

PMI edges lower on faster decreases in output and new orders

Key findings:

- **Rates of decline in output and new orders reaccelerate**
- **Employment falls at slightly faster pace**
- **Cost pressures remain muted**

This report contains the eighth 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.

May saw the seasonally adjusted BLOM Lebanon PMI™ dip from April's reading of 48.5 to 48.0, signalling a further, and slightly accelerated, deterioration in the economic performance of Lebanon's private sector. The headline index has now posted below the 50.0 mark dividing growth and contraction for 11 months in a row.

The primary factors causing the headline figure to fall since April were faster decreases in both output levels and inflows of new orders at businesses. Respective rates of decline were solid, with panel member reports linking this weakness in part to the effects on ongoing political uncertainty.

As well as a challenging domestic environment, Lebanese firms also faced a renewed decrease in new export orders after brief return to growth in April. The degree to which foreign new business decreased was solid and the most marked since February.

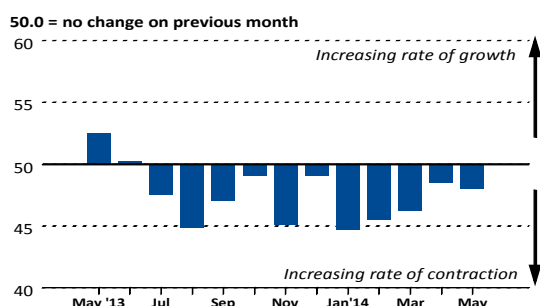
The downturn in activity continued to impact the labour market, with private sector employment falling for the fourth consecutive month in May. The rate of decline was the fastest in the year-to-date, albeit still only marginal overall.

Meanwhile, buying activity among businesses was broadly stable; as were stocks of purchases. The average time taken for suppliers to deliver purchased items increased slightly on the month, however, owing partly to security issues according to panellists.

Cost pressures in the Lebanese private sector remained subdued in May, with average input costs rising only modestly over the month. The main upward pressure on cost burdens was from higher purchase prices, although inflation on this front was also only mild. Average staff costs increased fractionally for a second straight month.

Weakness on the demand-side and competitive pressures led companies to further reduce output prices, extending the current sequence of declining charges to five months. That said, the rate of discounting was less marked than in April.

Lebanon Purchasing Managers' Index™ (PMI™)



Purchasing Managers' Index

		Unadj.	Seas. Adj.
2014	Mar	46.6	46.2
	Apr	49.6	48.5
	May	49.3	48.0

Index Summary

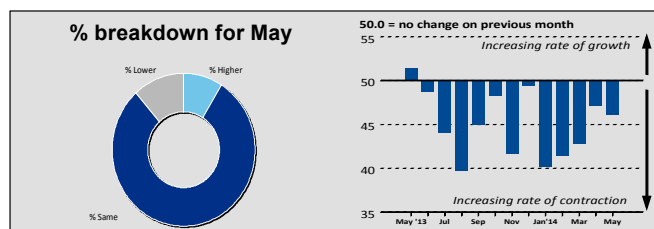
(seasonally adjusted, 50 = no change on previous month)

	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
Mar'14	46.2	42.8	42.8	47.8	46.3	49.7	49.0	49.8	49.9	49.5	49.5	49.6	51.5
Apr	48.5	47.2	47.6	50.9	47.9	49.8	46.4	51.1	51.4	50.2	50.0	49.4	49.9
May	48.0	46.1	46.7	47.6	48.5	49.4	48.9	51.2	51.3	50.4	49.4	49.9	49.9

Output Index

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

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2014	Jan	6.1	63.6	30.3	-24.2	37.9	40.2
	Feb	9.6	65.4	25.0	-15.4	42.3	41.5
	Mar	3.0	80.9	16.1	-13.0	43.5	42.8
	Apr	18.5	60.8	20.7	-2.1	48.9	47.2
	May	8.8	79.6	11.6	-2.8	48.6	46.1

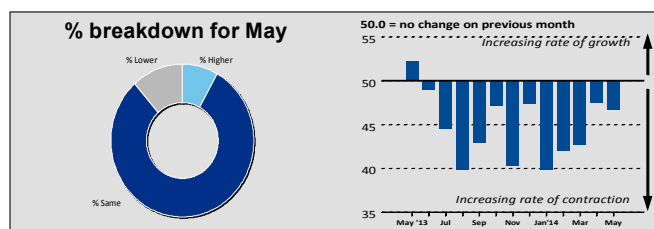


In line with the trend observed throughout the past year, the level of output in Lebanon's private sector economy decreased in May. The rate of contraction was solid and slightly faster than in the preceding survey period. Where a decrease in output was recorded (at almost 12% of firms), this was often linked to the effects of ongoing political uncertainty.

