RETAIL OBSERVATORY

الجمعية اللبنانية لتراخيص الإمتياز LEBANESE FRANCHISE ASSOCIATION

LFA – CCIABML RETAIL ACTIVITY INDICATORS

LEBANON | FIRST HALF OF 2015

LEBANESE FRANCHISE ASSOCIATION
الجمعية اللبنانية لتراخيص الإمتياز

A semi - annual report prepared by Quant Analysts s.a.r.l

Implementing Partner

غرفة التجارة والصناعة والزراعة
Chamber of Commerce Industry and Agriculture
of Beirut and Mount-Lebanon في بيروت وجبل لبنان

RETAIL ACTIVITY INDICATORS

FIRST HALF OF 2015

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Succeeding iterations of the report will surely benefit more fully from Dr. Fahed's knowledge of the retail industry and expertise in corporate finance.

Special thanks to Ms. Nour Nasr for putting her expertise in quantitative methods at the disposal of the project.

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RETAIL ACTIVITY INDICATORS
FIRST HALF OF 2015

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EXECUTIVE SUMMARY

The retail sales indicators over the past 30 months

1. Over the 30-month period from January 2013 till June 2015, the sales indicators for most categories of retail goods and services fluctuated within confines that remained markedly below the 2012 base year level, suggesting that retail markets were in the throes of a major 10-quarter long recession.

2. For the six categories of goods included in the indicators, namely clothing; food and beverages; cosmetics; household goods; luxury items; and sports and hobbies items, the level of sales by June 2015 was 22.6 percent lower than the base level, clearly reflecting the retail activity's inability to sustain even a minimal positive rate of growth, seasonal surges notwithstanding.

3. Two categories of consumer goods saw the indicator of the value of their sales dip alarmingly below the base level; these are: the sports and hobbies items (minus 44 percent) and luxury items (minus 33.9 percent). The indicator for the value of sales of household goods was 26.3 percent below base level, that of the clothing category of retail was 22.4 percent lower and that of the food and beverages category was 17.5 percent lower.

The 30-month trend for retail sales indicators

4. Over the 30-month time series examined, the trend was negatively sloped for the sales indicators of the clothing and the household goods categories, and nearly flat for the sales indicators of luxury items and sports and hobbies items. The trend for the food and beverages and the cosmetics sales indicators was positive. For all six categories of consumer goods the trend was almost flat.

5. In consumer services, the trend for the hospitality services and the educational services categories was negative over the 30-month period, positive for the medical services category, and strongly positive for tourism services.

6. All alternative indicator comparisons, along with the 30-month trend and other variations measurements point to the single fact that over two and a half years retail sales have failed to build up and maintain an uptrend.

The retail sales indicators for the first half of 2015

7. The retail sales of the six categories of consumer goods for which indicators were computed increased by 2.2 percent in the first half of 2015 compared with the same period of 2014. However, over the 30-month period covered by the report, the sales indicators for consumer goods remained on average 22.6 percent lower than the 2012 base year level.

8. Household goods and clothing were the two categories of consumer goods that registered a negative change by that comparison, as their sales indicators retreated by 14.6 percent and 8.7 percent respectively.

9. The sales indicators for the food and beverages category (which includes supermarkets; confectionery; bakeries; various food stores; and alcoholic beverages) increased the most by 18.8 percent, followed by the sales indicators of sports and hobbies items (plus 14.1 percent). The indicators for the value of sales of cosmetics and luxury items were up by nearly five percent and nearly four percent respectively.

10. The indicator for retail sales of services posted a gain of 11.4 percent in the first half of 2015 compared with its level in the same period of 2014. Two components of that indicator account for the increase; these are: the tourism category of retail, which saw its sales indicator increase by 28.8 percent, and the hospitality services category (which includes catering; hotels; resorts; and restaurants), the sales indicator of which rose by 20 percent. On average, and over the 30-month period under review, the sales indicators for consumer services were 12.3 percent higher than the 2012 base year.

The retail sales indicators for 2014

11. The retail sales indicator of the six categories of goods rose by 1.75 percent in 2014 compared with that of 2013.

12. The retail sales indicators for the clothing and the household goods categories were down 5.82 percent and 2.74 percent respectively. The sales indicator for food and beverages was up 5.78 percent, the indicator for cosmetics was up 4.58 percent, that for luxury items increased by 5.36 percent, and for sports and hobbies items the indicator rose by 5.31 percent.

13. The indicator for the value of retail sales of services increased by 0.85 percent in 2014.

14. The indicators for the hospitality services and the educational services categories were down 9.21 percent and 8.35 percent respectively, whereas those for tourism services and medical services were up 13 percent and 7.75 percent respectively.

About the report[1]

15. The core effort put forth in the exercise involved applying statistical methods in order to build activity indicators from dissimilarly tallied sets of sales data obtained from shopping malls and payment card operators. A survey of retail enterprises is intended to secure micro-level data.

16. The retail activity indicators cover a 30-month period from January 2013 till June 2015. The analysis of indicators is done on a year to year basis for the 2013-2014 period and on a quarterly basis for the first half of 2015 and henceforth.

17. The present report may be viewed as a flagship report in that it defines the conceptual and methodological framework for subsequent periodic reports that will update the indicators and the analysis.

[1] The report was prepared by QuantAnalysts s.a.r.l. and was submitted to the Lebanese Franchise Association (LFA) in partial fulfillment of contractual obligations that call for the publication of periodic retail activity indicators.

The report's rationale

18. The exercise of building retail activity indicators seeks to fill a gap in the national statistics platform, to provide retail enterprises and prospective investors with a quantitative gist of the retail industry, and to put at the disposal of representatives of the retail industry the quantitative basis to carry out their advocacy mission.

A cautionary note

19. One of the drawbacks of period-to-period comparisons that are commonly used to evaluate change in sales performance is that sales indicators will show an illusory improvement if performance in a recent period is compared to that of a past period when performance was particularly dismal. This is basic arithmetic. To dispel this prevalent illusion, the report followed two statistical procedures, namely the seasonal adjustment of the data (for 2013 and 2014), and the 30-month trend analysis. And that analysis has shown that retail sales in almost all categories have followed either a downtrend or a nearly flat trend.

FOREWORD

The Retail Activity Indicators project is championed by the Lebanese Franchise Association (LFA) and the Chamber of Commerce, Industry and Agriculture of Beirut and Mount Lebanon (CCIABML), as an expression of their commitment to the modernization of the Lebanese economy.

Both the LFA and CCIABML will continue to upgrade the tools used to analyze the national economy, particularly its most important component, the retail sector.

The LFA – CCIABML Retail Activity Indicators series of semi-annual reports are such a useful tool, as they will help retailers in Lebanon to better understand the factors affecting their sector, and help them benchmark against best practices.

The project is primarily an exercise in inductive statistics. As such, its central aim is to provide solid quantitative indications that guide inferences about the retail industry in Lebanon.

The merit of these quantitative pointers hinges on two discrete factors. One relates to the accuracy of the basic data provided by the key partners in the project, and the other to the statistical methods, procedures and techniques applied in processing the basic data.

The assumption that the basic data is more than reasonably accurate rests on the fact that these numbers are used at source for business decision-making.

As for data processing, the first concern was to work out an optimal balance – a golden mean of sorts – between the rudimentary and the arcane. The numbers were allowed to tell their story with no 'prompting', but with an essential dose of techniques.

Like inductive logic, inductive statistics has its downside. Exact as the quantitative indicators may be, not all the inferences built on them are necessarily as exact. Nonetheless the challenge of inferring and predicting remains just as exciting.

The outcome of this project is mainly intended for retail industry experts and executives, whose interpretation of results should prevail.

Albert Nasr
QuantAnalysts s.a.r.l.

INTRODUCTION

"What can't be measured can't be managed", is an expressive adage and the many variations to it are equally interesting. It certainly applies to business enterprises that need to measure the change in a multitude of metrics relating to performance, to market position, and to the value they are generating over time. These measurements of change form the basis for managerial decision-making and also for the assessment of management's competence.

Individual retail enterprises can indeed build scores of indicators; some of these require bookkeeping-level arithmetic, some are the domain of financial accounting, but the most interesting of these indicators require statistical acumen.

The task of measuring, however, is a radically different ball game when applied to a whole sector of activity. In that instance the challenge becomes one of measuring, understanding and predicting a facet of economic activity that cannot be readily measured, especially in a context where the national statistics platform still has wide gaps to fill.

In such a context, entrepreneurs have precious little economic and business clues to base their expectations and decisions on. This partly explains the fact that business expectations are shaped more by prevalent subjective 'consensuses' than by statistical analysis based on market data.

The key to succeeding in the task of measuring the performance of the retail industry resides not in transposing enterprise-level metrics to the sector's level – a statistically impossible maneuver in any case – but in amassing relevant data. It is only when a critical mass of data in time series form builds up and maintains a fast expansion rate that retail activity will start to reveal – with a growing degree of accuracy – its seasonal patterns, its correlations with other economic variables, its determinants, the direction of its main vectors of causality, and its trends.

The Retail Observatory at the Lebanese Franchise Association (LFA) constitutes the first methodical endeavor to start the dynamics of amassing processable retail industry data.

The Observatory's opening gambit was the launching of the retail indicators project, a bid to secure the building and publication of periodic, timely, and reliable indicators of the retail industry. The value of these lagging indicators rests in their contribution to analyzing the performance of a sector that constitutes 70 percent of overall economic activity.

The present report is the first of a sequence of biannual reports that will publish periodic retail activity indicators.

The report is organized into five core parts. The first describes the project, its rationale, and its components, the second sets the conceptual framework that permeates the analysis throughout the present report and its future editions, the third part describes the indicators derived from the basic data obtained from the project's partners, the fourth part analyses alternative data processing perspectives in a bid to ascertain the state of play in the retail industry, and the fifth part presents the results of a pilot enterprise survey. The appendix clarifies the implications of a few notions in data processing and reproduces tables and charts related to the core text of the report.

I. THE PROJECT

This part of the report describes the three main components of the retail activity indicators project, the project's sectoral coverage, and the nine-point data processing protocol adhered to in the building of retail sales indicators.

The need for retail activity indicators

The building of retail activity indicators is first and foremost – and by definition – a statistical endeavor that aspires to fill a gap in the national data platform. That platform is indeed deficient in as far as the micro- and the macro-level data on consumption are concerned.

Data sources

In countries where national economic statistics are complete, accurate, and timely, retail activity indicators are derived from officially compiled and published retail sales data.

Where no such effort at compiling retail data is put forth, the generally accepted statistical approaches to building nationwide retail sales indicators are based on periodic surveys targeting samples of retail business enterprises and on relevant macroeconomic metrics.
The latter could include the consumption expenditure component of a measure of national income and data on consumption tax revenues.

The Retail Observatory's process for the building of retail indicators adopts the survey approach as one of three distinct streams through which the data needed for that process are acquired.

In addition to the retail business survey, data on evolution of retail sales are secured from the country's largest shopping malls and from payment systems operators that handle the largest portion of the country's card-based transactions.

This three-track approach affords to the overall retail sales composite indices the highest degree of robustness possible in a context where reliable data on consumption is non-existent.

A. The retail enterprise survey

The survey's – and the project's – broad sectoral coverage includes:

> Hospitality; entertainment; catering; confectionery
> Clothing; apparel; fabrics; footwear; accessories
> Cosmetics; health care products; personal care products; medicines
> Watches; jewelry
> Consumer electronics; audio-visual equipment
> Household durables; furniture; appliances
> Toys; sporting equipment and outfits
> Books; magazines; newspapers; recorded media
Services

The survey's questionnaire, which was distributed to retail business enterprises during the month of July 2015, was made up of two distinct core parts and included 13 questions pertaining to a total of 97 variables.

One core part of the questionnaire comprised four questions relating to the change in enterprise performance metrics and to variables that were deemed to have affected retail sales and expansion over the elapsed first half of 2015. The second core part included six questions and is essentially an entrepreneur opinion survey that was intended to detect entrepreneurial views and expectations regarding retail sales, expansion and overall performance over the second half of 2015, in addition to factors affecting the competitiveness of retail businesses.

Additionally, one question identified the respondent's retail sector, whereas two questions about the number of points of sales and the number of employees were meant to obtain values that serve as size indicators, which in turn were used to assign ordinal weights to responses.

B. Data sets from shopping malls

Three of Lebanon's largest shopping malls partnered with the LFA's Retail Observatory for the implementation of the retail indicators project. The three malls made available to the project data on the monthly evolution of retail sales as from January 2013.

Partner malls also supplied data on footfall.

C. Data sets from payment systems operator

Data obtained from card-payment systems also relate to the evolution – rather than the base value – of retail sales. Most data on the evolution of retail sales of services that contributed to the building of retail indicators originate from this source.

D. Data processing protocol

In dealing with the massive amount of data from four different sources relating to scores of retail sectors, a nine-point data processing protocol was adhered to:

1. The year 2012 was taken as the base year and thence data sets on retail sales evolution were realigned accordingly and converted into time series. This base year will a priori be retained for a period of four years. However, the base year will be shifted forward before the end of the four-year period in the improbable event that the absolute numbers for indicators become too large to convey a prompt estimate of the rate of change from one period to another.

2. A number of categories were discarded for one or more of the following five reasons:
   (a) they fall outside the scope of the present project (such as transactions carried out by charitable organizations; those pertaining to government services; and those that are business-to-business transactions and hence do not qualify as retail.)
   (b) data are incomplete either due to the total seasonality of the transactions or for any other reporting reasons,
   (c) the numbers relating to these categories are outliers, involving excessively large rates of change that do not afford any meaningful information on the evolution of sales and that would, in addition, misleadingly skew overall results.

3. Data for transactions carried out with

credit/debit cards were adjusted for payment card market penetration.

4. Weight coefficients were applied to allow size disparities between data suppliers to have their influence on indicators.

5. Seasonality indexes were worked out and seasonally adjusted transactions data for the period 2013 and 2014 were tallied for analysis. The second edition of the report, which will cover all of 2015, will include data on seasonally adjusted retail sales for the 2013-2015 period.

6. Trend equations were worked out and tallied for analysis.

7. Models were tried out to detect correlations amongst indicator time series or between such series and other economic variables.

8. Data for 2015 were integrated with those for 2013 and 2014 to form a single set of time series for each retail category. Three classes of metrics namely, seasonality indexes, average monthly growth rates, trend equations, and correlation results are altered with each integration of an additional quarter of 2015. The disadvantage of this procedure is that it may have complicated the presentation and interpretation of the statistics obtained, but on the advantage side the four metric classes have gained in statistical robustness and reliability.

9. A process of analytical cross verification was carried out on all data from all sources and streams.

Sectoral subdivision

The indicators apply to six categories of consumer goods subdivided into 36 sub-categories and to four categories of consumer services subdivided into 18 sub-categories[2].

[2] For a tally of categories and sub-categories of consumer goods and services refer to Table 1 in the Appendix.

THE GUIDING MODEL

This part of the report aims at placing consumption expenditure within the economy's broader context and thus lays the basis for an analysis of the retail industry indicators and for an advocacy framework proposed to retail business representative organizations.

The determinants of consumption expenditure – The demand side

The guiding model underlying both the conceptual framework and the methodological approach of the report stipulates that consumer demand has two distinct types of determinants: local and exogenous.

