RETAIL OBSERVATORY

الجمعية اللبنانية لتراخيص الإمتياز LEBANESE FRANCHISE ASSOCIATION

LFA - CCIABML

RETAIL ACTIVITY INDICATORS

LEBANON | FIRST HALF OF 2017

LEBANESE FRANCHISE ASSOCIATION
الجمعية اللبنانية لتراخيص الإمتياز

a semi-annual report prepared by

Quant Analysts

LFA Implementing Partner

areeba

Data Provider

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

LFA wishes to thank

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FIRST HALF OF 2017

FIFTH EDITION

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Published by the Retail Observatory at the Lebanese Franchise Association

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EXECUTIVE SUMMARY

The retail sales performance indicators for the first half of 2017

1. The **fifth edition of the LFA-CCIABML Retail Activity Indicators** presents retail sales indicator data for the first half of 2017, compares them to their levels in the same period of 2016, and works out their trend parameters.

2. In the first half of 2017, **the overall retail sales indicator for the nine categories of goods and services covered by the report was 3.08 percent higher than its level in the same period of 2016.**

3. However, **that indicator remained 13.93 percent below its 2012 base year level.**

4. Of the nine categories of consumer goods and services included in the report, three saw their sales indicators decline in the first half of 2017 compared to their levels in the same period of the previous year. These are the indicators for clothing and fashion, luxury goods, and tourism services.

5. The sales indicator for the clothing and fashion category of retail was down 1.12 percent in the first half of 2017 compared with its level in the same period of the previous year. That indicator stood at a low of 37.68 percent below its base year level.

6. In the period under review, the retail sales indicator for luxury goods was 10.08 percent lower than the level it had reached in the first half of 2016. That indicator dipped to 52.15 percent below base year level, thus recording the lowest value from base.

7. The sales indicator for tourism services posted the period's broadest fall as it was down 11.7 percent from its level in the first half of 2016. However, that indicator stood at par with its base level.

8. The sales indicators for five categories of retail goods and services increased marginally in the first half of 2017 as compared with their levels in the same period of the previous year.
These categories are:
- food and beverages (+8.47 percent);
- household goods (+6.63 percent);
- hospitality services (+5.7 percent);
- sports and hobbies goods (+3.5 percent); and
- medical services (+1.66 percent)

9. Only the retail sales indicator for cosmetics registered a significant advance from its level in the first half of 2016 as it rose by 22.13 percent. That category of retail, however, accounts for the lowest weight in terms of the comparative volume of sales.

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 datasets and could facilitate projections.

11. The overall retail sales indicator exhibited a mildly positive trend in the first half of 2017.

12. As expressed by the non-parametric trend approach, the sales indicators for three retail categories namely, the clothing and

fashion, the luxury goods, and the tourism services categories have extended their downtrend into the first half of 2017.

About the present report

13. The fifth edition of the Retail Activity Indicators report bases its statistical analysis of indicator data on 54-month-long time series. The longer time series enhance the reliability and robustness of the seasonal adjustment procedure and correlations. The longer series have also made possible the adoption of the locally weighted fit as a basis for trend analysis.

The report's rationale

14. 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 fill a gap in the national statistics platform, to provide retail enterprises and prospective investors with a quantitative representation of the retail industry, and to put at the disposal of representatives of the retail industry the quantitative basis to carry out their advocacy mandate.

FOREWORD

Regulatory shiftiness, an aspect of wanting economic governance

The fiscal muddle still at the core of economic woes

The fifth edition of the **LFA-CCIABML Retail Activity Indicators** report tallies yet another set of retail sales sluggishness markers.

With the economy dawdling forward at a quasi-stagnation pace of growth, the factors depressing retail performance have worsened over the past five years. Three of these factors apply intensely strong depressing pressures on consumption expenditure.

First, income from employment as a portion of Gross Domestic Product (GDP) has remained virtually unchanged in that period, a clear expression of the economy's reduced capacity to create jobs.

Second, the burden of household indebtedness is growing comparatively heavier as the purchasing power of incomes is nibbled away, albeit slowly, by low but recurring rates of inflation.

Third, the spending capacity of households living off of remittances is constrained by the fact that these remittances, a component of capital inflows, have edged lower over the past five years.

Together, these factors continue to undermine consumer confidence as captured by the many indicia of faltering retail activity.

Regulatory shiftiness, an aspect of wanting economic governance

The rigmarole weaved around the decision on taxation and the state budget has wiped out the faint perception of regulatory stability that business enterprises may have entertained.

Changes in taxation are burdensome even when warranted by stabilization imperatives. Such changes are all the more onerous to the private economy given the fact that they are solely intended to alleviate budgetary stress.

At the business enterprise level, the larger the extent of regulatory shiftiness the greater the degree of uncertainty, and hence the more aleatory business planning and investment decisions become.

The defective law-making process aggravates the affliction of policy inertia and both account for the country's miserable ranking on the World Bank Group's "Ease of Doing Business" scale.

THE CHRONIC THREAT OF A HIKE IN THE VALUE ADDED TAX (VAT) RATE HAS HAD A NEGATIVE IMPACT ON RETAIL ACTIVITY.

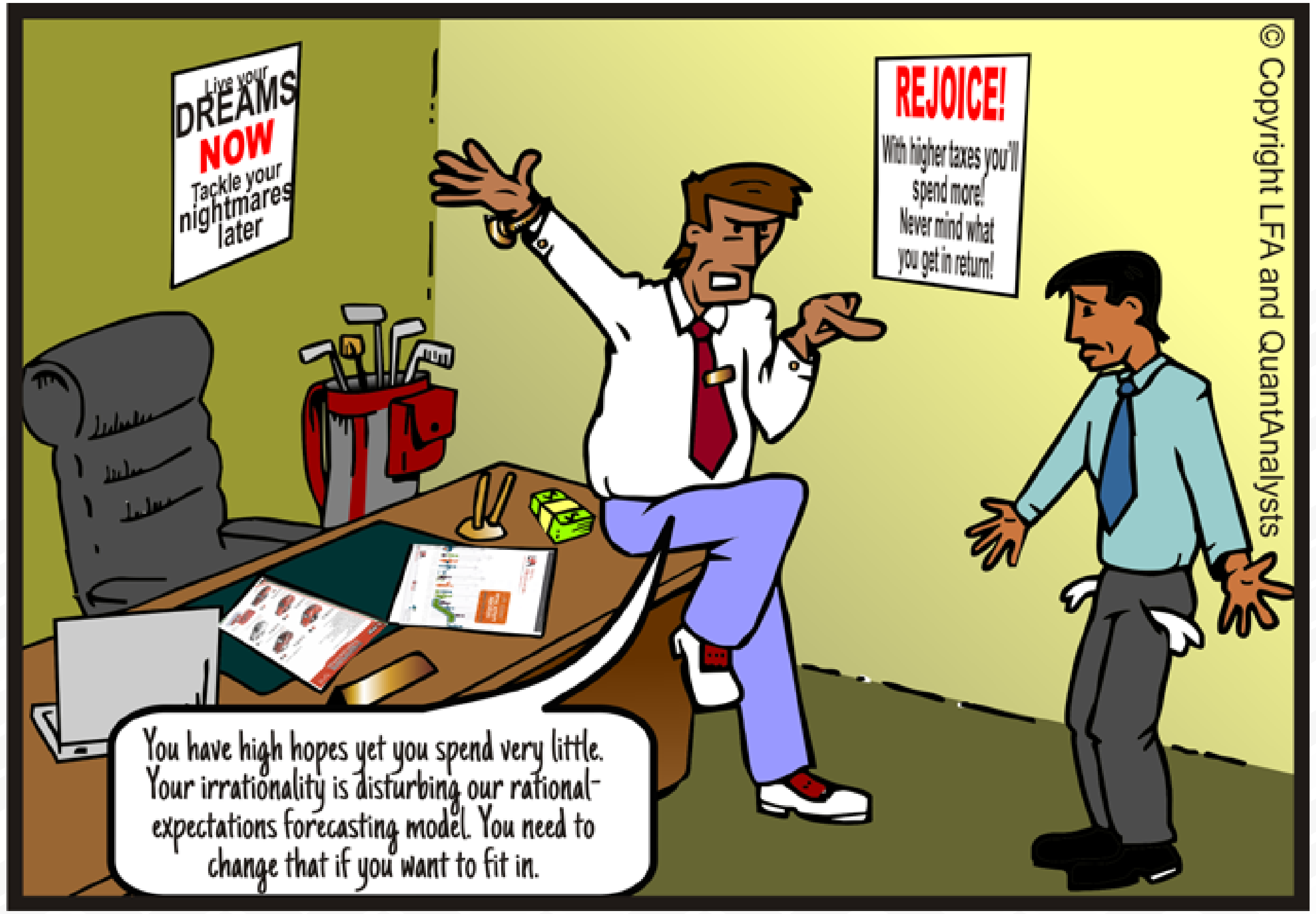
For the past seven years, the recurring proposition that the tax on consumption may have to be raised by a hefty ten percent - or by an even more ruinous 20 percent - has had an unsettling impact on consumer confidence. The ensuing caution and uncertainty has marred investment decision in the retail sector.

This sword-of-Damocles approach, which involves periodically rekindling the threat of higher tax rates, is one of many expressions of bad economic governance. Countries that wish to attract foreign investment pride themselves on the fact that their tax policies are stable, whereas bad governance keeps investors and consumers edgy, apprehensive, and untrusting.

The fiscal muddle still at the core of economic woes

A perennial and large fiscal deficit does not become a 'normal' state of affairs simply because a number of governments run such deficits. And a massive public debt certainly implies economic mismanagement even if more than a few economies in the world have been outgrown by the public debt they have accumulated.

The mismanagement of communal assets combined with the burden of the public debt and its negative budgetary impact on public investment expenditure and on social spending render the deadweight of the public sector all the more unbearable to a private economy that is struggling to cope with particularly daunting regional influences.



In a theater-of-the-absurd setting, fantasy 'solutions' to the fiscal mess abound as way too many wannabe analysts carry on adding their nostrums to the broth. This would have been quite droll had there been any assurance that policy-making will remain immune to these bizarreries.

Here are three off-hand remarks that should offer some guidance to serious aspirants.

The first relates to the ratio of public debt to GDP. That ratio isn't a policy target, neither logically nor economically.

WHAT SHOULD BE A POLICY TARGET IS THE REDUCTION OF PUBLIC SPENDING;

the ubiquitously quoted ratio is but a resultant of the degree to which the policy target is attained. Simple formal economic logic.

The second involves rapidly revisiting a few basic 'algebraico-economic' equations that serve as a reminder that, in theory, it is deficit spending that generates a net multiplier effect. In practice, however, the economy is at a section on the debt curve where deficit spending no longer produces growth in economic activity. Time to review the theory? Surely not; but its is definitely time to realize that

LARGE, RECURRING BUDGET DEFICITS AND THE ENSUING FAST-PACED GROWTH IN PUBLIC DEBT CONSTITUTE THE CORE CAUSE OF THE ECONOMIC SLUMP.

The dynamics of snail-paced economic growth and unhinged public indebtedness will lead to either default on the public debt or a marked degradation of the country's sovereign risk rating as the banking sector as a whole is drawn – unwillingly to be sure – into the debt-financing trap.

Working on the third remark requires basic quant capabilities - but not much - and is addressed to those who are convinced that balancing the state budget is economically impossible, whereas in fact it is strictly a political impossibility.

Consider just these four sources of additional public revenues: (i) tax reform; (ii) the restitution of revenues from communal assets; (iii) privatization; and (iv) the eradication of wasteful public spending, estimated at no less that a quarter of current public expenditure.

Now consider the following four main uses: (i) allocating adequate resources to social programs, especially program designed to subsidize employment; (ii) the gradual expansion and rehabilitation of the infrastructure (mainly through private-public partnerships, while adopting policies that secure non-debt-creating inflows of capital to finance investment in infrastructure projects); (iii) the provision of more and better public services; and (iv) funding administrative expenditure.

NO MATTER HOW THEY ARE SLICED AND DICED, THE WASTE-FREE NUMBERS FOR STATE BUDGET SOURCES AND USES WILL ALWAYS POINT TO A BALANCED BUDGET.

What's delaying the day of reckoning? CAPITAL INFLOWS, MORE PARTICULARLY THOSE COMPONENTS OF TRANSFERS THAT ARE NOT AFFECTED BY DEFICIENT GOVERNANCE, CONTINUE TO PROVIDE SUSTENANCE TO THE SYSTEM AND TO HOUSEHOLDS, whereas governance-sensitive foreign investments have dwindled to inconsequential levels. Additionally, the interest rate factor remains the prime variable determining short-term capital transfers, at an economic price of course. These inflows and other can-kicking schemes enable the body politic to carry on lurching from one gridlock to another, as dismal economic performance and the concomitant rise in unemployment continue to aggravate poverty, inequality, and social tension.

Albert Nasr
QuantAnalysts

INTRODUCTION

Hard and soft retail data

Gaining insight into trends in retail

In a recent globally publicized article, a retail analyst focused on three factors that explain the changing retail landscape in the U.S. and why some sectors of retail are declining while the economy is in the midst of recovery. Of the three reasons put forth as shapers of the incipient trends in the world's largest retail market, one pertains to a fundamental change in the pattern consumer spending[1] and is of particular interest to data analysts.

The author provided ample data that point to a sharp shift toward spending on travel and hospitality services, and away from material acquisitions. The younger segments of the population are driving this shift, but the interesting aspect of this change is that the young are seeking to live experiences that make trendy, awe-inspiring, follower-building social media pictorial content.

This is certainly an eye-opening reality that retail enterprises ought to heed, but even more interesting than this game-changer are the means by which the quants have detected it.

Hard and soft retail data

THE BROAD ADVANCES IN COMPUTING POWER HAVE INTRODUCED INORDINATELY WEIGHTY IMPROVEMENTS IN THE PROCESSING OF BOTH HARD AND SOFT DATA.

The latter form of data, qualitative in nature, gained in relevance as it laid claim – justifiably so – to capturing both the psych dynamics and the social influences that shape the demand side of the complex system that is retail.

Framed within a forward-looking perspective, soft data could be viewed as forerunner data, providing leading indicators of sorts, to the extent that they capture what precedes consumer action: moods and shifts in moods, emotions, intentions, preferences, opinions, perceptions, and influences. Hence the intricacy of acquiring and processing soft data.

Compared with the acquisition of hard data, securing soft data that is translatable into information involves five additional layers of complexity that revolve around what data to extract and how, what processing procedure to follow, and how to interpret and display results.

Unlike hard data, which retain their discreteness and integrity irrespective of the analyst's choices, processing qualitative data is more dependent on the analyst's multidisciplinary skills and knowledge.

The course that qualitative analysis takes is hence mostly analyst-dependent, and this stems from the fact that obtaining and processing soft data requires a thorough understanding of the subject matter. For example, outliers are not as easily identifiable in soft data as they are in hard data, and so is the type of distribution that best fits the data. Similarly, interpretation of results is a notch more intricate and permits a broader scope for analyst judgment.

Thus, in qualitative research, the decision regarding what data is needed and the skills required at the acquisition, processing and interpretation stages bear heavily on the degree of accuracy, relevance, and clarity of the actionable information obtained from the data sets.

1 The other two being the exponential growth of online retail sales and overcapacity in shopping space.

In qualitative analysis, therefore, THE QUALITY OF INFORMATION DERIVED FROM THE SOFT DATA IS, AT EVERY CRITICAL NEXUS, CONTINGENT UPON THE ACTION, EXPERIENCE AND SKILL OF THE ANALYST. In such a setting, mistakes are exceptionally damaging and tend to pervade the whole effort. Hence the need for qualitative research to subject data acquisition and processing to the same degree of rigor as that applied to statistical data.

Gaining insight into trends in retail

The Retail Activity Indicators (RAI) project has since its inception laid emphasis on the importance of soft data in complementing the hard data on which the retail sales performance indicators are built.

Indeed, gaining insights into retail enterprise strategies and into consumer behavior, detecting otherwise inscrutable connections, patterns, and trends in both spheres is just as important to understanding retail as is the expression of sales performance in index format.

Arguably, QUALITATIVE RESEARCH HAS MORE TO OFFER TO RETAIL THAN TO MOST OTHER FIELDS AND DISCIPLINES. Mapping consumer perceptions of brands or services offered, assessing the impact of marketing campaigns on consumer actions and perceptions, customer satisfaction surveys and feedback, commissioning market studies, and certainly resorting to big data analytics, are but a few critically important undertakings in qualitative research that help well-managed retail firms devise their market and business strategies.

To be sure, THE BEST BID TO UNDERSTANDING RETAIL INVOLVES WORKING OUT A MIXED APPROACH THAT SENSIBLY COMBINES RELIANCE ON HARD AS WELL AS SOFT DATA to formulate perceptive qualitative and quantitative interpretations of developments.

In this issue of the report

The report describes the methodology followed in the building of retail performance indicators in one chapter, analyzes the impact of key economic variables and developments on retail activity in a second chapter, presents the evolution of retail sales indicators by sector in the first half of 2017 in a third chapter, and in a fourth chapter reproduces the basic elements of the statistical analysis applied to sales indicators.

The ***Views from within*** section of the report includes an interview with Selim I. Saad, adviser at the Association des Importateurs d'Automobiles au Liban.

The interview is headlined "***In Nine Answers***" and addresses crucial issues in the car importing business in Lebanon.

The ***Opinion*** section includes two articles. One is headlined "***The prospects for better governance"*** and analyses the Lebanese economy's current state and the prospects for reform and recovery. The second article is headlined "***Exporting Lebanese fashion franchise brands"*** and addresses issues pertaining to the challenges of, and opportunities for, franchising in the fashion sector of retail.

I

METHODOLOGY

Data sources

The data processing protocol

The fifth edition of the Retail Activity Indicators (RAI) report applied the same data processing procedure to the extended 54-data-point time series as that devised at the onset of the project. This confers the distinctive and essential quality of consistency to the retail sales performance indicators across the time frames encompassed by the report.

In the index-building exercise, the accuracy and reliability of the sales indicators derive from the fact that the raw data that constitute the basis for the exercise are 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 the 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

In agreement with the consistency imperative, data from payment systems operators and from major shopping malls account for the solid 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 proportion 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 eight main steps of this statistical processing protocol are:

- the year 2012 is retained as the base year, and the calendar month remains the basis for data and analysis,
- 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,
- payment card data are adjusted for market penetration,
- a set of weights is used to adjust data for size difference between data suppliers,
- a set of weights is used to adjust data for relative size of retail categories in the recorded transactions,
- the seasonality indexes are re-calculated in order to obtain seasonally adjusted indicators for the 54-month data sets,
- trend equations are re-calculated for the 54-month data sets,
- 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

An economy not yet on the mend

On the regional scene

Impactful exogenous factors

Other key variables

An economy not yet on the mend

Meager private investment spending, rampant unemployment and poverty, dwindling purchasing power of large segments of the population, low rates of economic growth, intensifying emigration, and growing social fractures and tensions. This could indeed be the briefest description of the most detrimental implications of failing governance.

