Output and new orders slip further into decline in October

Key findings

Headline PMI declines as economic conditions deteriorate faster

Domestic purchasing power undermined by rising US dollar exchange rate

Cost pressures intensify; output prices rise at stronger rate

The BLOM Lebanon PMI® fell deeper into negative territory at the start of the fourth quarter, reflecting worsening demand conditions and a faster subsequent drop in private sector business activity. According to firms, weaker purchasing power as a result of unfavourable movements in the US dollar exchange rate weighed heavily on new business intakes.

Domestic currency weakness also impacted operating costs, which moved back into inflationary territory during October. Consequently, firms increased their selling prices at a quicker rate in an effort to offset greater cost burdens.

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 headline BLOM Lebanon PMI fell to 46.6 in October, down from 46.9 in September. The move further below the 50.0 no-change mark signalled a stronger deterioration in economic conditions across Lebanon, and one that was the joint-strongest since March (equalling that seen in August).

Weaker domestic demand was a major factor behind the overall contraction in October, according to surveyed companies. New orders fell at the fastest pace for seven months as the price for US dollars increased, eroding domestic clients’ spending power. New export business also fell, with firms struggling to attract foreign market demand due to economic and political instability in Lebanon.

As a result of weaker sales performances, private sector output in Lebanon was reduced during October. The rate of contraction was continued...
strong overall and the fastest since March.
Reduced business activity was also a reflection of lower capacity pressures, with backlogs of work declining in October. However, the trend in employment moved into positive territory as businesses took on additional staff for the first time since February 2018. That said, the rate of jobs growth was fractional.
Elsewhere, supplier performance continued to decline, according to latest survey data, which showed average lead times on the delivery of inputs lengthening. Fuel shortages were a key reason for slower deliveries, although liquidity issues were also a factor. Problems with cash also restricted purchasing activity in October, with input buying falling.
Nevertheless, despite notable drags from the demand-side of the economy, private sector businesses in Lebanon recorded higher overall input costs during October. Inflationary pressures were primarily caused by greater purchase costs, which panellists attributed to exchange rate weakness against the US dollar. As a result, selling prices increased at a faster rate.
Lastly, business confidence remained in deeply pessimistic territory during October. The uncertain economic and political climate made it challenging for firms to predict future activity levels, although many expect conditions to worsen.

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.

October 2021 data were collected 12-25 October 2021.

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.blominvestbank.com.

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IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world’s leading financial institutions.

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