LFA-CCIABML RETAIL ACTIVITY INDICATORS LEBANON | SECOND HALF OF 2017

SIXTH EDITION

LFA RETAIL OBSERVATORY

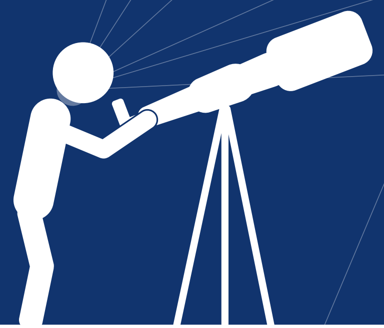
الجمعية اللبنانية لتراخيص الامتياز LEBANESE FRANCHISE ASSOCIATION

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

LFA - CCIABML

RETAIL ACTIVITY INDICATORS

LEBANON | SECOND HALF OF 2017



LEBANESE FRANCHISE ASSOCIATION
الجمعية اللبنانية لتراخيص الامتياز

a semi-annual report prepared by

Quant Analysts

LFA Implementing Partner

areeba

Data Provider

LFA wishes to thank

areeba

Data provider

RETAIL ACTIVITY INDICATORS

SECOND HALF OF 2017

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A semi-annual report prepared by

LFA Implementing Partner

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February 5, 2018

RETAIL ACTIVITY INDICATORS

SECOND HALF OF 2018 | SIXTH EDITION

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EXECUTIVE SUMMARY

THE RETAIL SALES PERFORMANCE INDICATORS FOR 2017

1. The **sixth edition of the LFA-CCIABML Retail Activity Indicators** presents retail sales indicators for the second half of 2017 and for the year as a whole. The report applies alternative trend detection procedures to indicator data sets and analyses changes in trend parameters across time frames.

The overall indicator

2. **The overall retail sales indicator for the nine categories of goods and services covered by the report was 1.37 percent higher than its level in 2016.**

However, **that indicator remained nine percent below its 2012 base year level.**

The sales performance indicators by category

3. Of the nine categories of consumer goods and services included in the report, four saw their sales indicators decline in 2017 compared to their levels in 2016. By order of magnitude of the indicator decline, these categories are: the luxury goods, the tourism services, the clothing and fashion, the sports and hobbies goods.

4. The sales indicator for the luxury goods declined by 15.88 percent in 2017 from its 2016 level; the sales indicator for tourism services was down 14.44 percent in 2017; the clothing and fashion sales indicator retreated by 3.13 percent in the same period, and the indicator for sports and hobbies goods edged down 0.47 percent.

5. The sales indicators for five categories of retail goods and services increased in 2017 as compared with their previous year's levels.

These categories are:

- cosmetics (+17.94 percent)
- food and beverages (+8.67 percent);
- hospitality services (+4.47 percent);
- household goods (+3.5 percent);
- medical services (+2.68 percent).

Sales performance indicators in relation to base year level

6. In 2017, the sales performance indicators for five major categories of retail remained below their 2012 base year level. These are the indicators for:

- luxury goods: 49.6 percent below base level;
- sports and hobbies goods: 36.41 percent below base level;
- clothing and fashion: 34.63 percent below base level;
- household goods: 32.7 percent below base level;
- tourism services: 8.45 percent below base level.

7. The sales indicators for four categories of retail exceeded their 2012 base year level. These are the indicator for:

- medical services: 43.79 percent above base year level;
- cosmetics: 30.1 percent above base year level;
- hospitality services: 3.96 percent above base year level;
- food and beverages: 2.93 percent above base year level.

A dismal December sales performance

8. For four categories of retail, December 2017 recorded the worst sales performance

compared with the past four Decembers of the report's data set. These categories are: clothing and fashion, household goods, luxury goods and tourism services.

9. In December 2017, the overall sales performance indicator stood at its lowest level in comparison with its levels in the previous three Decembers of the data set.

Trend analysis

10. The interpretation of retail sales performance indicators derives from the adoption of four different but complementary statistical approaches namely, the de-seasonalization of indicator time series, the moving average approach, the linear trend approach, and the non-parametric trend approach. Combined, these approaches impart added understanding of the data sets and could facilitate projections.

11. The overall retail sales indicator exhibited a mildly positive trend over the 60-month data sets.

12. The performance indicator data for four categories of retail exhibited a negative trend over the 60-month period. These categories are, in decreasing order of magnitude of the rate of decline: clothing & fashion; tourism services; luxury goods; and household goods.

13. The performance indicator data for five categories of retail formed a positive trend over the 60-month period. These categories are, in decreasing order of magnitude of the rate of ascent: food & beverages; cosmetics; medical services; sports & hobbies goods; and hospitality services

About the present report

14. The sixth edition of the Retail Activity Indicators report bases its statistical analysis of indicator data on 60-month-long time series. The longer time series enhance the reliability and robustness of the seasonal adjustment procedure, correlations, and trend parameters. The longer series have also made possible the adoption of the locally weighted fit as a basis for trend analysis.

The report's rationale

15. As a guiding reference on retail trade, the report continues to introduce more advanced procedures to the exercise of building retail activity indicators. This exercise seeks to attain three prime aims, namely (a) to fill a gap in the national statistics platform, (b) to provide retail enterprises and prospective investors with quantitative knowledge about the retail industry, and (c) to put at the disposal of representatives of the retail industry the quantitative basis to carry out their advocacy mandate.

FOREWORD

Data for the sixth edition of the LFA-CCIABML Retail Activity Indicators report provide ample support to the fact that consumption expenditure is still at or near its nadir. Expectations are at their gloomiest as a four-fold drag weighs down the economy. Near-stagnation rates of economic growth, high and growing indebtedness, hitherto unreached rates of unemployment, and growing social inequity are factors that are acting in synergy in tipping the economy into a negative spiral.

Dire as the state of the economy may be, the looming systemic threats go beyond the economic malaise. Here are six waypoints that help clear up the current controversy of whether the light at the end of the tunnel is drawing near or receding.

Good governance to address persisting despondency

Investors' expectations are shaped by three intertwined risks. These are: the possibility of drawn-out tensions with some of the

> "NEAR-STAGNATION RATES OF ECONOMIC GROWTH, HIGH AND GROWING INDEBTEDNESS, HITHERTO UNREACHED RATES OF UNEMPLOYMENT, AND GROWING SOCIAL INEQUITY ARE FACTORS THAT ARE ACTING IN SYNERGY IN TIPPING THE ECONOMY INTO A NEGATIVE SPIRAL."

country's regional economic partners, growing stress on the financial system leading to diminishing and gradually more disruptive response options, and the adverse long-term consequences of geo-strategic polarization in the region. All three risk factors point to eventualities that will impact capital accounts and the cost of capital, hence delaying recovery. Steering a course across this multitude of mine fields requires the judicious meshing of good strategic, economic, and political governance. A tall order if there is one.

Burying the defunct paradigm

In the absence of a consensual vision for a saner economy, one that upholds social progress and slows down the exhaustion of natural resources, policy inertia has led to the perpetuation of the defunct economic paradigm of the merchant republic. Consequently, the economy grew more structurally imbalanced in the past quarter century than it ever was and its ability to create sustainable and shared prosperity got weaker than ever.

Burying the model that continues to wreck social and national cohesion, while long overdue, demands nothing short of a rebirth of political and economic thought, institutions, and governance. Yet another tall order.

Shunning toxic growth

Seeking to achieve faster-paced economic growth that is devoid of social and environmental 'content' is not merely an unworthy policy target. Such toxic growth has placed the economy on skid row leading to social disintegration and public health calamity. No matter how fast the pace of economic growth, the country would be worse off if such growth is accompanied with growing social disparity and a fast degradation of the environment. Growth in the material economy – whenever that is achieved – does not necessarily constitute progress. When the brink is in sight, taking time for soul-searching and planning for change may be preferable to taking blind strides toward the precipice.

> "NO MATTER HOW FAST THE PACE OF ECONOMIC GROWTH, THE COUNTRY WOULD BE WORSE OFF IF SUCH GROWTH IS ACCOMPANIED WITH GROWING SOCIAL DISPARITY AND A FAST DEGRADATION OF THE ENVIRONMENT."

While preserving a market economy and while gearing the regulatory framework and the macro management of the economy toward the promotion of private investment as an engine of growth, social equity and the preservation of natural resources need to be considered as the two unbreachable constraints to growth.

Repressing the plunder of communal assets and resources

The bookkeeper mindset unceasingly comes up with 'estimates' as to the 'economic' costs of corruption. Admitting that corruption is endemic and costly is tantamount to pleading guilty to a lesser crime. As a matter of fact, the antiquated system of governance is rotting under the weight of kleptocratic power centers that will prove impossible to break up without ditching the very structures on which these centers prey. A band-aid ministry – hopefully transient – was put in place to fight corruption, but bandages have yet to be dispensed. The move is commendable on two counts: First, it offered on-the-job-training for the valiant anti-corruption stalwart; and second, it signaled intent regardless of results. Hope springs eternal.

Social policy and welfare spending

The social rift is widening at the threatening rates at which unemployment is growing and the maldistribution of welfare is worsening.

Social policy design first needs to establish - and account for - the definite postulate that public social spending geared to supporting employment and achieving inclusiveness and social equity has a super-additive economic impact. As such, it becomes one of the drivers of sustainable growth. The objectives of inclusiveness and social justice call for embracing the principle of a state-induced equalization of opportunities. This starts with equalizing access to adequate and affordable education, health care and housing to all.

Preserving natural resources

Mending the environmental damage wrought by decades of shortsightedness and neglect is more than a commanding economic obligation, it is a survival imperative.

"THE OBJECTIVES OF INCLUSIVENESS AND SOCIAL JUSTICE CALL FOR EMBRACING THE PRINCIPLE OF A STATE-INDUCED EQUALIZATION OF OPPORTUNITIES."

Natural resources need to be viewed as national assets that belong equally to the present and future generations. Not unlike business assets, their depreciation rate (read: depletion rate) should be slowed down to an optimal pace to meet current and future needs.

"MENDING THE ENVIRONMENTAL DAMAGE WROUGHT BY DECADES OF SHORTSIGHTEDNESS AND NEGLECT IS MORE THAN A COMMANDING ECONOMIC OBLIGATION, IT IS A SURVIVAL IMPERATIVE."

In cases where these assets are used as inputs in production or destroyed in the process of production, their use or destruction should command a commensurate price. This implies that use as well as destruction ought to be apportioned, priced, and assigned to the user.

Similarly, harm done to the environment, which is the economic equivalent of asset destruction, ought to be precisely measured, correctly assigned to the perpetrator(s), and taxed proportionately.

The preservation of natural assets through the price and taxation systems would understandably bring forth constraints on the profitability, competitiveness and productivity of some business enterprises and sectors of activity. And the preservation of natural assets may also strain the budgets of households.

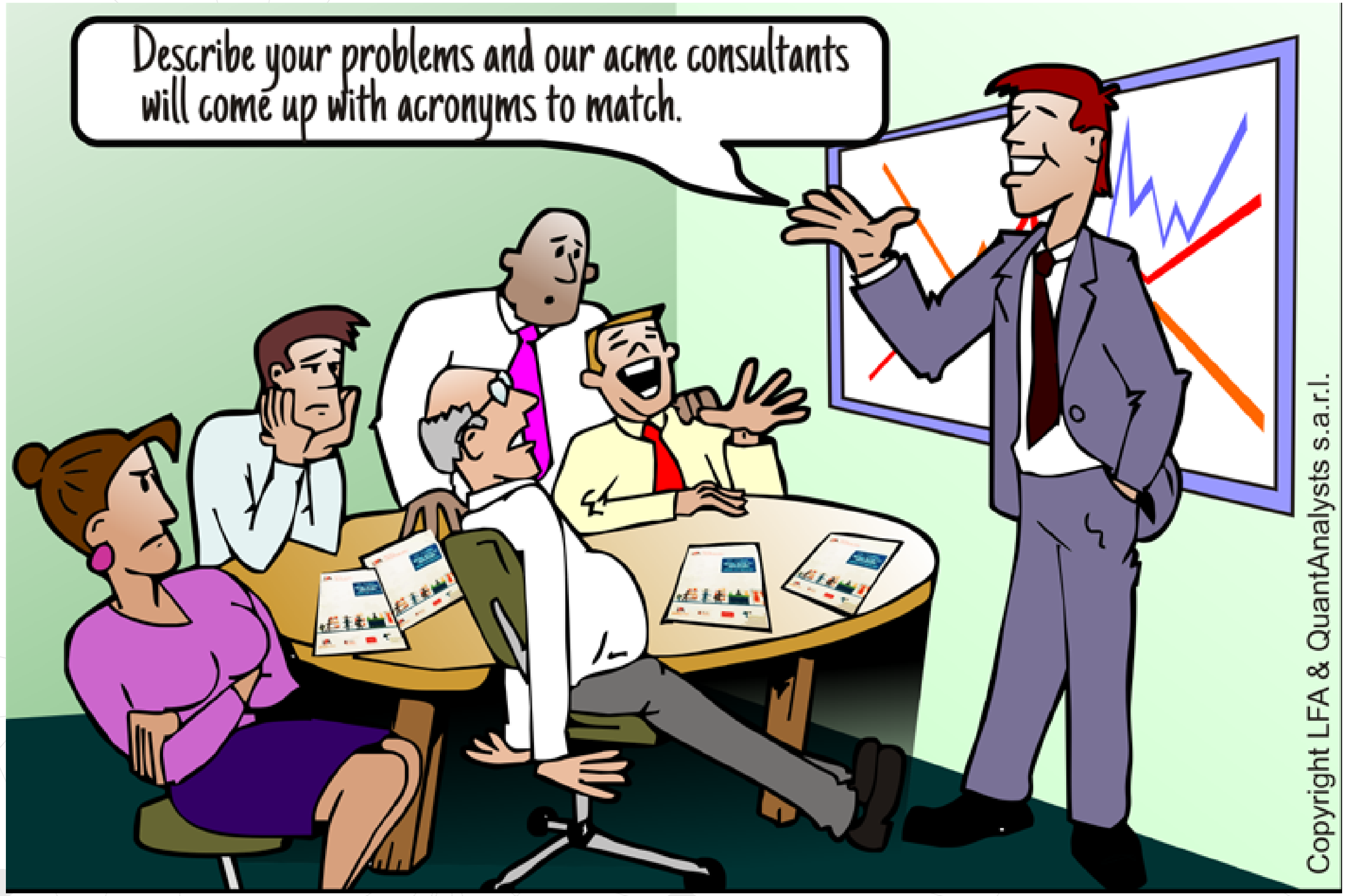
These constraints and their possible negative impact on businesses and households have to be weighed against the scope of gains derived from preservation. The value of these gains, which by far exceeds short-term costs, is both immediate and long-term, and raises both communal and intergenerational wellbeing.

The basics of a reasoned environmental policy have yet to be formulated.

The Economic and Social Council reinstated

The reinstatement of the Economic and Social Council (ESC), a long-dormant state institution, constitutes yet another indication that institutions building – the cornerstone of good governance – is well entrenched in the emerging approach to statecraft. The timely revival of an institution entrusted with the mission of providing research-based advisory support to policy-makers kindles expectations that policies and regulations will henceforth reflect a broader consensus and their complex implications will be assessed, quantified and cogently analyzed.

Albert Nasr
QuantAnalysts



INTRODUCTION

The Value Added Tax hike: Administering a depressor to the lethargic

For the past five years, retail scores have been dismal, depressed as they were by a number of conjoint influences, almost all of which are directly and causally linked to macro-economic variables.

First among these variables is a marked decline in the annual growth rate of private investment in the goods producing sectors of the economy over the past half-decade. This implies that employment has been only a fraction of the annual expansion of employable human capital. Consequently, household incomes remained little changed throughout the five lean years and expectations remained gloomy.

The second set of variables includes the high cost of consumer credit that combines with heavy household indebtedness to aggravate the effect of high unemployment and render household finances ever so fragile and precarious.

> '.. AT THE PRECISE AND THIN DIVIDER BETWEEN STALL AND NOSEDIVE, CAME THE DECISION TO INCREASE THE VALUE ADDED TAX (VAT) RATE ..."

The resulting weakening of aggregate demand has caused the economy to enter into a protracted stall period with the threat of a nosedive spiral always looming, always threatening.

Then, at this precise and thin divider between stall and nosedive, came the decision to increase the Value Added Tax (VAT) rate from ten percent to eleven percent. The tax hike took effect on the first day of 2018.

To retailers

In a recessionary environment, raising the tax rate on retail sales will inevitably reduce sales in the weaker sectors of the retail industry and restrain the rate of growth in stronger sectors. The negative impact will certainly be felt, but its quantification remains empirical and inductive.

In any case, the extent to which retail margins were already squeezed before the tax increase is disquieting. And most likely, the tax hike will further squeeze the thin margins in weighty sectors of the industry, as it is doubtful that retailers will be able to pass on to consumers the full incidence of the higher tax.

Thinning margins will limit the range of options retailers could resort to in a bid to spur demand.

On the eve of the date set for the enforcement of the higher VAT rate, the sales scores of major retail categories such as clothing and fashion, luxury goods, household goods, sports and hobbies goods, hospitality services, and tourism services were on average at two thirds their level in the base year 2012 at best. Sales indicators of some of the worst performing categories were as low as 40 percent their base year level prior to the hike in the consumption tax rate.

Impact on the Consumer Price Index

The impact on the Consumer Price Index (CPI) is not measurable as it is yet unknown how the burden of the higher rate will be divided up between wholesalers, retailers and consumers. What is likely, however, is that the burden will be shared and its impact of the CPI reduced accordingly. Additionally, not all consumer products are subjected to the tax, hence the extent of the CPI upmove will be further subdued.

Still, even a limited increase in the CPI, which had reached five percent in 2017, will place the indicator close to the zone of inflation alert.

> ".. EVEN A LIMITED INCREASE IN THE CPI, WHICH HAD REACHED FIVE PERCENT IN 2017, WILL PLACE THE INDICATOR CLOSE TO THE ZONE OF INFLATION ALERT."

Upward pressure on rates of interest

Limited as the impact on CPI may be, nominal rates of interest will witness upward pressure leading to higher cost of consumer credit. Car sales – and more generally, all consumer durables – are expected to be affected most by the twin pincers of higher VAT and higher interest rates.

Fragilized household budgets

The negative impact of higher taxation will be plainer and clearer on household purchasing power. The stress level on household budget is such that it can hardly be mitigated to any significant extent by a likely substitution effect. Expectations are that discretionary spending will be further reduced, presaging yet another year of weakening retail sales.

Expectations

On the eve of the decision to raise the consumption tax rate by ten percent, consumer expectations were flimsy at best, as revealed in subjective survey results and in the more objective indications reflected in the demand for consumer durables. A further worsening of expectations could occur with the confirmation of consumer perception that decision-makers deem that raising the tax on consumption to be the easiest means to increase revenues.

A timing issue

Such is the prevalent weakness in the retail industry that the decision to raise the tax rate on consumption as of January 1st, 2018 has not induced consumers to shift purchases to December ahead of the rate hike. This has further dulled the customary seasonal flurry. Retail performance in the subsequent months of January and February – normally a period of sales promotion discounts – might also be restrained by the higher tax taking effect.

