



BMI's Economic Outlook for Lebanon

- Economic stagnation to persist in 2016 with BMI growth forecasts revised downwards from 2.6% to 1.6% in 2015 and from 2.8% to 2% in 2016
- BLOM PMI consistently below the 50 points mark for the past two years pointing to a consistent deterioration in private sector activity
- Policy inertia, such as the one regarding the garbage crisis, weighing on investment and business confidence
- Consumption and household incomes receive boost from low oil prices
- Investment and exports still strained by regional and local insecurities

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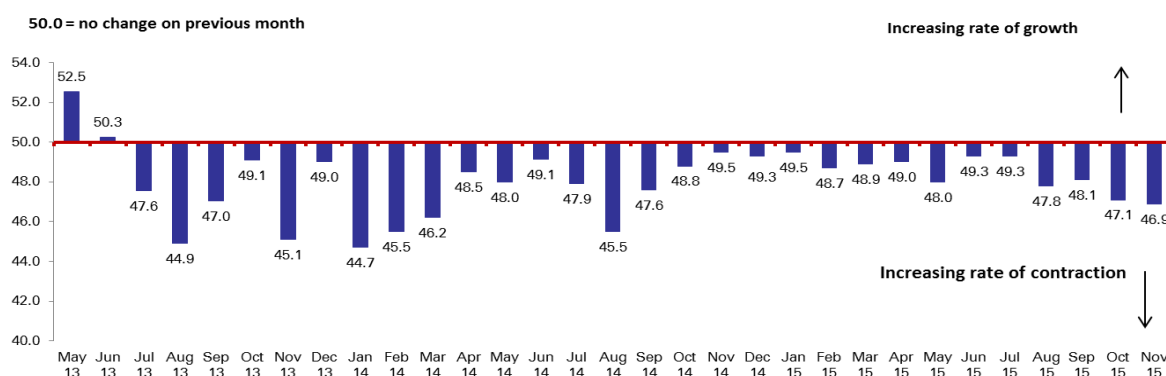
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BLOM Lebanon PMI – Historical Readings



Source: Markit, Blominvest Research Department

The year 2016 is likely to remain a tough year on the Lebanese economy as the ongoing regional instability and the local political tumults wear down the country's competitiveness. According to Business Monitor International (BMI), real economic growth will rise from 1.6% in 2015 to 2% in 2016 but that rate will remain insufficient to lift living standards in Lebanon.

Private consumption is a key growth engine for Lebanon but is forecast to progress at a modest rate through 2024. Private consumption which accounted for 87.8% of 2013's GDP, will accelerate only modestly from an expected 3.5% in 2015 to 3.8% in 2016 and will grow by an average of 3.9% up until 2024, a more subdued rate than the past decade. The bearish outlook is explained by the fact that private consumption is highly sensitive to the political and security conditions which have been strained in Lebanon.

However, lower international oil prices will support consumption and real household incomes in the short term as BMI sees no recovery in oil prices at least until 2018. The recovery¹ in the tourism sector during 2015 is also a bright spot for the country with the number of tourist arrivals rising to a three-year high of 1.18M by September 2015. However, the performance of the tourism sector over the coming quarters might be at risk after the recent crash of the Russian airline jet in Egypt in November and given the subdued economic conditions in the Gulf's oil exporting countries, which hold the biggest spending tourists.

BMI's Food Industry Forecast

- Forecast for total food consumption revised upwards
- Food consumption will be driven by lifestyle changes, continued investment in mass grocery retail and food processing
- Due to its consumers' versatile tastes, Lebanon is an attractive market for a wide range of global companies

BMI's view on the Lebanese industry is modestly positive. Since the last update on the industry, the forecasts for food consumption have been slightly revised upwards; as the market for mass grocery retail expands, food consumption is expected to grow at a compounded annual growth rate of 5.4% (in local currency) over the period 2014-2019.

Social changes and investment efforts are likely to act as driving forces for the industry. As more women enter the workforce and as the number of single-person households increases, the demand for packaged and processed foods will grow. Continued investment in food processing and mass grocery retail stores will stimulate food consumption and fuel overall industry growth. According to BMI, Lebanon is a fertile terrain for global companies to expand since Lebanese consumers are "amongst the regions' most liberal and are open to Western tastes and trends". When the market is supplied with a larger variety of products, a larger audience is tended to and the sector's sales will grow.

