

June sees further sharp downturn in business conditions

Key findings:

- **Headline PMI posts lowest quarterly average in survey's three-year history**
- **Output and new business both fall at sharp and accelerated rates**
- **Deflationary pressures remain as average prices charged decrease further**

This report contains the thirty-third 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 across Lebanon's private sector economy took a further turn for the worse in June. That was signalled by the headline seasonally adjusted BLOM Lebanon PMI registering 44.4, well below the neutral 50.0 threshold. The index's average over the second quarter as a whole was in fact the lowest seen since the survey's inception in May 2013.

Output fell sharply across the private sector economy in June, with the rate of decline slightly faster than that recorded in May. Instability and a lack of tourism were factors mentioned by businesses as having weighed on activity. Concurrently, inflows of new business likewise showed a sharp monthly

reduction in June and there was a further, albeit modest, drop in new export orders.

Private sector employment decreased as a consequence of falling workloads among businesses, dropping for the fourth month in a row during June. However, as has been the case throughout this sequence, the overall rate of job losses was modest.

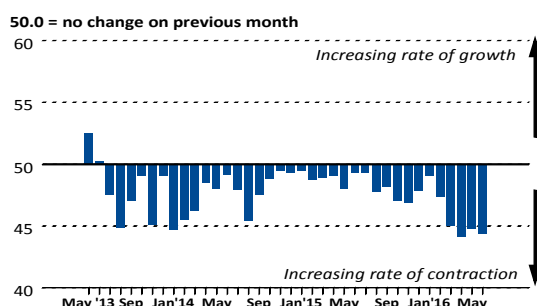
Inventory levels across the private sector economy were broadly unchanged on average in June as companies' purchasing activity continued to fall in line with lower output requirements. That followed a seven-month sequence of rising stocks of purchases.

Meanwhile, in a sign of a lack of pressure on supply chains, average delivery times for purchased item improved for the third month in a row and to the greatest extent since August 2015.

Elsewhere, data pointed to the continuation of downward price pressures, with average charges for goods and services falling for the fifteenth month in a row amid reports from panellists of sales and discounts.

Average costs, on the other hand, were unchanged compared with May, ending a four-month spell of decline. One area where costs did increase was staff pay, though the rate of inflation was negligible.

Lebanon Purchasing Managers' Index™ (PMI™)



Purchasing Managers' Index

		Unadj.	Seas. Adj.
2016	Apr	44.6	44.1
	May	45.3	44.8
	Jun	44.9	44.4

Index Summary

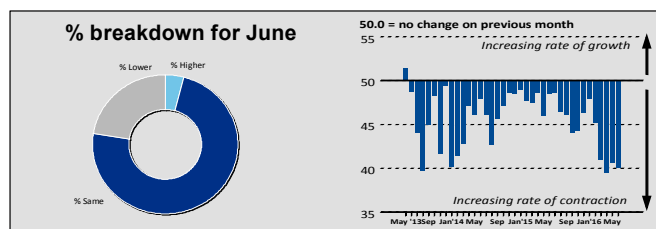
(seasonally adjusted, 50 = no change on previous month)

	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
Apr'16	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
Jun	44.4	40.0	40.4	48.4	42.7	49.3	48.8	50.0	50.0	50.2	50.7	46.7	50.1

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	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
	Jun	4.2	73.4	22.4	-18.2	40.9	40.0

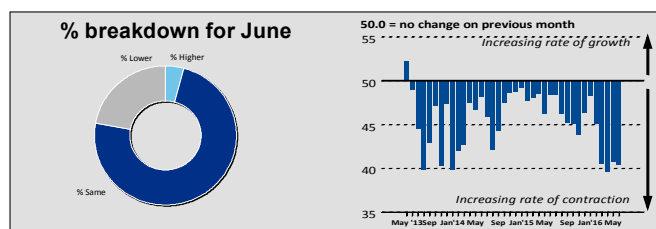


June saw the continuation of a sharp downturn in private sector business activity in Lebanon. Having dipped slightly since May, the seasonally adjusted Output Index was at its second-lowest level in the past 34 months and indicative of a steep rate of contraction. Reasons for lower activity were centred on instability and a lack of tourism.