A nine-variable consumption function

Locally generated consumer demand is a function of nine main variables. These variables are grouped as follows:

Five of the nine variables have a direct impact on purchasing power:
- the level of household after-tax income,
- change in prices of consumer goods and services
- taxes levied on consumption,
- the extent of household net worth, and
- consumer credit.

Two variables are in the nature of regulatory tools that may be used to influence household spending:
- the level of interest rates applied on consumer credit,
- the level of permissible household indebtedness.

One variable pertains to consumer confidence as determined by income expectations and by the perception of non-economic factors: political, security, and geopolitical influences on confidence and expectations. And one variable, demography, determines the secular growth of consumer demand.

The exogenous determinants of consumer demand may be expressed in two variables: the number of incoming tourists, and the level of their income and wealth.

The temporal impact of these predictors of consumption expenditure may be summed up as follows:
- Consumer credit, price movements, consumption tax rates, consumer confidence, and the inflow of tourists are factors that impact consumption expenditure over the short term.
- Household after-tax incomes, household indebtedness, household net worth, and interest rates impact consumption over the medium term.
- Demography impacts consumption expenditure over the long term.

Under normal conditions, the demographic variable changes at a snail's pace and is hence usually attributed a long-term impact on consumption. However, in Lebanon's exceptional circumstances where demographic change has occurred at a dizzying speed, retail markets should have gained much vigor over the past 30 months.

On the supply side

The analyses will also integrate supply-side factors, mostly relating to the myriad aspects of marketing, the shaping of the local retail scene, and investment in production capacity and in creativity.

Supply-determined factors that could impact consumer spending over the short term include:
- the introduction of a new product,
- the targeting of one or more market segments through marketing or new products,
- production costs,
- advertizing and promotion.

The precepts of this guiding model are fully compliant with mainstream consumption theory, and do not gainsay the diversity and intricacies of consumption functions adopted to estimate or forecast consumption.

The guiding model remains highly stylized at this stage, but it is intended to be translated into testable equations as time series are built up.

To be sure, the longer the model's time series are, the more expressive and useful will be the trend path derived from the series.

The model's precepts, however, will permeate the basic statistical as well as business and economic analyses that are developed in the flagship report. And, the model and its precepts will be retained in future complementary editions of the report.

At the macro-economic level

In Lebanon as in most other economies, household consumption is the largest component of GDP and change in that component is hence the weightiest determinant of change in GDP. This established correlation has significant implications when policy-making targets GDP growth. In that perspective, the guiding model affords clear pointers as to the nexuses through which economic policy could influence the level and rate of change of consumption, and hence overall economic growth.

Monetary policy

The tools of monetary policy, through their primary role in determining the margin by which the structure of local rates of interest is higher than internationally prevailing rates, exert the strongest influence on consumption.

On one count, interest rates and the differential between local and international rates have a strong influence on household savings, and hence on household expenditure. That influence is two-pronged: higher interest rates render household savings more rewarding, and they raise the cost of consumption credit.

On the macro count, the higher rate differential is one of the variables that account for a substantial portion of capital inflows. It is due to these inflows that Lebanon's Gross National Disposable

"Household consumption is the largest component of GDP and change in that component is hence the weightiest determinant of change in GDP"

Income (GNDI) is markedly higher than GDP[3]. High disposable income obviously fuels high consumption and explains the statistical fact that total consumption expenditure constitutes no less than 70 percent of the country's GDP.

Fiscal policy

Mainly through taxation in all its forms, fiscal policy has express and lasting impact on the level of consumption. Higher direct tax rates reduce disposable household incomes and hence purchasing power, whereas raising rates of indirect taxes, such a the Value Added Tax (VAT) – which is a consumption tax – obviously exert negative pressures on household consumption.

[3] Gross National Disposable Income is estimated to be about 30 percent higher than Gross Domestic Product.

III. THE INDICATORS

This part presents the retail sales indicators for the 30-month period covered by the report.

A. A REVIEW OF RETAIL SALES in 2014

The data for most categories of retail sales of goods and services in the years 2013 and 2014 reflected a more or less pronounced aspect of seasonality that called for caution in the application of customary rates of change in the value of transactions.

The December peaks in the goods sector

Of the six categories of consumer goods for which indicators were computed, five exhibited nearly the same basic pattern in the monthly evolution in the value of their sales. In that common pattern, the value of sales surged in the months of December only to fall back just as sharply thereafter. Using the yearend-to-yearend growth rates for these categories of consumer goods is practically identical to comparing the December peaks. This distorts rates of change because the seasonal peaks of the months of December do not accurately represent the much lower levels of sales that normally prevail throughout the remaining eleven months of the year.

The August peaks in the hospitality and tourism sectors

The seasonality pattern is different for data pertaining to the evolution of the value of services transacted. For the two services categories of hospitality and tourism, a major surge in the value of sales occurs in August, while the December months also register a broad increase in the that metric. In these categories of retail, the value of transactions in both the August and December months is markedly higher than the remaining months of the year and hence the yearend-to-yearend change in that value fails to accurately convey the year's level of activity.

Comparing averages

To iron out the distortive influence of the peaks, the annual rate of change in the value of sales was computed on the basis of a comparison of 12-month averages. This computation alternative yields a more accurate percentage for the rate of change because the 12-month average is obviously a better representative of the year's overall level of activity than the seasonal surges.

1. Retail sales of goods

The retail goods grouping includes six categories; these are: clothing; food and beverages; cosmetics; household goods; luxury items; and sports and hobbies items.

The indicator for the value of retail sales of goods in these categories rose by 1.75 percent in 2014.

Table III.1

Evolution of retail sales by broad groupings *(2014 average to 2013 average)*	
Goods	*1.75%*
Services	*0.85%*

This rate of change compares the 12-month average change in the value of monthly sales in 2014 with the corresponding 2013 average. The averaging procedure subdues the distortive influence of seasonal surges in the value of sales in the months of December.

The extent of the December impact

In the two years under review, the sales data for this broad grouping of the retail industry exhibited two marked seasonal peaks corresponding to the two months of December. In December 2014, the value of sales of goods increased by a broad 78.69 percent compared with its previous month's level. A similar pattern was also noted in December 2013 when the value of sales went up by 56.78 percent from its November level. The necessity of comparing 12-month averages becomes all the more apparent when changes in the value of sales during the two years are examined.

In the 22 months excluding the two December months, sales fluctuated sideways within a margin that remained mostly more than 25 percent below the base level and reached troughs of more than 40 percent below that level in the months of September 2013 and January and February 2014.

The indicator for the value of retail sales of goods rose by 1.75 percent in 2014

+ 1.75%

Due to the recurring seasonal improvement in the value of retail sales in the December months, that value rose on a year-end to year-end basis by 7.04 percent in 2014 and by 8.73 percent in 2013.

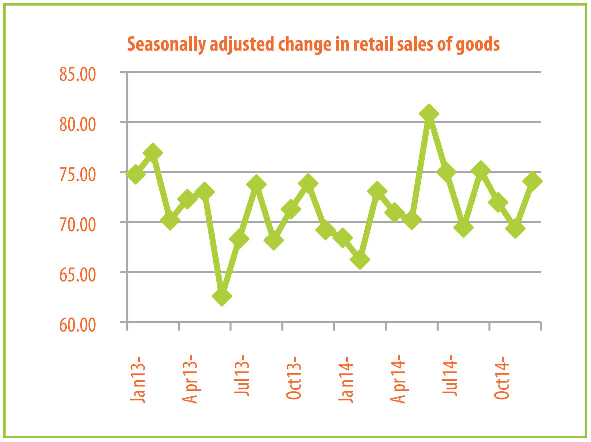
The quasi-trendless fluctuations at low levels in the months other than the two peak months may have shaped perceptions that the retail industry is witnessing the settling in of a protracted period of stagnation.

The de-seasonalization of the sales data, which is called for by the accentuated seasonal peaks, reduced the range of oscillations by 69 percent and again showed variations in retail sales of goods fluctuating sideways, with a barely noticeable uptrend.

1.a. Clothing

The clothing category includes the sub-categories of men's wear; women's wear; women's accessories; children's wear; shoes; apparel; and fabric and sewing.

This sector of the retail industry registered a weak performance in 2014 as the indicator for the sales value of items included in the clothing category diminished by 5.82 percent when the 12-month average of 2014 is compared with that of 2013.

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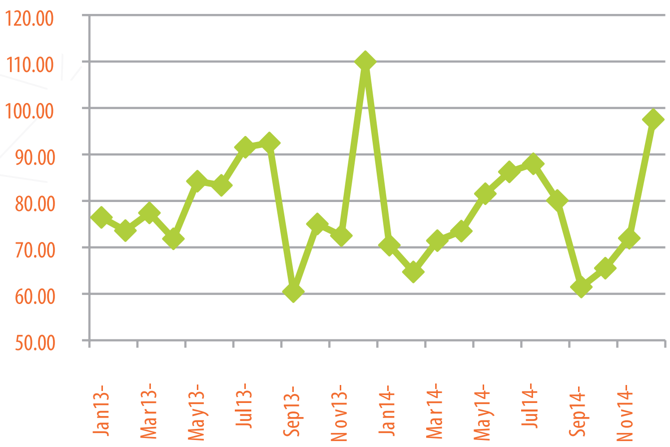
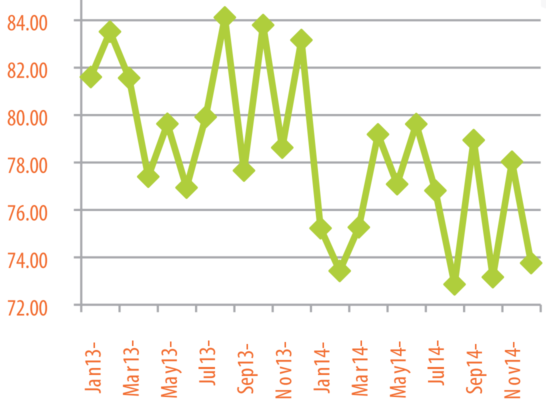
Evolution of retail sales of clothing



Seasonally adjusted change in retail sales of clothing



In the two years combined, the evolution of that value displayed the same basic pattern as that of the goods grouping, with two December peaks and fluctuations at lower levels during the remaining 22 months of the period.

Two noteworthy divergences need to be referred to, however. For one, the lowest two troughs occurred in September 2013 and September 2014 when the value of retail sales in that sector dipped to a level approximately 40 percent lower than the base level. The second divergent instance is that the seasonal December surge, steep as it was, remained 2.48 percent lower than the base level.

The trend for retail sales in the two years under review points more clearly downwards when data for variations in the value of sales are seasonally adjusted. The de-seasonalized data, which reduced the range of oscillations by 78 percent, show that 2014 sales performance was worse than that of the year before.
The December influence is noticeable in the values of clothing retail sales.

in 2014 the indicator for the sales value of items included in the clothing category diminished by 5.82 percent

- 5.82%

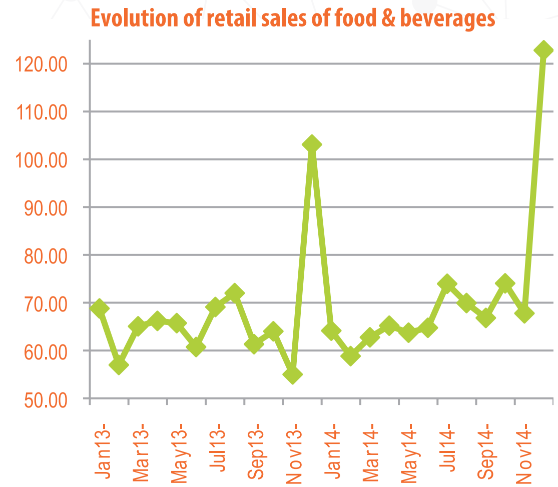
On a year-end to year-end basis, the value of sales in this retail category fell by 11.31 percent by December 2014, whereas that value had increased by 9.95 percent by December 2013.

1.b. Food and beverages

The food and beverages category comprises supermarkets; confectionery; bakeries; various food stores; and alcoholic beverages.

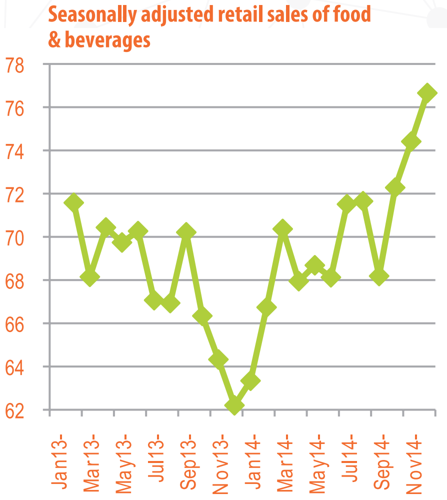
Retail enterprises in the food and beverages sector were the best performers among the six categories of retail goods examined. The indicator for the value of sales of food and beverages increased by 5.78 percent in 2014.

The pattern of December peaks is even more prominent in this sector of retail, with the December 2014 peak standing at 22.8 percent above the base level. Compared with their level the month before, sales surged by 81.2 percent in December 2014. In the remaining 22 months of the period, the value of sales declined by 45 percent below the base level at its lowest in November 2013 and was at best 26 percent lower than the base level in July and October 2014.



The indicator for the value of sales of food and beverages increased by 5.78 percent in 2014

+ 5.78%



Due to the seasonal distortion of the months of December, the value of sales in the food and beverages retail category rose by 19.12 percent in the 12 months to December 2014, up more than 16 percentage points compared with an increase of 3.09 percent registered in the 12 months to December 2013.

The trend for the changes in the seasonally adjusted value of retail sales of food and beverages is positive, with a clear relative improvement in sales performance in the fourth quarter of 2014. Seasonal adjustment reduced the amplitude of fluctuations by nearly 79 percent.

1.c. **Cosmetics**

The cosmetics category of retail includes three sub-categories namely; perfumes, cosmetics, and personal care products.

The indicator for the value of retail sales of items included in the cosmetics category increased by 4.58 percent in 2014.

Retail sales of cosmetics seem to show no patent seasonality within the two-year data set, and the period's trend was moderately positive as the peaks of June and July 2014 combined with the typical December rise pulled the trend line up.

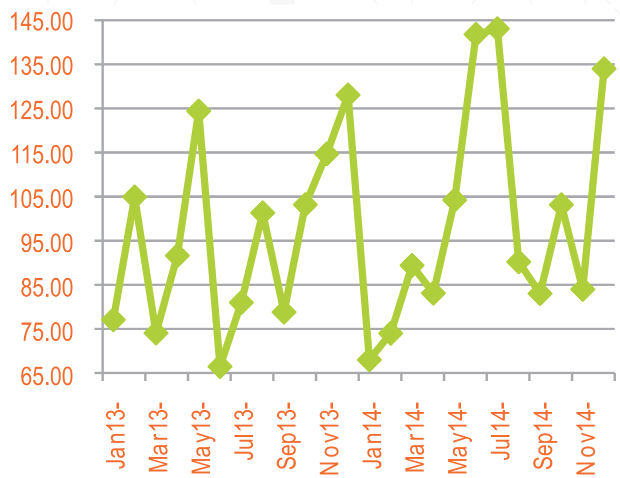
The seasonally adjusted change in the retail sales of cosmetics reflects the same moderate uptrend. On that adjusted basis, the months of June and July 2014 witnessed a year-on-year doubling of sales.

