

Health of private sector deteriorates at start of fourth quarter

Key findings:

- **PMI moves to a 12-month low of 45.8**
- **Falls in output and new orders lead to further job losses**
- **Higher purchase prices add to pressure on margins**

This report contains the latest 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.

The health of Lebanon's private sector economy deteriorated at the start of the fourth quarter. The headline BLOM Lebanon PMI registered its lowest reading for 12 months at 45.8 in October, down from September's 46.0, reflecting faster falls in output, new orders and employment.

Rates of decline in output and new orders were sharp and the fastest seen since October last year. The survey found that political instability and a difficult economic situation had weighed on demand and activity. Adding to the picture, new export business also fell during the month, albeit only modestly and at the weakest pace since June.

Lower workplace activity in turn led businesses to scale back their workforce numbers during October, marking a twentieth successive month of job losses. Moreover, the extent to which employment fell was the greatest seen for a year.

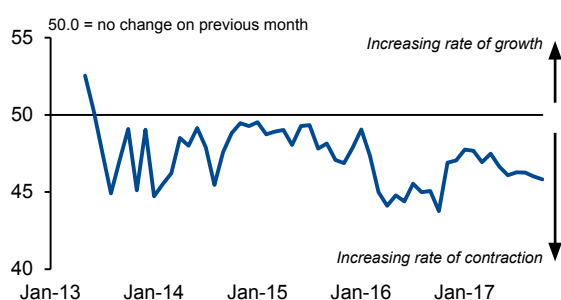
Purchasing activity among Lebanese businesses also decreased during the month, though inventory levels continued to rise in line with weaker sales. Suppliers' delivery times meanwhile increased slightly on average and for the first time since June, which anecdotal evidence attributed to delays in clearing goods at harbours.

Elsewhere, October's survey showed an easing in the rate of decline in prices charged for goods and services, to the weakest seen in almost two years. A number of businesses offered discounts amid strong competitive pressures and generally weaker demand, but an added squeeze on margins from rising costs restricted firms' ability to lower charges.

Average input costs rose for the second month in a row in October. This reflected an increase in purchase prices, which was in turn linked to fiscal pressures and higher merchant charges. Although moderate, the overall rate of cost inflation was the highest seen since September 2013.

Meanwhile, firms' expectations towards future output grew increasingly pessimistic, with many foreseeing the continuation of current challenges.

Lebanon Purchasing Managers' Index™ (PMI®)



Purchasing Managers' Index

		Unadj.	Seas. Adj.
2017	Aug	46.3	46.3
	Sep	45.3	46.0
	Oct	45.5	45.8

Index Summary

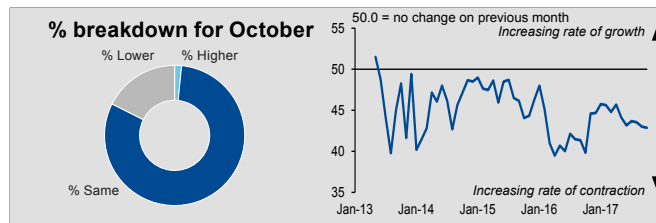
(seasonally adjusted, 50 = no change on previous month)

	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	Future Output
Aug'17	46.3	43.5	43.4	47.8	44.5	49.6	48.7	49.6	49.1	50.2	50.9	47.3	50.8	41.2
Sep	46.0	43.0	42.7	47.7	44.7	49.6	48.5	52.2	52.1	50.0	50.3	47.2	50.6	40.6
Oct	45.8	42.9	42.2	48.0	45.0	48.8	49.6	52.3	52.4	49.8	49.8	47.7	51.4	40.3

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	Jun	3.2	78.2	18.6	-15.5	42.3	43.2
	Jul	2.5	81.9	15.6	-13.1	43.4	43.7
	Aug	3.2	80.3	16.5	-13.3	43.4	43.5
	Sep	2.3	79.4	18.3	-16.1	42.0	43.0
	Oct	1.6	80.8	17.6	-16.0	42.0	42.9

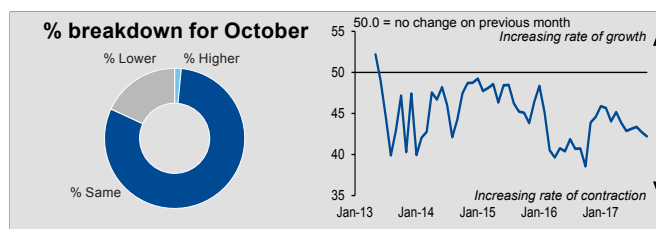


Business activity in Lebanon's private sector economy decreased again in October, with survey evidence linking the latest decline to a challenging economic backdrop and lingering political uncertainty. The rate at which business activity contracted was little-changed from the marked pace recorded in the preceding survey period.

