

Private sector economy shrinks at fastest pace since October 2016

Key findings:

- **Output and new business fall at faster rates**
- **Regional instability weighs on export demand**
- **Pessimistic outlook towards future business activity retained**

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.

Business conditions in Lebanon's private sector economy deteriorated to a sharper extent at the start of the third quarter. This was signalled by the headline BLOM Lebanon PMI falling from 46.0 in June to 45.4 in July, marking the lowest reading since October 2016.

According to panellists, the uncertain political landscape, combined with cash flow issues, reportedly weighed on demand conditions in July. Survey data signalled the sharpest decline in new business for 21 months. Sales to international clients were also reduced, as instability at a broader regional level impacted foreign demand.

With order book volumes declining at a more rapid pace, Lebanese private sector businesses reduced output accordingly. July's fall in activity was the strongest since October 2016.

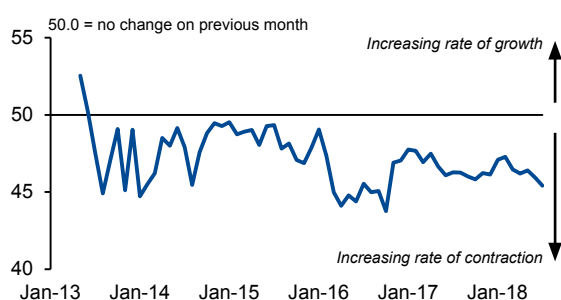
In line with falling workloads, pressures on the supply chain were vacant during July, with average lead times for the delivery of inputs falling. Backlogs of work were also cleared as a result of reduced new business inflows.

Looking ahead, surveyed companies were largely pessimistic regarding future output prospects. Panellists anticipate that political uncertainty will continue to impact business activity.

Projections of weaker output coincided with another month of job shedding. Employment has now fallen for five successive survey periods. Businesses also pared back their purchasing activity in line with subdued demand. Input buying was reduced at the quickest pace since April 2016.

Average prices charged for goods and services were reduced by Lebanese private sector firms in July, in line with lacking demand pressures. That said, the rate of decrease eased for a third month running and was only fractional overall. Meanwhile, overall prices paid for inputs declined at a similar pace to that of output charges. Furthermore, the cost for staff and purchased items were both reported to have fallen marginally.

Lebanon Purchasing Managers' Index™ (PMI®)



Purchasing Managers' Index

		Unadj.	Seas. Adj.
2018	May	46.7	46.4
	Jun	45.8	46.0
	Jul	45.4	45.4

Index Summary

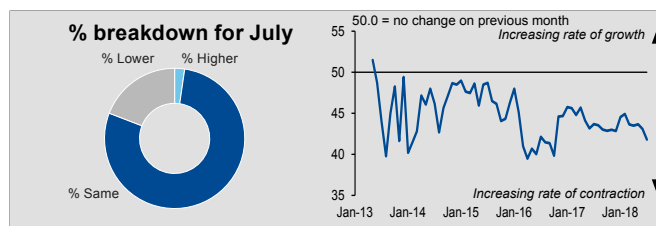
(seasonally adjusted, 50 = no change on previous month)

	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	Future Output
May'18	46.4	43.7	43.3	49.3	44.9	49.5	47.9	50.2	50.2	49.7	50.2	47.0	51.1	36.9
Jun	46.0	43.1	42.4	46.7	45.1	49.6	49.2	50.2	50.2	50.0	50.2	46.7	50.8	36.7
Jul	45.4	41.8	41.6	46.9	43.8	49.7	49.8	49.8	49.8	49.8	49.8	46.1	50.4	36.9

Output Index

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

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2018	Mar	4.1	79.5	16.4	-12.3	43.8	43.6
	Apr	2.7	85.2	12.1	-9.4	45.3	43.5
	May	2.8	82.3	14.8	-12.0	44.0	43.7
	Jun	3.8	77.3	18.9	-15.1	42.4	43.1
	Jul	2.3	78.6	19.1	-16.8	41.6	41.8

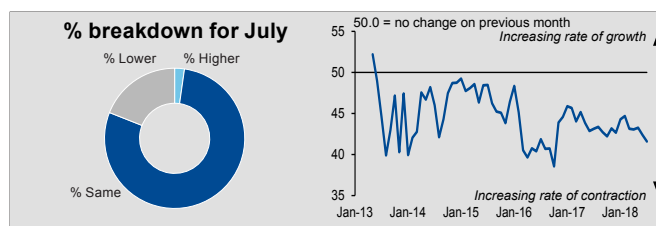


Lebanon's private sector economy continued to contract in July, as highlighted by the seasonally adjusted Output Index posting below the 50.0 no-change mark. The rate of deterioration also accelerated, reaching its sharpest since October 2016. Poor economic conditions and an unstable political situation were widely reported as factors undermining production.

