

“BTA-FRANSABANK RETAIL INDEX” FOR THE THIRD QUARTER OF 2016 (Q3-2016)

EMERGING OPTIMISM IN THIRD QUARTER COMPLEMENTS SEASONAL FACTORS ... AND ALLEVIATES PRESSURE ON RETAIL MARKETS.

Positive signals concerning an emerging solution for the election of a president for Lebanon started circulating around the end of the third quarter, and appeared to have an immediate positive impact – though relative, on the activity status in most sectors of the retail market, as the declining momentum witnessed a slow down after a long lasting period of deterioration.

The wave of positivism that occurred towards the end of the third quarter could not totally reverse the trend on a year to year basis, and the consolidated third quarter real results (i.e. after applying the CPI) still posted a drop of – 2.38% as compared to the results of the third quarter of 2015 (excluding variations in the liquid fuels sector).

But the effect was more promptly reflected on the quarter to quarter basis, as decline stopped and a rebound of + 14.74% was reported in the consolidated real turnover figures (excluding variations in the Liquid Fuels sector), between the second and the third quarter of 2016. Obviously, this positive result was obtained by the combination and simultaneity of both the usual seasonal effects and the underpinning positive outlook factors.

It should be noted that the consumption of liquid fuels (in terms of volume – thus irrespective of price changes) did drop by – 7.09% in the third quarter of 2016 as compared to the third quarter of 2015, but it increased by + 18.74% from the levels of the second quarter of 2016.

As for the CPI, it appears that this weighted indicator, for the first time in two years, did increase by + 1.03% as compared to the level of prices in the third quarter of 2015, and by + 0.82 % as compared to its level in the second quarter of 2016 (with the CPI of food products posting + 1.08 % and for health products + 1.03 %).

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 '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 %

Yearly Variation between 3 rd Quarter '15 and 3 rd Quarter '16			
	Q3 - 2015	Q3 - 2016	
Nominal Year to Year Variation (incl. Liquid Fuels)	100.00	91.66	
Nominal Year to Year Variation (excl. Liquid Fuels)	100.00	98.48	
CPI between Sept '15 and Sept '16 (as per the official CAS figures)		+ 1.03 %	
Real Year to Year Variation (incl. Liquid Fuels)	100.00	90.83	- 9.17 %
Real Year to Year Variation (excl. Liquid Fuels)	100.00	97.62	- 2.38 %

The analysis of every sector's third quarter results separately reveals that – in comparison to the third quarter of 2015, most sectors did not have the necessary lag time to improve their performance and have better results - albeit the overall positiveness that prevailed towards the end of the quarter. But the downtrend appeared to be less severe. It is also important to note that few sectors did have better results though.

Main sectors that continued to post weaker results included:

- Cellular Phones (- 32.10 %)
- Shoes and Leather Products (- 22.43 %)
- Malls (-13.00 %)
- Home Accessories (- 13.00 %)
- Used Cars Dealers (- 12.36 %)
- Clothing (- 10.07 % after a - 5.30 % drop in the previous quarter)
- Toys (- 4.84 %)
- Watches and Jewelry (- 4.48 %)
- Furniture (- 4.26 %)
- Supermarkets and Food Shops (- 1.63 % after + 0.64 % increase in the previous quarter)
- Building Equipment (- 1.13 % after a + 13.37 % increase in the previous quarter)
- Perfumes and Cosmetics (- 0.96 %)

On the other hand, some sectors did improve, and included mainly:

- Pharmaceuticals (+ 40.58 % after a drop of - 15.84 % in the previous quarter)
- Bakeries & Pastries (+ 11.19 % after a drop of - 3.03 % in the previous quarter)
- Silverware and Decoration (+ 8.81 % after a drop of - 15.42 % in the previous quarter)
- Books & Stationery & Office Supplies (+ 6.75 %)
- Restaurants and Snacks (+ 6.59 %)
- Medical Equipment (+ 6.28 % after a drop of - 9.93 % in the previous quarter)
- Liquor & Spirits (+ 4.97 %) and Tobacco (+ 4.43 %)
- Household Electrical Equipment (+ 0.43 %)

But, if we look into the sectorial variations details between the second and the third quarters of 2016, an opposite picture is revealed, with most sectors reporting a radical improvement in their sales figures, to an extent that is better than what would be expected as a result of seasonal factors alone.

