

## *Downturn continues in September as output and new business fall*

### Key findings:

- **Faster contractions in output and new business...**
- **...though employment rises marginally**
- **Stocks increase as purchasing activity edges higher**

This report contains the twenty-fourth 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.

Lebanon's private sector economy contracted further in September. This was indicated by the headline seasonally adjusted BLOM Lebanon PMI registering 48.1, up fractionally from August's 11-month low of 47.8.

September saw solid and accelerated decreases in both output and the level of new work placed with private sector companies. The drop in overall activity was the most marked since May, while inflows of new business posted the sharpest monthly fall for a year. Panel members commented that political uncertainty was the key factor leading business conditions to deteriorate, with a second successive (albeit slower) decrease in new export orders further stoking the

downturn.

However, employment in the private sector economy grew in September, ending a two-month sequence of job cuts.

The amount of orders outstanding at businesses decreased again in September, as has been the case in eight out of the past nine months. That said, the rate of backlog depletion eased and was only marginal.

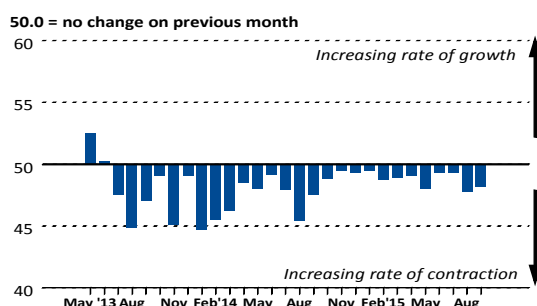
Firms' buying levels returned to growth in September, after falling at the fastest rate for 12 months in August. The rise in purchasing activity was only marginal but, given the solid contraction on the demand-side, there was nevertheless a notable build-up of stock. The extent to which inventories rose was in fact the most marked since October 2013.

September's survey meanwhile showed a slight increase in average supplier delivery times, offsetting the marginal improvement seen during the prior month.

On the cost front, latest data showed a rise in average input prices for the first time in four months. This was largely reflective of an increase in purchasing costs – the strongest seen since December 2013. In contrast, staffing costs fell slightly.

Average prices charged for goods and services decreased for a sixth successive month in September, with the rate of decline little-changed from the marginal pace seen in August.

Lebanon Purchasing Managers' Index™ (PMI™)



Purchasing Managers' Index

|      |     | Unadj. | Seas. Adj. |
|------|-----|--------|------------|
| 2015 | Jul | 49.9   | 49.3       |
|      | Aug | 48.7   | 47.8       |
|      | Sep | 48.9   | 48.1       |

Index Summary

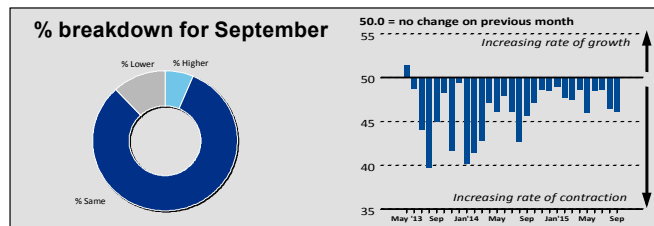
(seasonally adjusted, 50 = no change on previous month)

|        | 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 |
|--------|------|--------|------------|---------------|------------------|------------|---------------|---------------------|----------------|-------------|----------------|-----------------------|---------------------|
| Jul'15 | 49.3 | 48.7   | 48.5       | 50.0          | 49.9             | 49.5       | 48.6          | 49.5                | 50.5           | 49.8        | 49.6           | 50.5                  | 51.5                |
| Aug    | 47.8 | 46.5   | 46.2       | 47.1          | 48.3             | 49.7       | 49.6          | 49.6                | 49.1           | 49.9        | 50.7           | 48.6                  | 50.0                |
| Sep    | 48.1 | 46.1   | 45.2       | 49.2          | 49.6             | 50.9       | 49.4          | 51.4                | 51.8           | 49.5        | 49.6           | 50.4                  | 53.0                |

