	50.2	48.2	50.2	50.0	50.7	49.6	48.4	50.2
Dec	49.0	49.4	47.4	50.1	50.4	48.9	50.2	51.9	52.6	49.7	50.2	51.3	52.0
Jan'14	44.7	40.2	39.9	48.0	45.1	50.4	48.8	51.0	51.2	50.5	50.2	48.4	51.5

Output Index

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

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2013	Sep	11.9	68.2	19.9	-8.0	46.0	45.0
	Oct	6.4	82.3	11.3	-4.8	47.6	48.3
	Nov	1.3	78.3	20.4	-19.2	40.4	41.6
	Dec	14.1	74.9	11.0	3.1	51.5	49.4
2014	Jan	6.1	63.6	30.3	-24.2	37.9	40.2

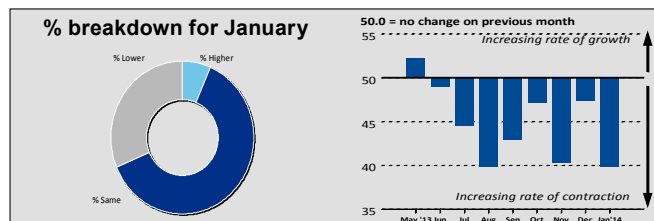


January saw a marked decrease in the level of private sector output in Lebanon. The contraction was the sharpest since last August, and extended the current sequence of decline to eight months. Anecdotal evidence suggested that political instability and issues over security had weighed on output during the month.

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
2013	Sep	12.6	64.4	23.0	-10.3	44.8	43.0
	Oct	7.6	77.2	15.2	-7.6	46.2	47.2
	Nov	2.1	75.2	22.7	-20.7	39.7	40.3
	Dec	11.3	75.9	12.8	-1.5	49.2	47.4
2014	Jan	6.3	62.2	31.5	-25.2	37.4	39.9

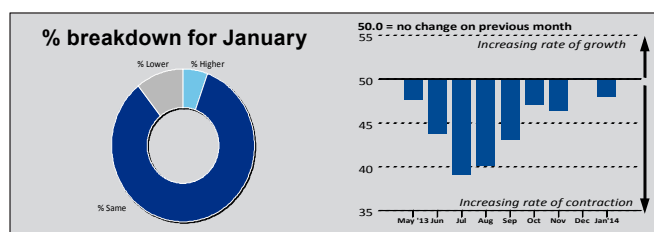


Businesses operating in Lebanon's private sector recorded a sharp and accelerated decrease in the level of new orders in January, the most marked in five months. Approximately 32% of respondents noted a reduction in new work compared with the situation one month before, against only 6% that registered 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
2013	Sep	3.9	80.0	16.2	-12.3	43.9	43.1
	Oct	4.8	87.8	7.4	-2.6	48.7	47.1
	Nov	1.5	88.6	9.9	-8.4	45.8	46.4
	Dec	2.6	96.4	1.1	1.5	50.7	50.1
2014	Jan	5.6	83.6	10.9	-5.3	47.3	48.0

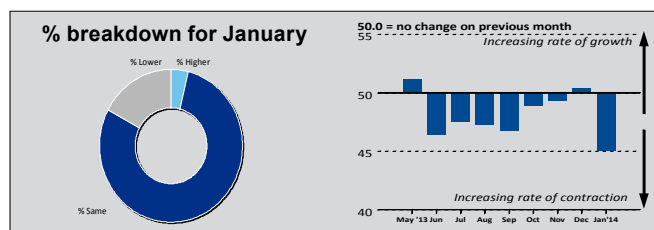


After being broadly unmoved in December, the level of new export orders at Lebanese private sector companies decreased in January. The contraction was the eighth in the survey's nine-month history, albeit only modest overall. Panellists primarily blamed a lack of demand from clients in the surrounding region for the latest drop in export sales.

