The Lebanese Tourism Sector: Performance Review up to August 2014

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7 trillion dollars[1]: That is how much the Travel & Tourism (T&T) contributed to global GDP in 2013. In a world where policymakers are aching to create more jobs, the Travel & Tourism industry employed around 266 million jobs worldwide by the end of last year. The outlook for 2014 also seems promising as some economies shake off recession woes and are ready to spend some more.

The T&T industry is just as important to Lebanon's economy as it is to the global economy. This industry's total contribution to Lebanon's GDP is expected to rise from $8.78B in 2013 to $8.97B in 2014. 255,000 jobs existed in the Lebanese T&T industry in 2013 a figure expected to reach 261,500 in 2014 .

The T&T contribution to GDP is a concoction of the many channels through which T&T can generate revenues for the Lebanese economy whether directly or indirectly. The first and most obvious channel is what the WTTC dubs "Visitor Exports", referring to all the spending made by international tourists in a country for both leisure and business. Visitor exports totaled $6.28B in 2013 and are estimated to rise to $6.35B in 2014. The second channel is domestic spending, which stood at $1.48B in 2013 and is expected to edge up to $1.50B in 2014. Other channels include government collective spending, which refers to the government's spending aimed at boosting the tourism sector, and capital investment through which T&T providers invest in tourism assets: New transport equipment, new accommodation facilities…etc. 16,724 permits is observed. However, the Construction area Authorized by Permit (CAP) plummeted by 12.8% to 12.82M sqm in 2013 following a 10.8% fall in 2012. This would imply the spreading of projects over lower sized investments, and the shift of supply to serve a more selective demand. Accordingly, the average area per permit has decreased by 5.1% to 765.40 sqm/permit in 2013 compared to 806.78 sqm/permit recorded a year earlier.

[1] According to the World Travel and Tourism Council

Contribution of T&T to the Lebanese Economy

In Billions of USD	2013	2014e	2024F
Direct Contribution to GDP	3.16	3.23	5.90
Total Contribution to GDP	8.78	8.97	16.50
Direct Contribution to Employment (# of Jobs)	93,000	95,000	138,000
Total Contribution to Employment (# of Jobs)	255,000	261,500	375,000
Visitor Exports	6.28	6.35	10.26
Domestic Travel Spending	1.48	1.50	2.46
Leisure Spending	6.86	6.93	10.95
Business Travel Spending	0.90	0.92	1.77
Capital Investment	1.319	1.318	2.25

Source: World Travel and Tourism Council

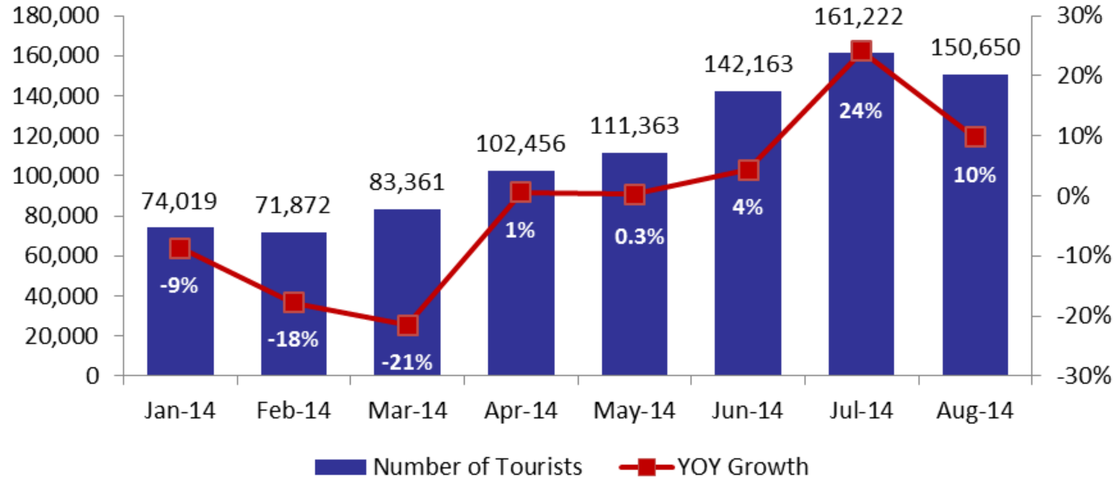
Although all these channels of contribution seem to be on the up, a look at their growth rates reveals a marked slowdown between 2013 and estimates for the year 2014. The following lines offer a closer look into the T&T activity in Lebanon during 2014 in light of the local security and political developments. The below also demonstrates that the Lebanese tourism sector is far from its glory days, when its total contribution to GDP stood at 27% in 2010, a year before the Arab Spring erupted.

A Marked Slowdown Looms Ahead...