A decision not based on impact analysis

More deplorable than the repercussions of the higher VAT rate on the retail industry is the fact that no ex ante impact analysis has been carried out to weigh the negative effects of the tax decision against the sole 'positive' but uncertain outcome of higher tax revenues.

"FAILURE TO CARRY OUT REGULATORY IMPACT ANALYSES CONSTITUTES THE MOST EVIDENT SHORTCOMING IN GOVERNANCE IN GENERAL AND IN THE DECISION-MAKING PROCESS."

Failure to carry out regulatory impact analyses constitutes the most evident shortcoming in governance in general and in the decision-making process. A shortcoming exemplified by the fact that the only regulatory impact analysis in the true economic, technical and methodological sense to have ever been carried out in Lebanon dates back to 2011.

In this issue of the report

In chapter one, the report describes the methodology followed in the building of retail performance indicators. Chapter two is dedicated to analyzing the impact of key economic variables and developments on consumption. Chapter three presents the evolution of retail sales indicators by sector in the second half of 2017 and in the year as a whole. And chapter four reproduces statistical analyses of trends based on 60-month long time series of retail sales indicators.

The **Views from within** section of the report includes an interview with Mr. Ramzi Saboury, Chief Commercial Officer of areeba. The interview is headlined "**In Nine Answers**" and addresses crucial issues in emerging financial and payments technologies and their relevance to Lebanon's retail industry.

The **Opinion** section includes an article headlined "**Debt stabilization not yet in the cards"** which serves yet another warning that of the systemic threats posed by the ravages of the public debt. The article also alludes to the contingency that a critical point may be reached, within a decade's time frame, when annual income for the country's energy resources would hardly make up for the growing interest burden of that debt.

METHODOLOGY

Data sources
a. Retail sales transactions through card payments
b. Sales data from shopping malls
c. The retail enterprise survey
The data processing protocol
Comparison of sales indicators

In the sixth edition of the Retail Activity Indicators (RAI) report covering the five years to 2017, the same data processing procedure was followed as that applied to the previous five editions of the report. This confers the distinctive and essential quality of consistency to the retail sales performance indicators across the time frames encompassed by the project.

In the index-building exercise, the accuracy and reliability of the sales indicators derive from the fact that the basis for the exercise is built on raw data directly gleaned from retail transactions, whereas the robustness of the indicators is a tribute to the fact that data sources cover extensive sections of retail markets.

Consistency, accuracy, and robustness are indeed the defining attributes of this much-needed gauge of retail activity that the present exercise adds to the economic dashboard.

At the retail enterprise level, the expanding time series open up the technical possibility of applying a correlation-based approach to benchmarking sales performance against broader market performance indicators.

Additionally, the longer time series sets offer established enterprises as well as prospective investors a data framework from which trends and forecasts may be derived and on which plans and strategies may be based.

Data sources

The scale of market coverage of data acquired from payment systems operators and from major shopping malls accounts for the solid and highly representative core of data from which retails sales indicators are derived.

a. Retail sales transactions through card payments

Raw data sets obtained from operators of credit/debit card payments systems represent a substantial share of total retail transactions nationwide and are hence assigned the highest weight coefficient in the RAI report's index-building protocol.

Retail transactions carried out through card payments account for such a large proportion of total retail transactions and for such a broad geographical coverage that no conventional sampling procedure could possibly match their representativeness. An added advantage of data from credit/debit card payment systems is that they capture the bulk of digital retail transactions.

b. Sales data from shopping malls

Data sets on retail transactions recorded by shopping malls add to the robustness of the retail sales indicators derived from these sets due to the fact that partner malls providing the data are the country's largest in terms of geographical coverage, footfall, tenants, and transactions.

c. The retail enterprise survey

Responses obtained from the retail enterprise survey are viewed as helpful pointers reflecting the opinion of responding retail executives.

The questionnaire was designed to achieve two objectives namely, (a) securing a precise assessment of the performance of retail businesses, and (b) detecting the extent to which retail executives are confident about the prospects of their activity's performance.

The data processing protocol

In a bid to preserve the integrity of the foundational time series, the RAI report has retained the data processing protocol developed since its inception.

The nine main steps of this statistical processing protocol are:

1. the year 2012 is retained as the base year,
2. categories that are not relevant to retail, data series that are either incomplete or discontinued, and series containing outliers are not included in the processing procedure,
3. payment card data are adjusted for market penetration,
4. a set of weights is used to adjust data for size difference between data suppliers,
5. a set of weights is used to adjust data for relative size of retail categories in the recorded transactions,
6. the seasonality indexes are re-calculated with each half-year iteration in order to obtain seasonally adjusted indicators,
7. trend equations are also re-calculated for each six-month addition to the data sets,
8. linear as well as non-linear trend analyses are applied to the indicator data sets,
9. the time series for each category and sub-category of retail are regressed against economic variables in order to detect correlations.

Comparison of sales indicators

Retail enterprises commonly adopt the year-to-date comparison of sales indicators to assess change in sales performance. The RAI report reproduces in table form and in chart form year-to-date as well as month-to-month comparisons, as both have complementary advantages.

The month-to-month change

- provides a measure of short-lived, non-trend-setting seasonal surges and dips in indicators. This comparison affords, for example, straightforward percentage expressions to the recurring "December effect", to the "Summer rebound" pattern, and to any other atypical but significant move.
- provides the basis for measuring the median change occurring in 'normal', non-seasonally-influenced months.
- over longer time series, it remains a valid, non-synthesized measure of change, (non-synthesized as distinguished from metrics obtained from de-seasonalization).
- is the internationally-prevalent approach to analyzing retail sales indicators.

Year-to-date comparisons do have the advantage of detecting seasonal influences. However, the RAI report goes a step farther on that count by deseasonalizing indicators data for trend identification purposes.

For time units longer than a month, the quarter-to-preceding-quarter comparisons and the half-year-to-preceding-half-year comparisons also help detect seasonality patterns. These comparisons gain in relevance in instances (a) where indicators for a category or sub-category of retail do not reflect seasonal influences, or (b) where seasonal surges and dips are ironed out through averaging with other months of the quarter or half-year.

II. THE ECONOMIC BACKDROP

FOREIGN FINANCIAL ASSISTANCE TO SPUR GROWTH

A grand plan drawn by the government for the rehabilitation and modernization of the infrastructure has underpinned the prospects for higher rates of economic growth over the medium term. The plan is designed and intended to be submitted to potential donor countries and international institutions.

Should the ten-year plan secure the backing of donors, no less than $16 billion of financial resources in the form of grants, interest-free loans, and low-interest loans will be made available for spending on infrastructure projects that various state ministries and planning boards have deemed critical to economic recovery.

With such improvement come efficiency gains, stronger inducements for private investment spending, and consequently, more employment and hence an expanding and more vigorous circular flow of income.

"COSTLY AS IT MAY BE IN TERMS OF THE BURDEN IT ADDS TO THE PUBLIC DEBT, AN ALL-OUT IMPROVEMENT IN THE INFRASTRUCTURE PAVES THE GROUND FOR AN EXTENDED PERIOD OF GROWTH."

That's to be expected over the medium to long term.

The shorter view, however, remains influenced by expectations of low-growth, and low-employment, and these in turn fasten consumption to its five-year lows.

Also having a direct negative impact on consumer spending are the ten percent increase in the Value Added Tax rate, upward pressures on interest rates, and the household debt overhang.

Combined, these factors uphold expectations that retail sales will not stage a recovery performance in the year 2018.

ENTRENCHED REGIONAL INSTABILITY

Turmoil in the region may have appeared to be subsiding in 2017, but the fact that antagonists carry on laying increasingly heavier wagers – and preparations – on a win-all outcome augurs continued destruction and uncertainty for a much longer than commonly expected.

In such regional context, the Lebanese economy continues to be severed from its traditional export markets for goods and services. This diminished regional economic role and is repercussions on the balance of payments are sources of additional upward pressure on interest rates.

".. THE LEBANESE ECONOMY CONTINUES TO BE SEVERED FROM ITS TRADITIONAL EXPORT MARKETS .."

Thus, higher cost of credit and stagnant remittances, as direct consequences of the region's instability, place a further constraint on consumption.

EXOGENOUS PRICE METRICS AFFECTING RETAIL

In a small, open, and highly dollarized economy such as Lebanon's, four major international price metrics have a direct bearing on retail activity in Lebanon and on the price level. These metrics are: (i) rates of interest, which impact retailers' costs as well as the cost of consumer credit and household indebtedness; (ii) the U.S. dollar's rate of exchange, which determines the cost of imports and hence has a weighty impact on retail prices; (iii) energy prices, which directly determine the sizeable energy imports bill, and impact production and transportation costs, and the state subsidy to electricity production; and (iv) food prices, which determine the cost of food imports.

1. Interest rates

In 2017, the U.S. Federal Reserve Bank's Open Market Committee (FOMC) raised the federal funds rate three times. The target range for that rate reached 1.25 – 1.50 percent by mid-December 2017, up a total of 0.75 percent from its mid-December 2016.

Over the nine years since the Great Recession, five decisions on quarter-percentage-point adjustments have raised the range of fed funds rates by a total of 1.25 percent.

With the yearly change in the official core Consumer Price Index still significantly higher than the fed funds rates, real rates are still in negative territory and nominal rates are not much higher than the zero bound, confirming the belief that the Fed is reluctant to engage in a contractionary stance that may spoil the steady but low rates of economic growth. Fed forecasts point to real annual rates of growth of two percent in 2018 and 2019.

".. THE HIGHER COST OF CONSUMER CREDIT, THE HIGHER COST OF SERVICING OUTSTANDING CONSUMER DEBT, HIGHER MORTGAGE RATES, ALONG WITH HIGHER TAXATION SHOULD BE EXPECTED TO PLACE A HEAVY LID ON CONSUMER SPENDING."

The set of variables influencing the structure of interest rates in Lebanon principally relate to the need to attract capital inflows. Hence, expectations are that interest rates are set to move up over the medium term.

To households, the higher cost of consumer credit, the higher cost of servicing outstanding consumer debt, higher mortgage rates, along with higher taxation should be expected to place a heavy lid on consumer spending.

Higher rates of interest will also raise demands for readjustments of interest subsidies granted by monetary authorities to the enterprise sector.

2. The U.S dollar's exchange value

The U.S. dollar trade-weighted index against major currencies reflected a steady downtrend for the U.S. currency's exchange value throughout most of 2017.

The index fell to a two-year low in September 2017, staged a restrained rebound in the months that followed, but eased back to a level quite to that of the September low.

Reflecting the dollars weakness, the Euro moved up by more than 20 percent against the dollar in 2017 and the first few weeks of 2018.

This broad decline of the U.S. currency's exchange value – to which the exchange value of the Lebanese currency is pegged – will exert a growing upward pressure on Lebanon's import prices in general and more particularly on imports from European Union countries, which together constitute the country's largest suppliers.

3. Energy prices

Three determining supply side factors have accounted for the two-year-long oil price rally. These pertain to geopolitically induced interruptions in production, a sharp fall in inventories, and reduced shale oil production. These factors combined to raise oil prices to double their early 2016 levels.

However, expectations are that the supply-side scene is set to change in 2018. Three of the world's largest oil producing nations, namely the United States, Canada and Brazil seem to have made substantial gains in efficiency that would make it profitable for them to ramp up production and exports at prices bordering the range of $60 to $65 per barrel.

The report reiterates the view expressed in previous editions that, barring major geopolitical disturbances leading to supply disruption, the prognosis for oil prices over the medium term is that the resistance level of set in December 2016 will not be breached by supply-side factors alone, and that over the longer view, the pull of demand-side factors remains contingent upon global economic recovery.

4. Food prices

The food price index built by the Food and Agriculture Organization (FAO) edged lower by a slight 0.29 percent in 2017 following a sturdy 11.04 percent rise in 2016.

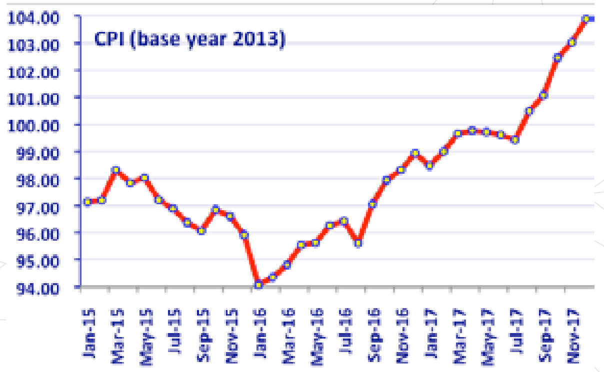
The broadest decline occurred in the fourth quarter of 2017 when the index fell by 4.93 percent.

Of the index's main components, the price index for meat recorded the broadest increase in 2017 as it rose by 9.23 percent. The price index for cereals rose by 7.38 percent.

The broadest declines were registered by the price index for sugar (-22.28 percent) and the price index for vegetable oils (-11.15 percent).

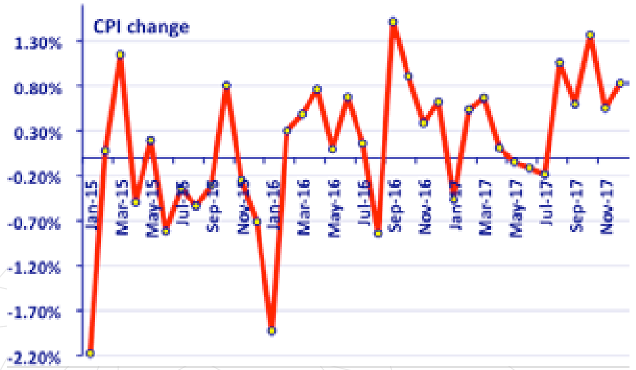
OTHER KEY VARIABLES IMPACTING RETAIL

5. The Consumer Price Index



The Consumer Price Index (CPI) as prepared by the Central Administration of Statistics rose by 5.01 percent in 2017, thus extending a 3.14 rise registered in 2016.

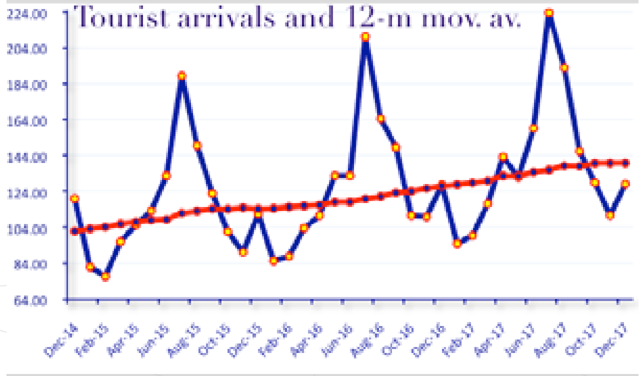
The largest portion of the CPI increase was recorded in the second half of 2017 when the index moved up 4.29 percent.



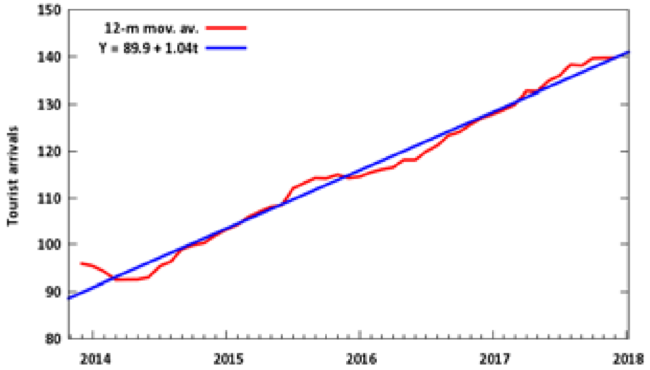
It is noted that sales performance of major sector of retail staged a decline reflected in the present report's indicators.

The largest contributor to the CPI increase were the household budget items classified under the category of "clothing and footwear", which saw their price index increase by 17.43 percent in 2017. The price index for "alcoholic beverages and tobacco" was up 7.63 percent in 2017, and the price index for "transportation' was up 5.89 percent.

6. Tourism and tourist spending



In 2017, the number incoming tourists reached 1.86 million, that is 9.98 percent higher than that of the previous year.



The number of Arab tourists rose by 7.33 percent in 2017, and Arab tourists constituted 30.23 percent of total arrivals.

The number of European tourists was 13.31 percent higher in 2017, and the share of European tourists reached 34.45 percent of total arrivals.

Over the past five years, the trend for tourist arrivals was strongly positive.

Tourist spending in 2017 was close to being evenly spread throughout the year's months. On a quarterly basis, the third quarter of the year accounted for 31 percent of the year's total tourist spending, whereas the first quarter accounted for 28 percent of that total. On a half-yearly basis, 52 percent total tourist spending was made in the second half of 2017.

Residents of four Gulf Cooperation Council (GCC) countries accounted for 37 percent of total tourist spending in 2017, whereas residents of France, the United States and Canada accounted for 13 percent of that total.

Clothing and fashion accounted for the largest portion of total tourist spending in 2017 as it took up 69 percent that total. Purchases of jewelry and watches took up 16 percent of the total, and purchases of home and garden items represented four percent of the total.

As in previous years, Beirut attracted 80 percent of total tourist spending in 2017, followed by the Metn, Mount Lebanon region with 14 percent of that total.

III- THE INDICATORS

Monthly evolution of retail sales indicators
Quarterly evolution of retail sales indicators
Evolution of retail sales indicators in the second half of 2017 The evolution of retail sales indicators in 2017

On a year-to-date basis, the July 2017 sales indicator for the nine retail categories covered by the report was 5.31 percent higher than its July 2016 level.

The retail sales indicators of seven of the nine categories of goods and services examined in the report were higher in July, both on a year-to-date basis and on a month-to-month basis.

August

Mixed indicator results were recorded in the month of August. In that period, the overall retail sales indicator edged 1.47 percent lower on a month-to-month basis, but remained 8.01 percent higher than it August 2016 level. Five of the nine categories of retail saw their month-to-month sales indicators decline in August 2016, whereas in year-to-

OVERALL INDICATOR
UP 1.37 PERCENT

III.A- MONTHLY EVOLUTION OF RETAIL SALES INDICATORS IN THE SECOND HALF OF 2017

July

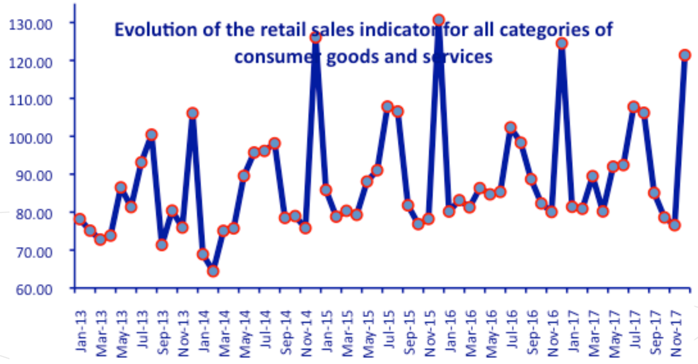
In line with the pattern of seasonality observed in the past five years, the sales indicator for the nine categories of retail examined in this edition of the report rose by 16.64 percent in July from its previous month's level.

