

# Calling All Shopaholics and Fashionistas: It's finally Time to Really Help the Lebanese Economy!



BLOMINVEST  
BANK

While talented Lebanese designers were dressing worldwide celebrities and invading haute couture catwalks in the international fashion weeks, Lebanon's apparel industry seemed to be fading over the past few years. This is certainly related to the country's dwindling retail sector, which is one of the biggest contributors to Lebanon's growth, constituting near 13% of total economic activity in 2013<sup>1</sup>.

Mirroring the economy's path, and following 2 years of bearish activity, the apparel sector in 2014 revealed a stagnating to declining performance that was associated to the country's ongoing instabilities and political stalemates.

March 14, 2015

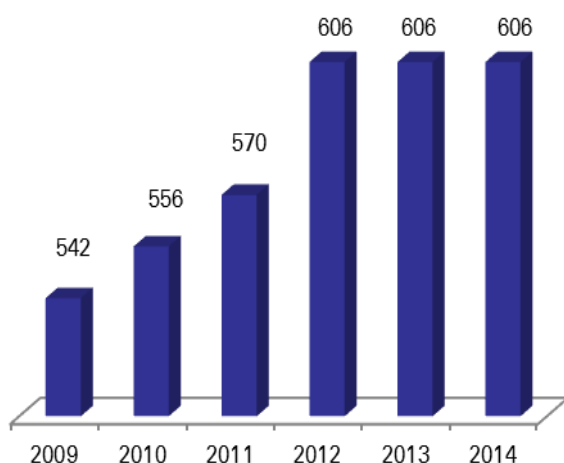
## Contact Information

Research Analyst: Mirna Chami  
mirna.chami@blominvestbank.com

Head of Research: Marwan Mikhael  
marwan.mikhael@blominvestbank.com

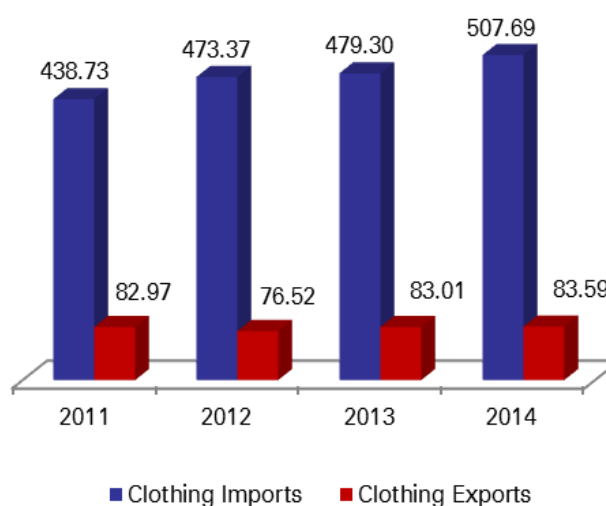
Research Department  
Tel: +961 1 991 784

Evolution of the Apparel Market Size (In \$M)



Source: Embassy of the United States of America

External Trade Activity in the Clothing Industry (In \$M)



Source: Lebanese Customs

## Performance in the Apparel Market in 2014: Mixed Indicators, yet Clothing Activity Stagnated

While most retail giants refrained from revealing performance-related information to the public, the general consensus is that business remained slow in 2014 and tourists were nowhere to be seen. Given this relationship, it is safe to say that the more dependent a store is on tourists the more likely they are to have witnessed a drop in sales. Accordingly, stores targeting a lower frugal local customer base were expected to have lost a slighter share of revenues than the upscale stores that are highly dependent on the Arab clientele.