## Output Index

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

|             |     | Higher<br>% | Same<br>% | Lower<br>% | Net<br>+/- | Index       | S.Adj.<br>Index |
|-------------|-----|-------------|-----------|------------|------------|-------------|-----------------|
| <b>2015</b> | May | 3.7         | 85.6      | 10.7       | -7.0       | <b>46.5</b> | <b>45.9</b>     |
|             | Jun | 3.2         | 91.1      | 5.8        | -2.6       | <b>48.7</b> | <b>48.5</b>     |
|             | Jul | 5.2         | 88.2      | 6.5        | -1.3       | <b>49.3</b> | <b>48.7</b>     |
|             | Aug | 3.4         | 88.4      | 8.2        | -4.8       | <b>47.6</b> | <b>46.5</b>     |
|             | Sep | 6.3         | 81.6      | 12.1       | -5.7       | <b>47.1</b> | <b>46.1</b>     |

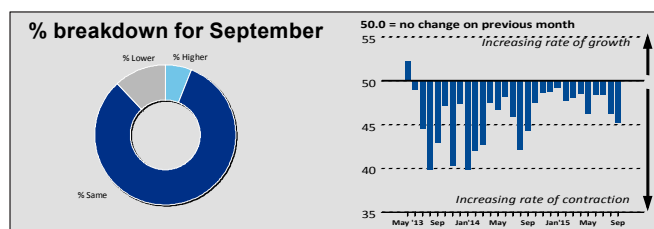


September survey data pointed to a solid and accelerated decrease in output in Lebanon's private sector economy, the most marked since May. Around twice as many companies recorded a decrease in the level of business activity (12%) as those that registered an increase (6%). The current sequence of contraction now extends to 28 months.

## New Orders Index

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

|             |     | Higher<br>% | Same<br>% | Lower<br>% | Net<br>+/- | Index       | S.Adj.<br>Index |
|-------------|-----|-------------|-----------|------------|------------|-------------|-----------------|
| <b>2015</b> | May | 3.8         | 85.7      | 10.5       | -6.6       | <b>46.7</b> | <b>46.3</b>     |
|             | Jun | 3.1         | 91.3      | 5.6        | -2.5       | <b>48.8</b> | <b>48.4</b>     |
|             | Jul | 5.1         | 88.5      | 6.4        | -1.3       | <b>49.4</b> | <b>48.5</b>     |
|             | Aug | 3.3         | 88.0      | 8.7        | -5.3       | <b>47.3</b> | <b>46.2</b>     |
|             | Sep | 6.2         | 81.8      | 12.0       | -5.8       | <b>47.1</b> | <b>45.2</b>     |

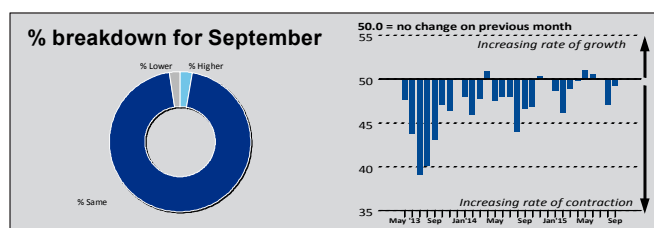


The seasonally adjusted New Orders Index dipped to a 12-month low in September, pointing to a solid and accelerated reduction in inflows of new work at private sector companies operating in Lebanon. Anecdotal evidence highlighted worsening business conditions amid political uncertainty.

## New Export Orders Index

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

|             |     | Higher<br>% | Same<br>% | Lower<br>% | Net<br>+/- | Index       | S.Adj.<br>Index |
|-------------|-----|-------------|-----------|------------|------------|-------------|-----------------|
| <b>2015</b> | May | 5.3         | 93.1      | 1.5        | +3.8       | <b>51.9</b> | <b>51.0</b>     |
|             | Jun | 5.7         | 93.1      | 1.1        | +4.6       | <b>52.3</b> | <b>50.6</b>     |
|             | Jul | 4.6         | 93.1      | 2.3        | +2.3       | <b>51.1</b> | <b>50.0</b>     |
|             | Aug | 2.4         | 91.8      | 5.9        | -3.5       | <b>48.2</b> | <b>47.1</b>     |
|             | Sep | 2.9         | 94.6      | 2.5        | +0.4       | <b>50.2</b> | <b>49.2</b>     |

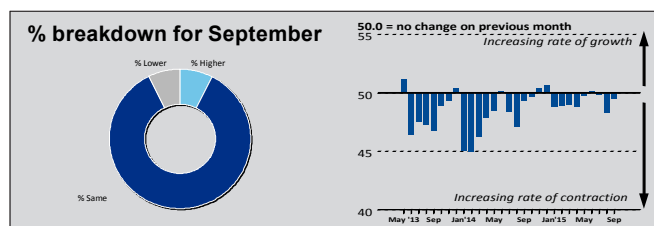


The level of new business received by Lebanese firms from abroad decreased for the second month in succession in September, which panel members linked to the impact of instability within Lebanon, as well as issues in the broader region. That said, the degree to which new export orders fell was less marked than in August and only marginal overall.