The July surge has been a recurring seasonal characteristic of retail sales performance indicators. In 2016, the overall retail sales indicator had recorded a surge of 19.92 percent compared with its level in the month before, the broadest advance in the period under review. In 2015, that indicator had risen by 18.45 percent.

date indicators of three retail categories declined in that month.

September

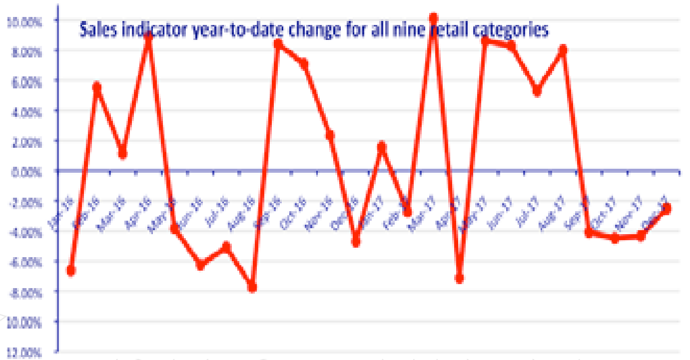
The decline took a more resolute turn in September 2017, as the overall sales performance indicator fell by a broad 19.89 percent from its previous month's level. That indicator was 4.08 percent lower than its September 2016 level.



On a month-to-month comparison, the sales indicators of all nine retail categories fell significantly in September 2017. On a year-to-date basis, the sales indicators of six of the nine retail categories were down in that period.

October, November

The months of October and November 2017 saw the sales indicator for all nine categories of retail examined in the report extend its month-to-month fall by 7.61 percent and by 2.59 percent respectively.



December

The evolution of the sales indicator for all nine categories of retail goods and services covered by the report showed that the December 2017 sales performance was the worst compared with that of the month of festivities of the previous three years. This was reflected in the comparisons of that indicator's level with levels reached in December months of the previous three years as well as in the seasonal adjustment of indicator data.

On a year-to-date basis, the overall retail sales indicator for December 2017 was 2.51 percent lower than its December 2016 level. And that indicator was a marked 7.1 percent lower than its level in December 2015, and 3.72 percent lower that its Deecember 2014 level.

Only two of the nine retail categories of goods and services included in the exercise saw their indicators rise in comparison to their level in December 2016.

The seasonal surge in December 2017 was hence quite tame in comparison with the surges of previous years.

On a month-to-month basis, the December 2017 indicator was up 58.57 percent on its previous month's level.

III.A.1 – CLOTHING AND FASHION

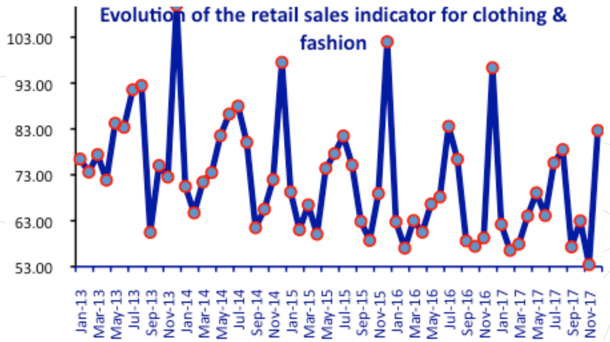
July

In July 2017, the retail sales indicator for clothing and fashion was up by a sturdy 17.9 percent compared with the level it was at in the preceding month. The broad upmove reproduced a comparable rise in July 2016 when the indicator had risen by 22.6 percent on a month-to-month basis.

On a year-to-date comparison, the indicator for this category of retail was down by 9.54 percent in July 2017, whereas it had moved up 2.59 percent in July 2016.

August

The clothing and fashion sales performance indicator continued to rise in August as it moved up by 3.82 percent month-to-month and by 2.77 percent on a year-to-date comparison.



September

In September 2017, the sales indicator for that retail category declined by 27.01 percent on a month-to-month basis, thus wiping out nearly all the net gains of the previous six months. On a year-to-date comparison, the indicator for clothing and fashion declined by 2.24 percent.

October

The clothing and fashion sales performance indicator recovered moderately in October 2107. On a month-to-month basis, that indicator moved up 9.92 percent and on a year-to-date comparison it was 9.68 percent higher than its October 2016 level.

November

In November 2017, the clothing and fashion sales indicator declined noticeably; it moved down 15.17 percent from its previous month's level and 9.84 percent compared with its level in the same month of the previous year.

December

The seasonal pattern of surging sales in December was reflected in a 54.73 percent rise in the sales indicator for clothing and fashion as compared with that indicator's level in the previous month.

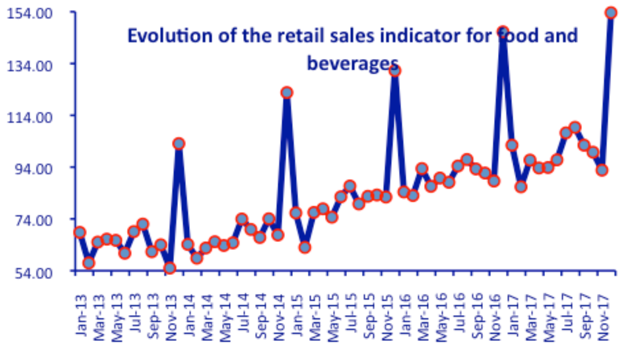
However, for the clothing and fashion category of retail, the December 2017 sales performance was, by broad margins, the worst compared with that recorded in the December months of the previous four years.

Thus, the December 2017 sales performance indicator for clothing and fashion was 14.19 percent lower than its December 2016 level, 18.96 percent lower than its December 2015 level, 15.22 percent lower than its December 2014 level, and a whopping 24.81 percent lower than it December 2013 level.

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

III.A.2– FOOD AND BEVERAGES

July, August, September



Fluctuations in the sales performance indicator for food and beverages were comparatively more subdued. Moves of that indicator followed the general pattern traced by other retail categories as it moved up in July and August 2017 respectively by 10.76 percent and 1.99 percent on a month-to-month comparison, then declined by 6.3 percent in September.

On a year-to-date comparison, the food and beverages sales performance indicator was up by 13.55 percent, 12.81 percent, and 9.84 percent in July, August and September 2017 respectively.

October, November

On a month-to-month basis, the sales performance indicator for food and beverages declined by 2.63 percent in October 2017 and by 6.98 percent in November.

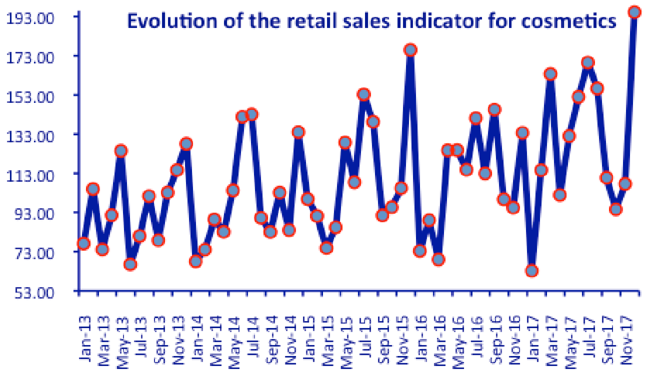
The sales indicator for food and beverages was up 5.05 percent in December 2017 compared with its level in December 2016. All year-to-date monthly comparison of sales indicators for that sector remained in the positive quadrant, as shown in the chart. This and other metrics reflected a steady uptrend over the 60-month period of the report.

On a month-to-month comparison, the sales indicator for food and beverages was up 65.54 percent in December 2017.

The food and beverages category comprises the five sub-categories of supermarkets; confectionery; bakeries; various food stores; and alcoholic beverages.

III.A.3- COSMETICS

July, August, September



The sales indicator for cosmetics moved up 11.53 percent in July 2017 as compared with its previous month's level, but fell 7.82 percent and 29.15 percent respectively in August and September.

On a year-to-date comparison, the cosmetics sales indicator was up 20.13 percent and 38.46 percent respectively in July and August 2017, and declined by 23.91 percent in September.

October, November

On a month-to-month basis, the sales performance indicator for cosmetics declined in October by 14.61 percent, but regained 13.8 percent in November. On a year-to-date comparison, that indicator it was down 5.19 percent in October, but up 12.76 percent in November.

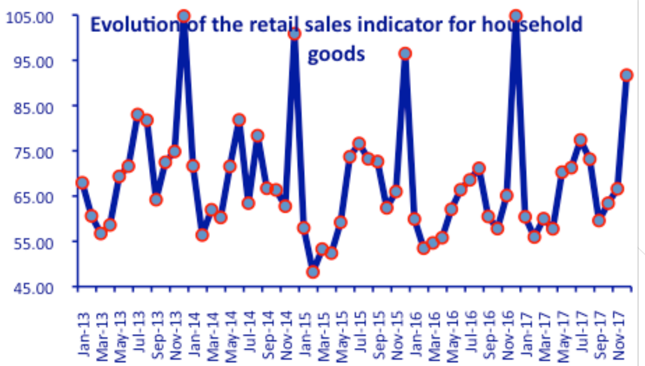
December

The sales indicator for cosmetics recorded a sharp surge in December 2017, as it was up by 46.13 percent compared with its December 2016 level. On a month-to-month basis, that indicator was up 81.48 percent.

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

III.A.4– HOUSEHOLD GOODS

July, August, September



The sales performance indicator for household goods followed the same general pattern of month-to-month indicator evolution, as it registered a rise of 8.63 percent in July 2017 followed by a fall of 5.49 percent and 18.56 percent in August and September respectively.

That indicator rose by 12.88 percent and 2.83 percent on a year-to-date basis in July and August, and fell by 1.5 percent in September.

October, November

The sales performance indicator for household goods was moderately higher in October and November 2017. On a month-to-month basis, the indicator moved up 6.44 percent and 5.02 percent respectively, and on a year-to-date basis it moved up 9.71 percent and 2.28 percent respectively.

December

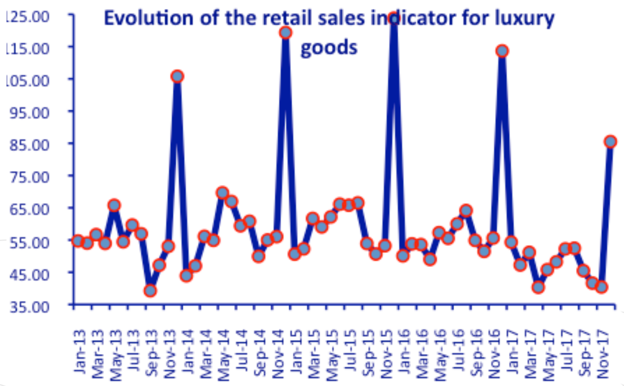
In December 2017, the retail sales indicator for household goods staged its worst end-year performance as it stood at 12.5 percent below its December 2016 level, at 4.95 percent below its December 2015 level, at 9.09 percent below its December 2014 level, and at 12.47 percent below its December 2013 level. Other metrics and trend parameters concurred in expressing the steady decline in this sales indicator.

On a month-to-month basis, the retail sales indicator for household goods rose by 37.7 percent.

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.

III.A.5– LUXURY GOODS

July, August, September



In like pattern, the sales performance indicator for luxury goods rose by 8.35 percent and by 0.4 percent on a month-to-month basis in July and August 2017 and was down 13.31 percent in September.

The year-to-date comparison reflected more clearly the marked and continued weakness of this category's sales indicator. By that comparison, the luxury goods sales indicator fell by 12.93 percent, by 18.21 percent, and by 17.14 percent in July, August and September respectively.

October, November

The sales performance indicator for luxury goods continued to lose ground in October and November 2017. On a month-to-month comparison it fell by 8.47 percent and by 2.94 percent respectively, and on a year-to-date comparison it fell by broader margins of 19.12 percent and by 27.35 percent respectively.

December

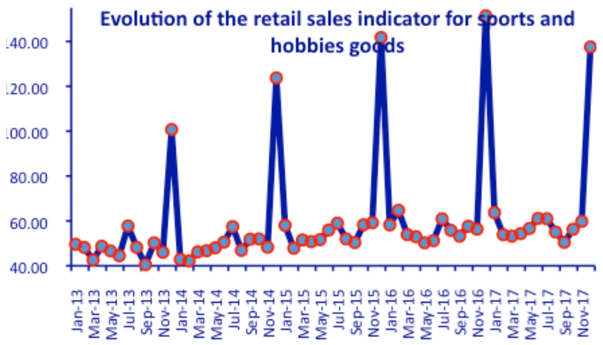
The sales indicator for luxury goods also reflected the worst December performance in five years. In December 2017, that indicator was 24.75 percent lower than its level in the same month of the year before. It was also 30.92 percent lower than its December 2015 level, 28.35 percent lower than its December 2014 level, and 19.14 percent lower than its December 2013 level. December 2017 sales of luxury goods recorded the second worst performance among the nine categories of goods and services for which indicators were built.

On a month-to-month basis, that indicator was 111.7 percent higher December 2017 than its previous month's level.

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.*

III.A.6– SPORTS AND HOBBIES GOODS

July, August, September



Also showing clear signs of weakness, the sales indicator for sports and hobbies goods fell, on a month-to-month basis, by 0.23 percent, by 9.69 percent, and by 8.36 percent respectively in July, August and September 2017.

On a year-to-date basis, that indicator rose by a trifling 0.08 percent in July 2017, and declined by 1.36 percent and 5.17 percent in August and September.

October, November

In October and November 2017, the sales indicator for sports and hobbies goods recovered some of the ground it had lost in the three previous months as it moved up respectively 11.48 percent and 6.28 percent on a month-to-month basis. On a year-to-date comparison, the indicator edged lower by 2.33 percent in October, but was up 6.17 percent in November.

December

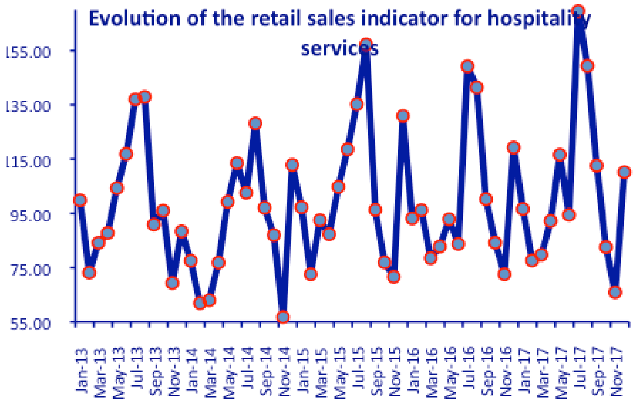
In December 2017, the sales indicator for sports and hobbies goods was 9.17 percent below the level it had reached in December 2016 and 2.98 percent lower than its December 2015 level.

From its previous month's level, that indicator rose by 130.02 percent.

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

III.A.7- HOSPITALITY SERVICES

July, August, September



The sales indicator for hospitality services surged 79.55 percent in July 2017 from its previous month's level, but fell back 11.91 percent and 24.62 percent in August and September respectively.

The year-to-date comparison shows a sustained rise in that index by 13.62 percent in July, by 5.63 percent in August and by 12.35 percent in September.

October, November

The months of October and November 2017 witnessed a significant fall in the sales performance indicator for hospitality services. The month-to-month comparison showed a marked decline in the indicator of 26.66 percent and 20.2 percent respectively, and on a year-to-date basis declines of respectively 1.97 percent and 9.17 percent were recorded.

December

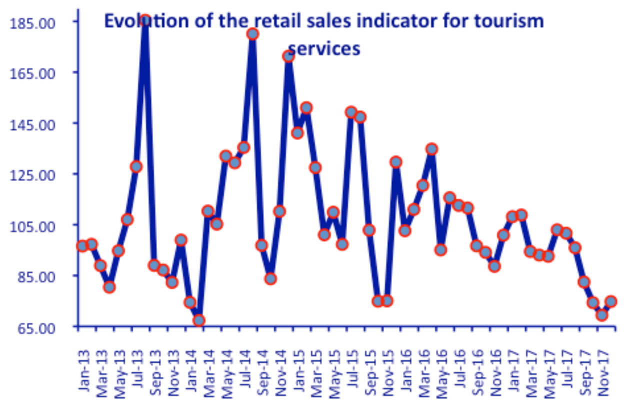
Hospitality services was yet another major retail category that witnessed a weak sales performance in December 2017. The retail sales indicator for these services fell by 7.58 percent in December 2017 compared with its level in the same month of the year before. That indicator was 15.81 percent lower than its December 2015 level and 2.34 percent lower than its December 2014 level.

The December 2017 indicator was 67.23 percent higher than its level in the month before.

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

III.A.8- TOURISM SERVICES

July, August, September

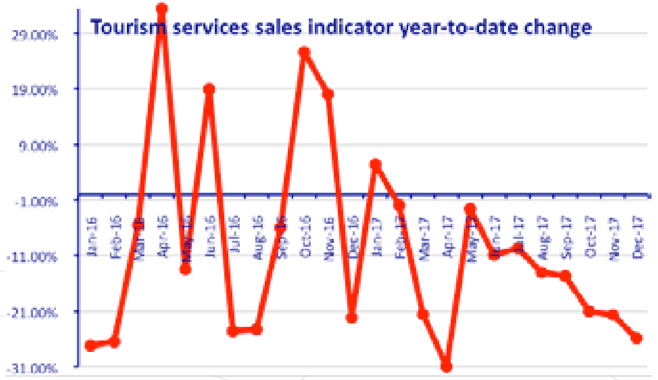


The sales indicator for tourism services fell for three consecutive months to September 2017, on both the month-to-month and the year-to-date comparisons.

That indicator declined on a month-to-month basis by 1.3 percent, by 5.63 percent and by 14.04 percent in July, August and September respectively. And it was down on a year-to-date basis by 9.69 percent, by 14.02 percent and by 14.71 percent respectively in the same months.

October, November

The indicator extended its decline throughout the months of October and November 2017 as in was down respectively 9.86 percent and 6.63 percent on a month-to-month comparison, and down respectively 21.03 percent and 21.68 percent on a year-to-date comparison.



December

In December 2017, sales of tourism services registered the most dismal performance among the nine categories of retail goods and services for which sales metrics were computed.

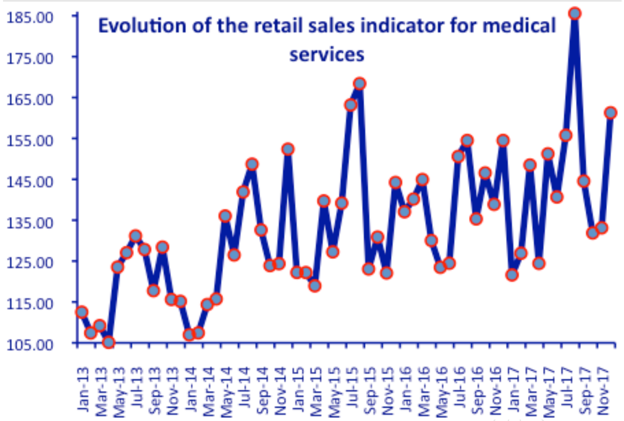
The sales indicator for these services was down 25.88 percent from its December 2016 level, down 42.33 percent from its December 2015 level, down a massive 56.35 percent from its December 2014 level, and down 24.46 percent from its December 2013 level.