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
2014	Jan	6.3	62.2	31.5	-25.2	37.4	39.9
	Feb	9.4	66.2	24.4	-15.0	42.5	42.0
	Mar	2.5	81.8	15.7	-13.2	43.4	42.8
	Apr	17.4	62.8	19.8	-2.5	48.8	47.6
	May	8.1	80.4	11.5	-3.5	48.3	46.7

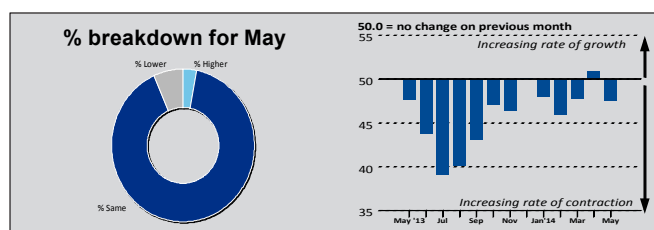


As well as noting a drop in output in May, private sector firms operating in Lebanon also recorded a further decrease in the level of incoming new business, the twelfth in successive months. Furthermore, the rate of decline in new business reaccelerated after having eased to the slowest in ten months in the previous survey period.

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
2014	Jan	5.6	83.6	10.9	-5.3	47.3	48.0
	Feb	5.6	82.2	12.2	-6.6	46.7	46.0
	Mar	0.0	98.2	1.8	-1.8	49.1	47.8
	Apr	10.5	82.9	6.6	3.9	51.9	50.9
	May	3.0	90.3	6.7	-3.7	48.1	47.6

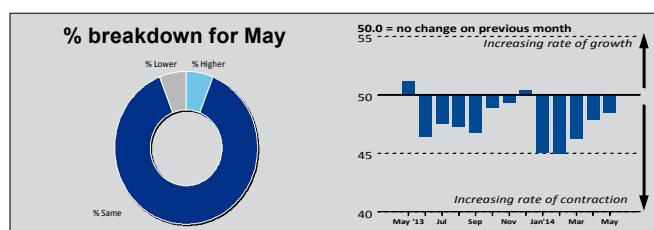


Adjusted for the influence of seasonal variations, the New Export Orders Index returned to contraction territory in May, pointing to a decrease in sales to foreign clients for the fourth time in the past five months. Moreover, the rate of decline was solid and the fastest since February. Around 7% of firms noted a drop in new export business, compared with only 3% that recorded 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
2014	Jan	3.8	78.9	17.2	-13.4	43.3	45.1
	Feb	6.5	77.2	16.3	-9.8	45.1	45.0
	Mar	2.5	88.7	8.8	-6.3	46.9	46.3
	Apr	13.0	71.7	15.3	-2.3	48.8	47.9
	May	6.2	87.8	6.1	0.1	50.0	48.5

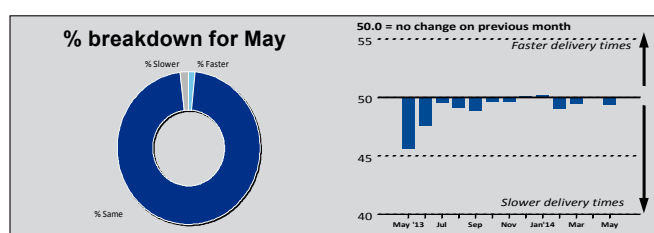


The amount of work-in-hand (both in progress and not yet started) at Lebanese private sector firms decreased for the fifth straight month during May, which anecdotal evidence linked to a lack of new work to replace completed projects. That said, the rate of backlog depletion eased for the third straight month to only a modest pace that was the weakest in the current sequence of decline.

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
2014	Jan	1.0	98.1	0.9	0.1	50.1	50.2
	Feb	0.6	95.9	3.5	-2.9	48.6	49.0
	Mar	0.2	99.6	0.1	0.1	50.0	49.5
	Apr	0.0	99.5	0.5	-0.5	49.7	50.0
	May	1.5	96.5	2.0	-0.5	49.8	49.4

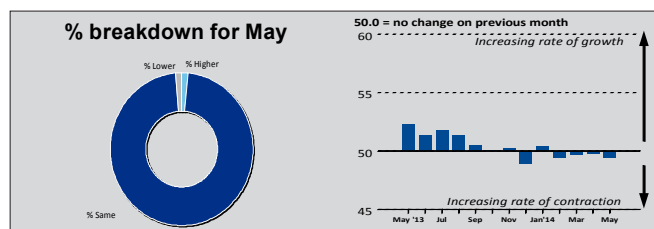


Latest data pointed to a slight increase in suppliers' delivery times in May, following no change in the month before. Firms that faced longer lead times in some cases attributed this to security problems, including associated road blocks. That said, the vast majority (almost 97%) of surveyed businesses reported no change in vendor performance.

