



## **“BTA-Fransabank Retail Index”**

**For the fourth quarter of 2016 (Q4-2016)**

Beirut, February 23, 2017

### **POSITIVE DEVELOPMENTS DURING THE FOURTH QUARTER ... DID NOT TRANSLATE INTO IMPROVED MARKET ACTIVITY**

The optimism that had started to emerge during the third quarter of the year 2016 was complemented by the accelerated succession of positive events during the fourth quarter – political understandings, followed by the election of a president at the end of the month of October of 2016. All this political “détente” underpinned the markets’ mood with a wave of optimism and with the feeling that the long prevailing situation would start to change and witness a renewed appetite for spending by traditional consumers leading to a revitalization of the retail markets’ energy and activity.

And the markets did actually experience a momentum build-up on the demand side, and pretty encouraging dynamism in the various retail sectors. This momentum was however short-lived, and the markets re-experienced a state of lethargy during the period of formation of the new government, and remained so even after its announcement, strongly suggesting that all parties were still expecting more positive signals and deeds.

Thus, and despite the concordance of such encouraging events with the approach of the Christmas and end-of-year season – with all underpinning drives for consumption in such period, it appears that the markets – and hence the consumers, did not yet regain the sufficient vitality to start harvesting the fruits of the brighter situation, and this quarter’s consolidated results continued to display a noticeable down-slide in comparison to the results of the same quarter of the previous year.

Thus, it appears that the consumption problem in Lebanon – in the various retail trade sectors, has become a structural problem, and that psychological factors are not anymore the sole – or at least the main, factor, despite its paramount importance. Other essential reasons have substantial consequences, with causality effects on the purchase power of households and their priorities in spending, as well as on the structure of the consumers segments and profiles (in terms of nationalities’ distribution - be it Lebanese, or refugees, or Gulf nationals and other tourists, etc...).

It has become evident that the purchase power of Lebanese households has witnessed during the last period a noticeable regression due to the poor economic situation and the lack of growth, coupled with the invasion of the Lebanese labor market by a skilled and experienced Syrian manpower and labor force that has significantly lower remuneration demands than their Lebanese counterparts (as confirmed lately in an IMF report), and also in light of the decrease in the value of transfers executed by Lebanese abroad to their families in Lebanon – especially transfers from the Lebanese working in the Gulf or African states (also according to official reports).

What we should look forward to then is the approval of a budget by the government; a budget that takes into account all requisites and requirements for a resumption of growth of the Lebanese economy, that would directly result into improved purchase power of households, through the bias of targeted and planned public expenditure, a cut in expenditure, a minimization of wastage, and the avoidance of new tax burdens. This should come on top of a strict rejection by Lebanese authorities of international instances programs aiming at financing the creation of new jobs for refugees, on the grounds that such programs would guarantee a return of refugees to their country in the medium term.

It is equally important for the government and the concerned parties to re-establish an encouraging economic and taxation environment that would be characterized with attractive regulations for new and profitable investment opportunities and openings.

To top all these measures, strict rules and regulations on foreign work permits should be enforced, and accompanied by incentives for the employment of Lebanese manpower with all levels of academic and technical backgrounds and in all sectors of the economy.

On the other hand, it is also of tantamount importance for the government and all concerned parties to work hard on re-establishing Lebanese Gulf relations to their traditional status, and inciting the governments of these states to levy all restrictions on the travel of their citizens to Lebanon, because of the important weight of these at the level of overall markets' activity in Lebanon as well as at the level of a wide spectrum of investment activities ... with the sincere hope of a return to stability in neighboring countries, and a healthier economic situation in oil exporting countries that host high numbers of Lebanese expatriates.

Until that moment comes when all such factors become favorable again, it appears that the consolidated figures pertaining to the turnover in the retail trade markets have remained modest, and the positive signals have remained with no tangible impact, as results continued to display a nominal drop of – 1.92 % in comparison to the figures of the last quarter of 2015. The application of the CPI (as published by CAS for this period) on the nominal figures result in a much more severe drop that stood at – 5.00 % in real terms.

It is also important to note that the CPI continued to display an upward trend for the second consecutive quarter (on a year to year comparison basis), confirming renewed inflationary pressures, as the fourth quarter 2016 CPI reflected a + 3.14 % increase over the fourth quarter 2015 figures.

