



## **“BTA-Fransabank Retail Index”**

### **For the first second of 2017 (Q2-2017)**

Beirut, August 8, 2017

**DESPITE POSITIVE DEVELOPMENTS... DECLINE IN MARKET ACTIVITY PERSISTS... AND THE BURDEN IS BECOMING HEAVIER ON TRADERS...**

At first look, observers may have optimistic expectations in light of the numerous positive developments that occurred during the second quarter of 2017,

- Positive political developments, with the adoption – finally, of a new electoral law endorsed by the various parties, and the encouraging regulatory initiatives undertaken by various ministries and law enforcement agencies,
- Prevailing safe situation in the country, in light of the efficiency and strong stance of the armed and security forces in the country,
- And even positive monetary signals, with the re-conduction of Mr. Riad Salameh as Governor of the Central Bank, with all what such re-conduction entails in terms of assurance of monetary and financial stability for the country,

In addition to the Holy month of Ramadan timing, as well as Easter and Eid al Fitr celebrations.

Yet, one could quickly realize that all such positive elements did not have the desired impact in terms of retail trade markets' activity, nor on the momentum of consumers in the various sectors of these markets. One of the main reasons behind such slow motion in the markets resides in the direct as well as indirect consequences of the Syrian refugee's presence in Lebanon, on its economy and on its infrastructure. Such consequences are translated mainly in the ever-growing level of unemployment within the Lebanese workforce – either because of the lack of work opportunities, or due to the termination of their services because of the prevailing recession and the incapacity of their employers to continue facing the burden of all wages and related employment expenditure, in addition to the heavy charges due to public entities and services: This is obviously resulting in an increasingly deteriorating purchase power of Lebanese households, and a sustained drop in these households expectation of improving their financial conditions in the coming future (continuous drop in consumers' confidence as evidenced by various official reports). Add to this the very low numbers of visitors to Lebanon – especially the Lebanese working or living abroad and their families, but also visitors from the Gulf countries because of the restrictions on travel to Lebanon.

The direct effect is of course an increasing weakness in the level of consumption and a turnover of goods much slower than what is needed in natural trading activities.



Over and above, worries prevailed concerning the new batch of taxes that were expected to be voted and all what this would entail in terms of negative effects on prices of goods and services, and hence on the economy as a whole if enforced. Concerns were also exacerbated by the increased protectionist measures undertaken.

All these developments concurred to create a negative prevailing atmosphere that deterred the readiness and willingness for any new, local or foreign, investments in the Lebanese economy – especially in the trading sector: such situation does not at all offer any elements nor possibilities for the Lebanese economy to achieve any growth, at this crucial moment when growth is the only way out of the prevailing sluggish markets.

In the midst of all such negative factors, the markets continued to witness a very weak level of demand during the second quarter of this year, with low and slow activity, that resulted in further deterioration in turnover results – especially when compared to the already low levels registered during the same quarter one year ago, and also in light of the sustained increase in the CPI that reached - for the period under review, + 3.48 % between Q2 of 2016 and Q2 of 2017 as per the official bulletin issued by CAS in June 2017 – which of course results in even more negative real figures.

The real fears today reside in the fact that, with a sustained increase of the CPI during such period of prevailing economic stagnation, and in the wake of the resulting effects of new taxes that will affect a wide spectrum of goods and services, the Lebanese consumer will gradually evolve into an economic agent who focuses mainly on price and does not insist on quality, after having been renowned internationally for being a consumer who looks first for quality before asking for the price, a transformation that will eventually deeply affect the nature and profile of the Lebanese trading markets.

As for final Q2 results, it is noted that the nominal consolidated decline for all retail trading sectors – between the second quarter of 2016 and the second quarter of 2017, has reached – 1.59 %, while the consolidated real figure (i.e. after the application of the CPI for this period) stood at - 5.01 % (despite the increase reported in the fuels sector with a + 8.36 % increase in volume for this same period).

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 %
<b>Q2 '17 / Q2 '16</b>	<b>+ 3.48 %</b>
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 '16 / Q4 '17	+ 0.74 %
<b>Q2 '17 / Q1 '17</b>	<b>- 0.04 %</b>

It is also important to mention that if the variations in the fuels sector are excluded, the real decline in the consolidated turnover of retail trade sectors stands at – 8.40 % in comparison to the levels reported for the second quarter last year (also excluding the fuels sector).

