

PMI at four-month high as output and orders contract at slower rates

Key findings:

- **Slowest decreases in output and new orders since June**
- **Further marginal rise in employment**
- **Output charges fall for fourth straight month**

This report contains the thirteenth 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.

Business conditions in Lebanon's private sector economy deteriorated at a slower rate in October. This was highlighted by the headline BLOM Lebanon PMI registering at a four-month high of 48.8, up from September's 47.6. The index has posted below the critical 50.0 mark – signalling worsening economic health – for 16 months in a row.

Output continued to fall in October. The rate of contraction was the slowest since June, but nevertheless still solid. Data showed a similar trend in the amount of new work placed with businesses, which likewise fell at the weakest rate in four months. Panellists commented on a weakening of demand

amid ongoing political and security issues, with a further drop in export sales also contributing to the total loss of new business.

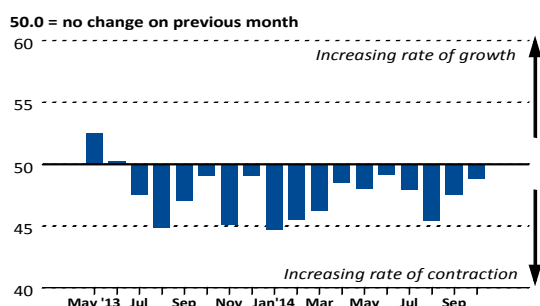
October saw the amount of work-in-hand at businesses fall for the fourth consecutive month, albeit at only a marginal pace, and one that was slowest in the current sequence of falling backlogs.

The jobs market continued to withstand the wider economic malaise, however, with October's survey signalling another marginal (albeit slower) rise in employment at private sector companies.

Buying levels were also resilient, up fractionally and for the first time in four months. The divergence between growing purchasing activity and reduced output requirements contributed to a further accumulation of stocks of purchases, the second in successive months.

In a bid to counter falling sales and amid growing competitive pressures, businesses reduced their output charges for the fourth month in a row in October. Furthermore, the rate of decline was slightly faster than in the previous month. Average input costs meanwhile rose, driven higher by increased purchase prices and staff costs. The rise in employee remuneration was the first in four months and, although only modest, the most marked since July 2013.

Lebanon Purchasing Managers' Index™ (PMI™)



Purchasing Managers' Index

		Unadj.	Seas. Adj.
2014	Aug	46.5	45.5
	Sep	48.3	47.6
	Oct	49.1	48.8

Index Summary

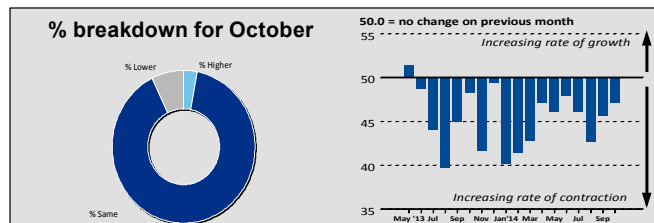
(seasonally adjusted, 50 = no change on previous month)

	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
Aug'14	45.5	42.7	42.1	44.1	47.1	49.1	48.5	49.5	49.0	49.9	50.9	47.2	49.7
Sep	47.6	45.6	44.3	46.7	49.4	50.8	49.1	51.0	51.3	49.5	49.6	49.9	51.7
Oct	48.8	47.1	47.5	46.9	49.7	50.4	48.7	50.2	50.6	51.1	49.5	50.3	51.3

Output Index

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

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2014	Jun	8.6	81.6	9.8	-1.3	49.4	48.0
	Jul	5.0	77.8	17.2	-12.2	43.9	46.2
	Aug	3.5	81.0	15.5	-12.0	44.0	42.7
	Sep	3.7	85.7	10.6	-6.8	46.6	45.6
	Oct	3.2	89.7	7.1	-3.9	48.0	47.1

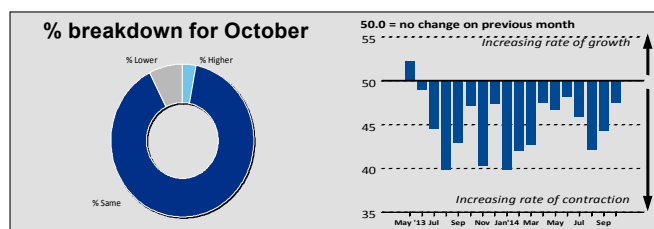


Output in Lebanon's private sector economy decreased at a slower rate in October. This was signalled by the seasonally adjusted Output Index climbing closer to the critical 50.0 mark, albeit still registering at a level that was consistent with a solid rate of contraction. Panellists continued to link lower activity to political and security issues.

