Private sector operating conditions continue to deteriorate markedly

Key findings

Rates of new order and output contraction remain pronounced

Business sentiment hits record low

Employment falls further

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 latest PMI reading of 45.4, up slightly from 44.9 in January, pointed to a softer deterioration in Lebanese private sector business conditions during February. However, although the slowest for four months, the rate of decline remained historically marked.

Contributing to another subdued headline reading was a further contraction in private sector output during February. The pace of reduction was little-changed from January and remained marked overall. When explaining the result, panellists continued to cite political instability.

Similar to the trend in output, new orders placed with Lebanese businesses fell in February. The result extended the current sequence of reduction that began in June 2013. Despite the rate of decline easing to the softest for four months, it remained marked.

Looking forward, sentiment towards the 12-month business outlook fell to the weakest level in survey history, eclipsing the previous low registered in May 2017. Anecdotal evidence suggested that negativity was driven by expectations for prolonged political and economic instability.

Comment

Commenting on the BLOM Lebanon PMI for Feb. 2020, Dr. Ali Bolbol, Chief Economist of BLOM Bank, said:

“The BLOM Lebanon PMI for Feb. 2020 at 45.4 is encouraging – the highest in four months. Most of the indices – especially output, new orders, new export orders, and employment - fell at a slower rate, perhaps stimulated by the formation of the new government and the diminution in the intensity of the uprising and street protests. However, input prices and final output prices actually increased, most likely due to weaker exchange rates in the parallel market. Most crucially, future expectations are at their lowest level in survey history, something that can only be reversed if the new government implements meaningfully and soon a structural reform and economic recovery plan.”

continued...
Amid weak demand conditions, private sector firms continued to reduce their staff numbers in February. Although the rate of workforce contraction eased slightly from January, the result extended the current run of staff cutting to six months. Volumes of outstanding business fell further in the latest survey. The pace of contraction decelerated to the slowest for four months, but remained faster than the historical trend. Survey respondents often suggested that a lack of new work allowed them to alleviate backlogs.

On the cost front, input prices faced by Lebanese business continued to rise. Moreover, the rate of inflation accelerated to the quickest for three months and was marked overall. Underlying data suggested that the increase in cost burdens was driven by purchase prices, as average wages fell for the fourth month in a row.

Firms opted to pass on some of the additional costs to their clients in February with an increase in average charges. The result is the strongest rise in output prices for three months. Though only modest overall, the rate of inflation was the fastest since the survey’s inception in May 2013.

Methodology

The BLOM Lebanon PMI® is compiled by IHS Markit from responses to questionnaires sent to purchasing managers in a panel of around 400 private sector companies. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP. The sectors covered by the survey include manufacturing, construction, wholesale, retail and services.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of ‘higher’ responses and half the percentage of ‘unchanged’ responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Purchasing Managers’ Index™ (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers’ Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers’ Delivery Times Index is inverted so that it moves in a comparable direction to the other indices.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

February 2020 data were collected 12-24 February 2020.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

About BLOM INVEST BANK

BLOM INVEST BANK, established in 1994, is the investment arm of BLOM Bank SAL, one of the largest banks in Lebanon. As part of its expansionary vision towards the MENA region, the bank has established one investment arm in Saudi Arabia, “BLOMINVEST KSA” and launched three brokerage and trading firms in Egypt, Syria, and Jordan, namely “BLOM Bank Egypt Securities”, “Syria and Overseas for Financial Services”, and “Financial Services Experts Company”. BLOMINVEST BANK is one of few institutions within the greater Levant region that offer Private banking, Investment banking, Asset Management, Brokerage, and Research services under one roof. Based on its track record, BLOMINVEST BANK to date remains the most awarded local investment bank. For more information, see bllb.com.

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