



“BTA-Fransabank Retail Index” For the third quarter of 2017 (Q3-2017)

Beirut, November 9, 2017

**BETTER RESULTS IN RETAIL TRADE MARKETS DURING Q3, PRIMARILY BECAUSE OF SEASONAL FACTORS ...
BUT SUSTAINED DROP OF ACTIVITY IN COMPARISON TO THE SAME PERIOD LAST YEAR ...**

Seasonal factors and Eid Al Adha celebrations during the summer of 2017 had a positive impact on Lebanese trade markets activity, whereas most retail sectors witnessed higher turnovers than what they had achieved during the previous quarter.

Yet, such improved results were not sufficient to correct the overall downtrend of activity, as these Q3 figures continued to reflect a real decline when compared to figures of the same period of last year. The main cause for this continued deterioration is most probably the general apprehension prevailing amongst various economic actors about the ongoing deliberations during the period under study of the legislative authorities in the country to impose extra burdens on the Lebanese – in the form of new taxes and fees to finance directly the extra costs of new salary grid. This apprehension has undermined the propensity to consume of the main engines of market activity – Lebanese households first, but also visitors, at least outside the sphere of prime necessity goods.

There are no surprises behind this situation of shrinking consumption levels, since it translates strictly a basic economic theory that explains that consumer’s propensity to spend is dictated by the short- to medium-term expected income and not by the current revenue. This of course is a clear explanation of the currently prevailing low-spending trend that is hardly affecting most sectors.

Thus, and like in previous quarters, the political matters – including of course their legislative dimension, remained a source of anxiety and gloomy perspectives for the foreseeable future amongst all various economic parties, especially consumers and traders, albeit all military and security accomplishments in terms of repelling the presence of major terrorist groups from inside the eastern borders of the country. Yet, summer and Eid Al Adha passed, immigrants and visitors came, but markets’ performance was poorer than that of the previous summer in most sectors of retail trade, and mere seasonal factors were the main reason behind the improvement when compared to performance during the previous quarter.

In short, local markets are facing a persistent slowdown in consumption, and most sectors of retail trade are stagnating – if not in a recessionary mode, and the weakness of economic engines is proving to be a structural weakness; at the same time, and despite the tremendous sacrifices that traders have been extending in terms of special offers and discounts and cut prices – and also in most trades payment facilities, the latest CPI figures published by the Central Administration of Statistics for the month of September 2017 show an increase in the Consumer Price Index of + 4.15 % between September 2016 and September 2017, an increase that reflects a stronger decline between the real turnover figures of Q3 of 2016 and Q3 of 2017. As for the CPI levels between the second and the third quarter of 2017, a + 1.47 % increase is posted, pursuing an uptrend that had started in the second quarter of 2016 and slowed down only during the second quarter of 2017.



Obviously, it is not possible to determine the exact direct impact of the current inflationary trend on the size of consumption, although it undoubtedly represents a complementary factor that undermines the purchase power of Lebanese households, a purchase power that has already been receding because of the crisis in the labor market on one side, and because of the fragility of the economic conditions and the semi lack of growth on the other side. People are now anxious to see the countering impacts of the new salary grid and the new taxes and fares on the trade markets' activity.

There is no doubt that the current economic status of the country calls for drastic measures, but mere economic basics dictate that extra burdens cannot be applied in times such as those that Lebanon is experiencing currently in terms of recessionary factors and a growth rate close to nil. Fears are that such measures will lead to opposite results of what the government is expecting, and lead to even lower growth in the economy, and instead of increasing, state revenues will decline, with a further surge of tax evasion, illegal trading and smuggling, if the government does not undertake a vast efficient anti-corruption and anti-wastage program and if does not enforce a strict application of reform, work efficiency and productivity. Credit must be given that good intentions have been clearly stated, a ministry has been set, and standards are clearly defined, but the elements and tools for the enforcement of such decisions proved to be so far insufficient, and an immediate activation of all means to reach the set objectives is highly needed.