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	Jun	8.7	81.4	9.9	-1.2	49.4	48.2
	Jul	5.0	78.5	16.6	-11.6	44.2	46.0
	Aug	3.4	80.0	16.6	-13.2	43.4	42.1
	Sep	3.6	85.0	11.4	-7.8	46.1	44.3
	Oct	3.0	89.6	7.4	-4.3	47.8	47.5

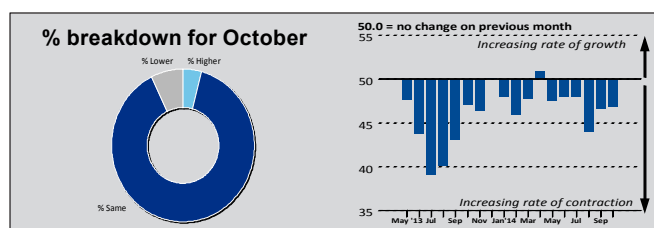


October saw the level of new orders placed with private sector businesses in Lebanon decrease for the seventeenth successive month. That said, having eased for the second month in a row, the rate of contraction was the slowest since June and weaker than the average recorded over the current sequence of decline.

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	Jun	0.0	96.8	3.2	-3.2	48.4	48.1
	Jul	3.5	89.3	7.2	-3.7	48.1	48.0
	Aug	5.6	79.8	14.6	-8.9	45.5	44.1
	Sep	0.8	93.4	5.8	-5.1	47.5	46.7
	Oct	4.1	88.6	7.3	-3.2	48.4	46.9

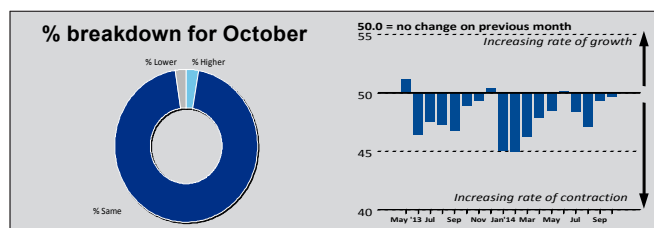


Lebanese companies recorded a further decrease in sales from external clients in October, meaning export orders have now fallen in nine of the past ten months – April saw a marginal increase. The rate of contraction in new work from abroad was solid and little changed from the previous survey period.

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	Jun	5.5	88.9	5.6	-0.2	49.9	50.1
	Jul	4.2	88.9	6.9	-2.7	48.6	48.4
	Aug	2.7	91.9	5.4	-2.7	48.7	47.1
	Sep	4.1	91.0	4.9	-0.8	49.6	49.4
	Oct	2.8	94.7	2.5	0.3	50.1	49.7

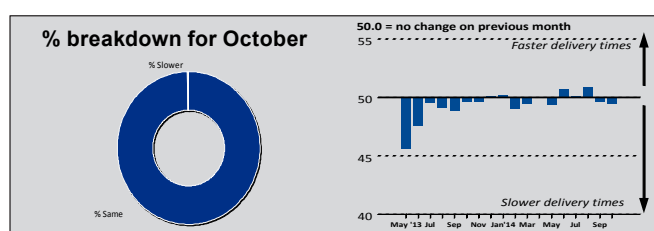


Pressure on companies' resources continued to fall as a result of decreasing inflows of new business, leading to a fourth straight monthly decrease in the amount of work-in-hand (both in progress and as yet not started) in the private sector economy. That said, the rate at which backlogs were depleted was the slowest in this sequence and only marginal.

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	Jun	0.0	100.0	0.0	0.0	50.0	50.7
	Jul	0.7	99.3	0.0	0.7	50.3	50.2
	Aug	0.5	99.2	0.2	0.3	50.2	50.9
	Sep	0.0	100.0	0.0	0.0	50.0	49.6
	Oct	0.0	99.7	0.3	-0.3	49.8	49.5

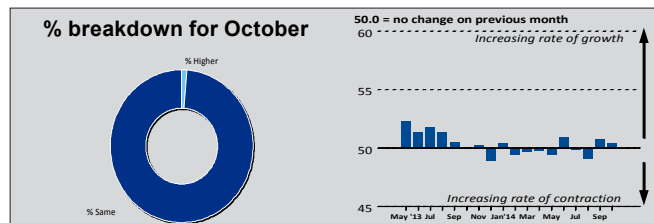


October's survey pointed to an increase in average supplier delivery times for the second month in succession in October, although the degree to which performance deteriorated was again only marginal. The overwhelming majority of companies continued to see no change in their vendors' lead times.