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	Jun	3.1	79.0	17.8	-14.7	42.6	42.9
	Jul	2.5	81.6	15.9	-13.5	43.3	43.1
	Aug	3.1	80.3	16.7	-13.6	43.2	43.4
	Sep	1.8	78.6	19.6	-17.8	41.1	42.7
	Oct	1.5	80.3	18.1	-16.6	41.7	42.2

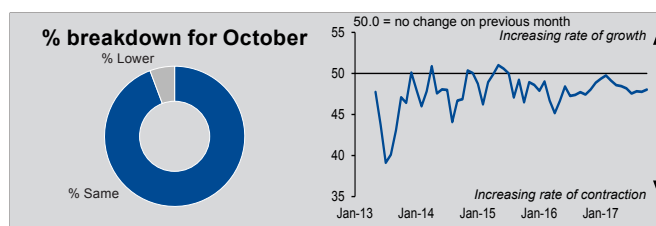


October's survey pointed to a further weakening of underlying demand facing Lebanese private sector firms, with inflows of new orders down from September. Furthermore, having accelerated for the second month in a row, the rate of decline in new business was sharp and the fastest seen for one year.

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	Jun	1.9	93.7	4.4	-2.5	48.7	48.2
	Jul	0.0	94.4	5.6	-5.6	47.2	47.6
	Aug	0.0	94.9	5.1	-5.1	47.4	47.8
	Sep	0.5	95.1	4.4	-3.9	48.0	47.7
	Oct	0.0	94.3	5.7	-5.7	47.1	48.0

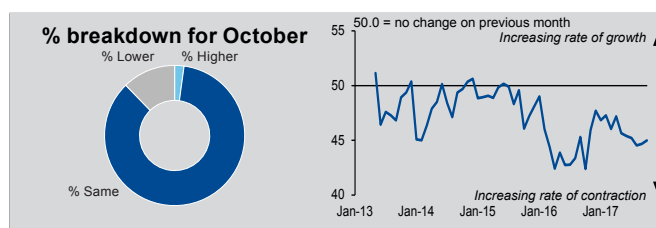


Lebanese businesses recorded a decrease in the level of new work received from non-domestic based clients in October – the twenty-seventh month in a row in which this has been the case. This was highlighted by the respective seasonally adjusted index registering a reading below the 50.0 no-change mark, albeit at a level indicative of only a modest rate of decline (and one that was much slower than that of total new work).

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	Jun	3.1	84.1	12.7	-9.6	45.2	45.4
	Jul	2.3	85.8	11.9	-9.6	45.2	45.2
	Aug	1.8	86.7	11.5	-9.8	45.1	44.5
	Sep	2.8	84.7	12.5	-9.6	45.2	44.7
	Oct	2.2	85.6	12.3	-10.1	44.9	45.0

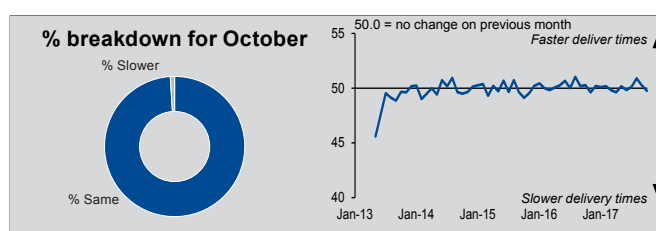


Lebanese businesses continued to operate well below maximum capacity during October, completing outstanding orders at a much faster pace than they received them. Although slower than those seen in each of the previous two months, the rate of decline in backlogs remained quicker than the series average since May 2013.

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	Jun	0.0	100.0	0.0	0.0	50.0	49.8
	Jul	0.5	99.5	0.0	+0.5	50.2	50.1
	Aug	0.3	99.7	0.0	+0.3	50.2	50.9
	Sep	0.5	99.5	0.0	+0.5	50.3	50.3
	Oct	0.0	99.0	1.0	-1.0	49.5	49.8

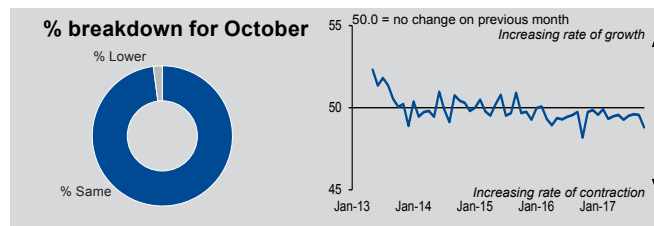


Suppliers' delivery times increased on average in October, marking the first deterioration in vendor performance in four months. Anecdotal evidence found that delays at key ports was the underlying cause. However, the vast majority of firms noted no change in supplier delivery times from the month before.