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
2014	Jan	1.9	96.6	1.5	0.4	50.2	50.4
	Feb	0.6	96.8	2.6	-2.0	49.0	49.5
	Mar	0.5	99.5	0.0	0.5	50.3	49.7
	Apr	2.5	95.8	1.7	0.8	50.4	49.8
	May	1.3	97.2	1.5	-0.2	49.9	49.4

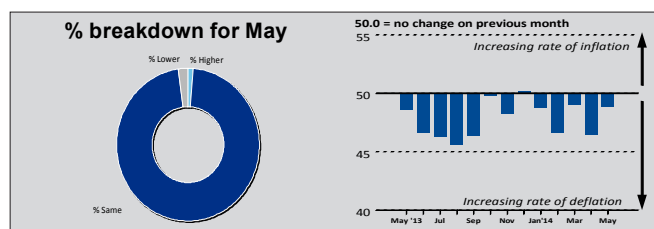


May saw the level of employment in Lebanon's private sector economy decrease for the fourth month in succession. The rate of job shedding picked up since the previous survey period to the fastest since December 2013, but nevertheless remained only marginal overall. This was highlighted by the seasonally adjusted index posting just below the neutral 50.0 threshold.

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
2014	Jan	2.7	89.0	8.3	-5.5	47.2	48.8
	Feb	2.8	87.3	9.9	-7.1	46.4	46.6
	Mar	0.4	97.2	2.4	-2.0	49.0	49.0
	Apr	5.1	84.4	10.5	-5.5	47.3	46.4
	May	1.1	96.7	2.1	-1.0	49.5	48.9

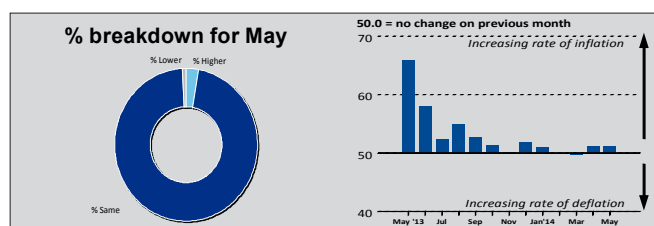


Average output prices decreased in May, albeit to a lesser extent than in April. With the exception of one month (December 2013 saw a marginal increase in charges), average output prices haven't fallen continuously on a monthly basis over the entire history of the survey which began in May of last year.

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
2014	Jan	2.0	97.6	0.3	1.7	50.9	51.0
	Feb	1.9	96.5	1.7	0.2	50.1	49.9
	Mar	0.4	99.4	0.2	0.3	50.1	49.8
	Apr	3.5	96.4	0.1	3.3	51.7	51.1
	May	2.7	96.5	0.8	1.8	50.9	51.2

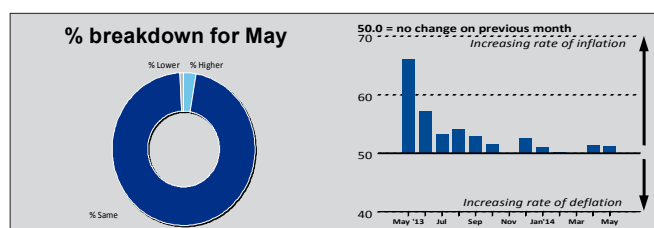


Overall input prices in the Lebanese private sector economy increased in May, largely reflective of higher purchasing costs. This matched the trend observed in the preceding survey period. The rate of input price inflation edged up slightly from April but was nevertheless only modest overall.

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
2014	Jan	2.8	96.2	1.0	1.9	50.9	51.2
	Feb	1.7	97.6	0.7	0.9	50.5	50.2
	Mar	0.5	99.4	0.2	0.3	50.1	49.9
	Apr	3.5	96.4	0.1	3.4	51.7	51.4
	May	2.7	96.5	0.8	1.8	50.9	51.3

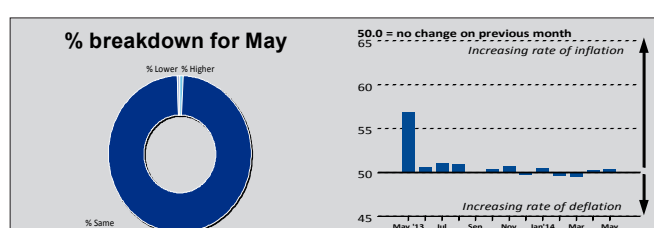


May's survey pointed to a second consecutive monthly increase in average purchase prices faced by Lebanese private sector firms. The rate of inflation was modest and little-changed since April, however, with more than nine-in-ten firms reporting no change in their purchasing costs. There was some mention from panellists of higher raw material prices.