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	Jun	1.0	99.0	0.0	1.0	50.5	51.0
	Jul	0.8	99.0	0.2	0.6	50.3	49.9
	Aug	0.1	98.4	1.5	-1.4	49.3	49.1
	Sep	0.9	99.1	0.0	0.9	50.4	50.8
	Oct	1.2	98.8	0.0	1.2	50.6	50.4

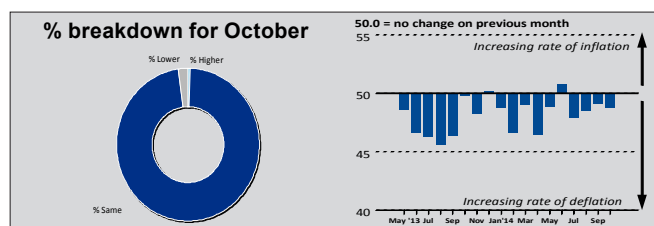


Adjusted for the influence of seasonal factors, the Employment Index remained just above the neutral 50.0 threshold in October, signalling another marginal net gain in private sector employment in Lebanon. The index measuring month-on-month changes in staffing numbers was in line with its historical series average.

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	Jun	3.1	94.3	2.6	0.5	50.2	50.8
	Jul	0.0	94.0	6.0	-6.0	47.0	47.9
	Aug	0.1	95.8	4.1	-3.9	48.0	48.5
	Sep	2.7	93.9	3.4	-0.7	49.7	49.1
	Oct	0.5	97.4	2.1	-1.6	49.2	48.7

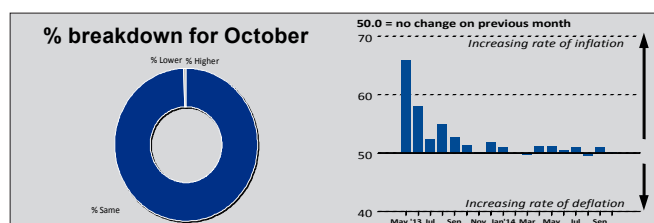


Competitive pressures and promotional activities led businesses to lower their average output prices in October, continuing the trend observed every month since July. Although slightly more marked than in the preceding survey period, the rate of decline in selling prices remained only modest overall.

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	Jun	2.1	97.7	0.2	2.0	51.0	50.5
	Jul	2.5	97.3	0.2	2.4	51.2	51.0
	Aug	0.1	99.9	0.0	0.1	50.1	49.5
	Sep	1.5	98.5	0.0	1.5	50.7	51.0
	Oct	0.1	99.5	0.4	-0.3	49.8	50.2

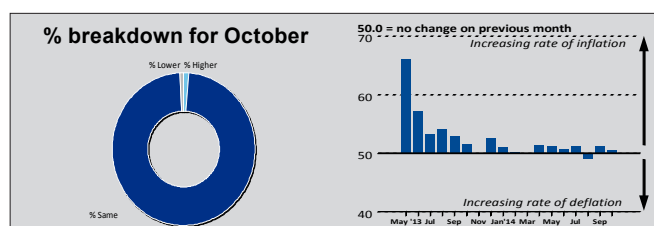


Average cost burdens faced by Lebanese businesses rose only fractionally in October, with the rate of cost inflation having eased since the prior month. Placing some upward pressure on operating costs were increases in both purchase prices and staff costs, with the latter rising at the comparatively faster rate.

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	Jun	2.1	97.7	0.2	2.0	51.0	50.7
	Jul	1.7	98.1	0.2	1.5	50.8	51.2
	Aug	0.6	99.4	0.0	0.6	50.3	49.0
	Sep	1.6	98.4	0.0	1.6	50.8	51.3
	Oct	1.2	97.9	0.9	0.3	50.1	50.6

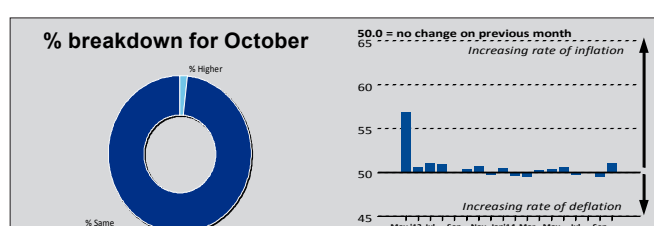


Businesses operating in Lebanon's private sector economy recorded a rise in average purchase prices for the sixth time in the past seven months in October. The rate of inflation was only marginal, however, as has been the theme throughout this recent period. A number of primary products, such as wheat and pasta, were reported as up in price by survey respondents.

