



“BTA-Fransabank Retail Index” For the Fourth Quarter of 2018 (Q4-2018)

Beirut, Feb 19th, 2019

The relative regain of activity during December ‘18 only contributed to temper the decline from last year’s 4th quarter activity levels ...

Despite the fact that retail trade markets did experience a relative improvement in sales during the last month of 2018, a very poor level of activity characterized the two previous months. Sales figures in almost all sectors of retail trade did witness declines, even in the basic necessities sectors such as bakeries, alongside lower levels of activity in restaurants and snacks. Only food products and classic gift items (watches, perfumes, cellulators & toys), that are traditional gifts for this time of the year, did post a slight improvement from the third quarter levels.

Thus, the relative regain of activity that occurred during the month of December 2018 only contributed to temper the decline from last year’s fourth quarter activity level.

The overall prevailing sentiment for this period was influenced by the difficulties encountered to form a new government, and by the lack of understanding between the various parties at stake, as well as by the absence of any measures taken to salvage the economy by the outgoing government or the parliament, in addition of no signs of a return in the short term of refugees who are exerting a very heavy pressure on the Lebanese economy.

The country’s increase in its public debt, daily concerns about its monetary situation - albeit serious declarations made by the governor of the Central Bank, worsening ratings by international agencies, and alarming declarations (although later clarified) by officials about the future of the economic conditions...

Came on top of an increasing level of unemployment within the Lebanese population and the scarcity of job opportunities, and of a persisting emulation for jobs exerted by a very large pool of an immigrant workforce that re-channels only a petty percentage of its locally generated revenues into the local markets, leading to a fast drop in the Lebanese households purchase power, hence resulting in further pressures on the consumption activity and levels, and generating lower turnovers in the retail trade markets.

Concurrently, traders’ financial commitments remained the same, vis a vis public authorities such as the ministry of finance or the CNSS or municipalities etc..., or vis a vis banks and wholesalers to reimburse their credit facilities with overall rising interest rates, and also vis a vis their unchanged overheads.

At the same time, the CPI also posted a figure of +3.98% for the fourth quarter of 2018 as compared to the fourth quarter of 2017, as per the official CAS figures. It should be noted that sectorial inflation did reach high levels – for this period:

- +9.66% in the clothing and footwear sector,
- +6.18% in the food and non-alcoholic beverages sector,
- +5.40% in the education sector,
- +5.36% in the recreation, amusement, and culture sector,
- +5.03% in the furniture & decoration sector,
- +4.24% in the water, electricity, gas and other fuels sector,
- Etc...

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 '17 / Q4 '16	+ 5.01%
Q1 '18 / Q1 '17	+ 5.35%
Q2 '18 / Q2 '17	+ 7.61%
Q3 '18 / Q3 '17	+ 6.53%
Q4 '18 / Q4 '17	+ 3.98%
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%
Q4 '17 / Q3 '17	+ 2.78%
Q1 '18 / Q4 '17	- 1.06%
Q2 '18 / Q1 '18	+ 2.10%
Q3 '18 / Q2 '18	+ 0.45%
Q4 '18 / Q3 '18	+ 0.32%

As a result, the consolidated real retail turnover figures (i.e. after applying the inflation rate weight on the nominal results) have posted a decline of -4.45% between the fourth quarter of 2017 and the fourth quarter of 2018.

By excluding the fuel sector results (where an increase of +1.70% in volume was reported), the real turnover drop reaches -5.18% in comparison to the Q4 '17 figures excluding fuel.

