

Private sector economy sees further contraction in September

Key findings:

- **Output falls sharply amid steep drop in new orders**
- **Employment decreases for seventh month running**
- **Average prices charged for goods and services remain in decline**

This report contains the thirty-sixth 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.

At 45.1 in September, up only slightly from August's 45.0, the headline BLOM Lebanon PMI pointed to another sharp deterioration in the health of Lebanon's private sector economy. That said, the index's average over the third quarter as a whole (45.2) was slightly higher than that of the previous three months.

September saw the level of output across the private sector economy fall steeply, maintaining the current downturn in business activity seen since mid-2013. Moreover, the rate of contraction was the fastest recorded since June.

A further decrease in incoming new work was a key factor

behind the drop in output at Lebanese businesses. Political uncertainty continued to act as a drag on demand, according to anecdotal evidence, with panellists also commenting on a general unwillingness among clients to spend as well as cash flow problems. There was also a fall in the level of new export orders, although the rate of decline was much slower than that of total incoming new business.

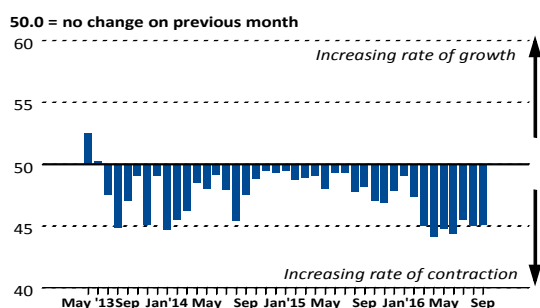
On the jobs front, September saw a seventh straight monthly decrease in private sector employment. However, the rate of job losses was only marginal and the slowest in this sequence. Backlogs were reduced despite the contraction in staffing capacity, extending the current spell of depletion to 15 months.

Elsewhere, September's survey showed a further decrease in average prices charged for goods and services, in line with the trend seen throughout the past year-and-a-half. The rate of decline matched the series average, but softened since August.

Adding to the squeeze on firms' operating margins, average input prices faced by businesses increased for the third month in a row in September, reflecting both higher prices paid for purchases and salary pressures.

Meanwhile, delivery times for purchased items improved for the second month in a row as buying levels continued to fall.

Lebanon Purchasing Managers' Index™ (PMI™)



Purchasing Managers' Index

		Unadj.	Seas. Adj.
2016	Jul	45.8	45.5
	Aug	45.0	45.0
	Sep	45.5	45.1

Index Summary

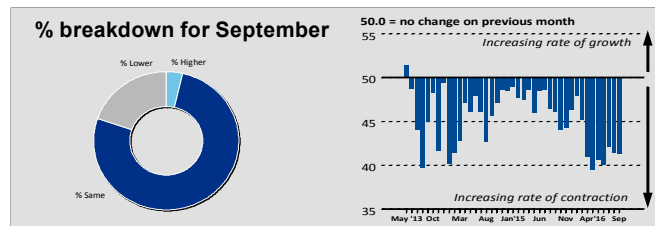
(seasonally adjusted, 50 = no change on previous month)

	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'16	45.5	42.1	41.9	47.3	42.8	49.4	48.4	50.4	51.4	49.8	50.0	47.0	50.6
Aug	45.0	41.5	40.7	47.4	43.4	49.5	48.1	50.2	50.2	50.1	51.0	47.6	51.5
Sep	45.1	41.3	40.7	47.7	45.3	49.7	48.6	50.4	50.8	50.2	50.2	47.6	51.0

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	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
	Jul	3.5	77.9	18.7	-15.2	42.4	42.1
	Aug	4.6	73.3	22.1	-17.5	41.2	41.5
	Sep	3.7	76.6	19.8	-16.1	42.0	41.3

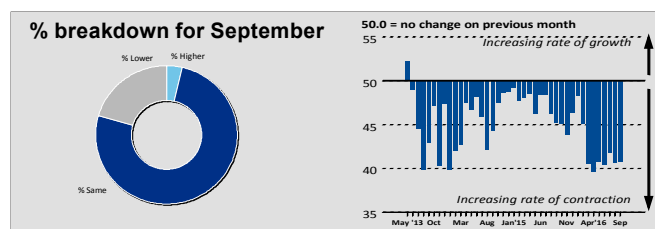


September's survey showed a further sharp decrease in the level of business activity across Lebanon's private sector economy. Furthermore, the rate of contraction was slightly faster than in August, as highlighted by the corresponding seasonally adjusted index moving further below the neutral 50.0 threshold.