## Backlogs of Work Index

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

|             |     | Higher<br>% | Same<br>% | Lower<br>% | Net<br>+/- | Index       | S.Adj.<br>Index |
|-------------|-----|-------------|-----------|------------|------------|-------------|-----------------|
| <b>2015</b> | May | 3.9         | 91.9      | 4.2        | -0.3       | <b>49.8</b> | <b>49.8</b>     |
|             | Jun | 3.2         | 94.9      | 1.9        | +1.3       | <b>50.6</b> | <b>50.2</b>     |
|             | Jul | 4.6         | 92.5      | 3.0        | +1.6       | <b>50.8</b> | <b>49.9</b>     |
|             | Aug | 2.7         | 93.5      | 3.8        | -1.0       | <b>49.5</b> | <b>48.3</b>     |
|             | Sep | 7.4         | 85.3      | 7.3        | +0.1       | <b>50.1</b> | <b>49.6</b>     |

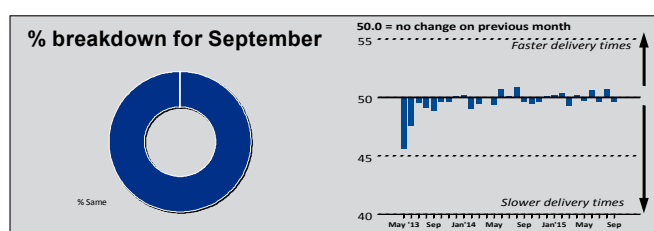


As has been the trend throughout the third quarter of the year, the amount of work-in-hand (both in progress and not yet started) at Lebanese companies decreased during September amid deteriorating inflows of new business. The rate of depletion was only slight, however, having eased from August's 12-month record.

## Suppliers' Delivery Times Index

Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.

|             |     | Faster<br>% | Same<br>% | Slower<br>% | Net<br>+/- | Index       | S.Adj.<br>Index |
|-------------|-----|-------------|-----------|-------------|------------|-------------|-----------------|
| <b>2015</b> | May | 0.0         | 98.8      | 1.2         | -1.2       | <b>49.4</b> | <b>49.7</b>     |
|             | Jun | 0.3         | 99.3      | 0.3         | 0.0        | <b>50.0</b> | <b>50.7</b>     |
|             | Jul | 0.0         | 100.0     | 0.0         | 0.0        | <b>50.0</b> | <b>49.6</b>     |
|             | Aug | 0.0         | 100.0     | 0.0         | 0.0        | <b>50.0</b> | <b>50.7</b>     |
|             | Sep | 0.0         | 100.0     | 0.0         | 0.0        | <b>50.0</b> | <b>49.6</b>     |



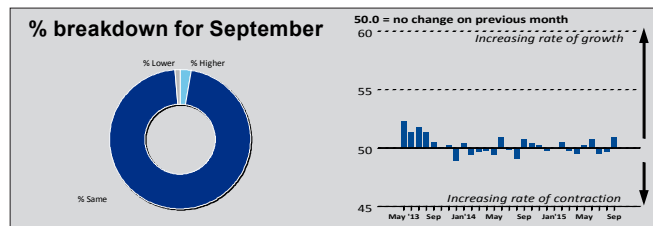
Suppliers' delivery times worsened (on average) in September, thereby reversing the marginal improvement seen during the month before. This was highlighted by the corresponding seasonally adjusted index falling back below the neutral 50.0 threshold that separates faster from slower lead times.

