BEIRUT TRADERS ASSOCIATION
FRANSABANK
RETAIL INDEX

100.6 *(+0.6%)*

Beirut Traders Association – Fransabank Retail Index
For The Second Quarter 2012
Beirut, September 4, 2012

Introduction

The objective of the "*Beirut Traders Association – Fransabank Retail Index*" is to give an estimation of the trend of the economic activity in the retail trade sector on a quarterly basis. The index includes the main retail goods and services sectors.

Companies were asked to provide their turnover on a yearly basis by brackets (in millions of USD) for 2011. They also were asked to provide the quarterly percent change of their turnover for the 1st and the 2nd quarter of 2012,

1. compared to the same quarters of 2011 respectively,
and
2. compared to the previous quarters respectively (i.e. 4th quarter of 2011 and 1st quarter of 2012).

Percent change of turnover of current quarter (Q1 or Q2 – 2012) compared to same quarter last year (Q1 or Q2 - 2011) =

$$\frac{turnover\ of\ the\ current\ quarter - turnover\ of\ same\ quarter\ last\ year\ (2011)}{turnover\ of\ same\ quarter\ last\ year\ (2011)}$$

Percent change of turnover of current quarter (Q1 or Q2 – 2012) compared to previous quarter =

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

✓ The sample is set to include more companies in quarters to come.

The sample of establishments was selected by *Beirut Traders Association* according to criteria taking into account basically the size of the establishment within the sector and the willingness of the establishment to commit to provide quarterly the percentage change of its turnover.

Index Methodology

- For each sampled establishment the percent change of the turnover is first assigned a weight based on its relative turnover in 2011 compared to the turnover of the other establishments within the same activity sector (ISIC[1] 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.

- Many indices were obtained as the number of activity sectors (ISIC 6 digits) were taken into account.

- On a second stage, ISIC level indices were then aggregated using weights based on the cumulated VAT turnover for each activity sector as provided by the Ministry of Finance for 2011.

- This aggregation provided the final "*Beirut Traders Association – Fransabank Retail index*" of the commercial activity for the first two quarters of 2012.

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[1] ISIC- International Standard Industrial Classification

The level of retail trade activity at the beginning of 2012 was relatively acceptable, with a nominal increase of + 11.5% during the first quarter of the year in comparison to the first quarter of 2011.

However, the inflation rate for the concerned retail trade sectors (included in the sample) stood – according to the Central Administration of Statistics, at + 4% between the 1st quarter of 2011 and the 1st quarter of 2012. Thus, we should consider that the real improvement in the retail trade sectors' activity stood at + 7.5%.

Explanations of such relative improvement in the 1st quarter of 2012 in comparison to the same period of 2011 reside in the following:

1. Exogenous Factors:
   a. Everybody is aware of the very negative effects that the paralysis of public institutions, caused by the absence of a government in Lebanon during the first quarter of 2011, had on retail trade activity. These negative effects also coincided with the start of regional unrest.
   b. It is also important to note that the improvement witnessed during the first quarter of this year came as an extension or continuation of the momentum built during the last quarter of 2011.
2. Endogenous Factors: Whereby the retail trade sectors that carry a heavy weight in the sample are the ones that posted a remarkable performance during the first quarter of 2012 (such as the fuel sector + 18.9%, and the clothing sector + 16.27%). These increases contributed into boosting the overall increase of the retail trade index for this period.

Performance of the retail trade sectors during the second quarter of 2012 was much less encouraging, with a nominal increase of only + 3.7%.

Further, and if the official rate of inflation between the second quarter of 2011 and the second quarter of 2012 of 2.1% is taken into consideration, thus the real improvement in the retail trade sectors' activity between these two periods stood at only 1.6%.

This slowdown in the retail trade activity during the second quarter of this year reflects unfortunately a slowdown in the overall economic activity during the same period resulting from the dramatic events that occurred in the North of Lebanon as well as widespread security incidents throughout the country. All the above did naturally translate into a decrease in consumers' spending in general despite the adjustment of wages that occurred around the end of the first quarter of this year.

The detailed retail trade sectorial results for Q2 of 2012 are as follows:

- The level of consumption of basic goods and commodities as compared to Q2 of 2011 continued to grow relatively, despite the computed inflation in prices:
   - Fuel + 7.11% (bearing in mind that for this sector the increase was calculated for volumes and not values to smooth out the effects of fuel price weekly fluctuations),
   - Tobacco + 6.97%,
   - Pharmaceuticals + 4.19%,
   - Bakery and Pastry products + 2.85%,
   - While the food sector witnessed a sharp deterioration with activity declining by -10.32%.
- On the other hand, Luxury items and Equipment witnessed a sharp decline, that translated as follows:
   - Alcohol – 19.22%,
   - Furniture – 8.84%,
   - Clothing – 8.5%,
   - Communications and Cellular phones – 7.27%,
   - Household Equipment / Items – 7.06%,
   - Electronics – 5.26%,
   - It is however worth noting that New Cars Sales posted a solid increase, mainly in small and economic vehicles, with a + 9.63% performance.

As a result, and by fixing our base index 100 at the fourth quarter of 2011, the **"BTA-Fransabank Retail Index" is: 100.6 for the second quarter of the year 2012**. In other words, the retail trade activity has increased by a mere 0.5% since the fourth quarter of 2011.

Based on the above, and given that the commercial sector represents an important element of our Gross National Product (GNP), notwithstanding the effects of seasonality, overall economic growth during the second quarter of 2012 is bound to witness a slowdown.