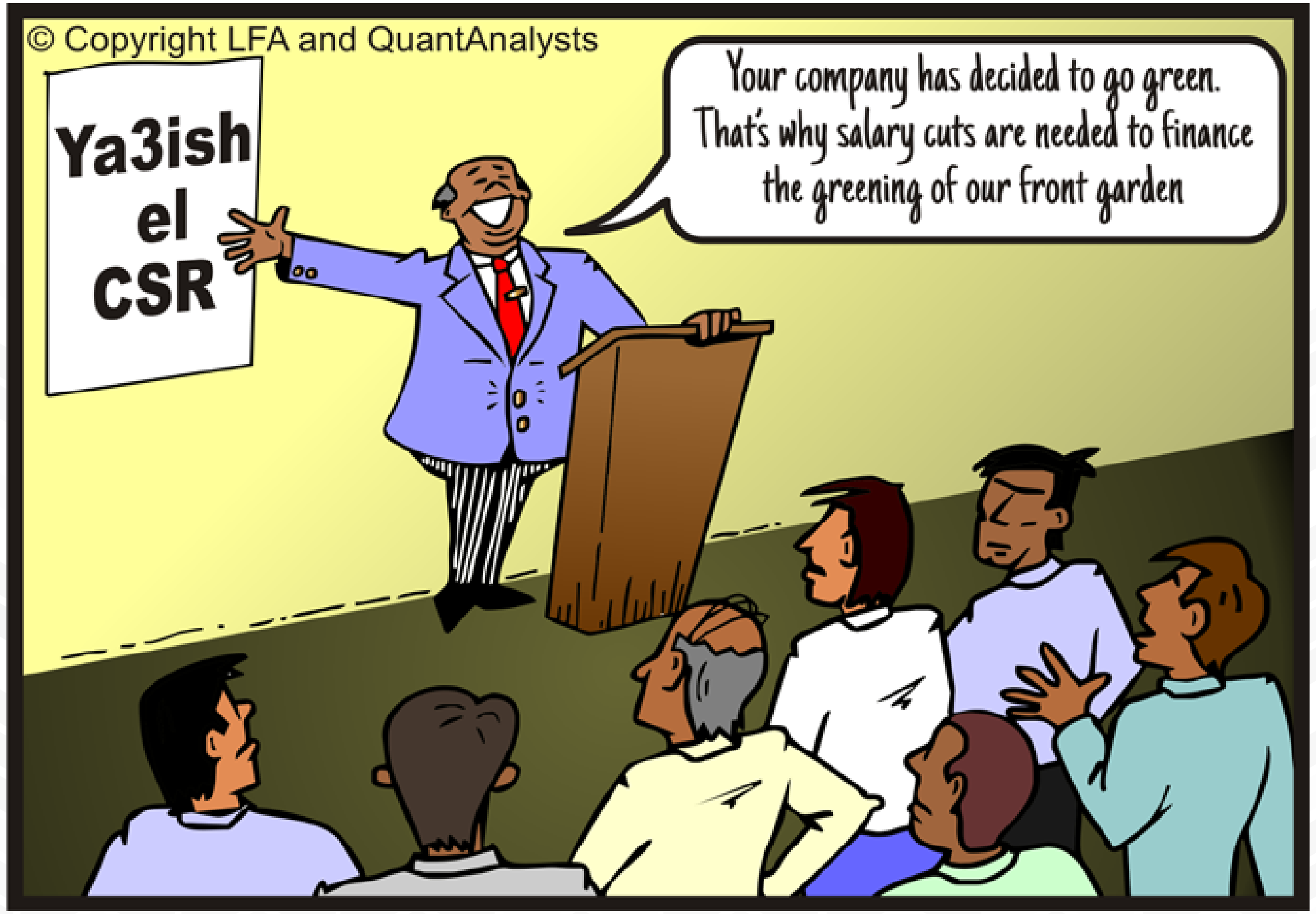
The list, to be sure, could also inspire a budding reformist regime in setting the priority objectives of reform.

FAILURE OF ECONOMIC GOVERNANCE TAKES ON A MYRIAD OF ASPECTS, BUT THE MOST DAMAGING OF THESE RELATE TO FAILURE AT THE POLICY-MAKING LEVEL. This is demonstrated in the failure to reduce public expenditure, balance the state budget, and deflect the explosive growth of the public debt by eradicating corruption, eliminate wanton waste, reform the tax system, and restore state control over communal assets. Failure of economic governance also implies failure to formulate and implement a social policy that establishes the redistributive purpose of taxation and state spending.

Here again, this could be the most succinct account of misgovernance and by the same token a guideline to policy reform.

UNTIL REFORMS BECOME TANGIBLE AND IRREVERSIBLE, CONSUMER AND INVESTOR CONFIDENCE ARE SET TO REMAIN ON THE WANE, undermined as they are by what is perceived as unrelenting tugs-of-war within the country's political posse.

In such an economic environment, retail activity is set to suffer most. With rising unemployment, the prospect of the breadwinner becoming unemployed looms large on household and is the strongest wealth shock they can experience. CUTTING ON SPENDING IS THE NORMAL ADJUSTMENT THAT HOUSEHOLDS RESORT TO WHEN FACED WITH THE PROSPECTS OF INCOME LOSS.



With thin financial buffer in the form of savings or other liquidatable assets, households act on expectations of a loss of earnings by reducing spending in a bid to build up a financial backstop.

REDUCTIONS IN DISCRETIONARY SPENDING OCCUR MORE READILY, OTHER OBLIGATIONS BEING BARELY COMPRESSIBLE.

Thus, mortgage payments and other debt repayment commitments, tuition fees, as well as spending on absolute necessities remain basically constant within household budgets, whereas spending on outings, entertainment, clothing, and the like tend to be reduced by a relatively wider margin.

The persistent perception that the economy is in a state of chronic crisis shapes long-term consumer expectations and undermines confidence and the propensity to spend.

On the regional scene

Developments may appear to be pointing to an imminent finale to the protracted wars in Syria and Iraq, Lebanon's once vital economic and trade neighborhood. However, THE UNDERCURRENTS OF THE INTENSE CONFLICTS PRESENT THE SOBERING OUTLOOK OF A MORE DRAWN-OUT PERIOD OF DEVASTATION.

In a strife-ridden regional context, Lebanon's economy is set to suffer a double whammy. Being cut-off from its regional space, the economy's capacity to attract capital inflows weakens, thus exerting severe stress on the economic and financial model. Added to this is the stress on the economy's resources arising from the refugee predicament.

Impactful exogenous factors

Four exogenously determined price metrics namely, interest rates, the U.S. dollar's exchange value, energy prices, and food prices, have a weighty impact on retail activity in Lebanon. Of these, the retreating dollar's rate of exchange may apply a pull on retail prices, whereas energy prices and interest rates are expected to contribute to price stability over the coming year, barring the destabilizing impact of a possible consumption tax hike.

Other equally important external factors that affect retail activity, such as the capital inflows and the inflow of tourists, could to a varying extent be influenced by domestic policies, measures, and developments.

1. Interest rates

Even after the U.S. Federal Reserve Bank's Open Market Committee (FOMC) raised the federal funds rate twice in the first half of 2017, benchmark rates remained near their historical lows.

The FOMC raised the target range for federal funds rate by a quarter percentage point to a range of 0.75 percent to one percent in mid-March 2017, then by another quarter percentage point to a range of one percent to 1.25 percent in mid-June 2017.

Since the Great Recession, it took four rounds of quarter-percentage-point adjustments – with the first two a year apart – to raise fed funds rate to a level that is still barely half the annual rise in the official core Consumer Price Index.

With real rates still in negative territory and nominal rates still quite near the zero bound, monetary policy can hardly be described as contractionary. And the signal sent out by the Fed following the latest rate adjustment is that, low as they may be, current rates are now near the "neutral policy stance" rates, meaning rates that are neither contractionary nor expansionary.

Expectations regarding the future course of U.S. monetary policy are swayed by the fact that more aggressive tightening would certainly thwart economic growth, which the Fed's latest forecasts put at 2.2 percent, 2.1 percent and 1.9 percent in real terms for the three years to 2019.

Expectations of interest rate stability over the medium term exercise a propping influence on retail activity in Lebanon. If households were to act on these expectations, they would be more forthcoming in contracting consumption credit. Additionally, households would by the same stroke expect their debt-service burden to remain manageable.

At the economy's level, interest rate stability contributes to overall price stability by reducing business uncertainty regarding the cost of credit.

To monetary authorities, stable rates of interest would alleviate the cost of interest subsidies granted to the enterprise sector, and would help maintain the inflow-inducing interest rate differential.

2.The U.S dollar's exchange value

After reaching a low in December 2016, the Euro's exchange value against the U.S. dollar has since gone gradually up by about 14 percent.

Should this broad move be consolidated, import prices are bound to rise, as the euro zone remains Lebanon largest supplier.

The U.S dollar's trade-weighted index also headed south following a December peak. By mid-2017, that index had fallen by more than eight percent from its recent highest level reached at the end of December 2016. Signals abound that the U.S. administration may be pursuing a weak dollar policy.

DUE TO THE DOLLAR-LEBANESE POUND PEG, A WEAKER DOLLAR WOULD ALSO WEAKEN THE LEBANESE POUND'S EXCHANGE VALUE AND HENCE EXERT UPWARD PRESSURE ON ALL IMPORT PRICES.

3. Energy prices

In May 2017, oil producers decided to extend their crude oil production cut agreement by nine months till end March 2018. However, the decision failed to prop up oil prices, which remained capped mainly by weak global demand but also by U.S. shale oil production.

The recent decision by oil producers follows an earlier decision by the Organization of

Petroleum Exporting Countries (OPEC) to cut crude oil production by 1.2 million barrels per day as from January 1st, 2017. Non-OPEC producers supported the decision by pledging to abide by a production cut of 600 thousand bpd.

Then as now, oil prices were unaffected by both decisions.

Supply-side factors that contribute to depress oil prices relate to the fact that a number of oil producing countries have ramped up production either in response to domestic fiscal pressure or in a bid to line up production and exports with increased extraction capacity.

The impact of oversupply on prices is further amplified by the price elasticity of U.S. shale oil production, a factor that clamps a lid on any price rise.

Barring major geopolitical disturbances leading to supply disruption, the prognosis for oil prices over the medium term is that the resistance level set in December 2016 will not be breached as long as producers fail to cut supply effectively. Over the longer view, the pull of demand-side factors will remain contingent upon global economic recovery.

In Lebanon, MODERATE OIL PRICES HAVE HAD AN ALLEVIATING IMPACT ON STRESSED OUT HOUSEHOLD BUDGETS. HIGHER TAXATION, HOWEVER, IS EXPECTED TO BLUNT THIS EFFECT.

4. Food prices

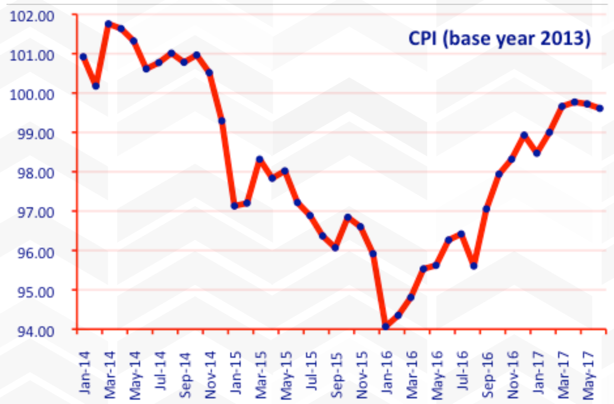
Over the 18-month period to June 2017, the food price index built by the Food and Agriculture Organization (FAO) showed a sustained increase in international food prices. The index was up 17.32 percent by mid-2017 from its January 2016 trough which had marked an 80-month low.

In the first half of 2017, the food price index rose by 2.88 percent compared with a rise of 6.87 percent in the corresponding period of 2016.

Of the index's main components, the price index for dairy products staged the broadest increase in the year to June 2017 as it rose by 51.56 percent. In that period, the price index for meat was up 9.57 percent, and the price index for vegetable oils remained practically unchanged. The price index for sugar declined the most by 28.51 percent and the index for cereals was down 1.66 percent.

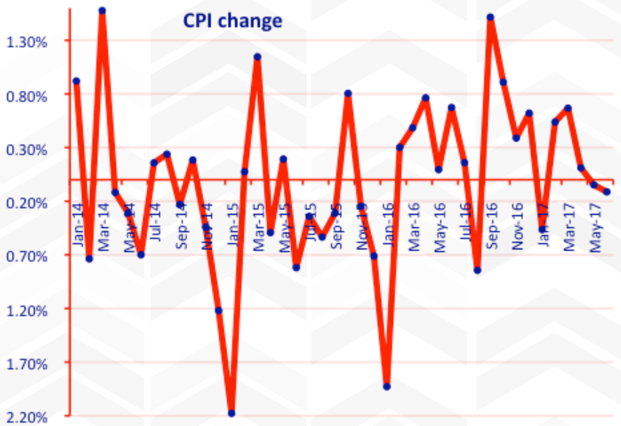
Other key retail-model variables

1.The Consumer Price Index



The first half of 2017 extended a four-year-long period of relative consumer price stability. Consumer prices were little changed in the six months to June 2017, as the Consumer Price Index (CPI) moved up a minimal 0.69 percent.

The index was down 1.3 percent over the past three and a half years. Monthly fluctuations in the index were confined within a relatively narrow band, with the broadest monthly rise of 1.58 percent registered in March 2014 and the broadest monthly decline of 2.18 percent in January 2015.



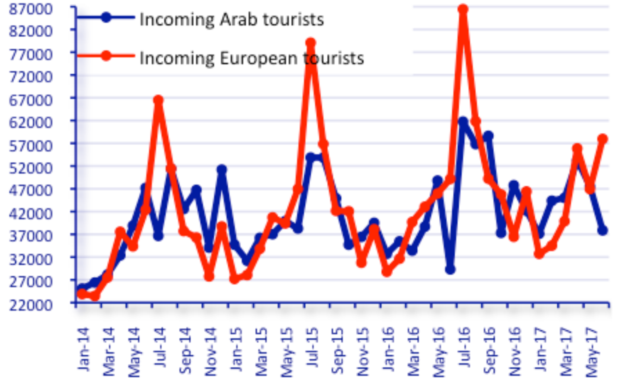
In the first half of 2017, the price index for alcoholic beverages and tobacco posted the largest increase at 6.45 percent followed by the price index for clothing and footwear which moved up by 3.56 percent, and the index for furnishings, household equipment and routine household maintenance which was up 3.02 percent.

2. Tourism

Data on tourist arrivals extended the medium-term uptrend into the first half of 2017.

Monthly, quarterly, and half-yearly data complied with characteristic seasonal patterns of fluctuations. Thus, in any given year, the second half-year tourist arrivals are normally 10 percent to 14 percent lower than those registered in the first half-year. The quarterly pattern is one where the first and fourth quarters typically witness a downturn in tourist arrivals, whereas the second and third quarters typically stage a broad upturn in arrivals.

In the first half of 2017, tourist arrivals were 14.25 percent higher than they were in the same period of 2016. Arrivals were 23.05 percent higher in H1-2017 than their H1-2015 level, and 41.16 percent higher than their H1-2014 level.



On a quarterly basis, tourist arrivals in the second quarter of 2017 increased by 15.45 percent compared with the same quarter of the previous year; they were up by 23.6 percent compared with the same quarter of 2015 and up 35.11 percent compared with the same quarter of 2014.

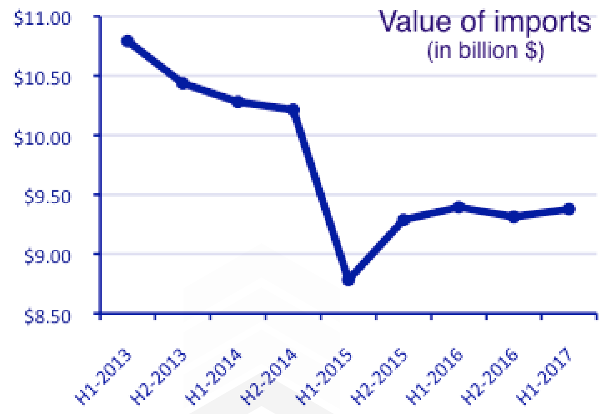
The month of April 2017 registered an atypical surge in the number of incoming tourists. In that month, the number of visiting tourists was 43.08 percent larger than the April average of the previous four years. Compared with that average, the number of visiting Arab tourists in April 2017 was 51.07 percent higher and that of visiting European tourists was 41.52 percent higher.

A noteworthy development is that the number of visiting Arab tourists fell by 20.37 percent in June 2017, that is 21.49 percent of total arrivals for that month, whereas the number of European visitors increased by 23.44 percent and constituted 32.87 percent of the total.

Tourist spending

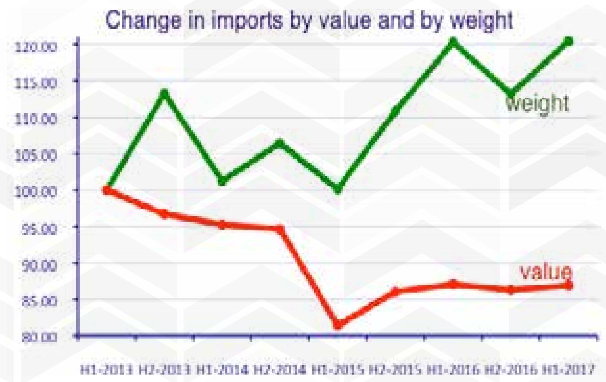
However, THE YEARS-LONG UPTREND IN VISITOR NUMBERS DID NOT ENGENDER COMMENSURATELY HIGHER TOURIST SPENDING. In fact, tourist spending in the second quarter of 2017 was up a modest four percent compared with its level in the same period of the previous year, but down by a broad 25 percent compared with level in the previous quarter. The sharp decline, which ran counter to the seasonal upturn in the number of visitors in the second quarter of the year, wiped out most of the gains in tourist spending registered in the first quarter of the year.

Compared with tourist spending data in Q1-2017, residents of four countries that account for 35 percent of total tourist spending, namely Saudi Arabia, the United Arab Emirates, Kuwait and Qatar, spent respectively 34 percent, 37 percent, 30 percent, and 39 percent less in Q2-2017.



1. Imports

The value of imports remained at around an average of $9.34 billion over the past four half-year periods, down 10.43 percent from the 2013-2014 average.



By that comparison, the average net weight of imports over the past four half years was up 10.41 percent compared with the 2013-2014 average.

The seemingly conflicting evolution of imports by dollar value and imports by weight may be due to the combined effect of the fall in price of crude oil and its derivatives, lower food prices, a stronger dollar, and substitution for cheaper imports. A non-price factor that may account for a fraction of the discrepancy relates to the undervaluation of imports for taxation purposes.