The indicator for the value of retail sales of items included in the cosmetics category increased by 4.58 percent in 2014

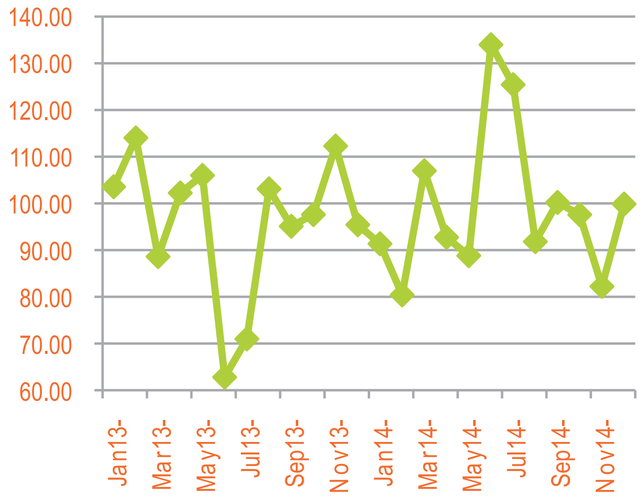
+ 4.58%

Due to the subdued seasonal impact of the December month, the year-end to year-end change in sales in this category of retail differed marginally from the monthly average computation. Thus, the value of sales by December 2014 was up 4.65 percent compared with its December 2013 level. By that measure, the value of sales of cosmetics retreated considerably compared with the previous year when it had moved up by 28 percent.

Evolution of retail sales of cosmetics



Seasonally adjusted change in retail sales of cosmetics



1.d. **Household goods**

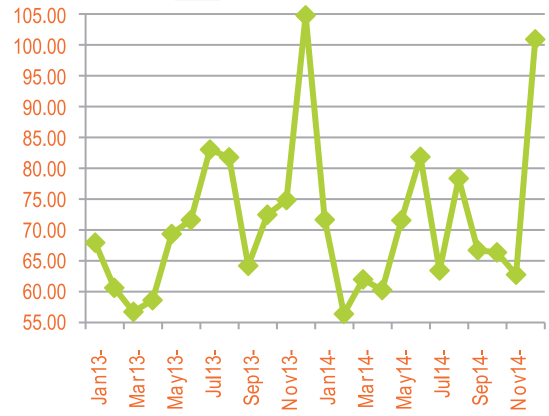
Items grouped under the household goods category of retail fall under the following eleven sub-categories: sanitary; glass, paint, and wallpaper; hardware; furniture; floor covering; drapery and upholstery; various home furnishing; household appliances; audio-visual; antiques restoration; and crystal and glassware.

The indicator for the retail sales value of household goods was down 2.74 percent in 2014.

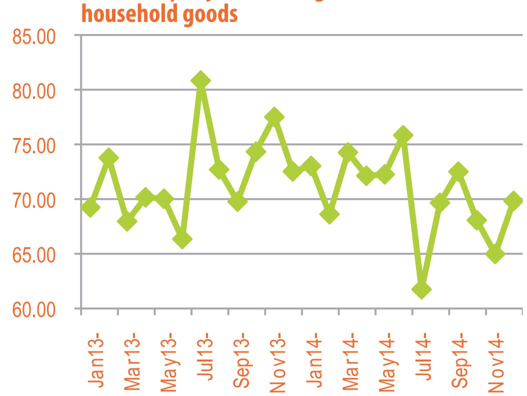
The December seasonal surges are evident in that sector of retail. The value of sales moved up 60.8 percent in December 2014 compared with the previous month's level. In a similar pattern, that value was up nearly 40 percent in December 2013 compared with the previous month's value.

In the 12 months to December, the value of sales in this sector of retail diminished by 3.7 percent, whereas that value had increased by 4.8 percent in the 12 months to December 2013.

Evolution of retail sales of household goods



Seasonally adjusted change in retail sales of household goods



The indicator for the retail sales value of household goods was down 2.74 percent in 2014

-2.74%

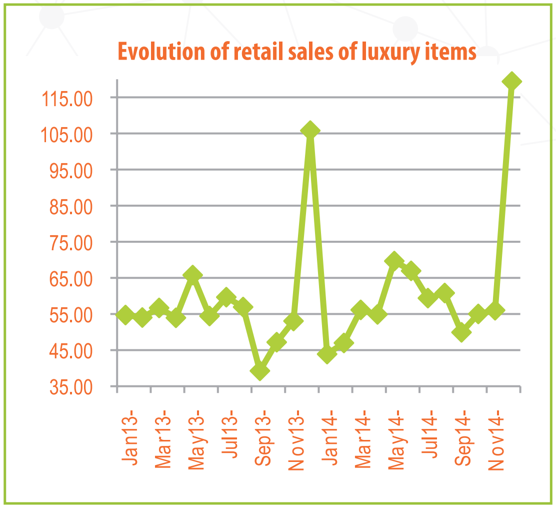
The seasonally adjusted evolution of retail sales of household goods evens out the warping influence of the two December months and shows a negative trend accentuated by the July and November 2014 dips that mirrored the non-seasonally adjusted data for those two months. Seasonal adjustment reduced the range of fluctuations by nearly 60 percent.

1.e. **Luxury items**

Seven sub-categories are included in the luxury items category of consumer goods; these are: jewelry, watches, and silverware; crafts; art dealers galleries; florists; cigars; gifts; and electronics.

In 2014 the indicator for the retail sales value of luxury items such as jewelry, watches, gifts, and gadgets increased by 5.36 percent.

The December peaks were more accentuated in the sales data for this category of retail. Sales increased by 99.4 percent in December 2013 compared with their previous month's level, and by in December 2014 sales were up 113 percent from their previous' month's level.



This marked seasonal pattern is reflected in the December 2013 to December 2014 rise in the value of sales in this sector by 12.8 percent. In the year to December 2013 the value of sales had increased by 5.8 percent.

In 2014 the indicator for the retail sales value of luxury items such as jewelry, watches, gifts, and gadgets increased by 5.36 percent

+ 5.36%

The seasonally adjusted evolution of the value of sales in this category narrows the range of fluctuations by 82 percent and shows an uptrend with a gradient comparable to that of the trend traced by the non-seasonally adjusted data.

1.f. **Sports and hobbies**

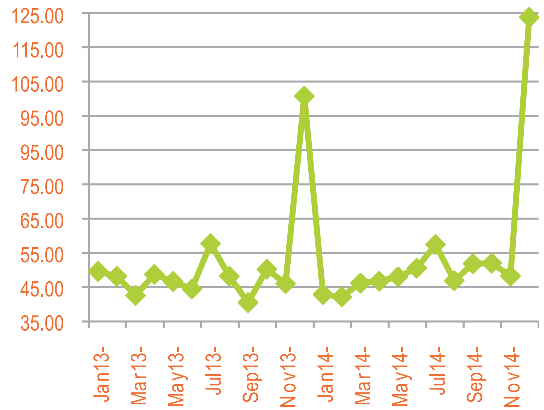
The sports and hobbies category represents three sub-categories of consumer goods: sporting goods; games and toys; and music instruments.

The indicator for the value of retail sales of items classified under the sports and hobbies tag increased by 5.31 percent in 2014.

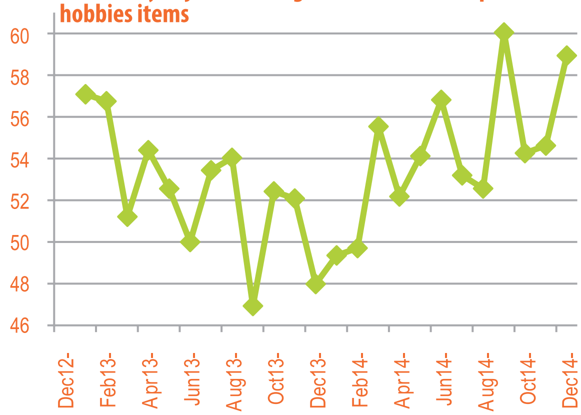
The two seasonal surges raised the value of sales by 118.8 percent in December 2013 and by 156.3 percent in December 2014.

The value of sales of these items rose markedly by 22.8 percent in the year to December 2014 compared with a minimal rise of 0.7 percent in the year to December 2013.

Evolution of retail sales of sports & hobbies items



Seasonally adjusted change in retail sales of sports & hobbies items



The indicator for the value of retail sales of items classified under the sports and hobbies tag increased by 5.31 percent in 2014.

+ 5.31%

Despite the fact that the data set's trend was positive, impacted as it was by the December surge, the value of sales in this category of retail remained significantly lower than the base level throughout the other months of the period. At its lowest, that value had sunk nearly 60 percent lower than the base level, and its highest level for the period remained 42 percent lower than the base level.

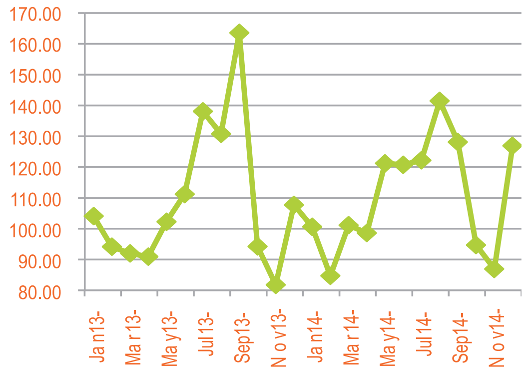
The seasonally adjusted data reduced the variation limits by 84 percent and showed noticeably larger increases in the value sales in 2014.

Table III.2	
Evolution of retail sales of goods by category *(2014 average to 2013 average)*	
Clothing	*-5.82%*
Food & beverages	*5.78%*
Cosmetics	*4.58%*
Household goods	*-2.74%*
Luxury items	*5.36%*
Sports & hobbies	*5.31%*

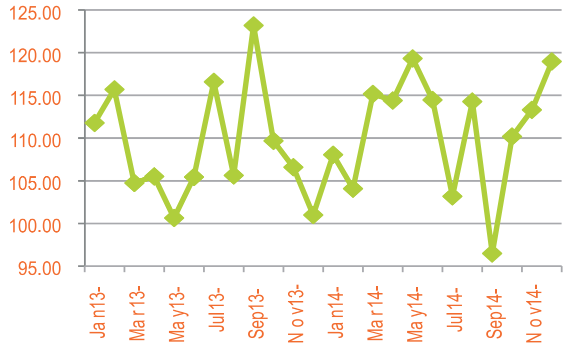
2. Retail sales of services

The "services" grouping includes four categories of services namely, hospitality services; tourism; medical services; and educational services[4].

Evolution of retail sales of services



Seasonally adjusted change in retail sales of services



[4] The computation of sales indicator for educational services is based on credit/debit card payment data, whereas the bulk of payments for these services are in fact made through bank transfers. Hence, the indicator for educational services captures only a minor portion of total spending on these services. To be sure, the limited representational significance of this indicator in no way affects the worth of the report's other sets of indicators.

The indicator for the value of retail sales of services increased by 0.85 percent in 2014.

Within the two-year data set, the trend for the value of retail sales of services was moderately positive. And, though there is no clear seasonal pattern in the data set, an element of seasonality is noticeable in the initial data where peaks were reached in the months of September of both years and were followed by troughs in the months of November. The seasonally adjusted data attenuated fluctuations by 67 percent.

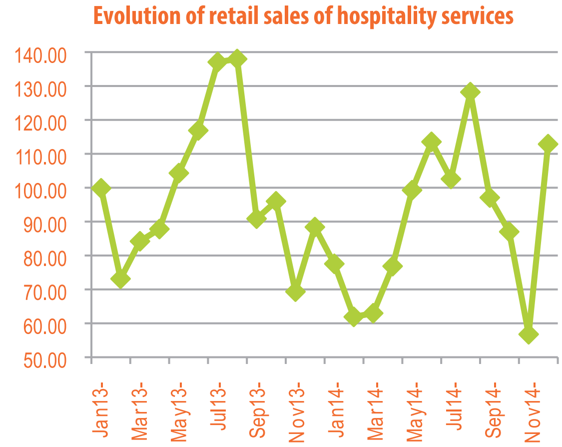
On a December to December basis, the value of retail sales of services were up 17.8 percent in the year to December 2014, an increase of more than six percentage points compared with a rise of 7.7 percent in the 12 months to December 2013.

2.a. **Hospitality**

Hospitality related services include four sub-categories: catering; restaurants; pubs and nightclubs; and hotels and resorts.

The indicator for the value of retail sales of services included in the hospitality category diminished by 9.2 percent in 2014.

Over the two-year data set, the trend for the values of sales in this retail category points downward. The surge in the value of sales in December 2014, which remained evident in the seasonally adjusted data, did not reverse the direction of the trend.



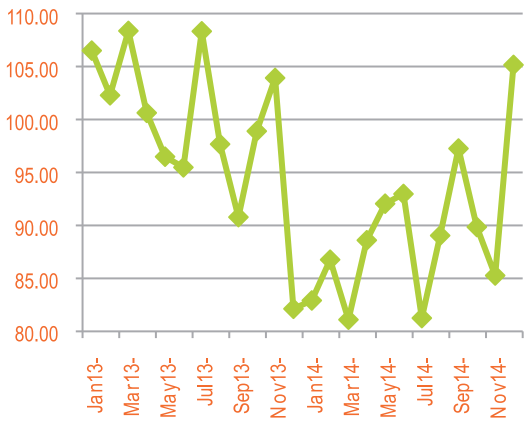
The indicator for the value of retail sales of services increased by 0.85 percent in 2014

+ 0.85%

From year-end to year-end, the value of sales in the hospitality sectors rose by 40.5 percent in 2014 whereas that value had fallen by 3.5 percent in the year before.

The seasonally adjusted data for the value of sales in this category, with a range of fluctuations reduced by 66 percent, show a more marked downward trend than that obtained from the non-seasonally adjusted data set.

Seasonally adjusted change in retail sales of hospitality services



2.b. **Tourism**

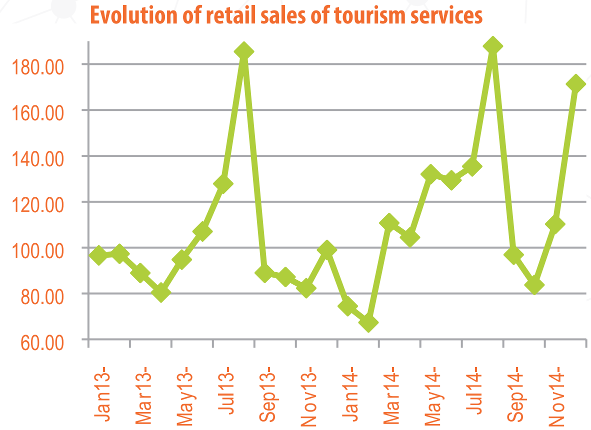
This category of retail includes six sub-categories; these are: travel agencies; travel services; movies and theaters; dance halls and studios; tourist attractions; and clubs.

In 2014, the indicator for the value of services included in the tourism category rose by 13 percent, the broadest increase among the indicators for the four categories of retail services monitored.

