

PMI signals further sharp deterioration in business conditions

Key findings:

- **Output falls at a rate close to April's survey record**
- **Job losses recorded for third month in a row**
- **Weak demand leads to further drop in output prices**

This report contains the thirty-second 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.

May saw a further sharp deterioration in the health of Lebanon's private sector economy. The headline seasonally adjusted BLOM Lebanon PMI registered 44.8 at the mid-way point of the second quarter, up only slightly from April's survey-record low of 44.1. The index has remained below the 50.0 no-change mark for 35 months in a row.

There were steep contractions in both output and new business in May, which was linked by panel members to ongoing political and security issues, as well as a lack of tourism and generally difficult economic conditions. Although the respective rates of decline eased since April, they remained among the fastest recorded since the survey began in May

2013. New export business dropped for the tenth month in a row.

Weakness on the demand side continued to affect businesses' price setting and employment strategies.

Average prices charged for goods and services fell for the fourteenth consecutive month in May amid attempts to stimulate new work. The rate of decline was moderate and broadly in line with that seen in April.

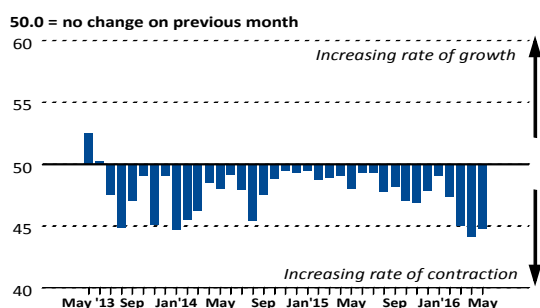
Meanwhile, job losses were recorded across Lebanon's private sector economy for the third straight month, though the rate of staff shedding remained modest.

May's survey data showed little change in average costs faced by businesses, as a slight fall in staff pay helped to counter a rise in purchase prices – the first in eight months.

Quantities of purchases made by private sector companies in Lebanon decreased in May, continuing the trend seen since February. The reduction in buying activity contributed to a slight improvement in suppliers' delivery times. Inventory levels continued to rise, albeit at the slowest rate seen in three months.

Finally, the amount of work-in-hand (both in progress and not yet started) among private sector companies showed a further marked fall in May, highlighting downside risks to employment and output in the near term.

Lebanon Purchasing Managers' Index™ (PMI™)



Purchasing Managers' Index

		Unadj.	Seas. Adj.
2016	Mar	45.3	45.0
	Apr	44.6	44.1
	May	45.3	44.8

Index Summary

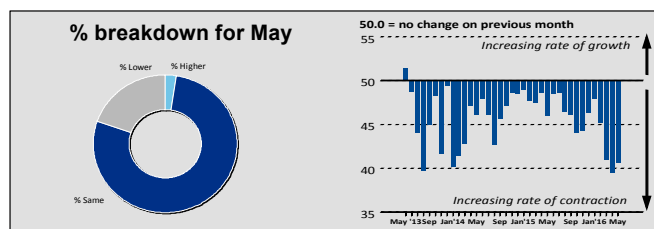
(seasonally adjusted, 50 = no change on previous month)

	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
Mar'16	45.0	41.0	40.5	46.7	44.4	49.3	48.1	49.7	49.4	49.5	49.8	47.5	51.9
Apr	44.1	39.5	39.6	45.2	42.4	48.9	48.7	49.7	49.7	50.2	50.1	46.0	50.7
May	44.8	40.7	40.7	46.7	43.9	49.4	48.6	49.9	50.4	49.8	50.3	46.8	50.5

Output Index

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

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2016	Jan	2.8	84.9	12.4	-9.6	45.2	48.0
	Feb	2.3	86.2	11.5	-9.2	45.4	45.1
	Mar	2.4	78.3	19.3	-16.8	41.6	41.0
	Apr	5.2	70.7	24.1	-18.9	40.5	39.5
	May	2.4	77.9	19.7	-17.2	41.4	40.7

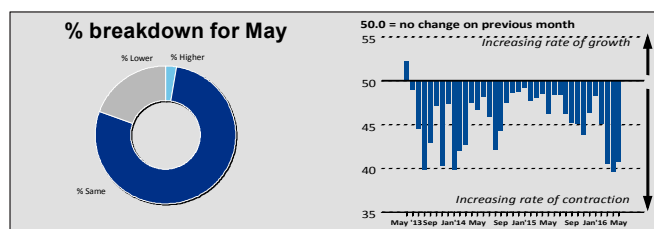


May survey data showed another sharp reduction in the level of output across Lebanon's private sector economy, following the survey-record contraction seen at the start of the second quarter. Around one-fifth of survey respondents recorded a drop in business activity at their units, against only 2% that registered an increase.