It should also be mentioned that the above figures do include changes in volumes of sales in the sector of Liquid Fuels (to avoid price fluctuations effects). This sector has witnessed – for the period under review, an increase of + 3.11 %.

The consolidation of the retail trade sectors' results excluding the liquid fuels sector results into a – 3.70 % nominal decline, while the real figures show a drop that reached – 6.72 %.

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 %
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 %

Yearly Variation between 4th Quarter '15 and 4th Quarter '16			
	Q4 - 2015	Q4 - 2016	
Nominal Year to Year Variation (incl. Liquid Fuels)	100.00	98.08	
Nominal Year to Year Variation (excl. Liquid Fuels)	100.00	96.30	
CPI between Dec '15 and Dec '16 (as per the official CAS figures)		+ 3.14 %	
Real Year to Year Variation (incl. Liquid Fuels)	100.00	95.00	- 5.00 %
Real Year to Year Variation (excl. Liquid Fuels)	100.00	93.28	- 6.72 %

When analyzing the results for every sector separately, it appears that while some sectors continued to experience a slowdown in activity, other sectors were able to achieve relatively improved results. This is a further sign that prioritization in the spending pattern continues to be the name of the game, and that households are giving preference to consumption on basic needs and goods and have more refrain in spending on non-essential items.

The main sectors that continued to post weaker real results included:

- Cars Dealers (- 13.51 %)
- Home Accessories (- 9.94 %)
- Clothing (- 8.91 % after a - 10.07 % drop in the previous quarter)
- Restaurants and Snacks (- 7.26 % after a + 6.59 % improvement in the previous quarter)
- Malls (-7.00 %)
- Musical Instruments (- 4.47 %)
- Perfumes and Cosmetics (- 1.98 %)
- Silverware and Decorative Items (with a renewed drop of – 1.03 % after the slight improvement witnessed in the previous quarter)
- Watches and Jewelry (- 0.99 %)
- Supermarkets and Food Shops (- 0.61 %)
- Liquor & Spirits (- 0.27 % after a + 4.97 % improvement in the previous quarter) and Tobacco (- 4.65 % after a + 4.43 % improvement in the previous quarter)

On the other hand, some sectors did witness an improvement in their real figures, and included mainly:

- Books & Stationery & Office Supplies (+ 12.96 %)
- Furniture (+ 9.86 %)
- Shoes and Leather Products (a sector that is witnessing a positive + 7.24 % increase after a long period of decline)
- Toys (+ 6.16 %)
- Bakeries & Pastries (with sales increasing at a slower pace + 5.80 % after having registered + 11.19 % in the previous quarter)
- Sports Items & Equipment (+ 5.06 %)
- Pharmaceuticals (+ 4.10 %)
- Medical Equipment (with sustained improvement in this sector at + 1.80 %)
- Household Electrical Equipment (with a slight + 1.04 % increase in real sales)
- While Cellular Phones and Building Equipment sales remained almost stable as compared to their levels of the fourth quarter of 2015.

It is also necessary to look into the sectorial variations details between the third and the fourth quarters of 2016, whereas the expected improvement did not materialize: despite the “good news” and despite the traditional seasonal factors, the consolidated real results only displayed a very modest increase.

In figures, and while the nominal consolidated increase reached + 2.90 %, real figures indicate only a mere + 0.91 % between the third and the fourth quarter of this year. These figures do include the decline in terms of quantities in the Liquid Fuels sector, which posted – 1.79 % for this period. Yet again, it should be noted that while some sectors posted a noticeable improvement in their turnover figures, other sectors continued to recede, as detailed below:

- Pharmaceuticals (- 24.01 %)
- Tobacco (- 21.43 %)
- Shoes and Leather Products (- 18.23 %)
- Restaurants and Snacks (- 10.52 %)
- Bakeries & Pastries (- 5.78 %)
- Optical Instruments (- 5.39 %)
- Clothing (- 3.76 %)
- Household Electrical Equipment (- 1.98 %)
- Building Equipment (- 1.06 %)