	Q4 - 2017	Q4 - 2018	
Nominal Year to Year Variation (incl. Liquid Fuels)	100.00	99.51	
Nominal Year to Year Variation (excl. Liquid Fuels)	100.00	98.75	
CPI between Dec '17 and Dec '18 (as per the official CAS figures)		+ 3.98% *	
Real Year to Year Variation (incl. Liquid Fuels)	100.00	95.55	- 4.45%
Real Year to Year Variation (excl. Liquid Fuels)	100.00	94.82	-5.18%

* CAS – CPI – Dec '18

The current outlook is based on hopes that the new government will get into motion very shortly, and that the immediate reactions to this new cycle will have a positive effect on all the sectors of the retail trade markets, because of all what this bears in terms of activation of the CEDRE support programs that are expected to revigorate the wheels of the Lebanese economy, thus re-instate optimism amongst local and foreign parties, including the Lebanese consumers, but also foreign visitors – especially those from Gulf countries, who have a very influential weight in local markets activation, and leave alone the substantial deposits that the governments of these countries are expected to effect in the local financial system. Further, such programs will hopefully lure back investors to the various sectors of the economy. All this will evidently have a very positive impact on the local economy, albeit not in the short term.

Also, the new government, and particularly the concerned ministries, are strongly requested to start the implementation of the various recommendations included in the McKinsey integrated national vision for the Lebanese economy. Most of these recommendations are expected to re-install the national economy on the path of growth, also albeit not in the short term.

Yet, and until we start feeling the various impacts of these programs and measures, it will be necessary to undertake a critical salvation plan that would allow to overcome with success the current transitory period's shortfalls.

Until all of the above gets in place, the analysis of the performance of the various retail trade market sectors during the fourth quarter of this year clearly translates the downtrend in the overall turnover figures, and shows that priorities were set in the spending pattern of Lebanese households, with selective consumption channeling main spending to basic necessities, and were dictated by concerns over the local and regional developments, with all what this entails in terms of the personal and national financial situations, based on the classic economic theory of spending based on expected and not current revenue.

The main sectors where declines were registered during Q4 2018 as compared to Q4 2017, include:

- Shoes and Leather Products (-44.08%)
- Furniture (-42.43%)
- Construction Equipment and Engineering (-34.62%)
- Clothing (-13.28%)
- Cellular Phones (-13.12%)
- Commercial Shopping Centers (-13.00%)
- Household Electrical Equipment (-12.91%)
- Silverware and Decoration (-12.87%)
- Books & Stationery & Office Supplies (-10.07%)
- Watches and Jewelry (-9.70%)
- Optical and Hearing Aid Instruments (-9.03%)
- Toys (-7.92%)
- Supermarkets and Food Shops (-7.69%)
- Musical Instruments (-5.36%)
- Home Accessories (-4.41%)

- *Sports Items & Equipment* (-4.16%)
- *Perfumes and Cosmetics* (-2.03%)
- *Construction Material* (-1.13%)
- *Medical Equipment* (-0.60%)

The sectors that witnessed better results were, in addition to the increase in the volume of fuel (+1.70% in volume):

- *Pharmaceuticals* (+11.56%)
- *Used Cars Dealers* (+8.76%)
- *Restaurants and Snacks* (+5.47%)
- *Bakeries & Pastries* (+4.71%)
- *Tobacco* (+4.12%)
- *Liquor & Spirits* (+0.63%)

On the other hand, and despite the fact that the CPI between Q3 '18 and Q4 '18 did not exceed +0.32%, the fourth quarter figures display a modest improvement in comparison to the second quarter results.

It should be noted here that this improvement did not meet expectations, and was mainly noticed in sectors that witness higher levels of activity traditionally during this season, such as the sectors of supermarkets & food products, perfumes, watches and jewelry, and also cellular phones and toys. It should also be noted that the pharmaceuticals sector's results posted higher figures despite the decrease in the prices of drugs and medicine.

Other sectors did witness lower levels of activity, mainly the sector of construction equipment (for obvious reasons), but also sectors that were expected to improve such as bakeries, tobacco, shoes, clothing, household equipment, furniture, and surprisingly as well commercial centers.

As a result, the overall consolidated real result for the fourth quarter was relatively positive, and displayed a real improvement of +3.95% as compared to the previous quarter (excluding Liquid Fuels, where a +1.13% increase was reported in terms of volume).