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
2016	Jan	2.7	85.2	12.2	-9.5	45.3	48.3
	Feb	2.3	86.5	11.3	-9.0	45.5	45.1
	Mar	1.7	78.2	20.1	-18.4	40.8	40.5
	Apr	4.5	71.7	23.8	-19.4	40.3	39.6
	May	2.4	78.1	19.5	-17.1	41.4	40.7

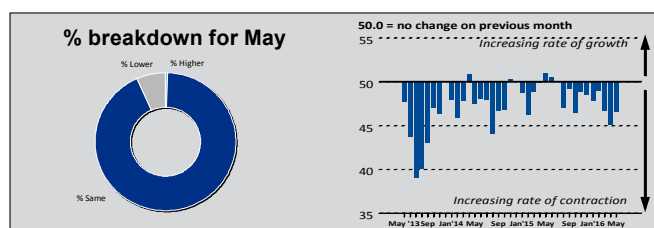


May's decrease in business activity was partly a reflection of a further reduction in incoming new business, the level of which has fallen continuously throughout the past three years. Although slightly slower than in April, the rate of decline in new orders remained sharp and was among the fastest recorded since data collection began in May 2013.

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
2016	Jan	0.0	94.4	5.6	-5.6	47.2	47.9
	Feb	1.0	95.3	3.7	-2.7	48.7	49.0
	Mar	0.0	93.4	6.6	-6.6	46.7	46.7
	Apr	0.8	90.3	8.8	-8.0	46.0	45.2
	May	0.6	92.7	6.7	-6.1	47.0	46.7

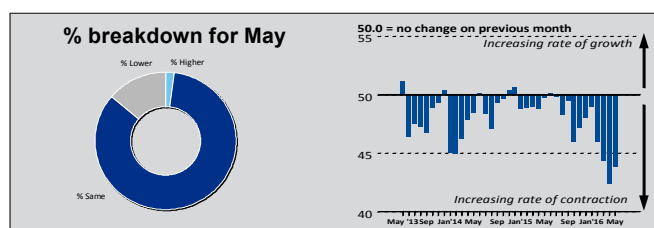


The level of new business from abroad received by Lebanese private sector companies decreased for the tenth consecutive month in May, though at a slower rate than in the previous survey period. This was highlighted by the corresponding seasonally adjusted index registering below the neutral 50.0 threshold, but above April's 20-month low.

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
2016	Jan	2.5	90.2	7.3	-4.8	47.6	49.0
	Feb	1.7	89.0	9.3	-7.6	46.2	46.0
	Mar	3.5	82.9	13.6	-10.1	45.0	44.4
	Apr	3.6	77.8	18.6	-15.1	42.5	42.4
	May	2.1	84.2	13.8	-11.7	44.2	43.9

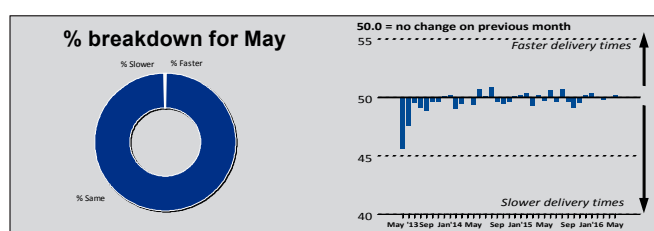


A lack of incoming new work meant that Lebanese companies were able to focus their resources on outstanding orders during May, leading to a further reduction in work-in-hand – the eleventh in successive months. Moreover, the rate at which backlogs of work decreased was the second-fastest in the survey history, just behind that recorded in April.

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
2016	Jan	0.8	99.2	0.0	+0.8	50.4	50.4
	Feb	0.0	100.0	0.0	0.0	50.0	50.0
	Mar	0.7	99.3	0.0	+0.7	50.4	49.8
	Apr	0.7	98.3	1.0	-0.2	49.9	50.1
	May	0.2	99.7	0.2	0.0	50.0	50.3

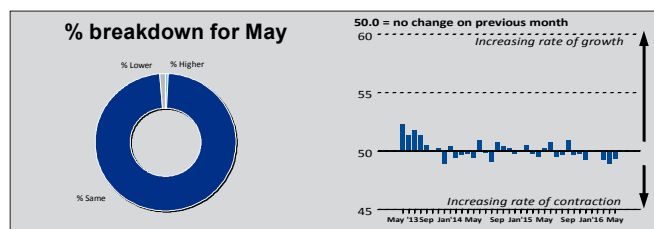


The average time taken to deliver purchased items to Lebanese private sector companies decreased in May. That said, registering just above the 50.0 no-change mark, the seasonally adjusted Suppliers' Delivery Times Index was indicative of only a marginal improvement in vendor performance.