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	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
	Jul	3.4	77.6	19.0	-15.5	42.2	41.9
	Aug	4.4	72.1	23.5	-19.1	40.5	40.7
	Sep	3.6	75.8	20.6	-17.1	41.5	40.7

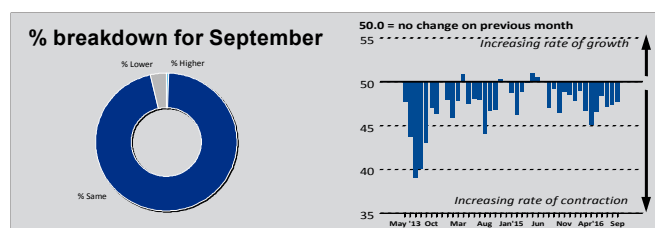


Private sector companies in Lebanon recorded another steep decrease in inflows of new business in September, with the rate of decline unchanged from the sharp pace recorded in the preceding survey period. Reports from panel members pointed to a reluctance among clients to commit to new projects as well as general cash flow issues.

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	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
	Jul	0.0	93.6	6.4	-6.4	46.8	47.3
	Aug	0.0	93.3	6.7	-6.7	46.6	47.4
	Sep	0.5	95.9	3.6	-3.1	48.5	47.7

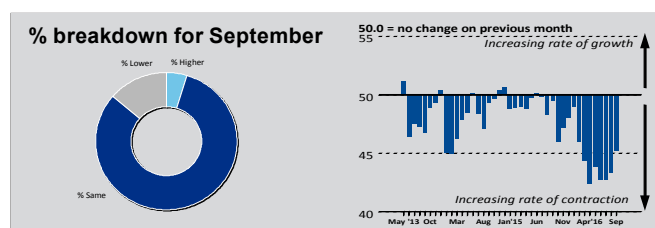


As has been the case in each of the past 14 months, the level of new orders received by Lebanese businesses from abroad decreased in September. However, having eased to the slowest seen since June, the rate of decline was only moderate and much weaker than that recorded for total new orders.

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	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
	Jul	3.1	80.3	16.5	-13.4	43.3	42.8
	Aug	3.0	82.0	15.0	-12.1	44.0	43.4
	Sep	4.8	81.6	13.6	-8.8	45.6	45.3

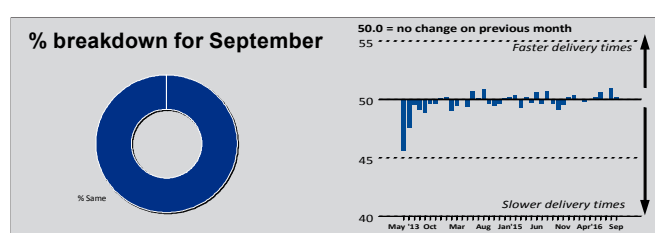


Backlogs of work decreased at a slower rate in September, the weakest seen since February. That said, with around 14% of firms recording a reduction in work-in-hand (against only 5% noting a rise), the extent to which outstanding business decreased was still marked overall. The current sequence of backlog depletion now extends to 15 months.