In %	2013 Growth Rate	2014 Growth Rate
Direct Contribution to GDP	**6.9**	**2.2**
Total Contribution to GDP	19.20	2.10
Direct Contribution to Employment	**6.7**	**2.7**
Total Contribution to Employment	18.40	2.40
Visitor Exports	**23.7**	**1**
Domestic Travel Spending	3.20	1.60
Leisure Spending	6.10	1.00
Business Travel Spending	**0.8**	**1.9**
Capital Investment	9.40	-0.10

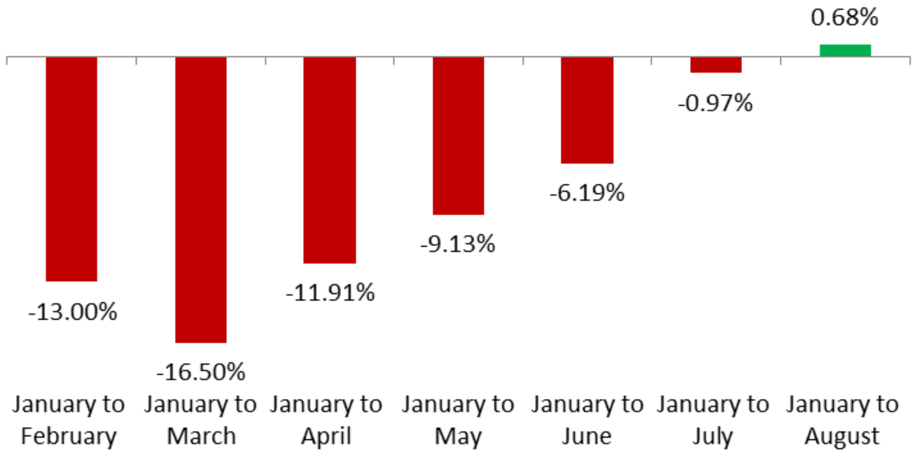
Source: World Travel and Tourism Council

Monthly Tourist Arrivals and Yearly Growth Rates



Source: Ministry of Tourism

A Slower Pace of Year-on-Year Decline in Tourist Arrivals



Source: Ministry of Tourism

As economic, security and political concerns extended into 2014, the first three months witnessed a slump in tourist activity. In the first two months of the year the number of tourist arrivals dropped by 13% y-o-y to 145,819 and then a sharper drop of 16.50% was recorded in the first quarter of 2014 bringing the total number of incomers to 229,252. Starting April, year-on-year upturns were registered each month, which allowed the cumulative declines to be reduced.

In the first eight months of 2014, tourism activity posted a minor uptick of 0.68% bringing the total number of tourist arrivals to 897,106. As always the Arab tourists, with a share of 31.90% of the total, had a major role to play in determining the total number of tourist arrivals to Lebanon. More particularly, the surge in the number of Iraqi visitors led the increase in total tourist arrivals since a large number of Iraqis fled their country after the turbulence caused by the Islamic State. However, the increase was capped as European tourists, constituting 34.24% of the total, decreased by 1.62% to 307,142 visitors by August.

In the peak summer months of June, July and August a marked improvement in the number of arrivals has been noticed. However, this cannot be qualified as a more vivid tourism activity since most of the incomers, namely the Iraqis are here with tourism visas yes, but most of them have come to Lebanon for refuge rather than for leisure. This point can be substantiated by the fact that when tourist arrivals increased, hotel occupancy rates failed to follow.

A look at the hotel occupancy rates of Beirut Hotels show that tourism has had a bumpy ride in 2014. According to Ernst and Young's Hotel Benchmark Survey, by the first eight months of the year, occupancy rates of Beirut hotels slipped by 5 percentage points to reach 49%, down from 54% in the same period of 2013. Accordingly, the Average Room Rate (ARR) fell by 4.5% y-o-y to $162 and the Revenue per Available Room RevPAR declined by 13.6% to $81.