## Employment Index

Q. Please compare the level of employment at your unit with the situation one month ago.

|             |     | Higher<br>% | Same<br>% | Lower<br>% | Net<br>+/- | Index       | S.Adj.<br>Index |
|-------------|-----|-------------|-----------|------------|------------|-------------|-----------------|
| <b>2015</b> | May | 1.3         | 98.2      | 0.5        | +0.8       | <b>50.4</b> | <b>50.2</b>     |
|             | Jun | 0.3         | 99.7      | 0.0        | +0.3       | <b>50.2</b> | <b>50.8</b>     |
|             | Jul | 0.0         | 100.0     | 0.0        | 0.0        | <b>50.0</b> | <b>49.5</b>     |
|             | Aug | 0.0         | 100.0     | 0.0        | 0.0        | <b>50.0</b> | <b>49.7</b>     |
|             | Sep | 2.4         | 96.3      | 1.2        | +1.2       | <b>50.6</b> | <b>50.9</b>     |

Following back-to-back decreases, the level of employment in Lebanon's private sector economy returned to growth in September. Although only marginal (the vast majority of firms (96%) recorded no change), the extent to which staffing numbers rose was the most marked since June last year.

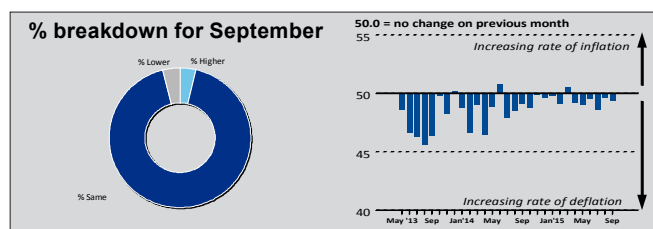


## Output Prices Index

Q. Please compare the average prices you charged this month with the situation one month ago.

|             |     | Higher<br>% | Same<br>% | Lower<br>% | Net<br>+/- | Index       | S.Adj.<br>Index |
|-------------|-----|-------------|-----------|------------|------------|-------------|-----------------|
| <b>2015</b> | May | 1.6         | 95.9      | 2.4        | -0.8       | <b>49.6</b> | <b>49.0</b>     |
|             | Jun | 0.3         | 96.6      | 3.1        | -2.8       | <b>48.6</b> | <b>49.5</b>     |
|             | Jul | 0.6         | 95.2      | 4.2        | -3.5       | <b>48.2</b> | <b>48.6</b>     |
|             | Aug | 0.0         | 97.7      | 2.3        | -2.3       | <b>48.8</b> | <b>49.6</b>     |
|             | Sep | 3.6         | 92.6      | 3.8        | -0.2       | <b>49.9</b> | <b>49.4</b>     |

September saw the continuation of output price reductions among Lebanese businesses, extending the current sequence of decline to six months. The rate at which charges fell was only marginal, however, and little-changed from that seen in August. Firms that set lower tariffs compared with the previous month often linked this to efforts to attract customers.

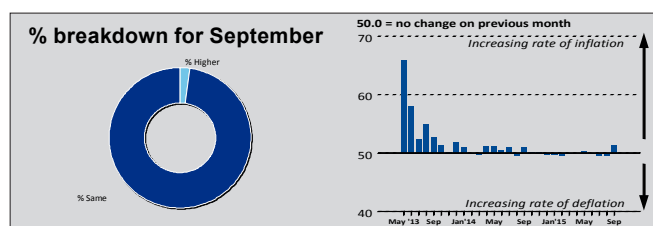


## Overall Input Prices Index

Q. Please compare your overall average input prices this month with the situation one month ago.

|             |     | Higher<br>% | Same<br>% | Lower<br>% | Net<br>+/- | Index       | S.Adj.<br>Index |
|-------------|-----|-------------|-----------|------------|------------|-------------|-----------------|
| <b>2015</b> | May | 0.1         | 99.9      | 0.0        | +0.1       | <b>50.1</b> | <b>50.4</b>     |
|             | Jun | 0.3         | 99.7      | 0.0        | +0.3       | <b>50.2</b> | <b>49.8</b>     |
|             | Jul | 0.0         | 100.0     | 0.0        | 0.0        | <b>50.0</b> | <b>49.5</b>     |
|             | Aug | 0.0         | 100.0     | 0.0        | 0.0        | <b>50.0</b> | <b>49.6</b>     |
|             | Sep | 2.2         | 97.8      | 0.0        | +2.2       | <b>51.1</b> | <b>51.4</b>     |

Average input prices faced by private sector firms in Lebanon rose during September, having fallen marginally in each of the previous three months. The rate of inflation was the fastest seen since December 2013, although only modest overall. The primary factor leading total cost burdens to rise was higher purchase prices.