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	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
	Jul	0.5	99.5	0.0	+0.5	50.2	50.0
	Aug	0.2	99.8	0.0	+0.2	50.1	51.0
	Sep	0.0	100.0	0.0	0.0	50.0	50.2



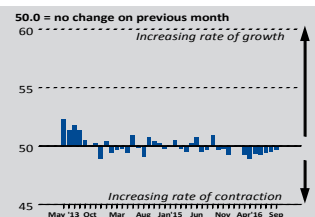
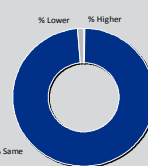
September saw a second successive monthly decrease in average supplier delivery times. That was signalled by the corresponding seasonally adjusted index registering above the critical 50.0 no-change mark. However, falling from August's survey-record high, the latest reading was indicative of only a marginal 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	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
	Jul	1.2	97.1	1.7	-0.5	49.7	49.4
	Aug	0.5	98.4	1.1	-0.7	49.7	49.5
	Sep	0.2	98.4	1.4	-1.3	49.4	49.7

% breakdown for September



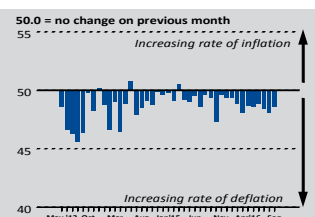
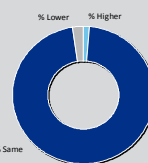
Weak underlying trends in business activity and new orders continued to have a negative bearing on the labour market in September, as companies pared employee numbers due to a lack of workplace activity. However, the rate at which staffing numbers decreased was only marginal and the slowest in the current seven-month sequence of job losses.

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	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
	Jul	0.3	93.5	6.1	-5.8	47.1	48.4
	Aug	0.0	95.1	4.9	-4.9	47.6	48.1
	Sep	1.4	96.1	2.4	-1.0	49.5	48.6

% breakdown for September



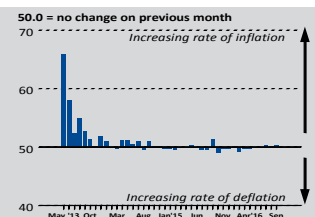
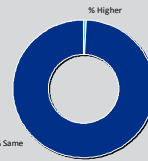
Falling inflows of new business also weighed on businesses' pricing power during September, leading to a further decrease in average prices charged for goods and services. Although the slowest in three months, the rate of decline in output prices was nonetheless in line with the average record over the series history.

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	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
	Jul	1.8	97.9	0.3	+1.5	50.8	50.4
	Aug	1.0	98.8	0.2	+0.7	50.4	50.2
	Sep	0.4	99.6	0.0	+0.4	50.2	50.4

% breakdown for September



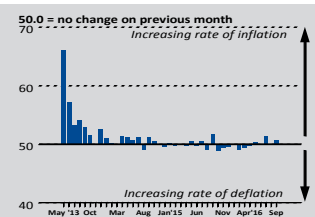
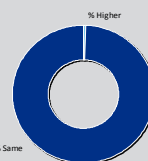
Private sector businesses lowered their output charges in September despite facing a rise in average input prices during the month. The modest increase in cost burdens followed the trend seen throughout the third quarter and was partly attributable to a combination of both higher purchase prices and rising staff costs.

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	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
	Jul	2.0	97.8	0.3	+1.7	50.9	51.4
	Aug	1.1	98.7	0.2	+0.9	50.4	50.2
	Sep	0.4	99.6	0.0	+0.4	50.2	50.8

% breakdown for September



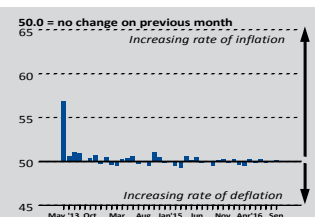
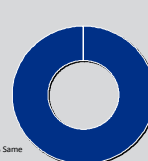
Average purchase prices faced by Lebanese private sector businesses increased in September, the third month in a row in which this has been the case. The rate of inflation picked up slightly since August but remained only marginal overall, with the corresponding seasonally adjusted index remaining close to the neutral 50.0 level.

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	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
	Jul	0.0	100.0	0.0	0.0	50.0	49.8
	Aug	0.0	99.8	0.2	-0.2	49.9	50.1
	Sep	0.0	100.0	0.0	0.0	50.0	50.2

% breakdown for September



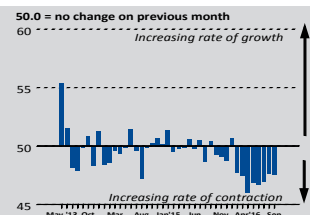
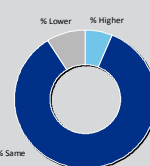
Latest data showed a negligible rise in average prices paid for salaries/wages across Lebanon's private sector economy during September. This marked the third time in the past four months that a rise in staff remuneration has been recorded, with July being the only month in that sequence to see a decrease.