Sectors where declining activity was reported between Q4 2018 and Q3 2018, included, in addition to the -0.19% decline in commercial malls:

- *Construction Equipment* (-33.31%)
- *Shoes and Leather Products* (-31.66%)
- *Furniture* (-21.25%)
- *Sports Items & Equipment* (-15.02%)
- *Tobacco* (-14.49%)
- *Bakeries & Pastries* (-12.96%)
- *Restaurants and Snacks* (-8.58%)
- *Home Accessories* (-7.89%)
- *Clothing* (-7.08%)
- *Optical Instruments* (-2.91%)
- *Musical Instruments* (-1.41%)
- *Books & Stationery & Office Supplies* (-0.87%)
- *Construction Materials* (-0.46%)
- *Medical equipment* (-0.41%)

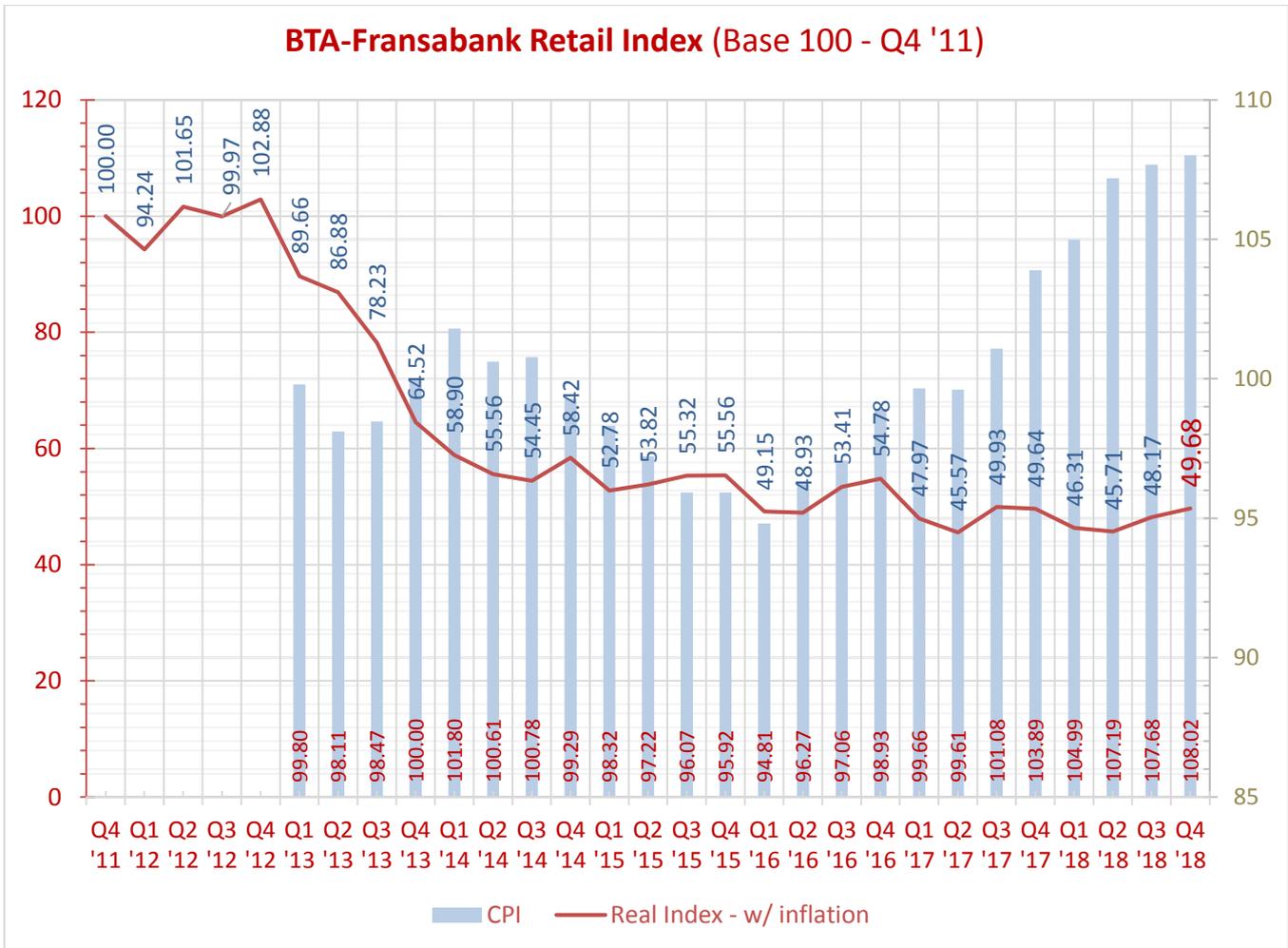
Positive results were posted, in addition to the fuels sector (+1.13%), in the following sectors:

- *Cellular Phones* (+28.28%)
- *Toys* (+20.52%)
- *Liquors* (+14.50%)
- *Pharmaceuticals* (+11.46%)
- *Used Cars Dealers* (+8.76%)
- *Supermarkets and Food Shops* (+5.84%)
- *Silverware and Decoration* (+5.53%)

- *Watches and Jewelry* (+4.22%)
- *Household Electrical Equipment* (+3.73%)
- *Perfumes and Cosmetics* (+2.74%)

As a result, with our base index 100 fixed at the fourth quarter of 2011, and with a quarterly inflation rate of +0.32% for the fourth quarter of 2018, as per the official CAS report, we hereby announce that the “BTA-Fransabank Retail Index” is (with all sectors included): **49.68 for the fourth quarter of the year 2018**. This figure compares to the level of 48.17 for the third quarter of 2018.

BTA - FRANSABANK Retail Index For Q4 - 2018														
(Base 100 : Q4 - 2011)														
	2011	2012				2013				2014				
	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	
Nominal Index - w/out inflation	100	95.77	100.6	108.5	112.7	90.83	87.85	78.6	65.87	59.68	55.3	55.22	57.57	
Real Index - w/ inflation	100	94.24	101.7	99.97	102.9	89.66	86.88	78.23	64.52	58.9	55.56	54.45	58.42	
CPI	-	-	-	-	-	99.80	98.11	98.47	100.00	101.80	100.61	100.78	99.29	
		2015				2016				2017				
		Q1 '15	Q2 '15	Q3 '15	Q4 '15	Q1 '16	Q2 '16	Q3 '16	Q4 '16	Q1 '17	Q2 '17	Q3 '17	Q4 '17	
Nominal Index - w/out inflation		51.51	51.94	52.77	52.91	46.27	46.79	51.49	53.86	47.51	46.76	52.00	53.17	
Real Index - w/ inflation		52.78	53.82	55.32	55.56	49.15	48.93	53.41	54.78	47.97	45.57	49.93	49.64	
CPI		98.32	97.22	96.07	95.92	94.81	96.27	97.06	98.93	99.66	99.61	101.08	103.89	
		2018												
		Q1 '18	Q2 '18	Q3 '18	Q4 '18									
Nominal Index - w/out inflation		49.09	49.49	52.38	54.25									
Real Index - w/ inflation		46.31	45.71	48.17	49.68									
CPI		104.99	107.19	107.68	108.02									



The “BTA-Fransabank Retail Index” for the fourth quarter of 2018 displays a slight improvement, mainly due to end-of-year seasonal factors. It should however be noted that this improvement only occurred because of the improvement in the levels of consumption during the month of December, an improvement that minimized the negative effects of the poor performance during the first two months of that quarter.

Expectations are today based on the efforts of the new government, and especially of concerned ministries, to revive the national economy according to what was clearly announced in the new government’s statement, in terms of financial and monetary stability, public investments & expenditure, modernization of the public sector, structural & sectorial reforms, and the submission of a new strategy for productive and services sectors, and the materialization of the objectives of sustainable development.

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 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