In the two-year data set, the seasonal pattern of this category saw peaks occurring in the month of August.

In 2014, the indicator for the value of services included in the tourism category rose by 13 percent

+ 13%



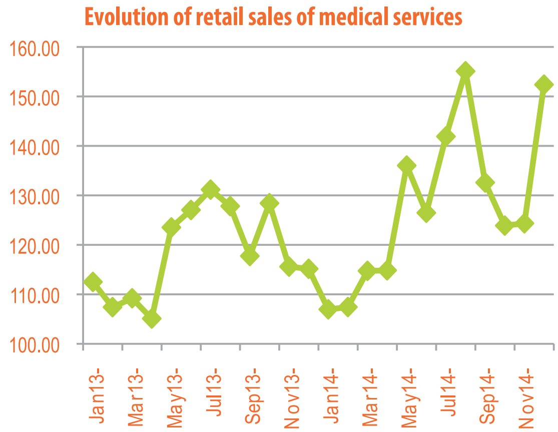
However, the last two months of 2014 registered a combined 104.6 percent increase in the value of sales. Consequently, the yearend change in that value recorded a broad 73 percent in the year to December 2014. In the 12 months to December 2013, the value of retail sales in this category had diminished by one percent.

The trend for this category of services is positively sloped over the two-year data set. The seasonally adjusted data accentuated the difference between the two December months and reduced the range of fluctuations by 50 percent.

2.c. **Medical services**

The medical services category includes five sub-categories. These are the services of: doctors; dentists; optometrists and ophthalmologists; hospitals; and other health and medical facilities.

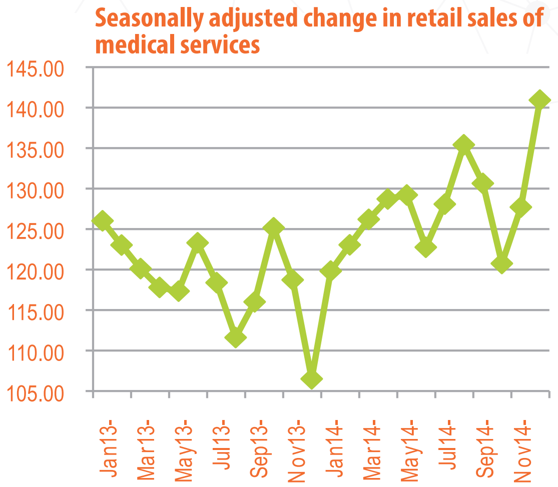
The indicator for the value the retail sales of medical services went up by 7.75 percent in 2014.



Data over the two years being examined are cyclical and do not reveal a noticeable seasonal pattern, and the trend is positive.

On a year-end to year-end basis, the value of sales in this category of retail increased by 32.32 percent in 2014 compared with an increase of 15.16 percent in 2013.

The seasonally adjusted data reduced the range of fluctuations by 31 percent and highlighted the marked uptrend in 2014.



The indicator for the value the retail sales of medical services went up by 7.75 percent in 2014

+ 7.75%

2.d. **Education**

Educational services include three sub-categories: schools; school services; and child care.

When yearly averages are compared, the average value of retail sales of educational services in 2014 was 8.35 percent lower than the 2013 average.

An expected element of seasonality is reflected in the two-year data set, with a major surge in the value of sales in September 2013 and a less pronounced move upwards in September 2014.

Table III.3	
Evolution of retail sales of services by category 2014 average to 2013 average	
Hospitality	*-9.21%*
Tourism	*13.00%*
Medical services	*7.75%*
Education	*-8.35%*

The trend within the data set points downwards, mainly due to the influence of the September 2013 surge, which was not sustained in subsequent periods.

By blunting that major surge, the seasonally adjusted data narrowed fluctuations by 76% and change the sign of the trend's slope to one that is minimally positive, nearly flat.

B. Retail sales in 2015

Integrating data
for the first quarter of 2015

Rather than processing the 2015 data as a separate set and comparing results with those of the past periods, the report integrates the current year's quarterly data within the set from the previous two years. As a result of this integration, the data series expands in size with each quarter added causing an alteration in seasonal adjustment indexes and trend metrics. However, the gain from this intricate process is that the longer data series render adjustment indexes more robust and trend analysis more reliable.

1. Retail sales of goods in the first quarter of 2015

Data for the first quarter of 2015 retained their seasonal characteristic, with the three months following the December surge witnessing the year's sharpest fall in the value of retail transactions. However, the fall registered in that quarter was less ample than that of the first quarter of 2014. This was reflected as an increase in the value of retail sales of 6.2 percent in the first three months of 2015 compared with sales value in the same period of the year before. However, the value of retails sales of goods in the first quarter of 2015 fell by a hefty 22.9 percent from its level in the previous quarter, a period that was impacted by the positive December effect on sales.

1.a. Clothing

On a first-quarter-to-first quarter basis, the indicator for the value of retail sales of items in the clothing category fell by 4.8 percent in the first quarter of 2015 compared with that of the first quarter of 2014, and by 16.3 percent compared with that of the fourth quarter of 2014.

On a first-quarter-to-first quarter basis, the indicator for the value of retail sales of items in the clothing category fell by 4.8% in the first quarter of 2015

- 4.8%

1.b. **Food and beverages**

The indicator for the value of transactions in the food and beverages category of retail rose by nearly 16.2 percent in the first quarter of 2015 as compared to its level in the corresponding quarter of the year before, but fell by 18.5 percent compared with its level in the fourth quarter of 2014.

1.c. **Cosmetics**

The indicator for the value of sales of goods in the cosmetics category of retail went up by 14.9 percent in Q1 of 2015 compared with Q1 of 2014, but was down by 17.2 percent compared with Q4 of 2014.

1.d. **Household goods**

In the first quarter of 2015, the household goods category of retail recorded the broadest decline in the value of transactions when compared with the corresponding quarter of the year before and when compared to the preceding quarter.

Thus, the indicator for the value of sales of household goods was 16.1 percent lower in Q1 of 2015 compared with Q1 of 2014, and 30.7 percent lower when compared to Q4 of 2014.

1.e. **Luxury items**

The indicator for the value of sales of items constituting the luxury category of retail goods was 11.9 percent higher in Q1 of 2015 than its level in Q1 of 2014, but it was down 28.6 percent from its level in the preceding quarter.

1.f. **Sports and hobbies**

Retail goods included in the items of sports and hobbies category saw the indicator of the value of their sales move up by a marked 19.9 percent in Q1 of 2015 compared to the Q1 of 2014 level, but compared to its Q4 of 2014 level, that value declined by 29.8 percent.

Table III.4

Quarter to quarter evolution of retail sales of goods by category

	Q1 - 2015	Q4 - 2014	Q3 - 2014	Q2 - 2014	Q1 - 2014
Clothing	*-16.26%*	*2.37%*	*-4.87%*	*16.78%*	*-19.76%*
Food & beverages	*-18.46%*	*25.60%*	*8.79%*	*4.27%*	*-16.37%*
Cosmetics	*-17.22%*	*1.52%*	*-3.90%*	*42.25%*	*-33.11%*
Household goods	*-30.66%*	*10.32%*	*-2.42%*	*12.44%*	*-24.62%*
Luxury items	*-28.58%*	*35.44%*	*-11.15%*	*30.24%*	*-28.64%*
Sports & hobbies	*-29.76%*	*43.40%*	*7.51%*	*10.70%*	*-33.37%*
All 6 categories of goods	*-22.95%*	*16.56%*	*-1.76%*	*20.37%*	*-26.24%*

(The table compares the sales indicators of a quarter with those of the preceding quarter)

2. Retail sales of services in the first quarter of 2015

The seasonality feature in the retail services examined differs from that of retail goods in that the second and third quarters of the year tend to be the period during which the value of transactions increases the most. Thus, retail services traded in the first quarter of 2015 saw their value increase by 19.9 percent as compared to its level in the first quarter of 2014, and by a middling 11.2 percent when compared to its level in the fourth quarter of 2014.

2.a. **Hospitality**

The indicator for the value of hospitality services traded rose by 29.6 percent in the first quarter of 2015 compared with its level in the first quarter of 2014; that value was up a minimal 2.2 percent compared to its level in the fourth quarter of 2014.

The indicator for the value of hospitality services traded rose by 29.6 percent in the first quarter of 2015

+ 29.6%

2.b. **Tourism**

The indicator for the value of services traded in the tourism sector of retail grew by 66.4 percent in the first quarter of 2015 compared with the corresponding quarter of the year before.
On a first-quarter to first-quarter basis, this was the broadest move upward in the value of traded retail goods and services. That value was up 14.9 percent in Q1 of 2015 compared with its level in the last quarter of 2014.

2.c. **Medical services**

Medical services offered rose in value by 10.5 percent in Q1 of 2015 compared with their value in Q1 of 2014, but recorded a fall of 9.3 percent when compared to the Q4 of 2014 level.

2.d. **Education**

The indicator for the value of educational services was down 9.5 percent in Q1 of 2015 from its level in Q1 of 2014.

3. Retail sales of goods in the second quarter of 2015

A seasonal characteristic of retail activity in Lebanon is that the volume of sales stages a rebound in the second quarter of the year as compared to the first quarter, a quarter that invariably sees sales dropping sharply following the December surge.

Table III.6 conveys clearly that seasonal feature of retail markets in that the value of sales of all consumer goods increased in the second quarter whereas that value had decreased across-the-board in the first quarter.

However, the picture is reversed when second quarter 2015 sales data are compared with second quarter 2014 data. By that comparison, the value of retail sales of goods was down 1.1 percent, whereas compared with data for the second quarter 2013 sales were up 5.9 percent.

3.a. **Clothing**

In the second quarter of 2015 the indicator for the value of retail sales of clothing was down 12.1 percent from its level in the corresponding period of 2014 and down 11.4 percent compared to the same period of 2013.

3.b. **Food and beverages**

In Q2 of 2015, the food and beverages category of retail performed noticeably better than the other five categories of consumer goods. In Q2 of 2015 the value of sales in this sector was up 21.4 percent and 22 percent compared with Q2 of 2014 and Q2 of 2013 respectively.

3.c. **Cosmetics**

The indicator for the value of cosmetics sales diminished by two percent in Q2 of 2015 compared with its level in the same period of 2014 but was up 14.1 percent from its level in the second quarter of 2013.

In the second quarter of 2015 the indicator for the value of retail sales of clothing was down 12.1%

- 12.1%

3.d. **Household goods**

The indicator for the value of sales of household goods was down 13.3 percent in Q2 of 2015 compared with the same period of the previous year, the largest fall in the consumer goods grouping. Compared with Q2 of 2013 the value of sales of this category of consumer goods fell by 7.2 percent.

3.e. **Luxury items**

In Q2 of 2015, the value of retail sales of luxury items diminished by 2.2 percent from its Q2 of 2014 level but it was 7.6 percent higher than its Q2 of 2013 level.

3.f. **Sports and hobbies**

Items of sports and hobbies saw the indicator for the value of their sales increase by nine percent in Q2 of 2015 from its level in Q2 of 2014 and by 13.2 percent from its level in Q2 of 2013.

Table III.6

Quarter to quarter evolution of retail sales of goods by category

	Q2 - 2015	Q1 - 2015	Q4 - 2014	Q3 - 2014	Q2 - 2014
Clothing	*7.79%*	*-16.26%*	*2.37%*	*-4.87%*	*16.78%*
Food & beverages	*8.95%*	*-18.46%*	*25.60%*	*8.79%*	*4.27%*
Cosmetics	*21.31%*	*-17.22%*	*1.52%*	*-3.90%*	*42.25%*
Household goods	*16.17%*	*-30.66%*	*10.32%*	*-2.42%*	*12.44%*
Luxury items	*13.83%*	*-28.58%*	*35.44%*	*-11.15%*	*30.24%*
Sports & hobbies	*0.63%*	*-29.76%*	*43.40%*	*7.51%*	*10.70%*
All 6 categories of goods	*12.14%*	*-22.95%*	*16.56%*	*-1.76%*	*20.37%*

4. Retail sales of services in the second quarter of 2015

The indicator for the value of retail sales of the four categories of services was little changed as it increased by 0.2 percent in Q2 of 2015 compared to the same period of the year before, but it was up 12.3 percent compared with Q2 of 2013.

4.a. Hospitality

The indicator for the value of the sale of hospitality services rose by 7.3 percent in Q2 of 2015 compared with the same period of 2014 and by 0.6 percent compared to the same period of 2013.

4.b. Tourism

The indicator for the value of retail sales in tourism dropped 15.9 percent in Q2 of 2015 from its level in Q2 of 2014, the largest drop in the consumer services grouping. Compared with Q2 of 2013, this value was up 9.2 percent.

The indicator for the value of the sale of hospitality services rose by 7.3 percent in Q2 of 2015

+ 7.3%

4.c. **Medical services**

The indicator for the value of medical services offered in Q2 of 2015 increased by 7.4 percent and by 14.2 percent compared with the same quarters of 2014 and 2013 respectively.

4.d. **Education**

In Q2 of 2015 the indicator for the value of educational services offered increased by 3.6 percent compared with its Q2 of 2014 level and by 26.6 percent compared with its Q2 of 2013 level.

The indicator for the value of medical services offered in Q2 of 2015 increased by 7.4 percent

+ 7.4%

Table III.7

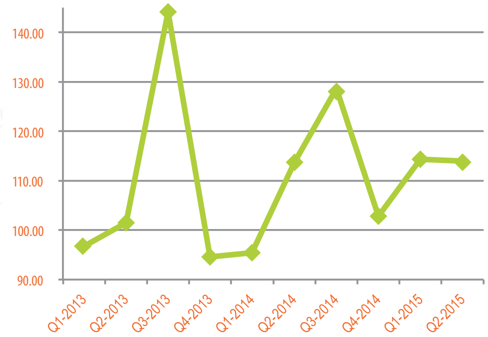
Quarter to quarter evolution of retail sales of services by category

	Q2 - 2015	Q1 - 2015	Q4 - 2014	Q3 - 2014	Q2 - 2014
Hospitality	*18.44%*	*2.23%*	*-21.73%*	*13.20%*	*43.09%*
Tourism	*-26.54%*	*14.87%*	*-11.43%*	*12.49%*	*45.37%*
Medical services	*11.78%*	*-9.31%*	*-5.34%*	*11.89%*	*15.04%*
Education	*4.84%*	*54.50%*	*-44.38%*	*15.06%*	*-8.45%*
All 4 categories of services	*-0.32%*	*11.19%*	*-20.07%*	*13.10%*	*19.27%*

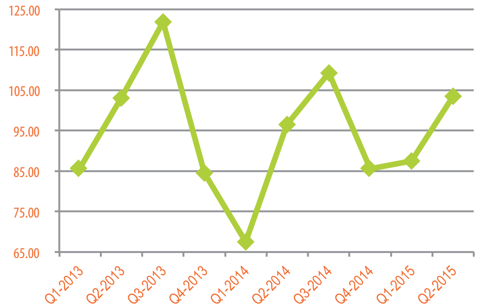
Chart III.1
Quarter to quarter change in the value of retail sales of goods by category

Chart III.2
Quarter to quarter change in the value of retail sales of services by category

Quarterly evolution of retail sales of services

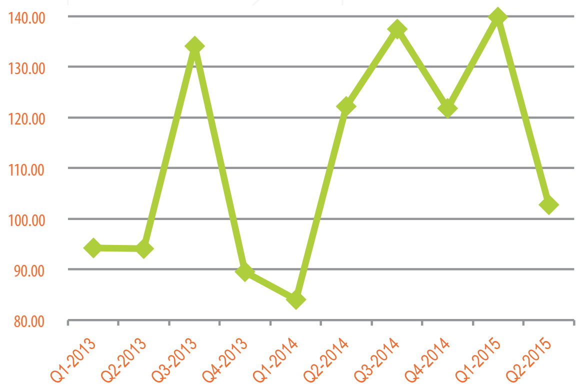


Quarterly evolution of retail sale of hospitality services

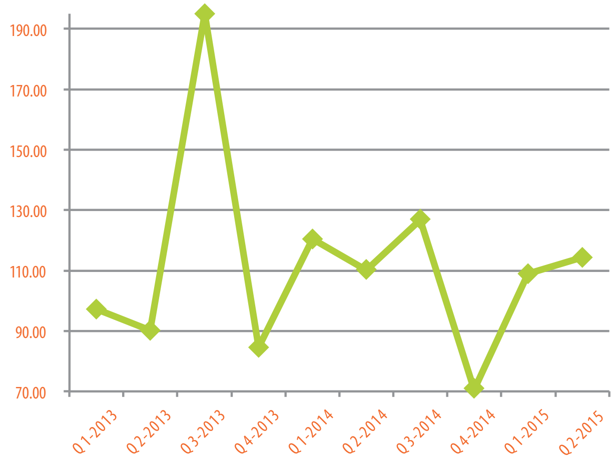


Quarterly evolution of retail sales of medical services

Quarterly evolution of retail sales of tourism services



Quarterly evolution of retail sales of educational services



IV. THE ANALYSIS

This part of the report suggests alternative statistical measures and comparisons to guide the analysis and explicate relationships between retail indicators and related variables.