On a month-to-month comparison, the December 2017 indicator was 7.73 percent higher that its previous month's level.

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

III.A.9- MEDICAL SERVICES

July, August, September

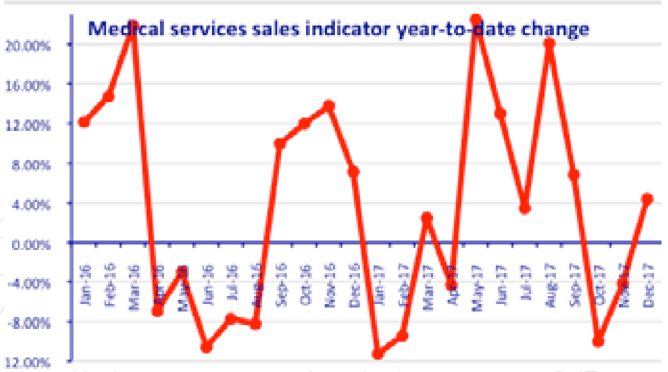


The sales indicator for medical services rose by 10.73 percent and by 19.13 percent on a month-to-month basis in July and August 2017, and retreated 22.1 percent in September.

On a year-to-date comparison, that indicator was up 3.44 percent, 20.1 percent and 6.84 percent in July, August and September respectively.

October, November

The sales performance of medical services weakened noticeably in the months of October and November 2017, as shown by its indicator, which declined on a month-to-month basis by 8.77 percent in October and inched slightly up by 0.95 percent in November. On a year-to-date basis, the indicator was down 10.02 percent and 4.14 percent respectively.



December

The sales indicator for medical services was 4.39 percent higher in December 2017 than its level in the same month of the previous year, and it was 21.15 percent higher than its previous month's level.

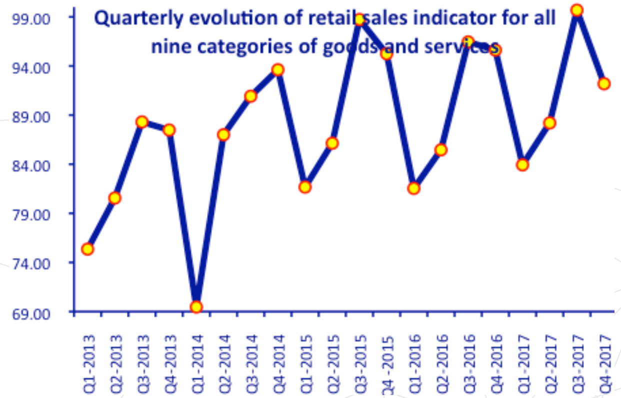
The medical services category includes five sub-categories. These are the services of: doctors; dentists; optometrists and ophthalmologists; hospitals; and other health and medical facilities.

III.B- QUARTERLY EVOLUTION OF RETAIL SALES INDICATORS IN THE SECOND HALF OF 2017

In the third quarter of 2017, the sales performance indicator for all nine categories of retail goods and services recorded an increase of 13.02 percent compared with the level it had reached in the previous quarter. That quarterly indicator was up a moderate 3.35 percent compared to its level in the corresponding period of the previous year.

On a quarter-to-quarter basis, the third quarter of 2017, the sales indicators of seven of the nine categories of retail included in the report registered an improvement, with the indicator for hospitality services surging by the broadest margin.

On a year-to-date basis, the food and beverages sales indicator rose the most the among the five categories of retail that saw their sales indicators move up in the third quarter of 2017 in comparison with their levels in the same period of 2016.



In the fourth quarter of the year, four indicators of the nine retail sales category indicators moved higher on a quarter-to-quarter basis and only two category indicators were higher on a year-to-date comparison. The overall sales indicator declined by 7.52 percent from it's previous quarter's level and by 3.59 percent from its level in the same period of 2016.

III.B.1 – CLOTHING AND FASHION

In the third quarter of 2017, the sales performance indicator for clothing and fashion was up 7.18 percent compared to its level in the previous quarter, but was down 3.28 percent form its level in the same quarter of 2016.

In the fourth quarter of 2017, the sales indicator for clothing and fashion fell by 5.83 percent on a quarter-to-quarter basis and by 6.54 percent on a year-to-date basis.

The quarterly evolution of the clothing and fashion sales indicator conveyed a near-orderly decline over the report's time frame, with gradually lower seasonal lows and gradually lower seasonal highs.

III.B.2– FOOD AND BEVERAGES

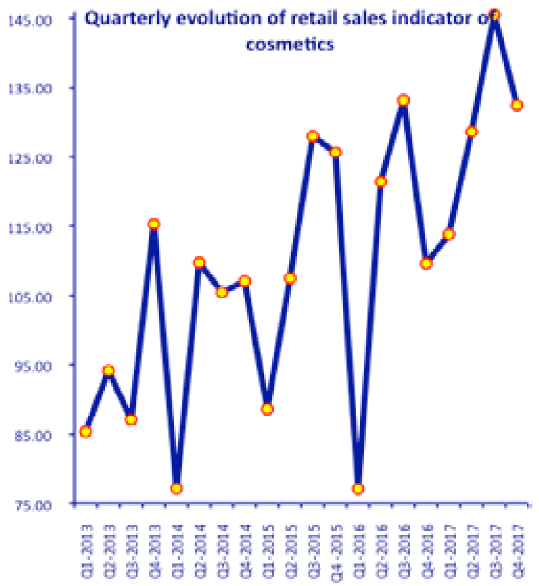
The sales indicator for food and beverages increased by 12.22 percent in the third quarter of 2017 as compared to its level in the previous quarter.

On a year-to-date comparison, this quarterly indicator recorded the largest advance as it rose by 12.08 percent from its level in the corresponding period of the previous of 2016.

In the fourth quarter of the year, the food and beverage sales indicator rose by 8.52 percent on a quarter-to-quarter basis and by 6.01 percent on a year-to-date basis.

The quarterly evolution of the food and beverages sales indicator expressed a distinct orderly rise over the report's data set, with increasingly higher seasonal lows and increasingly higher seasonal highs.

III.B.3- COSMETICS

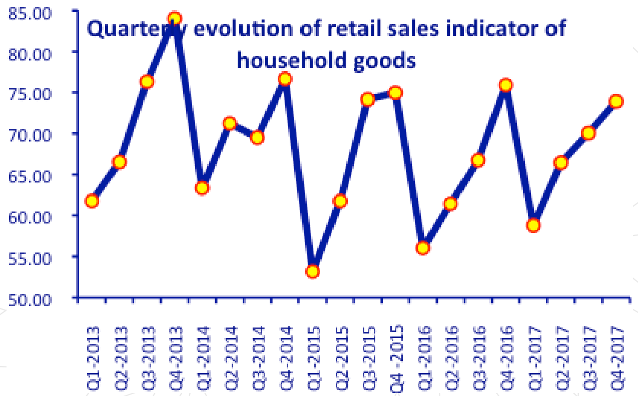


On a quarter-to-quarter basis, the sales indicator for cosmetics was 13.13 percent higher in Q3-2017 compared to its previous quarter's level, the third largest advance among the indicators of the nine categories of retail examined in the report.

On a year-to-date basis, the sales indicator for cosmetics was up 9.27 percent in Q3-2017 compared with its level in Q3-2016.

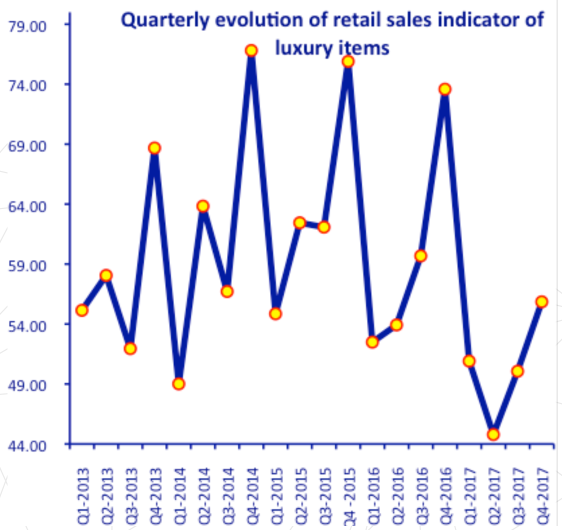
In the fourth quarter of the year, the sales indicator for cosmetics fell back 8.97 percent from its previous quarter's level. However, it was up a marked 20.88 percent from its level in the same period of the previous year.

III.B.4– HOUSEHOLD GOODS



In the third quarter of 2017, the sales performance indicator for household goods edged up 5.44 percent from its level in the second quarter of the year and up 4.97 percent from its level in the corresponding quarter of 2016.

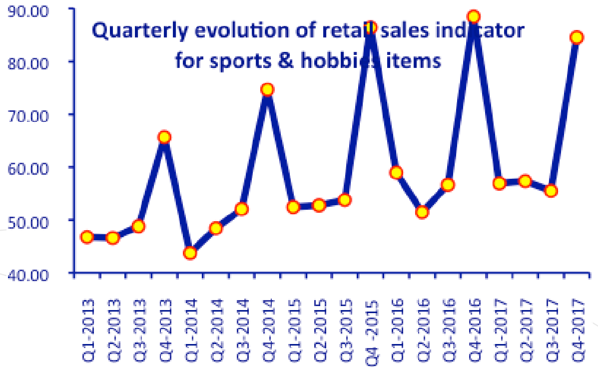
In the fourth quarter of the year, the sales indicator for household goods was up 5.52 percent compared to the previous quarter's level, but down 2.63 percent compared to its level in the same period of 2016.



III.B.5– LUXURY GOODS

The sales indicator for luxury goods expanded by 11.79 percent in the third quarter of 2017 compared to its previous quarter's level. On a year-to-date comparison, however, that indicator posted the broadest decline in Q3-2017 as it was down 16.11 percent from its Q3-2016 level.

In Q4-2017, that indicator rose by 11.56 percent from it Q3-2017 level, but was 24.09 percent lower than its level in the same period of the previous year.

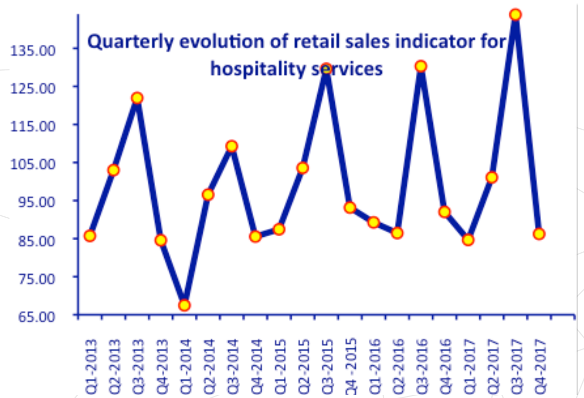


III.B.6– SPORTS AND HOBBIES GOODS

In the third quarter of 2017, the sales performance indicator for sports and hobbies goods edged down 3.25 percent from its previous quarter's level and 2.04 percent from its Q3-2016 level.

In the fourth quarter of the 2017, that indicator was up by a broad 52.29 percent from its previous quarter's level, but down 4.43 percent from its level in the same period of the previous year.

III.B.7- HOSPITALITY SERVICES



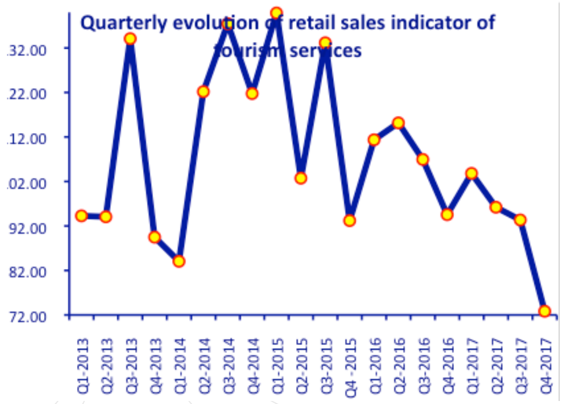
A quarter-to-quarter comparison showed that the sales performance indicator for hospitality services posted the broadest advance in the third quarter of 2017 as it surged 42.32 percent from its previous quarter's level.

On a year-to-date basis, that indicator was up 10.4 percent in Q3-2017 from its Q3-2016 level, the second largest advance for the period.

The third quarter of the year normally witnesses a seasonal flurry of activity in that sector of retail.

The sales indicator for hospitality services took a sharp turn down in the fourth quarter of 2017 as it moved down 40.06 percent from its seasonal peak in the third quarter of the year. Compared with is level in the same period of 2016, the sales indicator for the fourth quarter of 2017 was down 6.29 percent.

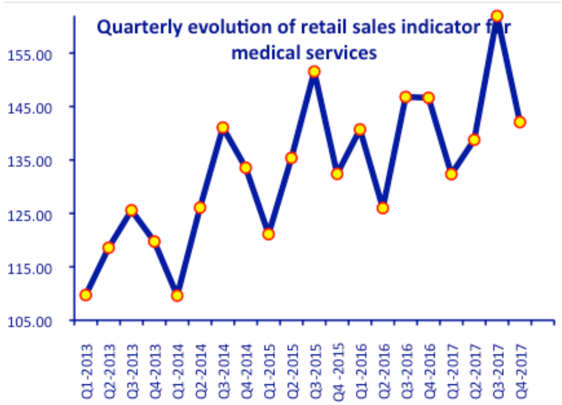
III.B.8- TOURISM SERVICES



In the third quarter of 2017, the sales indicator for tourism services lost ground on both the quarter-to-quarter and the year-to-date comparisons. It was down 2.97 percent from its previous quarter's level and down 12.71 percent compared to its Q3-2016 level.

The downturn grew sharper in the fourth quarter of the year and that indicator retreated 21.98 percent from its previous quarter's level and 22.96 percent from its level in the corresponding quarter of the previous year.

III.B.9- MEDICAL SERVICES



The sales performance indicator for medical services was up 16.71 percent in Q3-2017 compared with its previous quarter's level and up 10.33 percent compared with its Q3-2016 level.

That indicator, however, went into reverse in the fourth quarter of 2017 as it moved down 12.27 percent compared with its previous quarter's level and by 3.1 percent compared with its level in the corresponding quarter of the previous year.

III.C- EVOLUTION OF RETAIL SALES INDICATORS IN THE SECOND HALF OF 2017

The retail sales indicators for all nine categories of goods and services for the second half of 2017 edged down by a trifling 0.11 percent in comparison with its level in the second half of 2016.

Compared with its level in the first half of 2017, the overall indicator for the second half of the year was up 11.47 percent, reflecting the established pattern of a relatively higher concentration of retail sales in the second half of the year.

III.C.1 – CLOTHING AND FASHION

The retail sales indicator for clothing and fashion was down 4.89 percent in the second half of 2017 from its level in the same period of 2016. That indicator moved up 9.78 percent from its level in the first half of 2017.

The ten-data-point chart depicting the half yearly evolution of that indicator revealed a clear downtrend with the H2-2017 indicator at its lowest in comparison with the levels it was at in the previous four years. Thus, the H2-2017 indicator was 1.45 percent lower than its H2-2015 level, 11.63 percent lower that its H2-2014 level, and 18.22 percent that its H2-2013 level. These downtrend forming declines were also expressed in more technical trend metrics included in the report.

III.C.2– FOOD AND BEVERAGES

The food and beverages retail sales indicator for the second half of 2017 extended the orderly uptrend to reach the highest half-year level attained by that indicator.

The H2-2017 retail sales indicator for food and beverages was 8.84 percent higher in comparison to its level in the second half of 2016, and 16.74 percent higher in comparison to its level in the first half of 2017.

The sharp uptrend traced by that indicator is reflected in the comparison of its H2-2017 level with levels recorded in previous years' corresponding periods. Thus, the H2-2017 level for the indicator was 33.63 percent higher than its H2-2015 level, 39.96 percent higher than the H2-2014 level, and 56.71 percent higher than the H2-2013 level.

III.C.3- COSMETICS

The retail sales indicator for cosmetics also traced an upward ratcheting movement and reached its highest level in H2-2017 as compared with levels reached in corresponding periods of previous years.

That indicator was 14.51 percent higher than the level it had reached in the second half of 2016, and 14.65 percent higher than its level in the preceding half year.

III.C.4– HOUSEHOLD GOODS

The household goods retail sales indicator in the second half of 2017 was only marginally higher than its levels in corresponding periods of the previous three years, an sign that the downtrend for that metric may be plateauing as other trend the more technical trend parameters suggest.

The H2-2017 level for that indicator was 0.92 percent higher than the levels it had reached in H2-2016 and it was 14.96 percent higher than its previous half-year level.

III.C.5– LUXURY GOODS

The retail sales indicator for luxury goods reached its lowest second half-year level as it took a sharp fall of 20.52 percent in H2-2017 from its H2-2016 level.

The indicator's level in the second half of 2017 was also 8.73 percent lower that its H2-2015 level, 20.67 percent lower than its H2-2014 level, and 12.19 percent lower than its H2-2013 level.

Compared to its previous half-year level, that indicator was up 10.68 percent.

III.C.6– SPORTS AND HOBBIES GOODS

The retail sales indicator for sports and hobbies goods edged 3.49 percent lower in the second half of 2017 as compared to its level in the second half of 2016. That indicator was 22.52 percent higher that its previous its level in the previous half year.

III.C.7- HOSPITALITY SERVICES

The retail sales indicator for hospitality services reached its highest half-year level in H2-2017 as it rose by 3.5 percent compared with its H2-2016 level and by 23.87 percent compared with its previous half-year's level.

III.C.8- TOURISM SERVICES

The retail sales indicator for tourism services extended its three-year downturn as if fell by 17.52 percent in the second half of 2017 from its level in the second half of the year before. The indicator declined by 16.92 percent in comparison to its level in the previous half-year.

The H2-2017 indicator for that category of retail was 32.89 percent lower than the peak level it had reached in H2-2014.

III.C.9- MEDICAL SERVICES

The retail sales indicator for medical services traced a resolute uptrend throughout the report's data set. This was expressed in the charted ten-point half-year metrics that show orderly higher highs and higher lows.

Thus, the H2-2017 indicator for that category rose to a peak level as it increased by 3.62 percent compared with its H2-2016 level and by 12.15 percent from its previous half-year level.

III.D- THE EVOLUTION OF RETAIL SALES INDICATORS IN 2017

The retail sales indicator for the report's nine categories of goods and services rose by 1.37 percent in 2017 compared with its 2016 level. That indicator remained nine percent lower than its 2012 base level.

Of the nine categories of goods and services, four saw their 2017 indicators rise above their base year level.