III

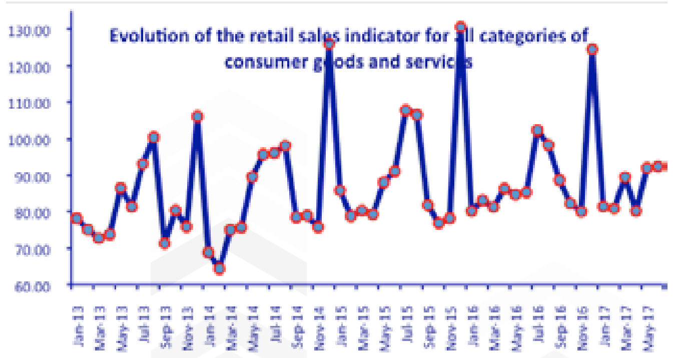
THE INDICATORS

Monthly evolution of retail sales indicators

Quarterly evolution of retail sales indicators

Half-yearly evolution of retail sales indicators

A- Monthly evolution of retail sales indicators in the first half of 2017



The recurring seasonal sharp fall in retail sales indicators in January, which reflects a normal occurrence as retail markets generally witness a respite following the December flurry of activity, was noticeably steeper for categories of discretionary spending. The sales indicators for sports and hobbies goods fell the most in the first month of 2017, followed by indicators for cosmetics, luxury goods, and household goods. Only the sales indicator for tourism services moved higher than its December 2016 level.

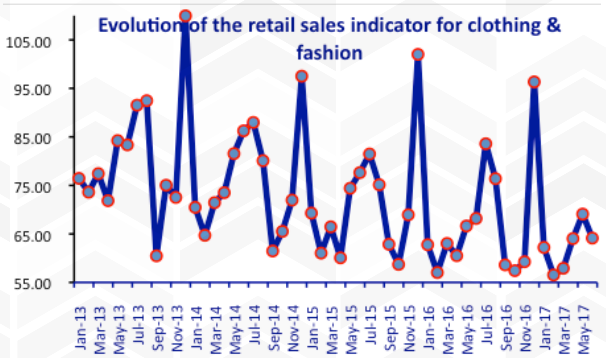
Consequently, the overall sales indicator was down 34.62 percent in January 2017 from its December 2016 level. The decline is in line with seasonal moves registered in January 2016 (-38.66 percent), in January 2015 (-31.92 percent), and in January 2014 (-35.07 percent).

On a year-to-date basis, the January 2017 overall retail sales indicator was 1.55 percent higher than the level it was at in the same month of the previous year, but 5.16 percent lower than its January 2015 level.

A noticeable improvement in sales indicators for cosmetics, hospitality services, household goods, medical services, and luxury goods was recorded in the month of May 2017. The overall retail sales indicator for that month was up by 14.74 percent, the broadest advance in the first half-year.

By mid-year, the overall indicator was 8.28 percent higher that its level in the same month of the previous year and 1.5 percent higher than its level in the same month of 2015.

1. Clothing and fashion

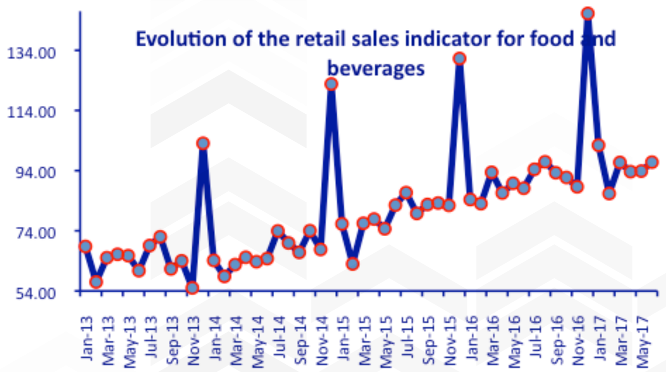


On a month-to-month basis, the sales indicator for clothing and fashion traced a partial recovery in the months of April and May 2017 when it moved up by 10.58 percent and 7.9 percent respectively. The indicator had declined by 35.43 percent and 9.12 percent respectively in January and February 2017.

On a year-to date basis, the months of April and May 2017 also pointed to an advance in this indicator, thus confirming the fleeting, two-month-long improvement. In those two months, the indicator was up respectively by 5.83 percent and 3.69 percent compared with the same months of the previous year.

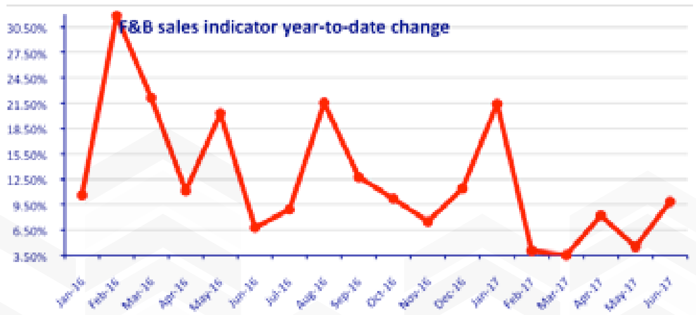
The clothing category includes the seven sub-categories of men's wear; women's wear; women's accessories; children's wear; shoes; apparel; and fabric and sewing.

2. Food and beverages



The sales indicator for food and beverages also retreated on a month-to-month basis in the first two months of 2017 when it was down 29.94 percent and 15.7 percent. The indicator rebounded in March as it rose by 11.98 percent.

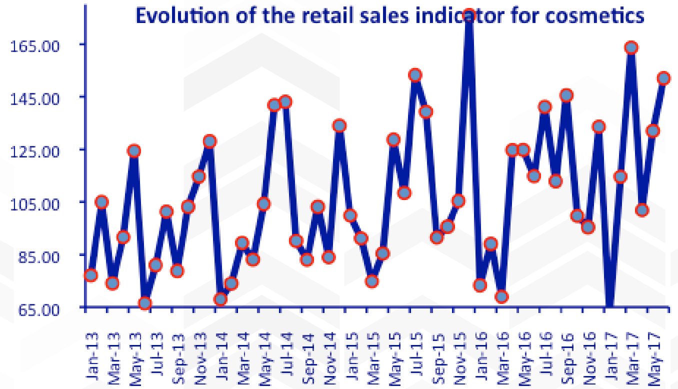
In a year-to-date comparison, the sales indicator for food and beverages was in every single month of the half-year under review higher than its level in the corresponding month of the previous year.



As a matter of fact, that indicator has been higher on a year-to-date comparison in each of the past 18 months. As shown in the accompanying chart, year-to-date rates of change for the 18 months till June 2017 are all in the chart's positive quadrant.

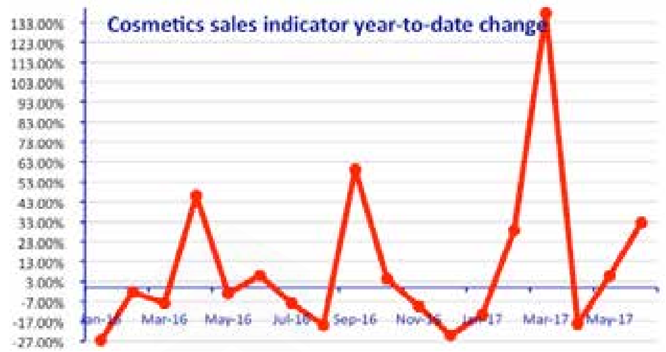
The food and beverages category comprises the five sub-categories of supermarkets; confectionery; bakeries; various food stores; and alcoholic beverages.

3. Cosmetics



Over the 54-month period covered by the exercise, monthly changes in the retail sales indicator for cosmetics have been characteristically ample, erratic, and patternless.

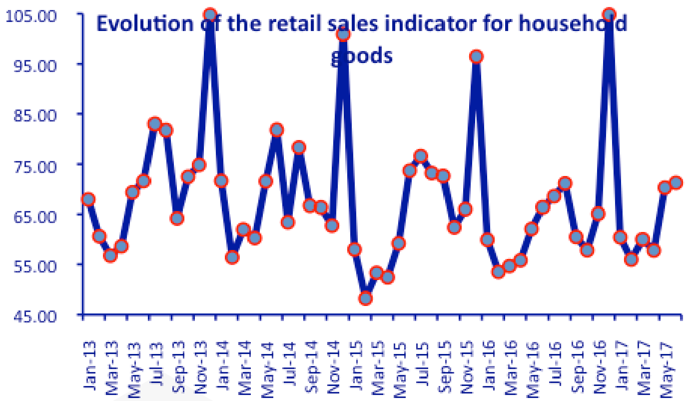
The first half of 2017 was no exception to the broad swings in that indicator. Following the seasonal sharp fall of 52.7 percent in January, the second largest among the nine categories of goods and services examined in the report, cosmetics sales indicator bounced back by an even sharper upturn of 81.36 percent in February. The month of March saw the indicator extend its climb by 42.83 percent only to fall back by 37.78 percent in April. The indicator then moved up by 29.6 percent in May, the widest growth rate recorded in that month. By the end of the first half of 2017, the retail sales indicator for cosmetics was 13.77 percent higher that its December 2016 level.



On a year-to-date basis, the month of March registered an increase of 137.49 percent compared with that indicator's level in the same month of the previous year. That was the largest year-to-date increase among indicators of all nine categories of retail examined.

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

4. Household goods

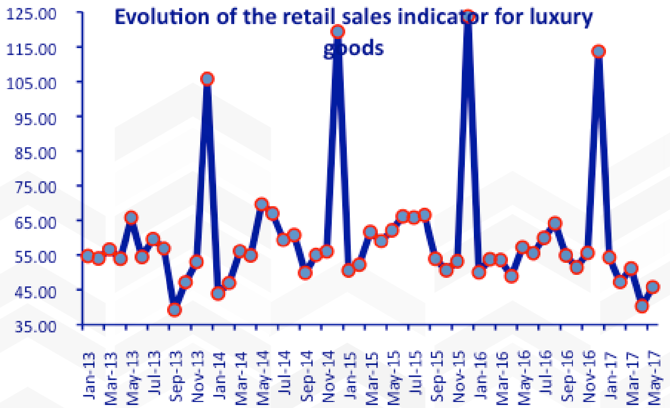


The retail sales indicator for household goods was down 42.36 percent on a month-to-month basis in January 2017 and recovered only in May when it moved up by 21.69 percent, the third broadest increase in that month.

The year-to-date comparison reveals that each of the six months of the first half of 2017 was higher than the corresponding month of the year before. The chart tallying year-to-date monthly change in the indicator shows that change for all six months of the period under review are in the positive portion of the chart.

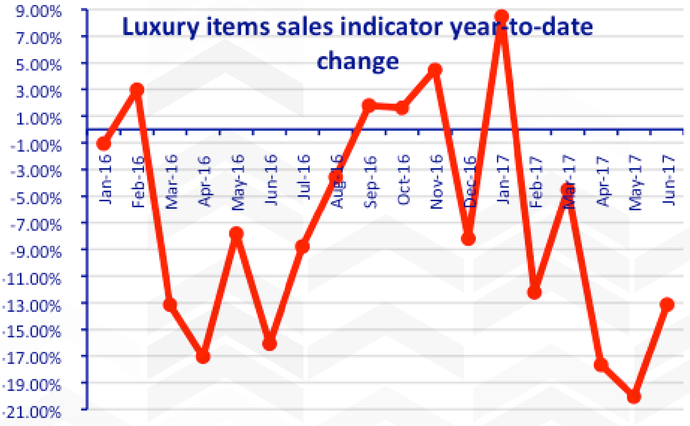
Items grouped under the household goods category of retail fall under the following eleven sub-categories: sanitary; glass, paint, and wallpaper; hardware; furniture; floor covering; drapery and upholstery; various home furnishing; household appliances; audio-visual; antiques restoration; and crystal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

5. Luxury goods



The performance of the retail sales indicator for luxury goods was weak throughout the first half of 2017.

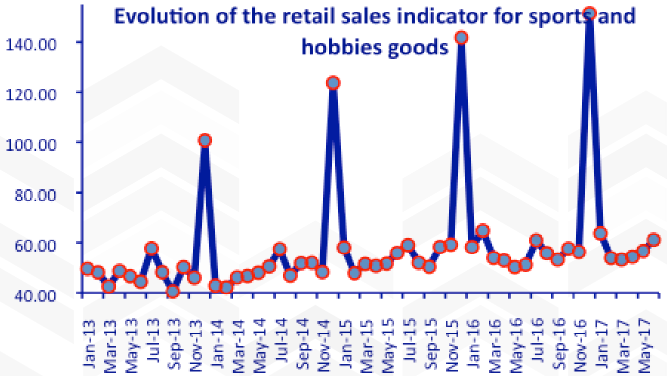
On a month-to-month comparison, the indicator was down by a seasonally explainable 52.21 percent in January and failed to regain ground in the subsequent months of the period. It ended the first half-year 57.57 percent lower than the December level.



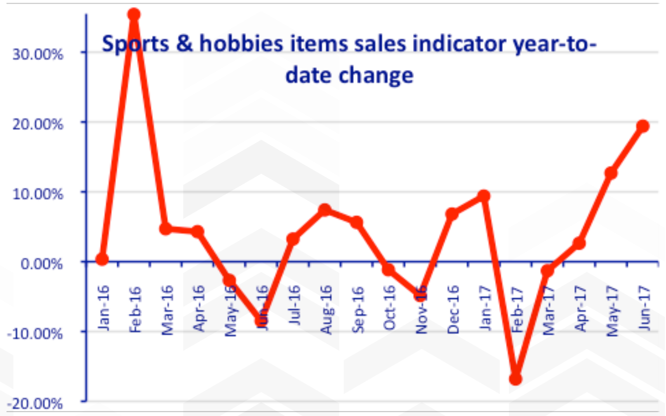
Reflecting this weakness, the year-to-date comparison reveals that in five of the first six month of 2017, the indicator for retail sales of luxury goods was lower than its level in the corresponding months of 2016. In April and May of 2017, that indicator was lower by respectively 17.67 percent and 20.04 percent than its level in the same months of the previous year.

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.

6. Sports and hobbies goods



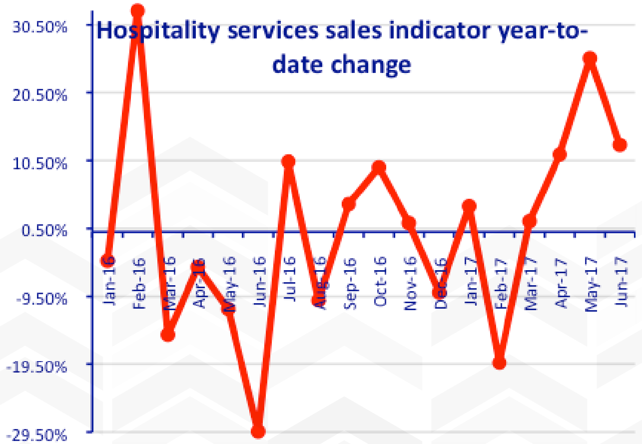
The retail sales indicator for sports and hobbies goods also exhibited noticeable weakness as it fell by 57.93 percent in January, the broadest seasonal fall in the nine retail categories included in the exercise. The indicator remained near its lows throughout the remainder of the period. By the end of June, it was 59.64 percent lower than the December level.

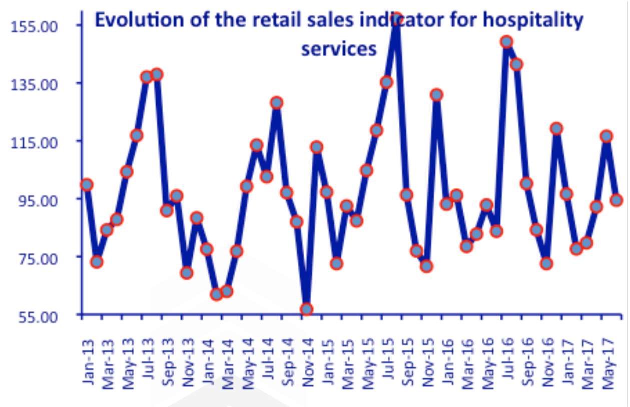


The year-to-date comparison somewhat reverses the perspective as it shows that the indicator was mainly higher than its previous year's level. As a matter of fact, all three months of the second quarter of 2017 were at a higher level in comparison with the corresponding months of 2016.

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

7. Hospitality services



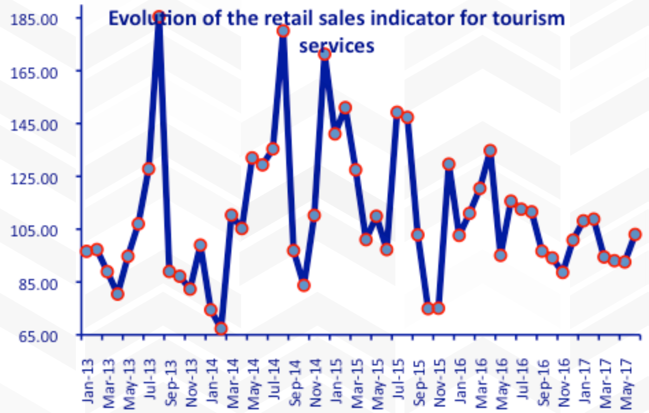


The retail sales indicator for hospitality services accurately depicts the sector's pattern of activity. This pattern is marked by bustling sales in the months of July, August, and December, whereas activity in the first half of the year is typically more subdued. Thus, the indicator was down by a comparatively moderate 18.98 percent in January. In May, that indicator registered the month's second largest advance as it moved up by 26.45 percent.

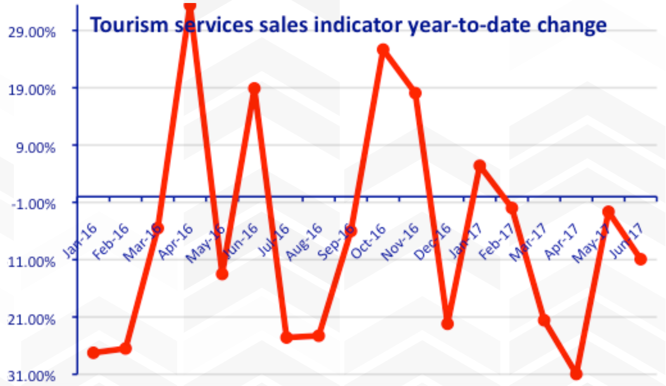
The year-to-date comparison shows that indicator's stronger performance in the first half of 2017. In five months of the period, the indicator for sales of hospitality services was higher than the corresponding months of the previous year.

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

8. Tourism services



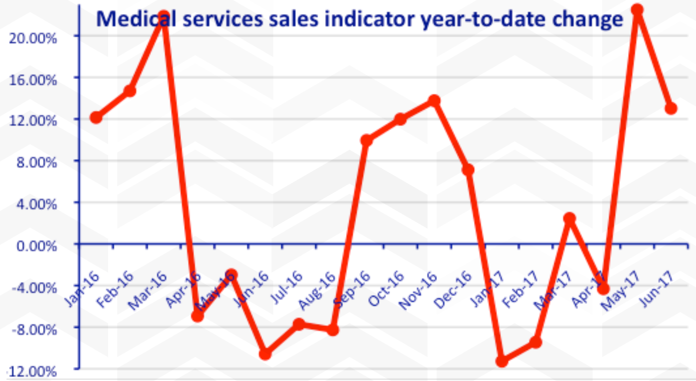
The retail sales indicator for tourism services conveyed the differing pattern of activity in that sector. Unlike the indicator of the eight other categories of goods and services included in the analysis, the sales indicator for tourism services was up 7.22 percent in January and ended the first half of the year 2.1 percent higher than its end-December level.