The indicators described

A cursory check of the set of retail sales indicators that were derived from market data may convey a notion that retail activity has grown, in the main, albeit at a very modest rate in the period covered by the report.

As a matter of fact, the indicators for the retail sales of goods and services may at first glance, appear to be acceptable, if only because they are on the positive side of the scale. Low but still positive, these indicators do seem to reflect overall economic performance. On the surface, again, this may be viewed as contradicting the near consensus prevailing in the retail industry that the activity is in fact going through a state of distress.

"Retail activity has grown, in the main, albeit at a very modest rate"

The indicators scrutinized

A closer, more scrutinizing examination of the retail activity indicators leads to the following observations:

a- The broad indicators did lockstep with overall economic growth rates, which have remained dismal throughout the period covered by these indicators. The indicator for change in the retail sales of goods grew by 2.23 percent in the first half of 2015 compared with the corresponding period in 2014. That indicator had moved up by 1.75 percent in 2014.

b- In an economic environment where consumer prices have remained stable over the period covered by the retail indicators, it is justified to presume that the nominal change in the value of sales – which is summarized by the indicators – does in fact convey the real evolution of retail sales.

As a matter of fact, the Consumer Price Index, which had risen by 1.1 percent in 2013, diminished by 0.7 percent in 2014 and extended its fall in the first half of 2015 when it decreased by a significant 2.1 percent.

c- Major consumption categories included in these indicators lagged behind the overall run of economic performance. The retail sales of two categories of consumer goods namely, clothing and household goods declined by 8.72 percent and 14.6 percent respectively in the first half of 2015 compared to the first half of the year before. The indicators for these two comparatively large categories of retail had retreated by 5.8 percent and 2.7 percent respectively in 2014.

d- Most categories of consumer goods remained in negative territory for most months save December, a month that raised the average change in sales for five out of six categories of goods observed in the report, but that average remained well below the base level.

To ascertain the trend of activity in the retail industry within the timeframe set for the indicators, the processed data on retail sales were viewed from five alternative perspectives. These are: the end-period comparisons; the period-to-corresponding-period comparisons; the period-to-preceding-period comparisons; the overall trend estimation and analysis; and the average monthly rate of change over the whole period.

"Most categories of consumer goods remained in negative territory for most months save December"

“There has been no sustained build up in the level of retail sales over the 30-month period covered by the indicators”

1.End-period comparisons

By the end of the first six months of 2015, the sales values of five out of six major categories of retail goods remained significantly below their base level.

Table IV.1	
June 2015 level of retail sales of goods compared with base level	
Clothing	*-22.37%*
Food & beverages	*-17.46%*
Cosmetics	*8.40%*
Household goods	*-26.31%*
Luxury items	*-33.87%*
Sports & hobbies	*-44.07%*
All 6 categories of goods	*-22.61%*

Table IV.1 reveals the extent to which the level of retail sales was depressed over the period for which indicators were computed. As a matter of fact, the data represented in Chart IV.1 show that there has been no sustained build up in the level of retail sales over the 30-month period covered by the indicators.

The prevailing pattern of change in sales was one where seasonal surges were invariably followed by sharp falls that depressed sales back to their cyclical lows, and these lows remained markedly lower than the base level. The chart shows that pattern clearly in the evolution of all categories of retail sales except the ‘Cosmetics’ category.

For the six categories of goods included in the indicators, the level of sales by June 2015 was nearly 22.6 percent lower that the base level, clearly reflecting the retail activity’s inability to sustain even a minimal positive rate of growth, notwithstanding the seasonal surges.

Two categories of consumer goods saw the indicator of the value of their sales dip alarmingly below the base level; these are: the sports and hobbies items (minus 44 percent) and luxury items (minus 33.9 percent). The indicator for the value of sales of household goods was 26.3 percent below

Table IV.2	
June 2015 level of retail sales of services compared with base level	
Hospitality	*4.77%*
Tourism	*9.92%*
Medical services	*27.25%*
Education	*7.30%*
All 4 categories of services	*12.31%*

base level, that of the clothing category of retail was 22.4 percent lower and that of the food and beverages category was 17.5 percent lower.

By that measure, the retail sales of services have performed noticeably better than retail sales of goods, with medical services recording the largest increase from base level (+27.2 percent) and hospitality services the lowest (+4.8 percent). The change for all four categories of services was a positive 12.3 percent. (Table IV.2)

2. Half year to corresponding half year comparisons

The retail sales of goods increased by 2.2 percent on average in the first half of 2015 compared with the same period of 2014. Household goods and clothing were the two categories of consumer goods that registered a negative change by that comparison, as their sales indicators retreated by 14.6 percent and 8.7 percent respectively.

In the first six months of 2015 as compared to the same period of the previous year, the sales indicators for the food and beverages category increased the most by 18.8 percent, followed by the sales indicators of sports and hobbies items (plus 14.1 percent). The indicators for the value of sales of cosmetics and luxury items were up by nearly five percent and nearly four percent respectively. (Table IV.3)

Table IV.3	
Change in retail sales of goods in first half of 2015 compared with same period in 2014	
Clothing	*-8.72%*
Food & beverages	*18.83%*
Cosmetics	*4.95%*
Household goods	*-14.60%*
Luxury items	*3.95%*
Sports & hobbies	*14.14%*
All 6 categories of goods	*2.23%*

The weak performance of retail sales of goods becomes more apparent when sales in the first half of 2015 are compared with those of the same period of 2013. That comparison shows that the trend in retail activity has been weak. The indicator for the first half of 2015 for all six categories of goods was up a modest 2.8 percent. Clothing and household goods were again the two retail categories the indicators of which were negative by that comparison.

The indicator for the value of retail sales of clothing was down 12.4 percent in the first half of 2015 as compared to the same period in 2013 and the indicator for household goods was down 10.4 percent by the same comparison.
The food and beverages category was again the largest gainer as it saw its sales indicator rise by 17.6 percent in the first half of 2015 compared with the first half of 2013. The sports and hobbies category was up 12.7 percent by that count, followed by the cosmetics category (plus 9.2 percent) and luxury items (plus 3.6 percent). (Table IV.4)

Table IV.4

Change in retail sales of goods in first half of 2015 compared with same period in 2013

Clothing	*-12.43%*
Food & beverages	*17.57%*
Cosmetics	*9.24%*
Household goods	*-10.42%*
Luxury items	*3.62%*
Sports & hobbies	*12.66%*
All 6 categories of goods	*2.79%*

The indicator for retail sales of services posted a sturdy gain of 11.4 percent in the first half of 2015 compared to 2014. Two components of that indicator account for the increase; these are: the tourism category of retail, which saw its sales indicator increase by 28.8 percent, evidently due to the customary seasonal surge in demand; and the hospitality services category, the sales indicator of which rose by 20 percent. (Table IV.5)

Table IV.5

Change in retail sales of services in first half of 2015 compared with same period in 2014

Hospitality	*20.05%*
Tourism	*28.84%*
Medical services	*8.57%*
Education	*-6.01%*
All 4 categories of services	*11.45%*

The tourism category of retail services again showed a strong performance when retail sales indicators for the first half of 2015 are compared with those of 2013. Underpinned by stronger seasonal factors in 2015, the indicator for tourism rose by 37.7 by that comparison. This major advance helped raise the indicator for all four categories of services by 16.8 percent over the same period. (Table IV.6)

3. Period-to-preceding-period comparisons

Expectedly, the comparison of retail sales indicators of the first half of 2015 with those of the second half of 2014 were affected by the seasonal influence of the December month and hence were all in negative territory. The comparison is both acceptable technically and useful, as it captures a 12-month continuum of data and could offer an explanation to the prevailing view that retail activity is in a state of depression.

The indicator for the retail sales value of all six categories of goods was down 12 percent in the first half of 2015 from its level in the preceding half year.

Table IV.6

Change in retail sales of services in first half of 2015 compared with same period in 2013

Hospitality	*1.15%*
Tourism	*37.67%*
Medical services	*13.00%*
Education	*15.99%*
All 4 categories of services	*16.82%*

The biggest losers were household goods, which saw their sales indicator drop by 21.4 percent, followed by the indicator for sports and hobbies category (minus 17 percent); the indicator for luxury items (minus 12.1 percent); for clothing (minus 12 percent); for cosmetics (minus 7.7 percent); and for food and beverages (minus 5.1 percent). (Table IV.7)

Table IV.7

Change in retail sales of goods in first half of 2015 compared with second half of 2014

Clothing	*-11.98%*
Food & beverages	*-5.15%*
Cosmetics	*-7.71%*
Household goods	*-21.38%*
Luxury items	*-12.15%*
Sports & hobbies	*-16.97%*
All 6 categories of goods	*-12.02%*

As expected, the seasonal trough affected the indicators for retail sales of services. Compared with its level in the second half of 2014, the indicator for all four categories of consumer service was down 1.4 percent in the first half of 2015, and so were the indicators for tourism (minus 6.4 percent) and hospitality services (minus 1.9 percent). The indicators of other components of retail services also fell, though these services have no obvious seasonal determinant.

4. Trend estimation and analysis for consumer goods

Within the data set for the 30 months till June 2015, the trend for five of the six categories of consumer goods examined was negative and it was weakly positive for the sixth.

This weakness may be observed empirically in the slope of each retail category's trend. The slopes for the clothing and the household goods trends are negative, whereas the trends for the other categories are nearly flat, though positive.

Table IV.8

Change in retail sales of services in first half of 2015 compared with second half of 2014

Hospitality	*-1.95%*
Tourism	*-6.41%*
Medical services	*-6.60%*
Education	*13.10%*
All 4 categories of services	*-1.37%*

Projections of the 30-month trends over the six months till December 2015 reveal more clearly the underlying weakness of retail activity in the consumer goods sectors. For all six categories of consumer goods examined, the projected six-month trend shows the indicator for retail sales falling by 6.3 percent from the June 2015 level. The projected trend for household goods predicts a broad fall of 16.4 percent in the second half of 2015; the trend for the clothing category points to

"The trend for five of the six categories of consumer goods examined was negative and it was weakly positive for the sixth" a retreat of 11.9 percent in the same period. The trend projection metrics indicate a fall of 4.7 percent for the food and beverages, a 0.9 percent fall for the cosmetics category and a 5.2 percent fall for the luxury items category. Sports and hobbies items are projected to stage a minor increase in sales of 1.5 percent over the second half of 2015. (Table IV.9 and Chart IV.3)

The merit of these trend projections resides not in their predictive accuracy but in their confirmation that retail activity in all categories of consumer goods trended mostly downward over the period represented by the activity indicators.

5. Trend estimation and analysis for consumer services

The trend for consumer services is negative for hospitality services the indicator of which is projected to fall by 21.4 percent over the second half of 2015 and also negative for the indicator of educational services, which is projected to diminish by 14.9 percent. Only the indicator for tourism services is projected to increase by a broad 36.1 percent in the second half of 2015. The indicator for medical services is projected to remain little changed at plus 0.5 percent.

Table IV.9 Trend equation

	Intercept	Slope	Projected change by end 2015
Clothing	*84.23*	*-0.44*	*-11.9%*
Food & beverages	*65.66*	*0.36*	*-4.7%*
Cosmetics	*90.09*	*0.48*	*-0.9%*
Household goods	*75.68*	*-0.39*	*-16.4%*
Luxury items	*59.8*	*0.08*	*-5.2%*
Sports & hobbies	*53.18*	*0.1*	*1.5%*
All 6 categories of goods	*71.44*	*0.03*	*-6.3%*

Projection for the indicator for all four categories of services is a negative 1.7 percent for the same period. (Table IV.10 and Chart IV.4)

Once again, these projections are meant to reveal the underlying weakness or strength of the retail activities examined, rather than actually predict the future course of the indicators for these activities.

Table IV.10 Trend equation

	Intercept	Slope	Projected change by end 2015
Hospitality	*95.82*	*-0.07*	*-21.4%*
Tourism	*94.9*	*1.04*	*36.1%*
Medical services	*110.06*	*0.83*	*0.5%*
Education	*114.57*	*-0.2*	*-14.9%*
All 4 categories of services	*103.84*	*0.4*	*-1.7%*

6. Average monthly change in retail indicators

The average rates of change in retail activity indicators over the 30-month period covered by the data provide additional evidence that the industry has indeed failed to develop an uptrend, notwithstanding the fact that seasonal surges may in some instances have given the technical semblance of an uptrend, albeit a very weak one.

Thus, by the average monthly change metric, the indicator for the value of consumer goods traded declined at a monthly average of 0.82 percent in the 30-month period under review.

Table IV.11

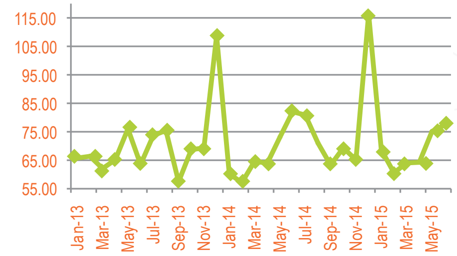
Average monthly change in activity indicators

Clothing	*-0.81%*
Food & beverages	*-0.62%*
Cosmetics	*0.26%*
Household goods	*-0.98%*
Luxury items	*-1.33%*
Sports & hobbies	*-1.86%*
All 6 categories of goods	*-0.82%*

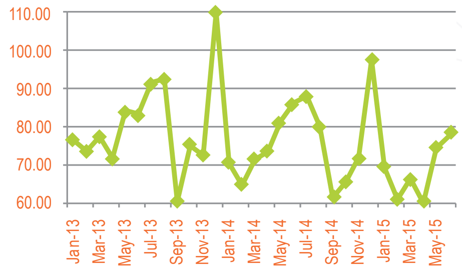
The indicator for sports and hobbies items fell by a monthly average of 1.86 percent, the broadest fall in the consumer goods grouping. The indicators for luxury items, household goods, clothing, and food and beverages fell by a monthly average of 1.33 percent, 0.98 percent, 0.81 percent, and 0.62 percent respectively. Only the indicator for cosmetics items posted a positive monthly average change of 0.26 percent.