CPI (as per CAS official results)	
Q4 '14 / Q4 '13	- 0.71 %
Q1 '15 / Q1 '14	- 3.38 %
Q2 '15 / Q2 '14	- 3.37 %
Q3 '15 / Q3 '14	- 4.67 %
Q4 '15 / Q4 '14	- 3.40 %
Q1 '16 / Q1 '15	- 3.57 %
Q2 '16 / Q2 '15	- 0.98 %
Q3 '16 / Q3 '15	+ 1.03 %
Q4 '16 / Q4 '15	+ 3.14 %
Q1 '17 / Q1 '16	+ 5.12 %
Q2 '17 / Q2 '16	+ 3.48 %
Q3 '17 / Q3 '16	+ 4.15 %
Q4 '14 / Q3 '14	- 1.49 %
Q1 '15 / Q4 '14	- 0.98 %
Q2 '15 / Q1 '15	- 1.12 %
Q3 '15 / Q2 '15	- 1.18 %
Q4 '15 / Q3 '15	- 0.16 %
Q1 '16 / Q4 '15	- 1.15 %
Q2 '16 / Q1 '16	+ 1.54 %
Q3 '16 / Q2 '16	+ 0.82 %
Q4 '16 / Q3 '16	+ 1.93 %
Q1 '17 / Q4 '16	+ 0.74 %
Q2 '17 / Q1 '17	- 0.04 %
Q3 '17 / Q2 '17	+ 1.47 %

A detailed analysis of the various retail trade sectors results reveals that activity displays a nominal consolidated decline of – 1.19 % in the third quarter of 2017 as compared to the nominal turnover figures of the third quarter of 2016. However, the real consolidated turnover figures (i.e. after the application of the CPI weight for the period under review) translate a – 5.29 % decrease (despite the + 6.41 % increase in the volume of fuels).

If the fuel sector is excluded from the consolidation, the real turnover figures decline reaches – 7.80 % between the Q3 of 2016 and the Q3 of 2017.

Yearly Variation between 3rd Quarter '16 and 3rd Quarter '17			
	Q3 - 2016	Q3 - 2017	
Nominal Year to Year Variation (incl. Liquid Fuels)	100.00	98.81	
Nominal Year to Year Variation (excl. Liquid Fuels)	100.00	96.19	
CPI between Sep '16 and Sep '17 (as per the official CAS figures)		+ 4.15 %*	
Real Year to Year Variation (incl. Liquid Fuels)	100.00	94.71	- 5.29 %
Real Year to Year Variation (excl. Liquid Fuels)	100.00	92.20	- 7.80 %

* CAS – CPI – Sep '17

Likewise in previous quarters, figures clearly reflect a deterioration in the consolidated turnover results, and it has become obvious that the main reasons are structural and a stable political situation combined with a quiet security environment did not contribute in improving markets activity, as all other market engines remained at a standstill, while no specific corrective measures were taken: on the contrary, the outlook was, in the third quarter, quite negative, with expectations of further fiscal and monetary pressures on consumers and traders alike.

Yet, the impact was mitigated and not all sectors were affected similarly. While results of most retail trade sectors appeared to be declining (quite sharply for some) in comparison to their results during the third quarter of 2016, few others appeared to have posted an improvement – albeit modest, as detailed below:

Main sectors where declines were registered include:

- Cellular Phones (- 33.90 %)
- Musical Instruments (- 27.28 %)
- Furniture (- 15.26 %)
- Home Accessories (- 13.87 %)
- Medical Equipment (- 13.01 %)
- Construction Equipment (- 11.66 %)
- Shoes and Leather Products (- 10.93 %)
- Supermarkets and Food Shops (- 8.17 % after a - 5.69 % in the previous quarter)
- Books & Stationery & Office Supplies (- 7.49 %)
- Toys (- 6.67 %)
- Clothing (continued decline reaching – 5.13 % after a - 8.25 % in the previous quarter)



- Household Electrical Equipment (- 5.07 % after a - 4.85 % in the previous quarter)
- Pharmaceuticals (- 4.87 % after a - 4.76 % in the previous quarter)
- Silverware and Decoration (- 4.61 % after a -3.62% in the previous quarter)
- Sports Items & Equipment (- 3.50 %)
- Bakeries & Pastries (- 2.66 %)
- Restaurants and Snacks (- 1.33 %)
- Construction Material (- 1.13 %)
- Used Cars Dealers (- 1.09 %)
- Perfumes and Cosmetics (- 0.82 %)
- Liquor & Spirits (- 0.78 % after a - 4.18 % in the previous quarter)

The sectors that witnessed better results were, in addition to the noticeable improvement in the activity of Commercial Shopping Centers (+ 8.00 %):