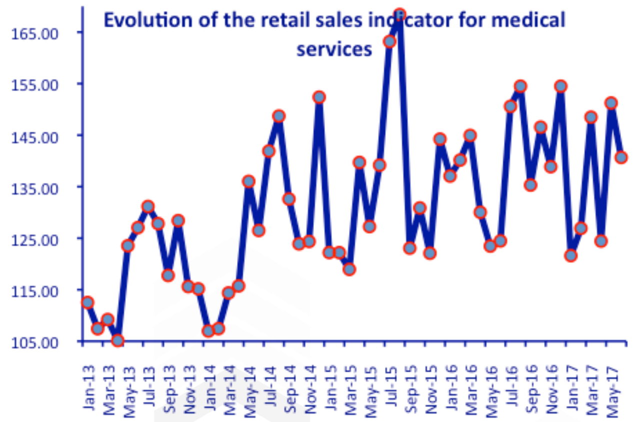


On a year-to-date comparison, however, that indicator retreated from its 2016 levels. In the six-month period under review, five months saw the indicator at a lower level than that of the corresponding months of the previous year. The indicator dropped most in the months of March and April 2017 when it was respectively 21.57 percent and 30.96 percent lower than the corresponding months of the year before.

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.

9. Medical services





Despite the fact that it refers to a category of retail that is hardly comparable to the other categories examined in the report, the retail sales indicator for medical services followed more or less closely the evolution path of consumer goods sales indicators. Thus, the sales indicator for medical services declined by a comparatively moderate rate of 21.29 percent in January and recovered by 21.55 percent in May. The remaining months of the period saw moves in alternating directions, which left the indicator down a moderate 8.96 percent from its yearend level.

The year-to-date comparisons show a mixed performance with the monthly comparisons equally split between the negative and the positive quadrants.

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.

B- Quarterly evolution of retail sales indicators in the first half of 2017

Over the past four and a half years, the quarterly evolution of retail sales indicators set a pattern

whereby indicators for the first quarter of the year invariably retreat in comparison to the previous quarter, whereas second-quarter indicators invariably move up –albeit moderately – compared to the previous quarter's level.

Also significant is the fact that, over the 18-quarter dataset, fourth-quarter indicators were mostly down despite the December surge in retail activity. Hence, the decline in the year's first quarter indicators cannot be attributed to the quarter-to-quarter comparison, but rather to the January sharp recess. Consistently, third quarter indicators attain the year's highest level, underpinned by the summer rebound months of July and August.

Quarterly indicator data for the first half of 2017 were no exception to that pattern.

On a quarter-to-quarter comparison, the retail sales indicator for all nine categories of goods and services covered by the report moved down 12.23 percent from its previous quarter's level, in line with declines of comparable magnitudes registered in previous years. Thus, the first quarter indicator in 2016 was 14.4 percent lower than its previous quarter's level and by the same comparison, that of 2015 was 12.76 percent lower.

On a year-to-date basis, the retail sales indicator for the nine categories of consumer goods and services was 2.94 percent higher in the first quarter of 2017 compared with the same period of 2016.

In line with the established seasonal pattern, the overall retail sales indicator was 5.09 percent higher than its previous quarter's level. On a year-to-date comparison, the indicator for the second quarter of 2017 was 3.21 percent higher than the level it set in the same quarter of the previous year.

1. Clothing and fashion

The indicator for retail sales of clothing and fashion also traces an established pattern of a noticeable decline (of 16 percent to 20 percent) in the year's first quarter, followed by a recovery of varying magnitudes.

Thus, on a quarter-to-quarter comparison, the retail sales indicator for clothing and fashion declined by 17.07 percent in the first quarter of 2017 and moved up by 11.67 percent in the second quarter.

On a year-to-date comparison, that indicator's first quarter level was 3.38 percent lower than its level in the corresponding period of 2016, whereas the indicator's second quarter level was 0.99 percent higher than its level in the same period of 2016.

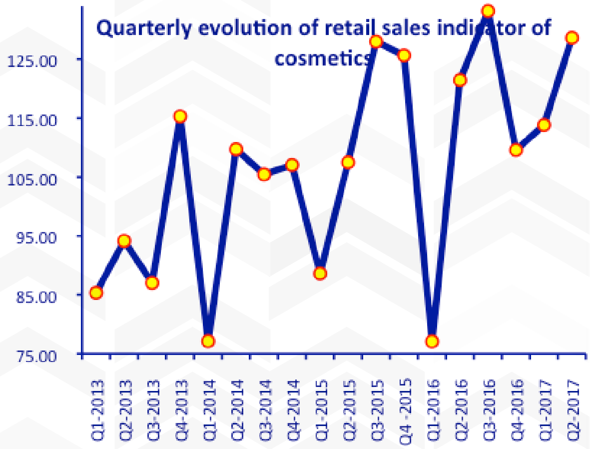
2. Food and beverages

The quarterly indicator for retail sales of food and beverages draws a clear pattern of successively higher fourth quarter peaks followed by successively higher first quarter lows. Higher highs and higher lows are unmistakable signs of a sustained uptrend.

On a quarterly comparison basis, that indicator fell by 12.56 percent in the first quarter of 2017, then atypically extended the fall, albeit by a minimal 0.44 percent in the second quarter of the year.

On a year-to-date comparison, the indicator for food and beverages sales in the first and second quarters of 2017 was respectively 9.47 percent and 7.49 percent higher than the corresponding quarters of the previous year.

3. Cosmetics

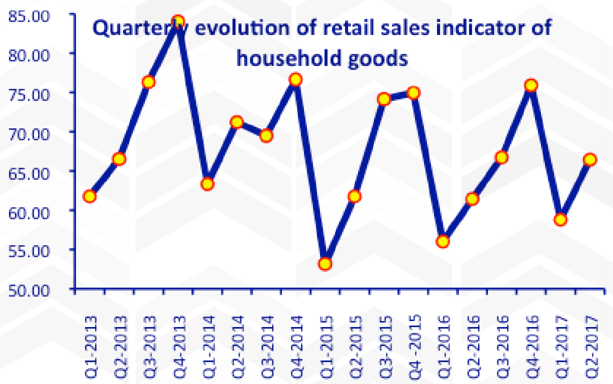


Hardly a pattern can be drawn from quarterly retail sales indicator for cosmetics. As in that indicator's monthly data, fluctuations are wide and do not follow a detectable configuration.

On a quarterly comparison, the cosmetics sales indicator was up 3.88 percent and 12.99 percent respectively in the first and second quarters of 2017.

The indicator was also up in the two quarters by 47.68 percent and 5.92 percent on a year-to-date basis.

4. Household goods



The retail sales indicator for household goods depicts a consistent pattern of fourth quarter peaks followed by first quarter sharp declines then by second quarter upmoves.

The pattern held in the first two quarters of 2017 as that indicator fell by 22.55 percent in the first quarter and rose by 13 percent in a quarter-to-quarter comparison.

On a year-to-date comparison, the sales indicator for household goods was 4.96 percent higher in the first quarter of 2017 from its level in the same period of 2016, and 8.16 percent higher in the second quarter compared to its level in the corresponding period of the previous year.

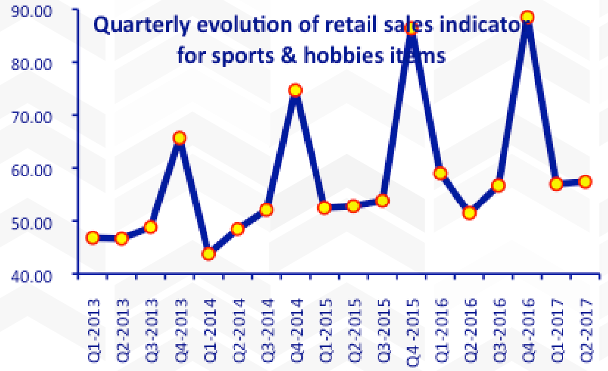
5. Luxury goods

The sales indicator for luxury goods also presents a regular pattern of peaks in the fourth quarter of the year followed by comparatively sharp falls in the first quarter. However, that indicator relayed two clear sign of weakness in the first half of 2017 as it fell broader than normal in the first quarter of the year and extended that fall in the second quarter, an uncharacteristic occurrence.

A quarter-to-quarter comparison thus shows that the indicator fell by 30.81 percent in the first quarter and extended the fall by 12.03 percent in the second quarter to reach a record low within the exercise's quarterly dataset.

The two-quarter decline was reflected in the year-to-date comparison, which saw the indicator move lower by 3.01 percent and 16.95 percent respectively in the first and second quarters of 2017 compared with the same quarters of the previous year.

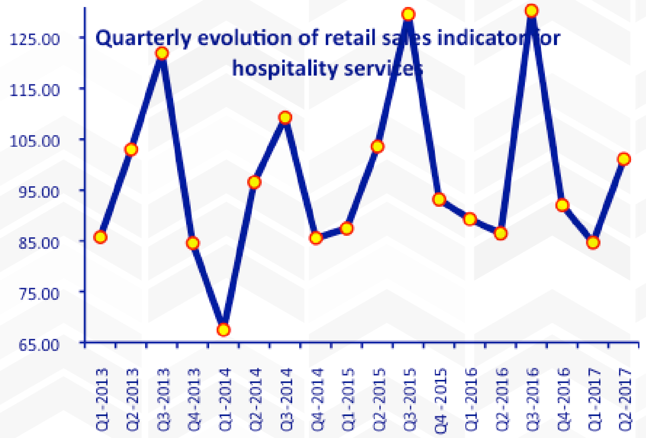
6. Sports and hobbies goods



The retail sales indicator for sports and hobbies goods fell by a broad 35.63 percent in the first quarter of 2017 as compared to the previous quarter. Within the report's dataset, that was a record fall for that indicator. The second quarter registered a trifling uptick of 0.76 percent.

On a year-to-date comparison, that indicator was 3.45 percent down in the first quarter as compared to the same period of the previous year, but 11.47 percent up in the second quarter from its level in the corresponding quarter of the previous year.

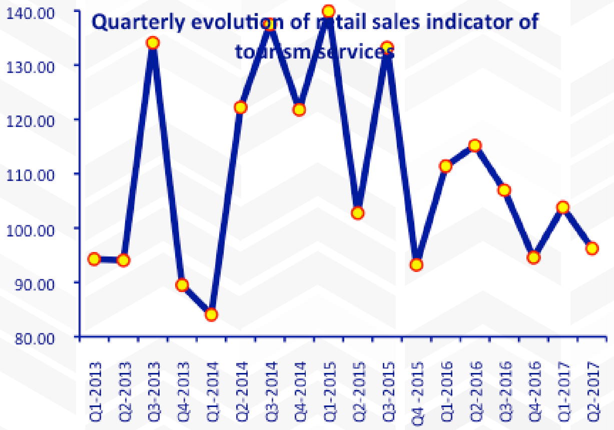
7. Hospitality services



The quarterly retail sales indicator for hospitality services showed weakness in the first quarter of 2017 as it fell by 7.99 percent, extending a broad fourth quarter 2016 decline. A rebound of 19.39 percent in the second quarter placed the indicator back on a middling level.

The year-to-date comparison reflected the V-shaped move as it saw the indicator decline by 5.15 percent in the first quarter compared with its level in the corresponding quarter of the previous year, then rise by 16.91 percent in the second quarter compared to the corresponding quarter of 2016.

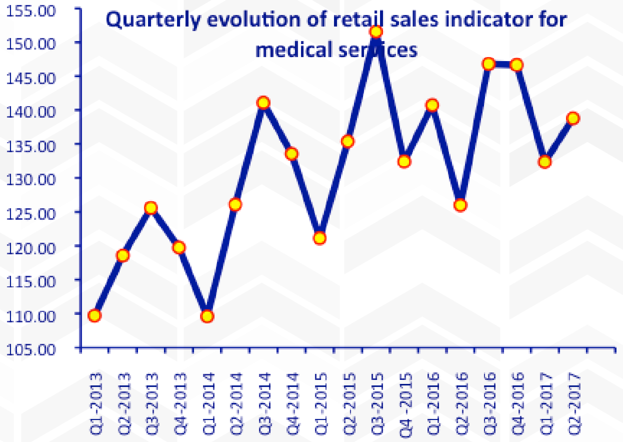
8. Tourism services



The quarterly retail sales indicator for tourism services presented a modest performance in the first two quarters of 2017. Following a two-quarter-long fall in the third and fourth quarters of 2016, the indicator regained some of its losses as it moved up by 9.81 percent in the first quarter of 2017, but shed most of the gains in the following quarter as it dropped 7.32 percent.

On a year-to-date comparison, the indicator was down 6.78 percent and 16.46 percent in the first and second quarter of 2017 compared with corresponding quarter of the year before.

9. Medical services



The quarterly retail sales indicator for medical services retreated by 9.75 percent in the first quarter of 2017, but recovered some lost ground in the second quarter as it moved up by 4.86 percent.

On a year-to-date comparison, that indicator's level in the first quarter was 5.95 percent below that of the corresponding quarter of 2016, whereas the second quarter's level was 10.15 percent higher than that of the second quarter of 2016.

Quarter-to-quarter change of retail sales indicators by category

	Q1-2016	Q2-2016	Q3-2016	Q4-2016	Q1-2017	Q2-2017
Clothing	-20.39%	6.83%	11.91%	-2.54%	-17.07%	11.67%
Food & beverages	-12.15%	1.39%	7.63%	14.73%	-12.56%	-0.44%
Cosmetics	-38.65%	57.55%	9.66%	-17.72%	3.88%	12.99%
Household goods	-25.27%	9.66%	8.64%	13.75%	-22.55%	13.00%
Luxury items	-30.84%	2.74%	10.67%	23.29%	-30.81%	-12.03%
Sports & hobbies	-31.75%	-12.73%	10.09%	56.10%	-35.63%	0.76%
Hospitality	-4.18%	-3.14%	50.71%	-29.38%	-7.99%	19.39%
Tourism	19.48%	3.42%	-7.13%	-11.60%	9.81%	-7.32%
Medical services	6.29%	-10.47%	16.52%	-0.11%	-9.75%	4.86%
All nine categories	**-14.40%**	**4.82%**	**12.86%**	**-0.86%**	**-12.23%**	**5.09%**

Year-to-date quarterly change of retail sales indicators by category

	Q1-2016	Q2-2016	Q3-2016	Q4-2016	Q1-2017	Q2-2017
Clothing	-7.08%	-7.91%	-0.41%	-7.24%	-3.38%	0.99%
Food & beverages	20.89%	12.51%	14.23%	9.98%	9.47%	7.49%
Cosmetics	-13.01%	12.98%	4.05%	-12.79%	47.68%	5.92%
Household goods	5.37%	-0.54%	-10.01%	1.27%	4.96%	8.16%
Luxury items	-4.31%	-13.64%	-3.86%	-3.05%	-3.01%	-16.95%
Sports & hobbies	12.43%	-2.49%	5.33%	2.36%	-3.45%	11.47%
Hospitality	2.08%	-16.52%	0.53%	-1.22%	-5.15%	16.91%
Tourism	-20.38%	12.10%	-19.69%	1.44%	-6.78%	-16.46%
Medical services	16.19%	-6.94%	-3.14%	10.76%	-5.95%	10.15%
All nine categories	**-0.17%**	**-0.78%**	**-2.31%**	**0.40%**	**2.94%**	**3.21%**

III.C- Half-yearly evolution of retail sales indicators

Typically, the first half-year witnesses a drop in comparison with the second half-year period of the preceding year. This is so because the second half of the year includes two Summer months of bustling retail activity, a month of high household spending in preparation for the school year, and the month of festivities when retail sales surge to account for close to a third of the year's sales on average.

The first half of 2017 followed that observed pattern. The overall retail sales indicator for all nine categories of consumer goods and services examined in the report was down 10.38 percent from its level in the second half of 2016.

However, ***on a year-to-date comparison, the overall retail sales indicator for the first half of 2017 was 3.08 percent higher than its level in the same period of the previous year***.

With that minimal advance, the overall retail sales indicator for the first half of 2017 remained 13.93 percent lower than its 2012 base level.

1 . Clothing and fashion

The retail sales indicator for clothing and fashion hit a record low in the first half of 2017 as it fell by 13.37 percent from its level in the previous half-year period.

Compared with its level in the first half year of 2016, the retail sales indicator for clothing was 1.12 percent lower in the first half of 2017. That indicator was 37.68 percent below its base year level.

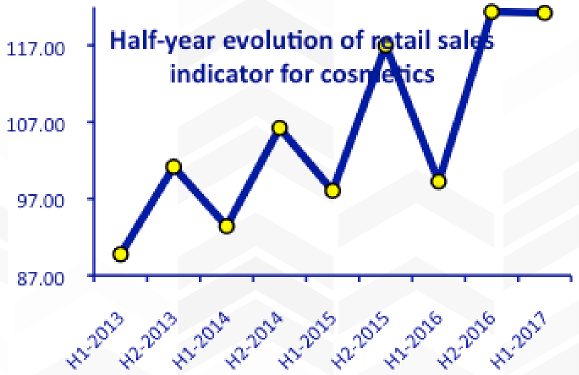
2. Food and beverages

The food and beverages retail sales indicator for the first half of 2017 edged moderately lower as it declined by 6.77 percent. The decline comes after three consecutive half-year periods of advance, which had carried the indicator some 1.88 percent past its base year level.

On a year-to-date comparison, that indicator was 8.47 percent higher than its level in the same half-year period of 2016.

The food and beverages retail sales indicator for the first half of 2017 stood at 5.02 percent below its base year level.

3. Cosmetics



The half-year retail sales indicator for cosmetics has ratcheted up over the past four and a half years, setting a firm pattern of higher highs and higher lows. The half-year indicator rose past its base year level by a wide margin of 21.37 percent in the second half of 2016. In the first half of 2017, that indicator edged down by a minute 0.12 percent from the record high set in the previous half-year period.

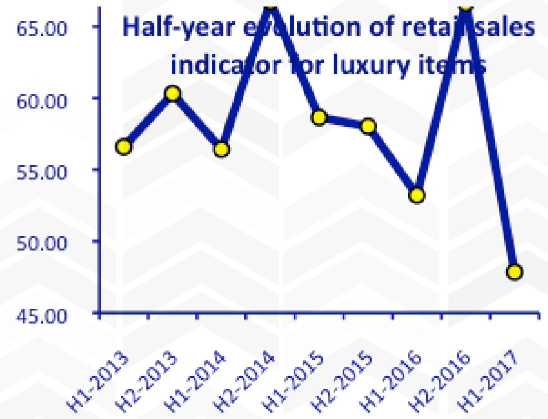
On a year-to-date comparison, the first half-year indicator for cosmetics was 22.13 percent higher than its level in the same half-year period of 2016.