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
2018	Mar	3.4	79.1	17.5	-14.1	43.0	43.1
	Apr	2.0	85.7	12.3	-10.3	44.8	43.1
	May	2.3	82.4	15.3	-12.9	43.5	43.3
	Jun	3.7	77.6	18.7	-15.0	42.5	42.4
	Jul	2.3	78.7	19.0	-16.8	41.6	41.6

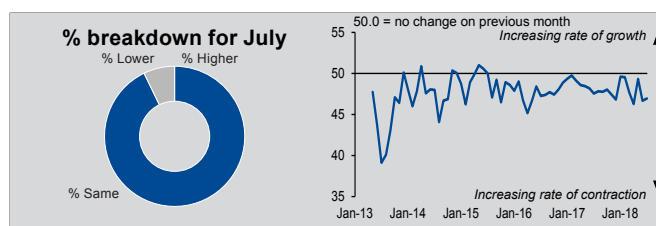


The seasonally adjusted New Orders Index remained stuck below the crucial 50.0 no-change mark in July. With a greater proportion of firms registering a fall compared to June, the index fell to its lowest level in 21 months. Demand for products and services was reportedly undermined by challenging economic, political and security conditions within Lebanon.

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
2018	Mar	1.0	92.9	6.1	-5.0	47.5	47.7
	Apr	0.0	93.1	6.9	-6.9	46.6	46.3
	May	1.6	97.0	1.4	+0.2	50.1	49.3
	Jun	2.4	89.7	7.9	-5.5	47.3	46.7
	Jul	0.0	92.8	7.2	-7.2	46.4	46.9

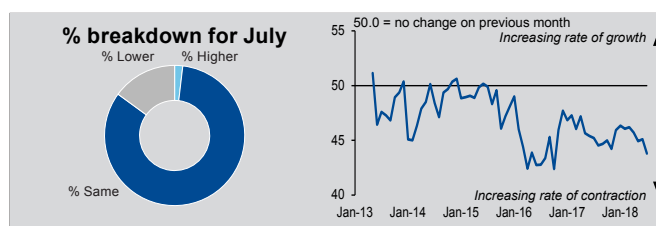


New export orders received by Lebanese companies continued to decline during July. Foreign sales have fallen continuously throughout the past three years, with companies reporting that current regional instability, both economically and politically, continued to hurt demand in the latest survey period.

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
2018	Mar	4.4	82.8	12.7	-8.3	45.9	46.2
	Apr	1.6	88.6	9.8	-8.2	45.9	45.7
	May	2.1	86.0	11.9	-9.9	45.1	44.9
	Jun	3.3	83.1	13.6	-10.2	44.9	45.1
	Jul	1.9	83.2	15.0	-13.1	43.5	43.8

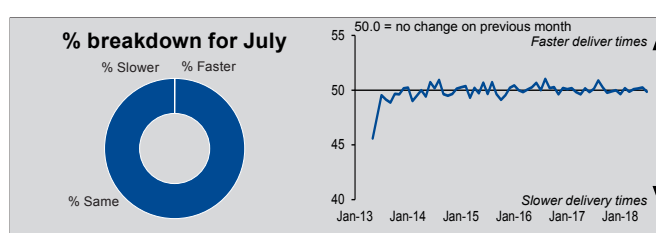


The seasonally adjusted Backlogs of Work Index posted below the 50.0 no-change mark during July, indicating another reduction in work outstanding within the Lebanese private sector. The rate of reduction was marked and the sharpest recorded since October 2016. A lack of incoming new work, linked to weak demand, was widely reported to have enabled the clearance of backlogs.

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
2018	Mar	0.6	99.1	0.3	+0.3	50.1	49.9
	Apr	0.0	100.0	0.0	0.0	50.0	50.1
	May	0.0	99.7	0.3	-0.3	49.8	50.2
	Jun	0.6	99.4	0.1	+0.5	50.2	50.2
	Jul	0.1	99.9	0.0	+0.1	50.0	49.8

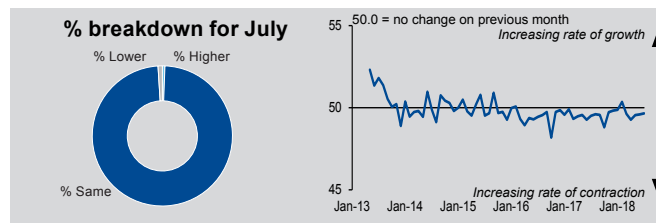


In line with the general survey trend, average lead times for the delivery of inputs to Lebanese companies were little changed during July. Latest data showed that nearly 100% of the survey panel registered no change in times and, after seasonal adjustment, the respective index recorded only fractionally below the 50.0 no-change mark.