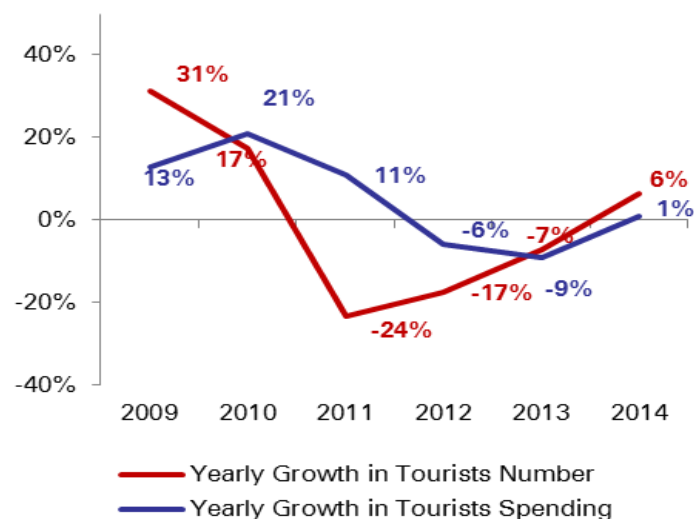
<sup>1</sup> According to the National Accounts of CAS

The Lebanese apparel industry mainly remained stagnant in 2014 mostly depending on imports, amid weakening input from local production. The US Embassy estimated that total Lebanese apparel market size<sup>2</sup> will remain, for the 3<sup>rd</sup> year in a row, subdued at \$606M in 2014 after a 6.3% yearly rise in 2012. The breakdown of which is as follows<sup>3</sup>: \$210M local production, \$88M exports, and \$484M imports. However, and noting that Lebanese Customs posted that total apparel imports stood at \$507.69M in 2014 and total apparel exports reached \$83.59M, we estimate that local production might have tightened by 13.3% year-on-year (y-o-y) to \$181.9M in 2014. This could also be confirmed by the deterioration of economic activity in the private sector as revealed by BLOM Lebanon Purchasing Manager's Index (PMI) that ended 2014 at 49.3, below the 50 expansion - contraction threshold.

Various indicators confirmed that the apparel market ended the year with subdued performance leaning to negative, triggered by harmful local developments on the political and security fronts. In details, the ongoing presidential vacuum and the recurring security incidents sent the BTA - Fransabank Retail Index (which takes into account inflation) on average 28.8% lower than 2013. In specific, clothing and footwear sectors also reached "alarming levels" in 2014, according to the latest report of "BTA - Fransabank Retail Index". The slowdown in activity was reported by respective average yearly drops of 10.7% and 23.7% in clothing and footwear sectors between 2013 and 2014.

The retreat in apparel activity, due to the impasse that was painting the Lebanese political scene, is best portrayed by the negative performance of clothing stores located in Beirut Central District (BCD). In details, most of Downtown Beirut streets are closed for each parliament session, which limits the access of customers to those boutiques. Similarly, and following the hostage of Lebanese Army troops in Aarsal by militants, protest tents were placed by the families of the captured Lebanese soldiers in Martyrs' Square heavily hitting the sales of restaurants and stores. In the same context, and for security reasons, all roads leading to the U.N Economic and Social Committee for Western Asia (ESCWA) headquarters are also closed.

### Tourism Activity in Lebanon



Source: Global Blue, Lebanese Ministry of Tourism

The barely recuperating tourism activity in 2014, failed to stimulate activity in the clothing industry. In fact, Lebanon has witnessed respective declines of 24%, 17% and 7% in 2011, 2012 and 2013 mainly due to the regional developments and local turbulences that overshadowed the country. On a

<sup>2</sup> Total Market Size = (Total Local Production + Total Imports) - Total Exports

<sup>3</sup> As detailed in the "Country Commercial Guide 2014" of the United States of America's Embassy

positive note, the number of tourists rose by a yearly 6% in 2014 to 1.35M, yet still below 2012's level. Despite the travel bans to Lebanon instructed by GCC countries in light of the shaky security situation, Arab tourists, who used to frequently visit Lebanon and drive retail sales growth, improved 14.6% y-o-y in 2014.

Regardless of the progress, Global Blue revealed that tourist spending within Lebanon barely rose by an annual 1% in 2014 with nationals from France, Jordan and United States witnessing the yearly greatest upticks, each having grew by 16%, 10% and 8% respectively. Likewise, tourist spending on fashion and clothing items inched up by a marginal 1% in 2014 hand in hand with a 4% yearly drop in the number of Value Added Tax (VAT) refunds.