4.Household goods

The household goods retail sales indicator for the first half of 2017 was 37.38 percent lower than its 2012 base year level.

That indictor was 12.21 percent lower that its level in the previous half-year period, but 6.63 percent higher than its level in the same period of the previous year.

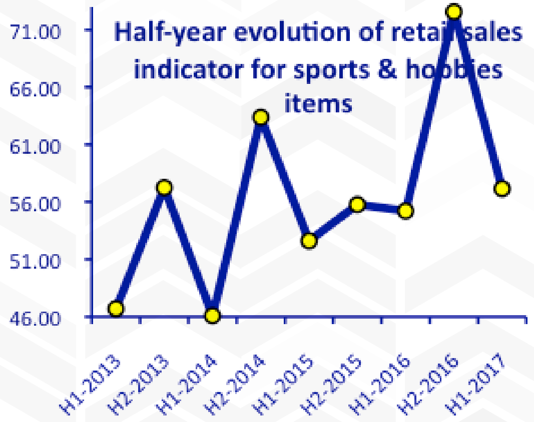
5.Luxury goods



The luxury goods retail sales indicator dipped to a record low in the first half of 2017 as it fell by 28.19 percent from its level in the previous half-year period. The fall pushed that indicator to a level that is 52.15 percent lower than its 2012 base year mark.

On a year-to-date comparison, the retail sales indicator for luxury goods was 10.08 percent lower than its level in the corresponding half-year period of 2016.

6. Sports and hobbies goods



The sports and hobbies retail sales indicator for the first half of 2017 traced a sharp fall of 21.23 percent compared with its level in the preceding half-year period, but was up 3.5 percent on its level in the same period of the previous year.

That indicator was 42.85 percent lower than its base year level.

7. Hospitality services

The hospitality services retail sales indicator for the first half of 2017 fell 7.12 percent below its base level as it declined by 16.45 percent from its level in the preceding half year. That indicator, however, was 5.7 percent higher than its level in the same period of 2016.

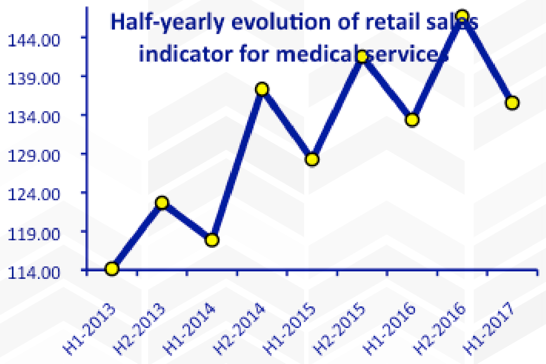
8. Tourism services

The tourism services retail sales indicator for the first half of 2017 fell by a minimal 0.73

percent from its level in the preceding period and by 11.7 percent from its level in the same period of the previous year.

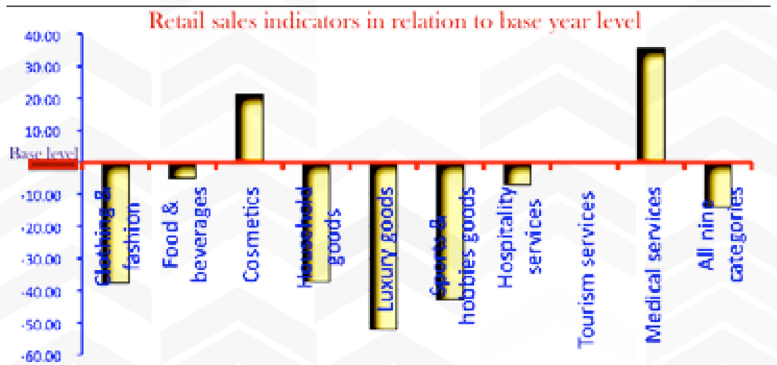
That indicator had tumbled 22.83 percent from its peak level in the second half of 2014 to reach parity with its base level in the first half of 2017.

9. Medical services



The medical services retail sales indicator for the first half of 2017 moved down 7.61 percent from its level in the preceding half-year period and 1.66 percent higher than its level in the same period of the previous year.

In the first half of 2017, that indicator stood at 35.56 percent above its base year level.



IV THE ANALYSIS

Seasonally adjusted retail sales indicators: the rationale

Trend analysis

The moving average approach

VI.A. Seasonally adjusted retail sales indicators: the rationale

The de-seasonalization of retail sales indicators serves three main purposes that add clarity and utility to the evolution of these indicators through time.

The first purpose of seasonal adjustment of the basic-form indicators is to offer a considerably more refined and expressive method of relaying change in the indicators than the plain year-to-date comparison.

De-seasonalization generates resultant time series that do away with seasonal warps and influences across multiple time frames. Hence, the longer the basic indicator series are, the more meaningful the derived, seasonally adjusted series.

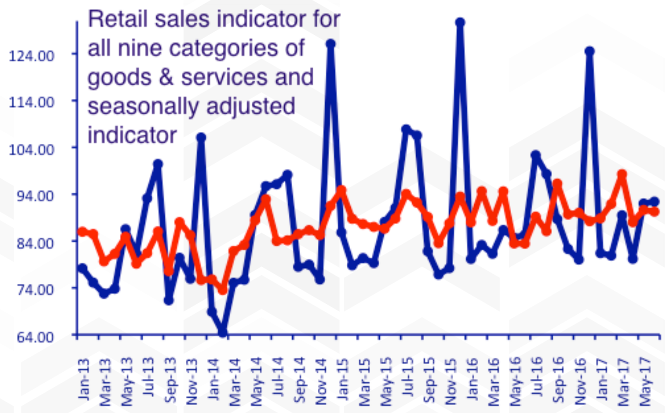
The second purpose of seasonally adjusting the basic indicator series is to detect the noise-free, statistically-forecastable and analysable underlying trend.

De-seasonalization takes on an augmented significance when applied to retail activity data, such activity being particularly responsive to rapidly changing, ephemeral, and at times strong influences that cause fickle and short-lived fluctations. These fluctuations may distort the immediate-term view of market activity.

By ironing out these non-trend-setting fluctuations, the de-seasonalization process lays bare the fundamental course taken by the indicator data over time namely, the trend.

The third purpose of data de-seasonalization is to render benchmarking, at the retail enterprise level, more accurate and meaningful. This is because the impact of seasonal influence varies across enterprises whereas seasonally adjusted activity indicators constitute a common referential standard again which enterprise performance may be assessed.

1.The overall retail sales indicator



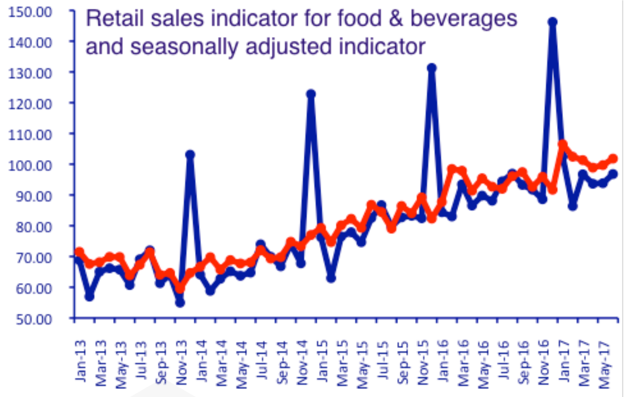
The time series for seasonally adjusted overall retail sales indicator exhibited a markedly narrower range of fluctuations compared to that of the basic, unadjusted series. As the wide, seasonally-triggered steep and short-lived surges and slides are smoothened out, the range of fluctuations was reduced by 62.6 percent. This is a comparatively high reduction ratio and is indicative of the amplitude of seasonal effects on the basic series.

With de-seasonalization, the mild uptrend became plainer to detect. Additionally, peaks and troughs emerged that did not always reflect, or coincided with, the highs and lows traced by the basic series.

2.Clothing and fashion

The seasonally adjusted data for the clothing and fashion retail sales indicator show more clearly the series' underlying downtrend. As the broad seasonal swings were toned down, the bounds of fluctuations of the seasonally adjusted data were 51.2 percent narrower than those of the unadjusted series.

3.Food and beverages

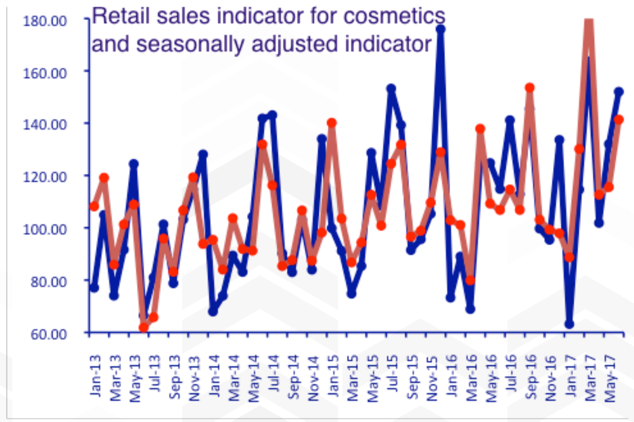


Even in their basic and unadjusted values, the time series for the retail sales indicator of food and beverages conveyed a resolute, low-oscillation uptrend, though one punctuated by sharp seasonally-induced spikes.

The de-seasonalized series for that indicator reflected that feature by nearly overlapping the basic data, whereas the adjustment process ironed out the seasonal surges.

The adjusted data's range of fluctuations was 48.5 percent narrower than that of the basic series.

4.Cosmetics

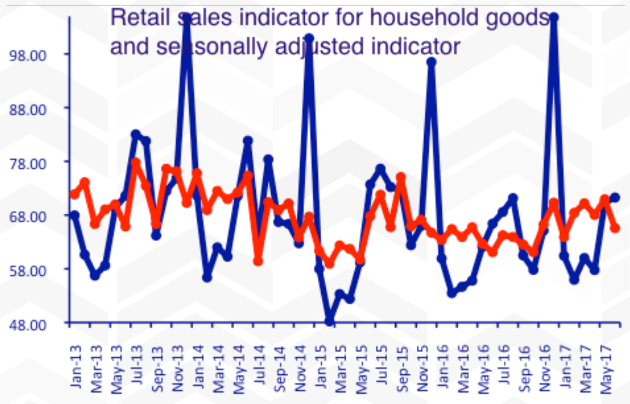


The retail sales indicator for cosmetics exhibits a configuration of exceptionally broad and frequent ups and downs that do not seem to follow any seasonal pattern.

Seasonal adjustment in such instance becomes ineffectual in that it neither reduces the range of fluctuations nor highlights the underlying trend.

The statistical expression of this outcome is that the indicator's unadjusted dataset has the highest standard deviation among the nine categories of the report's nine categories of goods and services (27.45), and the standard deviation of the adjusted series remained quite high (21.72).

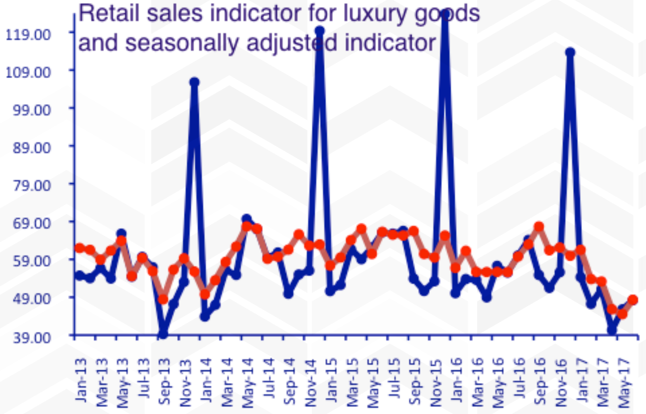
5. Household goods



The band of fluctuations of the seasonally adjusted retail sales indicator for household goods was 61.5 percent narrower than that of the unadjusted indicator data, revealing the breadth of fluctuation of the latter data.

Seasonal adjsutment of indicator data accounted for a clearer depiction of the underlying trend and its change of direction.

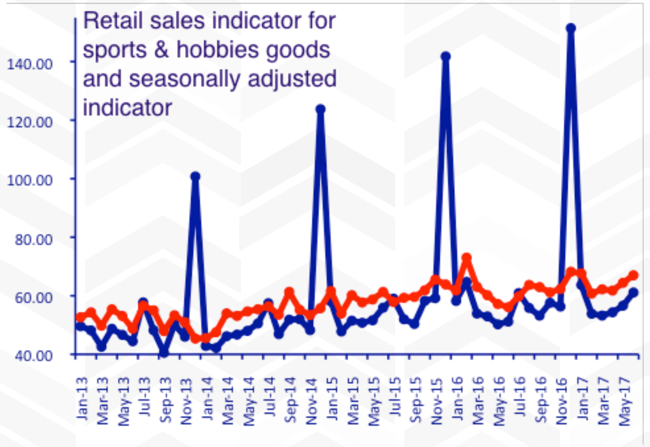
6. Luxury goods



With the exception of four jutting spikes corresponding to the surge in sales in the months of December, the pattern of evolution of the retail sales indicator for luxury goods was otherwise confined to a comparativly narrow range of fluctuations. This distinctive feature was reflected in the seasonally adjusted data.

As de-seasonalization smoothened out the four sharp spikes, the range of fluctuations of the adjusted series was a sizeable 72.6 percent tighter than the range of fluctuations of the basic data.

7. Sports and hobbies goods

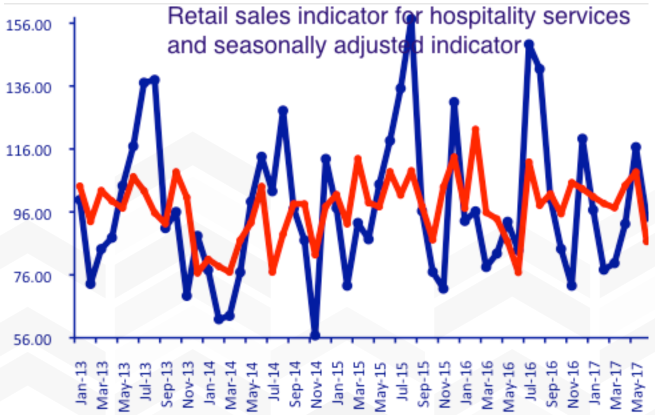


The retail sales indicator sports and hobbies goods presents an evolution pattern that resembles closely that of the indicator for luxury goods. Consequently, the seasonal adjustment of the indicator's series yielded a similar outcome for both datasets.

Thus, the adjusted series for the sports and hobbies indicator flattened out the four seasonal surges and narrowly tracked the tightly packed fluctuations that characterized the non-peak months of the 54-month period. This observable effect is supported by the fact that the seasonal adjustment narrowed down the series' range of fluctuations by a substantial 75.1 percent compared to that of the unadjusted series.

8. Hospitality services

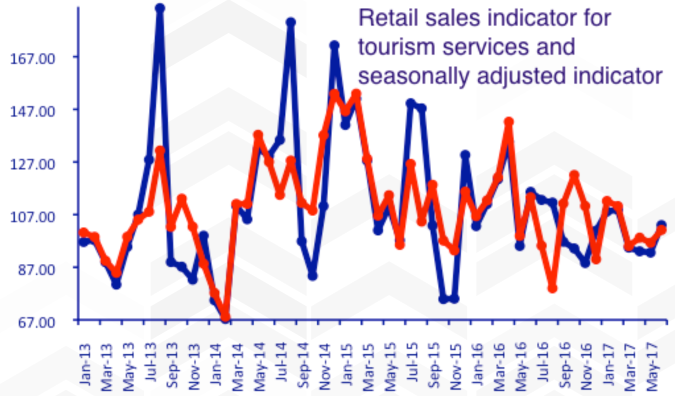
The seasonally adjusted retail sales indicator for hospitality services attenuated the amplitude of the basic, unadjusted dataset, thus facilitating the depiction of the underlying trend.



The basic retail sales indicator data for hospitality services displayed a comparatively large number of outlying values on both the upside and the downside. Consequently, the dataset had the third largest standard deviation (23.07) among the nine catgotegories of consumer goods and services of the report.

The range of fluctuations of the de-seasonalized indicator data was 54.6 percent narrower than that of the basic set.

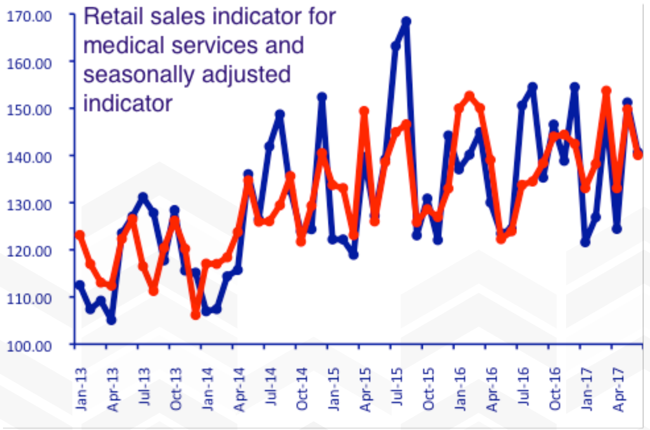
9. Tourism services



Also presenting a broad path of fluctuations, the series for the tourism services retail sales indicator had the second highest standard deviation (26.0) among the report's nine categories of goods and services.

Within the seasonally adjusted dataset, the limits of fluctuations were a moderate 28.23 percent narrower than those of the unadjusted data.

10. Medical services



With comparatively fewer outlying peaks and no outlying troughs, the medical services retails sales indicator series depicts a relatively resolute uptrend, which was made clearer with the seasonal adjustment of the indicator data.

Given the basic data's reasonably tight path of fluctuations to begin with, the margin of fluctuations shown by the seasonally adjusted series was 24.9 percent narrower than that of the unadjusted data.

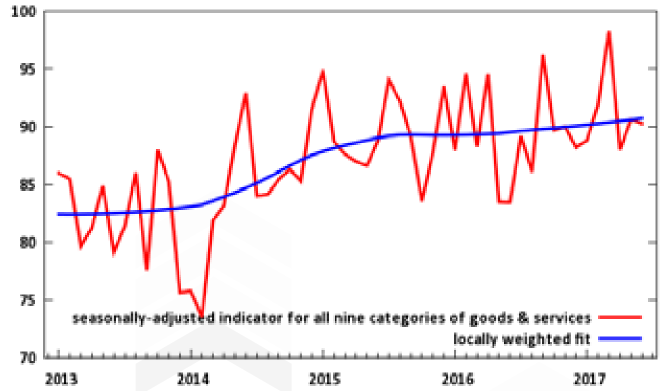
IV. B. Trend analysis

In a bid to provide a comprehensive view of category trends formed by the 54-month indicator time series, the report resorted to two approaches, one involved the evaluation of linear trend parameters and other relied on non-parametric regression, which gained in expressiveness as the time series lengthened.

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 precisely the case in the present exercise when the linear trends of the nine categories of retail are ranked according to both vector direction and gradient.