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	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
	Jun	4.2	73.7	22.1	-17.9	41.0	40.4

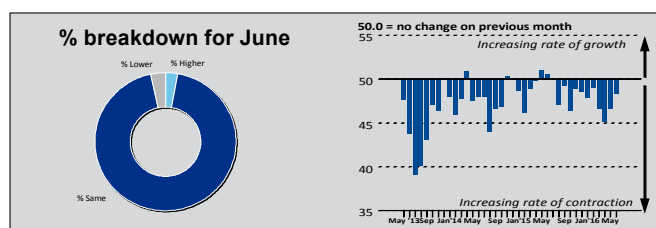


Underpinning the latest drop in business activity among Lebanese private sector companies was a further reduction in the level of incoming new work, the thirty-seventh in as many months. The extent to which inflows of new work contracted was sharp, with more than five times as many companies noting a decrease as those 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
2016	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
	Jun	2.9	93.9	3.2	-0.3	49.8	48.4

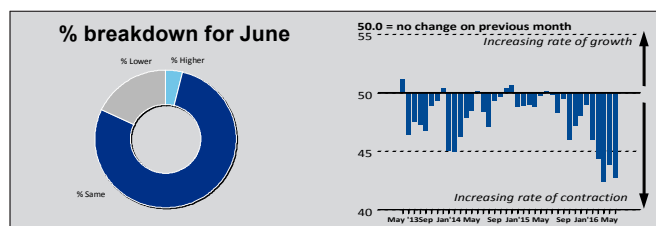


New export orders received by private sector Lebanese companies decreased for the eleventh month in succession in June, although the rate of decline eased to a modest pace that was the weakest since February. Where a reduction in new business from abroad was recorded, this was often linked to instability both locally and across the broader region.

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	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
	Jun	3.8	78.2	18.0	-14.2	42.9	42.7

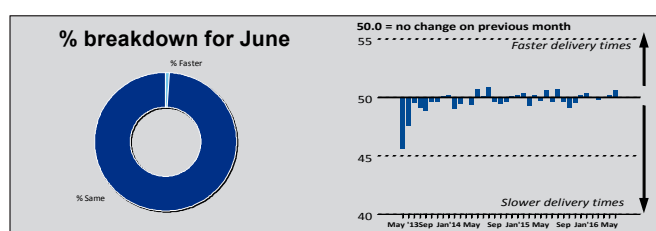


Backlogs of work among Lebanese businesses continued to decreased during June due to a lack of incoming new work to replace completed projects. This extended the current sequence of depletion to 12 months. Moreover, the rate of decline in outstanding business was the second-fastest in the survey's 38-month history, 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	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
	Jun	1.0	99.0	0.0	+1.0	50.5	50.7

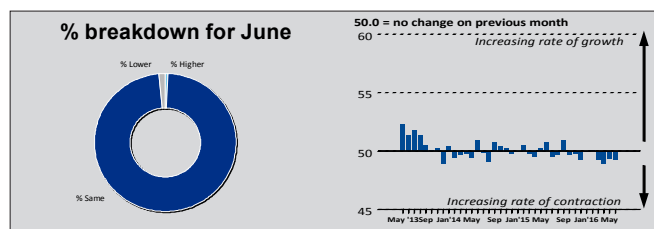


June's survey highlighted a decrease in the average time taken by suppliers to deliver purchased items to Lebanese businesses. The corresponding seasonally adjusted index was in fact above the neutral 50.0 threshold – signalling improved vendor performance – for the third month in a row and at its highest level since August last year, albeit one that was consistent with only a modest shortening in 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
2016	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
	Jun	0.5	98.1	1.4	-1.0	49.5	49.3

