

Private sector business activity falls at fastest rate in eight months

Key findings:

- **June sees sharp and accelerated decreases in output and new orders**
- **Employment declines for sixteenth month running**
- **Input costs and prices charged continue to edge lower**

This report contains the forty-fifth 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 IHS 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.

Latest survey data showed a further deterioration in the performance of Lebanon's private sector economy. The headline BLOM Lebanon PMI registered a reading of 46.1 in June, down from May's 46.6 and its lowest score in eight months. The downturn was reflective of faster falls in output, new orders and employment.

The level of business activity in Lebanon's private sector economy fell at the end of the second quarter at the fastest rate since last October. The contraction was sharp and partly attributable to a further loss of new business. Surveyed companies generally commented on political and economic instability, while there was also a further decrease in the level

of new orders from abroad. The rate of decline in exports was much slower than that of total new business, however.

Employment fell for a sixteenth straight month during June as companies adjusted to a lower level of demand. The rate of job losses was the fastest seen since March, although only modest overall. Evidence of spare capacity was shown by a further decline in backlogs of work.

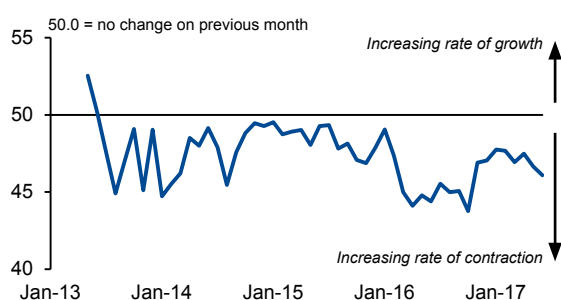
There was also a reduction in firms' purchasing activity during the month. The decrease was in fact the steepest since last October, but inventory levels continued to rise, albeit only slightly.

The survey's price measures meanwhile showed slight falls in both average input costs and prices charged for goods and services. The reduction in cost burdens reflected lower average staff pay as well as fractional dip in prices paid for purchases.

Average delivery times for purchased items lengthened in June, marking the third time in the past four months that a deterioration in supplier performance has been recorded.

Finally, June's survey indicated negative sentiment among private sector businesses with regards to growth prospects in the year ahead. The degree of pessimism was less marked than in May, however, thereby ending a six-month sequence of deteriorating business morale.

Lebanon Purchasing Managers' Index™ (PMI®)



Purchasing Managers' Index

		Unadj.	Seas. Adj.
2017	Apr	48.2	47.5
	May	46.3	46.6
	Jun	45.7	46.1

Index Summary

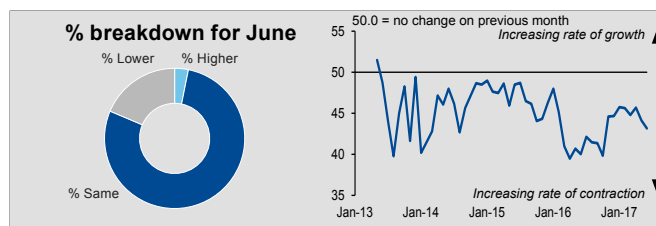
(seasonally adjusted, 50 = no change on previous month)

	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	Future Output
Apr'17	47.5	45.7	45.2	48.6	47.2	49.5	49.2	50.4	50.4	50.3	49.6	48.0	50.6	35.8
May	46.6	44.1	43.8	48.4	45.6	49.6	48.7	49.7	49.7	50.0	50.2	48.2	50.7	32.3
Jun	46.1	43.2	42.9	48.2	45.4	49.3	49.1	49.8	49.9	49.8	49.8	46.8	50.5	36.4

Output Index

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

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2017	Feb	4.5	82.5	13.0	-8.5	45.7	45.6
	Mar	3.5	80.6	15.9	-12.4	43.8	44.8
	Apr	5.5	83.0	11.5	-6.0	47.0	45.7
	May	2.5	81.4	16.1	-13.6	43.2	44.1
	Jun	3.2	78.2	18.6	-15.5	42.3	43.2

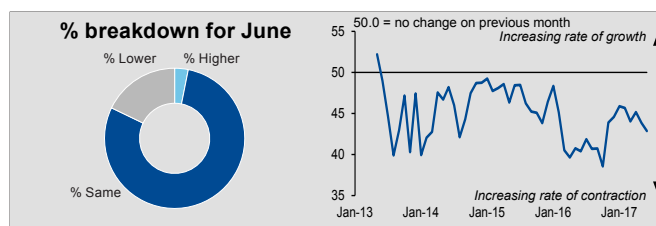


Latest data showed a sharp and accelerated decrease in business activity across Lebanon's private sector economy. The rate of contraction was the fastest seen since October last year and in excess of the average recorded since data collection began in May 2013. Around 19% of companies noted a fall in business activity, against only 3% 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
2017	Feb	4.7	82.9	12.4	-7.8	46.1	45.7
	Mar	2.2	81.1	16.7	-14.5	42.8	44.0
	Apr	4.8	83.9	11.3	-6.5	46.8	45.2
	May	2.5	81.3	16.3	-13.8	43.1	43.8
	Jun	3.1	79.0	17.8	-14.7	42.6	42.9