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
2018	Mar	0.6	97.9	1.6	-1.0	49.5	49.6
	Apr	0.0	97.9	2.1	-2.1	49.0	49.3
	May	0.8	98.3	0.9	-0.1	49.9	49.5
	Jun	1.1	96.5	2.5	-1.4	49.3	49.6
	Jul	0.6	98.4	1.0	-0.4	49.8	49.7

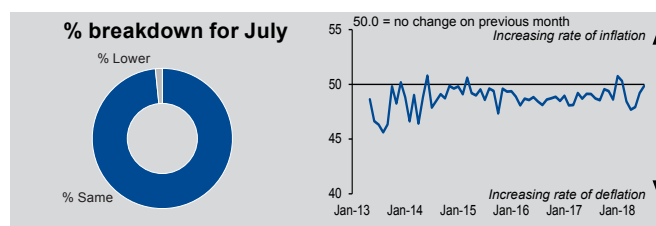


The seasonally adjusted Employment Index remained below the 50.0 no-change mark in July to indicate a further contraction of the Lebanese private sector workforce. However, the rate of decline was marginal and the weakest recorded in the current five-sequence month of contraction. Where jobs were lost, this was linked to a lack of incoming new work.

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
2018	Mar	0.8	95.8	3.4	-2.6	48.7	48.4
	Apr	0.0	96.4	3.6	-3.6	48.2	47.7
	May	0.0	96.9	3.1	-3.1	48.4	47.9
	Jun	0.0	97.8	2.2	-2.2	48.9	49.2
	Jul	0.0	98.4	1.6	-1.6	49.2	49.8

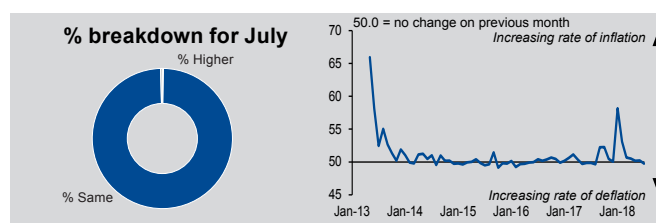


July's survey data indicated little change in output prices charged by Lebanese private sector companies. After accounting for seasonal factors, the Output Prices Index rose to a five-month high, with the vast majority of respondents signalling no change in their charges. Of those firms that cut their prices over the month, most did so as part of concerted sales efforts.

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
2018	Mar	1.2	98.8	0.0	+1.2	50.6	50.7
	Apr	0.3	99.7	0.0	+0.3	50.2	50.5
	May	0.3	99.1	0.6	-0.4	49.8	50.2
	Jun	0.5	99.5	0.0	+0.5	50.2	50.2
	Jul	0.3	99.3	0.4	-0.1	49.9	49.8

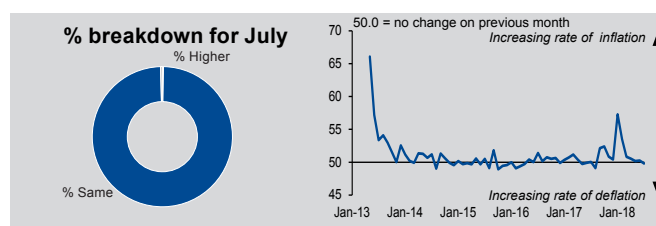


The seasonally adjusted Overall Input Prices Index dipped below the 50.0 no-change mark for the first time in just under a year during July to indicate a fall in private sector operating expenses. That said, the rate of decline was marginal with broadly similar sized falls in both purchase prices and staff costs recorded.

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
2018	Mar	1.3	98.7	0.0	+1.3	50.6	50.8
	Apr	0.3	99.7	0.0	+0.3	50.2	50.5
	May	0.3	99.1	0.6	-0.4	49.8	50.2
	Jun	0.5	99.5	0.0	+0.5	50.2	50.2
	Jul	0.3	99.3	0.4	-0.1	49.9	49.8

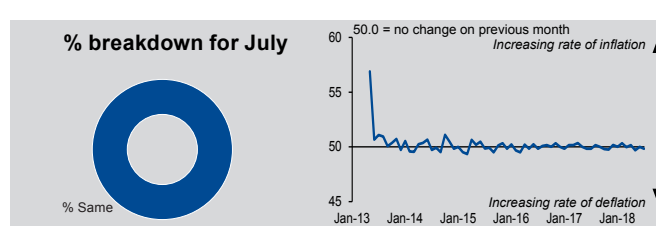


For the first time since August 2017, purchase prices paid by Lebanese private sector companies fell. The rate of decline was, however, marginal as most firms reported no-change in prices. Where falls were recorded, this was linked to suppliers reducing their price lists in response to lower demand.