CLOTHING & FASHION INDICATOR DOWN 3.13 PERCENT

FOOD & BEVERAGES INDICATOR UP 8.67 PERCENT

COSMETICS INDICATOR UP 17.94 PERCENT

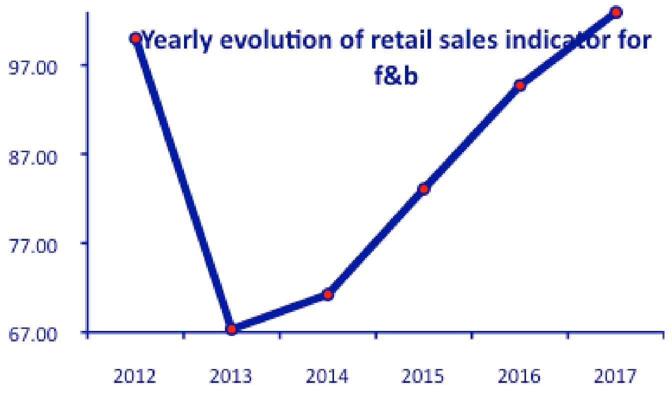
Of the nine categories of goods and services, five saw their 2017 indicators increase compared with their previous year's level.

III.D.1 – CLOTHING AND FASHION

The retail sales indicator for clothing and fashion extended its steady yearly decline in 2017 as it moved 3.13 percent down from its 2016 level.

The indicator remained 34.63 percent lower than its base year level.

III.D.2– FOOD AND BEVERAGES



In 2017, the retail sales indicator for food and beverages was up 8.67 percent from its 2016 level.

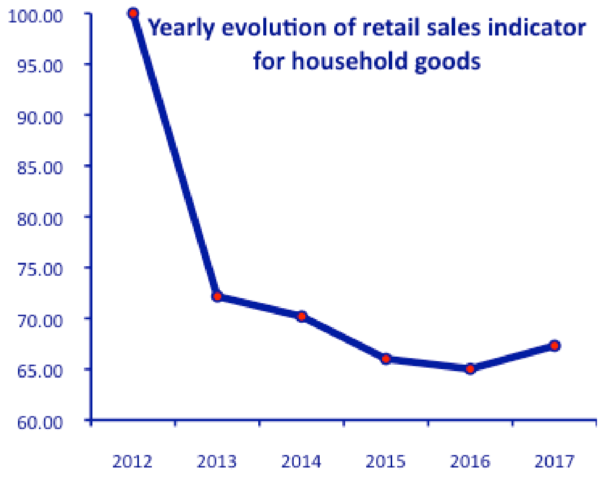
That indicator was 2.93 percent higher than it 2012 base level.

III.D.3- COSMETICS

The retail sales indicator staged the broadest increase in 2017 as it moved up 17.94 percent from its previous year's level.

The cosmetics retail sales indicator reached a level that was 30.1 percent higher than its base year level.

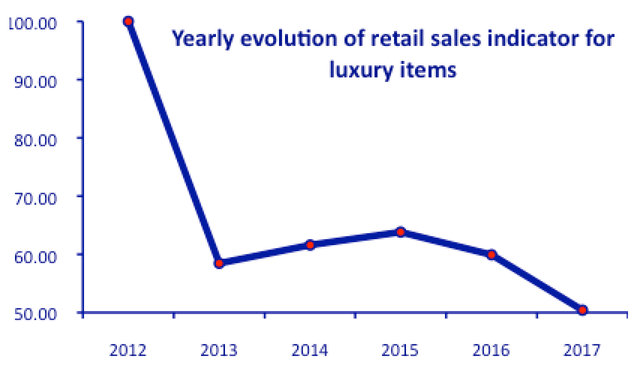
III.D.4– HOUSEHOLD GOODS



The household goods retail sales indicator edged up 3.5 percent in 2017 from its previous year's level, but remained 32.7 percent lower than its base year level.

LUXURY GOODS INDICATOR
DOWN 15.88 PERCENT

III.D.5– LUXURY GOODS



The retail sales indicator for luxury goods registered a broad decline of 15.88 percent in 2017, the broadest fall of the report's nine categories. This indicator also fell the most from its base year level as it dipped 49.6 percent below its 2012 level.

SPORTS & HOBBIES GOODS INDICATOR
DOWN 0.47 PERCENT

III.D.6– SPORTS AND HOBBIES GOODS

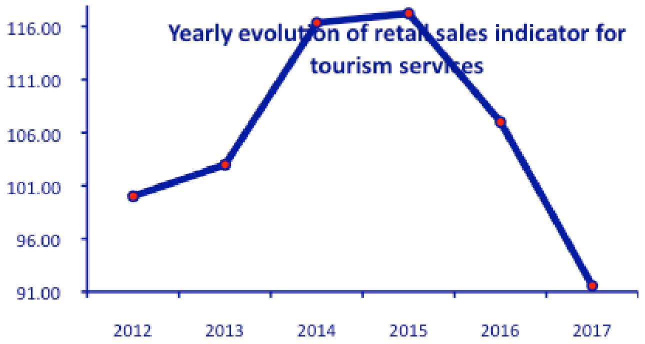
In 2017, the sports and hobbies retail sales indicator edged a minimal 0.47 percent lower than its previous year's level and remained a broad 36.41 percent lower than its base year level.

HOSPITALITY SERVICES INDICATOR
UP 4.47 PERCENT

III.D.7- HOSPITALITY SERVICES

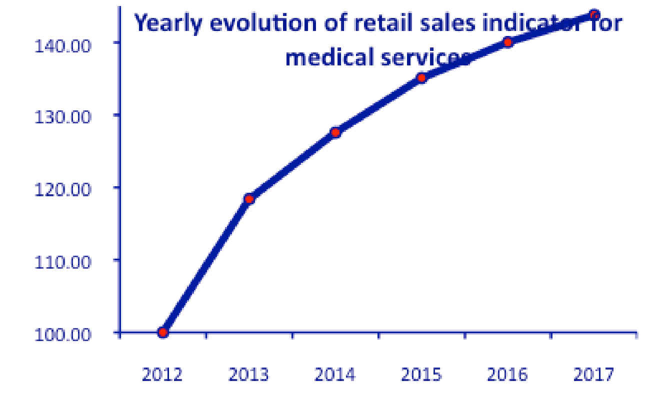
The retail sales indicator for hospitality services was up 4.47 percent in 2017 and stood at 3.96 percent above its base year level.

III.D.8- TOURISM SERVICES

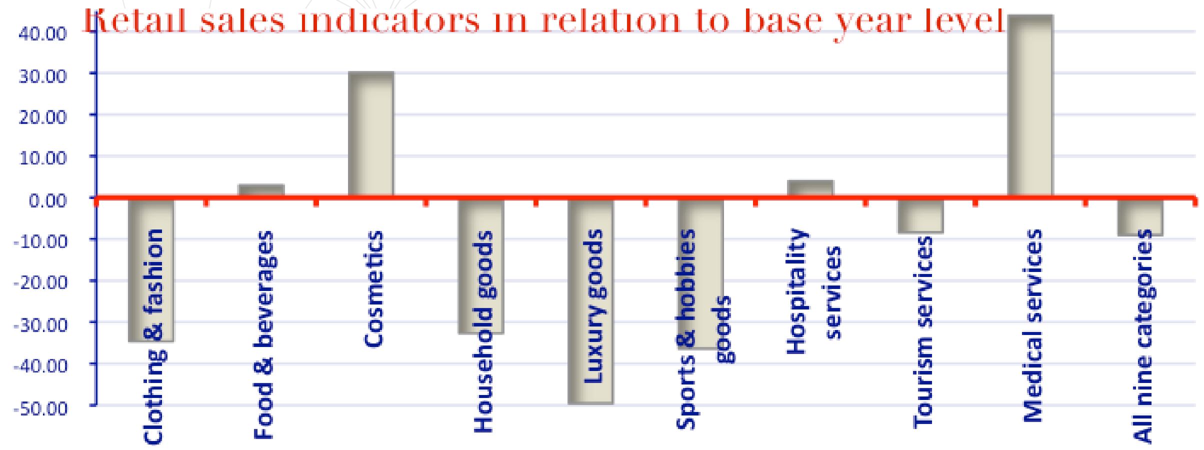


The retails sales indicator for tourism services declined by 14.44 percent in 2017 and remained 8.45 percent below its base year level.

III.D.9- MEDICAL SERVICES



The retail sales indicator for medical services rose by a moderate 2.68 percent in 2017. That indicator stood at 43.79 percent above its base year, the broadest positive gap from the 2012 level.



QUARTER-TO-QUARTER CHANGE OF RETAIL SALES INDICATORS BY CATEGORY

	Q3-2016	Q4-2106	Q1-2017	Q2-2107	Q3-2017	Q4-2017
Clothing & fashion	11.91%	-2.54%	-17.07%	11.67%	7.18%	-5.83%
Food & beverages	7.63%	14.73%	-12.56%	-0.44%	12.22%	8.52%
Cosmetics	9.66%	-17.72%	3.88%	12.99%	13.13%	-8.97%
Household goods	8.64%	13.75%	-22.55%	13.00%	5.44%	5.52%
Luxury goods	10.67%	23.29%	-30.81%	-12.03%	11.79%	11.56%
Sports & hobbies goods	10.09%	56.10%	-35.63%	0.76%	-3.25%	52.29%
Hospitality services	50.71%	-29.38%	-7.99%	19.39%	42.32%	-40.06%
Tourism services	-7.13%	-11.60%	9.81%	-7.32%	-2.97%	-21.98%
Medical services	16.52%	-0.11%	-9.75%	4.86%	16.71%	-12.27%
All nine categories	**12.86%**	**-0.86%**	**-12.23%**	**5.09%**	**13.02%**	**-7.52%**

YEAR-TO-DATE QUARTERLY CHANGE OF RETAIL SALES INDICATORS BY CATEGORY

	Q3-2016	Q4-2016	Q1-2017	Q2-2017	Q3-2017	Q4-2017
Clothing & fashion	-0.41%	-7.24%	-3.38%	0.99%	-3.28%	-6.54%
Food & beverages	14.23%	9.98%	9.47%	7.49%	12.08%	6.01%
Cosmetics	4.05%	-12.79%	47.68%	5.92%	9.27%	20.88%
Household goods	-10.01%	1.27%	4.96%	8.16%	4.97%	-2.63%
Luxury goods	-3.86%	-3.05%	-3.01%	-16.95%	-16.11%	-24.09%
Sports & hobbies goods	5.33%	2.36%	-3.45%	11.47%	-2.04%	-4.43%
Hospitality services	0.53%	-1.22%	-5.15%	16.91%	10.40%	-6.29%
Tourism services	-19.69%	1.44%	-6.78%	-16.46%	-12.71%	-22.96%
Medical services	-3.14%	10.76%	-5.95%	10.15%	10.33%	-3.10%
All nine categories	**-2.31%**	**0.40%**	**2.94%**	**3.21%**	**3.35%**	**-3.59%**

IV.
THE ANALYSIS

Seasonally adjusted retail sales indicators

Trend analysis

The moving average approach

VI.A. SEASONALLY ADJUSTED RETAIL SALES INDICATORS

In their primary form, retail sales indicators incorporate more or less strong seasonal influences that oftentimes cause broad and non-trend-forming fluctuations. Such fluctuations embroil the statistical exercise of determining trend parameters, a step that should necessarily precede any meaningful trend analysis. Hence the need for an approach that enhances the statistical adequacy of primary retail indicator metrics.

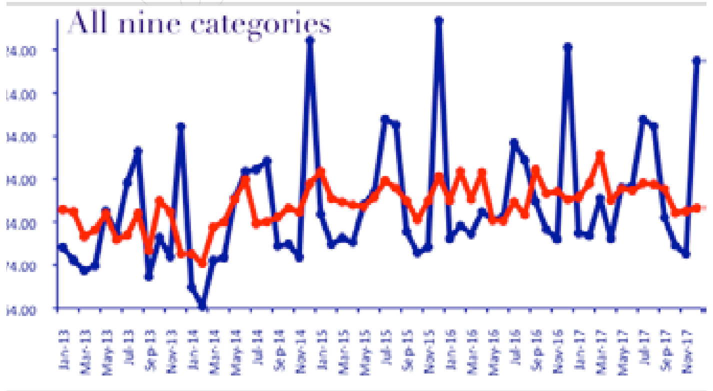
The process of de-seasonalization generates time series that are devoid of the shifty, short-lived and distortive influences of seasonal vacillations of demand. The purpose of seasonal adjustment of indicator numbers is therefore to lay bare the underlying trend along which the indicators have evolved.

The degree of added accuracy of the trend metrics derived from de-seasonalized data hinges upon the extent to which the range of fluctuations of these data is narrower than that of the unadjusted data.

The exercise is justified by the axiom that a narrower range of fluctuations begets more accurate trend parameters.

(In the charts below, the lines for seasonally adjusted indicator data are in red.)

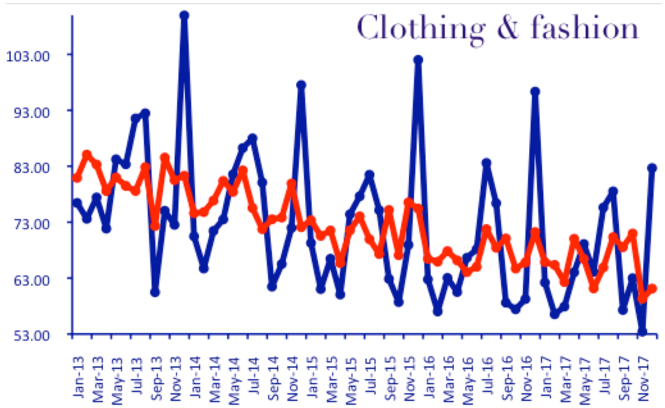
The overall retail sales indicator



The seasonal adjustment of indicator data for all nine categories of retail sales covered by the report reduced the range of fluctuations of the adjusted set by 61.9 percent as compared to that of the unadjusted set.

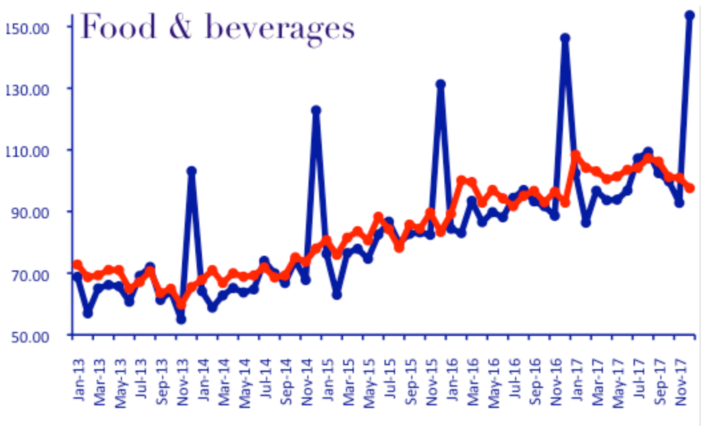
Consequently, the standard deviation of the adjusted series was 63.95 percent lower than that of the unadjusted series.

IV. A. 1- CLOTHING AND FASHION



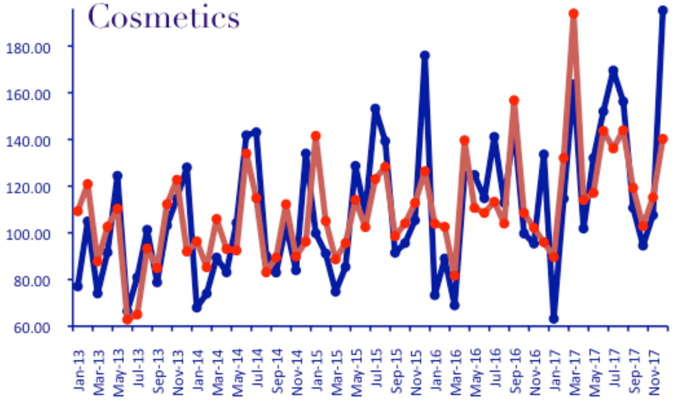
When de-seasonalized, the data set for the clothing and fashion retail sales saw a 54.42 percent reduction in fluctuation compared with the non-adjusted set. The standard deviation after seasonal adjustment was reduced by 47.47 percent.

IV. A. 2- FOOD AND BEVERAGES



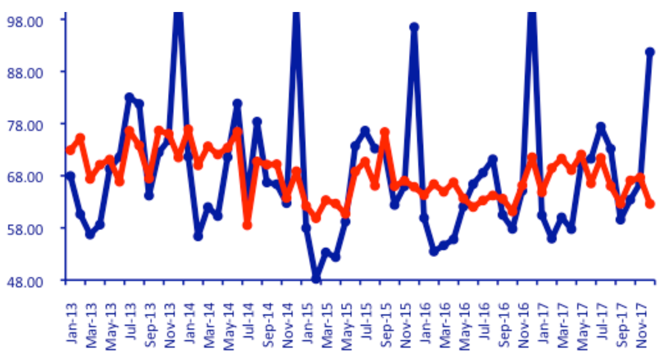
The seasonal adjustment of retail sales indicator data for food and beverages resulted in the reduction of the de-seasonalized data set's fluctuations by 50.77 percent and the reduction of the set's standard deviation by 31.11 percent.

IV. A. 3- COSMETICS



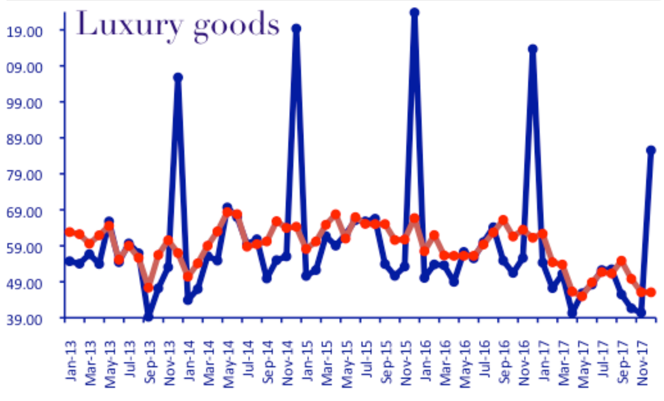
The primary retail sales indicator data for cosmetics recorded the broadest fluctuations of the nine categories of retail included in the report. Furthermore, these wide fluctuations did not follow any detectable seasonal pattern. As a result, data de-seasonalization reduced the range of fluctuations by an inconsequential 0.69 percent. The adjusted set's standard deviation was reduced by 26.47 percent

IV. A. 4- HOUSEHOLD GOODS



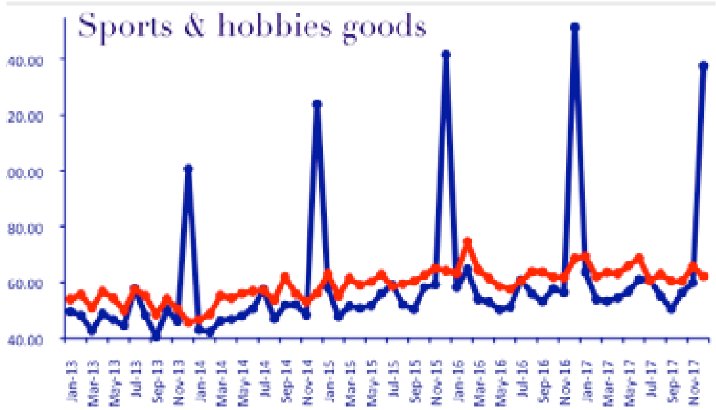
The seasonal adjustment of retail sales indicator data for household goods narrowed the range of fluctuations by a significant 67.54 percent and reduced the adjusted set's standard deviation by 62.09 percent compared with that of the primary set.

