Tourism by Summer 2018: Resilient amid Lebanon's Economic Slowdown

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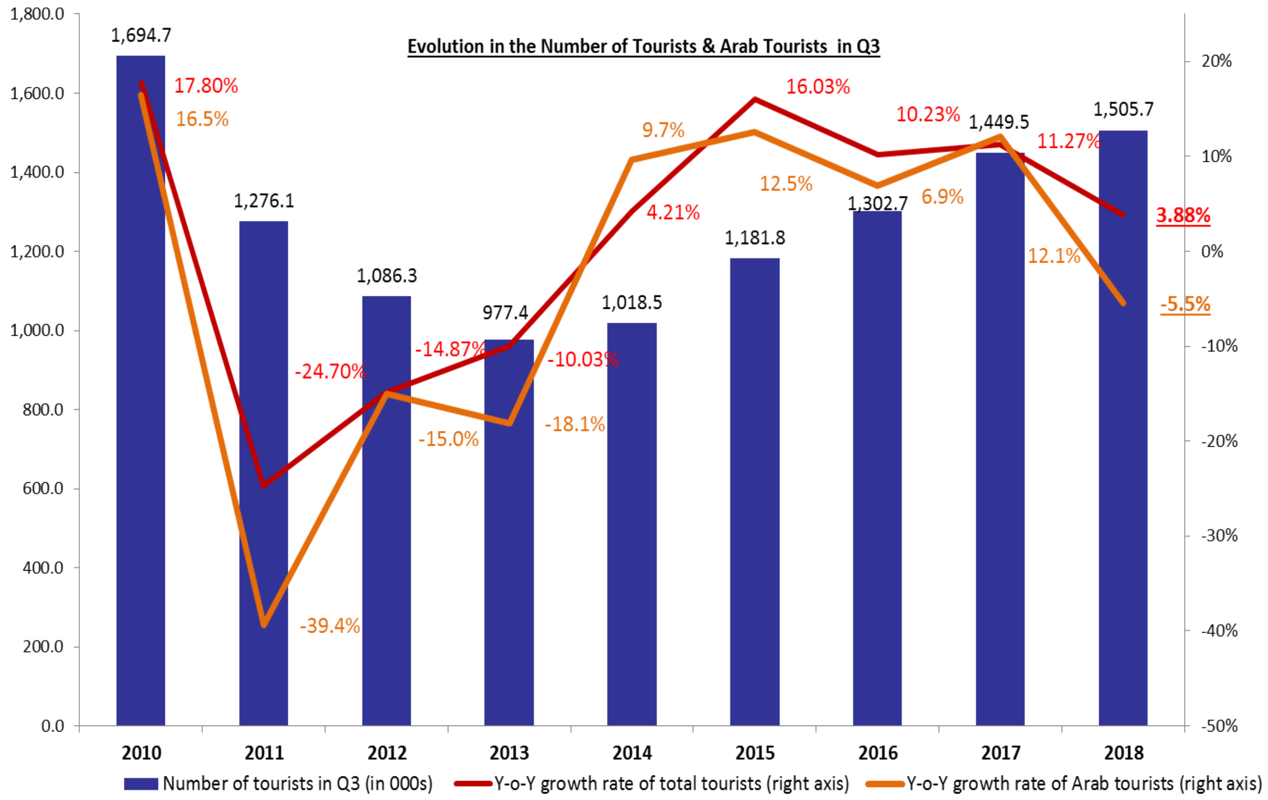
The Lebanese tourism sector is a key driver of economic growth and job-creation. While real estate and construction constituted 19.2% of Lebanon's Gross Domestic Product (GDP) as per CAS, tourism's total contribution, direct and indirect, reached 18.4% of GDP (the equivalent of $9.3B), creating around 365,500 jobs (17.9% of total employment) in 2017 and an estimated 387,000 jobs by end 2018 according to the World Travel and Tourism Council (WTTC). In fact, tourism's direct contribution, which represents the economic activity generated solely by the hotels, travel agents, airlines, restaurants and tourists' leisure places composed 6.5% of GDP (or $3.32B), creating 131,500 jobs (6.4% of total employment) in 2017 and an estimated 138,000 jobs (6.6% of employment) in 2018.

