



“BTA-Fransabank Retail Index” For the Second Quarter of 2019 (Q2-2019)

Beirut, August 19, 2019

Only Growth Will Allow the Lebanese Economy to Regain its Vitality

The Lebanese economic scene did not witness any positive developments that would help improve the situation prevailing in the markets or trigger any amelioration in the consumption trend during the second quarter of 2019.

Rather, all attention remained focused on the 2019 budget chapters as presented by the MOF and the consequent deliberations of the government on that matter, especially on all identified means to generate revenues that would help lower the budget deficit through the bias of the BOP by increasing customs on imported goods, as well as increasing taxes on deposits' generated interests.

In this respect, the debate was largely dominated by the deliberations on increasing the tariffs and customs on a wide spectrum of imported goods based on a protectionist approach to sustain the Lebanese industrial sector, without any serious study or documentation on the impact of such measures on the trading activities in particular, and on the overall economic situation in the country in general. Another aspect that is not rigorously investigated is the negative impact of raising taxes on interests on large deposits that would go elsewhere and the difficulty to luring similar new deposits, on one hand, while banks' interest rates will increase and tighten the possibilities for extension of facilities that smooth the mechanism of a healthy economy in the country. Thus, good intentions are never enough to revitalize market activity and regain growth, if they are not accompanied by scientifically proven economic policies and impact measurement documentation ...

In light of the above, all trading market players – in the capital and all around the country's market places, adopted a “wait and see” attitude, some of whom still having the strength to sustain the current market conditions and remain operational until the time comes when the situation starts improving, while quite a few others decided to cease activities and close their shops or companies, or rent them to non-Lebanese, as they could not bear anymore the burden of accumulated dues and commitments and expenditures, while experiencing an increasingly harming lack of activity and a sharp drop in their turnover figures, in parallel with increasing bank interest rates, as well as the lack of extended facilities with regards to penalties due to the Treasury, the Social Security, and other public entities ... (for the sake of reference, shop closures reached between 4% and 13% in Beirut as per a comprehensive survey, and even more in other regions of Lebanon).

Consequently, the momentum of retail trading markets and the pace of consumption were weak and below expectations during the second quarter of this year, despite the fact that the Holy month of Ramadan and Eid Al Fitr and Easter all coincided during this period. However, the country did not witness the arrival of a sufficient number of tourists and visitors from abroad, mainly from Gulf countries, nor the visit of Lebanese emigrants who usually come back home on such occasions and hence shops and retailers did not experience the usual surge in sales that represents an important share of their annual turnover.

Hence, retailers continued, in most sectors, to experience a deterioration in their sales figures, including vital sectors such as food products or basic necessities, as compared to their previous year performance during the same quarter.

Concurrently, the CPI posted a + 1.69% figure between the second quarter of 2018 and the second quarter of 2019 as per the official CAS figures, in spite of the permanent discounts and generous offers conceded by traders during this period, especially after the official launch of the **#ThinkofLebanon** campaign last March, whereby BTA incited all traders, across Lebanon, to make further concessions in their price margins.

It should also be noted that inflation was high in some sectors, and did reach – for this period:

- + 14.28 % in the Clothing and footwear sector,
- + 7.10 % in the Recreation, amusement, and culture sector,
- + 5.42 % in the Furniture & decoration sector,
- + 5.08 % in the Education sector,
- + 2.36 % in the Food and non-alcoholic beverages sector,