IV. A. 5- LUXURY GOODS



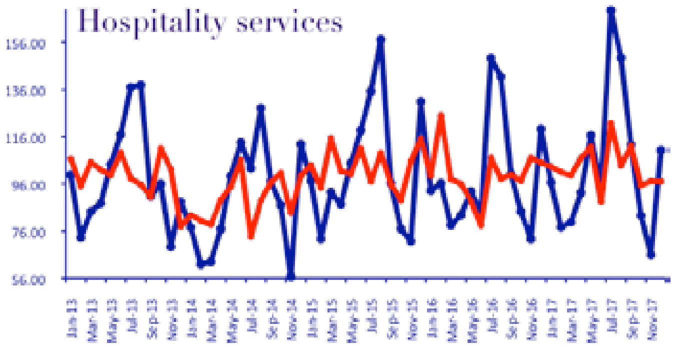
The primary data set for the luxury goods retail sales indicator exhibited marked seasonal peaks interspersed with interval of relatively tight fluctuations. By ironing out periodic peaks, the range of fluctuations of the seasonally adjusted data set was reduced by 67.54 percent and the standard deviation was reduced by 62.09 percent.

IV. A. 6- SPORTS AND HOBBIES GOODS



Similarly, the strong seasonality attribute to the sharp seasonal peaks reflected in the sports and hobbies goods indicator data resulted in de-seasonalization narrowing down the range of fluctuations of the adjusted data set by 73.83 percent, the broadest fluctuation attenuation ratio of the nine retail categories. As a result, the standard deviation metric of that set was reduced the most by 74.89 percent.

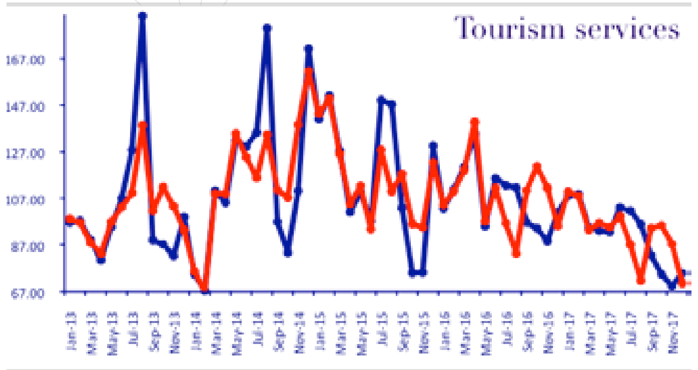
IV. A. 7– HOSPITALITY SERVICES



The process of de-seasonalizing the retail sales indicator data for hospitality services has rendered clearer the near-flat trend that formed throughout the 60-month period.

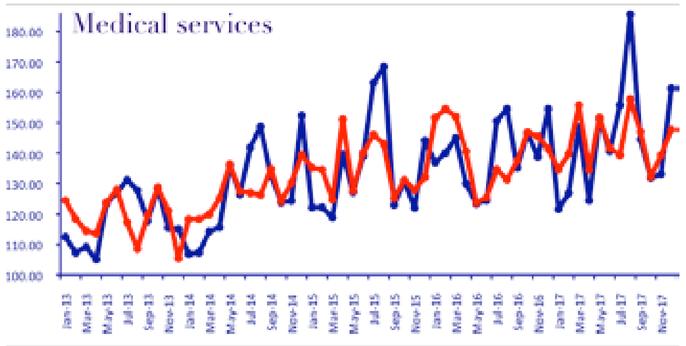
As the sharp seasonal fluctuations were ironed out, the range of fluctuations of seasonally adjusted indicator data was 54.37 percent narrower than that of unadjusted data. The standard deviation of the adjusted series was consequently reduced by 58.23 percent compared with that of the unadjusted series.

IV. A. 8– TOURISM SERVICES



The retail sales indicator for tourism services exhibited comparatively patternless and broad fluctuations in the 2013-2015 portion of the data set. As a result, de-seasonalization of indicator data reduced the range of fluctuations and the standard deviation of the adjusted data by a minimal 19.73 percent and 25.66 percent respectively compared with those defining the unadjusted data.

IV. A. 9– MEDICAL SERVICES

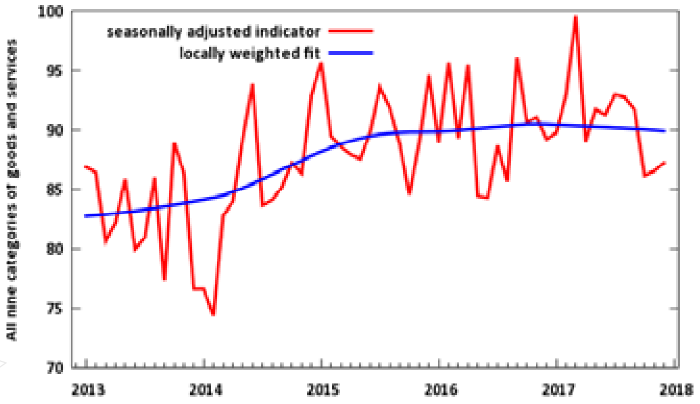


With comparatively subdued fluctuations of primary indicator data, the seasonal adjustment of the retail sales indicator series reduced the range of fluctuations by a moderate 39.03 percent and the standard deviation by 26.92 percent.

IV. B. TREND ANALYSIS

The trend formed by the 60-month seasonally adjusted indicator time series was expressed both in linear and in non-parametric terms. The linear trend approach relays the evolution of data through time in basically one graspable numerical parameter namely, the slope. The advantage of this approach becomes evident when it is applied to a multitude of time series, an instance that often calls for a comparison or ranking of linear trends. This is the case in the present exercise where the linear trends of the nine categories of retail are ranked according to both vector direction and gradient.

The non-parametric regression chosen for the present exercise is the locally weighted fit approach, which has three advantages over the linear trend approach. First, it captures the statistically significant pivot points that mark changes in vector direction within the datasets; second, longer time series often embody change in vector direction which the stylized linear approximation of the trend is not designed to reflect; and third, the stages of data evolution, which the locally weighted fit renders more noticeable, supply additional information and material for analysis.



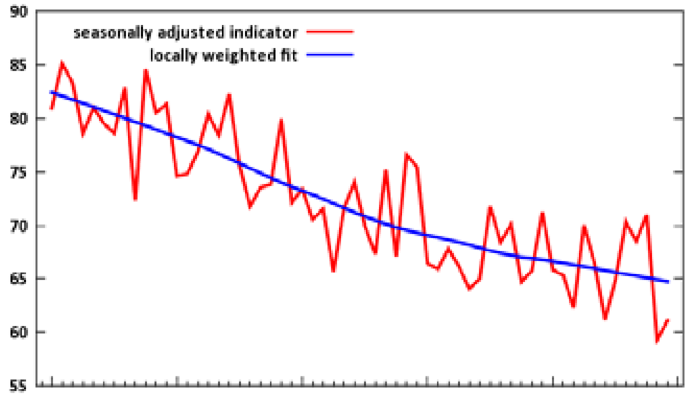
The overall retail sales indicator

The linear trend line for the seasonally adjusted indicator 60-month data set for all nine categories of consumer goods and services, while still positive, saw its slope pivot to a slightly milder gradient of +0.165 compared with +0.201 for the 54-month data set. This is a clear expression of the comparatively dismal sales performance registered in the second half of 2017.

For that data set, the locally weighted fit presented four phases in the evolution of seasonally adjusted indicator data. Phase one showed a barely perceptible upmove in 2013; phase two traced a steeper climb in the subsequent 15 months; phase three was expressed in a milder, nearly-flat ascent that extended to 27 months; and phase four reflected the decline of the second half of 2017.

IV. B. 1- NEGATIVELY SLOPED LINEAR TREND FOR SALES INDICATORS OF FOUR RETAIL CATEGORIES

Clothing and fashion

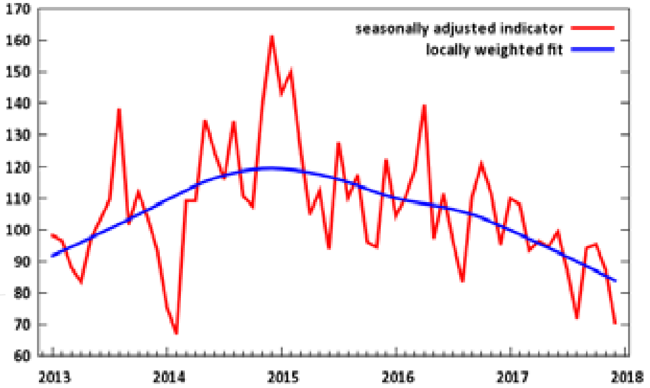


The seasonally adjusted retail sales indicators for the clothing and fashion traced a steadily negative trend throughout the 60-month data series of the report.

The linear trend line points downwards at a gradient of -0.314, a hardly noticeable improvement on the slightly sharper fall of a -0.35 gradient computed for the 54-month data set.

The locally weighted fit for the indicator data of that retail category showed an orderly downward-pointing trend line.

Tourism services

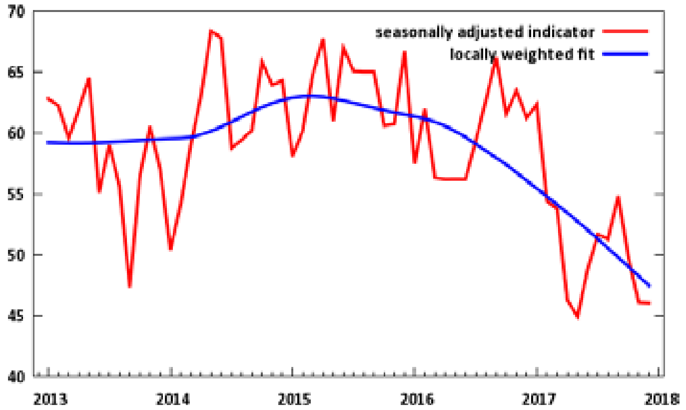


Expressing a noticeable turn for the worse in retail sales performance in that category, the linear trend for the 60-month indicator data for took a comparatively steep downward path of a

-0.211 gradient, thus reversing the nearly flat but positive +0.0288 slope of the 54-month data.

The locally weighted fit of the tourism services indicator shows an upward move in 2013 and 2014. A second phase saw the tracing of a mild but sustained decline in subsequent two and a half years, and a third phase witnessed a sharper decline in the second half of 2017.

Luxury goods

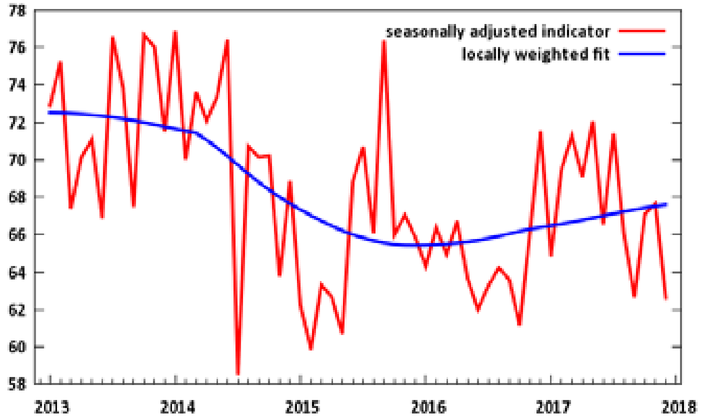


The linear trend deriving from the 60-month seasonally adjusted retail sales indicator data for luxury goods took a sharp turn downward that reflected markedly worsening sales performance in the second half of 2017.

The down slope with a gradient of -0.211 was significantly sharper for the 60-month data set than the nearly flat negative slope of -0.0577 for the 54-month data set.

The locally weighted fit also reflected a 24-month long sharp downturn in 2016-2017.

Household goods

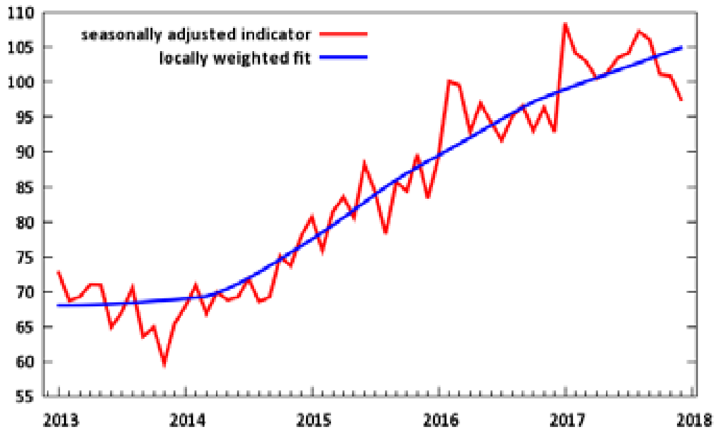


The linear trend for the 60-month retail sales indicator data for household goods remained negative but with a milder of -0.118 slope in comparison with a slope of -0.135 derived from the 54-month data set.

The locally weighted fit shows a more nuanced view of the evolution of this data set, with a mild upturn in 2016-2017 that came on the heels of a relatively sharp decline in the 18 months to mid-2015.

IV. B. 2- POSITIVELY SLOPED LINEAR TREND FOR SALES INDICATORS OF FOUR RETAIL CATEGORIES

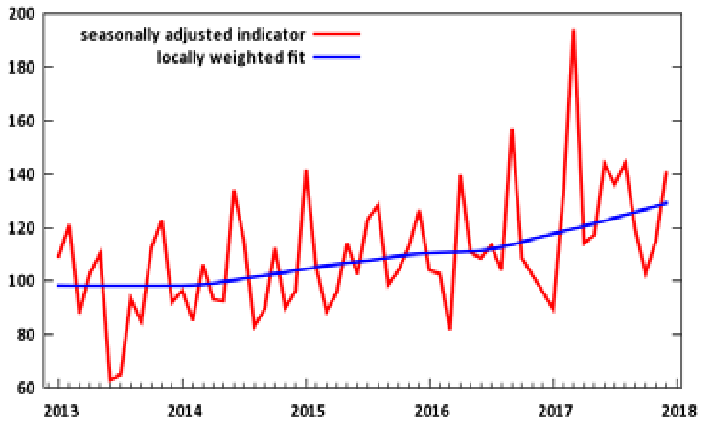
Food and beverages



The positive linear trend for the 60-month indicator data for retail sales of food and beverages remained the steepest among the report's nine categories of retail with a slope of +0.765. That slope was +0.78 for the trend line deriving from the 54-month data set of the previous report.

The locally weighted fit depicted a quasi linear section stretching over four years.

Cosmetics

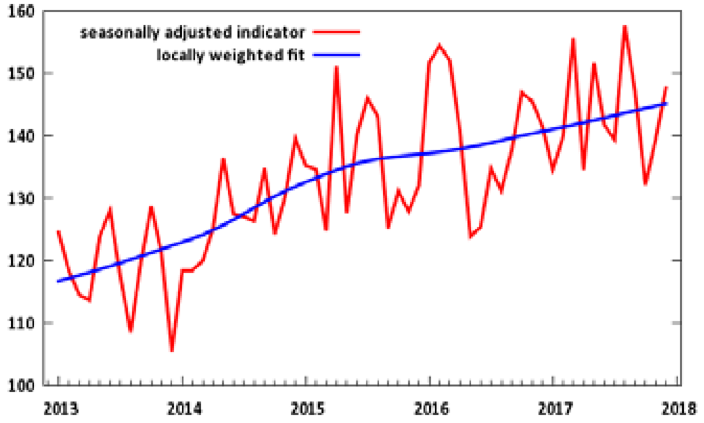


The linear trend stemming from the seasonally adjusted 60-month indicator data for cosmetics sales traced the second steepest uptrend of the report's nine retail categories. With a slope of +0.602, it was slightly sharper than that derived from the 54-month data set which had stood at +0.591.

The locally weighted fit shows a positive trend of extending over nearly all of the report's 60-month series.

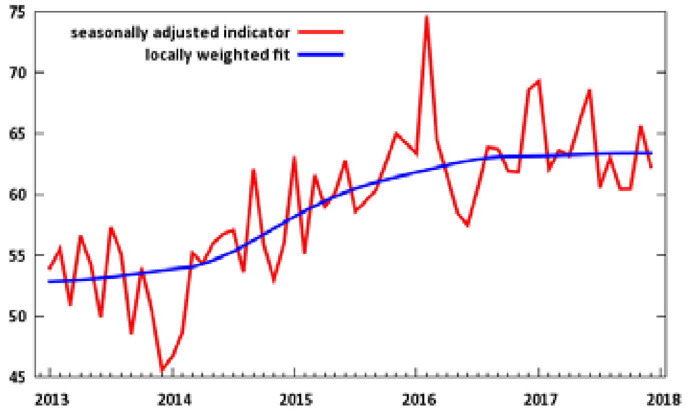
Medical services

The de-seasonalized 60-month indicator data set for sales of medical services drew a linear uptrend with a gradient of +0.502, the third steepest positive trend of the nine retail categories of the report. That gradient was +0.534 in the 54-month data set of the previous report.



The locally weighted fit for that indicator's series conveyed the facts that the trend line pointed resolutely up with no change in direction at any point in time, and that all indicator fluctuations as well as the trend line remained above the base year's level throughout the report's 60-month period.

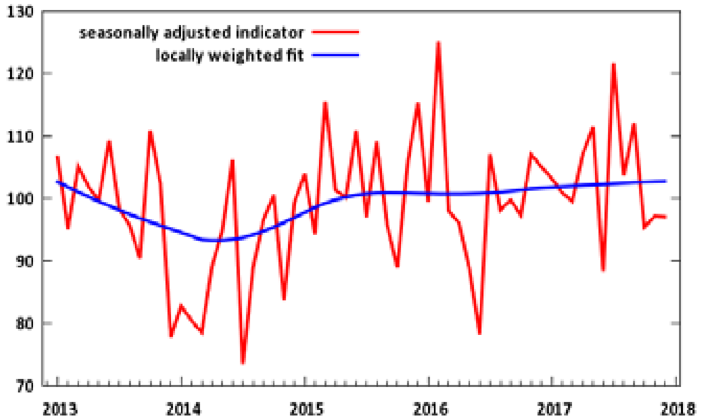
Sports and hobbies goods



The 60-month seasonally adjusted retail sales indicator data for sports and hobbies goods formed a linear uptrend with a slope of +0.247 compared with a slope of +0.293 for the trend line of the 54-month data set of the previous report.

The locally weighted fit remained positively sloped throughout the five years covered by the report, however, both the trend line and the indicator value remained markedly below the base year's level.

Hospitality services



The de-seasonalized 60-month indicator data set for sales of hospitality services traced a linear uptrend with a gradient of +0.141, a slightly steeper upmove than that of the trend for the previous report's 54-month data set, which drew a trend line of a gradient of +0.119.

The locally weighted fit depicted a rising but near-flat section of the trend stretching over two and a half years from mid-2015.