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
2016	Jan	0.6	98.5	1.0	-0.4	49.8	50.0
	Feb	0.0	99.2	0.8	-0.8	49.6	50.1
	Mar	0.0	99.6	0.4	-0.4	49.8	49.3
	Apr	0.0	98.2	1.8	-1.8	49.1	48.9
	May	0.6	98.1	1.3	-0.6	49.7	49.4

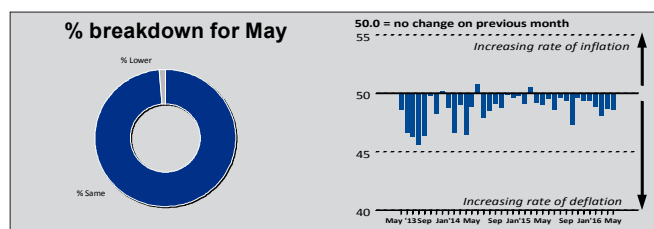


May saw a third successive monthly decrease in the level of employment within Lebanon's private sector economy, which anecdotal evidence linked to falling workloads. However, the rate of job losses was only modest and the weakest in the current sequence. Indeed, the vast majority of companies (approximately 98%) reported no change in their payroll numbers.

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
2016	Jan	0.0	95.6	4.4	-4.4	47.8	49.4
	Feb	0.4	96.6	3.0	-2.6	48.7	48.9
	Mar	0.0	96.5	3.5	-3.5	48.2	48.1
	Apr	0.9	95.5	3.6	-2.8	48.6	48.7
	May	0.0	98.5	1.5	-1.5	49.2	48.6

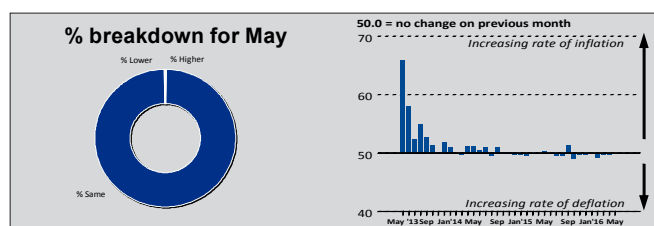


Average prices charged for goods and services decreased in May, with the rate of decline little-changed from the moderate pace recorded in the preceding survey period. That extended the current sequence of falling output prices to 14 months. Where a reduction was recorded, this was often linked to a lack of incoming work.

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
2016	Jan	1.0	97.6	1.4	-0.4	49.8	50.1
	Feb	0.9	97.4	1.7	-0.8	49.6	49.2
	Mar	0.7	97.9	1.4	-0.6	49.7	49.7
	Apr	0.7	98.8	0.5	+0.2	50.1	49.7
	May	0.2	99.4	0.4	-0.2	49.9	49.9

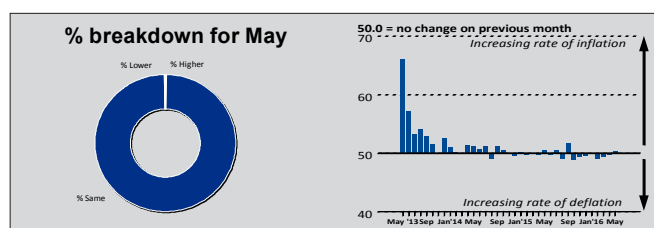


Average input prices were broadly unchanged across Lebanon's private sector economy during May, after falling marginally in each of the previous three months. Whereas businesses faced a rise in purchasing costs, concurrently there was a slight drop in average prices paid for salaries/wages.

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
2016	Jan	1.0	97.4	1.6	-0.6	49.7	50.0
	Feb	0.9	97.2	1.9	-0.9	49.5	49.1
	Mar	0.7	97.9	1.4	-0.6	49.7	49.4
	Apr	0.7	98.7	0.6	+0.1	50.1	49.7
	May	0.2	99.4	0.4	-0.2	49.9	50.4

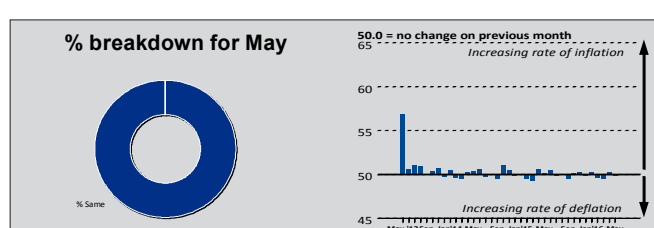


Adjusted for the influence of seasonal variations, the Purchase Prices Index registered a reading above the neutral 50.0 threshold for the first time in eight months in May, signalling an increase in average prices paid for acquired items. That said, the index was at a level consistent with only a marginal rate of inflation.