Chart IV.1
Evolution of retail sales of the six categories of consumer goods (Jan. 2013 - June 2015)

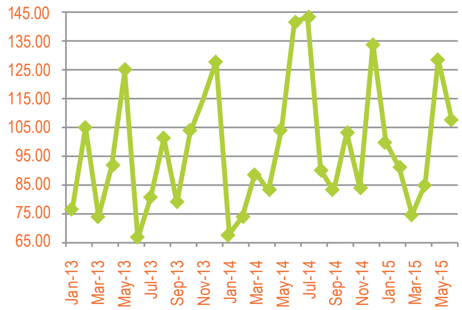
Evolution of retail sales of goods



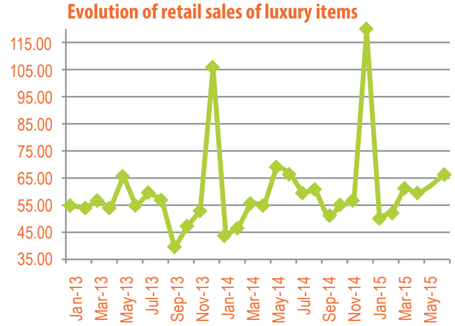
Evolution of retail sales of clothing



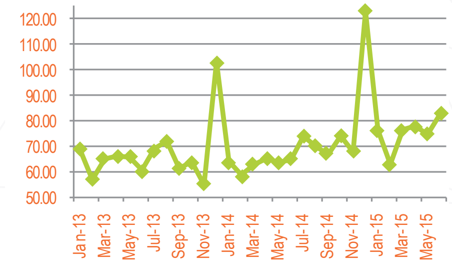
Evolution of retail sales of cosmeticss



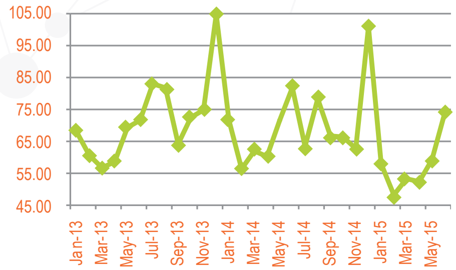
Evolution of retail sales of luxury items



Evolution of retail sales of food



Evolution of retail sales of household goods



Evolution of retail sales of sports and hobbies items

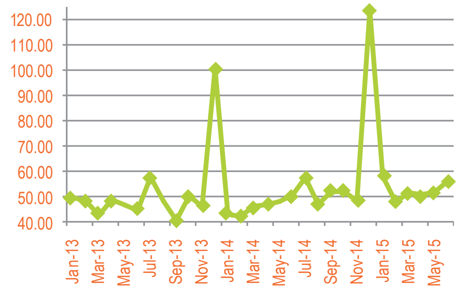
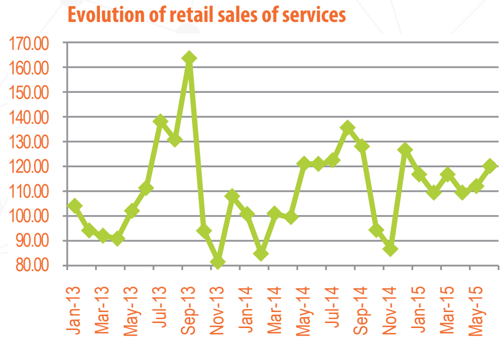
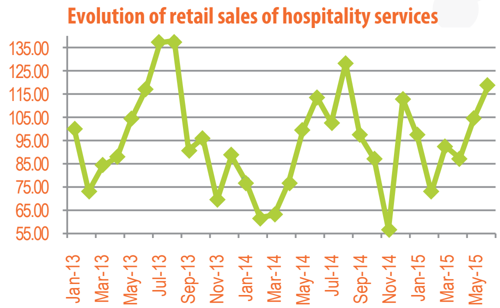
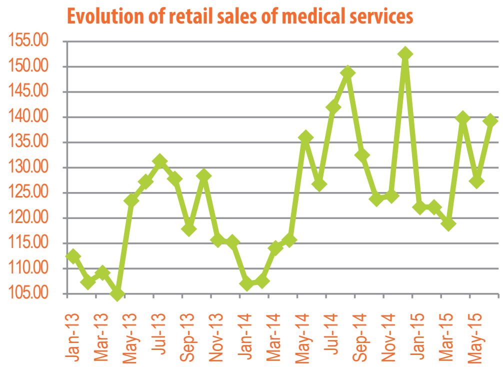
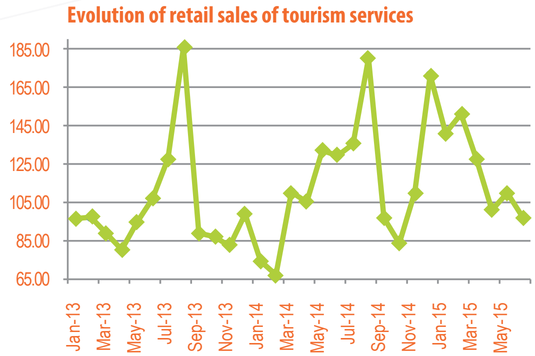


Chart IV.2
Evolution of retail sales of the four categories of services (Jan. 2013 - June 2015)









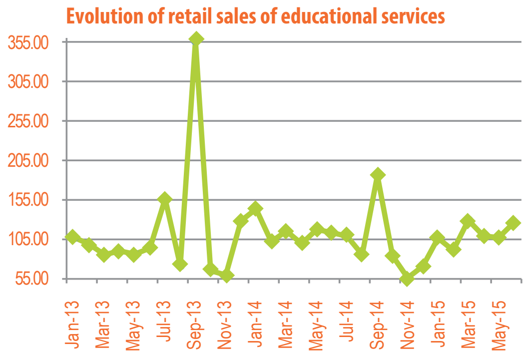
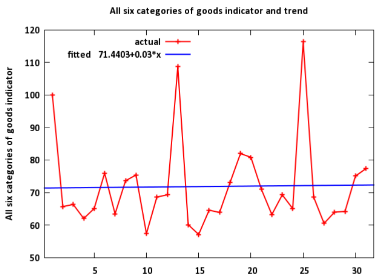
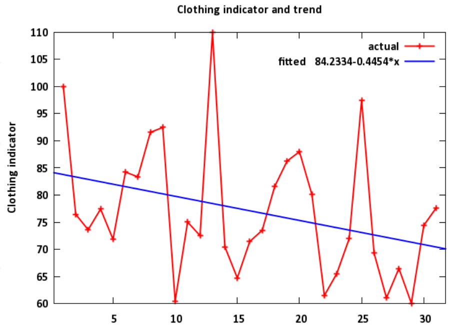
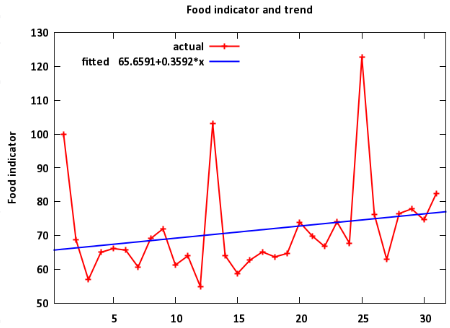
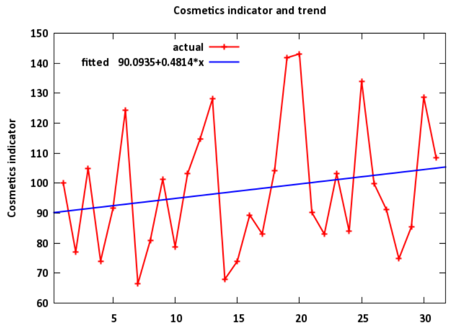


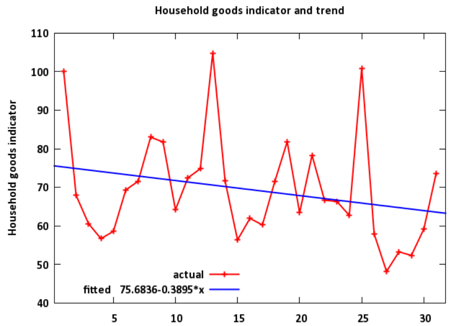
Chart IV. 3
Trends for retail sales of the six categories of consumer goods (Jan. 2013 - June 2015)

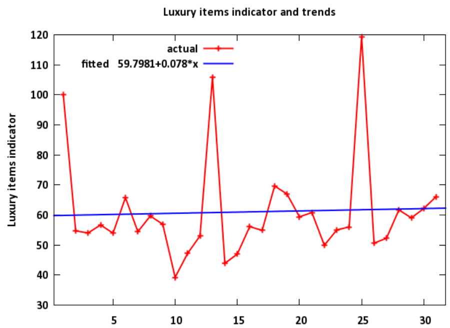












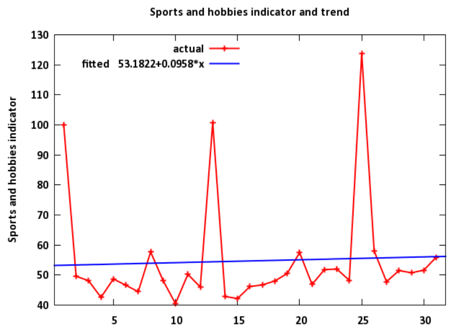


Chart IV. 4
Trends for retail sales of the four categories of consumer services (Jan. 2013 - June 2015)

The sales-to-footfall ratio, an enterprise-level metric

Be it in shopping malls, in retail stores or in e-commerce applications[5] , retail marketing professionals include the sales-to-footfall ratio in their assessment of a number of retail variables such as the impact of a marketing campaign, the optimality of a mall's or shopping street's tenant mix, the adequacy of a location, the appeal of an advertised discount or offer, the attractiveness of display, and the like.

Retail executives also pair the sales-to-footfall ratio with other accounting metrics in order to evaluate the financial performance of a retail business. In this context, a retailer's sales-to-footfall, occupancy cost, and return on space are three ratios that may be conjointly analyzed to afford an adequate pointer as to whether the share of occupancy cost in the enterprise's cost structure is financially justified and sustainable.

Useful as it may be to decision-making in retail enterprises, that ratio loses much of its relevance if applied to whole sectors of retail, let alone the arithmetic oddities that may result from a rash attempt to patch together incongruous numerators and denominators.

This is so because the computation of the sales-to-footfall ratio is an exercise that is carried out exclusively at retail enterprise level and when sales data are expressed in money terms. Furthermore, the ratio, which involves basic arithmetic, is most relevant to retail businesses rather than whole retail sectors.

The correlation between sales and footfall, a sectoral metric

The present report's exercise in this regard is to detect a sales-to-footfall correlation that would be relevant to large numbers of retailers, mainly located in shopping malls. This requires a radically different approach for the two basic reasons:

a- The sales-to-footfall ratio of individual retail enterprises is inaccessible for the purposes of the report.

b- The retail sales data obtained from

[5] The ratio of sales to the number of site visitors is applicable in e-commerce.

shopping malls and from retail enterprises are directional and therefore cannot be meaningfully placed on either side of the ratio.

Notwithstanding these remarks, the relationship between sales and footfall is statistically detectable and significant even when sales data are directional rather than in money terms.

Based on 30-period data sets on sales and footfall from malls involved in the current retail indicators project, a time series analysis was carried out that revealed a significant positive correlation between retail sales and footfall.

Chart IV.5 reproduces the scatter diagrams of three different sets of sales and footfall pertaining to different shopping malls. The strength of the correlation between the two variables may be established both visually and statistically. In Case 1 the coefficient of determination R-squared is 0.67; it is 0.62 for Case 2 and 0.59 for Case 3. In all three cases, R-squared is acceptably high, indicating that the paired variables – sales and footfall – are correlated.

The interpretation of this correlation is that, within an acceptable margin of error, a marginal increase or decrease in sales from one period to another may be attributed to a marginal increase or decrease in footfall.

The coefficient of determination quantifies the impact of footfall on sales so that the relationship may be re-stated as follows:

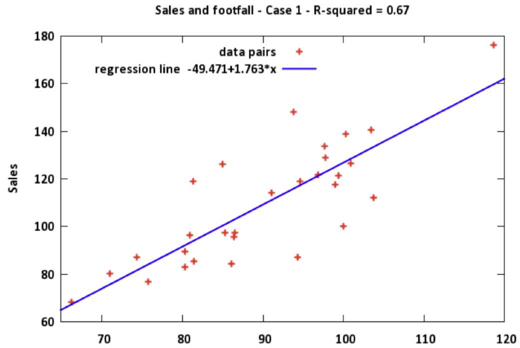
In Case 1, 67 percent of the change in sales from one period to another may be attributed to a change in the same direction in footfall.

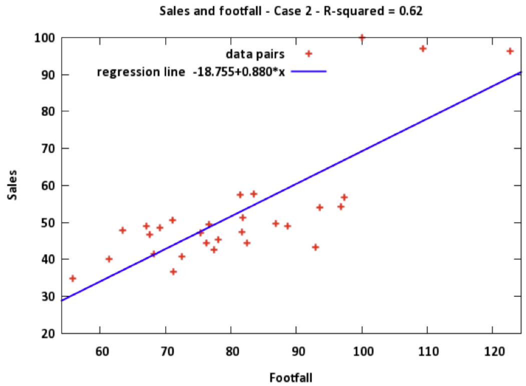
In Case 2, 62 percent of the change in sales is explained by the change in footfall; and in Case 3, 59 percent of marginal sales are explained by marginal footfall[6].

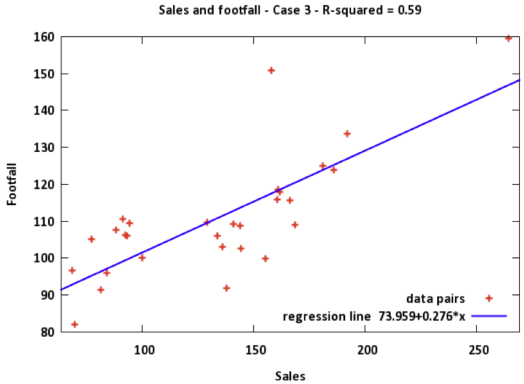
"The relationship between sales and footfall is statistically detectable and significant even when sales data are directional rather than in money terms"

[6] Appendix table 2 tallies correlation coefficients between footfalls and retail sales indicators at three mall branches.

Chart IV.5
Correlation between sales and footfall







The sales metrics and the broader retail business context

The saying that a retail business survives on sales but thrives on profits could not be more pertinent to the current business context in Lebanon. The fact that there could conceivably be a disconnect between sales and profits is acutely felt in the retail industry. Yet, business enterprises that operate in survival mode do realize that it is only through sales that they can maintain their market position, while awaiting better times.