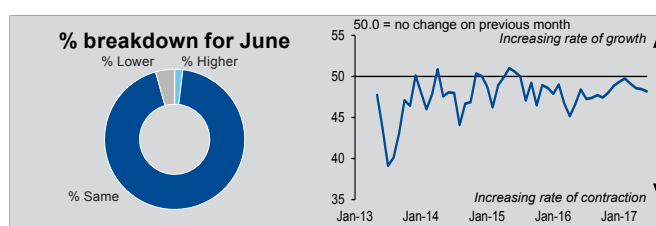


The seasonally adjusted New Orders Index moved further below the neutral 50.0 threshold in June, registering its lowest reading for eight months and pointing to a marked decline in new business received by Lebanese firms. Where a decrease in order books was recorded, this was linked to a backdrop of political and economic instabilities.

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
2017	Feb	1.5	96.1	2.5	-1.0	49.5	49.8
	Mar	1.3	92.6	6.1	-4.9	47.6	49.1
	Apr	0.9	94.2	4.9	-3.9	48.0	48.6
	May	2.9	92.9	4.2	-1.3	49.4	48.4
	Jun	1.9	93.7	4.4	-2.5	48.7	48.2

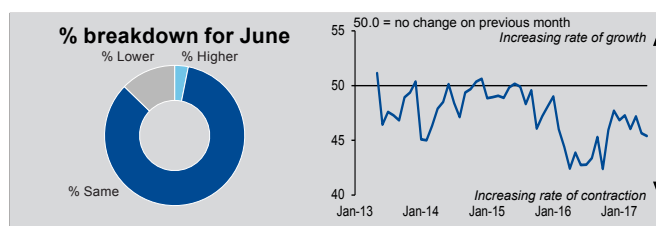


Inflows of new orders from abroad decreased in June, marking nearly two years of continuous decline. That said, despite picking up to the fastest since November last year, the rate of contraction in new export orders remained much slower than that of total new business, implying that the domestic market was the main source of demand weakness.

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
2017	Feb	4.4	84.5	11.1	-6.7	46.6	47.3
	Mar	2.9	84.5	12.6	-9.7	45.1	46.0
	Apr	3.8	86.7	9.5	-5.6	47.2	47.2
	May	2.1	87.3	10.6	-8.4	45.8	45.6
	Jun	3.1	84.1	12.7	-9.6	45.2	45.4

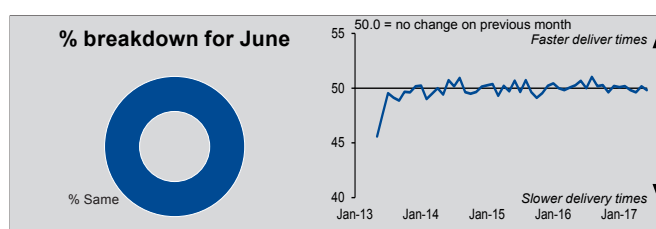


A lack of incoming new work led to a further decrease in the level of outstanding business among Lebanese firms in June, thereby extending the current sequence of decline to two years. Moreover, having accelerated for the second month in a row, the rate of backlog depletion was strong and the fastest seen since October 2016.

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
2017	Feb	0.0	100.0	0.0	0.0	50.0	50.2
	Mar	0.0	100.0	0.0	0.0	50.0	49.8
	Apr	0.0	100.0	0.0	0.0	50.0	49.6
	May	0.0	99.7	0.3	-0.3	49.8	50.2
	Jun	0.0	100.0	0.0	0.0	50.0	49.8

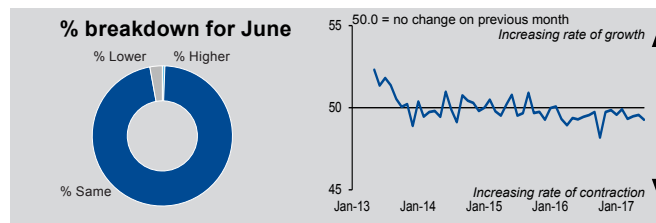


Vendor performance deteriorated slightly on average in June. This was signalled by the seasonally adjusted Suppliers' Delivery Times Index registering a reading below the 50.0 no-change mark for the third time in the past four months, after having signalled a marginal improvement in lead times midway through the second quarter.