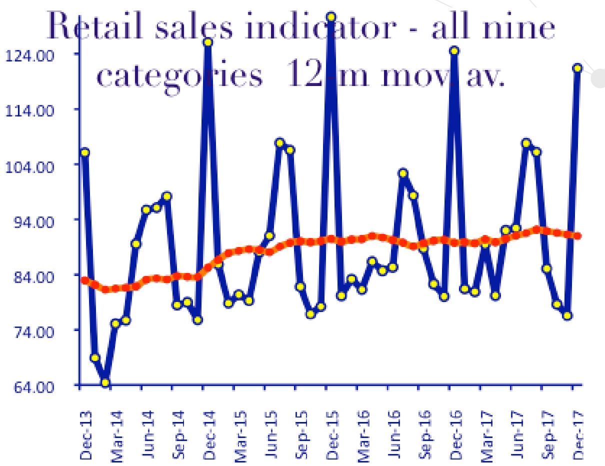
LINEAR SLOPE FOR 60-MONTH SEASONALLY ADJUSTED SERIES

	Slope
All nine categories	Y = 83.0 + **0.165**t
Positively-sloped linear trend	
Food & beverages	Y = 61.3 + 0.765t
Cosmetics	Y = 91.8 + 0.602t
Medical services	Y = 118. + 0.502t
Sports & hobbies goods	Y = 51.8 + 0.247t
Hospitality services	Y = 94.9 + 0.141t
Negatively-sloped linear trend	
Clothing & fashion	Y = 81.5 - 0.314t
Tourism services	Y = 113. - 0.211t
Luxury goods	Y = 62.7 - 0.132t
Household goods	Y = 71.6 - 0.118t

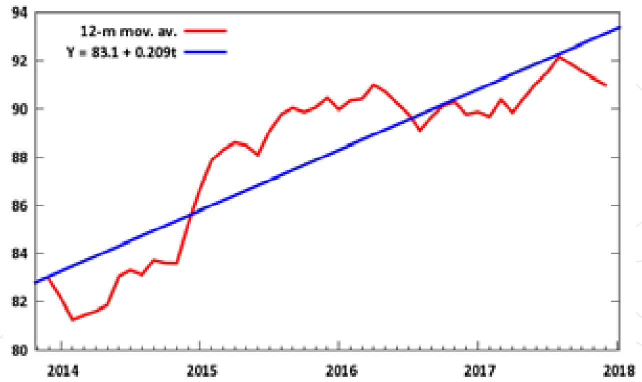
IV. C. THE MOVING AVERAGE APPROACH

To further validate the trend analysis, a two-step process was worked out that requires the expression of primary indicator data in the form of 12-month moving average from which were drawn linear as well as non-parametric trend lines. Both confirm trend results derived from the seasonal adjustment approach presented in the previous section.

In three instances referred to below, the linear trend did not constitute an adequate approximate representation of the underlying data. The derivation of the non-parametric locally weighted fit trend was applied in these cases and produced near-identical results as those obtained where that fit was applied to de-seasonalized data.

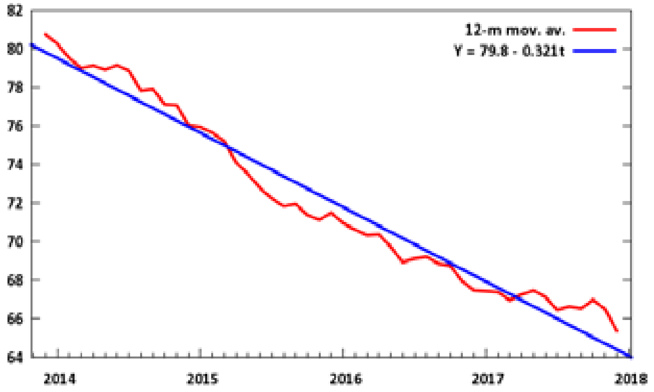


The overall retail sales indicator



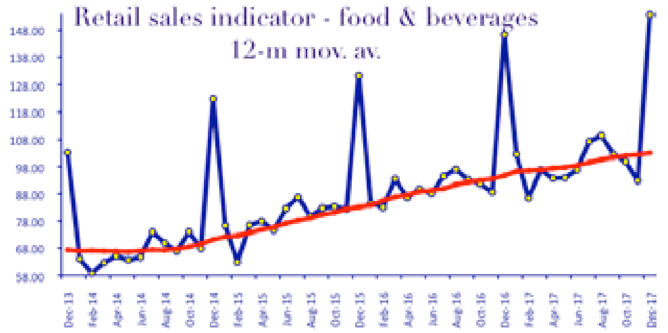
The linear trend formed by the 12-month moving average metrics drawn from the 60-month primary retail sales indicator data for all nine categories of goods and services was slightly positive with a slope of +0.209 compared with a slope of +0.233 for the 54-month corresponding trend. This confirms the minor worsening of retail sales performance in the second half of 2017.

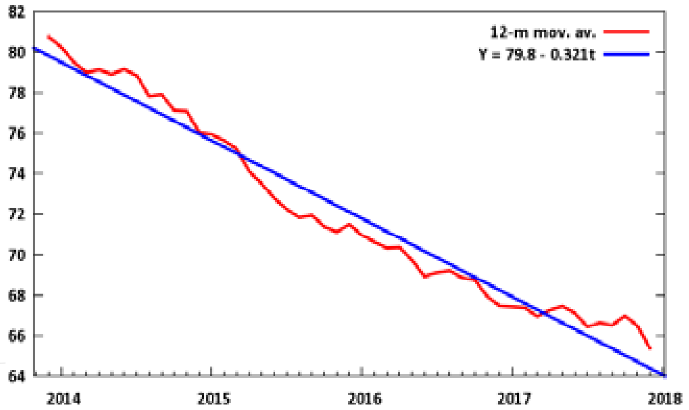
IV. C. 1- CLOTHING AND FASHION



The linear trend expressing the 12-month moving average metrics derived from the 60-month primary retail sales indicator data for clothing and fashion was firmly negative with a slope of -0.321. This compares with a slope of a slope of -0.349, indicating a minute reduction in the rate of worsening of sales performance in this category of retail.

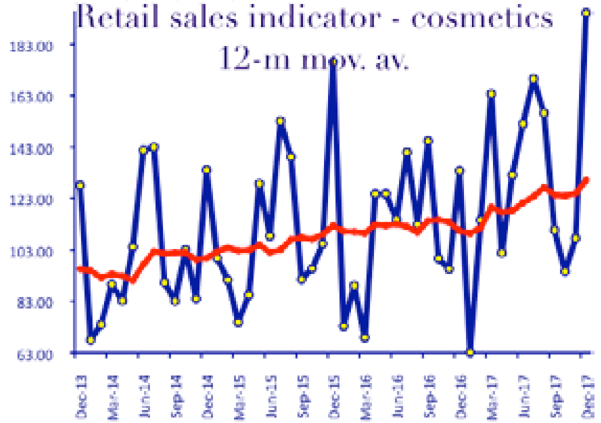
IV. C. 2- FOOD AND BEVERAGES

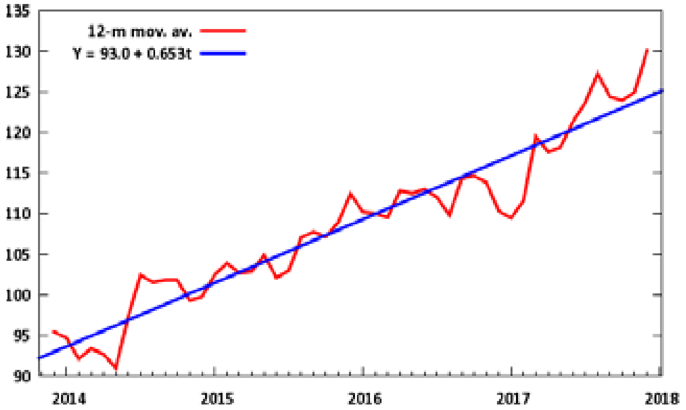




The linear trend depicting the 12-month moving average numbers obtained from the 60-month primary retail sales indicator data for food and beverages was strongly positive with a slope of +0.867. This is a negligible change from a slope of +0.878 derived from the 54-month data.

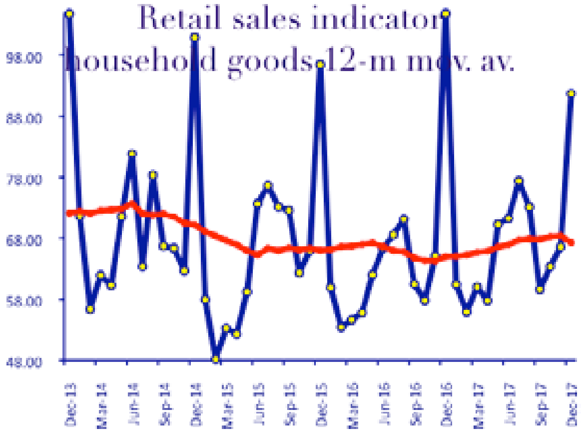
IV. C. 3- COSMETICS

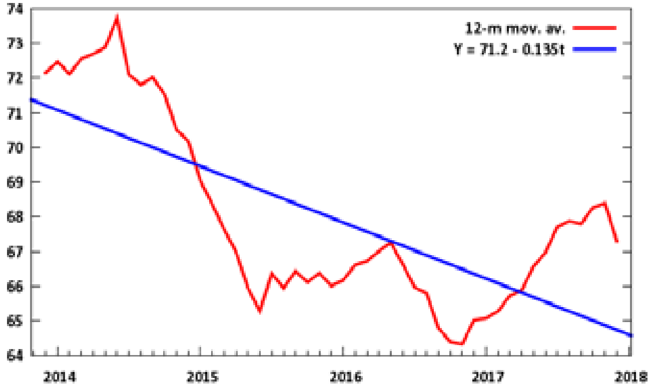




The linear trend describing the 12-month moving average values obtained from the 60-month primary retail sales indicator data for cosmetics was resolutely positive with a slope of +0.653, compared with a slope of +0.585 for the trend line drawn from the 54-month data.

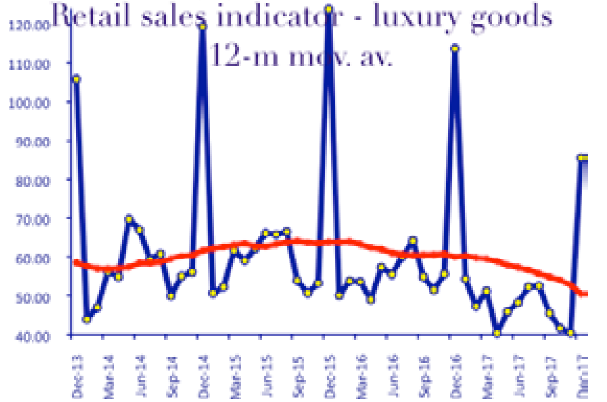
IV. C. 4- HOUSEHOLD GOODS

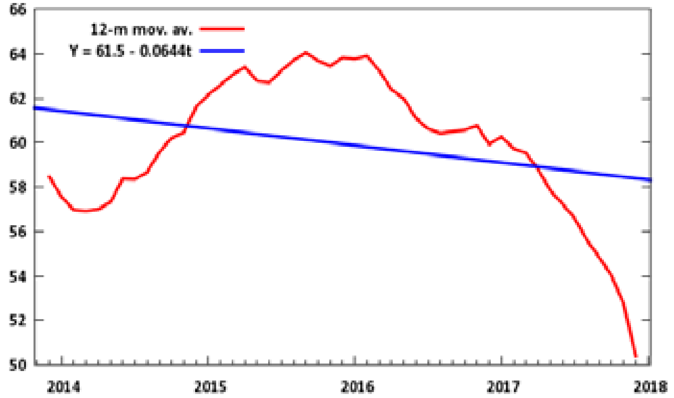




The linear trend for the 12-month moving average metrics drawn from the 60-month primary retail sales indicator data for household goods was negative with a slope of -0.135. This denoted a minor reduction in the rate of decline compared with a slope of -0.198 for the trend line of the 54-month data.

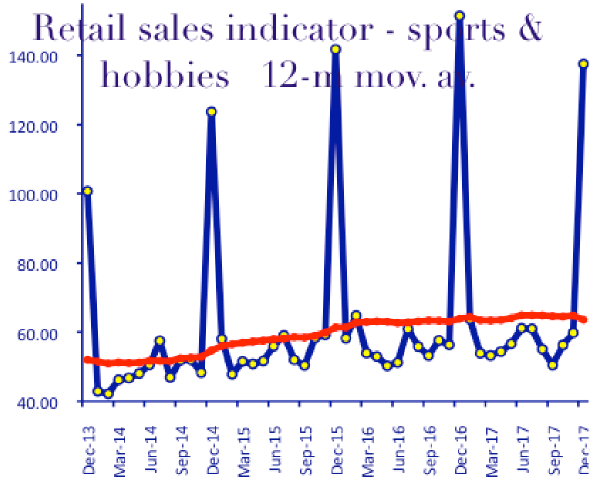
IV. C. 5- LUXURY GOODS

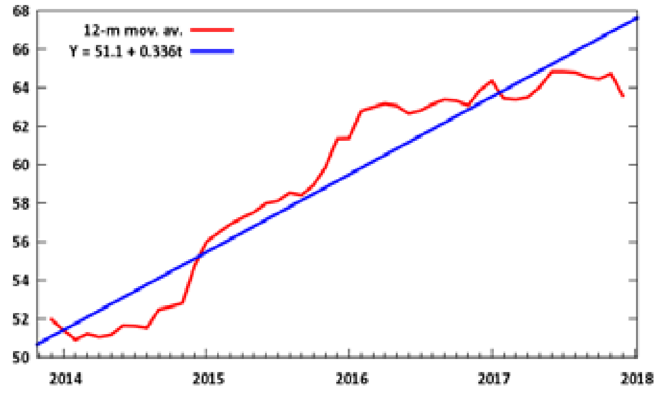




The linear trend obtained from the 12-month moving average metrics applied to the 60-month primary retail sales indicator data for luxury goods was negative with a slope of -0.064. However, in this instance the linear trend did not constitute an acceptable approximation of the underlying data.

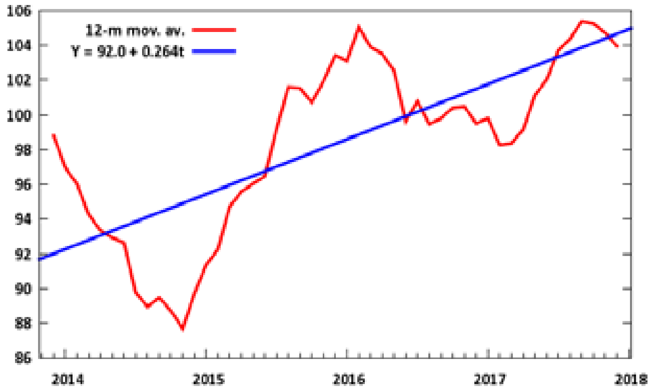
IV. C. 6- SPORTS AND HOBBIES GOODS





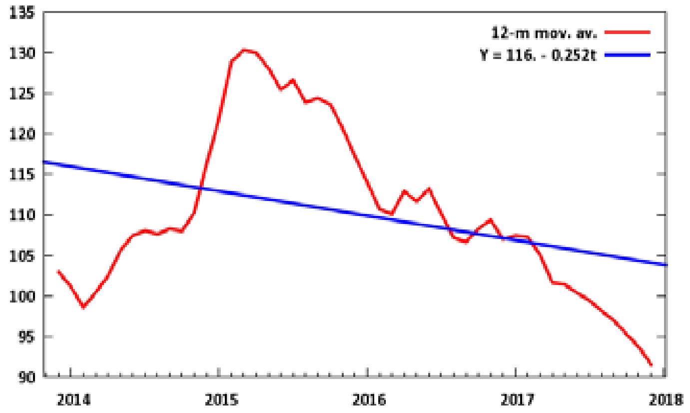
The linear trend for the 12-month moving average values applied to the 60-month primary retail sales indicator data for sports and hobbies goods was positive with a slope of +0.336. This reflected a slight deflection from the trend line describing 54-month period, which had a slope of +0.380.

IV. C. 7– HOSPITALITY SERVICES



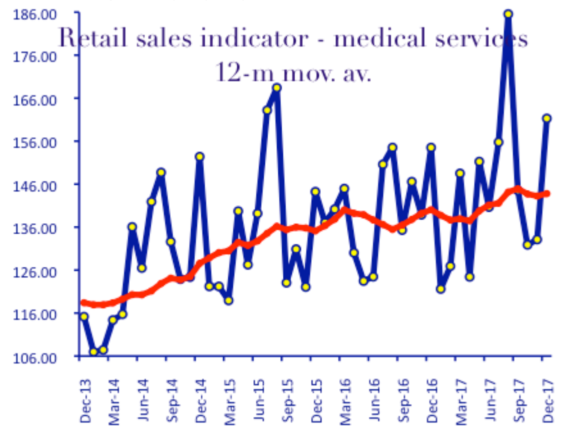
The linear trend for the 12-month moving average metrics obtained from the 60-month primary retail sales indicator data for hospitality services was positive with a slope of +0.264. In this instance, the linear trend did not constitute an adequate expression of the underlying data.

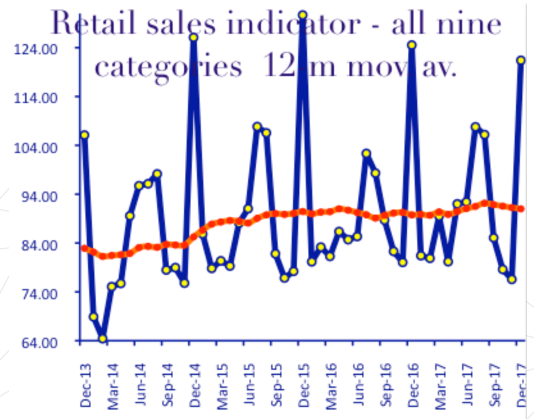
IV. C. 8– TOURISM SERVICES



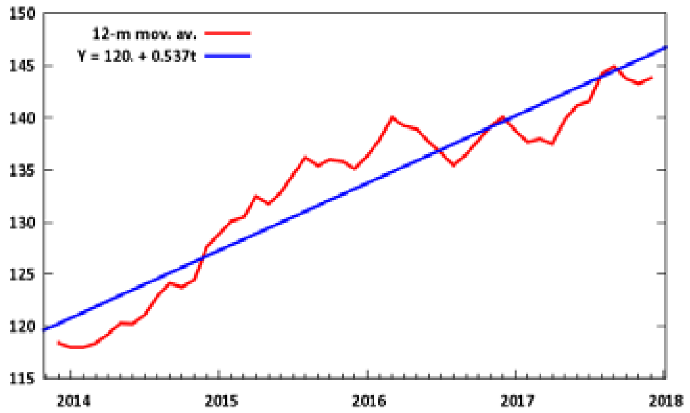
The linear trend derived from the 12-month moving average numbers obtained from the 60-month primary retail sales indicator data for tourism services was negative with a slope of -0.252. The linear trend approach was inadequate as an approximation to the moving average line derived from the indicator data for tourism services.

IV. C. 9– MEDICAL SERVICES





The linear trend formed by the 12-month moving average metrics drawn from the 60-month primary retail sales indicator data for medical services was positive with a slope of +0.537 compared with a slope of +0.564 for the 54-month corresponding trend.