### External Deficit Deepened in 2014 on Stagnating Exports and Rising Imports

Lebanon keeps on suffering an ongoing structural deficit on its trade balance of apparel. In details, trade deficit stood at \$424.1M in 2014, widening from 2013's deficit of \$396.29M.

In details, total apparel exports almost steadied in 2014 posting a marginal 0.7% y-o-y increase to \$83.59M. However, exports volume went down from 2,837 tons in 2013 to reach 2,449 tons, recording a 13.7% yearly drop. Accordingly, the average price of total apparel exports rose from \$29.26 per ton in 2013 to \$34.13 per ton.

### Importing Countries from Lebanon and Related Apparel Products

Rank	Top Export Destination	Share of Total Apparel Exports	Top Exported Products	Type of Textile	Average Value per Ton (In \$/Ton)
1	United Arab Emirates	18.80%	Dresses	Synthetic Fibers	190.14
2	Saudi Arabia	16.90%	Trousers, bib and brace overalls, breeches and shorts	Textile Materials Other than Cotton, Synthetic Fibers, Wool or Fine Animal Hair	139.55
3	France	6.20%	Dresses	Synthetic Fibers	1,812.00
3	Kuwait	0.062	Dresses	Synthetic Fibers	70.39

Source: Lebanese Customs

Monitoring exports' activity in 2014 can provide a preliminary image of the "Made in Lebanon" apparel external trading status. As we can see in the table above, Lebanon's top clients for the clothing industry in 2014 were the United Arab Emirates (UAE) and Saudi Arabia with respective shares of 18.80% and 16.90% out of the total apparel exports. France and Kuwait ranked in the 3<sup>rd</sup> place with a similar share of 6.20% of apparel exports.

In addition, Lebanon's top export destinations were definitely importing the country's high-end production. The most noticeable average value per ton was that of France at \$1,812 per ton, which is almost 62 times higher than the average price of total apparel exports. The substantial average value was associated to the "Dresses" category which probably alludes to "couture dresses" that are potentially expensive.

Similarly to 2013, the trend of the Lebanese apparel imports failed to reflect the real situation of the sector. Noting that imports almost constitute 84% of total market size, Lebanese Customs data showed that apparel imports rose by almost 5.9% to \$507.69M. Lebanese clothing imports sustained their upward trend that was most probably associated to the increasing number of new shops rather

than to the actual growth of sales in existing ones. Another reason could be the increasing demand for low-end products that are relatively cheap and affordable.

At the same time, Lebanon imported 13,934 tons worth \$507.685M of apparel products in 2014 compared to the 12,718 tons imported in 2013 priced at \$479.30M. Therefore, imports were about six times the value of exports, while the exports cover ratio steadied at 2.7% in 2014. In the same context, the average price of total apparel imports slightly dropped in 2014 to \$36.43 per ton compared to respective levels of \$50.47 per ton, \$39.31 per ton and \$37.69 per ton in 2011, 2012 and 2013.

On a positive note, and despite the hard times, some successful multinational brands have found it feasible to open up shops in Lebanon. This means that the industry must have a lot of hidden potential and hope down the line. The penetration of new players into the market, such as the American brands Coach, Gap and Victoria's Secret, was partly behind the increase in apparel imports over 2014.

Likewise, and even though 2013 was one of the worst years for retail industry, the opening of Majid Al Futtaim's (MAF) \$350M "City Center" significantly boosted overall apparel imports. In fact, all of the 200 newly opened venues required an additional apparel stock as they were fully occupied over the year.

Examining imports from a by-country breakdown also reflects the demand's trend oriented towards cheaper products.

Given that China is exporting the greatest amount of apparel goods to Lebanon, Chinese imports amounted to 30.9% of the total apparel in 2014, the equivalent of \$129.60M. Jerseys, pullovers, cardigans, waist-coats made from synthetic fibers were the main imported products from the Chinese Republic. However, and given the substantial volume of Chinese imports, the average value per ton stood at \$23.80 per ton which is 35% below the average price of total apparel exports. This mainly confirms that Lebanese demand in the apparel industry became more oriented towards cheap products alike to those produced in China.

