



## **“BTA-Fransabank Retail Index” For the third quarter of 2018 (Q3-2018)**

Beirut, December 03, 2018

### **Q3 slightly better than Q2 ... but the steady (sharp) deterioration continues as compared to 2017**

Would it be possible for the markets to regain their vitality?

Would the inception of a new government be the starting point for a salvation program of the Lebanese economy?

Would the decision of small and large trading entities to continue facing the crisis and bear its burdens prove to be right?

Would the Lebanese economy experience a rebirth, and watch a renewed growth situation?

There is no doubt that the multiple declarations of the Governor of the Central Bank and his affirmative confidence are playing a crucial role in confirming the steadiness and stability of the monetary situation in the country. It is also clear for everyone that the international community has adopted a clear supportive attitude towards Lebanon for obvious geo-political considerations.

Meanwhile, and until the vision becomes clearer as to where the economy is heading, retail trading markets remained very gloomy and had to continue bearing a very weak pace of activity during the third quarter of this year, especially in the wake of declining numbers of visitors to the country – foreign tourists (mainly from gulf countries) and Lebanese diaspora, whose weight on the consumption inertia is traditionally very positive particularly during the summer and festive seasons. All these factors obviously concurred to set turnovers for this period at much lower levels than the same period of last year.

Such a situation is the natural result of a combination of numerous factors that continue to undermine the local economy. In addition to the above-mentioned lower numbers of visitors, one should not ignore the constantly declining purchasing power of Lebanese households; this being a result of the crisis that continues to hit most economic sectors, and the inability to address the competition that the migrant labor force is creating in the local marketplace across all its productive sectors. This is occurring in the midst of uncertain times where months are flowing without the ability to form a government after the parliamentary elections that took place during the second quarter – with all what this ensues in terms of refrain and fears from economic and social agents and players who are very much aware of the incapacity of the current cabinet to launch any economic salvation programs or adopt any corrective measures that would encourage local or foreign investors to undertake any new productive project in the country before the announcement of a new government.

In light of the above, all hopes are currently tied to the profile of the new executive “team”, and more so to the profile of its new members / ministers, and to urging those lay down the critically needed economic salvation program and undertake immediate measures that would facilitate the start of the inception of the CEDRE support measures decided last April by the international community. Such support is crucial for the revitalization of the economy through its various and varied investment schemes, and for the revival of the various and varied economic sectors, alongside the implementation of the recommendations outlined in the McKinsey study that was concluded few months ago.

It should be, however, noted that results and positive impact are – to date, yet not guaranteed, and could definitely not occur in the short foreseeable term.

For the short term, concerned and specialized parties in the new government should focus on laying down a salvation program with immediate effects on the ground that would contribute into boosting the levels of liquidity in the markets and re-activating the economic / consumption “wheel” in an effort to generate again a long-awaited growth pattern.



In the meantime, the consolidated turnover figures continued to post a sharp decline for the third quarter of this year in comparison to the same quarter of 2017, while these results were also deceiving as the better levels in comparison to the second quarter of 2018 were not encouraging at all despite the seasonal factors and the occurrence of Eid al Adha during that period, both supposed to be extremely boosting activators of consumption on which traders build usually high expectations with regards to their annual volumes of sales.

On the other hand, the CPI also maintained its upward trend, and registered + 6.53 % for the third quarter of 2018 as compared to the third quarter of 2017, as per the official CAS figures. It should be noted that sectorial inflation did reach – for this period, + 21.44 % in the Clothing and footwear sector, + 13.88 % in the Housing water, electricity, gas and other fuels sector, + 8.81 % in the Transportation sector, + 5.94 % in the Recreation, amusement, and culture sector, + 5.30 % in the Food and non-alcoholic beverages sector, + 4.13 % in the Education sector, etc...