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
2018	Mar	0.0	99.6	0.4	-0.4	49.8	50.0
	Apr	0.0	100.0	0.0	0.0	50.0	50.2
	May	0.0	99.7	0.3	-0.3	49.9	49.7
	Jun	0.0	100.0	0.0	0.0	50.0	50.0
	Jul	0.0	100.0	0.0	0.0	50.0	49.8

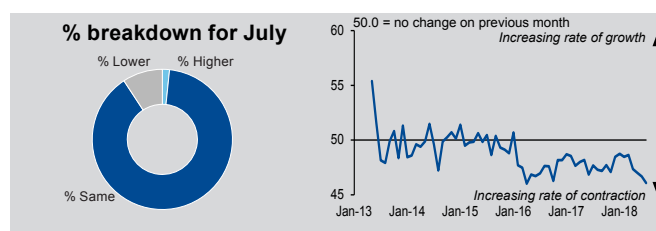


There was again little change in staff costs in July. Although dipping below the 50.0 no-change mark for the second time in the past three months, the degree of deflation in staffing costs signalled by the seasonally adjusted Staff Costs Index was again only marginal.

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
2018	Mar	4.7	88.3	7.0	-2.4	48.8	48.6
	Apr	1.5	91.3	7.1	-5.6	47.2	47.3
	May	2.0	90.3	7.7	-5.6	47.2	47.0
	Jun	2.6	88.8	8.5	-5.9	47.1	46.7
	Jul	1.6	89.1	9.2	-7.6	46.2	46.1

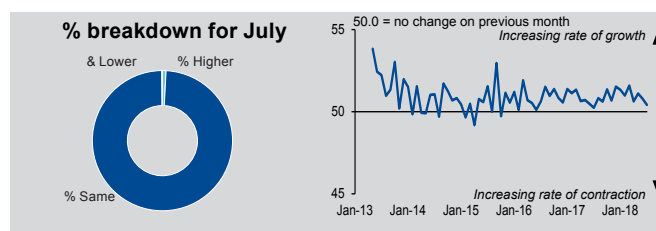


Purchasing activity in the Lebanese private sector continued to decline in July, maintaining a trend that started in February 2016. Moreover, a fall in the seasonally adjusted Quantity of Purchases Index to a 27-month low indicated a marked and accelerated reduction in buying activity. A lack of incoming new work was reported to have weighed on purchasing activity.

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
2018	Mar	4.9	94.5	0.6	+4.3	52.2	51.6
	Apr	0.5	98.9	0.6	-0.1	49.9	50.6
	May	3.4	96.2	0.4	+3.0	51.5	51.1
	Jun	3.1	95.7	1.2	+1.9	51.0	50.8
	Jul	0.8	99.0	0.1	+0.7	50.3	50.4

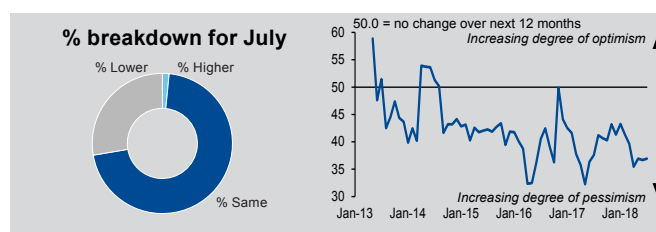


The seasonally adjusted Stocks of Purchases Index remained slightly above the 50.0 no-change mark during July to indicate further marginal growth in input inventories held by Lebanon's private sector. The latest increase in stocks was the weakest in a year, but nonetheless extended the current run of growth to 33 months.

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
2018	Mar	1.2	77.0	21.9	-20.7	39.6	n/a
	Apr	0.1	70.6	29.2	-29.1	35.4	n/a
	May	0.0	73.8	26.2	-26.2	36.9	n/a
	Jun	1.5	70.2	28.2	-26.7	36.7	n/a
	Jul	1.6	70.8	27.7	-26.1	36.9	n/a



A lack of political stability and expectations that this will continue over the coming months, meant that Lebanese private sector firms remained downbeat about their future growth prospects. July's survey showed that nearly 28% of panellists are anticipating a fall in activity from present levels, compared to around 2% that forecast growth. Subsequently, the Future Output Index remained close to April's near one-year low.

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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