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	Jun	0.6	96.6	2.9	-2.3	48.9	49.3
	Jul	0.0	99.7	0.3	-0.3	49.8	49.5
	Aug	0.0	99.5	0.5	-0.5	49.8	49.6
	Sep	0.2	98.5	1.3	-1.1	49.4	49.6
	Oct	0.0	97.9	2.1	-2.1	49.0	48.8

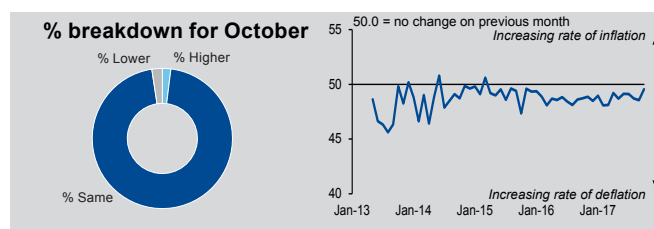


Latest data indicated a further decrease in the level of employment in Lebanon's private sector economy, extending the current sequence of net job losses to 20 months. Moreover, the rate of decline was one of the fastest recorded in the survey's history, second only to that seen in October last year.

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	Jun	0.0	97.9	2.1	-2.1	48.9	49.1
	Jul	0.0	96.4	3.6	-3.6	48.2	49.1
	Aug	0.0	96.0	4.0	-4.0	48.0	48.7
	Sep	0.8	95.9	3.3	-2.4	48.8	48.5
	Oct	1.9	95.6	2.4	-0.5	49.8	49.6

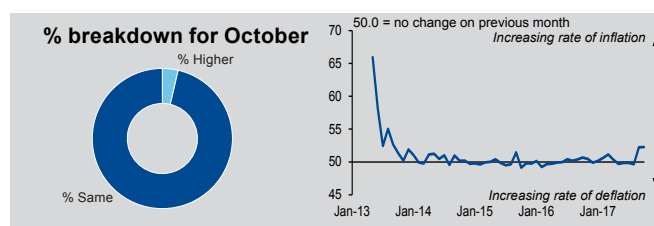


Amid reports of strong competitive pressures and weak underlying demand, October saw a further decrease in average prices charged for goods and services in Lebanon. However, the rate of output price deflation was only marginal, having eased to the weakest seen for nearly two years.

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	Jun	0.4	99.6	0.0	+0.4	50.2	49.8
	Jul	0.3	99.4	0.3	+0.1	50.0	49.9
	Aug	0.0	100.0	0.0	0.0	50.0	49.6
	Sep	5.1	94.6	0.3	+4.8	52.4	52.2
	Oct	3.6	96.4	0.0	+3.6	51.8	52.3

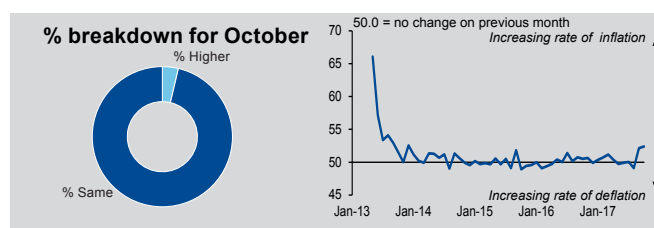


Lebanese businesses faced another squeeze on margins at the start of the fourth quarter, as average input costs rose for a second consecutive month. Although only moderate overall, the rate of increase in costs was the fastest recorded for over four years. Higher purchase prices was the driving factor, according to underlying data.

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	Jun	0.4	99.6	0.0	+0.4	50.2	49.9
	Jul	0.3	99.4	0.3	+0.1	50.0	50.0
	Aug	0.0	100.0	0.0	0.0	50.0	49.1
	Sep	5.2	94.5	0.3	+4.9	52.4	52.1
	Oct	3.7	96.3	0.0	+3.7	51.8	52.4

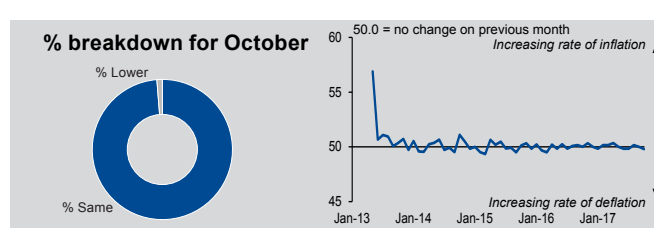


As was the case in September, Lebanese private sector firms noted a rise in average prices paid for purchases in the latest survey period. The respective seasonally adjusted index moved to a 46-month high but signalled a moderate rate of inflation. Where an increase in purchase prices was recorded, firms linked this to fiscal pressures and merchants charging more for their goods.