It should be stressed that a large part of this inflation is the result of the increases or the new taxes and impositions voted lately by the parliament despite the strong stance taken by the Lebanese Economic Organizations against such decision, and against its wrong timing with the ongoing crisis situation in Lebanon. The result, as could be seen, is a rise in prices across all economic sectors, despite the excessive sacrifices that traders have agreed to offer in terms of prices and facilities of payment.

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 %
<b>Q3 '18 / Q3 '17</b>	<b>+ 6.53 %</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 '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 %
<b>Q3 '18 / Q2 '18</b>	<b>+ 0.45 %</b>

As a result, the consolidated real retail turnover figures have posted a sharp decline between the third quarter of 2017 and the third quarter of 2018, reaching – 9.23 % (i.e. after applying the inflation rate weight on the nominal results).

By excluding the fuel sector results (where an increase of + 1.45 % in volume was reported as compared to Q3' 2017), the real turnover drop reaches – 10.63 % in comparison to the Q3 '17 figures excluding fuel.

Yearly Variation between 3rd Quarter '17 and 3rd Quarter '18			
	Q3 - 2017	Q3 - 2018	
Nominal Year to Year Variation (incl. Liquid Fuels)	100.00	97.99	
Nominal Year to Year Variation (excl. Liquid Fuels)	100.00	96.79	
CPI between Sep '17 and Sep '18 (as per the official CAS figures)		+ 6.53 % *	
Real Year to Year Variation (incl. Liquid Fuels)	100.00	90.77	<b>- 9.23%</b>
Real Year to Year Variation (excl. Liquid Fuels)	100.00	89.37	<b>- 10.63%</b>

\* CAS – CPI – Sep '18

The economic community in Lebanon is anxiously waiting for the formation of a new government for the donor countries that have participated in the CEDRE conference to start extending their support to the Lebanese economy thus helping it raise up again in its various sectors, and for the various ministries to start the application of the main McKinsey study recommendations, thus revitalizing the various affecting factors and putting the markets on a dynamic path of renewed growth.

Until that moment, the analysis of the performance of the various retail trade market sectors during the third quarter of this year clearly translates the priorities in the spending pattern of Lebanese households, with a selective consumption pattern channeling main spending to basic necessities, while foreign spending remained marginal, and a wait and see attitude that continues to prevail.

The main sectors where declines were registered include:

- Shoes and Leather Products (- 51.02 %)
- Optical and Hearing Aid Instruments (- 30.19 %)
- Musical Instruments (- 28.51 %)
- Clothing (- 21.89 %)
- Silverware and Decoration (- 20.46 %)
- Pharmaceuticals (- 19.69 %)
- Cellular Phones (- 19.62 %)
- Commercial Shopping Centers (- 19.00 %)
- Household Electrical Equipment (- 10.99 %)
- Watches and Jewelry (- 10.92 %)
- Supermarkets and Food Shops (- 9.47 %)



- Toys (- 9.18 %)
- Construction Equipment (- 6.34 %)
- Furniture (- 5.12 %)
- Home Accessories (- 2.60 %)
- Perfumes and Cosmetics (- 1.75 %)
- Sports Items & Equipment (- 1.28 %)
- Construction Material (- 1.13 %)
- Liquor & Spirits (- 0.80 %)

The sectors that witnessed better results were, in addition to the increase in the volume of fuel (+ 1.45 % in volume):

- Bakeries & Pastries (+ 10.48 %)
- Medical Equipment (+ 9.67 %)
- Tobacco (+ 5.14 %)
- Used Cars Dealers (+ 3.52 %)
- Books & Stationery & Office Supplies (+ 2.51 %)
- Restaurants and Snacks (+ 0.78 %)

On the other hand, and despite the fact that the CPI between Q2 '18 and Q3 '18 did not exceed + 0.45 %, the third quarter figures display a modest improvement in comparison to the second quarter results.

It should be noted here that this marginal improvement occurred despite the seasonal factors and the Eid Al Adha fell during this third quarter, with their usually traditional surge in consumption.

