



Contents

- [Overview and comment](#)
- [Output and demand](#)
- [Business expectations](#)
- [Employment and capacity](#)
- [Purchasing and inventories](#)
- [Prices](#)
- [International PMI](#)
- [Further information](#)

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

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 decline eased from April's series record, it remained among the

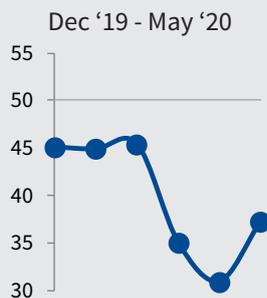
continued...

Lebanon PMI
sa, >50 = improvement since previous month



Lebanon PMI

May '20
37.2
 Apr: 30.9



Overview continued...

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. Panellists often cited fears of a prolonged global economic downturn.

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.”



Output and demand

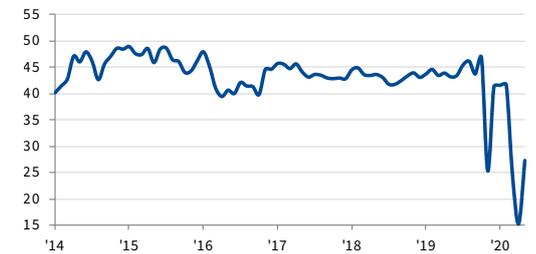
Output

Lebanese private sector firms registered a further contraction in output during May. The rate of decline remained historically marked despite decelerating from April's survey record. When explaining the latest reduction in activity, panellists often cited dire demand conditions amid the coronavirus outbreak.

Output Index

sa, >50 = growth since previous month

27.3
May '20



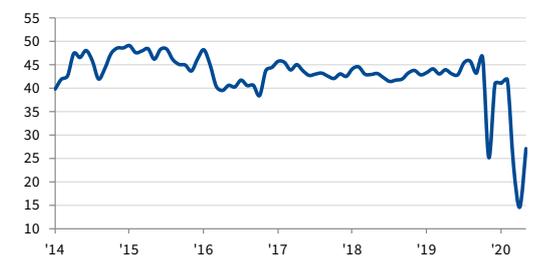
New orders

New work received by Lebanese businesses continued to plummet midway through the second quarter. Although the latest reduction was the softest for three months, it was among the fastest since data collection began in May 2013. Anecdotal evidence suggested that uncertainty surrounding the recovery from coronavirus had discouraged firms' clients from placing orders.

New Orders Index

sa, >50 = growth since previous month

27.2
May '20



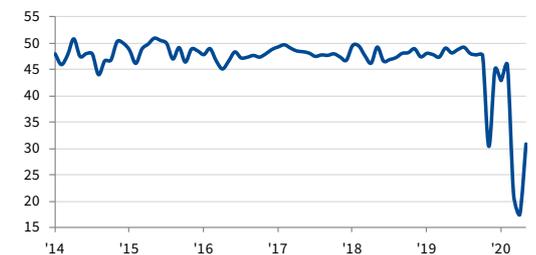
New export orders

International demand continued to evaporate in May, with new export orders falling further after April's historic decline. The latest reduction was softer than that recorded in the previous two survey periods, but remained sharp overall.

New Export Orders Index

sa, >50 = growth since previous month

30.9
May '20



Business expectations

Future Output Index

Dec '19 - May '20



Sentiment towards the one-year business outlook remained deep in negative territory during May. Private sector firms were marginally less pessimistic than in April, but continued to cite fears of a prolonged global economic downturn.

Future Output Index

>50 = growth expected over next 12 months

2.1
May '20



Employment and capacity

Employment

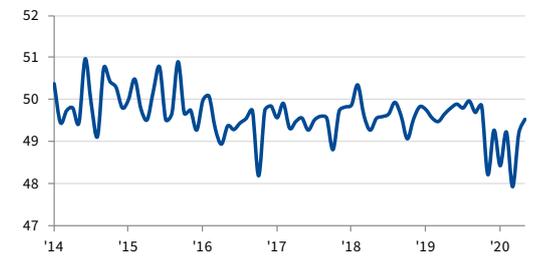
May survey data pointed to a further reduction in staff numbers at Lebanese private sector firms. That said, the rate of workforce contraction eased to the softest for seven months and was only marginal overall. Panellists often cited the covid-19 pandemic when explaining lower employment.