LINEAR SLOPE FOR 12-MONTH MOVING AVERAGE

	Slope
All nine categories	Y = 83.1 + **0.209**t
Positively-sloped linear trend	
Food & beverages	Y = 62.4 + 0.867t
Cosmetics	Y = 93.0 + 0.653t
Medical services	Y = 120. + 0.537t
Sports & hobbies goods	Y = 51.1 + 0.336t
Hospitality services	Y = 92.0 + 0.264t
Negatively-sloped linear trend	
Clothing & fashion	Y = 79.8 - 0.321t
Tourism services	Y = 116. - 0.252t
Luxury goods	Y = 61.5 - 0.0644t
Household goods	Y = 71.2 - 0.135t

CONCLUDING NOTES

With key retail sales scores plunging to multi-year lows in 2017, retail industry expectations deem improbable a recovery in 2018, what with the ill timed hike in the consumption tax rate. The higher Value Added Tax rate, which took effect on the first day of 2018, will predictably bring to bear added stress on household budgets.

A number of factors combine to undermine consumer expectations. Of these, the rooted perception that, short of addressing head-on the large state budget deficit by slashing public expenditure, policy-making indolence will instead consistently resort to higher indirect taxation.

Rising Consumer Price Index in 2017, while still moderate at five percent, is readily perceived as presaging further upward moves underpinned by the higher tax rate, higher interest rates, increasingly more combative wage demands, and the doubling of oil prices over the past two years.

What is more deplorable, however, is the fact that the no impact analysis was carried out to assess and quantify the extent to which the VAT rate hike will affect consumption and public revenues.

Business associations representing the retail industry have embarked on the laudable first step of enriching the economy's dashboard of indicators with a set of retail sales gauges that should constitute yet another pointer for policy design and regulatory decisions. This achievement affords solid support to the task of advocacy and should clear the way to equally systematic work in the conjoined dimension of consumer behavior.

IN 9 ANSWERS

AT THE FOREFRONT OF EMERGING PAYMENTS SYSTEMS

Mr. Ramzi Saboury, Chief Commercial Officer of **areeba**, shares his views on Lebanon's prospects in financial and technologies.

1. Advanced financial services to Lebanese retailers and customer

Electronic payment has undeniably made broad advances globally, and Lebanon has been following this trend very closely over the past few years, the country being one of the top MENA countries in terms of appetite for innovation and technology.

At **areeba**, we pride ourselves in playing a major role in boosting the payment industry by staying at the forefront of new technologies, providing smarter, faster and seamless payment solutions to banks, merchants, governments and individuals, in line with the latest innovations and security standards. We provide retailers, be they start-ups, large companies, or online shops, with a wide range of the most advanced and secured payment solutions, ranging from contactless payments to e-commerce, thus enhancing the customer payment experience.

2. Modernizing the e-payment industry

The credit/debit payments market is evolving rapidly as a proportion of retail sales with new services and trends emerging all the time. This is where we step in, aiming to play a major role in the development of the e-payment industry, the modernization of its infrastructure, and the provision of innovative solutions to customers

3. E-payments system growth prospects

We expect the e-payment technology industry to witness a significant increase in growth in Lebanon and the region. Consequently, **areeba** capitalizes on its cutting-edge expertise to provide its clients with payments solutions that are customized according to their aspirations and needs, to make their lives easier

4. Lebanon's retail industry at the forefront of payments technologies

Lebanon is indeed a market where the strong consumer demand for innovation in the payments industry has led **areeba** to stay at the forefront of new technologies and provide its customers with solutions that make their lives easier. As a single source for payment processing, we empower the most advanced issuing, acquiring and loyalty solutions, tailored to global requirements.

5. Market penetration

Approximately 7,000 merchants have been equipped with our POS machines, and that there are around 10,000 **areeba** POS machines on the market, hence providing merchants and customers with payment alternatives where speed, flexibility, safety and convenience are essential.

The company has installed the first Integrated Cash Register solution in McDonald's Dora branch, which will speed up the entire checkout process, allowing customers to complete more transactions and move quickly through the checkout line. It also improves the customer experience, making it more efficient and sufficient, putting an end to the concept of waiting in long queues.

areeba provides a reliable state-of-art online payment platform that offers Advanced fraud protection screening to help protect the customers, Tokenization ideal for recurring payments and subscription-based payment plans, industry leading reliability with MPGS (and MIGS), among other benefits.

6. Empowering the cashless economy

Our slogan is "empowering a cashless world" and we believe that switching to cashless benefits both the merchants and the end consumers, from a convenience and a security point of view. Our dedicated team is working towards achieving this vision, and providing individuals, merchants, banks and governments with easy payment solutions to strengthen the cashless mentality in Lebanon. We are paving the way for a cashless economy, product by product, industry by industry, and step by step we are witnessing sectors that didn't dare dream of being cashless, like taxis, take this smart step.

7. Monetary policy and the emerging payments technologies

The important increase in connectivity and technology has led to the development of cutting-edge payment technologies, nonetheless paving the way to new risks in data protection, banking systems, data security and privacy, electronic money transfers, mobile payment and so on. These are among the main concerns monetary policy needs to tackle in order to always ensure the integrity of data, algorithms, and platforms.

Policy options and legal principles always need to be updated and modernized in order to maintain trust in financial institutions. Thankfully, in Lebanon the Central Bank is always prone to developing and implementing new legal rules that clarify to each party its rights and obligations within the new global financial landscape. **areeba** is actually regulated by the Central Bank, having obtained an operational license from MasterCard and Visa, and a partnership with American Express.

8. Lebanon's prospects of reaching par with international standards

Payment technology is a costly enterprise, and it is not always easy for merchants, banks or governmental institutions to stay up-to-speed with the fast evolving sector due to their limited resources. This is where independent standalone financial entities like **areeba** step in, providing each one of these entities with the best resources and capabilities to grow, reach international standards, and help their clients expand their business.

9. The company 's remarkable success

areeba capitalizes on its cutting edge expertise, and operational flexibility to introduce new technologies facilitating cashless payments in the Middle East and Africa region.

The company is a single source for payment processing, with outstanding expertise in the following lines of business:

- Issuing: Cards issuing and processing, contactless solutions, mobile payment technologies, governmental solutions, co-branded programs, cards marketing advisory.
- Acquiring: E-commerce, point-of-sale payments, tokenization, contactless payment, unattended kiosks.
- Loyalty: Reward points, mileage, airtime and cash back

We are also well aware of the major disruption and innovation occurring in the payment industry and are committed to invest in people and technology to grow **areeba** into a world-class third party payment processor.

In this regard, **areeba** was granted by Mastercard the "Special Recognition for Driving a Cashless World" award during the MENA Acquirer Forum 2017, for its efforts to enhance the payment infrastructure in the Lebanese Market by developing innovative acceptance products and working on different initiatives that will allow driving the economy to a cashless environment.

OPINION

CONDITIONAL ASSISTANCE TO SPUR GROWTH

Debt stabilization not yet in the cards

Albert Nasr

When 'friends' of Lebanon express their predisposition to offer financial support, as they have actually done toward the end of 2017, professional worriers are somehow appeased as to the prospects of seeing reforms imposed on the country's decision makers.

A meeting of 'donors' was loosely scheduled to convene some time in the Spring of 2018 to decide on assistance needed to bolster the economy and maintain a large refugee population.

In their last get-together years ago, the 'friends' had set definitive conditions for untying their largesse, all of which revolve around reforms, sectoral and structural. Facetiously expressed, Lebanon was then promised more debt if it were to put its outstanding debt in order.

This time around, the country's donor-friends may have to tone down their conditions, if only because part of the assistance promised is – or should be – earmarked to help ease the suffering of a large and largely destitute denizenship.

".. A DEBT-REDUCTION APPROACH TO MACRO-ECONOMIC MANAGEMENT PRESUPPOSES A POLICY SHIFT AND A RE-CONCEPTUALIZATION OF GOVERNANCE THAT ARE SIMPLY NOT YET IN THE CARDS."

Viewed thus, and notwithstanding the primacy of humanitarian imperatives, the prospect of watering down donor conditions can only sap what little hope perceptive analysts may have entertained for the forced adoption of a debt-reduction approach to macro-economic management. Such approach presupposes a policy shift and a re-conceptualization of governance that are simply not yet in the cards.

Debt growth or economic growth

The premise that financial assistance of the magnitude demanded will – if granted – trigger economic growth is unquestionable. However, finer lines of analysis reveal that external financial support may generate more debt obligations than real growth. Under conditions where the management of debt reduction is relegated to the sidelines of fiscal policy, fears are real that debt growth is set to race far ahead of any other macro-economic metric, including bank deposit growth.

".. FINER LINES OF ANALYSIS REVEAL THAT EXTERNAL FINANCIAL SUPPORT MAY GENERATE MORE DEBT OBLIGATIONS THAN REAL GROWTH."

Prescience should not remain an alien science to governance. That it has hitherto remained so is first due to the fact that simpler reasoning is more disarming than the intricacies of composite predictive analysis; and second, because to politicos, the 'golden' paths of politicking are those of least effort, least uncertainty and least opposition, and these call for staying the course irrespective of where the economy is heading.

The root cause of impending threats

When political expediency is set apart, and when impaired ideas about the economy are discarded, there remains the modeled quasi-assurance that failure to thwart the growth of the public debt is the root cause of no less than six interconnected threat sources. These are in order of criticality:

1. Macro-economic precariousness

In equilibrium parlance, the macro-economy's is an unstable equilibrium. When such a balance tips into imbalance, corrective policy intervention would be costly and minimally effective. The only issue that needs to be debated in such a context is: On whose desk is the reset button?

2. Distributional inequity

Whenever this term is used, petty minds cry foul. No, the deprecation of distributional inequity is not a rallying call for stoking class tension. Rather, it is a call for the restoration of fiscal policy's distributional function, which demands the equitable apportioning of welfare and the taxation of oligarchic wealth. And it is also a condemnation of the practice of allowing kleptocratic power centers to siphon off what little communal monies are masqueraded as social spending.

".. A CALL FOR THE RESTORATION OF FISCAL POLICY'S DISTRIBUTIONAL FUNCTION, WHICH DEMANDS THE EQUITABLE APPORTIONING OF WELFARE AND THE TAXATION OF OLIGARCHIC WEALTH."

Currently, the social constraint to economic growth is primarily a distributional constraint, and addressing it with the formulation and

"ON WHOSE DESK IS THE RESET BUTTON?"

application of an equitable social policy is tantamount to advancing the economy's growth prospects.

3. Idle human capital

In an economy that can barely provide jobs to less than a quarter of annual additions to its potential human capital, with the remainder either seeking long term employment abroad or expanding the mass of idle resources, fiscal incentives and social spending need to be geared toward raising the capacity of business enterprises to create additional jobs.

The model of an economy that exports its high-cost human capital on the cheap needs to be scrapped and replaced with a model that strives to integrate that capital within the flow of income generation.

4. Low private investment

Much has been said about the crowding-out effect, but that was the case in the nineteen nineties. More serious are the debt-burden impediments that have eliminated fiscal policy's weighty potential role in spurring investment.

Regulatory impediments are no less damaging and have conferred to the country pride of place at the bottom tier of international rankings pertaining to the ease of doing business.

"THE MODEL OF AN ECONOMY THAT EXPORTS ITS HIGH-COST HUMAN CAPITAL ON THE CHEAP NEEDS TO BE SCRAPPED."

5. Structural imbalance

The fact that the numbers on this imbalance are met with complacency is a tribute to a *caduc* model that not only destroyed the country's real economic potential over more than seven decades, but it also thwarted nation building and created instead a plutocratic economic system that embraced as doctrine social exclusion and injustice.

In a requiem for a nation's lost century, words fail to express how unfortunate was that merchant economy model, and how uninspired its instigator.

"IN A REQUIEM FOR A NATION'S LOST CENTURY, WORDS FAIL TO EXPRESS HOW UNFORTUNATE WAS THAT MERCHANT ECONOMY MODEL, AND HOW UNINSPIRED ITS INSTIGATOR."

6. Toxic growth

No tears are shed for toxic economic growth, as such growth – low or high – has worsened inequality by failing to create shared prosperity, and has wrought killer environmental damage. The two maximands in the sustainable development equation are indeed social equity and environmental preservation, with saner growth as the resultant.

Mitigating the damage of corruption

Tethering foreign assistance to the probity of donors may appear to be a way of circumventing the yet-to-be-dismantled kelptocratic power centers. However, the 'technical' issue that emerges from such arrangement pertains to how short (or long) the tether.

> "THE TWO MAXIMANDS IN THE SUSTAINABLE DEVELOPMENT EQUATION ARE INDEED SOCIAL EQUITY AND ENVIRONMENTAL PRESERVATION, WITH SANER GROWTH AS THE RESULTANT."

An abject show

Panem et circenses went the Roman recipe for ruling the unruly. But the circus has grown to be too distasteful and the livelihood of the masses too precarious to keep them happy. The show would have been a halfway amusing distraction had it been accompanied with a modicum of benefits to those whom mismanagement has driven to destitution.

The oil riches unicorn and debt growth: A rigged race?

In the nine years to the mid of the twenty twenties, public debt growth on one track and, on a parallel track, preparations leading to state revenues from energy resources will be engaged in a chilling race the outcome of which would trace the path the country will take for decades hence.

A primary model foreseeing this outcome can show that, past a certain level within that time frame, the public debt would entail annual debt service outlays that would exceed expected annual state revenues from fossil fuel resources.

Should procrastination push the initial inflows and benefits from energy resources beyond the nine-year time frame, the outcome of the race would be sealed. That this ought to be considered as likely is supported by the fact that precious little has been achieved over the past seven years on that count.

Private bids for public resources

Even pious analysts seriously doubt whether successive governments have genuinely pursued the objectives of public revenue optimization and public ownership maximization in auctioning off exploration and production rights for oil and gas sites off the country's shore.

Game and auction theories revisited

When exploration and production rights are to be conferred to the highest bidder, the auctioning government's due diligence entails, among other things, the detection of collusion among bidders as well as the more nefarious form of corruption that involves complicity between administrators and bidders.

The critical issue in the case of Mediterranean natural gas deposits is that whoever possesses the more thorough and accurate information on volume and on cost-impacting geological characteristics will certainly not be willing to share that information with any party, not even with the government that commissioned the geophysical surveys.

As a matter of fact, game-theoretic stratagems would induce the firm in possession of that 'golden' information to signal a combination of less-than-actual gas reserves and more-than-actual cost-increasing technical hurdles in the extraction phase. That firm could then either join the under-bidders or sell that information to a would-be bidder. In such case, the dissemination of exaggeratedly negative information about field characteristics would result in the holder of the accurate information out-bidding other *bona fide* participants.

A converse signal could be sent that would cause over-bidding. This stratagem may, at cursory glance, be ruled out because it would not serve the interests of the owners of the correct information, be they participants in the auction or consultant geophysicists.

However, more often than not, the picture gets more complex with the advent of players intent on throwing a monkey wrench into the auction process.

Firms are tempted to over-bid for extraction licenses if they act on the false signals that over-estimate resources and under-estimate extraction costs. The auction is doubly rigged in such a scenario, as asymmetric information combined with giving out false signals will inevitably result in the winner of the bid regretting having won.

Why would the owners of information regarding the more accurate estimates on the volume of resources and extraction costs want to induce auction participants into over-bidding?

Break-neck competition among global oil and gas companies could be the most pertinent explanation of this wreck-thy-competitor ploy. In a global context, firms that avoided the winner's curse predicament in one area often establish – or re-affirm – their big-boy status, leading lesser players to waver from out-bidding them in other areas.

In that regard, the public administration's intervention to level the auction playing field is but a bid to safeguard national interests.

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APPENDIX

Categories and sub-categories of retail goods and services for which sales performance indicators were built

The report analyzed retail sales data relating to six categories of consumer goods that include a total of 37 sub-categories and three categories of services grouping 15 sub-categories. Following are the categories and sub-categories of retail goods and services covered by the report.

Appendix - Table 1

categories of goods 6	sub-categories 37
Clothing and fashion	*(sub-categories 8)*
	Men's wear
	Women's wear
	Women's accessories
	Children's wear
	Family clothing
	Shoes
	Apparel
	Fabric / sewing
Cosmetics	*(sub-categories 3)*
	Perfumes
	Cosmetics
	Personal care
Household goods	*(sub-categories 11)*
	Sanitary / utilities
	Glass / paint / wallpaper
	Hardware
	Furniture
	Floor covering
	Drapery / upholstery
	Miscellaneous home furnishing
	Household appliances
	Audio-visual
	Antiques restoration
	Crystal & glassware
Luxury goods	*(sub-categories 7)*
	Jewelry / watches / silverware
	Crafts
	Art dealers galleries
	Florists
	Cigars
	Gifts
	Electronics
Sports and hobbies goods	*(sub-categories 3)*
	Sporting goods
	Games / toys
	Music instruments
Food & beverages	*(sub-categories 5)*
	Supermarkets
	Confectionery
	Bakeries
	Miscellaneous food stores
	Liquor / beer / wine

Appendix - Table 2

categories of services 3	sub-categories 15
Hospitality services	*(sub-categories 4)*
	Catering
	Restaurants
	Pubs / nightclubs
	Hotels / resorts
Tourism & entertainment services	*(categories 6)*
	Travel agencies
	Travel services
	Movies / theaters
	Dance schools / studios
	Tourist attractions / exhibits
	Clubs
Medical services	*(sub-categories 5)*
	Doctors
	Dentists
	Ophthalmologists
	Hospitals
	Other medical / health services

Appendix - Table 3 - **Monthly retail sales indicators for consumer goods**

	Clothing & fashion	Food & beverages	Cosmetics	Household goods	Luxury goods	Sports & hobbies goods
Jan-17	62.21	102.46	63.19	60.42	54.32	63.71
Feb-17	56.54	86.38	114.61	55.95	47.24	53.87
Mar-17	57.91	96.73	163.69	60.01	51.18	53.23
Apr-17	64.04	93.66	101.86	57.76	40.32	54.36
May-17	69.10	93.84	132.00	70.29	45.80	56.63
Jun-17	64.14	96.81	152.01	71.26	48.22	61.12
Jul-17	75.61	107.22	169.53	77.41	52.25	60.98
Aug-17	78.51	109.36	156.28	73.16	52.46	55.07
Sep-17	57.30	102.47	110.72	59.58	45.48	50.47
Oct-17	62.99	99.77	94.54	63.42	41.63	56.26
Nov-17	53.43	92.81	107.58	66.61	40.40	59.80
Dec-17	82.67	153.64	195.24	91.72	85.53	137.54

Appendix - Table 4 - **Quarterly retail sales indicators for consumer goods**

	Q1-2017	Q2-2017	Q3-2017	Q4-2017
Clothing & fashion	58.89	65.76	70.47	66.36
Food & beverages	95.19	94.77	106.35	115.41
Cosmetics	113.83	128.62	145.51	132.45
Household goods	58.79	66.44	70.05	73.92
Luxury goods	50.91	44.78	50.07	55.85
Sports & hobbies goods	56.94	57.37	55.51	84.54

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