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
2017	Feb	0.0	98.9	1.1	-1.1	49.4	49.9
	Mar	0.0	98.6	1.4	-1.4	49.3	49.3
	Apr	0.0	98.7	1.3	-1.3	49.4	49.5
	May	0.5	98.7	0.9	-0.4	49.8	49.6
	Jun	0.6	96.6	2.9	-2.3	48.9	49.3

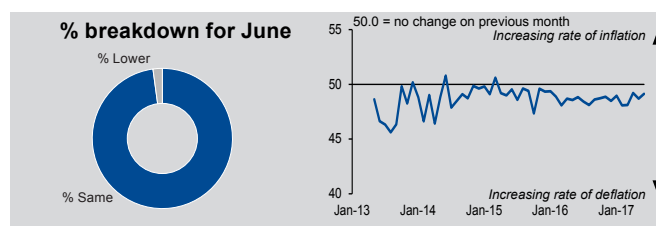


The level of employment across Lebanon's private sector economy decreased for the sixteenth month in succession in June. Anecdotal evidence attributed this latest reduction in workforce numbers to lower workplace activity. The rate of job shedding picked up to the fastest since March but remained only modest overall.

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
2017	Feb	0.7	94.5	4.9	-4.2	47.9	48.1
	Mar	0.8	95.7	3.5	-2.7	48.6	48.1
	Apr	0.6	97.8	1.6	-1.0	49.5	49.2
	May	0.0	99.1	0.9	-0.9	49.5	48.7
	Jun	0.0	97.9	2.1	-2.1	48.9	49.1

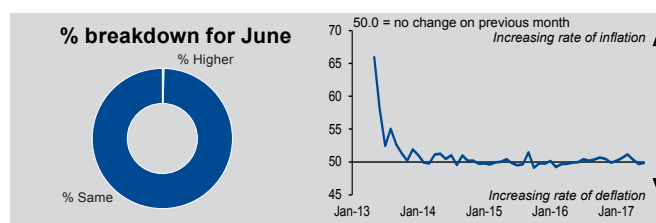


Continuing the trend observed in every month since April 2015, June saw a decrease in average prices charged for goods and services across Lebanon's private sector economy. Where a reduction was recorded, this was linked to a lack of work and competitive pressures. The rate of decline in average output prices was only modest, however, and slower than in the preceding survey period.

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
2017	Feb	0.7	99.1	0.2	+0.5	50.3	50.6
	Mar	1.6	98.4	0.0	+1.6	50.8	51.1
	Apr	0.0	100.0	0.0	0.0	50.0	50.4
	May	0.4	99.3	0.3	+0.1	50.0	49.7
	Jun	0.4	99.6	0.0	+0.4	50.2	49.8

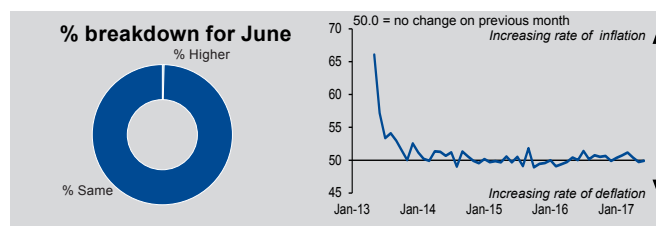


June's survey showed a second straight monthly decrease in average costs faced by Lebanese businesses. Lower purchase prices and a reduction in average staff pay were both contributory factors. The overall rate of decline was only marginal, however, and little-changed from that recorded in May.

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
2017	Feb	0.7	99.1	0.2	+0.5	50.3	50.7
	Mar	1.6	98.4	0.0	+1.6	50.8	51.2
	Apr	0.0	100.0	0.0	0.0	50.0	50.4
	May	0.4	99.3	0.3	+0.1	50.0	49.7
	Jun	0.4	99.6	0.0	+0.4	50.2	49.9

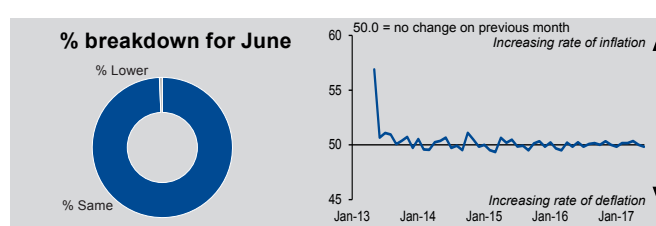


Lebanese businesses reported a negligible reduction in average prices paid for purchases in June, as highlighted by the respective seasonally adjusted index registering a reading broadly in line (albeit just below) the 50.0 no-change threshold. That followed a slight decrease in purchasing costs the month before.