The volume of sales, whether it is deemed acceptable in some sectors of retail, or anemic or downright declining in other sectors, is not the only business metric to impact the bottom line.

As a matter of fact, in a retail business model that could apply to enterprises in most sectors of retail, growing sales do not necessarily imply strong financials. Indeed, sales growth may be occur with lower or stagnant profits due to any one or more of the following variables:

- lower margins
- higher cost of labor
- higher occupancy cost ratio
- higher overheads
- higher cost of goods sold
- higher interest cost of financing

These are precisely the variables that the enterprise survey component of the present project has sought to quantify. (Part V)

"Growing sales do not necessarily imply strong financials"

Imports

In a country where imports per capita was the highest in the region[7] only a few years ago, an analysis of the evolution of imports over the period covered by the retail indicators would add clarity to the retail industry landscape that these indicators purport to describe.

The import numbers

Over the 29-month period to May 2015, Lebanon's imports have declined at a monthly average rate of 0.35 percent. And, that fall in imports has gained momentum in the 17-month period from January 2014 when the average monthly decline was 1.35 percent.

Table IV. 11 shows the rate of change in nine import categories that account for 90 percent of all imports. The table clearly reveals to acceleration in the decline of imports as from January 2014. Eight of the nine import categories examined posted a monthly average decline. Only the import of motor vehicles picked up speed in that period.

Table IV. 11 - Average monthly change in major categories of imports

imports	Jan.'13-May '15	Jan.'14-May '15
All imports	-0.35%	-1.35%
Fuel	-1.67%	-4.54%
Food & farm products	0.19%	-0.33%
Machinery	0.19%	-0.07%
Chemicals	0.27%	-0.62%
Vehicles	0.59%	2.14%
Metals	-0.52%	-3.17%
Precious stones	-2.59%	-2.65%
Plastics	0.16%	-0.17%
Textiles	0.32%	-0.10%

Oddly, imports consolidated their downtrend in a period when the country's population was inflated by no less that a third, according to official and converging estimates[8].

[7] Excluding oil-producing countries
[8] Appendix table 3.1 tallies correlation coefficients between imports and the two retail sales indicators.

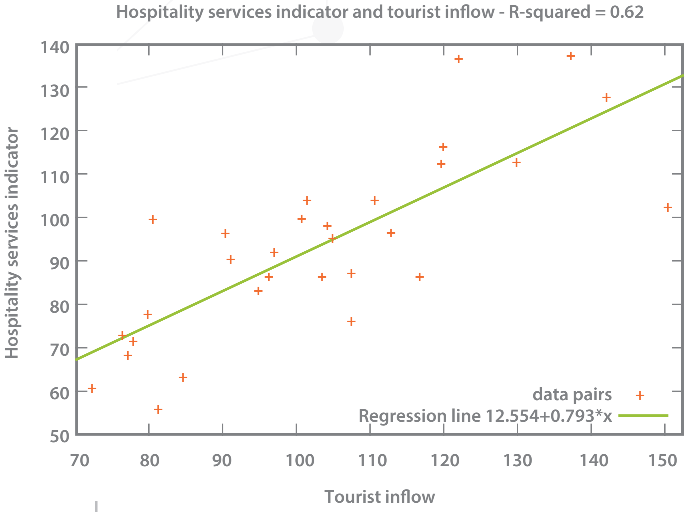
Tourism

The inflow of tourists[9], one of the determinants of retail activity, has grown by 1.09 percent in the period covered by the retail indicators. The July-August peaks in tourist arrivals constitute a seasonal feature that closely matches the seasonality observed in the indicators for tourism and hospitality services.

Not unexpectedly, the correlation between tourist inflows and the hospitality services indicator was found to be the highest compared to correlations with other retail indicators. Chart IV.6 shows a relatively high coefficient of determination of 0.62, a ratio that suggests an estimate that 62 percent of the marginal change in the indicator for hospitality services is explained by the marginal change in the inflow of tourists[10].

Chart IV.6

Correlation between tourist inflows and the hospitality services indicator



Correlation, a reliable benchmarking statistic

The evolution of retail sales by category, as worked out in the present report, constitutes a standard against which retail enterprises may wish to compare their sales performance.

[9] Proxied by airport arrivals data

[10] Appendix table 3.2 tallies correlation coefficients between the tourist inflow proxy and six retail sales indicators.

A retail enterprise could benchmark the performance of its sales by computing the coefficient of correlation between the monthly evolution of these sales and the monthly evolution of category-level retail sales in the same period.

This benchmarking approach yields four broad alternative types of outcome:
(i) a positive and high correlation coefficient (with a value of .700 or higher) may be obtained and this implies that the business enterprise's sales tracked closely the overall evolution of sales in the sector within which it operates.
(ii) a positive but moderately strong correlation coefficient (with a value between .500 and .700), or weak correlation (with a value below .500) means that the company's sales have moved roughly but not closely in the same direction as sector-wide sales in the period for which sales data are compared.
(iii) a negative and high correlation coefficient (with a value of -.700 or more) indicates that the company's sales have evolved almost exactly in the opposite direction of the sector's sales.
(iv) a negative and moderately strong (with a value between -.500 and -.700) or weak coefficient (with a value less that -.500) says that company sales moved roughly in the opposite direction of sectoral sales.

Computing the correlation statistic is a sound benchmarking method on three critical counts: First, because it is a time series approach where the coefficient would normally represent a relatively large number of data points, as distinct from an approach that computes a one-data-point ratio for benchmarking. Second, this benchmarking method is reliable because data for the two time series sets it deals with – the enterprise data set and the sector's data set – are collected from two very different sources and hence satisfy a key condition for obtaining a reliable correlation coefficient. Third, the computation of the coefficient also provides a gauge of the level of significance that indicates the degree to which the measure is satisfactory.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V. THE SURVEY

This part of the report expounds the rationale for carrying out a retail enterprise survey and presents the survey's results in the form of frequencies and correlations. The part of the survey that was intended to detect business confidence was processed separately and its results presented as a Retail Business Confidence Index (RBCI).

A component of the retail indicators project, the retail enterprise survey is designed to achieve four purposes:
- to detect how and to what extent the state of play in the retail industry and the current economic environment has affected retailers' business activity, business financials, and expectations
- to secure micro data that will be crosschecked with the project's resultant directional indicators,
- to estimate the weight of a number of variables as determinants of retail activity
- to obtain a **Retail Business Confidence Index (RBCI)** that the LFA may opt to publish periodically.

The survey's questionnaire is composed of two discrete core parts; one sought responses relating to the retailers' business ***performance*** over the first half of 2015 and the other aimed at revealing the expectations of retail entrepreneurs.

In the first core part of the questionnaire, which comprised four questions, one question sought responses on the percentage change of ten business performance variables. These are the responding company's sales; production costs; wage bill; labor force; reliance on bank credit; working capital; interest payments; retail prices; customer base; and balance sheet total.

A second question focuses on variables that may have affected ***sales***. Eleven such variables were identified and the question sought to capture the perception of respondents as to the extent to which these variables had an impact on sales. The variables are: the inflow of tourists; security conditions; political stability; consumer confidence; lower prices; higher prices; customer loyalty benefits; advertising expenditure; bank consumer credit; the introduction of a new product or service; and the introduction of a new brand.

The third question of the questionnaire's first part aimed at securing from respondents an evaluation of the factors they believe have constrained the ***expansion*** of their business. Thus, respondents were asked to evaluate the extent to which eleven factors have limited their business growth. These factors are: market demand; human resources; capital; operating costs; rents; other fixed costs; access to financing; financing cost; production capacity; the state of the economy; and security conditions.

The fourth question in that part of the questionnaire asked respondents to assess the performance of their actual sales in the first half of 2015 in relation to what they had expected sales would be.

In the second core part of the questionnaire, which comprised six questions, the first three questions asked for the entrepreneurs' ***expectations*** regarding performance, sales, and expansion as impacted by the same variables included in the first three questions of the questionnaire's first part.
Also in the second part of the questionnaire, a set of three questions center on variables affecting the decision to expand and the respondents' perception of factors affecting their competitiveness.

Response format Only one question of the questionnaire's core sought to secure answers in the form of percentage change in ten business performance metrics. For eight of the remaining questions, five-point ordinal response scales were provided, and for one question, a nine-point ordinal response scale was provided and each of the nine points on that scale was assigned a specific range of percentage changes. The technical implications of the ordinal response format at the level of data processing were taken into account.

A. The retail enterprise survey's results

For the purpose of the present report, responses obtained from the enterprise survey, which at this stage may be considered as a pilot survey, were processed on a preliminary basis, while the survey remains open for further responses. Hence, only the basic and most striking results were reported.

1. Responses relating to business performance

Local sales

Some 55.6 percent of respondents to the pilot survey said that their local sales had increased in the first half of 2015, but half of those estimated the increase in their sales at less than five percent.

On the downside, 16.7 percent of respondent said that their sales diminished by 20 to 24 percent.

Production costs

Nearly 53 percent of respondents said their production costs had increased by nine percent or less in the first half of 2015, whereas 23.5 percent said their production costs had remained unchanged in the period.

The wage bill

To 61 percent of respondents, their companies' wage bill had increased by 14 percent or less, and a third said their wage bill remained unchanged in the first half of 2015.

The labor force

The companies of 44 percent of respondents saw their labor force increase by up to 14 percent in the first half of 2015 compared with the second quarter of 2014. For the rest of respondents, the labor force either remained unchanged or decreased by up to 14 percent.

Working capital

Nearly six percent of respondents reported a significant increase of 20 to 24 percent in the working capital of their companies in the first half of 2015 as compared to the preceding half-year, whereas 39 percent said that working capital remained unchanged in the period.

Interest rates

Interest rate payments remained unchanged for nearly two thirds of respondents in the period investigated by the survey, whereas 29 percent said that the interest payments incurred by their companies increased minimally by less than five percent.

Retail prices

Some 50 percent of responding retail executives said their companies' retail prices had increased by up to 14 percent in the first half of 2015, and a third of respondents said their retail prices remained unchanged in the period.

Customer base

Two thirds of responding companies said their customer base had expanded by up to 19 percent in the first half of 2015, whereas eleven percent said their customer base remained unchanged in that period.

The balance sheet total

Nearly 56 percent of retail enterprises that participated in the survey said their balance sheet total had expanded by up to 19 percent in the first half of 2015.

2. Responses on factors affecting performance

The inflow of tourists

To most responding retailers, nearly 78 percent, the inflow of tourists had no – or limited – impact on the performance of their companies in the first half of 2015. The remainder said this factor has considerable impact on their performance.

Security conditions

Though the pilot survey was carried out in a period when security concerns were running high, 28 percent of respondents said these worries either had no impact or had a minimal impact on the performance of their companies in the period covered by the survey answers. However, for nearly a third of respondents the impact of security conditions was considerable or decisive in its impact on business performance.

Political stability

To nearly two thirds of respondents, political stability had a considerable or decisive impact on business performance in the first half of 2015.

Consumer confidence

To some 60 percent of responding retail firms, consumer confidence had at best a limited impact on their performance in the first half of 2015.

Advertising expenditure

Nearly 40 percent of responding retailers said their advertising outlays had a considerable or a decisive impact on the performance of their companies in the survey's period.

The introduction of a new product/service/brand

To two thirds of retailers taking part in the survey, the introduction of a new product or service by their companies had at best limited impact on overall performance in the first half of 2015, whereas a quarter of respondents said the introduction of a new brand had a limited impact on performance, and 62 percent said it had minimal or no impact.

3. Responses on constraints to business expansion

Market demand

To nearly 89 percent of respondents, market demand conditions had a limiting or decisively limiting impact on their plans to expand their business.

Human resources

The availability of human resources with adequate levels of competence had a limiting or very limiting impact on expansion for 61 percent of responding business enterprises, whereas nearly 28 percent said this factor had no impact on the decision to expand.

Capital

For two thirds of respondents, the availability of capital had a limiting or decisively limiting impact of business expansion plans.

Operating costs

The level of operating costs had a very limiting impact of expansion plans for half of respondents.

Rents
A third of respondents said that the level of rents had a decisively limiting influence on expansion decision, and nearly 28 percent said rents had a very limiting influence on business expansion.

Other fixed costs
To 22 percent of respondents, business expansion is strongly impacted by the level of other fixed costs, whereas nearly 39 percent said the impact of these costs was just limiting.

Access to financing
Some 28 percent of responding retail firms said that access to financing was a very limiting to decisively limiting factor in the business decision to expand, but a third of respondents said that factor did not enter in the decision to expand.

The cost of financing
To 39 percent of responding retail firms, the cost of financing had a limiting influence on business expansion plans, whereas close to 17 percent of respondents said that the influence of factor was very limiting.

Production capacity
Of those retail companies that took part in the survey, nearly 59 percent of responses revealed that production capacity had either limiting or minimally limiting influence on company expansion decision, whereas the remainder indicated that this factor had no influence on that decision.

The state of the economy
Responses pointed to a very large majority of companies, 83 percent, that consider the state of the economy to have a limiting, a very limiting, or a decisively limiting influence on expansion decisions.

Security conditions
An overwhelming majority of respondents, 89 percent, revealed that security conditions influenced business expansion.

4. Actual sales and target sales

Two thirds of responding companies revealed that their actual sales in the first half of 2015 fell moderately short of their sales target, whereas to 22 percent of responding firms, actual sales exceeded targeted sales moderately.

B. The Retail Business Confidence Index (RBCI)

A long-established premise in behavioral economics is that both consumers and investors act essentially on expectations, and these are formed more by psychological factors than by real factors or an advanced-level analysis of hard data. Capturing the expectations of investors through an executive opinion survey could hence yield a set of reasonably reliable inferential indicators.

The questions relating to the Retail Business Confidence Index (RBCI) were embedded in the questionnaire of the retail enterprise survey. Respondents were asked to convey their expectations over the coming six months regarding 21 variables included in these questions.

Of these variables, 19 business variables relate to business performance and factors affecting performance and business expansion plans, and two variables are intended to capture expectations on the economy and on the impact of security conditions.

With its 21 constituent sub-indices attached to as many variables, the RBCI is a strong and reliable conveyor of the outlook, expectations, and perceptions of responding entrepreneurs.

As in any business confidence index, scores for the overall RBCI and for the sub-indices constituting it are expressed in fraction values between 0 and 1.

> "A long-established premise in behavioral economics is that both consumers and investors act essentially on expectations"

The pivot value is 0.5, the mid-point of that range and the borderline value between positive responses and negative ones. A score above 0.5 pivot value reveals a respondent's optimistic or positive viewpoint or expectation regarding the issue raised in the question, whereas a score below 0.5 conveys a pessimistic or negative viewpoint or expectation.

The survey's results

For the 21 variables included in the RBCI, scores were computed based on responses on the Likert scale provided in the questionnaire. These variables were grouped under six categories namely: market conditions; cost components; employment; financing; business performance; and policy issues.

The Retail Business Confidence Index obtained from the survey has a value of .492 , reflecting retailers' general mood leaning somewhat toward negative expectations. This may be ascribed to the fact that the survey was launched in a period when the country is generally perceived to be witnessing the confluence of daunting threats.