Employment Index

sa, >50 = growth since previous month

49.5

May '20



Backlogs of work

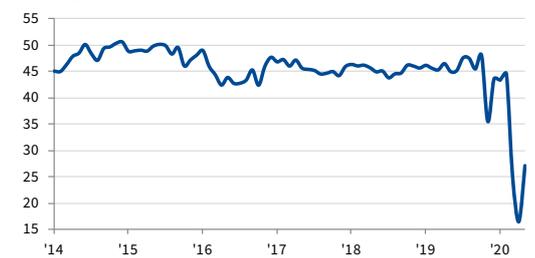
Amid softer inflows of new orders, Lebanese businesses posted another reduction in backlogs of work during May. The result extended the current sequence of decline to nearly five years. The rate of decrease remained historically marked, despite easing from April.

Backlogs of Work Index

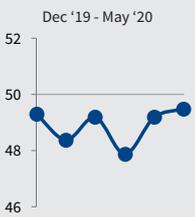
sa, >50 = growth since previous month

27.1

May '20



Employment Index
Dec '19 - May '20



Backlogs of Work Index
Dec '19 - May '20



Purchasing and inventories

Quantity of purchases

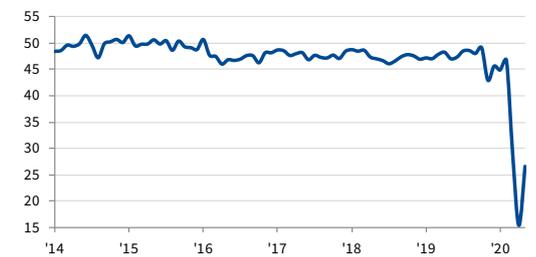
In line with a further decrease in new business, Lebanese private sector companies cut back their purchasing activity in May. Although still among the fastest since data collection began just over seven years ago, the latest decrease was softer than April's series record.

Quantity of Purchases Index

sa, >50 = growth since previous month

26.6

May '20



Suppliers' delivery times

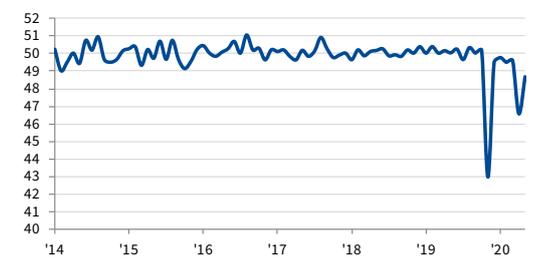
There was further evidence of supply-side disruption in May, with input delivery times faced by Lebanese businesses continuing to lengthen. Panellists widely cited reduced capacity at their suppliers. That said, the latest deterioration in vendor performance was softer than in April and modest overall.

Suppliers' Delivery Times Index

sa, >50 = faster times since previous month

48.7

May '20



Stocks of purchases

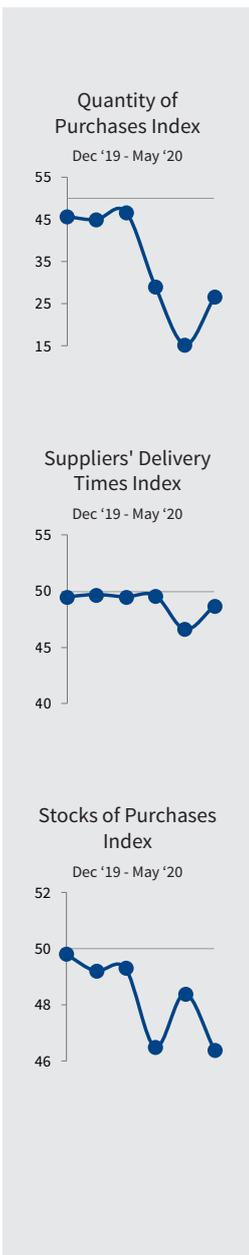
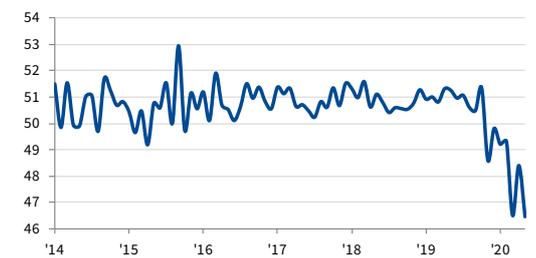
Input inventories continued to contract in May, extending the current sequence of reduction to seven months. Moreover, the rate of decline accelerated to the fastest on record, with survey respondents continuing to mention sharp reductions in purchasing activity.