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
2017	Feb	0.0	100.0	0.0	0.0	50.0	50.2
	Mar	0.0	100.0	0.0	0.0	50.0	50.2
	Apr	0.0	100.0	0.0	0.0	50.0	50.3
	May	0.0	100.0	0.0	0.0	50.0	50.0
	Jun	0.0	99.3	0.7	-0.7	49.7	49.8

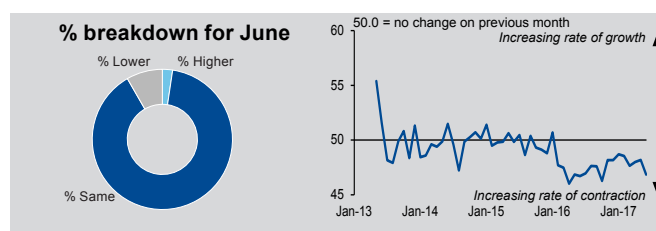


Average prices paid for salaries/wages also decreased in the latest survey period, marking the first time since January that a reduction in staff remuneration has been recorded. That said, the extent of the fall was only marginal, with the vast majority of surveyed businesses reporting no change in their average staff costs.

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
2017	Feb	3.4	88.6	8.0	-4.6	47.7	48.5
	Mar	3.9	87.9	8.2	-4.3	47.9	47.6
	Apr	3.3	90.6	6.1	-2.8	48.6	48.0
	May	2.1	92.4	5.5	-3.5	48.3	48.2
	Jun	2.4	89.3	8.3	-5.9	47.0	46.8

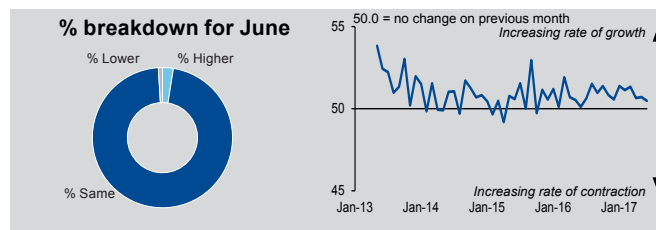


The amount of items purchased by Lebanese businesses decreased sharply in June. The rate at which buying levels contracted was in fact the fastest seen since October last year, and among the most marked since data collection began over four years ago. Around 8% of firms noted a drop in purchasing activity, many of which linked this to lower new orders.

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
2017	Feb	1.1	97.7	1.2	-0.1	49.9	51.1
	Mar	4.3	95.1	0.6	+3.6	51.8	51.3
	Apr	2.1	97.1	0.8	+1.3	50.7	50.6
	May	2.0	97.7	0.3	+1.7	50.8	50.7
	Jun	2.5	96.6	0.9	+1.6	50.8	50.5

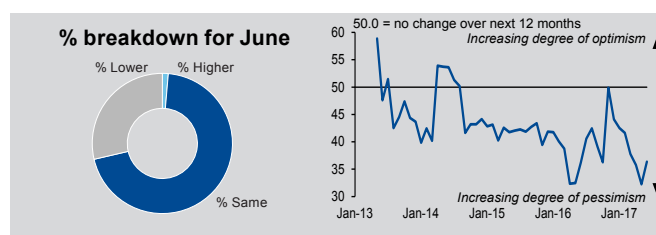


As has been the case in every month since November 2015, stocks of purchases held by Lebanese private sector businesses increased during June. That said, the respective seasonally adjusted index moved to its lowest level for 12 months and pointed to only a marginal rate of inventory growth.

Future Output Index

Q. In 12 months' time do you expect the overall volume of output to be higher, the same or lower than now?

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2017	Feb	5.3	72.6	22.0	-16.7	41.6	n/a
	Mar	1.8	72.0	26.2	-24.4	37.8	n/a
	Apr	0.0	71.5	28.5	-28.5	35.8	n/a
	May	0.0	64.5	35.5	-35.5	32.3	n/a
	Jun	1.4	70.0	28.6	-27.3	36.4	n/a



Lebanese firms retained a negative outlook towards future output prospects in June, with many businesses expecting the current political and economic issues to persist. That said, the degree of pessimism was less marked than May's survey record, ending a six-month spell of deteriorating business morale.

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. IHS 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 IHS Markit. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without IHS Markit's prior consent. IHS 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 IHS 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. IHS Markit is a registered trademark of IHS Markit Ltd.