- Optical and Hearing Aid Instruments (+ 16.13 %)
- Watches and Jewelry (+ 6.03 %)
- Tobacco (+ 1.45 %)

These figures appear to be quite alarming, especially the figures relating to the basic commodities sectors such as Food Products and Bakeries, Clothing, Books and also Home Accessories. Such figures are a clear indicator of the “pauperization” (impoverishment) of the Lebanese consumers and it has become critical today to counter this dangerous trend with the application of an immediate salvation plan at the level of the national economy as a whole, by also creating new openings in the labor market that would improve to a decent level the purchase power of Lebanese households, and by injecting necessary liquidities that would guarantee the re-activation of the wheel of consumption in all sectors of the local trade market.

The picture is quite different when it comes to scrutinize the results of the third quarter of this year in comparison to the results of the second quarter, whereas most retail trade sectors did post better figures, with the consolidated real increase (i.e. after the application of the CPI variation of + 1.47 % between the second and the third quarter of 2017) reaching the level of + 9.57 %.

It is important to note that the Fuel sector (included in the consolidated figures) has registered a + 12.45 % volume increase during this period.

By looking at every sector of retail trade on its own, it is noticed that many sectors reported an improvement in their performances, except – primarily, Construction Material (- 37.37 %), Books – Magazines and Stationery (- 21.43 %), Sports Items and Equipment (- 6.08 %) and Toys (- 2.23 %). Figures also indicate a slowdown in the sales of Supermarkets and Food Shops (- 2.00 %).

Other sectors where improved activity was reported included:

- Shoes and Leather Products (+ 33.70 %)
- Used Cars Dealers (+24.06 %)
- Commercial Shopping Centers (+23.00 %)
- Liquors (+ 22.19 %)
- Perfumes and Cosmetics (+21.47 %)

- *Watches and Jewelry (+ 17.61 %)*
- *Tobacco (+ 17.15 %)*
- *Clothing (+ 16.14 %)*
- *Restaurants and Snacks (+ 15.49 %)*
- *Pharmaceuticals (+ 15.36 %)*
- *Bakeries & Pastries (+ 13.67 %)*
- *Furniture (+ 13.47 %)*
- *Household Electrical Equipment (+ 11.21 %)*
- *Optical and Hearing Aid Instruments (+ 5.94 %)*
- *Silverware and Decoration (+ 2.94 %)*

As a result, with our base index 100 fixed at the fourth quarter of 2011, and with a quarterly inflation rate of + 1.47 % for the third quarter of 2017, as per the official CAS report, we hereby announce that the “BTA-Fransabank Retail Index” is (with all sectors included):

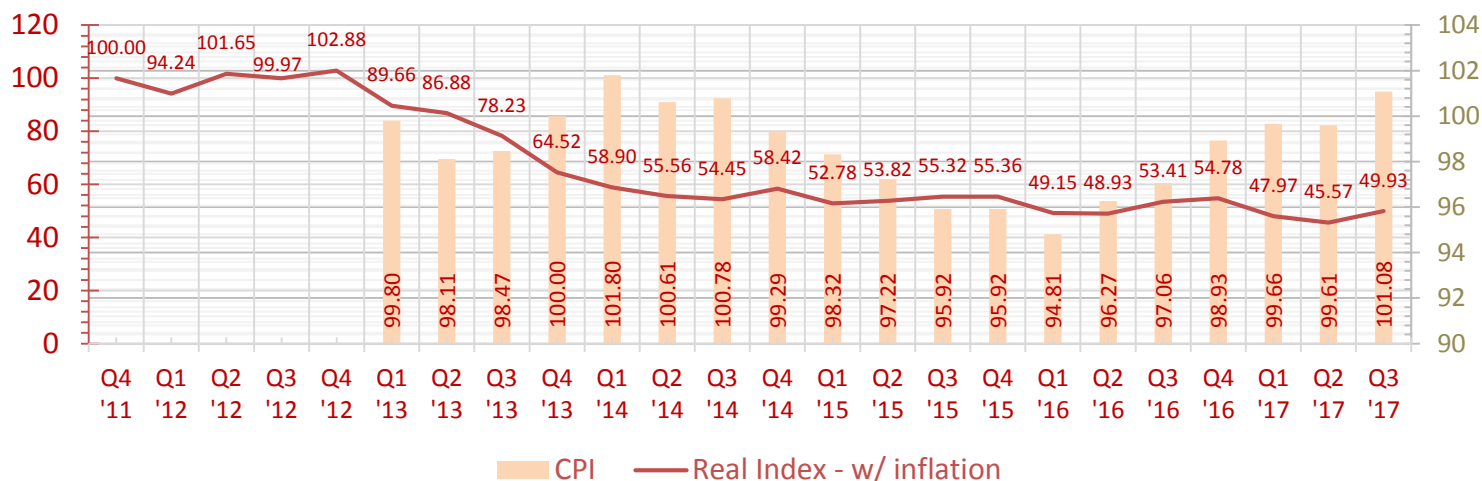
49.93 for the third quarter of the year 2017