The rebound witnessed in the number of tourists by Sept. 2018 remained frail and capped below 2010's levels. While the number of passengers at Beirut International Airport hit 6.9M travelers by the end of Q3 2018, adding an annual 9.83%, the total number of tourist arrivals increased by a yearly 3.88% to reach 1.50M tourists by summer 2018. Nevertheless, the improvement was incremental compared to the 11.3% annual growth rate recorded in Q3 2010 when 1.69M tourists were welcomed. In addition, the recovery in tourist arrivals masked a deterioration in the number of Arab tourists, occupancy rates in 4- and 5-star hotels, and in the spending of Gulf visitors - as will be explored hereafter.

The diminishing share of Arab travelers from total tourists is a new trend altering the dynamics of the tourism sector. Arabs are Lebanon's largest incomers; yet, the increase in the total number of tourists in summer 2018 came on the back of a slump in the number of tourists from the Arab countries while the number of European and American visitors hit 8-year highs by Sept. 2018. Regionally, the Arab states including the Gulf nations suffered from an economic slowdown during the first months of 2018. In addition, the geopolitical tensions, especially between KSA and Lebanon post- the November 2017 Prime Minister Crisis reduced the number of tourists from the Gulf countries and slashed their spending in Lebanon. As such, the composition of Lebanon's tourists was altered, with Arab tourists' share of total tourist arrivals falling from 30.58% and 41.91% in Q3 2017 and Q3 2010, respectively, to 27.8% of total tourists in Q3 2018.



Source: BLOMInvest Bank; Ministry of Tourism

Accordingly, the number of Arab tourists fell by an annual 5.45% to 419,142 visitors by Sept. 2018, owing it to the yearly slumps of:

- 18.06% to 44,369 tourists from Saudi Arabia,
- 20.98% to 1,296 visitors from the Emirates (UAE),
- 14.35% to 29,930 tourists from Kuwait,
- 10.58% to 161,228 visitors from Iraq

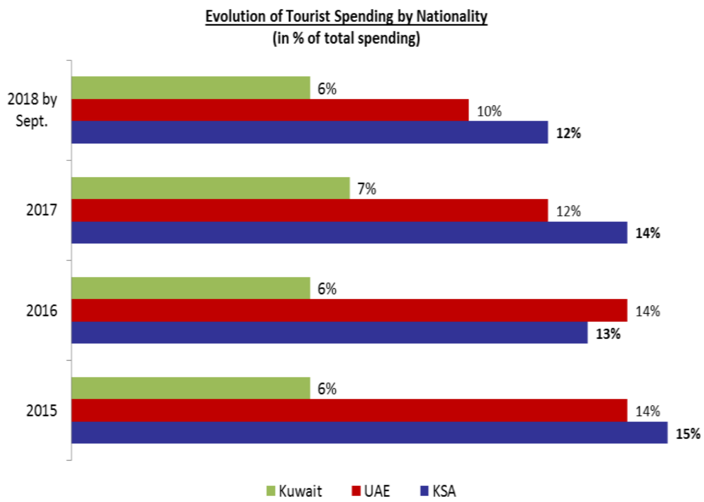
On the counterpart, Lebanon has been hosting more European tourists than Arab tourists in the past few years. The Europeans' share of total tourists began to outpace that of Arabs since summer 2013. In details, Europeans constituted 35.7% of total tourists or 537,846 visitors by Sept. 2018, compared to a much smaller share of 24.62% or 417,142 tourists by Sept. 2010. In fact, the number of French and German visitors particularly drove the rise in European tourists, as they registered annual upticks of 6.58% and 4.18%, to 139,620 and 82,876 tourists, respectively. By the same token, British, Turkish, and Italian tourist arrivals added 12.25%, 6.65%, and 6.98% annually, to settle at 60,705 travelers, 23,389 and 27,295 visitors, respectively. Meanwhile, tourists from Sweden slipped by a yearly 4.89% to 30,469 travelers over the same period.