Stocks of Purchases Index

sa, >50 = growth since previous month

46.4

May '20



Prices

Overall input prices

Cost burdens faced by Lebanese private sector firms continued to rise markedly in May. In fact, the rate of inflation accelerated to the quickest for seven years. Underlying data indicated that the increase was driven by higher purchase prices, while wages fell.

Purchase prices

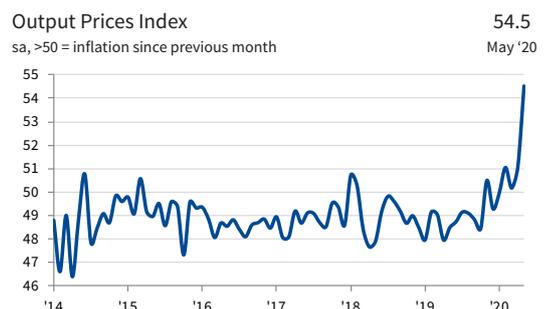
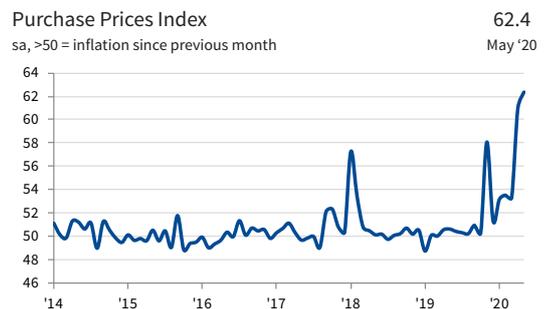
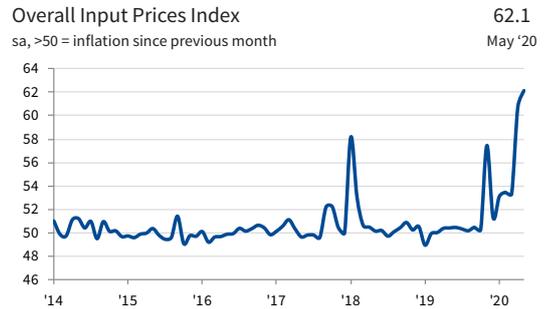
Purchase prices paid by Lebanese businesses rose at the quickest pace since May 2013 in the latest survey period. Panellists predominantly attributed the increase to a stronger US dollar. Around 24% of respondents saw a rise in prices compared to April, while the remaining 76% recorded no change.

Staff costs

In line with a further decrease in staff numbers and productivity, private sector firms recorded another reduction in average wage costs during May. The rate of decrease was little-changed from April's survey record.

Output prices

Faced with another sharp rise in input prices, firms continued to increase their average output charges in May. This was indicated by the seasonally adjusted Output Prices Index registering above the 50.0 no-change threshold. In fact, the latest rise in charges was by far the quickest on record and sharp overall.