As for the locally weighted fit approach, its advantages over the linear trend approach are threefold: (a) it captures the statistically significant pivot points that mark changes in vector direction within the datasets; (b) longer time series often embody significant change(s) in vector direction which the stylized linear approximation of the trend neither reflects nor is it designed to reflect; and (c) the stages of data evolution, which the locally weighted fit renders more noticeable, supply additional material for analysis.

The overall retail sales indicator



THE SEASONALLY ADJUSTED INDICATOR DATASET FOR ALL NINE CATEGORIES OF CONSUMER GOODS AND SERVICES DRAWS A POSITIVE LINEAR TREND LINE with a moderate gradient of +0.201

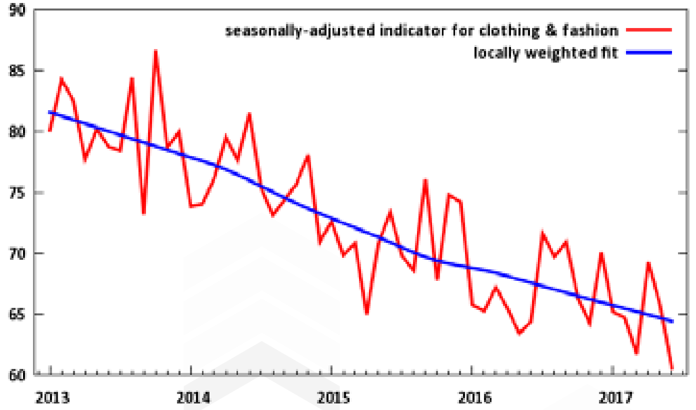
The locally weighted fit, however, presents three distinct phases in the evolution of seasonally adjusted indicator data. Phase one shows a barely perceptible upmove in 2013 followed by a noticeably steeper climb in the subsequent 15 months, then by a 27-month period of very mild, nearly flat, portion of the trend line.

It is hence concludable that, though the trend for the indicator of the report's nine categories of goods and services remained technically positive – to varying degrees – over the 54-month time series, all fluctuations in indicator data remained below the 2012 base year level.

1. One retail category showing an unwavering negative trend

Clothing and fashion

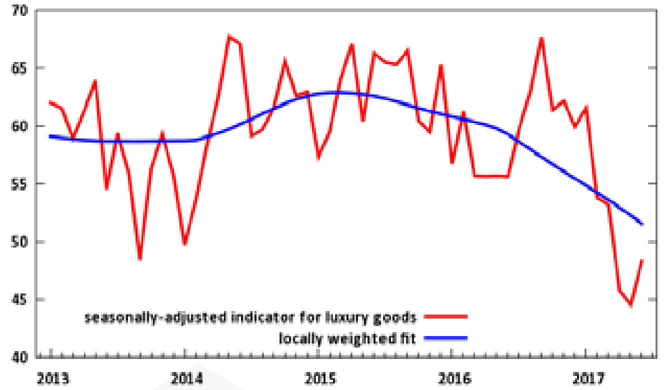
THE SEASONALLY ADJUSTED RETAIL SALES INDICATORS FOR THE CLOTHING AND FASHION TRACED A STEADILY NEGATIVE TREND THROUGHOUT THE 54-MONTH DATA SERIES OF THE REPORT.



The linear trend line points downwards at a gradient of -0.35

The locally weighted fit for indicator data of that retail category shows an almost linear downward-pointing trend line.

2. Two retail categories trending downwards

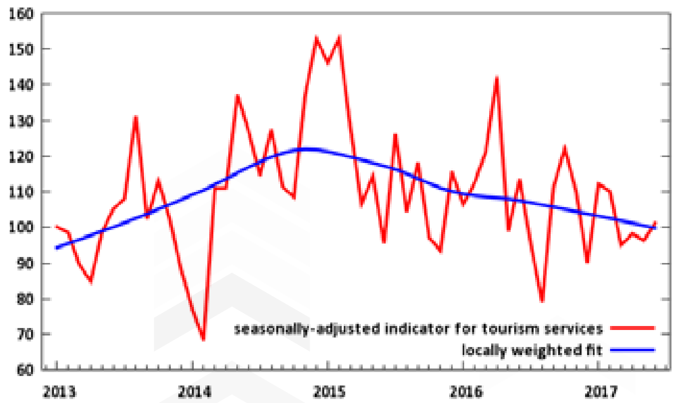


Luxury goods

THE SEASONALLY ADJUSTED RETAIL SALES INDICATOR FOR LUXURY GOODS TRACES A NEARLY FLAT DOWNWARD POINTING LINEAR TREND with a slope of -0.0577

The locally weighted fit, however, reveals a more composite narrative. In 2016 and the first half of 2017, the trend for that indicator took a sharp turn downwards following a mild downslope in 2015.

Tourism services

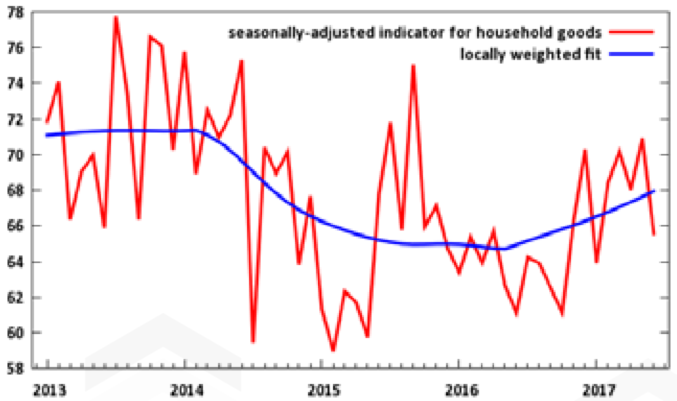


THE LINEAR TREND FOR THE TOURISM SERVICES RETAIL SALES INDICATOR WAS NEARLY FLAT BUT TECHNICALLY POSITIVE with a slope of +0.0288

The locally weighted fit of the tourism services indicator data shows an upward move in 2013 and 2014 followed by a mild but sustained decline the in subsequent two and a half years.

3. One retail category trending upwards

Household goods

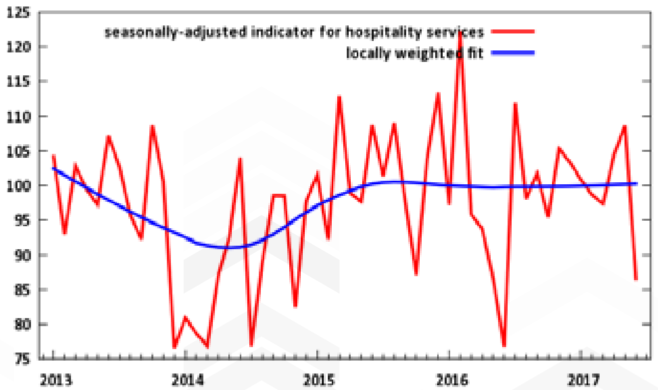


THE LINEAR TREND FOR THE RETAIL SALES INDICATOR FOR HOUSEHOLD GOODS WAS NEGATIVE with a middling gradient of -0.135

The locally weighted fit shows an inflection point coinciding with the fourth month of 2016 and the trend for the subsequent 14 months pointed resolutely upwards. The upturn follows a 28-month decline.

4. One retail category trending sideways

Hospitality services

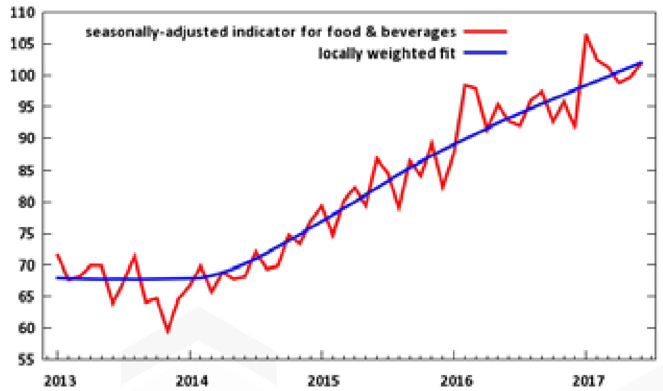


THE LINEAR TREND FOR THE RETAIL SALES INDICATOR FOR HOSPITALITY SERVICES POINTED MILDLY UPWARDS with a slope of +0.119

The locally weighted fit, however, reveals a flat portion of the trend stretching over two years from mid-2015.

5. Four retail sales indicators showing a positive trend

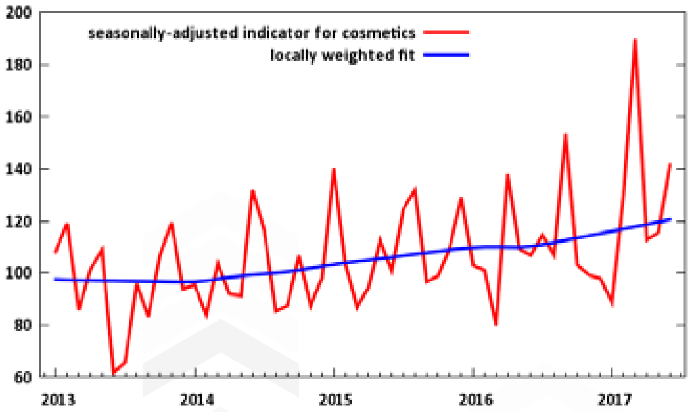
Food and beverages



THE RETAIL SALES INDICATOR FOR FOOD AND BEVERAGES DREW THE STEEPEST POSITIVE LINEAR TREND among the report's nine categories of retail, with a slope of +0.78

The locally weighted fit exhibited a quasi linear upward-pointing portion stretching over more than three years. The sustained uptrend over that period drove the indicator minimally past its base year level.

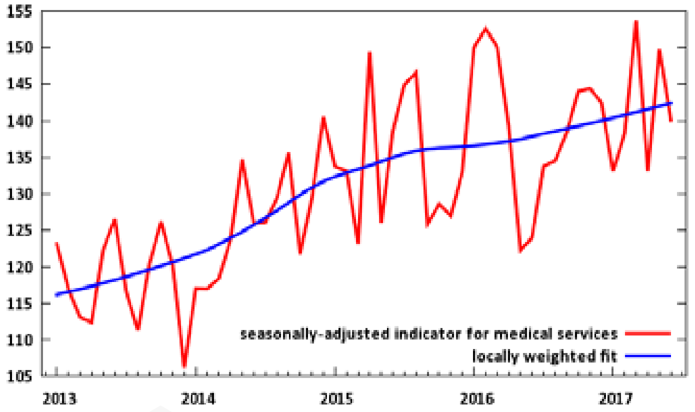
Cosmetics



THE EVOLUTION OF RETAIL SALES INDICATOR FOR COSMETICS GENERATED THE SECOND STEEPEST LINEAR UPTREND among the report's retail categories, with a gradient of +0.591

The locally weighted fit shows a sustained positive trend over the three and a half years to mid-2017.

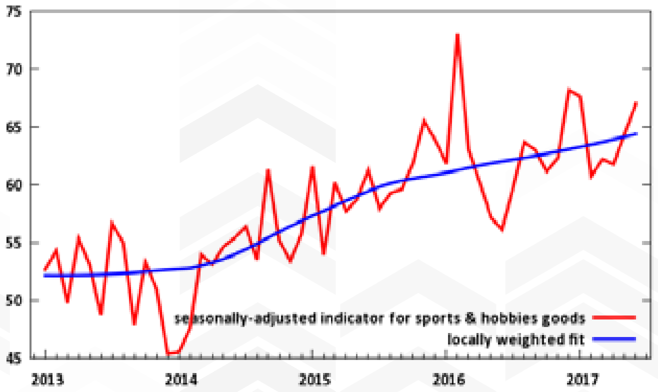
Medical services



With a gradient of +0.534, the linear slope for THE MEDICAL SERVICES RETAIL SALES INDICATOR DREW THE THIRD STEEPEST UPTREND among the nine retail categories of the report.

However, the locally weighted fit for that indicator's series revealed a stronger upmove than that conveyed by the slope of the linear trend. First, the locally weighted fit showed a resolute move up with no change in direction, and second, all indicator fluctuations as well as the trend line remained above the base year's level throughout the 54-month period covered by the report.

Sports and hobbies goods



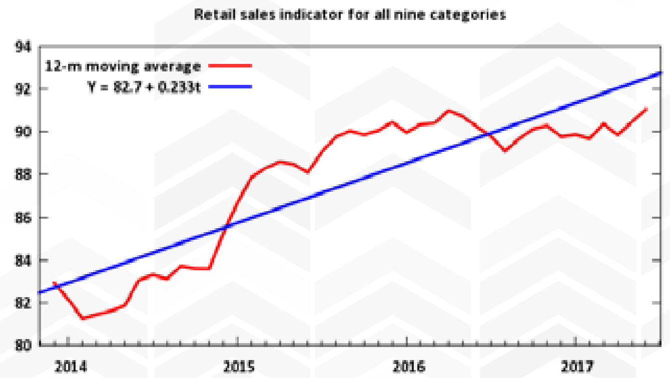
THE RETAIL SALES INDICATOR FOR SPORTS AND HOBBIES GOODS DREW A LINEAR UPTREND of a middling slope of +0.293

And, although the locally weighted fit remained positively sloped throughout the four and a half years covered by the report, both the trend line and the indicator value remained markedly below the base year's level.

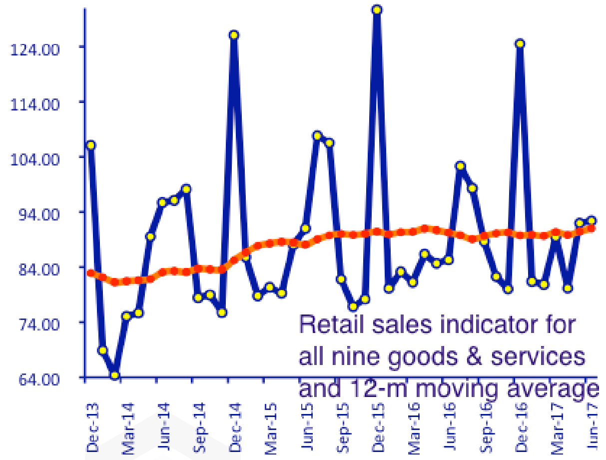
LINEAR SLOPE FOR 54-MONTH SERIES	
	Slope
All nine categories	**0.201**
Positively-sloped linear trend	
Food & beverages	0.78
Cosmetics	0.591
Medical services	0.534
Sports & hobbies	0.293
Nearly flat linear trend	
Hospitality	0.119
Tourism	0.0288
Negatively-sloped linear trend	
Clothing & fashion	-0.342
Household goods	-0.135
Luxury items	-0.0577

IV. C. The moving average approach

The moving average constitutes a reliable pointer to the direction of the underlying indicator data. Much like data de-seasonalization, the moving average approach irons out sharp and erratic fluctuations and thus depicts a clearer view of indicator performance.

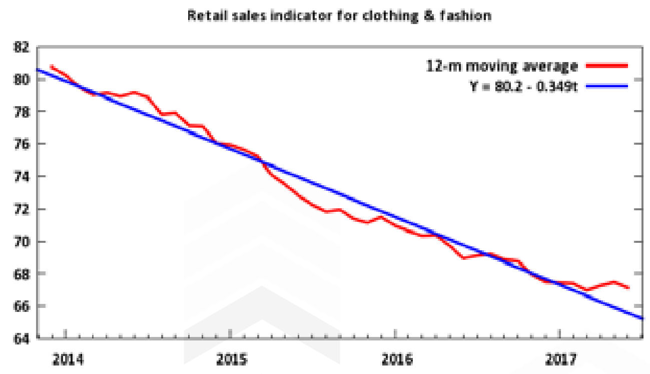


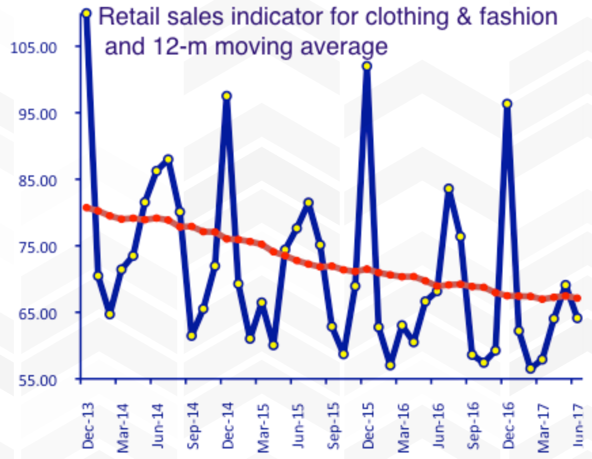
The overall retail sales indicator



The 12-month moving average derived from the retail sales indicator for all nine categories of goods and services draws an upward pointing line that may be acceptably approximated by a linear trend with a slope of +0.233

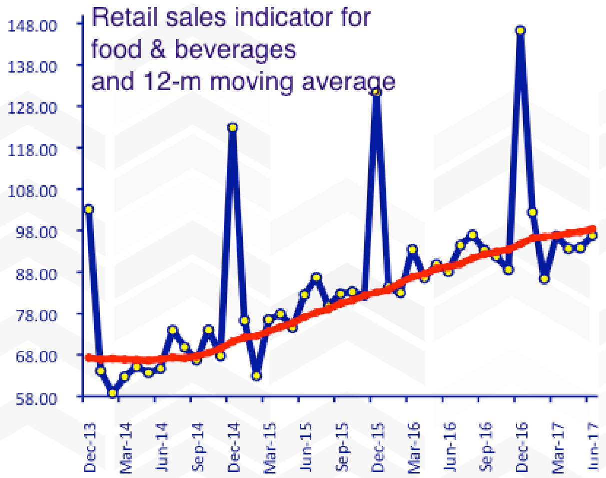
1. Clothing and fashion

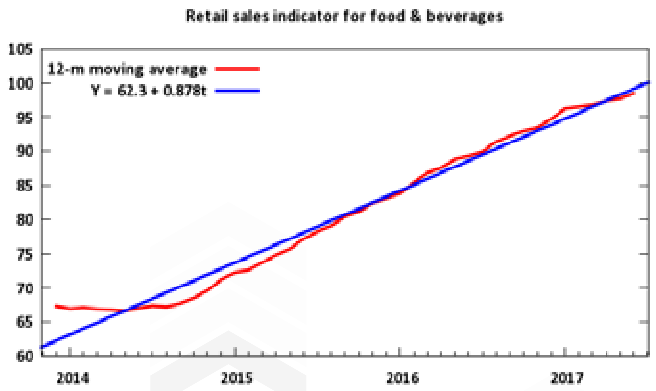




The retail sales indicator for clothing and fashion traces a moving average that points steadily downwards. In this case, the moving average line may be expressed as a linear trend line with a gradient of -0.349, which almost coincides with other trend parameter for that indicator.

