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Abstract

Fitch Solutions' 2019 report tackled consumer and retail patterns in Lebanon from 2019-2023. Amid the recent hype regarding Lebanon's 2019 budget, promised reforms, the country's future business outlook and the political & international headwinds, Fitch's report dissects the Lebanese retail and consumer market to analyze household spending and share a 5-year forecast on customer spending (or private household consumption), market demographics, and the major household characteristics. This study summarizes and highlights the main findings of the original report, adding some conclusions by BLOMInvest Bank at the end.
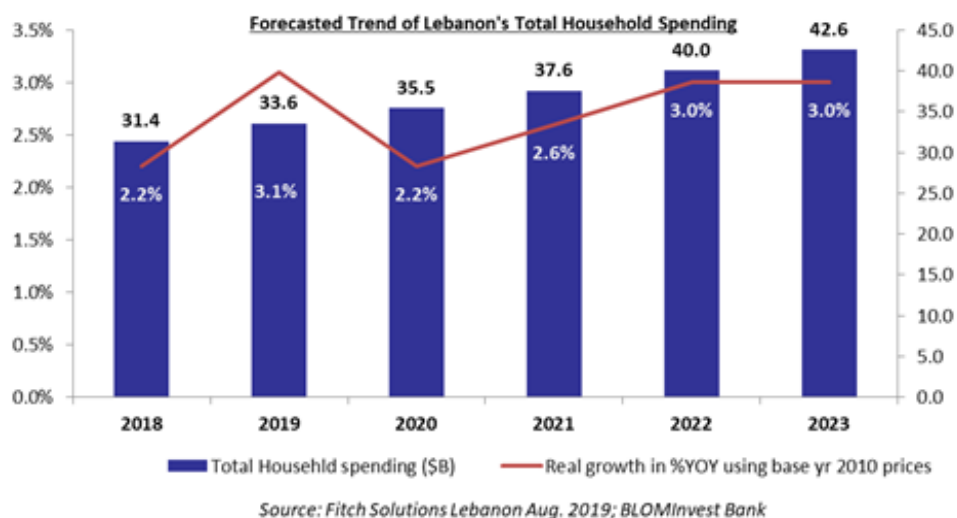
Synopsis

Consumer spending patterns (private household consumption) are a key element to study in an economy. The Keynesian school of thought considers consumer spending as the single most important determinant of economic performance on the short-term. Consumer spending shapes and impacts the formulation of governments' fiscal & monetary policies as well as the performance of businesses. In a nutshell, the amount of money spent by consumers impacts current and future growth prospects, while some of the main factors affecting consumer spending are: consumer confidence, inflation, demographics, household size, current income, expectations of future income and interest rates, among other parameters.

Quick Facts: Lebanese "Consumer Demographics"

- Lebanon has ~1.6M households, with 4.1 pax on avg. per household v/s 6 pax in Middle East.
- Average disposable income per household: $32,540 in 2019, forecast at $40,885 by 2023.
- "Spending power" of consumers vary due to big regional disparities.
- "Remittances" (totaling $8B in 2017 to Lebanon and rising) drive growth in the Consumer market.
- Larger populations translate into larger Consumer markets, but Lebanon's "population" is forecast to shrink on the medium & long-run: brain-drain, steady emigration, ageing population, slowing birth rates.
- "*Lebanon's population size is one of the smallest among its Middle Eastern peers (Iran, Oman, Egypt)*".

Main Findings

Fitch analyzed the consumer's propensity to spend via 4 key factors. The latest easing in the inflation rate, alongside the Byblos Bank/AUB consumer confidence index, the regional outlook (including remittances from Lebanese in the GCC), and consumer demographics were the main indications of the medium term outlook for Lebanon's consumer spending patterns during 2019-2023.