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
2013	Sep	6.4	81.3	12.3	-5.9	47.0	46.8
	Oct	1.4	95.4	3.1	-1.7	49.2	48.9
	Nov	0.0	97.4	2.6	-2.6	48.7	49.4
	Dec	6.3	88.9	4.8	1.5	50.7	50.4
2014	Jan	3.8	78.9	17.2	-13.4	43.3	45.1

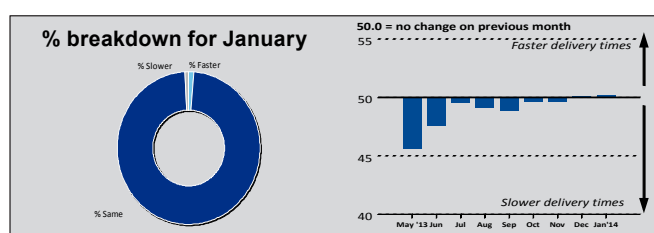


January data pointed to a renewed decline in backlogs of work at private sector companies in Lebanon, following a fractional increase during the preceding survey period. Furthermore, the degree to which outstanding business was reduced was the most marked in the short series history. Firms that reported lower levels of work-in-progress often commented on a lack of new work to replace completed orders.

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
2013	Sep	0.0	98.4	1.6	-1.6	49.2	48.9
	Oct	0.0	99.3	0.7	-0.7	49.7	49.7
	Nov	0.0	100.0	0.0	0.0	50.0	49.6
	Dec	0.6	98.7	0.7	-0.1	49.9	50.2
2014	Jan	1.0	98.1	0.9	0.1	50.1	50.2

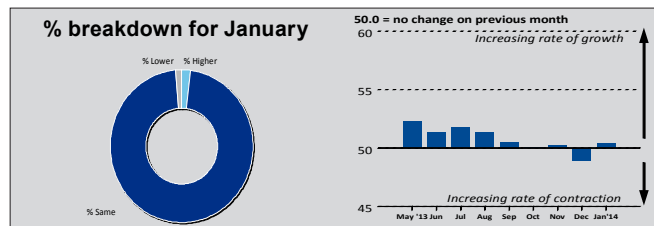


Adjusted for the influence of seasonal factors, the Suppliers' Delivery Times Index remained just above the 50.0 threshold – separating faster and slower average lead times – in January, unchanged from its reading at the end of 2013. The vast majority (around 98%) of panel members recorded no change in the delivery times they faced from suppliers.

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
2013	Sep	2.3	95.8	1.9	0.4	50.2	50.5
	Oct	0.5	99.1	0.4	0.1	50.1	50.1
	Nov	1.3	98.5	0.2	1.1	50.5	50.2
	Dec	2.1	93.9	3.9	-1.8	49.1	48.9
2014	Jan	1.9	96.6	1.5	0.4	50.2	50.4

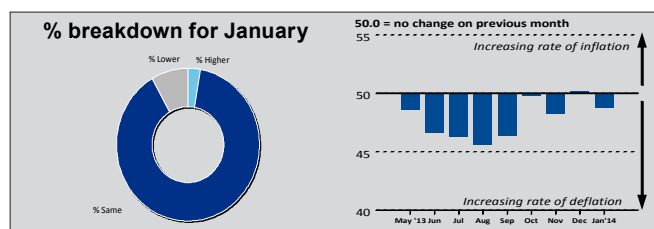


Employment in the Lebanese private sector economy rose during January, reversing some of the decline witnessed in December. The rate at which staffing levels increased was the fastest since September, though only marginal overall. Among those firms that hired additional employees there was mention of sales staff being appointed.