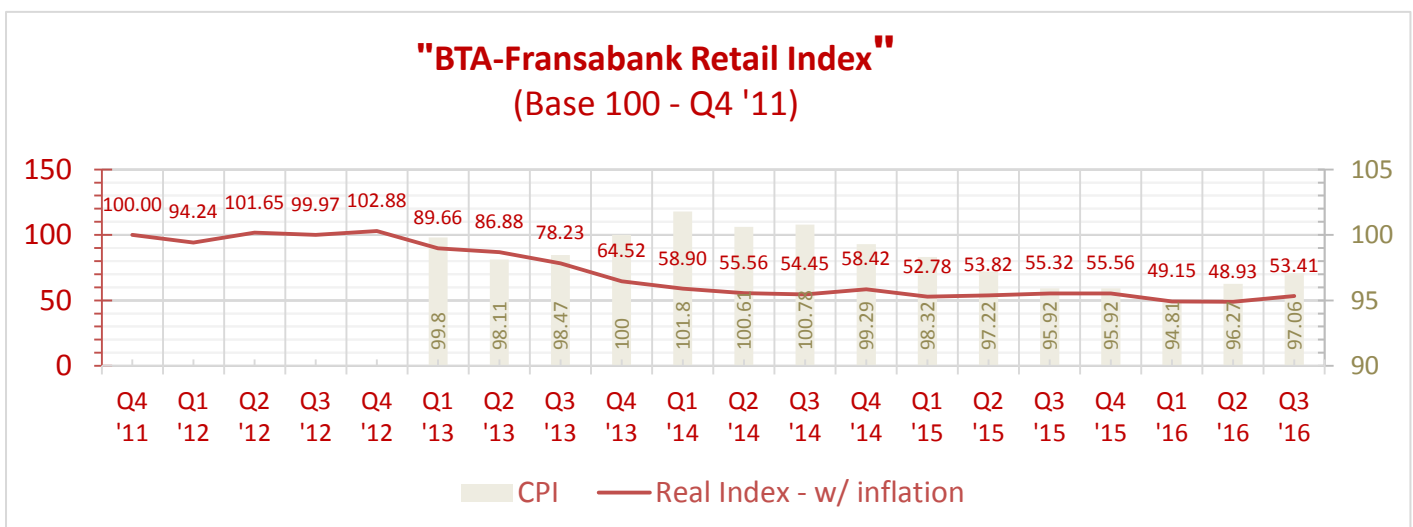
And while the consolidated increase of real turnover between the second and the third quarters of 2016 reached +14.74% (excluding the liquid fuels sector), it should be noted that some sectors posted much better rates of improvement, as detailed in the few examples below:

- Shoes and Leather Products (+ 35.46 %)
- Used Cars Dealers (+ 29.47 %)
- Bakeries & Pastries (+28.80 %)
- Malls (+ 28.00 %)
- Toys (+ 25.29 %)
- Perfumes and Cosmetics (+ 21.66 %)
- Restaurants and Snacks (+ 19.32 %)
- Clothing (+ 17.67 %)
- Silverware and Decoration (+ 17.66 %)
- Watches and Jewelry (14.90 %)
- Household Electrical Equipment (+ 14.24 %)

As a result, with our base index 100 fixed at the fourth quarter of 2011, and with a quarterly inflation rate of + 0.82 % for the third quarter of 2016, as per the official CAS report, we hereby announce that the “BTA-Fransabank Retail Index” is (with all sectors included): **53.41 for the third quarter of the year 2016**, against 48.93 in the second quarter and 49.15 in the first quarter of 2016; which shows that the index is finally increasing again.

BTA - Fransabank Retail Index For Q3 - 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
Nominal Index - w/out inflation	100	95.77	100.6	108.5	112.7	90.83	87.85	78.6	65.87	59.68	55.30	55.22	57.57	51.51	51.94	52.77	52.91	46.27	46.79	51.49
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	52.78	53.82	55.32	55.56	49.15	48.93	53.41
CPI						99.80	98.11	98.47	100.00	101.8	100.61	100.78	99.29	98.32	97.22	95.92	95.92	94.81	96.27	97.06



The deep conviction that the psychological factor is the primary and most important driving force of the activity in the Lebanese markets is clearly demonstrated in the above detailed third quarter results – although modest in the year to year figures. This is the first time, after many quarters, where positive variations are witnessed, even though the

positive results were not generalized in all sectors. Yet, such performance may well be an indication of a long awaited revival of activity in the markets, with the hope that such revival shall soon reach all sectors.

There is also deep faith that the expected stability and secure environment in the foreseeable future will guarantee the reawakening of the Lebanese economy from its dramatic gloomy situation, and its re-birth like the phoenix that is our national ideal.

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.

$$\text{Percent change of turnover of current quarter compared to same quarter last year (Q1 - 2011) =} \\ \frac{\text{turnover of the current quarter} - \text{turnover of same quarter last year}}{\text{turnover of same quarter last year}}$$

$$\text{Percent change of turnover of current quarter compared to previous quarter of the same year =} \\ \frac{\text{turnover of the current quarter} - \text{turnover of previous quarter}}{\text{turnover of previous quarter}}$$

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