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	Jun	0.0	99.3	0.7	-0.7	49.7	49.8
	Jul	0.0	100.0	0.0	0.0	50.0	49.8
	Aug	0.0	100.0	0.0	0.0	50.0	50.2
	Sep	0.0	99.7	0.3	-0.3	49.8	50.0
	Oct	0.0	98.8	1.2	-1.2	49.4	49.8

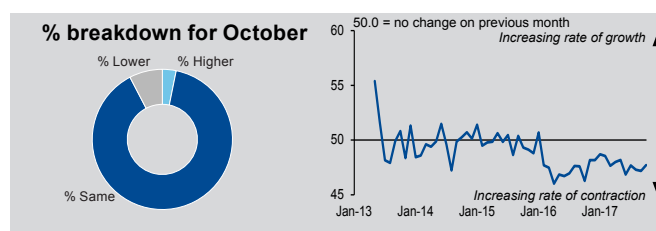


Although Lebanese private sector firms faced pressure from higher purchase prices in October, this was partly offset by a slight drop in average salaries/wages. The decrease was the first in three months, following no change in September and a marginal increase in August, and was linked by panellists to the impact of lower workplace activity.

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	Jun	2.4	89.3	8.3	-5.9	47.0	46.8
	Jul	2.2	91.6	6.3	-4.1	48.0	47.7
	Aug	3.3	89.0	7.7	-4.4	47.8	47.3
	Sep	3.7	87.7	8.6	-4.9	47.6	47.2
	Oct	3.2	89.2	7.6	-4.5	47.8	47.7

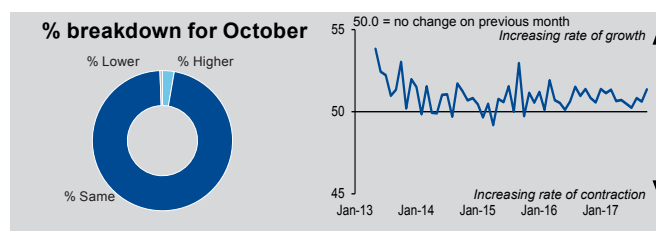


Due to a lack of incoming new work, the quantity of purchases made by Lebanese firms decreased (on average) in October. Around 8% of businesses registered a reduction in buying levels, against only 3% that noted an increase. Purchasing activity has now fallen for 21 months in a row, although the latest decline was the least marked since July.

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	Jun	2.5	96.6	0.9	+1.6	50.8	50.5
	Jul	0.6	99.2	0.2	+0.5	50.2	50.2
	Aug	2.0	98.0	0.0	+2.0	51.0	50.8
	Sep	2.7	96.9	0.4	+2.4	51.2	50.6
	Oct	2.7	96.7	0.6	+2.1	51.1	51.4

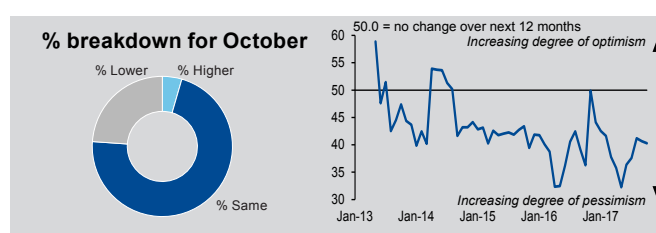


Despite Lebanese private sector firms scaling back their purchasing activity in October, lower sales meant that inventories continued to grow during the month. Furthermore, the seasonally adjusted Stocks of Purchases Index moved to its highest level since January, pointing to an acceleration in the rate of accumulation.

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	Jun	1.4	70.0	28.6	-27.3	36.4	n/a
	Jul	1.5	72.2	26.3	-24.8	37.6	n/a
	Aug	3.5	75.4	21.1	-17.6	41.2	n/a
	Sep	2.9	75.6	21.6	-18.7	40.6	n/a
	Oct	4.5	71.6	23.9	-19.4	40.3	n/a



Lebanese businesses remained pessimistic towards future output prospects at the start of the fourth quarter, with sentiment more negative than in each of the previous two months. In reality, the general view among firms expecting business activity to decrease over the next 12 months highlighted the persistence of the current challenges.

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.

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