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
2013	Sep	4.8	84.1	11.1	-6.3	46.8	46.3
	Oct	2.2	95.6	2.3	-0.1	49.9	49.8
	Nov	0.0	96.1	3.9	-3.9	48.1	48.2
	Dec	5.6	89.8	4.7	0.9	50.4	50.2
2014	Jan	2.7	89.0	8.3	-5.5	47.2	48.8

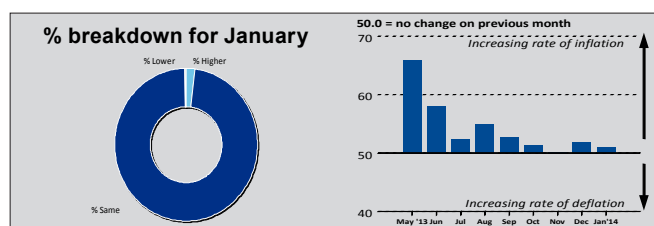


Private sector firms in Lebanon lowered their output prices in January, which they linked to efforts to boost sales. Although only modest, the decrease in charges was sufficient to offset the increase seen in the prior month. Output prices have fallen in all but one month since data collection began in May 2013.

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
2013	Sep	5.5	93.6	0.9	4.7	52.3	52.7
	Oct	2.5	97.4	0.2	2.3	51.1	51.3
	Nov	0.2	99.6	0.2	0.0	50.0	50.2
	Dec	4.7	95.1	0.2	4.6	52.3	51.9
2014	Jan	2.0	97.6	0.3	1.7	50.9	51.0

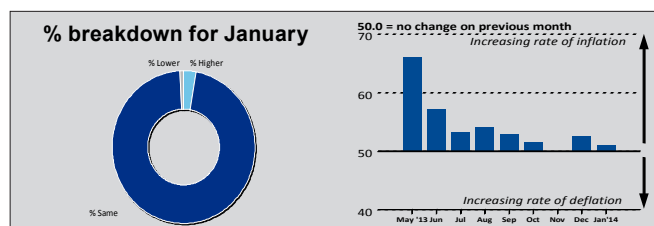


Operating costs in Lebanon's private sector economy increased in January. Survey respondents reported a combination of higher purchase prices and staffing costs. That said, the seasonally adjusted Overall Input Prices Index dipped from December's mark, signalling a slower rate of inflation at the start of the year.

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
2013	Sep	5.5	93.6	0.8	4.7	52.3	53.0
	Oct	2.5	97.4	0.2	2.3	51.1	51.5
	Nov	0.4	99.4	0.2	0.2	50.1	50.0
	Dec	5.7	94.1	0.2	5.5	52.8	52.6
2014	Jan	2.8	96.2	1.0	1.9	50.9	51.2

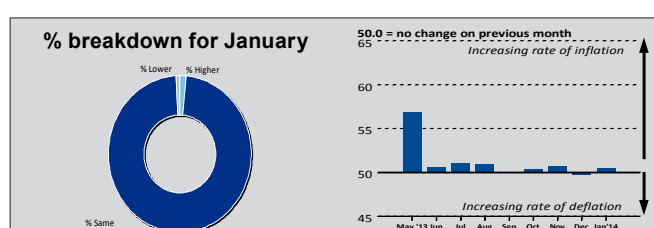


Purchase prices increased on average for the second month running in January, albeit to a lesser extent than was observed in December. Where a rise in purchasing costs was recorded (at just 3% of surveyed businesses), this was in some cases attributed to higher food prices and currency movements.

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
2013	Sep	1.9	97.2	0.9	1.1	50.5	50.1
	Oct	0.7	98.7	0.6	0.1	50.1	50.4
	Nov	1.3	98.5	0.2	1.1	50.6	50.7
	Dec	2.4	95.1	2.5	-0.1	50.0	49.7
2014	Jan	1.4	97.8	0.7	0.7	50.4	50.5

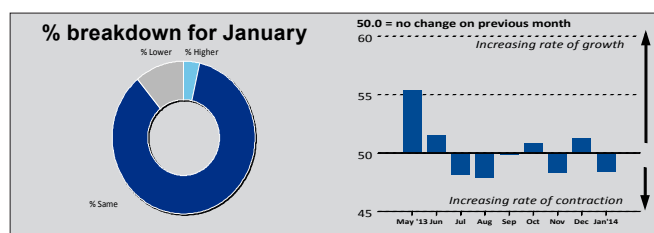


Staffing costs returned to growth in January, after having fallen during the previous survey period for the first time in the short series history. That said, the rate at which labour costs rose was marginal, with firms that recorded an increase only fractionally outnumbering those that registered a decrease.