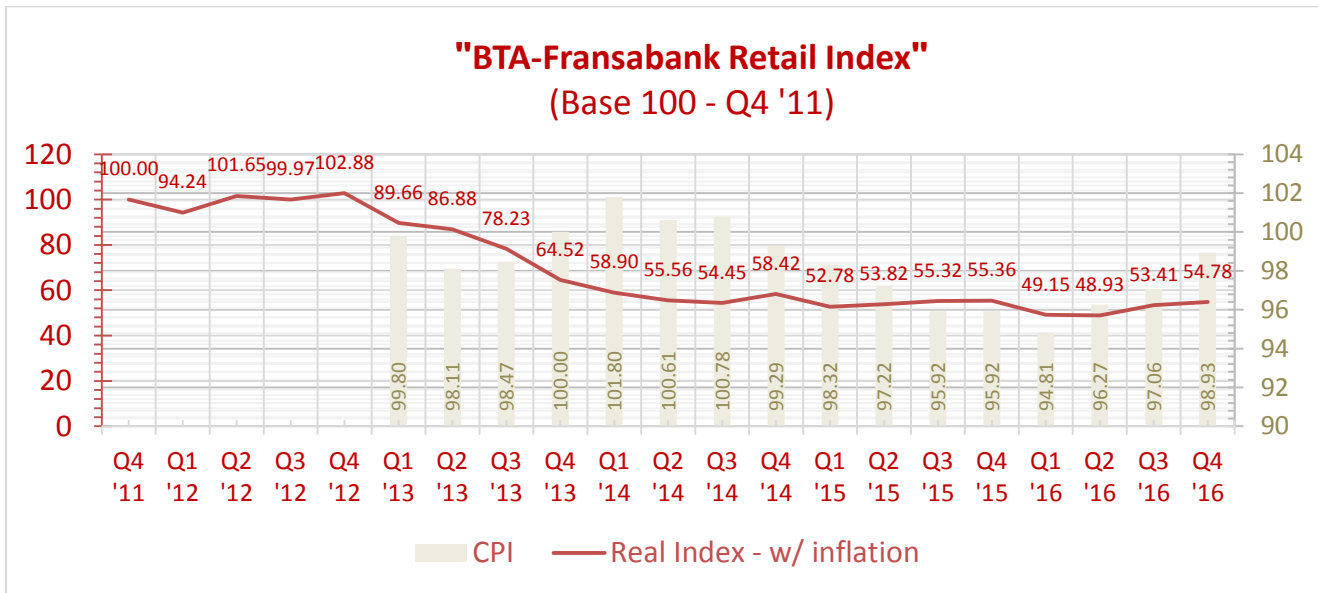
Sectors witnessing an improvement in their real sales (mainly because of seasonal factors) included:

- Liquors (+ 29.05 %)
- Toys (+ 28.23 %)
- Malls (+ 26.00 %)
- Watches and Jewelry (20.34 %)
- Building Equipment (+ 13.10 %)
- Home Accessories (+ 7.45 %)
- Supermarkets and Food Shops (+ 5.70 %)
- Sports Items & Equipment (+ 3.72 %)
- Cars Dealers (+ 3.40 %)
- Perfumes and Cosmetics (+ 1.34 %)

As a result, with our base index 100 fixed at the fourth quarter of 2011, and with a quarterly inflation rate of + 1.93 % for the fourth quarter of 2016, as per the official CAS report, we hereby announce that the “BTA-Fransabank Retail Index” is (with all sectors included): **54.78 for the fourth quarter of the year 2016.**

BTA - FRANSABANK Retail Index For Q4 - 2016 (Base 100 : Q4 - 2011)

	2011		2012				2013				2014				2015				2016			
	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	
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	<b>53.86</b>	
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	<b>54.78</b>	
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	<b>98.93</b>	



The persisting state of weakness that was witnessed in the retail trade market despite the positive political developments that have marked the last quarter of 2016 came as a major disappointment for market players and shed light on the fragility of the economy that has now become of structural nature. Obviously, there will be no salvation for this state of things without an improvement in the purchase power of households and without the long expected return of visitors from the Gulf states in particular and of tourists in general. These prerequisites should also be imperatively accompanied by strict measures to eradicate the on-going parallel economy that has spread throughout all regions and sectors in Lebanon and that is severely jeopardizing the legal and legitimate Lebanese trading community in particular, and the Lebanese economy in general terms, because of its weakening and endangering effects on growth and development essential bases.

#### 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 =

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

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 (ISIC<sup>1</sup> 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.



#### For more information

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<sup>1</sup> ISIC- International Standard Industrial Classification