This figure compares to the level of 45.57 for the second quarter of 2017, and means that our index is approaching again the 50 mark.

BTA - FRANSABANK Retail Index For Q3 - 2017 (Base 100 : Q4 - 2011)

	2011		2012				2013				2014				2015				2016				2017		
	Q4 '11	Q1 '12	Q2 '12	Q3 '12	Q4 '12	Q1 '13	Q2 '13	Q3 '13	Q4 '13	Q1 '14	Q2 '14	Q3 '14	Q4 '14	Q1 '15	Q2 '15	Q3 '15	Q4 '15	Q1 '16	Q2 '16	Q3 '16	Q4 '16	Q1 '17	Q2 '17	Q3 '17	
Nominal Index - w/out inflation	100	95.77	100.55	108.54	112.66	90.83	87.85	78.6	65.87	59.68	55.3	55.22	57.57	51.51	51.94	52.77	52.91	46.27	46.79	51.49	53.86	47.51	46.76	52.00	
Real Index - w/ inflation	100	94.24	101.65	99.97	102.88	89.66	86.88	78.23	64.52	58.9	55.56	54.45	58.42	52.78	53.82	55.32	55.36	49.15	48.93	53.41	54.78	47.97	45.57	49.93	
CPI						99.80	98.11	98.47	100.00	101.80	100.61	100.78	99.29	98.32	97.22	95.92	95.92	94.81	96.27	97.06	98.93	99.66	99.61	101.08	

BTA-Fransabank Retail Index (Base 100 - Q4 '11)



Such figures are of course encouraging, but they are not sufficient and do not give any indication of recovery of markets activity, because most of the increases are related to seasonal factors and not to any drastic changes in the prevailing economic drivers.

Introduction

The “BTA-Fransabank Retail Index” is the pioneer of indices that the private sector has started to produce (as it was launched in late 2011) with the main objective of addressing the long lasting non availability of regular cyclical data and information relative to the activity of specific sectors of the Lebanese economy.

The main objective of the “BTA-Fransabank Retail Index” is to provide the trading community with a scientific tool that reflects the trend that is witnessed at the level of retail trade on a quarterly basis, bearing in mind that that this index is calculated based on actual data collected from a representative sample of companies distributed into all retail goods and services trading sectors (45 sectors as per the Central Administration of Statistics nomenclature).

This index should be considered as a good reference, bearing in mind that:

- Companies were asked to provide their turnover on a yearly basis by brackets (in millions of USD). They also are asked to provide the quarterly percent change of their turnover for the quarter under review, compared to the same quarter of the previous year, and to the previous quarter of the same year.

Percent change of turnover of current quarter compared to same quarter last year (Q1 - 2011) =

$$\frac{\text{turnover of the current quarter} - \text{turnover of same quarter last year}}{\text{turnover of same quarter last year}}$$

Percent change of turnover of current quarter compared to previous quarter of the same year =

$$\frac{\text{turnover of the current quarter} - \text{turnover of previous quarter}}{\text{turnover of previous quarter}}$$

Index Methodology



For each sampled establishment the percent change of the turnover is first assigned a weight based on its relative turnover compared to the turnover of the other establishments within the same activity sector (ISIC¹ 6 digits).

An aggregation is then done within each activity sector (ISIC 6 digits) to calculate a percent change of turnover for this specific activity sector.

We then obtain as many indices as the number of activity sectors (ISIC 6 digits) taken into account.

On a second stage, ISIC level indices are then aggregated using weights based on the cumulated VAT turnover for each activity sector as provided by the Ministry of Finance.

This aggregation provided the final "Beirut Traders Association – Fransabank Retail index" of the commercial activity for the quarter under review.



¹ ISIC- International Standard Industrial Classification