BLOM Lebanon PMI®

Private sector business conditions deteriorate further in May

Key findings

Weak demand drives further deterioration in business conditions

Firms record another sharp contraction in output

Higher input costs underpin a record increase in average output charges

Data were collected 12-22 May

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 results presented in this report are best analysed in the context of the global coronavirus outbreak which triggered severe preventive measures in Lebanon, including the closure of businesses. Therefore, the response rate of panellists was lower than usual in May.

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 37.2, up from a survey low of 30.9 in April, pointed to another marked deterioration in Lebanese business conditions during May, albeit one that was softer than recorded in previous survey period.

A key factor behind the latest reading was a further sharp reduction in new business across the private sector. Panellists often commented that their clients were hesitant to place orders amid uncertainty surrounding the prolonged containment of the coronavirus outbreak. That said, the latest decrease in sales was slowest for three months.

With many businesses remaining closed and others facing significantly reduced demand, private sector firms registered a further contraction in output during May. Although the rate of

Comment

Commenting on the May 2020 PMI results, Dr. Fadi Osseiran, General Manager of BLOMINVEST Bank, said:

“Lebanon’s economic growth fell to an estimated -7% in Q1 2020. Our projections for Q2 are more alarming, especially if Lebanon does not show the IMF serious commitment and goodwill for reform in its request for a financial package. Effectively, the PMI fell short of the 45 threshold mark for developing countries to stand at 37.2 in May 2020 when the Lebanese pound aggressively depreciated against the US dollar in the parallel market, crossing the 4,000 mark. As consumers’ wallets grew tighter, overall demand for goods & services fell while output prices increased notably. It is imperative that the government expedites its negotiations with the IMF to unlock needed financing essential for Lebanon’s economic recovery.”

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decline eased from April’s series record, it remained among the quickest since data collection began in May 2013.

Meanwhile, cost burdens faced by Lebanese businesses continued to rise sharply. In fact, the rate of inflation accelerated to the quickest for seven years. Underlying data showed that the increase was driven by higher purchase prices, which more than offset another reduction in wage costs.

Firms responded to the rapid increase in cost burdens with a rise in average output prices during May. Moreover, the rate of increase was by far the quickest in more than seven years of data collection.

There was further evidence of supply-side disruption in the Lebanese private sector during May, with input delivery times lengthening for the seventh month in succession. The extent to which vendor performance deteriorated eased from April, but remained sharper than the historical average.

On the jobs front, private sector employment continued to fall midway through the second quarter. However, the rate of workforce contraction decelerated slightly and was only marginal overall. Where firms reported lower staff numbers, some cited the coronavirus disease 2019 (COVID-19) pandemic.

Finally, sentiment towards the one-year business outlook remained deep in negative territory during May. The degree of negativity was marginally softer than in April, but still the second-worst since the survey’s inception. Panelists often cited fears of a prolonged global economic downturn.

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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.

May 2020 data were collected 12-22 May 2020.

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

About BLOMINVEST BANK

BLOMINVEST 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 www.bloominvestbank.com.

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