2. Food and beverages

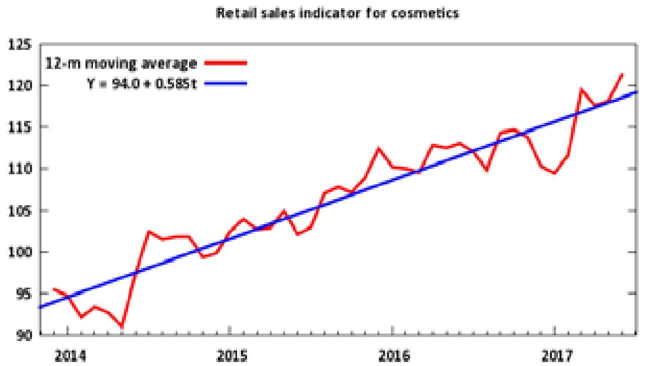


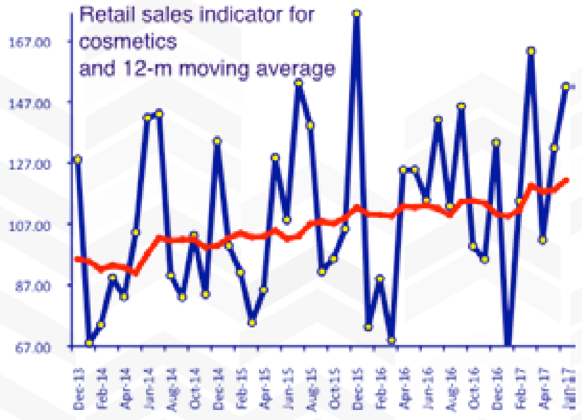


The moving average derived from the food and beverages retail sales indicator series points resolutely upwards, thus replicating all other trend expressions for that series.

A linear trend line with a gradient of +0.878 closely depicts the series' moving average line.

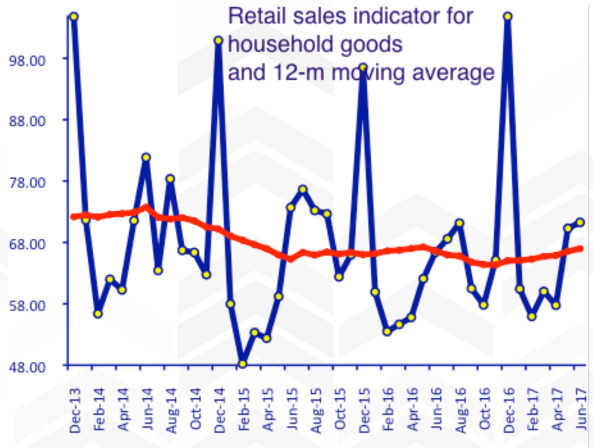
3. Cosmetics

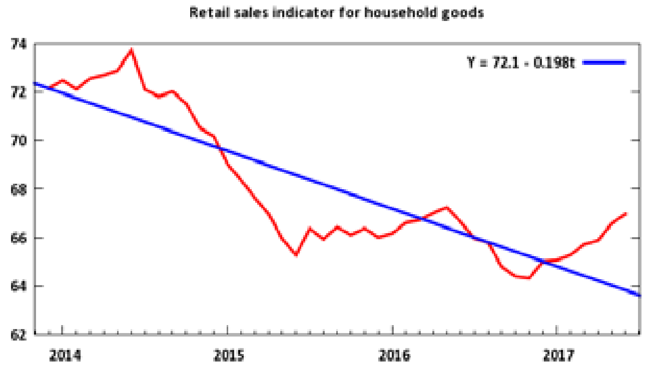




The positive trend formation characterizing the cosmetics retail sales indicator time series was reflected in the moving average data. These data are accurately represented by a linear trend line with a gradient of +0.585

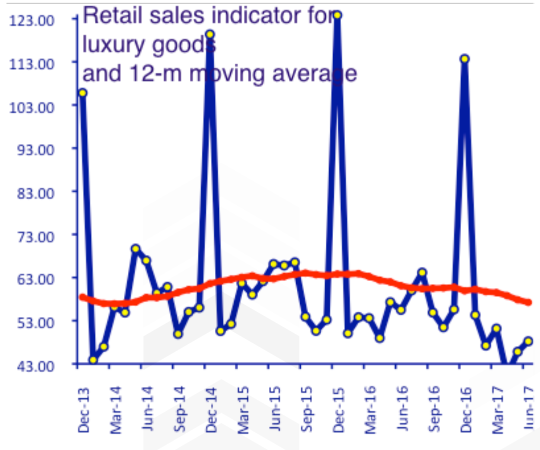
4. Household goods

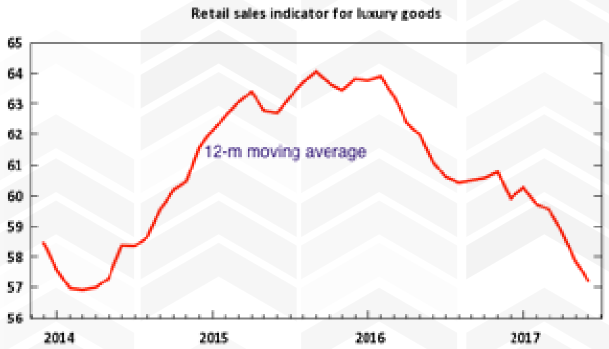




The downward sloping trend of the household goods indicator series was replicated in the series' moving average. A linear trend line with a gradient of -0.198 somewhat represents the moving average line.

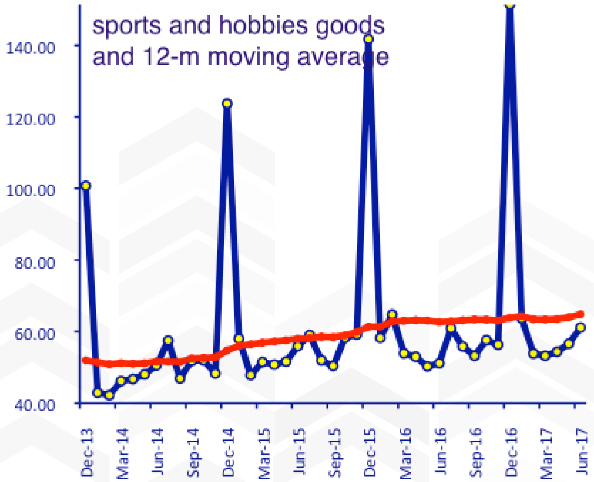
5. Luxury items

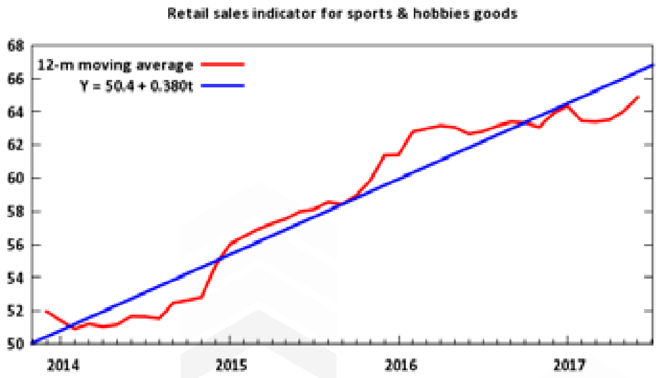




The moving average deriving from the luxury goods retail sales indicator series draws a trend line that does not lend itself to an acceptable approximation by a parametric linear trend.

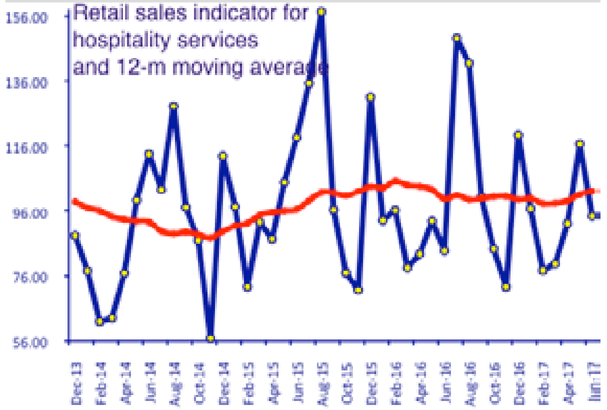
6. Sports and hobbies goods





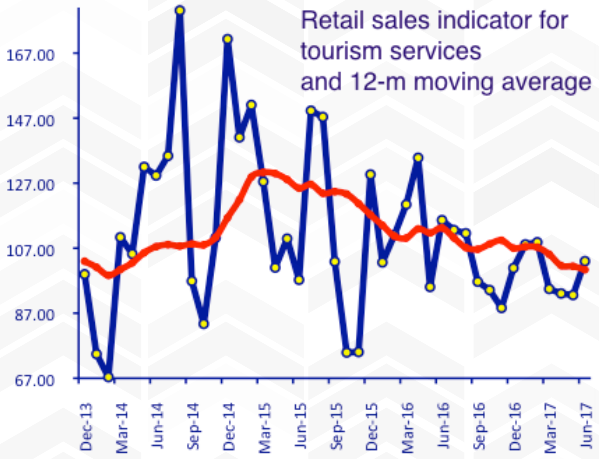
The sports and hobbies goods retail sales indicator's positive trend over the 54-month period is rendered accurately by the moving average, which is acceptably expressed by a linear trend with a gradient of +0.380

7. Hospitality services



The moving average applied to the hospitality services retail sales indicator series draws a line that is not acceptably expressed by a linear trend. This is an instance that shows the limitations of the linear trend approach.

8. Tourism services

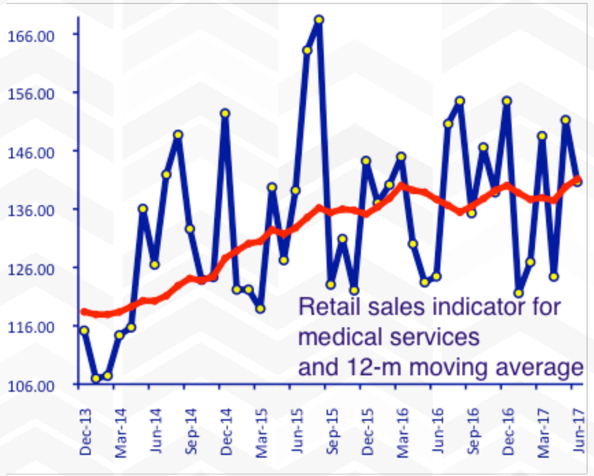


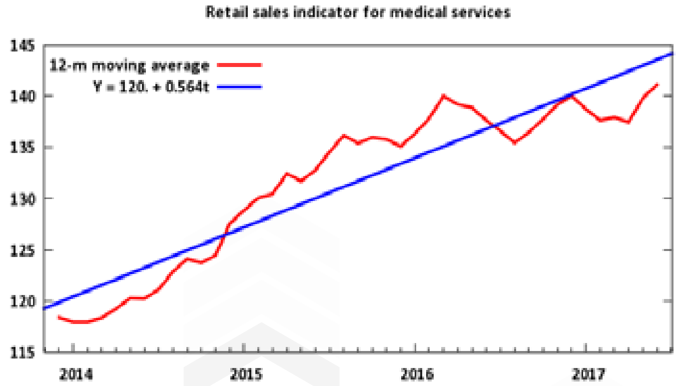
The linear trend approach is similarly inadequate as an approximation of the moving average line derived from the indicator data for tourism services.

This partly validates the report's adoption of non-parametric regression to describe indicator data.

9. Medical services

The linear uptrend with a gradient of +0.564





constitutes a reasonable expression of the moving average data obtained from medical services indicator series.

CONCLUDING NOTES

The overall retail sales indicator posted a gain of 3.08 percent in the first half of 2017 compared with its level in the same period of 2016. However, indicator data for key sectors of retail are still on a negative trend, while those of other sectors, though on a positive trend, are still below their 2012 base year level.

Over the medium view, four complex factors that dishearten consumers and consequently dampen down retail activity are set to have a stronger sway than influences that press in the opposite direction.

1. The economy has yet to signal an impending recovery. At current recession-like rates of growth, employment and incomes, and hence confidence and purchasing power, are bound to languish at or near their current lows.
2. Further undermining consumer confidence and adding to investors' woes is the uncertainty caused by the shiftiness, indecision, and lack of foresight at the policy-making level. This renders hardly expectable the much-needed swerve toward a reasonably equitable and growth-inducing economic policy.
3. Then, and as if the current doldrums were not hard enough on the economy, came the blow of a crippling 10 percent increase in the consumption tax rate.
4. High rates of interest, worries about the looming pain of higher inflation rates, and excessive household indebtedness combine to act as additional depressants on retail activity.

At the retail enterprise level, representative business associations as well as individual businesses need to stand up to no less than four critical challenges.

One, they need to design in a radically different lobbying and advocacy strategy, one that is principally research-based. Business associations have to realize that their advocacy would have a much stronger echo and their lobbying would be much more effective if they were supported by regulatory and economic impact analyses. In this regard, the instance of the consumption tax hike serves as a case in point.

Two, rapidly changing consumer expectations, preferences, attitudes, behavior, and persona call for keeping an ear closer to the ground. Hardly any resources have so far been allocated to fathoming consumer behavior in a scientific, long-winded, and sustained approach.
Three, change in consumer behavior is increasingly heralded in the social media, but again, practically no resources are dedicated to probe that dimension systematically and meaningfully, despite the giant advances made in big data analytics methods and software and more generally, in qualitative research.

Fourth, strategic planning in retail is too complex to be done on the basis of skimpy, patchy, and incongruous 'data'. Rather, planning-grade data ought to be processable and modelizable if it were to produce reasonably accurate projections.

It is to help business associations and individual enterprises address precisely these challenges that the Retail Observatory at the Lebanese Franchise Association (LFA) was established. The Observatory's prime project, the Retail Activity Indicators, is a bid to remedy – partly to be sure – the paucity of retail statistics.

VIEWS FROM WITHIN

In Nine Answers

Mr. Selim I. Saad, adviser to the Association des Importateurs d'Automobiles au Liban shares valuable insights into the automotive sector in Lebanon.

1. Expectations regarding retail sales performance

Due to the economic slowdown and continued instability on the political and security fronts, IT IS UNLIKELY THAT RETAIL ACTIVITY WILL WITNESS AN UPTURN IN THE COMING YEAR OR SO. With a public debt at untenable levels and unemployment just shy of 30 percent, the economy is well and truly in crisis mode, and retail cannot possibly flourish against such backdrop.

2. The impact of taxation on sales

The tax burden on car sales is excessive and exerts the heaviest depressing pressure on the sector's turnover. CARS ARE CERTAINLY THE MOST OVERTAXED CONSUMER DURABLES; THEY ARE SUBJECTED TO FOUR DIFFERENT TAXES namely, a registration tax, customs duties, Value Added Tax (VAT), and an annual road tax. The overall tax rate on low-priced cars – the sector's most active segment - currently ranges from 40 percent to 45 percent of a car's import cost. The rate on medium-luxury to high-end cars exceeds 75 percent. These are quasi-prohibitive rates that have dire economic, financial, and environmental consequences.

3. Taxes levied on taxes

Such is the tax weight on car purchases that an initial registration fee of 5.3 percent is levied *ad valorem* on the vehicle purchase. On top of this first-round addition to the car price are added customs duties and the VAT. THE TRIPLE TAX INDUCES CAR OWNERS TO RETAIN THEIR VEHICLES FOR LONGER PERIODS than they would have, had the tax rate been more reasonable.

4. Competition in the car sales sector

In such a depressed market, competition is understandably acute. Importers have reduced prices, kept the level of services at par with international standard, and suffered tighter margins. HEIGHTENED COMPETITION ALSO MEANS THAT IMPORTERS NOW ALLOT MORE RESOURCES TO MARKETING AND COMMUNICATION. IN SUCH A SETTING, THE NAME OF THE GAME IS ONE OF RETAINING MARKET POSITION.

5. First-order factors that affect demand

Consumer expectations, household incomes, and consumer credit are the weightiest factors that normally generate demand-pull forces in the automotive market. Expectations are far from bright, dependent as they are on the economy's prospects for recovery and on non-economic factors, whereas household incomes are not improving and consumer credit has its limitations

6. The impact of consumer credit on sales

Unlike the prevalent practice in the pre-war years when car importers used to provide two-year loans on car purchases, commercial banks are currently offering five-year loans with the stipulation that a quarter of the car's purchase price is paid upfront. We deem this regulatory measure imposed by the central bank to be both appropriate and reasoned, as it is designed to ward off unwarranted financial risks that would affect all players in the sector.

7. Lebanon's aging autos

Heavy taxation has led to the marked aging of the country's vehicles. Of a total of 1.59 million vehicles in use at the end of 2016, 681 thousand or 43 percent of the total are older than 20 years, whereas 940 thousand or nearly 60 percent of the total are older than 15 years. This is an inordinately old stock of vehicles by any standard.

HOLDING VEHICLES LONGER IS NOT WITHOUT ITS COSTS IN TERMS OF VEHICLE SAFETY, POLLUTION, AND MAINTENANCE OUTLAYS.

Adding to the vehicle safety and pollution concerns is the fact that some 615 thousand cars or 39 percent of the total evade going through the annual statutory technical checkup and therefore miss out on payment of the annual road tax. Due to this recurring twin infraction, an estimated $70 million in tax revenues are lost to the state treasury, in addition to the fact that older, inadequately maintained cars become increasingly unsafe and polluting.

Lebanon is one of the signatory countries of the international agreement to reduce car CO_2 emissions. Within the coming few years, we would have to design a workable and sensible strategy to comply with international norms in this regard. Inevitably, a two-pronged approach would have to be figured out that would involve incentives leading to the gradual renewal of the country stock of vehicles on the one side, and the development of an efficient public transportation system on the other.

8. Incentives to spur new car purchases

Reducing taxes on vehicles remains the most perceptive approach to spurring car purchases. WE RECKON THAT CAR TAX REVENUES WOULD BE HIGHER SHOULD, FOR EXAMPLE, CAR REGISTRATION FEES BE WAIVED.

9. Car importing: A trading and industrial activity

Car importing enterprises are among the country's largest employers. The broad variety of skills they employ derives from the fact that they are evidently trading enterprises, but they are also industrial enterprises of sorts. As a matter of fact, established car importers offer after-sale services that are akin to industrial activity. These services have to be done in advanced industrial facilities that are tooled and equipped in compliance with the requirements of cars producers. Car repairs and maintenance also follow norms and practices set by the producers.

OPINION

The prospects for better governance

Exporting Lebanese fashion franchise brands

The prospects for better governance

Albert Nasr

Hardly a serious narrative on the Lebanese economy is without warnings of an impending calamity. Dreary as the refrain may have become, it admittedly has more than a grain of truth to it. An interesting twist to the saga saw renowned international institutions joining the Lebanese in harping on the theme of disaster, only in much stronger wording and along much better analytical lines of argumentation.

The official international reports that leveled stern criticism at Lebanon's defective system of governance may be expected to have an even stronger negative influence on investments and expectations than the country's unfavorable risk ratings.

RECENT POLITICAL CHANGE HAS REKINDLED EXPECTATIONS OF FAR-REACHING REFORMS AND PLACED THE COUNTRY IN A LIMINAL SPACE BETWEEN HOPE AND DESPAIR. However, the battle for better governance will prove daunting because the rot has metastasized to all layers of government and has led to the emergence powerful partnerships that have acquired political immunity to purge or prosecution.