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
2014	Jan	1.4	97.8	0.7	0.7	50.4	50.5
	Feb	0.0	99.5	0.5	-0.5	49.7	49.6
	Mar	0.4	99.5	0.2	0.2	50.1	49.5
	Apr	0.0	99.5	0.5	-0.5	49.8	50.2
	May	0.7	98.7	0.6	0.1	50.1	50.4

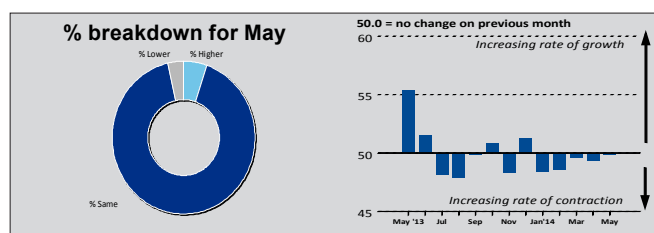


The seasonally adjusted Staff Costs Index posted above the 50.0 no-change mark for the second month running in May. That said, the index remained close to the neutral threshold, thereby indicating only a marginal rise in average employee pay. With the exception of a solid increase in May 2013, staff costs have shown little change throughout the survey's 13-month history.

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
2014	Jan	3.7	85.1	11.2	-7.4	46.3	48.4
	Feb	5.5	86.5	8.0	-2.6	48.7	48.6
	Mar	3.5	94.2	2.3	1.1	50.6	49.6
	Apr	7.1	86.1	6.8	0.3	50.2	49.4
	May	5.4	91.1	3.5	1.9	51.0	49.9

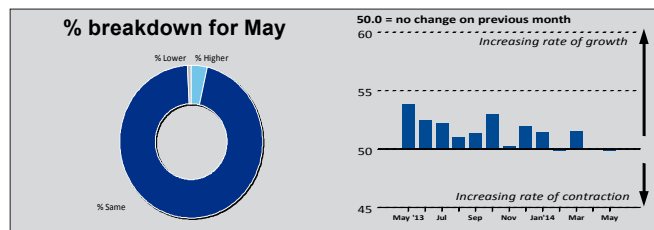


Following four straight months of declining purchasing activity, buying levels among Lebanese private sector firms were broadly unchanged in the latest survey period. A similar proportion of companies recorded an increase in their quantity of items purchased (approximately 5%) as registered a contraction (4%).

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
2014	Jan	4.8	91.6	3.6	1.2	50.6	51.5
	Feb	4.0	92.0	3.9	0.1	50.0	49.8
	Mar	4.5	95.2	0.3	4.2	52.1	51.5
	Apr	7.1	87.9	5.0	2.2	51.1	49.9
	May	3.7	95.4	0.9	2.8	51.4	49.9

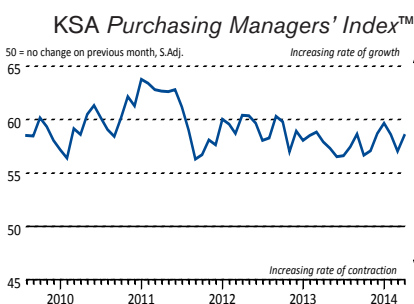


The amount of raw materials and semi-finished goods held in stock by private sector companies operating in Lebanon was broadly stable during May, as has been the case in three of the past four months (March's modest increase in inventories of purchased items being the exception over this period). This was highlighted by the seasonally adjusted Stocks of Purchases Index posting close to the 50.0 no-change mark.

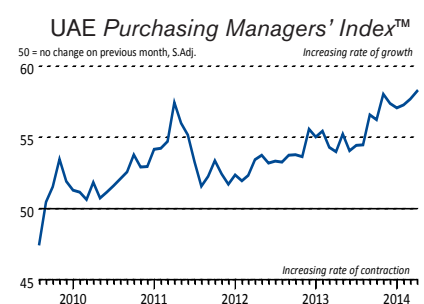
International PMI summary



Sources: Markit, HSBC.



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Operating conditions in Egypt's non-oil producing private sector deteriorated again in April. This was highlighted by the seasonally adjusted headline HSBC Egypt PMI dropping slightly from March's 49.8 to 49.5. Despite registering a three-month low, the latest reading was indicative of only a fractional contraction in the sector.

April data signalled a further solid improvement in operating conditions at Saudi Arabia's non-oil producing private sector companies, with the seasonally adjusted headline HSBC Saudi Arabia PMI posting 58.5. Despite rising from March's five-month low of 57.0, the latest rate of expansion was below the long-run series average.

The UAE's non-oil private sector companies reported a marked improvement in operating conditions, as highlighted by the headline HSBC UAE PMI rising for the third straight month, posting 58.3, up from March's 57.7. The latest reading was the highest in the 57-month survey 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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