Yearly Variation between 2nd Quarter '16 and 2nd Quarter '17			
	Q2 - 2016	Q2 - 2017	
Nominal Year to Year Variation (incl. Liquid Fuels)	100.00	98.41	
Nominal Year to Year Variation (excl. Liquid Fuels)	100.00	94.90	
CPI between Jun '16 and Jun '17 (as per the official CAS figures)		3.48 % *	
Real Year to Year Variation (incl. Liquid Fuels)	100.00	94.99	<b>- 5.01 %</b>
Real Year to Year Variation (excl. Liquid Fuels)	100.00	91.60	<b>- 8.40 %</b>

\* CAS – CPI – Jun '17

The constant deterioration in the local consumption trends has reached a stage where corrective measures have become a must, especially for the re-vitalization of the main generators of markets' activity: political, security, monetary, financial, fiscal, regulatory, investment-related (private and public, local and foreign), employment-related (with all its effects on the purchase power), in addition to finding effective and efficient solutions to the crisis of Syrian migrants – in particular the so-called economic migrants and their impact on the local employment sector.

The government is undoubtedly exerting very serious efforts in all directions and at all levels, and it is not sparing any initiative in terms of studies and reports and programs submitted to international instances, in addition to enforcing field controls and interventions at the local level via multiple public administrations and services;

But the challenges are multiple and complicated, and results cannot materialize in the short term, hence the impact on the markets could not be felt soon unfortunately.



The scrutiny of sectorial results displays, as in previous quarters, disparities in performance related to the nature of the sectors under review, and to the nature of the goods and/or services of such sectors.

While most sectors appear to have experienced a slowdown in their turnover figures, few other sectors did perform well and registered better sales figures – especially those sectors where goods and services offered are in high demand on seasonal events and celebrations, as well as sectors related to food and prime necessities, as detailed below:

- *Cellular Phones (- 44.87 %)*
- *Construction Material (- 28.95 %)*
- *Shoes and Leather Products (- 27.65 %)*
- *Used Cars Dealers (- 8.71 % after a - 14.03 % in the previous quarter)*
- *Clothing (continued decline reaching - 8.25 % after a - 11.30 % in the previous quarter)*
- *Supermarkets and Food Shops (- 5.69 % after a slight - 5.25 % in the previous quarter)*
- *Household Electrical Equipment (- 4.85 % after a burst of + 15.32 % in the previous quarter)*
- *Pharmaceuticals (- 4.76 % after having posted + 12.30 % in the previous quarter)*
- *Optical and Hearing Aid Instruments (- 4.56 %)*
- *Silverware and Decoration (- 3.62 %)*
- *Restaurants and Snacks (- 3.35 %)*
- *Tobacco (- 2.76 % after a - 8.39 % in the previous quarter) and Liquor & Spirits (- 4.18 % after a - 1.39 % in the previous quarter)*
- *Musical Instruments (- 2.43 %)*
- *Toys (- 1.25 %)*

The sectors that witnessed better results were, in addition to the noticeable improvement in the activity of Commercial Shopping Centers (+ 11.00 %), such sectors where demand is stronger during special feasts and occasions:

- *Watches and Jewelry (+ 7.88 %)*
- *Sports Items & Equipment (+ 2.90 %)*
- *Books & Stationery & Office Supplies (+ 1.90 %)*
- *Bakeries & Pastries (+ 1.64 %)*
- *Medical Equipment (+ 1.32 %)*
- *Perfumes and Cosmetics (+ 0.48 %)*

At the same time, and instead of witnessing an even slight improvement in markets' activity between the first and the second quarter, because of seasonal factors as well as because of the fall of Ramadan and other feasts during this quarter, consolidated figures did decline – albeit moderately.

Whilst consolidated nominal figures displayed a – 1.72 % decline between the first and the second quarter of 2017, the real consolidated figure stands at – 1.68 % after applying the official CPI for this period – which stood at – 0.04 % according to the June CAS bulletin.



By looking at every sector of retail trade on its own, it is noticed that many sectors reported poor performances, but others had more positive results in their turnovers, as detailed below:

- *Books and Stationary* (- 24.90 %)
- *Pharmaceuticals* (- 21.75 %)
- *Shoes and Leather Products* (- 18.12 %)
- *Clothing* (- 13.49 %)
- *Cellular Phones* (- 12.52 %)
- *Commercial Shopping Centers* (- 4.00 %)
- *Watches and Jewelry* (- 2.80 %)
- *Household Electrical Equipment* (- 1.93 %)
- *Construction Material* (- 1.68 %)
- *Silverware and Decoration* (- 1.65 %)
- *Optical and Hearing Aid Instruments* (+ 22.50 %)
- *Toys* (+ 19.94 %)
- *Tobacco* (+ 16.40 %)
- *Liquors* (+ 15.15 %)
- *Bakeries & Pastries* (+ 10.93 %)
- *Furniture* (+ 10.42 %)
- *Used Cars Dealers* (+ 6.13 %)
- *Supermarkets and Food Shops* (+ 3.61 %)
- *Perfumes and Cosmetics* (+ 2.41 %)
- *Restaurants and Snacks* (+ 1.65 %)