#### Exporting Countries to Lebanon and Related Apparel Products

Rank	Top Import Destination	Share of Total Apparel Imports	Top Imported Products	Type of Textile	Average Value per Ton (In \$/Ton)
1	China	30.90%	Jerseys, pullovers, cardigans, waist-coats	Man-Made Fibers	23.80
2	Turkey	11.10%	Trousers, bib and brace overalls, breeches and shorts	Cotton	62.87
3	Italy	10.60%	Suits	Wool or Fine Animal Fibers	419.00

Source: Lebanese Customs

Supported by the bilateral trade agreement, Turkish goods stood second capturing 11.10% of total clothing imports or \$46.56M. Given that Turkish apparel exported to Lebanon were mainly trousers, overalls, breeches and shorts made of cotton, the average value per ton stood at \$62.87, which is almost two times higher than the average price of total apparel exports. This can be associated to the products targeting the mid-income Lebanese households' category.

Italian fashion came third constituting almost 10.6% or \$53.82M of total apparel imports. Noting that Italy's top imported products to Lebanon were suits made of wool or fine animal fibers, the average

value per ton was substantially high and formed nearly twelvefold the average price of total apparel exports at \$419.00.

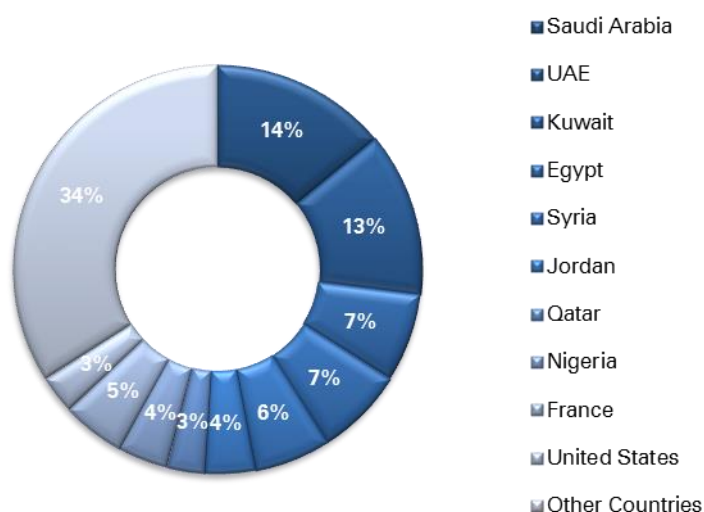
### Amidst a Despairing State, Apparel Performance Relatively Altered Depending on Clothing Segments

#### 1) *High-End Products: Negative Activity on Fading Tourism*

Luxury clothing in Lebanon was the biggest loser in 2014 among the three apparel segments, on mounting challenges topped by the sluggish tourism activity. The Lebanese luxury sector is also suffering from high taxation (imports and VAT) that is heavily impacting costs and sales within the market. Location concerns, changing demand, and foreign competition were additional obstacles that hindered the sector's progress in 2014.

2014's tourism improvement is still below the required progress that allows the sector to offset the dwindling local demand and defeat its structural obstacles. Given that Haute Couture and designer products constitute the high-end segment of the clothing industry, wealthy customers that can afford buying those goods are mainly high-income Lebanese families, Lebanese diaspora visiting their mother country and Arab tourists. However, the majority of Fashion enthusiasts for the Lebanese luxurious clothing market used to be the rich Saudi and Emiratis nationals. Even though Saudi and Emirati nationals visiting Lebanon improved 11.8% and 14.2% y-o-y to 45,788 and 7,660 in 2014, luxury retailers failed to overcome the remaining matters.

#### Spending Distribution by Country of Residence



Source: Global Blue

In fact, location is a major issue for these stores mainly in areas where rent is high and clients' access is difficult. For example, and besides shopping malls, Foch and Allenby Streets in BCD are top locations in Lebanon where shoppers can find glamorous international brands such as Louis Vuitton, Cartier and Giorgio Armani. However, the security measures that impelled continuous closures of the district severely hit sales in these stores that became non profitable while paying high yearly rents.