Forecasted Trend of Lebanon's Total Household Spending

Year	Total Household spending ($B)	Real growth in %YOY using base yr 2010 prices
2018	31.4	2.2%
2019	33.6	3.1%
2020	35.5	2.2%
2021	37.6	2.6%
2022	40.0	3.0%
2023	42.6	3.0%

Source: Fitch Solutions Lebanon Aug. 2019; BLOMInvest Bank

Inflation in Lebanon eased in H1 2019, but Fitch forecasts it will climb back up and tighten consumer spending. According to Fitch Solutions' August 2019 report on Consumers and Retail, inflation was at its "*lowest levels in Lebanon since October 2016*", as it hit 1.7% year-on-year (YOY) in June 2019. However, the decelerating price pressures were driven by a one-off factor, namely lower international oil prices which Fitch forecast will rise to 3.7% YOY by end-2019 while some fiscal measures are also expected to raise inflation. As a result, growth of the real private final consumption will be subdued to 1.8% in 2019, falling from 2.2% in 2018, but will return back to 2.2% by 2020 as per the report.

Remittances from Lebanese expats in the GCC states may support private consumption by 2023. Signs of economic recovery in the Gulf Cooperation Council (GCC) countries promise to lift up internal remittances and thus consumer spending in 2019 and 2020, according to Fitch Solutions who estimated remittances accounted for 12.7% of GDP in 2018.

Consumer confidence is weaker since Q2 2019, but some national demographic indicators may partially support spending. On one hand, the Fitch report gives away a positive outlook considering the implementation of reforms expected in 2019 thanks to the willpower of some ministers working to unlock the CEDRE funds post-government formation end January 2019. Nevertheless, Fitch also scans the *Byblos Bank/AUB Consumer Confidence Index* that averaged 70.9 in Q2 2019 compared to 75.5 in Q1 2019. The slump is largely attributed to the waning citizen confidence post-government formation. In fact, according to Fitch Solutions, the typical Lebanese household is made up of "4.1 persons" on average i.e. composes a fair demand for consumer goods. Yet, the purchasing power of a household in the Gulf States is much bigger compared to a Lebanese one which "*limits [the country's] attractiveness to international retailers.*"

Consumer demographics used by Fitch to further foreshadow spending patterns are analyzed in terms of gender, age, and income. Fitch notes that "*young adults, 21-29 years old*" are the largest demographic

in the country. Constituting 35% of the total population, these are also known to be Lebanon's age tranche with "*the highest level of confidence relative to other age groups*". It is worthy to note that Lebanese 'female consumers' exhibit higher confidence than males, while Lebanese households with a monthly income below $2,500 display less confidence than households with higher income.

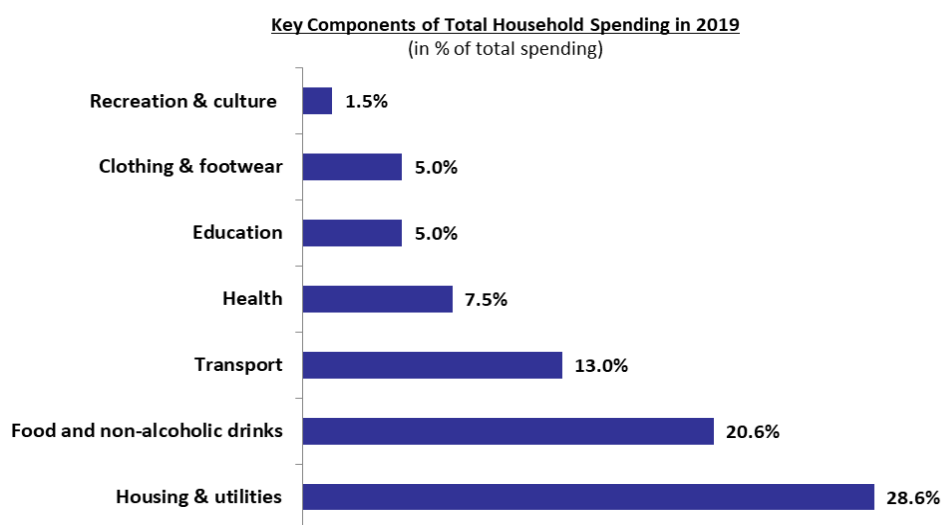**Viable shocks to the economy on the short-run will reduce consumer spending growth by 2020.** The breakdown of the Fitch spending forecast reveals consumers will spend an additional 3.1% on average in 2019, compared to 2018's 2.2% growth rate. Yet, the spending is jeopardized by a possible deterioration in the domestic business environment[1], mainly on the back of austerity measures tackling structural weaknesses in the country, in addition to higher inflationary risks from oil price-shocks. As such, the growth in spending is forecast at a lower rate of 2.2% by 2020.

	Breakdown of Total household spending
"Essentials" Spending	➢ **Housing & utilities** ➢ **Food and non-alcoholic drinks** ➢ **Transport** ➢ Clothing & footwear ➢ Communications
"Non-Essentials" Spending	➢ Alcoholic drinks and tobacco ➢ Furnishing & household goods ➢ **Health** (hospital& outpatient services, medical products & appliances) ➢ Recreation & culture ➢ **Education** ➢ Restaurants & hotels ➢ Personal care, insurance & other

Lebanese consumers will spend more on "essential" goods and services on the medium term. In details, Fitch expects growth in consumer spending to hit a 6.3% CAGR (compound annual growth rate) in local currency terms over the 5-year period, growing from LBP 50.6 trillion ($33.6B) in 2019 to LBP 64.4 trillion ($42.6B) in 2023. In turn, consumers' spending on "essentials" in Lebanon stood at LBP 36.6 trillion ($24.3B) or 72.3% of total household expenditures according to Fitch solutions, and it is forecast to grow by a yearly average of 6.7% by 2023 to LBP 47.1 trillion ($31.1B) in 2023. Meanwhile, "non-essentials spending" is forecast to grow at an annual average of 5.4% in LBP terms, to reach LBP 17.3 trillion ($11.4B) by 2023.

Spending per Segment

Key Components of Total Household Spending in 2019
(in % of total spending)

Segment	%
Recreation & culture	1.5%
Clothing & footwear	5.0%
Education	5.0%
Health	7.5%
Transport	13.0%
Food and non-alcoholic drinks	20.6%
Housing & utilities	28.6%

Source: Fitch Solutions: BLOMInvest Bank

[1] According to the World Bank's Ease of Doing Business classification, Lebanon ranks 142nd/190 largely due to local authorities choking business with bureaucracy creating red tape.

Lebanon's high costs of living leave little room for citizens to spend on "recreational" activities. Recreation spending (a non-essential spending item) entails money spent by consumers to buy computers, cameras and their likes, toys and sports/gardening/camping tools to practice their hobbies or to enjoy cultural services, books, newspapers, and stationery. Nonetheless, Fitch's findings on the component forecast an average growth rate as low as 1.4% over 2019-2023. In a nutshell, this highlights the country's higher costs of living, which can only drive income away from non-essentials, to meet the substantial costs of housing and other essential goods and services.

In fact, Lebanon's spending on "Housing & utilities" and "Transport" are two of the highest in the MENA. In Lebanon, spending on "housing & utilities" is inclusive of costs of water, electricity, gas services, housing rentals, as well as maintenance & repair. It therefore constitutes the largest expenditure of "Essentials spending" and of total household spending amounting to ~LBP 18.9 trillion ($12.6B) in 2023, up from 2019's LBP 18.4 trillion ($12.2B). Lebanon actually possesses the most elevated 'utility costs' in the MENA region, knowing that rental and "housing" costs also remain unaffordable especially in Beirut and the larger cities. As a result, spending on "non-essential" goods over the 5-year period will diminish, as households struggle to meet the high basic costs of living. Moreover, consumers' spending on "transportation" in Lebanon are the 4th highest in the Middle East after Iraq, Oman, and Jordan, adding up to approximately LBP 6.6 trillion ($4.4B).

Refugees and population growth will magnify spending on "Food & drinks". "Food & non-alcoholic drinks" ranked as the 2nd largest component of total spending for Lebanese household in 2019, totaling LBP 1.5M per capita in 2019 and forecast at 2M per capita LBP by 2023. Fitch reveals that Lebanon's growing population and the influx of refugees will increase spending on this component, as well as boost demand on 'packaged foods' particularly. In details, the "Non-alcoholic drinks" segment, including coffee, tea, cocoa, water, soft drinks, and fruit/vegetable juices hot climate is forecast to grow by an average of 7.1% over 2019-2023.

	Breakdown of Total household spending	Components' weights in 2019 (in % of total spending)	Components' weights in 2023 (in % of total spending)	Forecast avg. annual change 2019-2023 (in LBP terms)
"Essentials" Spending	➤ **Housing & utilities**	**28.6%**	**29.4%**	**↑7.1%**
	➤ **Food and non-alcoholic drinks**	**20.6%**	**20.8%**	↑6.6%
	➤ **Transport**	≥13%		-
	➤ Clothing & footwear	5%	6.5%	↑5.1%
	➤ Communications	4.5%	N/A	N/A

Source: Fitch Solutions 2019; BLOMInvest Bank

Clothing & Footwear is "*the most developed retail segment in the country*" but spending patterns are shifting. As per Fitch's study, the segment has in fact witnessed substantial growth in the past fueled by the rigorous tourism activity in Lebanon. Per capita LBP spending on "Clothing" alone and "Footwear" alone amounts to 302,407 and 78,131, respectively, and are forecast to climb to 396,504 and 971,108 per capita LBP, respectively by 2023. Nonetheless, it is worthy to mention that the recent slowdown in the GCC countries may change the spending patterns on the medium term such that the regional instability may hit luxury clothing retailers first. Spending is now directed towards bargain-shopping, modern and convenient retail options like malls.

Rising consumer spending on the "Household Goods" segment may offer opportunities to retailers in Lebanon. The LBP per capita spending is forecast to grow on this category from 148,584 in 2019 to 192,850 by 2023, knowing that the sub segment "Household appliances & furniture/furnishings" grasps the lion's share (44%) of total household spending. Moreover, the growth in spending on this segment will be largely driven by the sub-component "Home and garden tools" whose growth as per Fitch will average 8.1% per year over 2019-2023. Meanwhile, consumers will spend the least on "household textiles" sub-segment which will witness the slowest growth averaging 3.7% per year over the same period.

"Personal Care & Effects" spending in Lebanon will grow by a robust 5.8% annually. This segment entails spending on personal grooming, toiletries, jewelry and all types of insurance. Spending patterns on personal products summarize Lebanon's youth and urban consumers' preference to spend money mostly on personal grooming goods, much more than on jewelry and watches. While the former registers an annual rise of 6% on average by 2023, the latter is forecast to shrink by an average 0.5% over the same period.

Final Thought

Lebanon's consumer spending is unevenly distributed between the high costs of "essentials" and non-essentials but opportunities to improve are plenty. Spending on non-essentials like recreation, personal care and health can create myriad opportunities for consumers and help grow the Lebanese retail market. As highlighted in the report, spending on the essentials, i.e. "housing, utilities, foods and drinks" takes up 50% of total consumer spending. However, Lebanon can capitalize on opportunities to develop its consumer base and expand its retail market. For instance, the growing tourism sector today can derive a good "tourism spending" that can render the country a retail hub and support consumer-facing businesses. Moreover, improving the internet connectivity across the country may help reduce the high communication on the long-term and enable the development of a new source of spending via local "e-commerce" segments among other channels.

For your Queries:

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