

Embargoed until 1100 EEST (0800 UTC) 8 September 2020

BLOM Lebanon PMI®

Business conditions deteriorate at sharper rate in August as output contraction accelerates

Key findings

Health of private sector declines at fastest pace for three months

Output and new order declines accelerate following Beirut explosion

Rate of workforce contraction slows

Data were collected 12-28 August

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.

August's PMI reading of 40.1, down from 44.9 in July, pointed to the quickest deterioration in Lebanese private sector business conditions for three months, and one that was marked overall.

The result was partially driven by a sharp and accelerated contraction in output at private sector firms. The latest reduction was the quickest since May, with many panellists commenting that the recent explosion in Beirut had caused severe disruption to their operations.

Another factor contributing to the downturn in the headline index was a quicker fall in new orders midway through the third quarter. The result marked the first acceleration in the rate of decline since April. Anecdotal evidence indicated that temporary business closures related to the explosion had hindered demand conditions.

Contributing to the sharper decline in aggregate new work was a marked reduction in foreign sales during August. The fall in new export orders was the quickest for three months.

Adding to the hardship caused by both the ongoing liquidity

continued...

Lebanon PMI

sa, >50 = improvement since previous month



Sources: BLOMINVEST BANK, IHS Markit.

Comment

Commenting on the BLOM Lebanon PMI for August 2020, Dr. Fadi Osseiran, General Manager of BLOMINVEST Bank, said:

“As if Lebanon is short of catastrophes, the explosion to the Port of Beirut on August 4th, 2020 has come to add severely to the country’s woes. With three shocks plaguing the country – the economic and financial crisis, the Covid-19 epidemic and the Port of Beirut blast – it is not surprising that output contractions accelerated and future business expectations are at their lowest ever. The least that can be done in these dire circumstances is to form a competent and active government as soon as possible so as to tackle these difficulties and to garner international support and confidence.”

difficulties and the coronavirus disease 2019 (COVID-19) pandemic, the Beirut explosion saw sentiment towards the 12-month business outlook hit rock bottom in August. The degree of negativity amongst private sector firms was the worst since data collection began in 2013, with some panellists citing expectations that the damage to Beirut's port would prolong the current economic crisis.

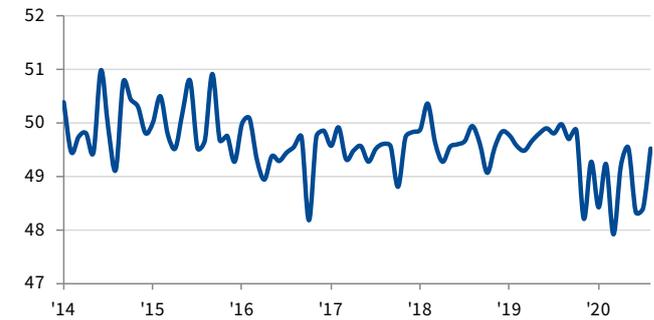
In line with the further declines in output and new orders, Lebanese businesses continued to cut staff numbers in August. The result extended the current sequence of workforce contraction that began a year ago. That said, the rate of job shedding continued to trend towards stabilisation and was the softest for three months.

Meanwhile, following sharp increases in each of the previous four months, input costs faced by private sector firms rose only marginally in August. In fact, the rate of inflation was the slowest since last October, driven by a far softer increase in purchase prices and a further decrease in staff costs.

Finally, firms opted to pass on some of the additional costs to their clients with a further increase in average output charges during August. However, in line with the trend for input prices, the latest rise in output charges was far softer than registered in July and only marginal overall.

Employment Index

sa, >50 = growth since previous month



Sources: BLOMINVEST BANK, IHS Markit.

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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.

August 2020 data were collected 12-28 August 2020.

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

About PMI

Purchasing Managers' Index™ (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.
ihsmarkit.com/products/pmi.html

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