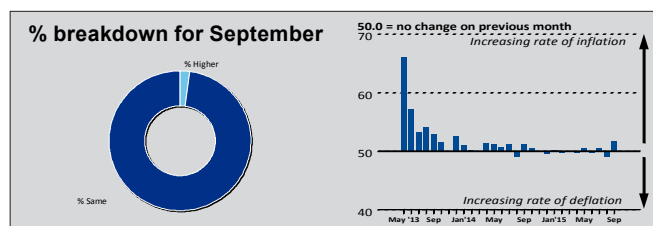


## Input Costs: Purchase Prices Index

Q. Please compare the price of your purchases (volume-weighted) this month with the situation one month ago.

|             |     | Higher<br>% | Same<br>% | Lower<br>% | Net<br>+/- | Index       | S.Adj.<br>Index |
|-------------|-----|-------------|-----------|------------|------------|-------------|-----------------|
| <b>2015</b> | May | 0.1         | 99.9      | 0.0        | +0.1       | <b>50.1</b> | <b>50.6</b>     |
|             | Jun | 0.3         | 99.7      | 0.0        | +0.3       | <b>50.2</b> | <b>49.7</b>     |
|             | Jul | 0.0         | 100.0     | 0.0        | 0.0        | <b>50.0</b> | <b>50.5</b>     |
|             | Aug | 0.0         | 100.0     | 0.0        | 0.0        | <b>50.0</b> | <b>49.1</b>     |
|             | Sep | 2.2         | 97.8      | 0.0        | +2.2       | <b>51.1</b> | <b>51.8</b>     |

Lebanese businesses recorded an increase in average purchase prices for the second time in the past three months in September, reversing the slight decrease registered during the preceding survey period. Despite being only modest, the rate of inflation was in fact the fastest seen since December 2013.

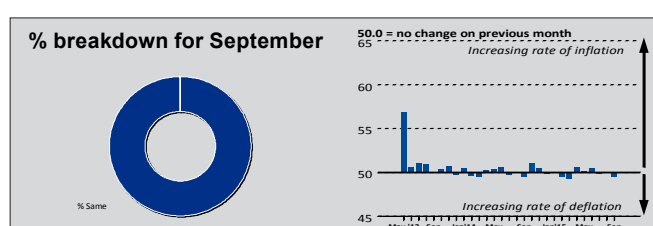


## Input Costs: Staff Costs Index

Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.

|             |     | Higher<br>% | Same<br>% | Lower<br>% | Net<br>+/- | Index       | S.Adj.<br>Index |
|-------------|-----|-------------|-----------|------------|------------|-------------|-----------------|
| <b>2015</b> | May | 0.1         | 99.9      | 0.0        | +0.1       | <b>50.0</b> | <b>50.2</b>     |
|             | Jun | 0.0         | 100.0     | 0.0        | 0.0        | <b>50.0</b> | <b>50.5</b>     |
|             | Jul | 0.0         | 100.0     | 0.0        | 0.0        | <b>50.0</b> | <b>49.8</b>     |
|             | Aug | 0.0         | 100.0     | 0.0        | 0.0        | <b>50.0</b> | <b>49.9</b>     |
|             | Sep | 0.0         | 100.0     | 0.0        | 0.0        | <b>50.0</b> | <b>49.5</b>     |

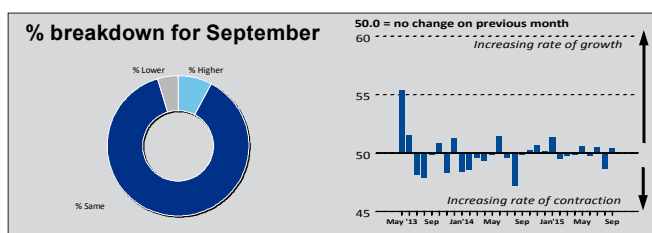
Higher purchase prices were partially offset by a further fall in average labour costs, the third in as many months. Adjusted for the influence of seasonal factors, the Staff Costs Index posted its lowest reading since March, but one that was nevertheless indicative of only a marginal reduction in salaries/wages.