Despite the prevailing pessimism, the index for market conditions was on the positive side of the confidence sale with a value of .516 . Within that sub-index, expectations regarding sales were markedly positive with a value of .583 and so were expectations on the prospects of the customer base expanding, which had a value of .544 . Expectations were negative for market demand being strong enough to justify business expansion, with a value of .456 .

Retailers were pessimistic on all counts that make up the cost components sub-index of the RBCI. Expectation relating to production costs; wages; operating costs; rents; and other fixed costs were all on the negative portion of the confidence spectrum.

"The Retail Business Confidence Index obtained from the survey has a value of .492 , reflecting retailers' general mood leaning somewhat toward negative expectations"

The confidence sub-index for cost components had a value of .462 .

The sub-index for employment had a value of .567 on the confidence scale, indicating that expectations were positive in this regard. Retailers were thus confident that their business could call for a larger labor force and that business expansion would not be impeded by the scarcity of adequate human resources.

Expectations toward issues pertaining to financing were mixed and the confidence index was right at mid-scale. Retailers were confident regarding business expansion plans not being impeded by access to financing and the cost of financing - .541 and .579 respectively – but were much less confident regarding their current level of business having to rely more on bank credit and incur higher interest payments - .411 and .470 respectively.

The sub-index for business performance reflected modestly positive expectations at a value of .514 . Retail executives expressed confidence regarding production capacity not being a significant impediment to business expansion (.564), but were much less confidence about capital impacting expansion plans (.447). They were more confident about their current business calling for a larger working capital and expanding their balance sheet total, .527 and .517 respectively.

Expectations relating to the state of the economy and to security conditions were well into the negative space, with indices of .369 and .416 respectively.

The RBCI	0.492
	sub-indices
Market conditions	**0.516**
Sales	0.583
Retail prices	0.482
Customer base	0.544
Market demand calling for business expansion	0.456
Cost components	**0.462**
Production costs	0.478
Wage bill	0.489
Operating costs	0.461
Rents	0.431
Other fixed costs	0.452
Employment	**0.567**
Labor force	0.563
Human resources	0.570

The RBCI	0.492
	sub-indices
Financing	**0.500**
Access to financing	0.541
Cost of financing	0.579
Bank credit	0.411
Interest payments	0.470
Business performance	**0.514**
Production capacity	0.564
Working capital	0.527
Capital	0.447
Balance sheet total	0.517
Policy variables	**0.393**
State of the economy	0.369
Security conditions	0.416

CONCLUDING NOTES

Of the ten categories of consumer goods and services for which retail sales indicators were constructed for the ten quarters to June 2015, four categories saw their sales indicators trend downwards, while the trend for four other categories was almost flat. Only the indicators of two categories of services namely, tourism services and medical services, showed a positive trend over the period.

The trend metrics for categories of goods and services that add up to the largest bulk of retail activity show a failure to build up a positive trend over a 10-quarter long period of time despite the fact that in the period under review, a number of determinants that positively correlate with consumption spending either staged a spectacular growth (the demography determinant is a case in point), or maintained an ascending path, such as bank credit and the inflow of tourists.

Determinants that correlate negatively with consumption spending, such as low consumer confidence, high household indebtedness, and the high rates of interest applied on most types of consumer credit, may have weighed down on the positive determinants of consumption.

All other metrics and comparisons computed in the report indicate that retail sales either fell or were stagnant in the two and a half years covered by the report.

"The trend metrics for categories of goods and services that add up to the largest bulk of retail activity show a failure to build up a positive trend over a 10-quarter long period"

Recommendations

1. Stakeholders in the retail industry, be they business enterprises or representative business organizations, need to monitor and assess the impact of economic policy on household consumption.

2. "The Guiding Model" part of the present report provides a framework for the analysis of policy measures that produce a positive impact on the consumption component of aggregate demand. Business organizations may base their advocacy effort on that framework and insist on efficient growth-inducing policies.

3. On that issue, economic organizations need to expound correct economic arguments about the direction of the vector of causality linking consumption expenditure and economic growth, at least over the short-term. When consumption is depressed, so will be economic activity, of which consumption is the largest component.

4. Representatives of the retail industry should lobby for a reduction of the consumption tax rate and should carry out impact assessment studies to prove that such a tax reduction is a sure recipe for boosting consumption and hence raising the level of economic activity and by the same token, the tax base.

5. At the enterprise level, business representatives need to encourage and train retail businesses to base their planning and strategy decisions on data and information. Retail enterprises should also be prodded to support efforts aimed at gathering data and information.

"Economic organizations need to expound correct economic arguments about the direction of the vector of causality linking consumption expenditure and economic growth"

APPENDIX

I. Explanatory notes

1. Main data processing procedures

The evolution of retail sales at current prices

Unless otherwise indicated, percentages that show the evolution of the value of retail sales are at current prices. Due to the fact that inflation remained in the low single-digit range in the period covered by the report, applying a price deflator to adjust variations in sales for inflation would make a negligible difference.

Subsequent reports may analyze retail sales variations at constant prices if and when annual rates of inflation take a firm ascending path.

Weighted averages

Different weights were assigned to the various sources of retail data. These weights were applied at category level, and reflect the data providers' size, market position, and degree of representation of retail activity.

Adjustment for payment-card market penetration

Data on the evolution of retail sales as reported by payment systems operators comprise a portion that is due to a shift from settlements by cash or checks to the use of a variety of payment cards. Sales data from that source have therefore to be adjusted for change in the degree of payment-card penetration of the retail markets.
The adjustment procedure combined two payment-card metrics namely, the evolution of the number of cardholders and the evolution of contracts with points of sale over the period under review.

2. Retail groupings, categories, and sub-categories

Items that were retained for processing were grouped as "Goods" or "Services". The report analyzes data relating to 6 categories of goods including a total of 36 sub-categories. Also for the purposes of the analysis, the tag "Services" refers to 4 categories of services containing 18 sub-categories.

Following are the categories and sub-categories of goods and services the data for which is analyzed in the report.

Appendix table 1.1

Categories of goods	Sub-categories
Clothing	***(8 sub-categories)***
	Men's wear
	Women's wear
	Women's accessories
	Children's wear
	Family clothing
	Shoes
	Apparel
	Fabric/ sewing
Cosmetics	***(3 sub-categories)***
	Perfumes
	Cosmetics
	Personal care
Household goods	***(11 sub-categories)***
	Sanitary/ utilities
	Glass/ paint/ wallpaper
	Hardware
	Furniture
	Floor covering
	Drapery/upholstery
	Misc home furnish
	Household appliances
	Audio-visual
	Antiques restoration
	Crystal & glassware
Luxury items	***(7 sub-categories)***
	Jewelry/ watches/ silverware
	Crafts
	Art dealers galleries
	Florists
	Cigars
	Gifts
	Electronics
Sports and hobbies	***(3 sub-categories)***
	Sporting goods
	Games / toys
	Music instruments
Food & beverages	***(5 sub-categories)***
	Supermarkets
	Confectionery
	Bakeries
	Misc. food stores
	Liquor/ beer/ wine

Appendix table 1.2

Categories of services	Sub-categories
Hospitality	***(4 sub-categories)*** Catering Restaurants Pubs / nightclubs Hotels / resorts
Tourism & entertainment	***(6 categories)*** Travel agencies Travel services Movies / theaters Dance schools/ studios Tourist attractions/ exhibits Clubs
Medical services	***(5 sub-categories)*** Doctors Dentists Ophthalmologists Hospitals Other med/healthservices
Education	***(3 sub-categories)*** Elementary/ secondary schools Schools educational services Child care services

3. Correlations

Correlations between retail sales indicators and mall footfall

Appendix table 2

Positive correlations with footfall

	Correlation coefficient	Significance level
Mall 1	.788**	0
Mall 2	.781**	0
Mall 3	.818**	0

** Correlation significant at 99 % confidence level

The Pearson coefficient of correlation (r) reveals a positive and strong correlation between footfall and indicators of retail sales at three mall branches, meaning that the two variables move very closely together.

Correlations between retail sales indicators and imports

The Pearson coefficient (r) points to a positive but weak correlation between imports and the household goods sales indicator, and between imports and the clothing sales indicator.

Appendix table 3.1

Positive correlations with imports

	Correlation coefficient	Significance level
Household goods	.374*	0.042
Clothing	.365*	0.047

* Correlation significant at 95 percent confidence level

Appendix table 3.2

Positive correlations with BIA arrivals

(ranked by strength)

	Correlation coefficient	Significance level
Hospitality services	.785**	
Medical services	.708**	
Tourism services	.584**	0.001
Clothing	.479**	0.007
Cosmetics	.408*	0.025
Household goods	.371*	0.044

* Correlation significant at 95 percent confidence level
** Correlation significant at 99 percent confidence level

Correlations between retail sales indicators and tourist inflow

Hospitality services and medical services are positively and strongly correlated with passenger arrivals ate the Beirut International Airport, a metric adopted as a proxy to the inflow of tourists.

The sales indicator for tourism services and tourist inflows are positively correlated and move moderately close together, whereas the sales indicators for clothing, cosmetics, and household goods are positively but weakly correlated with the tourist inflow metric.

Strong or weak, positive or negative, correlations do not necessarily imply causation, though they could. A positive correlation between two variables simply states that the two variables move together in as close a linear path as is indicated by the coefficient of correlation. The higher that coefficient the more closely and linearly the two variables move together.

Causation, of course, needs to be inferred in analysis.

For example, the correlation between mall retail sales and footfall is an established premise in the retail industry. Therefore, the relevance of providing a value for the strength of that association between the two variables is that such a metric allows mall tenants to benchmark the performance of their sales and footfall with the evolution of overall sales and footfall metrics within a retail mall's microcosm.

Appendix table 4 INDICATORS FOR RETAIL SALES OF CONSUMER GOODS

	CLOTHING	FOOD & BEVERAGES	COSMETICS	HOUSEHOLD GOODS	LUXURY ITEMS	SPORTS &HOBBIES	TOTAL GOODS
Jan-13	*76.45*	*68.80*	*77.07*	*67.94*	*54.72*	*49.60*	*65.76*
Feb-13	*73.61*	*56.98*	*104.93*	*60.62*	*54.03*	*48.17*	*66.39*
Mar-13	*77.42*	*65.06*	*74.06*	*56.73*	*56.68*	*42.59*	*62.09*
Apr-13	*71.84*	*66.19*	*91.62*	*58.62*	*53.95*	*48.72*	*65.16*
May-13	*84.24*	*65.73*	*124.41*	*69.35*	*65.77*	*46.65*	*76.02*
Jun-13	*83.35*	*60.73*	*66.46*	*71.61*	*54.44*	*44.47*	*63.51*
Jul-13	*91.54*	*69.10*	*80.97*	*83.03*	*59.66*	*57.73*	*73.67*
Aug-13	*92.47*	*72.00*	*101.32*	*81.77*	*56.93*	*48.21*	*75.45*
Sep-13	*60.47*	*61.32*	*78.80*	*64.20*	*39.26*	*40.52*	*57.43*
Oct-13	*75.04*	*64.01*	*103.18*	*72.47*	*47.19*	*50.24*	*68.69*
Nov-13	*72.52*	*55.00*	*114.67*	*74.85*	*53.06*	*46.04*	*69.35*
Dec-13	*109.95*	*103.09*	*128.05*	*104.78*	*105.78*	*100.74*	*108.73*
Jan-14	*70.47*	*64.15*	*67.98*	*71.66*	*43.91*	*42.88*	*60.18*
Feb-14	*64.71*	*58.83*	*73.99*	*56.39*	*46.98*	*42.20*	*57.18*
Mar-14	*71.45*	*62.76*	*89.40*	*61.99*	*56.14*	*46.19*	*64.65*
Apr-14	*073.50*	*65.19*	*83.10*	*60.27*	*54.89*	*46.74*	*63.95*
May-14	*81.55*	*63.73*	*104.23*	*71.56*	*69.65*	*48.04*	*73.13*
Jun-14	*86.25*	*64.75*	*141.80*	*81.84*	*66.95*	*50.53*	*82.02*
Jul-14	*87.99*	*73.96*	*143.08*	*63.43*	*59.40*	*57.47*	*80.89*
Aug-14	*80.09*	*69.93*	*90.21*	*78.35*	*60.81*	*46.90*	*71.05*
Sep-14	*61.47*	*66.81*	*83.01*	*66.71*	*49.92*	*51.85*	*63.30*
Oct-14	*65.52*	*74.05*	*103.15*	*66.37*	*55.02*	*52.00*	*69.35*
Nov-14	*71.97*	*67.78*	*83.97*	*62.76*	*56.04*	*48.28*	*65.13*
Dec-14	*97.52*	*122.80*	*133.99*	*100.89*	*119.37*	*123.74*	*116.39*
Jan-15	*69.29*	*76.30*	*99.84*	*57.97*	*50.62*	*58.03*	*68.67*
Feb-15	*61.04*	*62.97*	*91.16*	*48.22*	*52.26*	*47.82*	*60.58*
Mar-15	*66.46*	*76.51*	*74.81*	*53.30*	*61.69*	*51.50*	*64.05*
Apr-15	*60.06*	*77.90*	*85.39*	*52.39*	*59.04*	*50.78*	*64.26*
May-15	*74.41*	*74.65*	*128.67*	*59.20*	*62.15*	*51.63*	*75.12*
Jun-15	*77.63*	*82.54*	*108.40*	*73.69*	*66.13*	*55.93*	*77.39*

Appendix table 4 INDICATORS FOR RETAIL SALES OF CONSUMER GOODS

	CLOTHING	FOOD & BEVERAGES	COSMETICS	HOUSEHOLD GOODS	LUXURY ITEMS	SPORTS &HOBBIES	TOTAL GOODS
monthly average growth	0.05%	0.61%	1.14%	0.27%	0.63%	0.40%	0.54%
Q2-2014 av.	80.43	64.56	109.71	71.22	63.83	48.44	73.03
Q1-2015 av.	65.60	71.93	88.61	53.16	54.85	52.45	64.43
Q2-2015 av.	70.70	78.36	107.48	61.76	62.44	52.78	72.26
June 2015 -base year	-22.37%	-17.46%	8.40%	-26.31%	-33.87%	-44.07%	-22.61%
H1-2015	68.15	75.14	98.05	57.46	58.65	52.62	68.34
H1-2014	74.66	63.24	93.42	67.28	56.42	46.10	66.85
H1-2013	77.82	63.91	89.76	64.14	56.60	46.70	66.49
H2-2014	77.43	79.22	106.24	73.08	66.76	63.37	77.68
av H1-2015 / av H1-2014	-8.72%	18.83%	4.95%	-14.60%	3.95%	14.14%	2.23%
av H1-2015 / av H1-2013	-12.43%	17.57%	9.24%	-10.42%	3.62%	12.66%	2.79%
av H1-2015 / av H2-2014	-11.98%	-5.15%	-7.71%	-21.38%	-12.15%	-16.97%	-12.02%
av 2013	80.74	67.33	95.46	72.16	58.46	51.97	71.02
av 2014	76.04	71.23	99.83	70.18	61.59	54.73	72.27
av 2014 to av 2013	-5.82%	5.78%	4.58%	-2.74%	5.36%	5.31%	1.75%

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