CPI (as per CAS official results)	
Q4 '14 / Q4 '13	- 0.71 %
Q1 '15 / Q1 '14	- 3.38 %
Q2 '15 / Q2 '14	- 3.37 %
Q3 '15 / Q3 '14	- 4.67 %
Q4 '15 / Q4 '14	- 3.40 %
Q1 '16 / Q1 '15	- 3.57 %
Q2 '16 / Q2 '15	- 0.98 %
Q3 '16 / Q3 '15	+ 1.03 %
Q4 '16 / Q4 '15	+ 3.14 %
Q1 '17 / Q1 '16	+ 5.12 %
Q2 '17 / Q2 '16	+ 3.48 %
Q3 '17 / Q3 '16	+ 4.15 %
Q4 '17 / Q4 '16	+ 5.01 %
Q1 '18 / Q1 '17	+ 5.35 %
Q2 '18 / Q2 '17	+ 7.61 %
Q3 '18 / Q3 '17	+ 6.53 %
Q4 '18 / Q4 '17	+ 3.98 %
Q1 '19 / Q1 '18	+ 4.08 %
Q2 '19 / Q2 '18	+ 1.69 %
Q4 '14 / Q3 '14	- 1.49 %
Q1 '15 / Q4 '14	- 0.98 %
Q2 '15 / Q1 '15	- 1.12 %
Q3 '15 / Q2 '15	- 1.18 %
Q4 '15 / Q3 '15	- 0.16 %
Q1 '16 / Q4 '15	- 1.15 %
Q2 '16 / Q1 '16	+ 1.54 %
Q3 '16 / Q2 '16	+ 0.82 %
Q4 '16 / Q3 '16	+ 1.93 %
Q1 '17 / Q4 '16	+ 0.74 %
Q2 '17 / Q1 '17	- 0.04 %
Q3 '17 / Q2 '17	+ 1.47 %
Q4 '17 / Q3 '17	+ 2.78 %
Q1 '18 / Q4 '17	- 1.06 %
Q2 '18 / Q1 '18	+ 2.10 %
Q3 '18 / Q2 '18	+ 0.45 %
Q4 '18 / Q3 '18	+ 0.32 %
Q1 '19 / Q4 '18	+ 1.16 %
Q2 '19 / Q1 '19	- 0.25 %

As a result, the consolidated real retail turnover figures (i.e. after applying the inflation rate weight on the nominal results) have posted a decline of – 6.00% between the second quarter of 2018 and the second quarter of 2019, compared to -7.94% in the previous quarter.

By excluding the fuel sector results (where an increase of + 7.09 % in volume was reported between the levels of Q2 '18 and Q2 '19), the real consolidated turnover drop reaches – 9.89 % in comparison to the Q2 '18 figures (also excluding fuel), compared to -10.05% in the previous quarter.

Yearly Variation between 2 nd Quarter '18 and 2 nd Quarter '19			
	Q2 - 2018	Q2 - 2019	
Nominal Year to Year Variation (incl. Liquid Fuels)	100.00	95.62	
Nominal Year to Year Variation (excl. Liquid Fuels)	100.00	91.66	
CPI between Jun '18 and Jun '19 (as per the official CAS figures)		+ 1.69 %	
Real Year to Year Variation (incl. Liquid Fuels)	100.00	94.00	- 6.00 %
Real Year to Year Variation (excl. Liquid Fuels)	100.00	90.11	- 9.89 %

* CAS – CPI – Jun '19

Such results do confirm that retail traders are in all evidence facing a very hard situation, and that some of them are not able to cope with it any longer, as mentioned earlier, so they have to resort to terminating the services of their employees, close their shops and trades, or rent those to generally non-Lebanese individuals, who usually perform types of activities different from their original sector.

The impact of economic reforms promised to the various economic bodies has been long-awaited in vain, the materialization of support funds and measures in the form of structural projects decided at the CEDRE conference more than a year ago is taking too long to be implemented, private investments are not coming back, while the 2019 budget did not allocate any funds for expenditure on public investments that would help re-activate the engines of the economy, and interest rates are climbing, and no measures have been taken to alleviate the burden of penalties and other dues, giving some breathing space to traders to safely overcome these difficult times. This has obviously resulted into a chain of closures, and the fears for further dangers are mounting.

The analysis of the performance during the second quarter of this year, and of the various retail trade market sectors, clearly translates the downtrend in the overall turnover figures, and shows that austerity has become normality in the spending pattern of Lebanese households, with selective consumption channeling main spending to basic necessities.