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	Jun	0.0	100.0	0.0	0.0	50.0	50.7
	Jul	0.0	99.8	0.2	-0.2	49.9	49.7
	Aug	0.1	99.1	0.8	-0.7	49.7	49.9
	Sep	0.0	100.0	0.0	0.0	50.0	49.5
	Oct	1.6	98.4	0.0	1.6	50.8	51.1

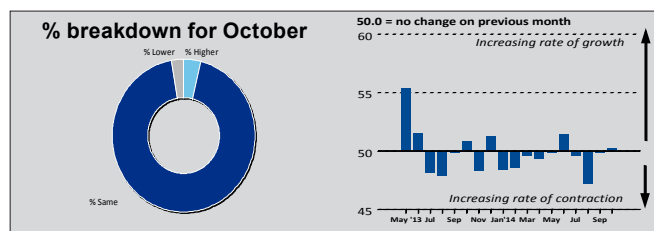


Staffing costs at Lebanese private sector companies returned to growth in October, having fallen slightly in each of the previous three months. Despite being only modest, the rate of increase in staff costs was the fastest seen since July 2013. Incidentally, the seasonally adjusted index's month-on-month gain was its largest in the short series 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	Jun	5.7	94.0	0.3	5.4	52.7	51.5
	Jul	4.9	90.5	4.7	0.2	50.1	49.6
	Aug	3.9	90.2	5.9	-2.0	49.0	47.2
	Sep	5.2	91.4	3.4	1.8	50.9	49.9
	Oct	3.8	93.5	2.7	1.1	50.5	50.3

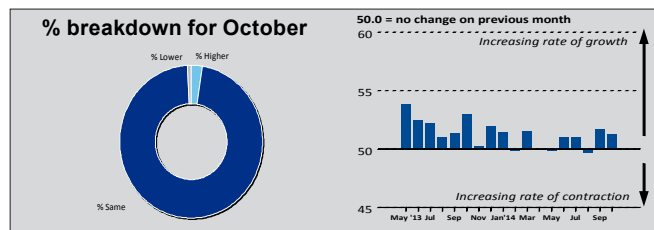


The quantity of items purchased by Lebanese private sector companies increased for the first time in four months in October. That said, the extent to which buying levels rose was only marginal overall, with those firms recording higher purchasing activity (almost 4%) only slightly outnumbering the those that registered a decrease (3%).

Stocks of Purchases Index

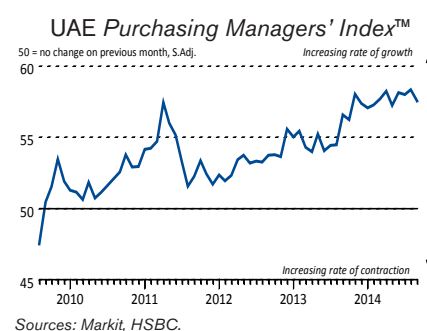
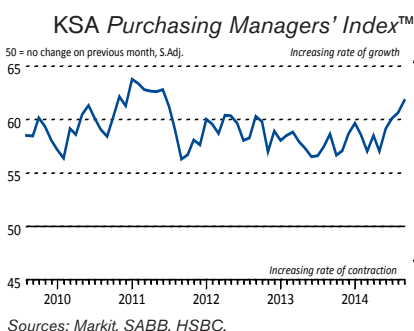
Q. Please compare your stocks of purchases (in units) with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2014	Jun	3.9	96.0	0.2	3.7	51.8	51.0
	Jul	3.9	94.9	1.2	2.7	51.3	51.1
	Aug	2.7	96.2	1.1	1.7	50.8	49.7
	Sep	5.1	94.9	0.0	5.1	52.6	51.7
	Oct	2.6	96.6	0.8	1.8	50.9	51.3



Stocks of purchases held by Lebanese businesses rose for the second month running in October, reflective of buying activity increasing but output levels having dropped further. The rate of accumulation was only modest, however, and slightly slower than September's nine-month high.

International PMI summary



The seasonally adjusted headline HSBC Egypt PMI rose from 51.6 in August to a ten-month high of 52.4 in September, signalling a further improvement in operating conditions at Egyptian non-oil private sector companies. The latest PMI reading was also the second-highest on record.

September saw the continued improvement of operating conditions in Saudi Arabia's non-oil producing private sector economy. After accounting for seasonal factors, the headline SABB HSBC Saudi Arabia PMI posted 61.8, up from August's 60.7 and the best reading since June 2011. The PMI has now risen for four successive months.

The upturn in the UAE's non-oil producing private sector remained in strong growth territory, with the headline seasonally adjusted HSBC United Arab Emirates PMI posting at 57.6 in September. Although easing slightly from the previous month's reading of 58.4, the index posted above the long-run series average (54.0).

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.

Warning

The intellectual property rights to the BLOM Lebanon PMI™ provided herein are owned by or licensed to Markit Economics Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. *Purchasing Managers' Index™* and *PMI™* are either registered trademarks of Markit Economics Limited or licensed to Markit Economics Limited. BLOMINVEST Bank use the above marks under licence. Markit is a registered trademark of Markit Group Limited.