

# CONSUMER CONFIDENCE IN LEBANON

## THE BYBLOS BANK/AUB CONSUMER CONFIDENCE INDEX

*First Half 2012 Results and Analysis*

## Confidence Drops to Record Low in First Half of 2012

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### HIGHLIGHTS

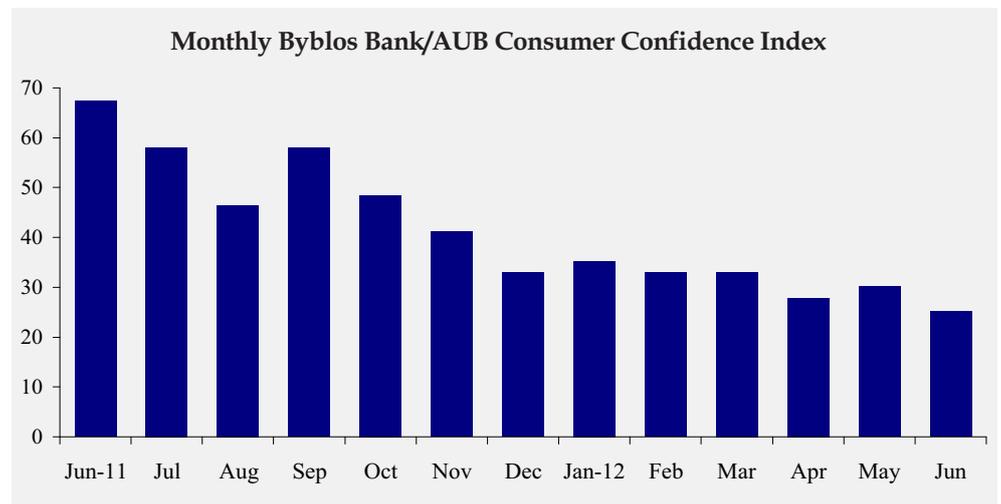
- The Byblos Bank/AUB Consumer Confidence Index dropped to its lowest level on calendar basis in the first half of 2012, recording an average monthly reading of 30.8, down from an average of 51.7 in 2011.
- The confidence level dropped systematically in the first half of 2012, as the Byblos Bank/AUB Consumer Confidence Index posted averages of 33.8 and 27.2 in the first and second quarters, respectively, the lowest results on a quarterly basis since the inception of the index.
- On a monthly basis, the Byblos Bank/AUB Consumer Confidence Index reached a record low in five years in June 2012.
- The approved increase in salaries and the minimum wage in January had a muted impact on consumer sentiment.
- Domestic political volatility, security breaches, mounting concerns about spillovers from the unrelenting crisis in Syria, and the dispute about the salaries and minimum wage increase, were the main factors for the drop in consumer confidence in the first half of the year.
- The rise in the cost of living and the decay in public-service delivery also affected consumer confidence in the first half of the year.
- The Byblos Bank/AUB Present Situation Index and the Byblos Bank/AUB Expectations Index posted record lows in June 2012.
- Unlike the results over the July 2007-December 2011 period, the near-term expectations of consumers during the second quarter of 2012 were lower than their views of their current conditions.
- All 26 sub-categories of the Byblos Bank/AUB Consumer Confidence Index posted record lows during the second quarter of 2012.
- The vast majority of surveyed consumers expected consumer prices and unemployment to increase over the near term.
- The level of consumer sentiment reached such low levels that consumers require a positive political shock of the magnitude of the Doha Accord to restore their confidence to the levels of 2008, 2009 and 2010.

# I - Analysis of Results

## A - ANALYSIS ON A CALENDAR BASIS

The level of consumer confidence in Lebanon declined in the first quarter of 2012, as reflected by the results of the Byblos Bank/AUB Consumer Confidence Index for January, February and March. The index reached 35.3 in the January 2012 survey, an increase of 7% from 33 in December 2011 and declined by 6.5% to 33 in February 2012. This was followed by a marginal increase of 0.4% to 33.1 in March. The index further declined in the second quarter of 2012, as it reached 27.9 in the April 2012 survey, a decrease of 15.9% from the previous month, then increased by 8.3% to 30.2 in May 2012 and declined by 16.9% to 25.1 in June 2012. The Byblos Bank/AUB Consumer Confidence Index outcome for June 2012 was the lowest since the start of the index's calculation in July 2007.

*Consumer's sentiment reached an all-time low in June 2012*

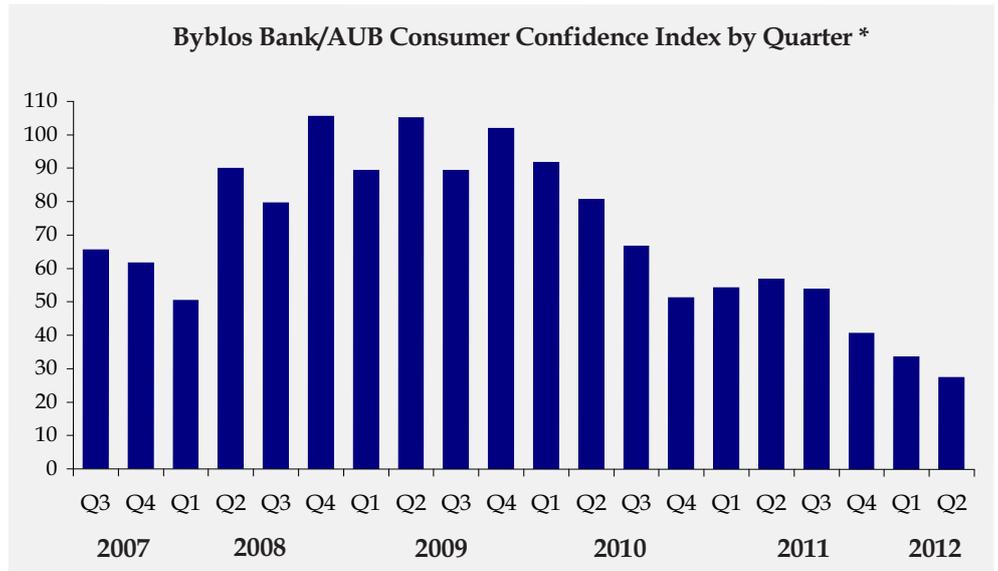


*Source: Byblos Research and AUB, based on surveys conducted by Statistics Lebanon*

The index averaged 27.2 in the second quarter of 2012, constituting its lowest reading in 20 quarters. It also averaged 33.8 in the first quarter of the year, its second-lowest quarterly reading since the start of the index's calculation. The results of the first two quarters of 2012 accelerated the quarterly decline in consumer confidence in Lebanon. Indeed, they constitute the fourth consecutive quarterly decline in the level of consumer confidence since the second quarter of 2011, and the index's eighth quarterly decline out of the previous 11 quarters.

As a result, the Byblos Bank/AUB Consumer Confidence Index posted an average monthly value of 30.8 in the first half of 2012, constituting the index's lowest level on a calendar basis. The index's average monthly value in the first half of 2012 regressed by 40.4% from its average monthly value in 2011, following a contraction of 29% last year and a decline of 24.7% in 2010. Also, the index's average monthly value in the first half of 2012 fell by 35.1% from an average monthly value of 47.5 in the second half of 2011, reflecting a steep decline in confidence levels from an already tumultuous and uncertain period.

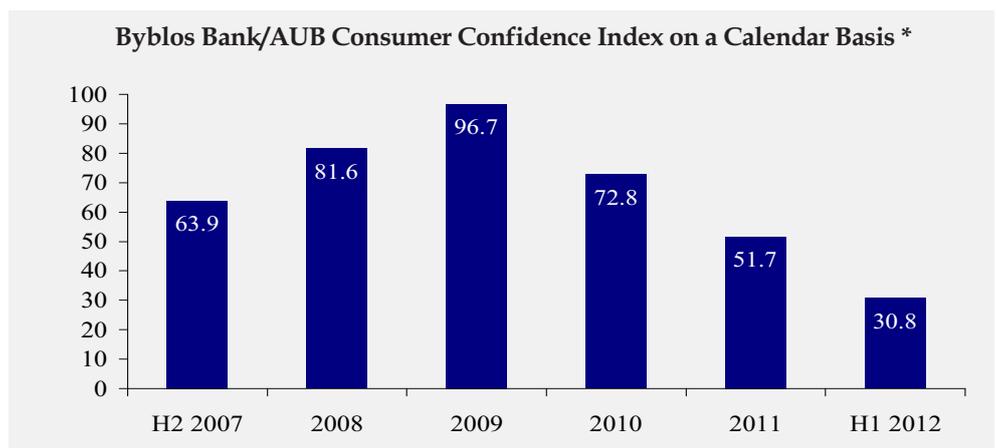
*Consumer confidence continued to retreat in the first and second quarters of 2012*



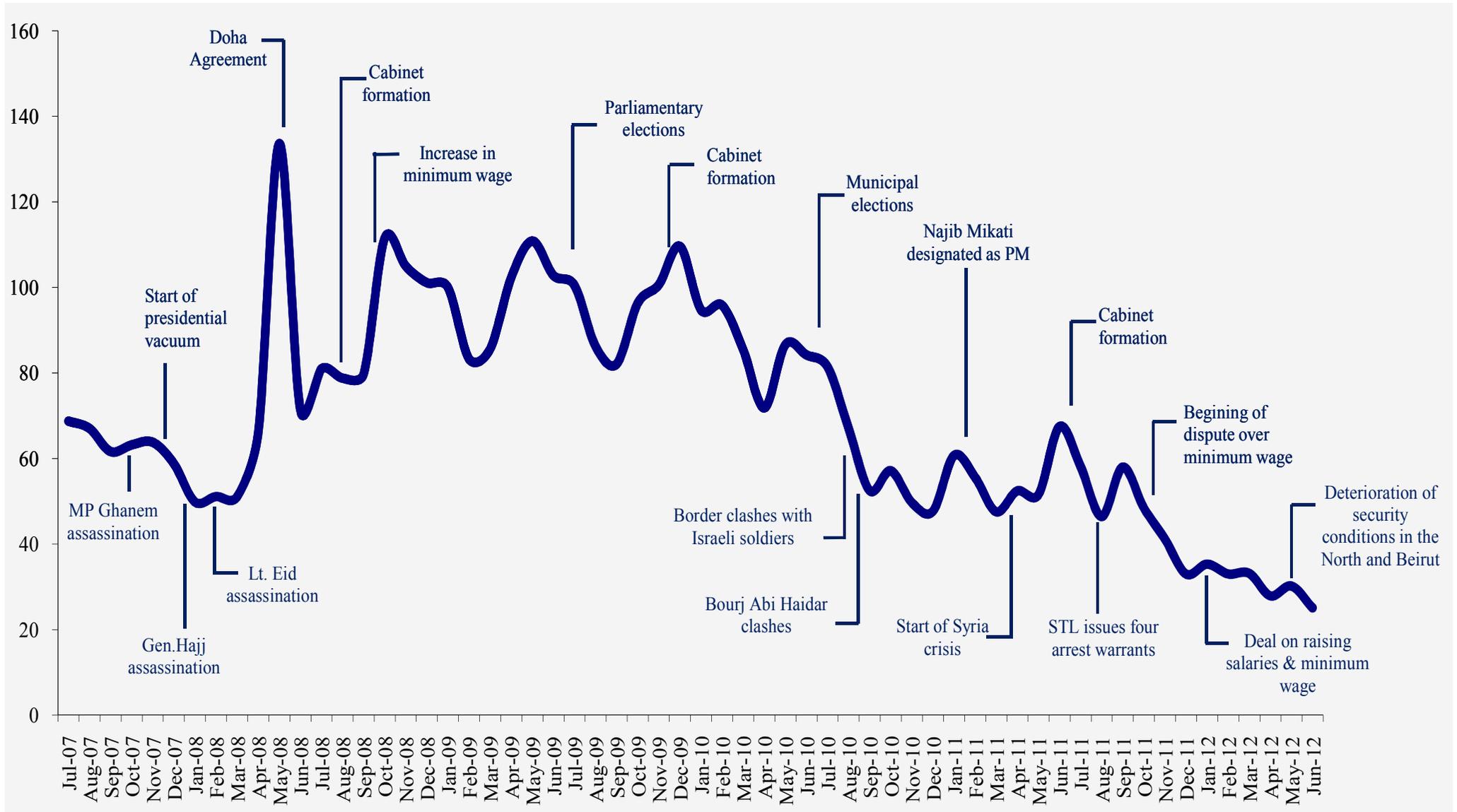
\* monthly average index by quarter  
 Source: Byblos Research and AUB, based on surveys conducted by Statistics Lebanon

The results of the first half of 2012 reflect a trend of steady and continuous decline of consumer confidence in Lebanon since the second quarter of 2011 and a broader trend of decline since the end of the fourth quarter of 2009. Indeed, the average score of the second quarter of 2012 constitutes a drop of 73% from the results of the fourth quarter of 2009 and a drop of 74% from the peak of 105.8 registered in the fourth quarter of 2008. The results of the first half of the year are alarming, given that the precipitous drop in the level of consumer confidence in the fourth quarter of 2011 to a new low led to the perception at the time that the confidence level of Lebanese consumers might have bottomed out at the end of last year.

*Consumer confidence in the first half of 2012 dropped to its lowest level since the start of the index's calculation*



\* monthly average index for the period  
 Source: Byblos Research and AUB, based on surveys conducted by Statistics Lebanon



Source: Byblos Research and AUB, based on surveys conducted by Statistics Lebanon

**Fluctuations of the Byblos Bank/AUB Consumer Confidence Index,  
the Byblos Bank/AUB Present Situation Index  
and the Byblos Bank/AUB Expectations Index**

	Q1 2012			Q2 2012		
	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12
<b>CCI*</b>	<b>35.3</b>	<b>33.0</b>	<b>33.1</b>	<b>27.9</b>	<b>30.2</b>	<b>25.1</b>
Month-on-month change (%)	7.0%	-6.5%	0.4%	-15.9%	8.3%	-16.9%
Year-on-year change (%)	-41.8%	-40.6%	-30.3%	-46.9%	-41.4%	-62.8%
<b>PSI**</b>	<b>27.2</b>	<b>37.5</b>	<b>31.8</b>	<b>29.4</b>	<b>32.2</b>	<b>26.5</b>
Month-on-month change (%)	-5.5%	37.9%	-15.3%	-7.5%	9.5%	-17.8%
Year-on-year change (%)	-20.4%	-13.7%	-23.4%	-36.1%	-32.3%	-47.4%
<b>EI***</b>	<b>40.5</b>	<b>30.0</b>	<b>34.0</b>	<b>26.8</b>	<b>28.8</b>	<b>24.1</b>
Month-on-month change (%)	13.4%	-26.1%	13.5%	-21.3%	7.5%	-16.1%
Year-on-year change (%)	-48.2%	-52.9%	-34.0%	-52.8%	-46.9%	-69.4%

\* CCI: Byblos Bank/AUB Consumer Confidence Index

\*\* PSI: Byblos Bank/AUB Present Situation Index

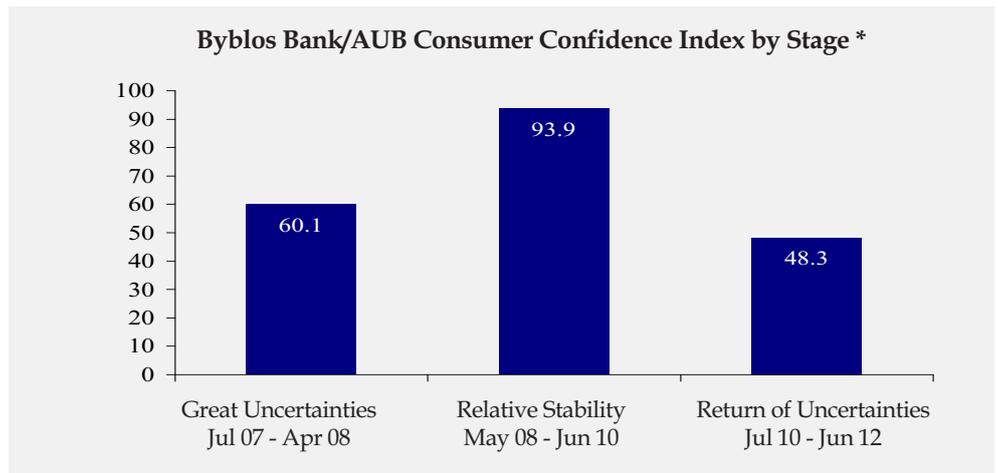
\*\*\* EI: Byblos Bank/AUB Expectations Index

Source: Byblos Research and AUB, based on surveys conducted by Statistics Lebanon

## B -TIMELINE ANALYSIS

*The period of returning  
uncertainties was more  
pronounced in the first half  
of 2012*

The results of the first and the second quarters of 2012 accentuated the trend in consumer confidence that started in July 2010. We have identified three distinctive periods in the history of the Byblos Bank/ AUB Consumer Confidence Index: a period of Great Uncertainties, one of Relative Stability, and a third of Return of Uncertainties. The first period starts in July 2007 and ends in April 2008, with the index averaging 60.1 during this timeframe. It was a “high risk” period dominated by political and security uncertainties. The second period extended from May 2008 to June 2010 and is characterized by a significantly higher level of confidence, as the index averaged 94 during the 26-month span. This timeframe was a “low risk” period that saw several positive political events that helped revive consumer confidence. The third period, which stretches from July 2010 to December 2011, saw the return of uncertainties and an increase in political risks. The index averaged 54.2 during the 18-month period, constituting its lowest reading throughout the three periods. The results of the first two quarters of 2012 extended and confirmed the Return of Uncertainties period and dragged down the index reading to an average of 48.3 over the July 2010-June 2012 period, constituting the lowest level of consumer confidence over the three periods.



\* monthly average index for the period

Source: Byblos Research and AUB, based on surveys conducted by Statistics Lebanon

## C - ANALYSIS OF PRESENT SITUATION & EXPECTATIONS INDICES

*Both the Present Situation Index and the Expectations Index posted their lowest reading ever in the second quarter of 2012*

The Byblos Bank/ AUB Present Situation Index and the Byblos Bank/ AUB Expectations Index moved in different directions during the first three months of 2012. The Present Situation Index declined by 5.5% in January, increased by 37.9% in February and fell by 15.3% in March. The Expectations Index rose by 13.4% in January, declined by 26.1% in February and rose by 13.5% in March. Conversely, both indices moved in the same direction in the second quarter of 2012. The Present Situation Index declined by 7.5% in April, increased by 9.5% in May and fell by 17.8% in June, while the Expectations Index declined by 21.3% in April, rose by 7.5% in May and decreased by 16.1% in June 2012. Overall, both sub-indices posted in the second quarter of 2012 their lowest reading in 20 quarters, which reflected the deterioration of confidence in current as well as in future conditions. The Expectations Index was slightly higher than the Present Situation Index in the first quarter of 2012, which resulted in the smallest quarterly gap between the two indices throughout the 20 quarters. However, the Present Situation Index was higher than the Expectations Index in the second quarter of 2012, constituting only the second quarter, besides the third quarter of 2010, when Lebanese consumers were more pessimistic about the future than they were about present circumstances.

*Consumers have become more pessimistic about future conditions than they are about the current situation*

Generally, Lebanese consumers are more optimistic about future conditions over the near term than they are about their current situation. Indeed, there were only four instances between July 2007 and December 2011 when Lebanese consumers were more, or equally, pessimistic about the future than they were about present circumstances. However, there were four instances during the first six months of 2012 when consumers were more pessimistic about the future than they were about present conditions, as the Expectations Index recorded a lower value than the Present Situation Index in February, as well as in April, May and June. This new trend demonstrates consumers' negative outlook and raises alarms over the depth of their pessimism.

## D - GENERAL TRENDS

Consumer confidence in Lebanon remained very sensitive to political developments during the first half of 2012, in line with trends since July 2007. Domestic political volatility, the slow-moving decision-making process within public institutions, in addition to the protracted crisis in Syria, combined to reduce confidence to its lowest level since the start of the index calculation. Several events, in particular, impacted significantly the confidence of Lebanese consumers during the covered period: escalating political tensions and the eventual deterioration of security conditions in the North and in Beirut, the salary adjustment issue, the worsening electricity shortage to unprecedented levels, in addition to the pervasive impact of the Syrian conflict.

*The Syrian crisis, security breaches, and political volatility had a significant impact on consumer confidence during the first half of 2012*

The Syrian crisis, with all its ramifications, continued to dominate the political scene in Lebanon during the first half of 2012, as the conflict's escalation led to repeated political and security spillovers into the country. Further, the unabated crisis kept the political polarization in Lebanon elevated, therefore worsening the local political climate, which negatively affected consumer sentiment and reflected growing consumers' concerns about future economic conditions and political stability in the country. In turn, the Lebanese economy continued to increasingly feel the repercussions of the Syrian crisis in the first six months of the year, as reflected by the stagnation of consumer confidence to near record-low levels that reached an all-time low in June 2012.

Chronic skirmishes on the Lebanese-Syrian border, in addition to security deterioration during the second quarter of the year in the North and in Beirut, raised fears that the Syrian conflict would spill into Lebanon. Indeed, inter-factional clashes last May in Tripoli resulted in 12 people dead and 100 wounded. Also in May, the shooting and death of a Sunni cleric and his aide in the northern province of Akkar provoked protests and the cut-off of roads in many parts of the country with burning tires. It also resulted in inter-factional clashes in several areas of Beirut, leaving three dead and 10 wounded, and created a tense security situation in the capital and across the country. The festering problems in Tripoli, as well as the cleric's death, have been perceived to be linked to the conflict in Syria. As has been the case historically, consumers' confidence was shaken by these developments, given that they were reminders of the omnipresent threat of security breaches from prevailing tense political conditions and uncertainties. As a result, the Byblos Bank/AUB Consumer Confidence Index dropped to an all time low in June despite hovering at very low levels in the first five months of the year. This confirms the historical trend of the index, as the Byblos Bank/AUB Consumer Confidence Index's results have demonstrated that consumer sentiment in Lebanon is significantly affected by political and security events, whether they are negative or positive.

The second main factor that affected consumer sentiment during the covered period was the socio-economic issue of the salaries' adjustment that started in the fourth quarter of 2011 and that morphed into a protracted saga into 2012. The Cabinet approved a proposal on October 12, 2011 to increase the minimum wage and to raise other salary brackets in the private sector. However, it was rejected by the Shura Council shortly after its approval by the Cabinet, which triggered a lengthy process that raised consumers' unease and anxiety, rather than improve their sentiment and outlook.

Indeed, multiple proposals and counter-proposals and a drawn-out confrontation between the private sector, labor unions and the government, left consumers without an officially-approved salary adjustment by the end of 2011, which gave way to renewed consumer skepticism.

*The agreement to raise salaries and the minimum wage had a muted impact on consumer sentiment*

But the various sides managed to agree on a deal that was approved by the Cabinet on January 19 and that was officially ratified on January 26th. The agreement stipulated that the salary adjustment and minimum wage increase for the private sector would go into effect in February 2012, which triggered a jump in consumer confidence, in line with the previous instance. During the July 2007-September 2011 period, economic events have had little or no impact on the level of confidence, as there were no major or substantial economic events that were similar in scope to the main political developments that triggered a positive or negative consumer reaction. The raise in the minimum wage in October 2008 was about the only locally-generated economic event that significantly improved the level of confidence during the covered period, and this bump was short-lived.

Similarly, this year's salary adjustment contributed to an increase in consumer confidence in February, triggered by improved expectations. Indeed, the Byblos Bank/AUB Consumer Confidence Index rose by 7% in January, driven by a 13.4% month-on-month jump in the Byblos Bank/AUB Expectations Index. But the bump was smaller than the 2008 rise and, similar to the previous time, was short-lived, as the index lost in February its modest gain and fell back to its December level. This should hardly come as a surprise, even though the private sector started the implementation of the government's decision in February. First, the Cabinet's original decision on October 12 led to a jump in consumer prices on the mere anticipation of the salary adjustments. Second, the lengthy back-and-forth between the private sector, labor unions and the government led eventually to the reduction of the purchasing power that the new raises were supposed to create. Third, the Cabinet's decision did not cover public-sector employees, given the need for a separate draft law. This left a significant segment of the working population without a salary adjustment. But this segment remained saddled, nonetheless, with the rise in consumer prices.

*Mounting electricity blackouts exacerbated consumers' frustrations*

The third factor that affected consumer confidence in the first half of 2012 was the numerous protests that started in April by contract workers and bill collectors of the state-owned utility Electricité du Liban. The workers decided to put pressure on the government to approve a draft law to employ them permanently. As a result, they went on strike, blocked major roads and highways, and burned tires and garbage bins. The situation escalated when the workers held an open-ended strike at EdL's headquarters, blocked EdL's entrances to prevent full-time employees from entering the building, and threatened a nationwide blackout. The strikes resulted in further electricity blackouts, as electricity supply declined by almost 50% across most regions in a country that was already suffering from one of the worst electricity shortages in the world. Indeed, the World Economic Forum's Global Competitiveness Index for 2012-2013 ranked the level of electricity supply in Lebanon in last place among 144 countries included in the index. With no solution to the problem in sight, the Lebanese citizens ended up paying the price of this ordeal with frequent disruptions to their day-to-day activity, minimal EdL supply of power, and higher fees to private electricity generators throughout April, May and June.

*Decay in public service delivery continues to frustrate consumers*

In case there was a need for more reasons to negatively affect consumer sentiment in the first half of 2012, the numerous reported cases of food poisoning across the country sent citizens into a panic. Further, the discovery of warehouses full of spoiled meat and rotten foodstuff, as well as revelations about stores with expired food products, made consumers wonder about public health standards and raised citizens' suspicions about basic day-to-day food safety.

The deterioration of security conditions and of electricity supply, along with the food poisoning epidemic, combined to hit at the core of consumers' day-to-day basic needs, which inevitably led to a negative impact on their confidence level. More importantly, electricity and food safety problems represent part of an overarching structural issue, which is the steady decay in the quality of basic day-to-day public services and the lack of any concrete perspective to improve them beyond politicians' bland promises, lame excuses, and abstract musings.

*Economic activity is expected to remain stagnant in the absence of positive shocks*

As such, the drop in the Expectations Index during the first half of 2012, due to the cumulative impact of the above trends, does not bode well for a substantial resurgence of economic activity in the near term. In fact, consumer sentiment has reached such low levels in the first six months of the year that consumers require a positive political shock of the magnitude of the Doha Accord to restore their confidence to levels reached in 2008, 2009 and 2010. As such, we expect economic growth to remain stagnant in the absence of any positive political or economic shocks.

## E - CONSUMERS' NEAR-TERM OUTLOOK

During the first quarter of 2012, the level of consumer confidence declined across all 26 sub-categories of the Byblos Bank/AUB Consumer Confidence Index, except for consumers who are between 50 and 59 years old, students, consumers with a monthly household income of \$2,001 and above and consumers from Beirut, as their level of consumer confidence increased, from the previous quarter. Also, consumer confidence declined across all sub-categories of the index during the second quarter of 2012. This decline in consumer confidence persisted, but with certain variations across sub-categories over the following six months.

*Males have a less pessimistic outlook than females*

Male consumers had a relatively less pessimistic outlook for the coming six months than their female counterparts in the first half of 2012, as the average monthly reading of the Expectations Index for males was 36 relative to 33.7 for females in the first quarter of 2012 and 28.6 for males relative to 24.5 for females in the second quarter of 2012. Also, consumers aged 50 years and older were less pessimistic over the near term than consumers in younger age brackets in the first half of 2012, as reflected by a higher reading of the Expectations Index for the sub-categories of consumer aged between 50 and 59 years and those 60 years and older. In contrast, consumers who are between 40 and 49 years old were the least optimistic among all age brackets during the first quarter of 2012 as their Expectations Index was 30.1, while consumers aged between 21 years and 29 years were the least optimistic in the second quarter of 2012 with an Expectations Index at 25.

During the first quarter of 2012, students were the least pessimistic about economic prospects among occupational sub-categories, as the Expectations Index for this segment averaged 44.1 during the covered period. They were followed by the freelancers and the unemployed with Expectations Index readings of 39.6 and 37.5 during the quarter, respectively. In parallel, public sector employees were the most pessimistic during the quarter with an Expectations Index score of 12.9. In the second quarter of 2012, freelancers were the least pessimistic with an average Expectations Index at 30.2, followed by private sector employees and the unemployed with Expectations Index readings of 27.7 and 24.7, respectively, during the second quarter. Also, as in the previous quarter, public sector employees were the most pessimistic with an Expectations Index score of 14 during the second quarter.

*Beirut residents were the least pessimistic in the first half of 2012*

In parallel, consumers with a monthly household income of \$2,001 or above were the least pessimistic among all income brackets during the first half of 2012, as the Expectations Index for this segment averaged 56.7 and 41.1 during the first quarter and second quarter of 2012, respectively.

Consumers in Beirut had the least pessimistic outlook among the country's five administrative districts during the first half of 2012; while those from the Bekaa were the most pessimistic about future prospects. In terms of religious affiliations, Christians had the least pessimistic outlook for the coming six months; while Shiite consumers were the most pessimistic about future prospects.

## METHODOLOGY

The Byblos Bank/AUB Consumer Confidence Index is based on a nationally representative survey of 1,200 face-to-face interviews with adult males and females living throughout Lebanon, whereby residents are asked a number of questions about current and future economic conditions, their personal financial situation, and their intention regarding major purchases. The index is calculated on a monthly basis, with January 2009 as its base month. It is composed of two sub-indices, the Byblos Bank/AUB Present Situation Index and the Byblos Bank/AUB Expectations Index. The first sub-index covers the current economic and financial conditions of Lebanese consumers, and the second one addresses their outlook over the coming six months. In addition, the data segregates the index based on age, gender, income, profession, region, and religious affiliation. The index calculation started in July 2007. The monthly field survey is conducted by Statistics Lebanon sarl, one of the leading market research and opinion polling firms in the country. The firm draws a random sample of the population for each monthly survey.

## II - Consumer Prices & Unemployment

*Consumers expect prices of goods and services to continue increasing*

The overall muted outlook of Lebanese consumers in the first half of 2012 was reflected in their answers to questions about the direction of consumer prices and their outlook on unemployment trends over the coming six months. Indeed, when interviewed during the first quarter of 2012, the vast majority of consumers (96%) expected a rise in consumer prices in the following six-month period. Consumers' outlook was virtually unchanged in the second quarter of the year, as 95.5% of respondents who were polled during the period thought that prices of basic goods and services are set to rise in the coming six months. More specifically, the February 2012 survey showed that 97.6% of respondents expected consumer prices to increase over the near term, the highest such percentage since the survey's start in July 2007. Ironically, the February results came immediately after the government ratified the private sector's minimum wage increase and salary adjustment in the preceding month, and reflected consumers' high level of awareness that government-mandated wage hikes inevitably lead to higher inflation rates.

*Cost-of-living expenses are eroding consumers' purchasing power*

Although the monthly inflation survey since July 2007 consistently showed that most consumers expect prices to increase in the near term, the results of the first and second quarters of 2012 reflect the growing anxieties of Lebanese citizens in light of unchecked price increases. Indeed, the answers of respondents seem to reflect consumers' elevated level of concern about the rising prices of day-to-day basic necessities, a trend that is reducing their disposable income and eroding their purchasing power, given their strong belief that prices are rising at a more rapid pace than their income. This perception has been reinforced by the combined rise in the prices of food items, the increase in electricity, transportation, healthcare and education costs, as well as by the very high cost of telecommunication services.

*Decay in public-service delivery is frustrating Lebanese consumers*

What is further aggravating consumers' outlook is the tangible deterioration in the quality of public services that is taking place in conjunction with the cost increases. Indeed, the decay in public-service delivery is ending up compounding citizens' expenditures, with households having to revert to parallel providers, such as subscribing to onerous private electricity generators for instance, paying exorbitant fees for poor telecom services, and having to endure bad road conditions and high gasoline prices. Further, the lack of any tangible progress to improve any of these basic services and the perceived indifference of authorities have resulted in very frustrated citizens, as they realize that they have lost most of the new purchasing power that the government-mandated wage and salary increase was supposed to provide.

*Consumers believe unemployment levels in Lebanon will increase over the near term*

In parallel, 90% of Lebanese consumers interviewed in the first quarter of 2012 believed that the level of unemployment will rise in the following six months. Consumers' outlook deteriorated during the second quarter of the year, as 92% of respondents who were polled during the period indicated that the level of unemployment will rise in the near term. Moreover, 94.4% of respondents who were surveyed in June 2012 considered that the unemployment level is going to increase in the coming six-month period, constituting the highest such proportion in 60 months. This concurred with the month that produced the lowest level of consumer confidence and expectations since the start of the Byblos Bank/ AUB Consumer Confidence Index's calculation.

*Consumers have a negative perception about the local job market*

The results demonstrate the impact of political uncertainties and of deteriorating security conditions on consumers' perceptions. They also reflect consumers' higher level of awareness than most politicians that proper security conditions and political stability are the prerequisites for job creation. The results also show that the embarrassing absence of an official unemployment rate, as well as the lack of high-frequency indicators on the domestic labor market, cement consumers' negative perception about local job opportunities.

Still, Lebanese consumers' intuitive answers about unemployment trends reflect their clear and tangible awareness about the prospects for job creation, even though employment and unemployment figures in Lebanon remain a mystery. Indeed, a number of basic factors support consumers' perceptions. Government-mandated wage hikes, inadequate and costly infrastructure, restrictive labor regulations, inefficient government bureaucracy, the lack of structural reforms, and the mounting burden of the public sector, all result in high operating costs for the private sector. In turn, this affects economic competitiveness, impacts FDI and technology transfer, hurts business confidence, and reduces incentives for job creation. So it is hardly surprising that consumers' negative perception about the local job market has an impact on their confidence level, especially with their strong belief that authorities remain indifferent to these multiple challenges.

## III - Results by Category

### A - CONSUMER CONFIDENCE BY GENDER

*The confidence level of males was higher than that of females in the first half of 2012*

The results show that male consumers displayed a higher level of confidence than their female counterparts during the first six months of 2012, except for March 2012, where male's level of confidence was slightly lower than that of female consumers. On average, female consumers had higher confidence levels than male consumers in the majority of the first eight quarters since the index's inception in July 2007, but the trend was reversed with males having higher confidence than females in the majority of the following 12 quarters. Male and female consumers posted confidence levels of 35.1 and 32.4, respectively, during the first quarter of 2012. Also, male and female consumers posted confidence levels of 30.5 and 24.9, respectively, in the second quarter of 2012, which represents their lowest level of confidence in 20 quarters. Further, the confidence level of males and females reached an all-time monthly low of 28.2 and 21.8, respectively, in June 2012.

Byblos Bank/AUB Consumer Confidence Index by Gender			
Month	Male	Female	
Jan-12	38.9	31.5	
Feb-12	34.2	31.8	
Mar-12	32.2	34.0	
Av. Index Q1 2012*	35.1	32.4	
Apr-12	30.5	25.1	
May-12	32.7	27.7	
Jun-12	28.2	21.8	
Av. Index Q2 2012*	30.5	24.9	

\* average monthly index

Source: Byblos Research and AUB, based on surveys conducted by Statistics Lebanon

### B - CONSUMER CONFIDENCE BY AGE

*Consumers in the 50 to 59 year-old bracket posted the highest confidence level during the first quarter of 2012*

Consumers in the 50 to 59 year-old bracket posted the highest confidence level during the first quarter of 2012, as the index for this age segment averaged 36.1. Also, consumers in the 60 and above year-old bracket posted the highest confidence level during the second quarter of 2012, as the index for this segment averaged 32.5. This differed from the results of the July 2007-December 2011 period when consumers between 21 and 29 years old held the highest level of consumer confidence in 41 out of 54 months, representing a 75.9% frequency of occurrence.

Further, consumers in the 21 to 29 year-old bracket registered a confidence level of 37.2 in January, constituting the highest reading among age segments in the month's survey; while citizens aged 60 years and

older displayed the highest level of confidence in February (40), April (34.2) and June (31), and those between 50 and 59 years old posted the highest reading in March (36.9) and May 2012 (34.8).

In parallel, consumers across all age brackets recorded their lowest level of confidence in 20 quarters during the second quarter of 2012. Also, on a monthly basis, consumer sentiment across all age brackets reached a 60-month low in June 2012, while that of consumers aged between 40 and 49 years was lowest in March 2012.

Byblos Bank/AUB Consumer Confidence Index by Age					
Month	21-29 yrs	30-39 yrs	40-49 yrs	50-59 yrs	≥60 yrs
Jan-12	37.2	34.3	33.5	35.4	35.3
Feb-12	33.8	31.1	29.3	36.2	40.0
Mar-12	35.7	35.8	23.1	36.9	32.3
Av. Index Q1 2012*	35.6	33.7	28.6	36.1	35.9
Apr-12	25.8	25.4	27.1	33.0	34.2
May-12	30.8	29.1	25.9	34.8	32.2
Jun-12	23.8	21.7	29.5	23.2	31.0
Av. Index Q2 2012*	26.8	25.4	27.5	30.3	32.5

\* average monthly index

Source: Byblos Research and AUB, based on surveys conducted by Statistics Lebanon

### C - CONSUMER CONFIDENCE BY OCCUPATION

Students displayed the highest level of confidence in relative terms during the first quarter of 2012, as the index for this segment averaged 43.5 during the covered period. They were followed by the unemployed with an average level of confidence of 38 and the self-employed with an average reading of 37.3 during the three-month period. Public sector employees posted the lowest level of confidence during the quarter at 17.

Further, the self-employed has the highest level of confidence during the second quarter of 2012, as the index averaged 30.6 for this segment. They were followed by private sector employees with an average level of confidence of 30.1 and students with an average level of confidence of 28.9 during the quarter. Public sector employees still posted the lowest level of confidence during the second quarter at only 13.5.

The first-half results indicate that the self-employed showed the highest level of confidence in the January and June polls at 40.5 and 30.1, respectively; unemployed citizens registered the highest level of confidence, in February at 38.1, for which is only the fourth time since the start of the index's calculation; while students had the highest confidence level in March, April and May 2012.

On a quarterly basis, the consumer confidence of all the six occupational sub-categories reached an all-time low in the second quarter of 2012. On a monthly basis, the level of consumer confidence for private sector em-

*The self-employed displayed the highest level of confidence during the second quarter of 2012*

ployees, public sector employees and students posted a 60-month low in June 2012, while that of the self-employed posted a 60-month low in May 2012, and that of housewives and the unemployed posted a 60-month low in April 2012.

Byblos Bank/AUB Consumer Confidence Index by Occupation						
Month	Private Sector Employee	Public Sector Employee	Self-employed	Student	Housewife	Unemployed
Jan-12	39.0	18.4	40.5	33.8	20.9	38.5
Feb-12	31.2	16.3	36.5	37.4	27.7	38.1
Mar-12	30.2	16.3	34.9	59.2	24.2	37.4
Av. Index						
Q1 2012*	33.5	17.0	37.3	43.5	24.3	38.0
Apr-12	28.8	17.9	31.6	34.3	18.7	24.1
May-12	37.0	18.9	30.0	37.0	21.1	33.7
Jun-12	24.5	3.8	30.1	15.5	20.9	25.2
Av. Index						
Q2 2012*	30.1	13.5	30.6	28.9	20.2	27.7

\* average monthly index

Source: Byblos Research and AUB, based on surveys conducted by Statistics Lebanon

## D - CONSUMER CONFIDENCE BY INCOME

Consumers with a household income above \$2,000 per month posted the highest level of confidence during the first half 2012, in line with the results of the July 2007-December 2011 period, as the index for this income level averaged 60.1 during the first quarter and 47.8 during the second quarter of 2012. Consumers with household income between \$1,001 and \$2,000 had the second highest level of confidence among all income brackets in the first quarter of 2012 with an average index reading of 38.3. Moreover, consumers with household income below \$500 had the second highest level of confidence in the second quarter of 2012 with an average index reading of 30.2, likely driven by the raise of the minimum wage.

*Consumers with household income above \$2,000 per month posted the highest level of confidence during the first half of the year*

The first-half results indicate that consumers with household income above \$2,000 per month held the highest confidence level by income bracket in each of the first six months of the year. On the other hand, consumers with household income between \$501 and \$1,000 per month held the lowest confidence level by income bracket in each of January, February, March, April, May and June.

In parallel, the level of consumer confidence of all the four income sub-categories reached a 20-quarter low in the second quarter of 2012. Over the July 2007-June 2012 period, consumers with a monthly household income below \$500 posted their lowest monthly level of confidence in the February 2012 poll, while those with a household income between \$501 and \$1,000, and between \$1,001 and \$2,000 per month displayed an all-time low in June 2012, while those with household income above \$2,001 displayed an all-time low in June 2012.

Byblos Bank/AUB Consumer Confidence Index by Income*				
Month	≤\$500	\$501-\$1,000	\$1,001-\$2,000	≥\$2,001
Jan-12	35.2	30.4	38.6	50.9
Feb-12	25.8	25.7	45.8	71.5
Mar-12	38.4	26.2	30.5	58.0
Av. Index Q1 2012**	33.1	27.5	38.3	60.1
Apr-12	29.8	25.0	25.5	45.1
May-12	31.3	24.8	35.0	40.2
Jun-12	29.4	18.2	20.8	58.2
Av. Index Q2 2012**	30.2	22.6	27.1	47.8

\* monthly household income

\*\* average monthly index

Source: Byblos Research and AUB, based on surveys conducted by Statistics Lebanon

### E - CONSUMER CONFIDENCE BY ADMINISTRATIVE DISTRICT

Consumers in Beirut had the highest confidence level during the first half of 2012, as the index for the region averaged 42.3 in the first quarter and 36.2 in the second quarter of 2012. The only other instance where Beirut recorded the highest quarterly average confidence level among administrative districts during the July 2007-December 2011 period was in the fourth quarter of 2007. Each of Mount Lebanon and North Lebanon posted the second highest confidence level during the two quarters, followed by the South.

*Consumers in Beirut had the highest confidence level during the first half of 2012*

The results of the first half show that consumers from Beirut registered the highest level of confidence among administrative districts in the January, February, May and June polls, with index readings of 44.2, 49.2, 41 and 43.7, respectively; while North Lebanon posted the highest confidence level in March at 44.2 and Mount Lebanon in April 2012 at 41.

Consumers in all five administrative districts posted their lowest confidence level in the second quarter of 2012 since the start of the survey in the third quarter of 2007. Over the July 2007-June 2012 period, consumers in Beirut posted their lowest monthly confidence level in April 2012, while those from Mount Lebanon and the North posted the lowest confidence in June 2012. Also, the Bekaa region hit a 60-month low among administrative districts as well as among all 26 sub-categories of the Byblos Bank/AUB Consumer Confidence Index in June 2012.

Byblos Bank/AUB Consumer Confidence Index by Administrative District					
Month	Beirut	Mount Lebanon	North	Bekaa	South
Jan-12	44.2	41.3	37.5	4.6	39.7
Feb-12	49.2	38.1	34.8	8.3	27.9
Mar-12	33.5	37.2	44.2	7.9	33.4
Av. Index Q1 2012*	42.3	38.9	38.9	6.9	33.7
Apr-12	23.8	41.0	31.1	4.0	19.6
May-12	41.0	36.8	33.0	5.1	25.4
Jun-12	43.7	27.6	28.3	3.8	18.4
Av. Index Q2 2012*	36.2	35.1	30.8	4.3	21.1

\* average monthly index

Source: Byblos Research and AUB, based on surveys conducted by Statistics Lebanon

## F - CONSUMER CONFIDENCE BY RELIGIOUS AFFILIATION

Christian consumers registered the highest confidence level during the first half of 2012, in line with the results of the July 2007-December 2011 period, as the index for this sub-category averaged 42.4 during the first quarter and 39.3 during the second quarter of 2012. Druze consumers posted the second highest confidence level during the first half, followed by Sunnis, and the Shiites.

The first-half results indicate that Christian consumers had the highest confidence level in January, March, April, May and June; while Druze consumers posted the highest level of confidence among religious affiliations in February at 42.3. Conversely, the Shiites were the least confident consumers in each of the first six months of 2012.

The confidence level of consumers across all religious affiliations reached a 20-quarter low during the second quarter of 2012. Over the July 2007-June 2012 period, Sunni consumers posted their lowest level of confidence in the April 2012 poll, while each of Christian, Shiite and Druze consumers posted their lowest confidence level in June 2012.

Byblos Bank/AUB Consumer Confidence Index by Religious Affiliation				
Month	Christians	Sunnis	Shiites	Druze
Jan-12	43.3	32.9	21.9	40.5
Feb-12	41.2	32.5	16.6	42.3
Mar-12	42.8	33.2	20.1	21.7
Av. Index Q1 2012*	42.4	32.9	19.5	34.8
Apr-12	41.3	17.6	11.0	38.8
May-12	40.4	28.8	14.2	28.5
Jun-12	36.3	27.6	7.2	13.3
Av. Index Q2 2012*	39.3	24.7	10.8	26.9

\* average monthly index

Source: Byblos Research and AUB, based on surveys conducted by Statistics Lebanon

## IV - Consumers' Responses to Select Survey Questions

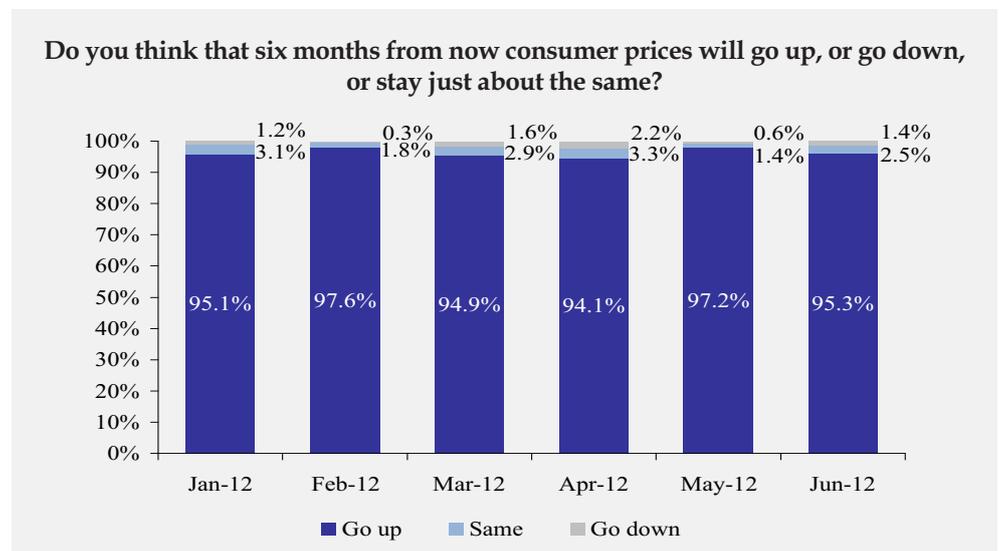
### A - CONSUMER PRICES

The 60 monthly surveys conducted from July 2007 till June 2012 show that the majority of consumers tend to believe that inflation rates will increase, as they stated in each of the surveys that they believe consumer prices will increase over the next six months.

On a quarterly basis, 95.9% of respondents polled during the first quarter of 2012 believe that consumer prices will go up over the next six months, which is the highest such proportion of respondents since the launch of the index. Also, 95.5% of respondents interviewed during the second quarter of 2012 indicated that they believe consumer prices will increase in the coming six months. In contrast, the fourth quarter of 2008 posted the highest proportion of respondents (28.5%) in 20 quarters who considered that consumer prices will decline in the coming six months.

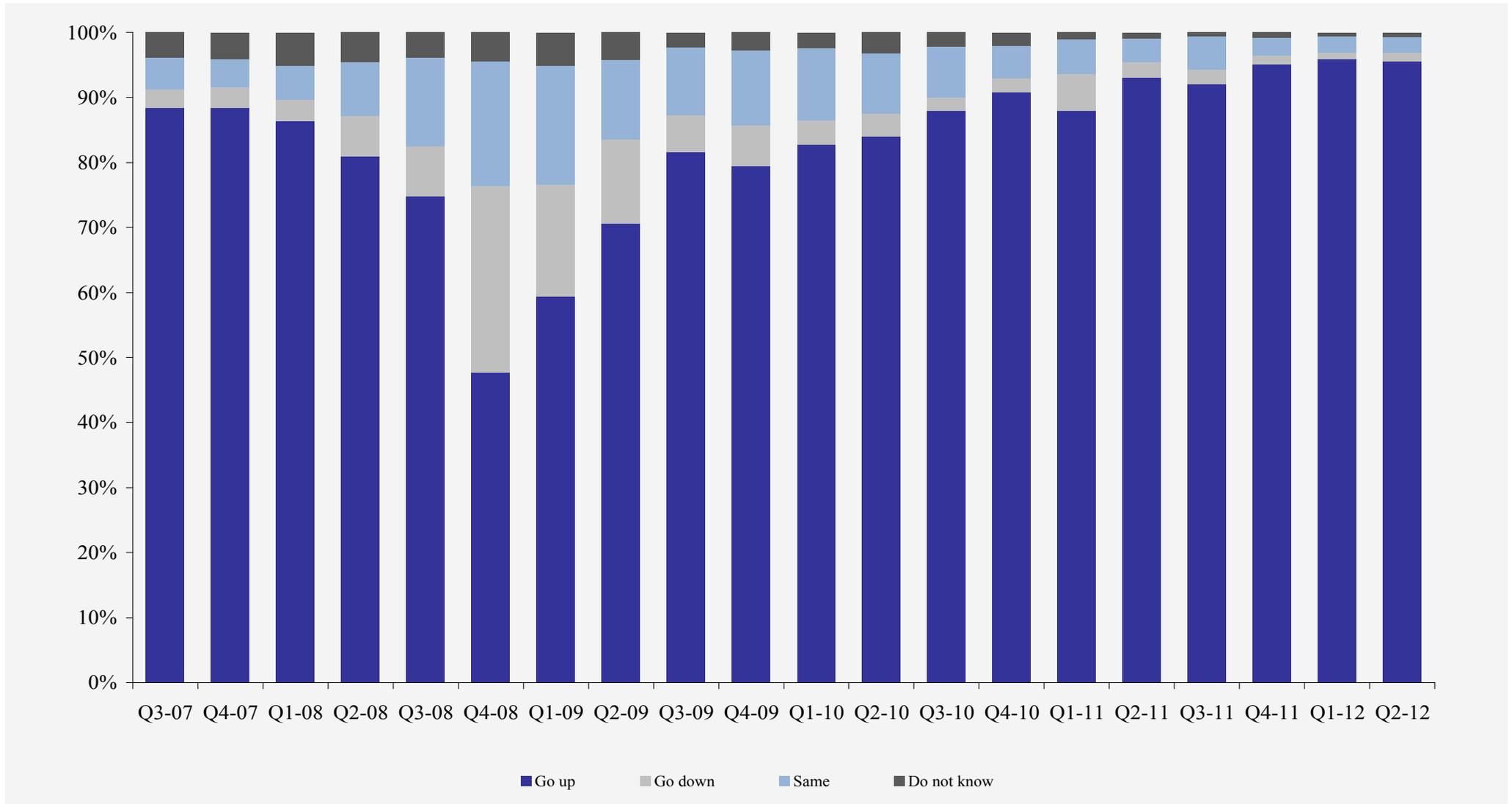
*Nearly 96% of respondents consider that consumer prices will rise in the next six months*

The February 2012 survey revealed that 97.6% of respondents considered that consumer prices will rise in the next six months, which is the highest such monthly percentage since the survey's inception. The percentage of consumers who replied in February 2012 that consumer prices will increase in the coming six months grew by 2.5 percentage points from 95.1% in January and by 2.7 percentage points from 94.9% in December 2011. This reflects the gradual rise in prices of basic commodities that was felt by consumers after the government decided to increase the minimum wage and to raise other salary brackets in the private sector. It also reflects the high cost of day-to-day services such as electricity, gasoline, and telecommunications.



Source: Byblos Research and AUB, based on surveys conducted by Statistics Lebanon

Do you think that six months from now consumer prices will go up, or go down, or stay just about the same?



Source: Byblos Research and AUB, based on surveys conducted by Statistics Lebanon

## B - UNEMPLOYMENT LEVEL

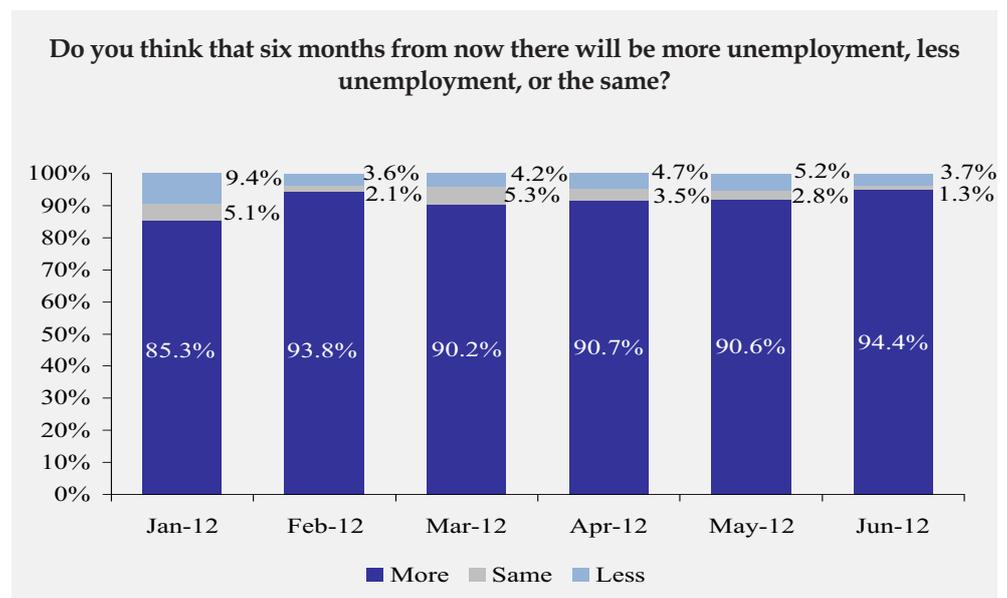
The 60 monthly surveys conducted from July 2007 till June 2012 show that the majority of consumers believe that the level of unemployment would rise over the following six months. During the first quarter of 2012, 89.8% of respondents expected the unemployment level to rise over the coming six months. Also, 91.9% of respondents interviewed over the second quarter of this year believe that the unemployment level will increase over the following six months, which constitutes the highest such percentage on a quarterly basis since the index's inception. In contrast, the fourth quarter of 2008 posted the lowest percentage of respondents (68.1%) who expected that unemployment will increase in six months' time.

*Nearly 92% of respondents in the second quarter of 2012 expected the unemployment level to rise over the following six months*

The May 2008 survey posted the highest proportion of respondents (32.9%) over the July 2007-June 2012 period who expected the unemployment level to decline during the six months ahead, as Lebanese consumers gained confidence following the Doha Accord that the changed political outlook would lead to economic growth and job opportunities.

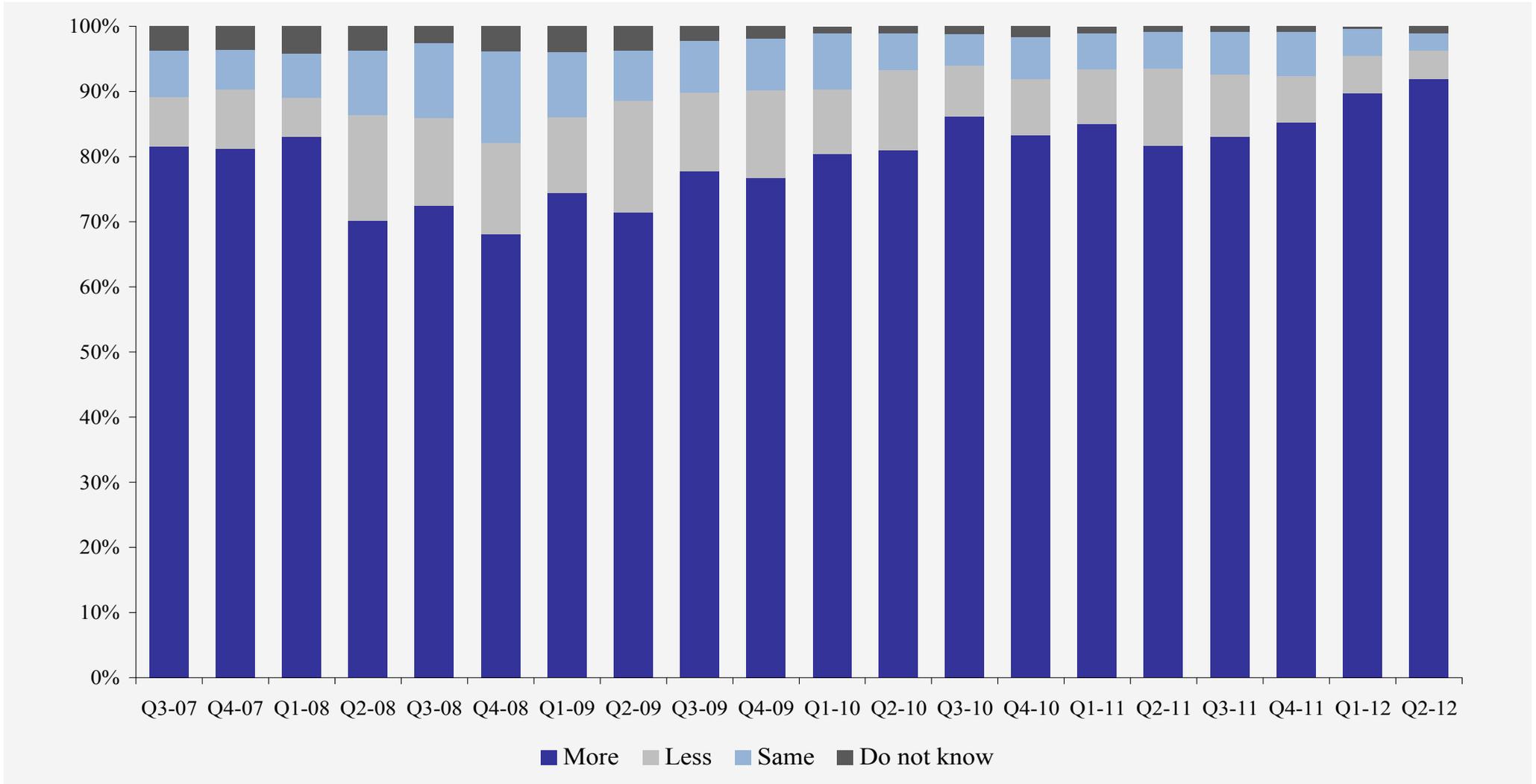
In parallel, the second quarter of 2009 had the highest percentage of respondents (17%) in 20 quarters who expected that unemployment will decline in the coming six months.

Consumers' expectations about unemployment was highest in the June 2012 poll, as 94.4% of respondents expected that the unemployment level will rise over the coming six months, up by 3.8 percentage points from 90.6% in May 2012. Conversely, only 3.7% of the respondents in the June 2012 survey expected that the unemployment level will decline, down from 5.2% in May of the same year.



Source: Byblos Research and AUB, based on surveys conducted by Statistics Lebanon

Do you think that six months from now there will be more unemployment, less unemployment, or the same?



Source: Byblos Research and AUB, based on surveys conducted by Statistics Lebanon

**Economic Research & Analysis Department  
Byblos Bank Group  
P.O. Box 11-5605  
Beirut - Lebanon  
Tel: (961) 1 338 100  
Fax: (961) 1 217 774  
E-mail: [research@byblosbank.com.lb](mailto:research@byblosbank.com.lb)  
[www.byblosbank.com](http://www.byblosbank.com)**

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**BYBLOS BANK GROUP****LEBANON**

Byblos Bank S.A.L  
Achrafieh - Beirut  
Elias Sarkis Avenue - Byblos Bank Tower  
P.O.Box: 11-5605  
Riad El Solh - Beirut 1107 2811 - Lebanon  
Phone: (+ 961) 1 335200  
Fax: (+ 961) 1 339436

**SYRIA**

Byblos Bank Syria S.A.  
Damascus Head Office  
Al Chaalan - Amine Loutfi Hafez Street  
P.O.Box: 5424 Damascus - Syria  
Phone: (+ 963) 11 9292 - 3348240/1/2/3/4  
Fax: (+ 963) 11 3348205  
E-mail: byblosbanksyria@byblosbank.com

**IRAQ**

Erbil Branch, Kurdistan, Iraq  
Street 60, Near Sports Stadium  
P.O.Box: 34 - 0383 Erbil - Iraq  
Phone: (+ 964) 66 2233457/8/9 - 2560017/9  
E-mail: erbilbranch@byblosbank.com.lb

Baghdad Branch, Iraq  
Al Karrada - Salman Faeq Street  
Al Wahda District, No. 904/14  
Facing Al Shuruk Building  
P.O.Box: 3085 Badalat Al Olwiya – Iraq  
Phone: (+ 964) 770 6527807  
(+ 964) 780 9133031/2  
E-mail: baghdadbranch@byblosbank.com.lb

**UNITED ARAB EMIRATES**

Byblos Bank Abu Dhabi Representative Office  
Intersection of Muroor and Electra Streets  
P.O.Box: 73893 Abu Dhabi - UAE  
Phone: (+ 971) 2 6336050 - 2 6336400  
Fax: (+ 971) 2 6338400  
E-mail: abudhabirepoffice@byblosbank.com.lb

**ARMENIA**

Byblos Bank Armenia CJSC  
18/3 Amiryan Street - Area 0002  
Yerevan - Republic of Armenia  
Phone: (+ 374) 10 530362  
Fax: (+ 374) 10 535296  
E-mail: infoarm@byblosbank.com

**CYPRUS**

Limassol Branch  
1, Archbishop Kyprianou Street  
Loucaides Building  
P.O.Box 50218  
3602 Limassol - Cyprus  
Phone: (+ 357) 25 341433/4/5  
Fax: (+ 357) 25 367139  
E-mail: byblosbankcyprus@byblosbank.com.lb

**BELGIUM**

Byblos Bank Europe S.A.  
Brussels Head Office  
Rue Montoyer 10  
Bte. 3, 1000 Brussels - Belgium  
Phone: (+ 32) 2 551 00 20  
Fax: (+ 32) 2 513 05 26  
E-mail: byblos.europe@byblosbankeur.com

**UNITED KINGDOM**

Byblos Bank Europe S.A., London Branch  
Berkeley Square House - Suite 5  
Berkeley Square  
GB - London W1J 6BS - United Kingdom  
Phone: (+ 44) 207 493 3537  
Fax: (+ 44) 207 493 1233  
E-mail: byblos.europe@byblosbankeur.com

**FRANCE**

Byblos Bank Europe S.A., Paris Branch  
15 Rue Lord Byron  
F- 75008 Paris - France  
Phone: (+33) 1 45 63 10 01  
Fax: (+33) 1 45 61 15 77  
E-mail: byblos.europe@byblosbankeur.com

**SUDAN**

Byblos Bank Africa  
Khartoum Head Office  
Intersection of Mac Nimer and Baladiyya Streets  
P.O.Box: 8121 - Khartoum - Sudan  
Phone: (+ 249) 1 56 552 222  
Fax: (+ 249) 1 56 552 220  
E-mail: byblosbankafrica@byblosbank.com

**NIGERIA**

Byblos Bank Nigeria Representative Office  
161C Rafu Taylor Close - Off Idejo Street  
Victoria Island, