



After two and a half years of political deadlock, Lebanon had finally witnessed by the end of October 2016 the election of a new president. This recent political development has spurred optimistic hopes regarding the country's economic activity for the upcoming year. In fact, the economic slowdown of the past few years was mostly derived from the decelerating growth of households' consumption and spending levels. Hence, it seems interesting to determine the actual situation of Lebanese families and what to expect in the coming few years.

In this context, Business Monitor International (BMI) released this week a report on Lebanon's retail sector where the research firm reveals its forecasts on the Lebanese households' spending trends in addition to the evolution of their number and income, for the period 2016 -2020. According to the report, households' spending is expected to grow at a Compounded Annual Growth Rate of 6.4% between 2016 and 2020. With deflationary pressures painting the picture in 2015 and 2016 amid bearish international oil prices, the BMI's report expected household spending power to expand with total household spending increasing from \$27.51B in 2016 to \$35.34B by 2020. Similarly, average spending per capita will rise from \$4,594 in 2016 to \$5,998 in 2020.

November 11, 2016

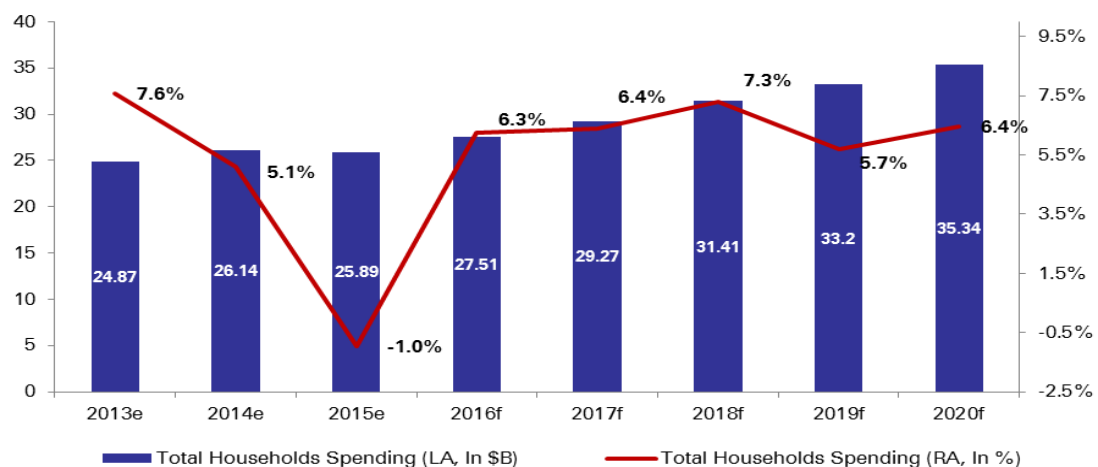
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### Evolution of Total Households' Spending and Growth



Source: BMI

### Households' Spending on Essentials

Households' consumption in Lebanon remained concentrated towards primary products at the expense of non-essentials. In details, housing and utilities, clothing and footwear, food and non-

alcoholic drinks, transport and communications grasped 71.5% of total household spending in 2016, while the remaining share is associated with non-essential spending.

Housing and utilities expenses ranked first in terms of essentials' spending amid unaffordable housing and expensive utilities. In 2016, Lebanese households' spending on housing and utilities made up 27.9% of their total bill and this stake may hit the 29.0% in 2020. From one side, the report associates this substantial spending to the elevated housing prices in Lebanon, and most specifically Beirut, where there is a mismatch between demand and supply. On the other side, the report highlights that Lebanon's utilities are amongst the most expensive in the Middle East region, which is partly reducing the stake of available spending on non-essentials.

Food and non-alcoholic drinks took the second main share of households' spending. With a 20.4% of their total spending, demand for these products remained inelastic heavily strengthened by the substantial number of Syrian refugees. As such, the BMI data disclosed an increase in the value spent on food and non-alcoholic drinks from \$5.62B in 2016 to \$7.31B by the end of 2020. In fact, a rising demand should be denoted in favor of packaged food, bottled water, carbonated soft drinks, etc...

Despite the ongoing decline in international oil prices, transportation remained a considerable source of spending to Lebanon's households. In reality, the basic public commuting system in Lebanon is mainly behind the substantial share of 12.9% associated to households in 2016 to transportation. With an expected recovery in fuel prices over the coming years, this share should rise and reach 13.3% of their total payments in 2020.

#### **Households' Payments on Secondary Goods**

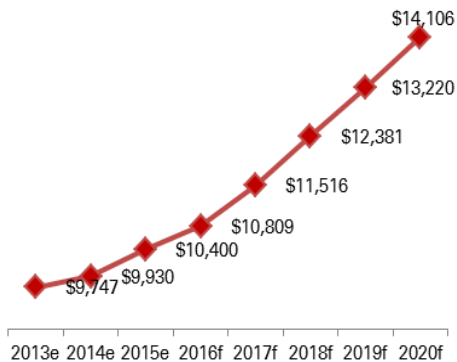
The widening demand for primary goods seems to be squeezing households' expenses in favor of spending on non-essentials. The share of non-essentials stood at 28.6% in 2016 and is expected to tighten in the upcoming years to reach 27.3% in 2020. The elevated living costs are constraining spending on non-essentials sub-categories such as alcoholic drinks, recreation and culture, and education.

Still, the Lebanese retail market is characterized by several structural trends in support of some segments of non-essentials. For instance, demand for alcoholic drinks is forecasted to strongly rise in the next five years. The presence of a robust local industry (mainly in the wine and beer segments) and the existence of a sustained demand from the young urban generation are some of the factors supporting spending on alcoholic drinks in Lebanon. However, besides its repercussions on the luxury spending, the weakened tourism activity is expected to negatively affect wine consumption given that wineries constitute a pillar in terms of Lebanon's tourist attractions.

#### **Households' Number and Income**

Given the lack of new data regarding the number and characteristics of the Lebanese households, the report provides a glimpse on the actual standing of the country. According to BMI, a limited population growth is perceived in the coming years with the number of Lebanese households at 1.45M and an expected population's number of 5.9M in 2016. Hence, the average household size is estimated at 4.2 persons, of which 2.8 are working adults. On the bright side, and despite the consistent brain drain, young adults aging between 20 and 39 years old constitute 34.7% of the population (expected to reach 35% in 2020), while middle-aged adults (between 40 and 64 years) took a share of 24.5% of 2016's total (forecasted at 26.2% of 2020's population). While the increase in the number of young adults may boost demand for innovative goods, a growth in the middle-aged adults' section will be a driver of demand for insurance and health-related products. Correspondingly, the Lebanese population is considered relatively young with the median age standing at 29.1 years, expected to increase to 31.2 years in 2020.

Net Income, per capita (in \$)



Net Income, per household



Source: BMI

In addition, an income data table for the Lebanese households offered insight on the income of Lebanese families. In 2016, the BMI's report stated that the Gross Domestic Product (GDP) per capita stood at \$10,498 and should heighten to \$13,405 in 2020, given the insignificantly expected population growth. As for the net yearly income, BMI data showed a level of \$30,485/household in 2016, and is expected to expand to \$39,980/household in 2020. However, the real picture is not delivered, as these figures do not show the concentration of opportunities in the capital, the regional disparities and the unequal spending power across the country.

Finally, the report revealed Lebanon's standing amongst MENA's countries in terms of retail industry taking into consideration their population's characteristics, the structural retail trends and preferences in addition to the implications of external factors on the industry. The Risk/Reward Index placed Lebanon at the 12th ranking out of the 14 listed countries. This was explained by numerous factors such as the lack of a large consumer base in Lebanon like the one in Egypt in addition to a low spending power unlike the one in the Gulf States. However, it was noticeable that the industry risk sub-indicator of Lebanon's retail industry scored 75.0 out of 100, the highest in the region. This reflects an encouraging regulatory framework for investors with limited barriers to entry and ease of doing business.

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