What is witnessed instead is that sectors such as the sector of *supermarkets and food shops, cellular phones*, or even *Books & Stationery & Office Supplies* have posted declines and not increases in their quarterly turnover figures.

Other sectors have improved because of the traditional driving seasonal and festive factors, such as *Bakeries & Pastries, Liquor & Spirits, Tobacco, Restaurants and Snacks, and also Perfumes and Cosmetics, Clothing and Sports Items & Equipment*, and to a lesser extent *Home Accessories and Household Electrical Equipment*.

As a result, the overall consolidated result for the third quarter was positive, and displayed a real improvement of +5.37% as compared to the previous quarter (excluding Liquid Fuels, where a + 7.66 % increase was reported in terms of volume).

Sectors where declining activity was reported included:

- Musical Instruments (- 20.54 %)
- Cellular Phones (- 15.61 %)
- Books & Stationery & Office Supplies (- 14.77 %)
- Supermarkets and Food Shops (- 13.94 %)
- Pharmaceuticals (- 10.43 %)
- Optical Instruments (- 4.01 %)
- Construction Materials posted (- 1.03 %)
- Construction Equipment (- 0.98 %)

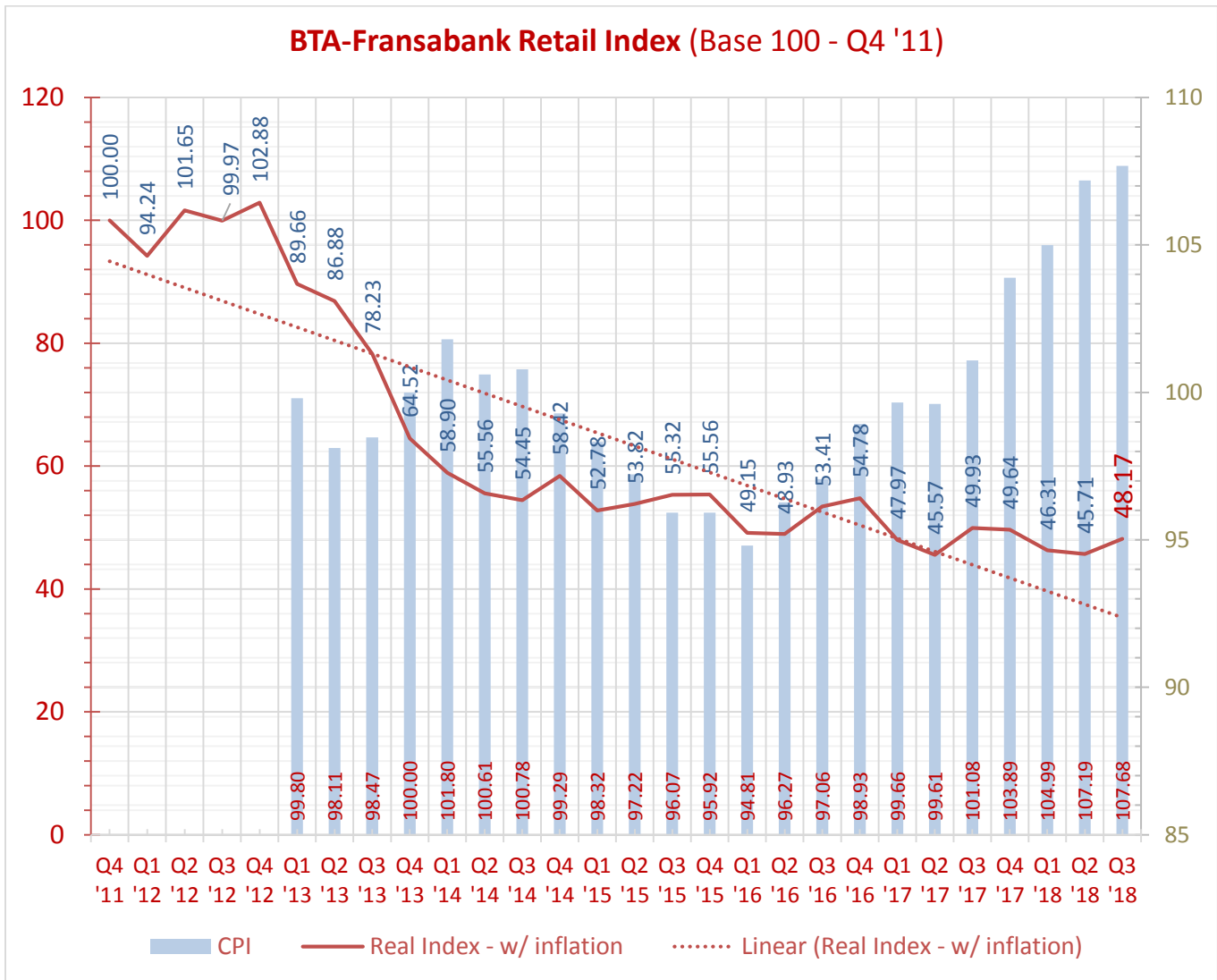
Positive results were posted, in addition to the fuels sector and to the expected shopping malls activity (+11.22%), in the following sectors:

- Liquors (+ 25.17 %)
- Tobacco (+ 24.86 %)
- Bakeries & Pastries (+ 18.91 %)
- Watches and Jewelry (+ 18.19 %)
- Sports Items & Equipment (+ 15.49 %)
- Restaurants and Snacks (+ 15.44 %)
- Used Cars Dealers (+ 15.23 %)
- Perfumes and Cosmetics (+ 14.58 %)
- Furniture (+ 13.13 %)
- Clothing (+ 11.22 %)
- Home Accessories (+ 10.22 %)
- Toys (+ 4.72 %)
- Household Electrical Equipment (+ 3.62 %)
- Silverware and Decoration (+ 3.30 %)
- Shoes and Leather Products (+ 2.74 %)

As a result, with our base index 100 fixed at the fourth quarter of 2011, and with a quarterly inflation rate of +0.45% for the third quarter of 2018, as per the official CAS report, we hereby announce that the “BTA-Fransabank Retail Index” is (with all sectors included): **48.17 for the third quarter of the year 2018**. This figure compares to the level of 45.71 for the second quarter of 2018.

### BTA - FRANSABANK Retail Index For Q3 - 2018 (Base 100 : Q4 - 2011)

	2011	2012				2013				2014				2015			
	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
<b>Nominal Index - w/out inflation</b>	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	52.769	52.91
<b>Real Index - w/ inflation</b>	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	55.56
<b>CPI</b>						99.80	98.11	98.47	100.00	101.80	100.61	100.78	99.29	98.32	97.22	96.07	95.92
	2016				2017				2018								
	Q1 '16	Q2 '16	Q3 '16	Q4 '16	Q1 '17	Q2 '17	Q3 '17	Q4 '17	Q1 '18	Q2 '18	Q3 '18						
<b>Nominal Index - w/out inflation</b>	46.27	46.79	51.49	53.86	47.51	46.756	52.00	53.174	49.091	49.49	52.38						
<b>Real Index - w/ inflation</b>	49.15	48.93	53.41	54.78	47.97	45.567	49.93	49.64	46.315	45.71	48.17						
<b>CPI</b>	94.81	96.27	97.06	98.93	99.66	99.61	101.08	103.89	104.99	107.19	107.68						



The “BTA-Fransabank Retail Index” for the third quarter of 2018 translates, as in previous quarters, the harsh conditions that the trading community has been facing for years now, and reflects the persisting downtrend of the local economy. Official instances are fully aware of the gravity of the prevailing situation and are putting this matter on top of the priorities that the new government will have to address. For this, hopes are for a quick formation of a new cabinet, for the new corrective and salvatory measures to start being implemented.

#### 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 =

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

## 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.



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