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
2016	Jan	0.6	99.4	0.0	+0.6	50.3	50.2
	Feb	0.0	100.0	0.0	0.0	50.0	49.7
	Mar	0.0	100.0	0.0	0.0	50.0	49.5
	Apr	0.0	99.8	0.2	-0.2	49.9	50.2
	May	0.0	100.0	0.0	0.0	50.0	49.8

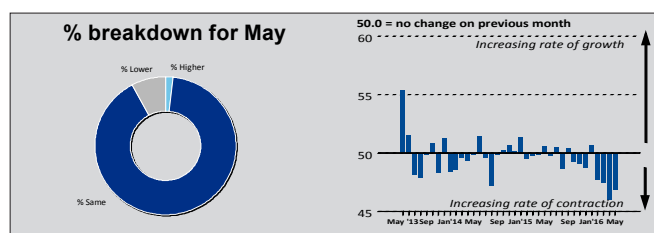


Lebanese businesses recorded a drop in average prices paid for salaries/wages in May, as has been the case in three of the past four months. However, the extent to which staff remuneration decreased was only marginal overall. Over 2016 so far, data have pointed to a broadly flat trend in pay.

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
2016	Jan	2.1	92.6	5.4	-3.3	48.3	50.7
	Feb	2.7	90.3	7.0	-4.4	47.8	47.7
	Mar	5.5	85.7	8.8	-3.3	48.3	47.5
	Apr	2.9	85.7	11.3	-8.4	45.8	46.0
	May	1.7	90.5	7.7	-6.0	47.0	46.8

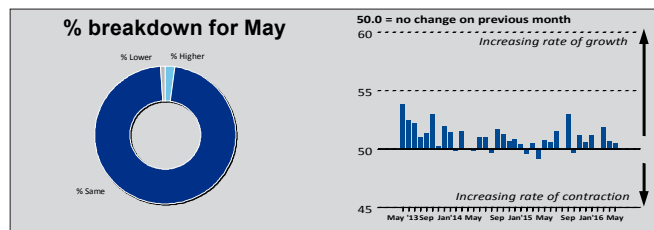


Lower workloads led Lebanese businesses to scale back their purchasing activity in May – the fourth month in a row in which this has been the case. The degree to which buying levels decreased was less marked than in April, when the corresponding seasonally adjusted index hit a survey-record low, but nevertheless solid overall.

Stocks of Purchases Index

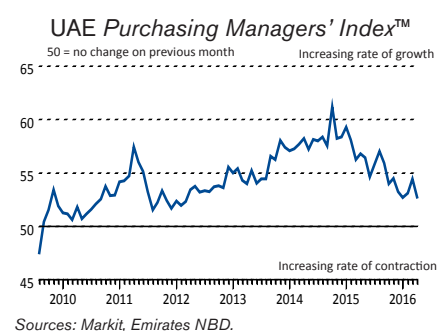
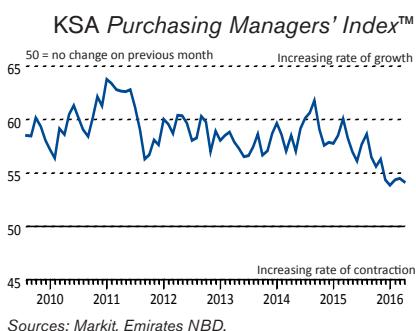
Q. Please compare your stocks of purchases (in units) with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2016	Jan	1.2	98.0	0.8	+0.4	50.2	51.2
	Feb	2.3	95.8	1.8	+0.5	50.3	50.1
	Mar	6.7	92.4	0.9	+5.7	52.9	51.9
	Apr	1.7	96.3	2.0	-0.2	49.9	50.7
	May	2.2	96.7	1.1	+1.1	50.5	50.5



Stocks of purchases held by Lebanese private sector firms increased during May, thereby extending the current sequence of accumulation to seven months. That said, the rate of growth in inventory levels was the slowest since February and marginal overall, with only around 2% of companies recording a rise.

International PMI summary



The headline seasonally adjusted Emirates NBD Egypt Purchasing Managers' Index™ (PMI) posted 46.9 in April, the seventh straight month in which a sub-50.0 reading has been recorded. Though rising from March's 31-month low (44.5), the latest figure pointed to another solid contraction of Egypt's non-oil private sector.

At 54.2, the headline seasonally adjusted Emirates NBD Saudi Arabia Purchasing Managers' Index™ (PMI) was consistent with a solid improvement in business conditions in April. That said, the latest reading suggested that growth of the non-oil private sector as a whole remained relatively subdued. It was down slightly from 54.5 in March, and only just above the record low seen in January.

The seasonally adjusted headline Emirates NBD UAE Purchasing Managers' Index™ (PMI) posted 52.8 in April, down from March's four-month high of 54.5. Though still consistent with a solid improvement in business conditions, the latest reading was only just above the near-four year low seen in January.

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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