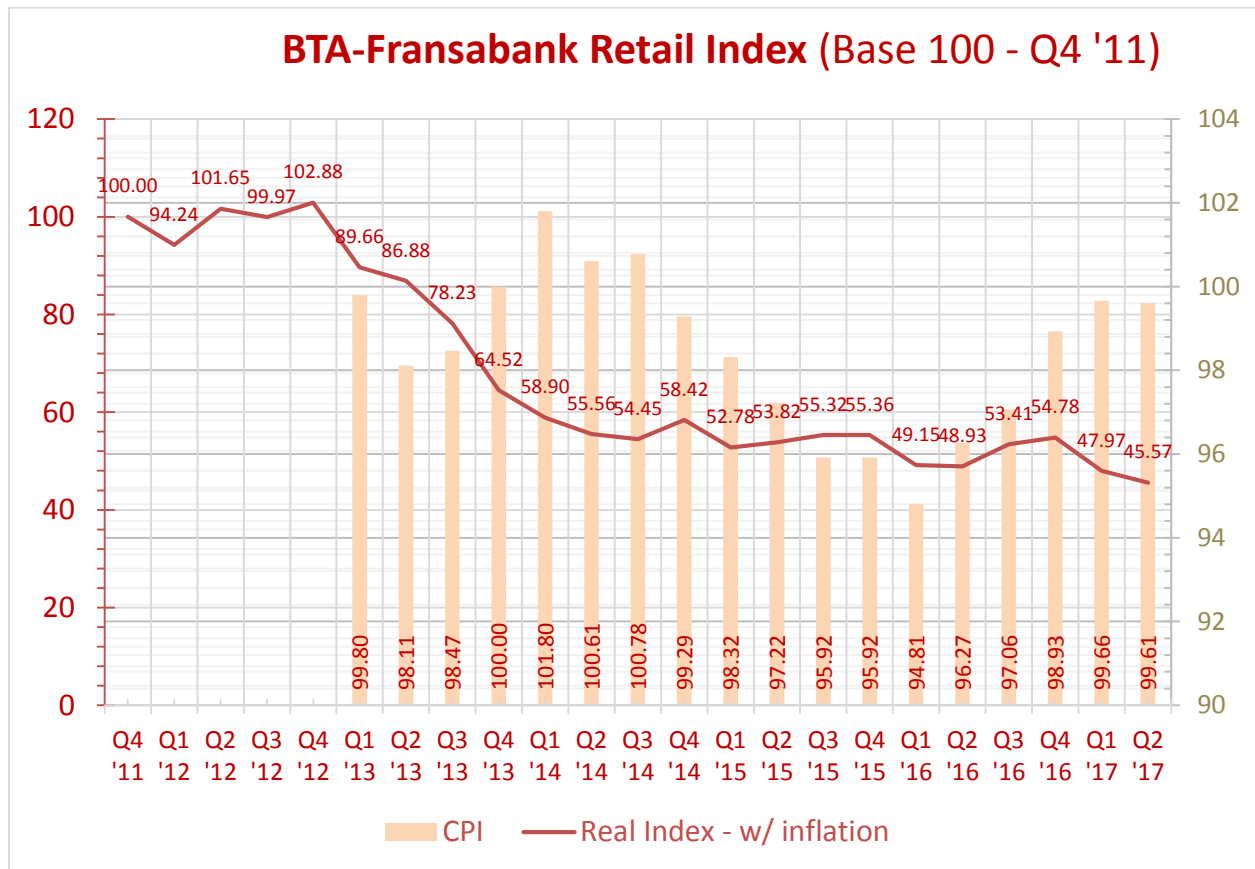
As a result, with our base index 100 fixed at the fourth quarter of 2011, and with a quarterly inflation rate of - 0.04 % for the second quarter of 2017, as per the official CAS report, we hereby announce that the “BTA-Fransabank Retail Index” is (with all sectors included):

**45.57 for the second quarter of the year 2017**

This figure compares to the level of 47.97 for the first quarter of 2017, and means that our index has dropped further below the 50 mark.

### BTA - FRANSABANK Retail Index For Q2 - 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	
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	
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	<b>45.57</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	98.93	99.66	99.61	





To conclude, it is important to say that such results are additional indicators of a crisis that is becoming more and more acute, quarter after quarter, and that consumption is giving clear signs of weakness, deterioration, and breathlessness.

For this reason, market players do sincerely hope that parliamentary, governmental, and other concerned official parties in the country pay very special attention to the extremely important impact of laws and regulations they are about to endorse – especially those amending the fiscal, financial and regulatory terms currently applied, because of the very harmful consequences that such new laws and regulations will have on the economy as a whole, and more so on market activity and on the propensity for fresh investments.

## 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

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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.

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