Overall Input Prices Index



Purchase Prices Index



Staff Costs Index



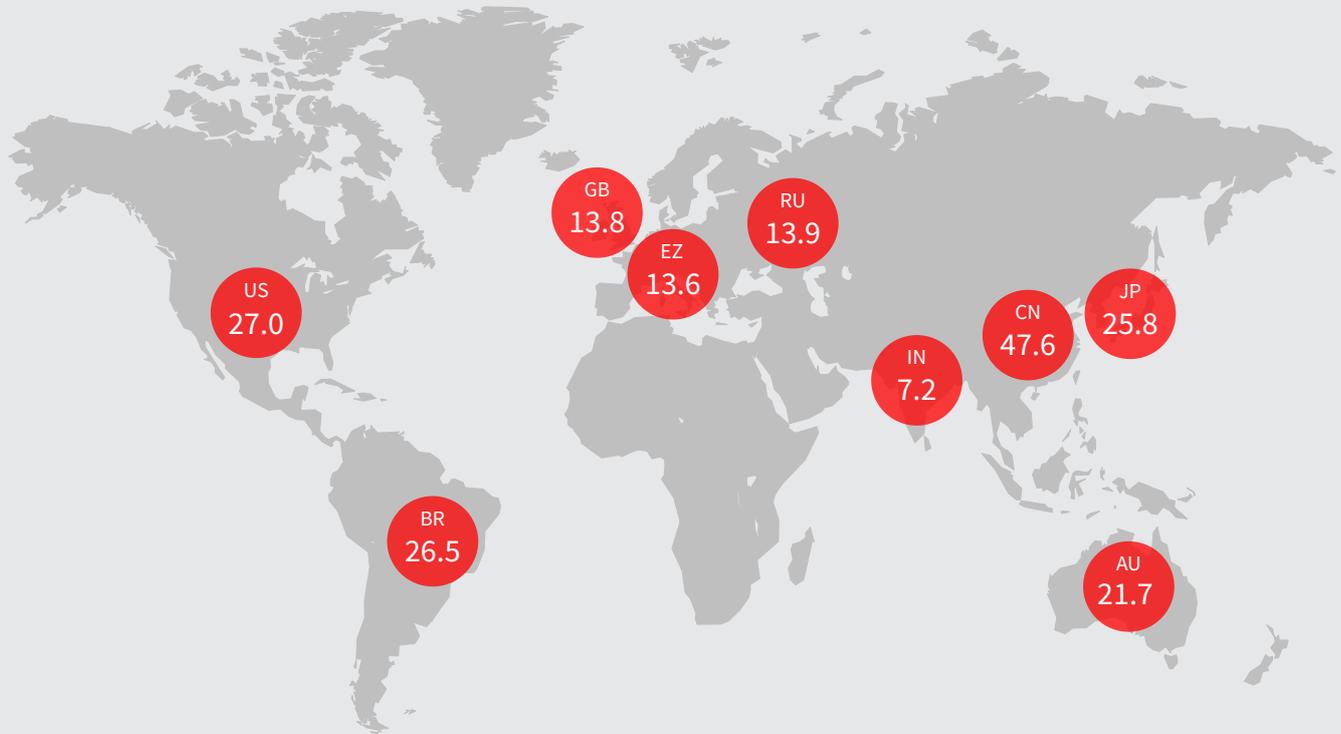
Output Prices Index



International PMI

Composite Output Index, Apr '20
sa, >50 = growth since previous month

The Composite Output Index is a GDP-weighted average of the Manufacturing Output Index and the Services Business Activity Index.



Composite Output Index
sa, >50 = growth since previous month



Index summary

sa, 50 = no change over previous month. *50 = no change over next 12 months.

	PMI	Output	New Orders	New Export Orders	Future Output*	Employment	Backlogs of Work	Quantity of Purchases	Suppliers' Delivery Times	Stocks of Purchases	Overall Input Prices	Purchase Prices	Staff Costs	Output Prices
12 '19	45.1	41.3	41.1	45.1	37.4	49.3	43.6	45.6	49.5	49.8	51.3	51.4	49.1	49.3
01 '20	44.9	41.6	41.2	43.0	37.8	48.4	43.4	44.9	49.7	49.2	53.1	53.2	48.9	50.0
02 '20	45.4	41.7	41.9	45.9	31.0	49.2	44.6	46.7	49.5	49.3	53.5	53.6	48.8	51.1
03 '20	35.0	24.6	23.5	21.3	31.7	47.9	25.0	29.0	49.6	46.5	53.3	53.3	49.6	50.2
04 '20	30.9	15.2	14.7	17.5	1.7	49.2	16.4	15.3	46.6	48.4	60.7	61.0	46.2	51.1
05 '20	37.2	27.3	27.2	30.9	2.1	49.5	27.1	26.6	48.7	46.4	62.1	62.4	46.3	54.5

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 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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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.

About IHS Markit

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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