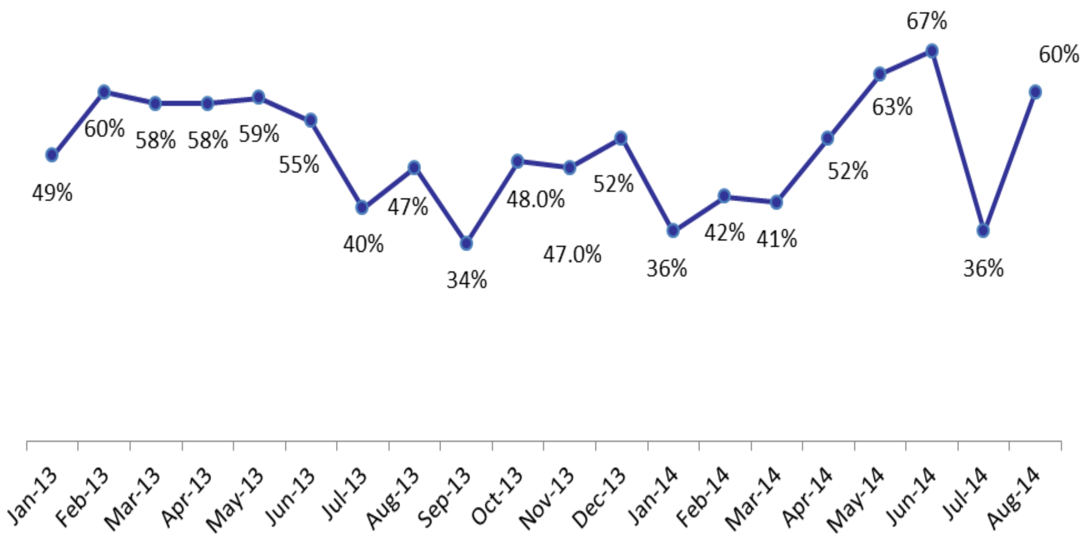
In consistency with the frail tourist arrivals and the reigning instability during the first three months of 2014, the occupancy rates for Beirut hotels were one of the lowest in the Middle East region. For the first three months, occupancy rates were well-below 50% standing at 36% in January, 42% in February and 41% in March.

As the decline in tourist arrivals became less steep, occupancy rates started to edge up. The months of May and June appeared to be positive for Beirut hotels as occupancy rates stood at 63% in May and 67% in June, levels never seen in 2013. The upturn came about as the security scene cooled down and as the Minister of Tourism stated that Arab countries have lifted their travel bans on Lebanon.

In July, the occupancy rates flunked to 36% despite the 24% y-o-y upturn in tourist arrivals. Many reasons lie behind these contrasting indicators. First, the month of July coincided with the holy month of Ramadan. Second, the Arab tourists were deterred by the three explosions which took place by the end of June. Third, the incomers, especially the Iraqis, were fleeing turbulence in their countries rather than heading to Lebanon for leisure.

Finally, occupancy rates during the month of August saw a recovery from a low base and also got a boost from the Lebanon Water Festival, which attracts many foreign professionals in the field of water sports.

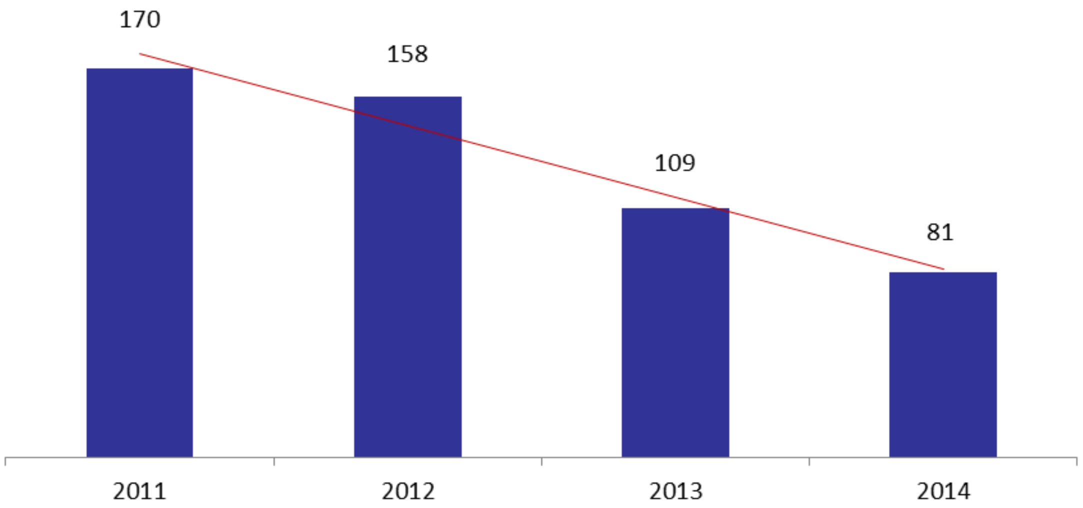
Occupancy Rates of Beirut Hotels



Source: EY Hotel Benchmark Survey

In spite of the dismal monthly improvements in the tourism sector, the broad picture remains bleak as shown by the declining number of Kafalat loans granted to the sector. While 109 Kafalat guarantees were granted for the tourism sector in the first nine months of 2013, only 81 guarantees were registered in the same period of 2014.

Kafalat Guarantees for the Tourism Sector – Up to September



Source: Kafalat

In the months to come, whatever room is left for improvement remains tied to the security and political developments, both in Lebanon and the region.

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