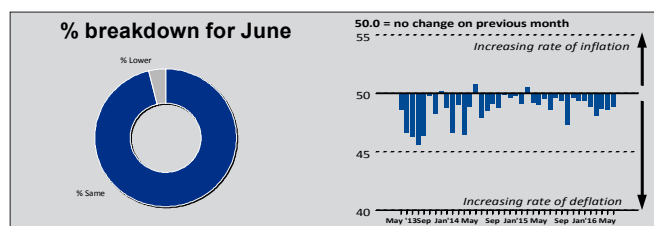


Employment across Lebanon's private sector economy remained in decline during June, falling for the fourth month in succession amid reports of firms cutting staff numbers due to lower workloads. However, as has been the case throughout the current sequence of job losses, the rate of decline was only modest, with the vast majority of panellists (98%) leaving their payroll numbers unchanged.

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	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
	Jun	0.0	96.1	3.9	-3.9	48.1	48.8

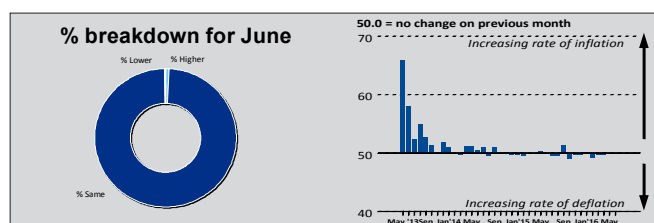


Price pressures remained on the downside during June, as sales and discounting among businesses led to a fifteenth consecutive monthly decrease in average prices charged for goods and services. That said, the rate of decline was only modest, having eased to the weakest seen since February.

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	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
	Jun	0.9	98.8	0.3	+0.7	50.3	50.0

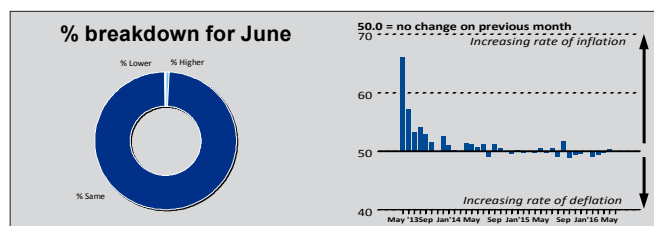


There was no change in overall input prices faced by private sector companies in Lebanon during June. This was highlighted by the corresponding seasonally adjusted index registering in line with the neutral 50.0 threshold, thereby ending a four-month sequence of decline in average cost burdens.

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	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
	Jun	0.9	98.8	0.3	+0.7	50.3	50.0

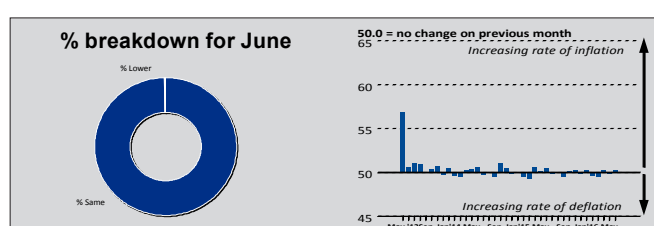


Average purchase prices were unchanged in June compared with the situation one month earlier. That followed a slight rise in the preceding survey period. Whereas a number of panellists commented on higher import prices and food costs, others reported a drop in primary material prices.

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
2016	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
	Jun	0.0	99.8	0.2	-0.2	49.9	50.2

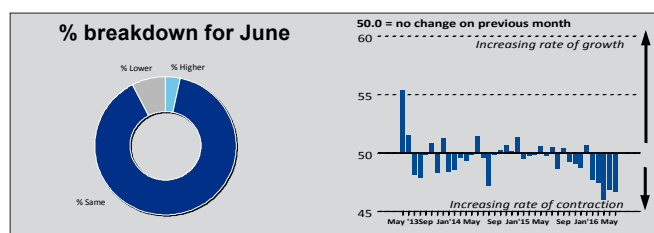


Average prices paid for salaries/wages increased on a seasonally adjusted basis for the second time in the past three months during June, reversing May's marginal decrease. That said, as was the case in April, the degree to which staff remuneration rose was only marginal overall.

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	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
	Jun	3.4	88.9	7.6	-4.2	47.9	46.7

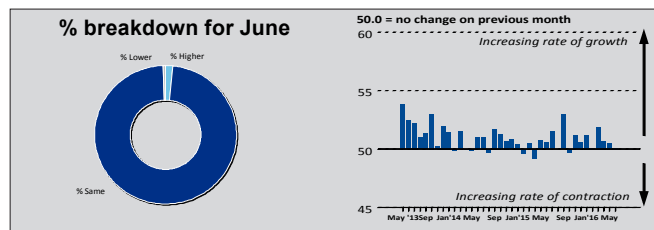


Falling levels of business activity and incoming new work continued to weigh on companies' quantities of purchases, which decreased at a solid rate that was little-changed from that recorded in the previous survey period. That extended the current downturn in buying levels to five months.

Stocks of Purchases Index

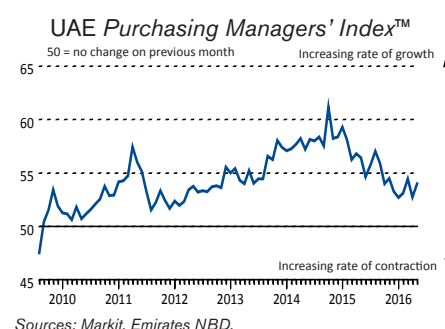
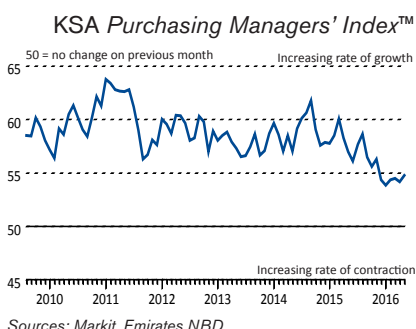
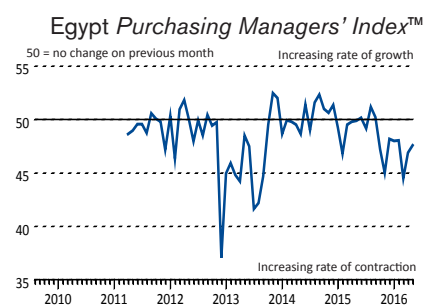
Q. Please compare your stocks of purchases (in units) with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2016	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
	Jun	1.6	98.0	0.4	+1.2	50.6	50.1



Latest data indicated broadly no change in stocks of purchases held by private sector companies operating in Lebanon. Prior to the stagnation observed during June, pre-production inventories had increased continuously for seven months in succession, albeit only slightly in both April and May.

International PMI summary



The headline seasonally adjusted Emirates NBD Egypt Purchasing Managers' Index™ (PMI) edged closer to the 50.0 no-change mark in May. The latest reading of 47.6 was up from 46.9 in April, and above the average over the current eight-month sequence of contraction (47.0). That said, it still pointed to a solid deterioration in business conditions overall.

The seasonally adjusted Emirates NBD Saudi Arabia Purchasing Managers' Index™ (PMI) rose to a six-month high of 54.8 in May, from 54.2 in April. That was indicative of a robust improvement in the health of Saudi Arabia's non-oil private sector. However, growth was still relatively muted as the latest figure remained closer to January's record low (53.9) than the long-run series average (58.6).

Adjusted for seasonal influences, the headline Emirates NBD UAE Purchasing Managers' Index™ (PMI) posted 54.0 in May, up from 52.8 in April. The latest figure was the second-highest in six months, albeit still below the long-run series average (54.5). It also signalled an acceleration in growth following a slowdown in the previous month.

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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