Food Consumption

BMI estimates the annual per capita consumption of meat in Lebanon at 50-55 g per annum with the biggest focus on poultry which is the most affordable. Lebanon is also estimated to have the largest consumption of milk in the region with an annual consumption of 90-100 liters. According to BMI, food consumption patterns have been influenced by the high level of urbanization in Lebanon which is higher than the region's and by the fact that much of the processed foodstuffs and raw materials for domestic food production are imported.

¹ We speak of a recovery in the tourism sector rather than an improvement since the level of tourist arrivals achieved in September 2015 remains 30% below the one achieved back in September 2010

Food Production

The Lebanese food producing scene is dominated by small enterprises which operate without official permits. Food production companies produce canned food, processed food, dairy products and baked goods. However, BMI pin-points some larger food manufacturers operating in Lebanon such **Bonjus**, a leading beverage and ice cream manufacturer. "Bonjus has established a strong market presence in Lebanon and its export business towards the Middle East will be facilitated by the company's recent acquisition by Kuwait-based **Danah Al-Safat** foodstuff. **The Karoun Dairy** is also an important market player and the oldest dairy manufacturer in Lebanon. As for **ManyFood**, it is also a leading food distributor with popular snack food products such as Lays, Frito-Lay, Cheetos and Doritos potato chips.

Obstacles in the Food Industry

Many structural issues remain in the Lebanese food industry. The food distribution market lacks government quality control, marketing regulations and suffers from competition from low-cost imports from neighboring countries.

The market is in dire need of a national policy especially to boost the agricultural industry. The agricultural sector, which employs 25% of Lebanon's private sector wage earners, has the potential to boost GDP. BMI highlights the fact that "agricultural output suffers from underdevelopment and poor management: only 55% of Lebanon's productive areas are exploited and even in these cultivated areas, a high percentage of farmer yields are lost because of inadequate storage methods". This is why Lebanon is so dependent on imports: "imports account for 100% of demand for sugar, rice, tea and coffee while over 90% of meat requirements are met by imports." The only local production that satisfies local demand is the production of poultry and eggs.

BMI's Drinks Industry Forecast

- Overall sector, particularly bottled water and fruit juices, will resume growth once stability in Lebanon and the region are restored
- Alcoholic drinks are currently well established given Lebanon's well-reputed wine and liberal consumers
- Soft Drinks' deemed the most dynamic sub-sector in Lebanon with sales growing just above 27% (in local currency) over 2014-2019 to \$550 million

	2012	2013e	2014e	2015f	2016f	2017f	2018f	2019f
Soft Drink Sales, \$M	503.5	529.1	529.1	537.7	545.9	549.7	544.2	550.3
Bottled Water Sales, Million Liters	405.65	422.46	429.46	440.46	449.46	441.66	446.66	450.66
Bottled Water exports, Million Liters	23.2	23.2	23.2	23.2	23.2	36	36	37
Bottled Water imports, Million Liters	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7

	2012	2013e	2014e	2015f	2016f	2017f	2018f	2019f
Wine Sales, Million Liters	15.5	15.8	16.2	16.6	17	17.4	17.7	18
Wine Sales, Liters per capita	3.3	3.3	3.3	3.3	3.4	3.4	3.6	3.7
Wine Production, Million Liters	16.2	16.5	16.9	17.3	17.7	18.1	18.4	18.7

The current environment in the MENA region poses downside risks to the soft drinks sector but the long-term outlook will hold-up once difficulties are resorbed. The main boosters of soft drinks' consumption in Lebanon as in the region are the hot climate, tourist activity and the youthful population. However, the entire region has been under the strain of slow economic growth and political tensions which both act as risk factors to the industry. However, BMI believes that once stability is reestablished in the region, the soft drinks sector will pursue its growth with bottled water and fruit juices taking the lead.

In Lebanon, the alcoholic drinks' sub-sector is highly dynamic. Due to the liberal nature of its consumers, Lebanon's annual per capita alcohol consumption of 3.3 liters exceeds the United Arab Emirates' annual per capita consumption of 1 liter. The Lebanese wine sector is particularly well established since local producers have a long history of viticulture and have built a strong reputation abroad which allows them to tap into foreign markets. The beer segment also bears significant room for growth in Lebanon despite the seasonality of the beverage's consumption, whereby more than half the sales' volumes are accounted for in summer, and despite the beer's per capita consumption being quite low with under 10 liters per year.