## Quantity of Purchases Index

Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.

|             |     | Higher<br>% | Same<br>% | Lower<br>% | Net<br>+/- | Index       | S.Adj.<br>Index |
|-------------|-----|-------------|-----------|------------|------------|-------------|-----------------|
| <b>2015</b> | May | 3.2         | 95.7      | 1.1        | +2.0       | <b>51.0</b> | <b>50.6</b>     |
|             | Jun | 3.3         | 95.7      | 1.0        | +2.3       | <b>51.2</b> | <b>49.8</b>     |
|             | Jul | 5.1         | 93.2      | 1.7        | +3.4       | <b>51.7</b> | <b>50.5</b>     |
|             | Aug | 3.9         | 92.3      | 3.9        | 0.0        | <b>50.0</b> | <b>48.6</b>     |
|             | Sep | 7.9         | 87.4      | 4.7        | +3.2       | <b>51.6</b> | <b>50.4</b>     |

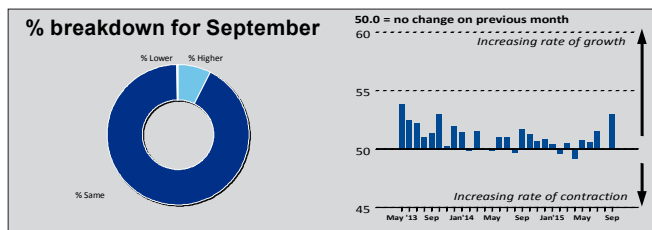


Despite negative trends in both output and new business, the quantity of items purchased by Lebanese firms increased slightly in September. This marked the second time in the past three months that buying levels have risen. This followed a decrease during August that was the fastest recorded in 12 months.

## Stocks of Purchases Index

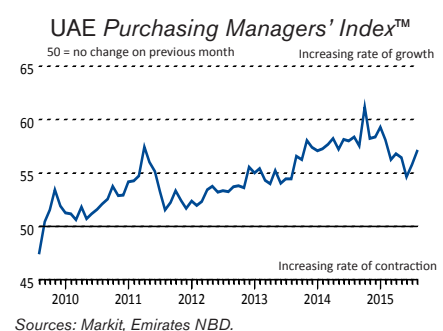
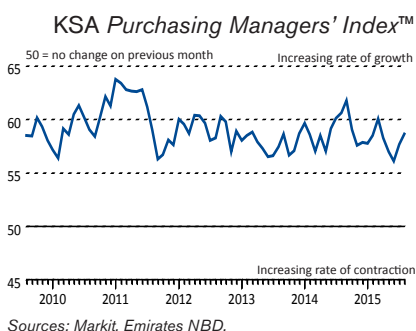
Q. Please compare your stocks of purchases (in units) with the situation one month ago.

|             |     | Higher<br>% | Same<br>% | Lower<br>% | Net<br>+/- | Index       | S.Adj.<br>Index |
|-------------|-----|-------------|-----------|------------|------------|-------------|-----------------|
| <b>2015</b> | May | 1.8         | 98.2      | 0.0        | +1.8       | <b>50.9</b> | <b>50.8</b>     |
|             | Jun | 2.7         | 97.3      | 0.0        | +2.7       | <b>51.4</b> | <b>50.6</b>     |
|             | Jul | 4.3         | 95.7      | 0.0        | +4.3       | <b>52.1</b> | <b>51.5</b>     |
|             | Aug | 1.9         | 98.1      | 0.0        | +1.9       | <b>50.9</b> | <b>50.0</b>     |
|             | Sep | 7.6         | 92.1      | 0.3        | +7.3       | <b>53.7</b> | <b>53.0</b>     |



The combination of falling demand and increased buying activity led to a rise in firms' stocks of purchases in September. Furthermore, the extent to which inventories accumulated was the most marked since October 2013, and the joint-second fastest recorded since the survey began nearly two-and-a-half years ago.

## International PMI summary



Adjusted for seasonal factors, the headline Emirates NBD Egypt Purchasing Managers' Index™ (PMI) posted 51.2 in August, up from 49.2 in July. The latest reading was the highest in eight months, and signalled the second improvement in business conditions so far this year. That said, it was consistent with only modest growth of the private sector economy overall.

At 58.7, the headline Emirates NBD Saudi Arabia Purchasing Managers' Index™ (PMI) was consistent with a marked improvement in business conditions during August. Up from 57.7 in July, the latest reading was the highest in five months and only slightly below the long-run series average (59.1). It also signalled an acceleration in growth for the second month running.

Adjusted for seasonal influences, the headline Emirates NBD UAE Purchasing Managers' Index™ (PMI) climbed to a six-month high of 57.1 in August, from 55.8 in July. The latest reading was indicative of a robust improvement in business conditions, and pointed to a further acceleration in growth from the 22-month low seen at the end of Q2.

## 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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