Seven cardinal failures of governance

On more counts than can be counted Lebanon's economic governance has heightened country risk and led to sovereign debt instruments earning their mediocre marks. As a matter of fact, nearly all key factors scored for the purpose of country-risk assessment conjure up instances of failure. The feat in this regard is that seven cardinal failures of governance are present in one polity.

One, at systemic level, POLITICAL INSTITUTIONS ARE GROWING WEAKER; THEY ARE BUCKLING UNDER THE ENDLESS RIVALRIES FOR TURFS OF INFLUENCE WITHIN THE STATE ADMINISTRATION. Evidently, the worn-out, clan-based power-sharing formula has gone awry; it has morphed into a scheme to create confessional fiefdoms within state institutions. This has inexorably intensified corruption and its nefarious impact on investment and competitiveness. Worse, it has undermined what modicum of national cohesion may have existed in epochs past. Currently, the anachronistic power-sharing arrangement is proving to be a formidable impediment to democratic change.

Two, THE DISMEMBERMENT OF STATE INSTITUTIONS HAS NATURALLY ENGENDERED A DEFECTUOUS POLICY-MAKING PROCESS. Economic management was thus rendered ineffectual as the tools of fiscal policy were neutralized by heavy public indebtedness.

Indeed, the economy still suffers from the failure to do away with unrestrained deficit spending, which has been an ever-receding milestone on the path to fiscal reform and the containment of the public debt. This is compounded by the absence of a clear vision for the structural reforms needed to unshackle economic potential.

Three, THE ABSENCE OF SOCIAL POLICY IS FURTHER DEGRADING ECONOMIC MANAGEMENT. It is surely a sign of deficient governance to entertain the erroneous belief that social policy is not an aspect of economic management and that social spending is the do-good act of a benefactor state.

Through its re-distributional function, its positive impact on employment, and its counter-cyclicality, social spending enhances the effectiveness of other instruments of macro-economic stabilization.

Additionally, social spending is an obligation of any state worth its name toward the nationals of that state; and it is a right mentioned in unambiguous terms in the Universal Declaration of Human Rights.

However, in a failing system of governance, whatever state resources masquerade as 'social spending' are in fact apportioned, recurringly, annually, punctually, to the proxies of the system's guardians. The folly of digging persistently into what is unthinkingly seen as an ever-flowing cornucopia eludes no one but those guardians.

Four, the ineffectiveness of the executive branch of government is exemplified in the decades-long failure to implement any reform, social, economic, institutional, or structural, and the failure to address grave disparities in incomes and wealth, rampant unemployment, accelerating emigration, and growing poverty.

Five, THE ENDEMIC SLOPPINESS IN THE ENFORCEMENT OF THE RULE OF LAW IS SEEN IN THE FAILURE TO PREVENT OR PENALIZE THE MISAPPROPRIATION OF COMMUNAL PROPERTY, the failure to restitute state rights to that property, and the failure to bring to justice violators whose means and 'status' trump the law. And performance is just as miserable in the prosecution of common criminals.

Six, POLICY INERTIA AND COMPLACENCY HAVE LED TO THE DEGRADATION OF THE ENVIRONMENT and explain the failure to preserve precious natural resources and ration them across generations.

Finally, a long-drawn deficiency in statesmanship was the prime cause of the failure to attenuate the impact of a threatening geopolitical conjuncture on the country and the economy. As a matter of fact, until recently the kakistocracy had left the country helmless, rudderless, and anchorless amidst a mighty regional tempest.

Do these risk-assessment factors warrant the lackluster score on the country risk scale?

To be sure, these failures have been known and condoned for so long that they have become certainties and, as such, they should presently be of limited significance to risk assessment, risk being contingent upon uncertainty.

Country risk assessment, though partly influenced by existing afflictions, is in fact more strongly determined by the threat that negative dynamics could worsen initial ailments. Festering maladies are indeed prone to degenerate into dire sufferings. Barring the chimera of a system reset, a country-rating model worth its salt will therefore factor in a blend of likely worst-case projections.

IN AN ENDGAME, SKYFALL SCENARIO, CRUMBLING POLITICAL INSTITUTIONS COULD TIP THE COUNTRY INTO A FAILED STATE STATUS; bad economic management could trigger a public debt crisis, or worse, outright default; obliviousness to the need for reforms could trigger social unrest; protracted contempt for the rule of law could foster a breakdown of law and order; a degenerating confessional system could splinter the country; the fast degradation of the environment could develop into an ecological crisis; corruption pushed to the extreme paves the way for a kleptocracy; and, in an explosive geopolitical backdrop, petty politicking could lead to loss of territorial integrity.

Are these deficiencies in governance sustainable? Arguably and unfortunately some of them are, at least for as long as Lebanon's gross national disposable income remains larger than gross domestic product by an inordinately wide margin. (And for at least that long, pop 'economists' will carry on struggling valiantly to figure out a composition of GDP that adds up.)

One arrow left in the quiver

WITH GROWING DIFFICULTY AND CERTAINLY AT A GROWING ECONOMIC AND SOCIAL COST, THE COUNTRY HAS RETAINED ITS CAPACITY TO KEEP CAPITAL FLOWING IN.

And most importantly, astute liquidity management – costly as it may have been – was arguably the only option left to preserve monetary stability, given the many deficiencies in governance. Monetary restraint has also forestalled excessive public borrowing that could have expectedly been fueled by senseless reliance on the security of inflows.

Inevitably, the central bank had to finance a mounting portion of the public debt, and its portfolio of that debt's instruments has doubled in size in three years. However, criticism of that policy seems to be oblivious to the fact that the monetary tool is the only remaining means of macro as well as systemic stabilization.

Of ratios and bright spots

A few metrics expressively depict the twinkle in the gloom. Over the past decade and a half, resident private deposits grew at an average compound rate of nearly nine percent whereas the average growth rate of the net public debt was six percent. Growing at such a faster pace, these deposits are currently twice as large as the net public debt. This is quite an improvement compared with a ratio of net public debt to private deposits of 85 percent earlier in the past decade.

The numbers show an even more pronounced improvement when the resident private deposits in foreign currencies are compared with the foreign exchange portion of the net public. The ratio of the latter metric to the former has gone down by no less than 25 percentage points over the past decade and a half.

These numbers should certainly not be interpreted to mean that there still is a margin for additional public borrowing, nor are they meant to condone fiscal laxity or encourage basking in complacency in the face of the huge public debt overhang. Quite the contrary. Fiscal laxity, fiscal-policy paralysis, and a massive, unrepayable public debt are symptoms of a sinister ailment: that of a failing political system.

Still, there is an intricate story behind the numbers that show net public debt actually falling relative to even a portion of total deposits, a story that stokes hope amid shambles. And the capital inflows metric is central to that story.

In its briefest, the narrative runs as follows: Where inflows normally raise national disposable income to a level much higher than gross domestic product, a country runs two sets of risks: one relates to demand-pull inflationary pressures, and the other to pressures from the public sector to indulge in inflows-fuelled borrowing and spending.

In Lebanon's monetary context, both sources of instability were successfully contained, as evidenced by the facts that rates of inflation have, for two decades, been mostly confined to the low single digit scale, and the growth of deposits is outpacing – at an accelerating speed – the growth velocity of the public debt.

Success in this 'dual containment' may not fully compensate for debilitating systemic failures, but it does mitigate the harm wrought by some of the lesser deficiencies. And if nothing else, that success at least pushes back the day of reckoning.

albertnasr@icloud.com

Exporting Lebanese fashion franchise brands

Dr. Ghalia Boustani

A major determinant in the success of the business relationship is building a trustful and trustworthy relationship between franchisee and franchisor where the franchisor has to provide a functional and profitable business model the franchisee has to have the ability to manage the franchise, operate it and sustain it.

What are the components of a (fashion) franchise and where do Lebanese fashion brands stand vis-à-vis franchising?

Defining Franchising

A business-format franchise is defined as a "*hybrid form of economic organization, whereby the franchisee and the franchisor operate under the hub of a shared brand name*". Franchising occurs when one entity earns exclusive rights to local franchisees to conduct business in a prescribed manner, in a certain place and over a specified period of time.

Franchisors, concept-innovators, usually provide a range of services such as training, site selection, marketing support, quality programs and vendor certification; they also provide a demonstrated blueprint or process for operating the business. On the other hand, franchisees, concept-implementers, pay an up-front fee and a continuing sales percentage, and agree to follow dictated standards, functional routines as indicated in the written contract and operations manual. "Systems of trust" are honored with each established partnership.

The franchisee-franchiser relationship is established based on a set of codes, divided into four parts. The first, "associates' guarantees", is determined by the requirements demanded of franchisers to become members of franchise associations. The second looks at the "franchise relationship". The third part looks at the "commitment to stakeholders", the desire to support a valuable long-term relationship between parties. Finally, the "codes of compliance".

WINNING FRANCHISE OPERATIONS ARE BASED ON A CLEAR RELATIONSHIP BINDING BOTH PARTIES WITH OBLIGATIONS THAT NEED TO BE FILLED AND FULFILLED FOR THE GROWTH AND SUSTAINABILITY OF THE BUSINESS.

The building blocks of a successful brand. Rethinking Lebanese fashion brand development

FRANCHISING IS ALL ABOUT A WIN-WIN RELATIONSHIP BETWEEN FRANCHISEE AND FRANCHISOR. When developing the franchise, **there is an obligation that one party prepares an integral brand, identity/concept and a functional business model**. The interested partner will see the opportunity in the brand as it can be handled as a functional bundle, ready to operate and to generate profit.

A franchise, as any other business, has to have a unique and interesting concept that can be operated by a reproducible model in order to function across locations, territories or countries.

A BRAND HAS TO HAVE A CLEAR CONCEPT, AND WITH THAT A CLEAR IDENTITY DERIVING FROM ITS CORE. The brand's concept has to clearly state "what" the brand does, "why" it does it and to "who" it is addressing itself to. Therefore, the brand and **the target audience have to have "shared values"**: the brand creates value to the target audience, and the audience perceives that this exchange is relevant.

After having conceived the brand, it has to manifest into a clear physique. The brand's visual identity translates personality and character into specific set of shapes, forms, textures, colors, smells, music, fonts and so on. At this point, the brand registers its name, its trademark. Then, develops an identifying logo an adequate look and feel and clear visual identity guidelines with which it will always represent. The **visual identity will be used for all brand communications**; the brand will also standardize its communications guidelines in order to have uniformity across all channels representing it. The brand consolidates it graphics, its content and its style.

The brand's physical environment or virtual environment has to **conform to the standards of the brand** as well. Here, it not only respects the visual identity, but has to also think of the brand's positioning and the target audience. All points of contact have to study the extent to which the product (or service) is made accessible to the target audience, how it is presented, the stock levels in which it is made available, the layouts of the spaces, the extent to which the space is conceived to customers and consumers to have positive experiences.

What makes a brand successful is in relation to the process. Its business model should assure a smooth operation between departments, starting form product development to product availability at a retail level and finally the access of the product to the final consumer. With the development of retailing and presentation of different retail formats, **brands are invited to think of the integration of different retail formats (online and offline) in a way that makes the shopping experience easier,** and to assure that the **transition between all platforms is seamless and flawless**.

The brand sets up its product, production and deliveries planning based on a concise calendar that should be synchronized with buying, production, supply, deliveries, marketing and communications, in-store communications, windows, virtual store communications and so on. Every element within the brand's architecture should be clearly referenced and identified under IT systems keeping track of the product life and performances.

IN AN ERA DRIVEN BY CUSTOMERS, BRANDS BECOME CLOSER TO THEIR AUDIENCES AND ARE DRIVEN BY THEIR CUSTOMER'S NEEDS.

Data is a major driver today. The **extent to which brands can read data and translate it into positive actions** will make brands more and more relevant to the target audience and will be able to create and deliver value: communicating better, offering product/collections that feel more personalized, answering specific customer needs, looking at enhancing the environment, interfaces and access points…

Any brand, operating in any industry or at any industry level**, captures almost the same core elements that relate to its promise, personality, functions, associations and benefits**. There are many investments that a brand requires before it come legitimate and able to function properly. Along the way, other investments and enhancements are added to help the brand operate smoothly and generate positive returns.

The success of a (fashion) brand lies in the success of the performance linking together all departments, allowing managers to monitor them closely and to be able to apply amendments that would not negatively affect the system as a whole. Needless to imply that each department writes its clear and precise operations manual and links it to the entire brand's operations manual.

Lebanese fashion brands; what are the new territories for Lebanese fashion franchises?

To what extent Lebanese entrepreneurs are being able to develop their fashion brands and to what extent they are being able to franchise them? And why the Lebanese market exports less of fashion brands and more of brands in the restauration industry?

Many factors might be preventing Lebanese fashion brands from taking off properly as franchise models. We could relate to the first an important issue that the Lebanese fashion industry had witnessed during the past thirty years. Lebanon was an important production and manufacturing hub. It grew less and less important as the market went through many political difficulties and pitfalls. During this period, the investments related to esthetics became less important and a focus on short-term objectives, notably related to sales, prevailed. Moreover, it is during this period when the Lebanese market witnessed a flow of foreign franchised brands rooting and implanting their operations.

The competition with foreign fashion brands operating in Lebanon is tough. Brands wishing to find a place at the consumer's minds and hearts have to compete, on their territories, with foreign fashion brands.

To keep up with the competition, brands have to invest time, effort and know-how and considerable capital for building their brands. The question lies in whether there is sufficient knowledge and know-how, and if there are sufficient funds to take fashion businesses and their unique ideas; because in a way or another, the triad is rarely complete and taking off with one element missing, the brand would have less chances of taking-off.

We point out to the fact that foreign fashion franchises have incepted valuable knowledge to the Lebanese market. Moreover, many Lebanese talents have proved excellent managerial abilities with the operations of foreign brands in Lebanon. Certainly, the operated franchise is a school of its own. So, how many "students" have learned from these schools over the past 15 years!

We add up complications of the fashion environment. There are many factors pulling fashion businesses in Lebanon downwards. The major cause is consumer purchasing power, and the shrinking market. Then, there is the instability of the market as it is tightly related to all geo-political actions. Also, there are all the complications related to the fashion businesses' infrastructure: personnel, legal contracts, imports, exports, fluctuation of prices, primary material, production facilities, deliveries, customs, banks… if the business in itself had been developed to create an interesting model, the operation of the model might be jeopardized because of all the difficulties around it.

There is a great potential with Lebanese managers in terms of know-how and excellence of operating foreign fashion brands. When it comes to developing a Lebanese fashion brand, there is a discrepancy preventing the healthy take-off of the brand. A manager might be more savvy in operations but less informed in the fashion set-up of a brand. Fashion-savvy entrepreneurs can be less experienced in management. Fashion Entrepreneurs or fashion brand managers are invited to deepen their knowledge and specialize in the fashion industry, in the know-how of the fashion business as well as in management and operations. As the brand sees the light and grows, putting together a team of informed personnel adds more value to the brand, therefore the franchise.

A step forward

Tired of the situation and of foreign competition and exhausted of putting effort to enhance what they have, Lebanese fashion brand managers are invited to revive their perspectives and thinking towards the development of local fashion businesses.

Under a franchising context, Lebanese fashion brands are invited to rethink their businesses and their business models. Knowing the difficulties and the market, managers have to assume information they lack, they are invited to specialize in matters concerning the fashion industry and to respect brand franchise codes so that they understand the level of development needed to develop viable and successful fashion brands.

Ghalia Boustani (Dr., MA, MCIM, Chartered Marketer)
ghaliaboustani@gmail.com

APPENDIX

Categories and sub-categories of retail goods and services

Monthly retail sales indicators for consumer goods

Quarterly retail sales indicators for consumer goods

Half-yearly retail sales indicators for consumer goods

Categories and sub-categories of retail goods and services for which sales 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

Table 3 - Monthly retail sales indicators for consumer goods

	Clothing & fashion	Food & beverages	Cosmet-ics	Household goods	Luxury goods	Sports & hobbies goods
Jun-16	**68.18**	**88.13**	**114.82**	**66.40**	**55.51**	**51.19**
Jul-16	83.59	94.43	141.13	68.58	60.01	60.93
Aug-16	76.39	96.94	112.87	71.15	64.15	55.83
Sep-16	**58.61**	**93.29**	**145.51**	**60.49**	**54.89**	**53.22**
Oct-16	57.43	91.72	99.71	57.81	51.47	57.61
Nov-16	59.26	88.62	95.41	65.12	55.61	56.32
Dec-16	**96.34**	**146.25**	**133.61**	**104.82**	**113.67**	**151.43**
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**

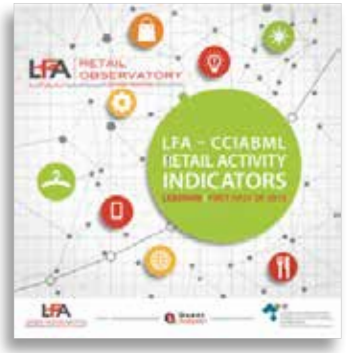
Table 4 - Quarterly retail sales indicators for consumer goods

	Q1-2016	Q2-2016	Q3-2016	Q4-2016	Q1-2017	Q2-2017
Clothing & fashion	60.95	65.11	72.86	71.01	58.89	65.76
Food & beverages	86.95	88.16	94.89	108.86	95.19	94.77
Cosmetics	77.08	121.44	133.17	109.58	113.83	128.62
Household goods	56.02	61.43	66.74	75.92	58.79	66.44
Luxury goods	52.49	53.93	59.68	73.58	50.91	44.78
Sports & hobbies goods	58.97	51.47	56.66	88.45	56.94	57.37

Table 5 - Half-yearly retail sales indicators for consumer goods

	H1-2017	H2-2016	H1-2016
Fashion & clothing	62.32	71.94	63.03
Food & beverages	94.98	101.88	87.56
Cosmetics	121.23	121.37	99.26
Household goods	62.62	71.33	58.72
Luxury goods	47.85	66.63	53.21
Sports & hobbies items	57.15	72.56	55.22

PREVIOUS EDITIONS OF THE RETAIL ACTIVITY INDICATORS REPORT



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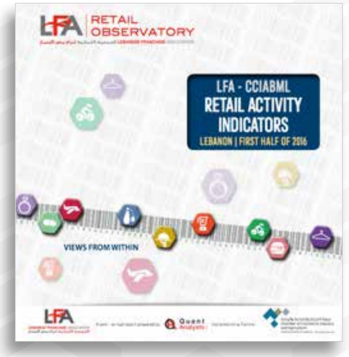

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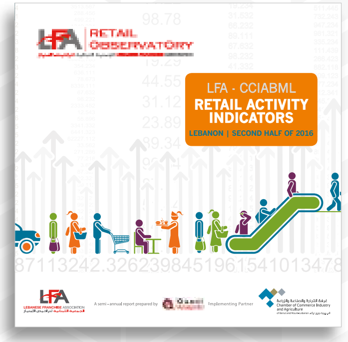

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