BMI believes the alcoholic segment of the market will show strong growth in the years up to 2019 due to investment by foreign producers and due to the Lebanese vineyards producing their wine for global consumption. BMI nonetheless believes this growth to be conditioned by the recovery of the security and economic situation, especially tourism by Westerners who highly boost the consumption of spirits.

In Lebanon the soft drinks 'segment is also thriving and carries interesting future prospects. Currently, bottled water is registering strong sales which represent around 80% of total soft-drinks sales. Looking ahead, companies will be compelled to steer their focus and product innovation on health and energy drinks. Two key elements are in favor of that argument: First, the new hype on the market is the rise of the health-conscious consumer and second Lebanon's alcohol consumption is high when benchmarked against the region but it remains below Western standards.

In the section of hot drinks, BMI believes the tea and coffee sub-sectors to be "well established and relatively mature". On the short-term, the market may be disrupted by consumers looking for "more economically priced items" and "making fewer shopping trips in light of an unsettled security situation". However, the consumption of coffee and tea is deeply rooted in Lebanon's culture and consumer spending on "non-essential" beverage items is forecast to grow over the medium to long-term. Loose tea still dominates the market but herbal and fruit tea are also expected to expand. According to BMI, "tea bags are considered a more high quality, premium product, for their greater convenience and better quality and taste, and as more consumers switch over to this format, they will drive value growth". The tea bag market is dominated by Lipton's Unilever.

BMI's Mass Grocery Retail (MGR) Industry Forecast

- Underdeveloped sector as independents account for around 70% of grocery sales
- Untapped market leaves considerable room for further development
- CAGR of MGR sales at 8.5% for 2014-2019 to \$3.1 billion
- CAGR for supermarkets at 8.8% and for hypermarkets at 6.3%

	2012e	2013e	2014e	2015f	2016f	2017f	2018f	2019f
Supermarket Sales, \$B	2.1	2.2	2.3	2.3	2.5	2.6	2.7	2.8
Hypermarket Sales, \$B	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Total Mass Grocery Retail Sales, \$B	2.4	2.5	2.6	2.7	2.8	2.9	3	3.1

Supermarkets dominate the MGR sector in Lebanon. In fact, supermarket sales represent around 90% of total MGR sales. The compounded annual growth rate (CAGR) of supermarket sales is believed to be of 8.8% by BMI over the period 2014-2019. On the medium to long term, growth will result from new store openings and from a larger array of products in existing stores.

The Lebanese retail sector survived the global financial crisis as sales remained strong and steady but will be somewhat affected by the current economic slowdown. In fact, the unsettled political and security situation as well as the subdued economic environment in the country will decrease the number of shopping trips the consumers make.

BMI's Regional Food and Drinks View – Why Saudi Arabia Has the Most Potential in the Region

BMI's outlook for the MENA region has been deteriorating over the past few quarters as many countries' risk profile has been worsening. Oil exporting countries are suffering from low oil prices while oil-importing countries are under the strains of an unstable security situation.

Although the Gulf markets present high food consumption per capita and are home to major food and drink companies such as Almarai and Majid Al Futtaim, only Saudi Arabia offers the most promising future outlook. A major strength on the Saudi Arabian market is its large population of around 30 million, or two-thirds of the Gulf's total population. Saudi Arabia is the only exception in the gulf as its fellow countries house small and ageing populations.

Egypt also offers high rewards but its handicap is the country's poor risk score. According to BMI, Egypt is endowed with a large and young consumer base and its market is fragmented and therefore offers interesting long term opportunities in the food and drink sector.

Algeria also has a big and young consumer base but suffers from a poor business environment, which erodes foreign investment in the country. Tunisia's main set back is its small consumer base and most recently the shaken security situation with two terrorist attacks in March and June. Morocco's drawback is mainly the low levels of GDP per capita while Lybia's remains the political turmoil.

Conclusion

Lebanon is endowed with many assets that allow for its food and drink industry to thrive. Lebanese consumers are liberal and have a taste for variety and novelty products and therefore can easily lure foreign companies into the Lebanese market. Moreover, Lebanon has a high proportion of skilled labor compared to other countries in the region. Lebanon's climate also allows it to be one of the most agriculturally productive in the region. The drinks' segment holds great potential for both sub-sectors of alcoholic drinks and soft drinks. The alcoholic segment, led by the wine-sub-sector, benefits from the local producers' long history and reputation as well as the widespread Lebanese diaspora which creates export opportunities. As for the soft drinks segment it will reap the benefits of the rise in health consciousness amongst consumers.

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