The main sectors where declines were registered between Q2 '19 and Q2 '18 include:

- Shoes and Leather Products (- 54.78 % against - 25.59 % in the previous quarter)
- Musical Instruments (- 53.55 % against - 6.86 %)
- Cellular Phones (- 51.25 % against - 35.03 %)
- Construction Equipment (- 38.51 % against - 29.97 %)
- Toys (- 28.78 % against - 17.97 %)
- Silverware and Decoration (- 27.18 % against - 7.23 %)
- Household Electrical Equipment (- 22.15 % against - 15.62 %)
- Optical and Hearing Aid Instruments (- 19.37 % against - 13.26 %)
- Pharmaceuticals (- 15.57 % against - 11.30 %)
- Furniture (- 14.41 % against - 6.42 %)
- Clothing (- 14.10 % against - 17.49 %)

- Commercial Shopping Centers (- 13.27 % against - 18.25 %)
- Books & Stationery & Office Supplies (- 12.88 % against - 18.73 %)
- Make-up Accessories (-10.15% against -7.23%)
- Home Accessories (- 7.78 % against - 4.61 %)
- Supermarkets and Food Shops (- 5.69 % against - 8.41 %)
- Sports Items & Equipment (- 2.89 % against + 1.88 %)
- Watches and Jewelry (- 2.63 % against - 13.41 %)
- Perfumes and Cosmetics (- 2.41 % against - 1.40 %)

The sectors that witnessed better results were, in addition to the fuel sector (+ 7.09 % in volume):

- Liquor & Spirits (+ 8.47 % against - 1.68 %)
- Restaurants and Snacks (+ 7.37 % against + 1.42 %)
- Tobacco (+ 7.01 % against + 1.52 %)
- Used Cars Dealers (+ 4.03 % against + 4.04 %)
- Medical Equipment (+ 2.64 % against + 1.26 %)
- Bakeries & Pastries (+ 1.50 % against - 5.16 %)

On the other hand, and despite the fact that the CPI between Q1 '19 and Q2 '19 indicated a drop in prices (- 0.25 %), the second quarter figures of retail trade sectors do reflect a lower activity level in comparison to the previous quarter results, despite the major religious events mentioned above, and despite a relative improvement in some sectors, as a natural result of seasonality factors.

The decline did affect various sectors of the retail trade, specifically those sectors that are considered as non-basic or essential, while some other sectors – along with the fuel sector, did experience improved results because of seasonal and religious circumstances (toys, food products and bakeries, perfumes and cosmetics, electrical household appliances ...), but also because of an improvement in the CPI specific to these sectors (for instance – 3.55 % in the food products and non-alcoholic beverages sector, against a consolidated – 0.25 % as per official CAS figures).

Yet, the overall consolidated real result for the second quarter was negative, and displayed a real decrease of – 3.28 % as compared to the previous quarter (excluding Liquid Fuels, where a + 8.34 % increase was reported in terms of volume).

Sectors where declining activity was reported included, in addition to the – 5.96 % decline in commercial malls:

- Shoes and Leather Products (- 54.39 %)
- Musical Instruments (- 50.66 %)
- Cellular Phones (- 36.67 %)
- Sports Items & Equipment (- 19.23 %)
- Clothing (- 11.50 %)
- Optical Instruments (- 10.85 %)
- Pharmaceuticals (- 9.95 %)
- Home Accessories (- 9.48 %)
- Construction Equipment (- 9.15 %),
- Books & Stationery & Office Supplies (- 5.93 %)
- Watches and Jewelry (- 5.25 %)
- Used Cars Dealers (- 3.15 %)
- Silverware and Decoration (- 0.33 %)