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
2013	Sep	11.4	79.3	9.3	2.1	51.1	49.9
	Oct	7.4	85.2	7.4	0.0	50.0	50.8
	Nov	2.4	93.1	4.5	-2.1	49.0	48.4
	Dec	10.1	85.9	4.1	6.0	53.0	51.3
2014	Jan	3.7	85.1	11.2	-7.4	46.3	48.4

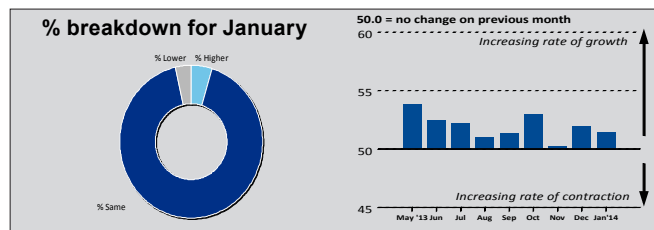


January's survey highlighted a drop in the level of purchasing activity among private sector companies in Lebanon for the second time in the past three months. Panel member reports generally linked decreased buying levels to lower order intakes. A little over 11% of companies recorded a drop in their quantity of items purchases, whereas 4% noted 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
2013	Sep	6.8	90.5	2.7	4.1	52.1	51.3
	Oct	6.8	92.1	1.1	5.7	52.9	53.0
	Nov	2.9	96.0	1.1	1.8	50.9	50.2
	Dec	6.2	91.8	2.0	4.2	52.1	52.0
2014	Jan	4.8	91.6	3.6	1.2	50.6	51.5

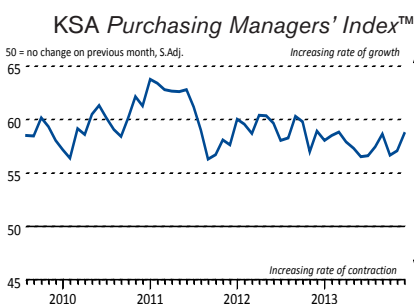


Stocks of purchases held by Lebanese private sector companies increased during January, as has been observed in each month since the survey commenced. The rate of growth in pre-production inventories was only modest, however, and eased slightly since the preceding survey period.

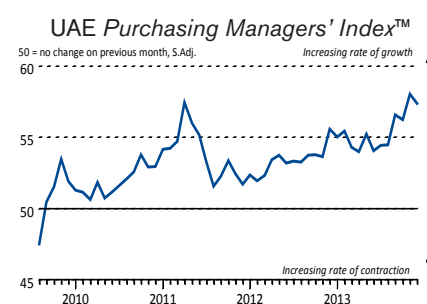
International PMI summary



The headline HSBC Egypt PMI remained above neutrality at the end of the year, posting 52.0 in December. This was down only marginally from November's record high of 52.5 and signalled a second successive monthly improvement in operating conditions at Egyptian non-oil producing private sector companies.



The HSBC/SABB Saudi Arabia PMI climbed from 57.1 in November to 58.7 in December, signalling a further improvement in operating conditions in Saudi Arabia's non-oil producing private sector. The latest improvement was the best for three months. Both activity and new business increased at faster rates.



Operating conditions in the UAE's non-oil producing private sector continued to improve in the final month of the year, with the headline HSBC United Arab Emirates PMI posting 57.4. The latest reading was down slightly from November's record high of 58.1, but rounded off the best quarter in the series history.

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. 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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