New strategies were implemented to face the disastrous situation such as opening new stores in strategic shopping malls, operating under large retail groups such as Aishti and ABC department stores. In hindsight, unprofitable stores were kept open for the sake of brand visibility and image.

As for Lebanese designers, the image seemed slightly different. Even though their reputation penetrated prime markets such as New York and Paris, continuous local shocks have led stylists to freeze local expansion and move business and jobs to safer places outside the region, primarily in Europe and the United States.

**2) *Mid-Market Brands: More or Less Stagnant Performance***

Seasonal collections became old fashioned and was overturned by “fast fashion” which stood as the clothing industry’s latest revolution. In details, Instead of introducing 4 collections a year corresponding with the seasons, fashion styles are proliferating over the year and at an affordable price.

In this context, the Lebanese apparel market was highly impacted by the leaning demand towards multinational midmarket brands. Women clothing remain the most profitable segment with Zara, H&M, Bershka, Mango, GS and Vero Moda representing some of the Lebanese most purchased mid-range brands (almost acquiring 50% of the market total sales). Those brands usually operate under large retail holding groups such as Azadea, HST and Bestseller. The targeted clientele are the mid-income households that are interested in fashion but cannot meet the expense of the high-notch brands.

**3) *Low-End Retailers: Sales May Have Improved on Rising Number of Refugees***

Relatively cheap apparel is also present on the Lebanese market and contributes to its progress. The main 2 market players of the segment that target low income households are Akil Bros and Eldorado (each of the 2 shopping centers almost hold 40% of the total low-end market size).

The following segment may have benefitted from the misery of Syrian and Iraqi refugees that fled to Lebanon to escape the rising tensions in their home countries. However, the growth in sales of low-end clothing products was not fully enhanced by the rising number of those unfortunate immigrants, but actually the local demand factor played an important role as well.

**Different Strategies for Lebanese Retailers to Improve Their Fading Revenues**

With more demanding consumers, retailers found themselves in a battle for survival to achieve a potential competitive advantage.

***Strategy One: Diversification***

In addition to clothing, several suppliers tried to include, in their stores, additional sections of which were household items related to furnishing (toilet supplies, dishes etc...) or even toys, gifts, perfumes etc... The most renowned to follow those techniques were Zara Home, H&M and to a certain extent Akil Bros and Eldorado.

***Strategy Two: Social Media and Digital World Exposure***

Communicating with clients via social media and broadcasted emails is the new trend for retail shops to update their clients on the latest events, promotions and new collections. Posts through Facebook pages, tweets and fashion blogs were also meant to help in the promotion and sustainability of some apparel stores such as Vero Moda Facebook page and Aishti’s blog.

Some orders are also made through WhatsApp and even Instagram mobile applications where sellers have the chance to post pictures of their products, similarly to apparel catalogues, along with the related prices.

***Strategy Three: Online Retailing***

Despite the slow internet speed and the persistent skepticism about online card usage, online retailing is spreading all over Lebanon. With shopping websites booming, online sales are increasing along with an improving delivery and distribution schemes. The "cash on delivery" method facilitated the consent of people for the concept of e-retailing as risk of money loss is almost inexistent. For instance, the Jordanian "MarkaVIP" website is operating in 8 different countries including Lebanon with 3 different payment methods: cash on delivery, credit card payments or PayPal.

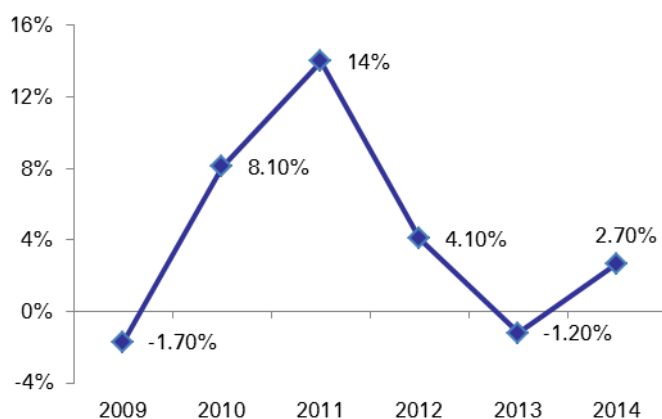
### Despite Heavy Promotions, Clothing Prices Upturned Mainly on Malls Rentals

Holiday seasons were no longer profitable to retailers that were suffering from a more or less sturdy demand. Nationwide discounts are abounding in the Lebanese markets even if festivities were just around the corner. Promotions have become the customary sales tactic enforced by apparel retailers, a trend that was clearly pronounced and made almost permanent. What we see now is that the sales cycle has shifted to start one month earlier than previous cycles and last for longer durations.