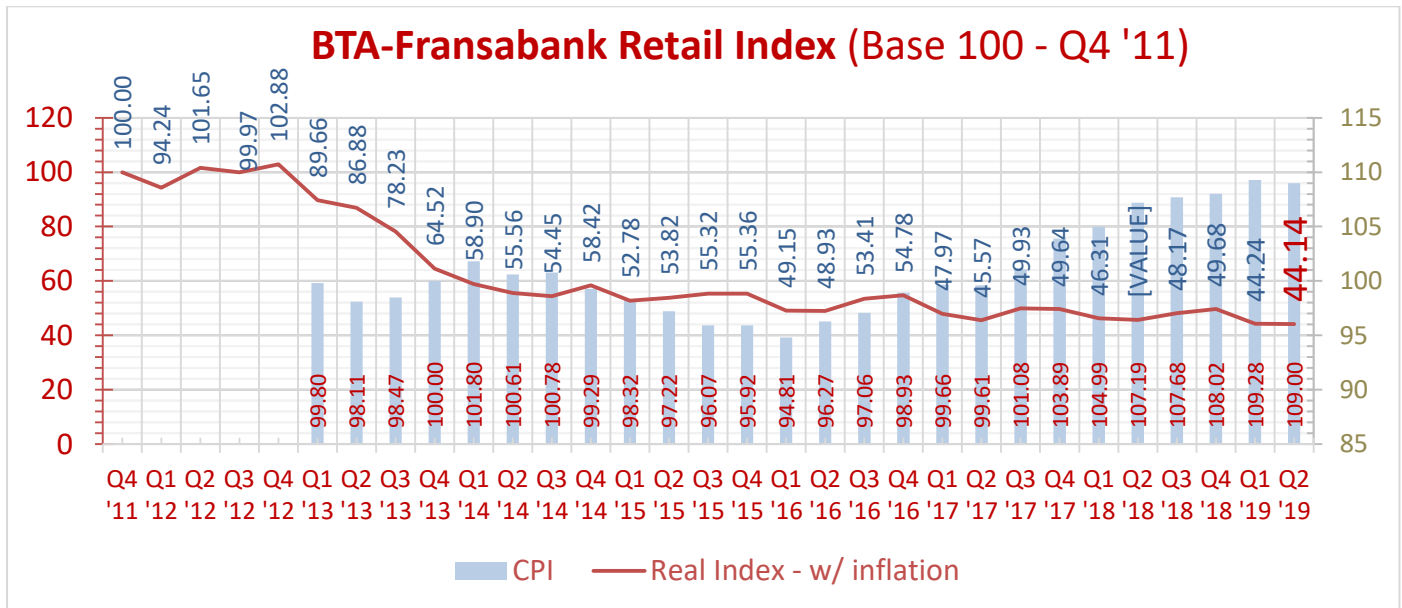
Positive results were posted, in addition to the fuels sector, in the following sectors:

- Liquors (+ 21.47 % %)

- Tobacco (+ 14.81 %)
- Furniture (+ 14.65 %)
- Bakeries & Pastries (+ 12.10 %)
- Restaurants and Snacks (+ 10.24 %)
- Medical equipment (+ 10.02 %)
- Household Electrical Equipment (+ 8.14 %)
- Toys (+ 7.02 %)
- Supermarkets and Food Shops (+ 5.60 %)
- Perfumes and Cosmetics (+ 3.03 %)

As a result, with our base index 100 fixed at the fourth quarter of 2011, and with a quarterly inflation rate of +1.69% for the second quarter of 2019, as per the official CAS report, we hereby announce that the “BTA-Fransabank Retail Index” is (with all sectors included) is **44.14** for the second quarter of the year 2019. This figure compares to the level of 44.24 for the first quarter of 2019.

BTA - FRANSABANK Retail Index For Q2 - 2019													
(Base 100 : Q4 - 2011)													
	2011	2012				2013				2014			
	Q4 '11	Q1 '12	Q2 '12	Q3 '12	Q4 '12	Q1 '13	Q2 '13	Q3 '13	Q4 '13	Q1 '14	Q2 '14	Q3 '14	Q4 '14
Nominal Index - w/out inflation	100	95.77	100.6	108.5	112.7	90.83	87.85	78.6	65.87	59.68	55.3	55.22	57.57
Real Index - w/ inflation	100	94.24	101.7	99.97	102.9	89.66	86.88	78.23	64.52	58.9	55.56	54.45	58.42
CPI	-	-	-	-	-	99.80	98.11	98.47	100.00	101.80	100.61	100.78	99.29
		2015				2016				2017			
		Q1 '15	Q2 '15	Q3 '15	Q4 '15	Q1 '16	Q2 '16	Q3 '16	Q4 '16	Q1 '17	Q2 '17	Q3 '17	Q4 '17
Nominal Index - w/out inflation		51.51	51.94	52.77	52.91	46.27	46.79	51.49	53.86	47.51	46.76	52.00	53.17
Real Index - w/ inflation		52.78	53.82	55.32	55.36	49.15	48.93	53.41	54.78	47.97	45.57	49.93	49.64
CPI		98.32	97.22	96.07	95.92	94.81	96.27	97.06	98.93	99.66	99.61	101.08	103.89
		2018				2019							
		Q1 '18	Q2 '18	Q3 '18	Q4 '18	Q1 '19	Q2 '19	Q3 '19	Q4 '19				
Nominal Index - w/out inflation		49.09	49.49	52.38	54.25	48.88	48.65						
Real Index - w/ inflation		46.31	45.71	48.17	49.68	44.24	44.14						
CPI		104.99	107.19	107.68	108.02	109.28	109.00						



The “BTA-Fransabank Retail Index” for the second quarter of 2019 displays a sustained deterioration in the consumption momentum in retail trade markets activities, while all attention is focused on the fate of the 2019 budget and its various chapters, on the upcoming new ratings by international agencies (S&P), on the World Bank’s appraisal, on the positive willingness of donors participating in CEDRE, but also on the positive and tranquilizing statements made by the Governor of BDL, especially on the monetary issues.

Introduction

The “BTA-Fransabank Retail Index” is the pioneer of indices that the private sector has started to produce (as it was launched in late 2011) with the main objective of addressing the long lasting non-availability of regular cyclical data and information relative to the activity of specific sectors of the Lebanese economy.

The main objective of the “BTA-Fransabank Retail Index” is to provide the trading community with a scientific tool that reflects the trend that is witnessed at the level of retail trade on a quarterly basis, bearing in mind that that this index is calculated based on actual data collected from a representative sample of companies distributed into all retail goods and services trading sectors (45 sectors as per the Central Administration of Statistics nomenclature).

This index should be considered as a good reference, bearing in mind that:

- Companies were asked to provide their turnover on a yearly basis by brackets (in millions of USD). They also are asked to provide the quarterly percent change of their turnover for the quarter under review, compared to the same quarter of the previous year, and to the previous quarter of the same year.

Percent change of turnover of current quarter compared to same quarter last year (Q1 - 2011) =

$$\frac{\text{turnover of the current quarter} - \text{turnover of same quarter last year}}{\text{turnover of same quarter last year}}$$

Percent change of turnover of current quarter compared to previous quarter of the same year =

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

Index Methodology

For each sampled establishment the percent change of the turnover is first assigned a weight based on its relative turnover compared to the turnover of the other establishments within the same activity sector (ISIC¹ 6 digits).

An aggregation is then done within each activity sector (ISIC 6 digits) to calculate a percent change of turnover for this specific activity sector.

We then obtain as many indices as the number of activity sectors (ISIC 6 digits) taken into account.

On a second stage, ISIC level indices are then aggregated using weights based on the cumulated VAT turnover for each activity sector as provided by the Ministry of Finance.

This aggregation provided the final “Beirut Traders Association – Fransabank Retail index” of the commercial activity for the quarter under review.



¹ ISIC- International Standard Industrial Classification