Tourists from the American continent have also grasped a larger stake of total tourists in Lebanon steadily growing since 2010. By Sept.2018, tourists from the American continent constituted 19.1% of total tourists, compared to 11.78% of the total arrivals in 2010. In details, the number of tourist arrivals from the Americas increased by 8.68% year-o-year (y-o-y) to 287,887 visitors by Sept. 2018, owing it to the annual upticks of 6.88% and 11.32% in the number of visitors coming from the USA and Canada reaching 153,616 and 101,098 visitors, respectively.

Tourists' spending this year mattered more than their number, as multiple factors weighed down on the economy. Amid regional instabilities, Arab tourists' spending regressed and with them being the largest incomers**,** Lebanon's revenues from tourism were impaired in summer 2018. In details, the contribution of Gulf visitors to Lebanon's tourism receipts seem to be shrinking every year, partly because of the regional economic slowdown in the GCCs and partly because the number of Arab tourists is on-the-decline. On the spending front, Global Blue's data revealed the number of refund transactions added 2.12% year-to-date (y-t-d) by September 2018 while total tourist spending registered an annual uptick of 5.41% in Q3 2018.

However, the spending parameters measured have counter-indications. For instance, the designated 5.41% rise in spending was largely attributed to the 3.88% yearly increase in total tourist arrivals to 1.5M by Sept. 2018 and therefore, unlike pre-2011 years, the improvement was not driven by the spending of Gulf tourists who constituted more than 42% of total tourists in 2010. Moreover, the increase in total spending lagged behind the 7% yearly rise recorded during the same period last year and linked to higher spending by GCC nationals (Kuwaitis and Saudis particularly).

In fact by Sept. 2018, the country's largest spenders: Saudis, Emiratis, and Kuwaitis remained among the largest spenders, but they have been grasping smaller shares of total tourist spending in the past few years, as follows.



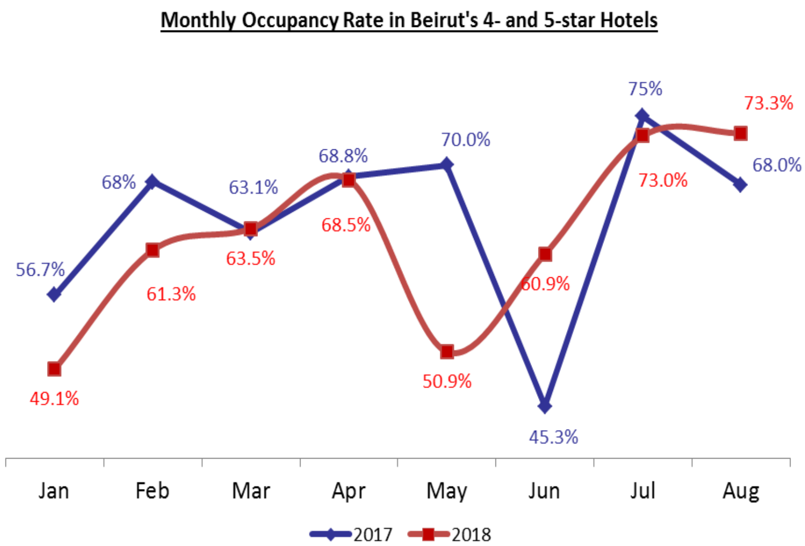
Source: BLOMInvest Bank; Global Blue

As such, spending by Lebanon's key, high net worth tourists slumped on a year-to-date basis. In details, the rise in global Blue's overall tourist spending masked the 19.9% and 2.19% slumps recorded in the expenditures of Saudi Arabian and Emirati visitors in Q3 2018. Meanwhile, the spending by Syrians, Kuwaitis, and Qataris rose by 74.56%, 5.89% and 62.55%, respectively. Moreover, tourists spent 67% of their total expenditures on Fashion and clothing, followed by 18% on Watches and jewelry, noting that spending on Fashion and clothing grew by a marginal 1.02% by Sept. 2018. However, spending on Watches and jewelry increased by 23.76% over the same period.

Beirut has always grasped the largest portion of tourist spending, but this may change if Europeans continue to outpace Arab tourists. Beirut captured 81% of total tourist expenditures by Q3 2018, while the Metn and Baabda areas grasped 13% and 3%, respectively. In details, tourists' spending in Beirut and the Metn area added 6.4% and 1.18%, respectively, while that in Baabda declined by 9.28% y-t-d. However, Europeans have affiliations and preferences that are diverging from Arabs to whom Lebanon tailored touristic services. For instance Europeans are more oriented towards rural/urban tourism, alongside ecotourism, religious tourism, and activities of the sort. Unlike Arabs, they do not merely see Lebanon as a main destination for shopping or investment. As such, Lebanon may need to cater more towards these current trends in the coming periods.

The spending patterns of high net worth tourists fairly represent the activity of Lebanon's 4- and 5-star hotels. The latest available data on occupancy in Beirut is available by August 2018, therefore the comparison is done accordingly. In fact, Beirut's luxury hotels did not perform very well despite the advent of more tourists compared to last summer.

According to the latest report published by Ernst & Young, Beirut's hotel occupancy rate fell to 62.6% in the first 8 months of 2018, compared to 64.3% registered during the same period last year.

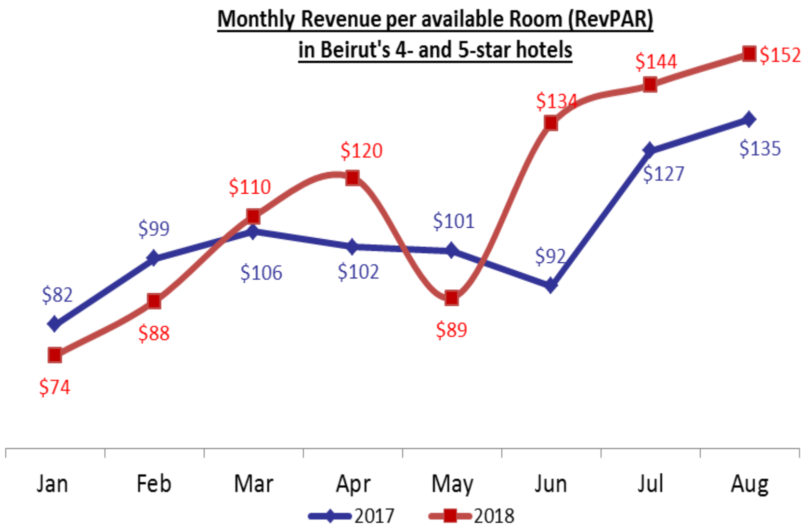


Source: EY Middle East Hotel Benchmark Survey

Even though the average room rate (ARR) of Beirut's 4 and 5 star hotels rose by a marginal 1.9% y-o-y to $188, the room's yield (RevPAR) witnessed a yearly downtick by 0.8% to $118 by August 2018. Against the explored backdrop, the decrease in Lebanon's Hotel occupancy rate since the beginning of the year can be partly linked to the yearly 5.24% decline in the number of Arab tourists by August 2018, knowing that Arabs are the most likely to stay in fancy 4- and 5- stars hotels. Another valid explanation may be the shorter stay of tourists in the hotels this summer.

Falling in august, Eid El Adha lifted the occupancy in Beirut's luxury hotels. It's worthy to note the change in occupancy on a monthly basis, especially given Eid Al Adha occurred in the month of August this year. In Beirut, hotels recorded remarkable growth across all KPIs such that occupancy rates rose by 5.3 percentage points (p.p) to 73.3% compared to August 2017. This is largely attributed to the large number of Lebanese expats who visit their families in Lebanon to spend Eid with them.

As such, Beirut's ARR and RevPAR rose by 4.3% and 12.5% to $207 and $152, respectively.



Source: EY Middle East Hotel Benchmark Survey

Nevertheless, national expenditures and local investments in the tourism sector are very sensitive towards political developments in the country. Summer time in Lebanon extends from June through September which constitutes the peak of the tourism season. These months in fact recorded the highest number of tourists over the period, knowing that Eid al Fitr and Eid Al Adha fell in June and August 2018, respectively. However, early-on in 2018, investors and nationals adopted a cautious wait-and-see attitude in anticipation of Lebanon's April Cedre pledge outcome as well as the awaited parliamentary May elections. These last engendered a political impasse exceeding 5 months, with no government formation while the Cedre grants were tied to reforms yet-to-be implemented. As a result, 2018's domestic tourism expenditures by residents on leisure and business activities stabilized at 2017's $1.1B as per WTTC. In fact, on a monthly basis, the total number of tourists during May (election month) fell by an annual 28.03% to 134,859. This can be justified by the advent of expats to vote just a few weeks before elections (April), while fewer tourists visited Lebanon during the election period.

The lack of appetite for new investments in tourism despite the advent of more tourists is another indication of the sector's impaired recovery. The WTTC estimated investment in travel and tourism totaled

$1.4B in 2017, and estimated it will only rise by a marginal 0.5% by end 2018. By the same token, data from Kafalat confirm that less and less loans have been extended for national tourist investments despite the rising number of tourists. Ideally, to respond to the tourists' demand and to cater new services for the new nationalities of visitors, a country would witness higher investments aimed at enhancing its tourism services. However, by Sept. 2018, Kafalat revealed the number of issued guarantees for the tourism sector dropped from 91 guarantees in Q3 2017 to 55 guarantees in Q3 2018, noting that by Sept. 2011, tourism guarantees amounted to highs of 170 loans. In fact, the overall shy shy investment may be linked to the general slowdown in the economy in the first 9 months of 2018 which was also accompanied by an environment of high interest rates.

Looking forward

Amid the larger slumps recorded in real estate and other economic sectors in 2018, tourism is gaining importance as a tool to boost economic growth. Real estate (construction included) and tourism are the growth drivers of the Lebanese economy. Knowing that real estate prices and the number of construction permits dropped in the first nine months of 2018 while BDL also halted subsidized housing loans, tourism rose to the forefront of the economy. The sector has a huge potential with prompt, manageable fixes within a reasonable and efficient time-span. Nonetheless, the sector's performance remains tightly correlated to the national political developments, regional security, and international stability vis-à-vis the global community.

Lebanon's tourism sector has a huge potential to thrive especially when compared to neighboring states. For instance, in 1974, Lebanon attracted more than 1.5M tourists. Using a 5% compounded growth rate, the number of tourists would hit around 13M visitors today. In comparison, we see Turkey grappling with an all-time high of 11.8M tourists this year. Similarly, Egypt and Jordan witnessed the advent of over 8M and 4.2M tourists, respectively, by 2017. Therefore, Lebanon mainly lacks the right policies to promote and attract tourists and the adequate infrastructure to accommodate to the large numbers of tourists.

The formation of a government is crucial but it must also prioritize policies that support Lebanon's tourism. The contribution of tourism to Lebanese GDP can be enhanced, especially while other sectors are witnessing falls. For instance, managing how the country can cater for its new European and American audiences is key at this point. Namely, rural tourism, religious, medical, and eco- tourism which are more appealing to these last must be actively discussed and strategies put.

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