Besides their aggressive marketing strategies, existing stores were looking for ways to cut costs. Despite working fewer hours and effectively receiving lower wages, many employees are still being laid off. The trend of apparel import costs demonstrates that retailers, like their customers, have also adapted to the change in business climate by using strict expenses' control, seeking discounts and/or cheaper products for themselves.

Yet, clothing and footwear prices unexpectedly increased in 2014 despite heavy sale periods and cost reduction schemes. Consumer Price Index (CPI) data prepared by the Central Administration of Statistics in Lebanon (CAS) reported that the CPI clothing sub-index added a 2.70% y-o-y progress in 2014 after a 1.20% yearly downtick recorded a year earlier. Several market players explained that the increase was related to the high rents claimed by malls, given that no clothing shop would succeed if it wasn't open in a shopping center.

### Average Inflation in the Clothing and Footwear



Source: Central Administration of Statistics

However, Cushman & Wakefield annual report showed that retail rents in the main Lebanese locations hovered between \$700 - \$2,000 per SQM/Year and considerably declined during 2014 around 15%-30%, partly on dropping investment sentiment. Rent prices in Beirut Central District, an on the streets of Verdun and Hamra respectively dropped by 17%, 20% and 18% to \$1,000 per SQM/Year, \$800 per SQM/Year and \$700 per SQM/Year.

Thus, ABC Centre Achrafieh, which was 2014's most expensive retail location in Lebanon, preserved 2013's level of \$2,000 per SQM/Year (or €1,583 per SQM/Year). This was almost 60% higher than the

average retail rental in the Middle East and North Africa (MENA) region. The Lebanese mall also ranked 37<sup>th</sup> among 64 countries and stood just after Biblioteksgatan - Sweeden (€1,636 per SQM/Year) and Rue Neuve - Belgium (€1,750 per SQM/Year). In contrast, ABC Achrafieh rental was higher than that of Grand Rue – Luxembourg (€1,500 per SQM/Year) and Shopping Centre - Kazakhstan (€1,330 per SQM/Year).

In fact, and besides small operators and boutiques, gigantic malls and retail franchise operators became the market's leaders in Lebanon. Amid a decreasing demand for apparel, the few remaining customers tended to shop in malls at the expense of small boutiques. This is explained by the wide variety of stores that a shopping center can offer. Thus, several retail groups closed loss-incurring shops and relocated them to more profitable malls. Correspondingly, the tightening occupancy in Lebanon's strategic shopping centers may have allowed them to raise their rental prices even more despite the bearish office rentals' trend in 2014.

### **For your Queries:**

#### **BLOMINVEST BANK s.a.l.**

Research Department  
Bab Idriss, Weygand Str.  
POBOX 11-1540 Riad El Soloh  
Beirut 1107 2080 Lebanon

Research Department  
Tel: +961 1 991 784  
[research@blominvestbank.com](mailto:research@blominvestbank.com)

Mirna Chami  
Tel: +961 1 991 784  
[mirna.chami@blominvestbank.com](mailto:mirna.chami@blominvestbank.com)

Marwan Mikhael, Head of Research  
[marwan.mikhael@blominvestbank.com](mailto:marwan.mikhael@blominvestbank.com)  
+961 1 991 782

#### **Disclaimer**

*This report is published for information purposes only. The information herein has been compiled from, or based upon sources we believe to be reliable, but we do not guarantee or accept responsibility for its completeness or accuracy. This document should not be construed as a solicitation to take part in any investment, or as constituting any representation or warranty on our part. The consequences of any action taken on the basis of information contained herein are solely the responsibility of the recipient.*