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	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
	Jul	4.2	87.0	8.9	-4.7	47.7	47.0
	Aug	4.6	87.1	8.3	-3.7	48.2	47.6
	Sep	6.2	85.1	8.8	-2.6	48.7	47.6

% breakdown for September



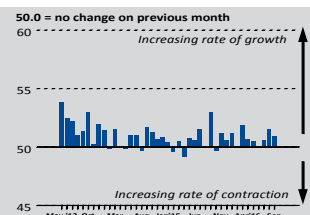
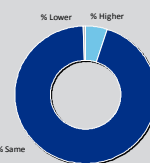
Quantities of purchases among Lebanon's private sector companies decreased in September, extending the current sequence of decline to eight months. Where reductions in buying levels were recorded (at approximately 9% of companies), these were generally linked to a lack of incoming work. The rate of decline in purchase activity was unchanged from the solid pace recorded in August.

Stocks of Purchases Index

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

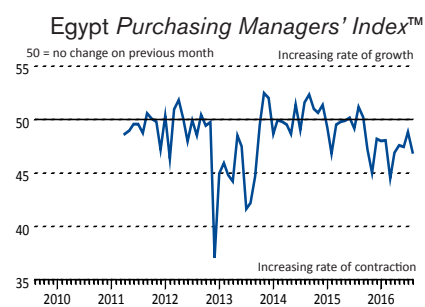
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2016	May	2.2	96.7	1.1	+1.1	50.5	50.5
	Jun	1.6	98.0	0.4	+1.2	50.6	50.1
	Jul	3.3	95.4	1.3	+2.0	51.0	50.6
	Aug	3.9	95.6	0.5	+3.5	51.7	51.5
	Sep	5.0	94.4	0.6	+4.4	52.2	51.0

% breakdown for September

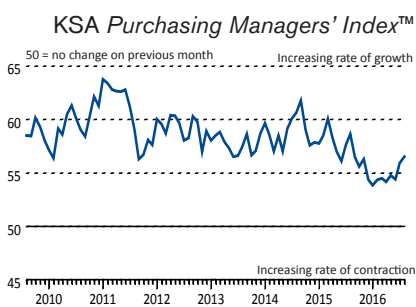


Belying the ongoing decrease in businesses' buying levels, stocks of purchases continued to rise during September. Inventory levels have now increased in each of the past 11 months, although the pace of accumulation in the latest survey period was only modest and slower than that recorded in August.

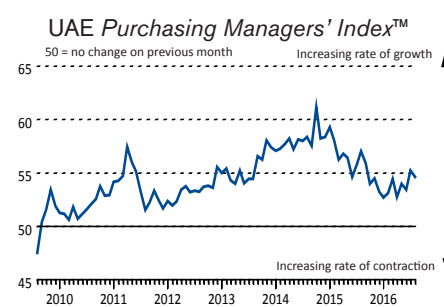
International PMI summary



Sources: IHS Markit, Emirates NBD.



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Falling from 48.9 in July to 47.0, the headline seasonally adjusted Emirates NBD Egypt Purchasing Managers' Index™ (PMI) posted below the crucial 50.0 threshold for the eleventh month in a row during August. The latest reading was the lowest since April, and pointed to a solid deterioration in business conditions overall.

The headline seasonally adjusted Emirates NBD Saudi Arabia Purchasing Managers' Index™ (PMI) signalled a further acceleration in growth during August. Up from 56.0 in July to 56.6, the latest reading was a one-year high. That said, whereas business conditions improved strongly in the context of recent data, the index was still below its long-run series average.

After having risen to a ten-month high of 55.3 in July, the headline Emirates NBD UAE Purchasing Managers' Index™ (PMI) signalled another month of solid growth in August. At 54.7, the index was down fractionally but still above the overall series average. Notably, the latest improvement in business conditions was stronger than those seen during the first half of the year.

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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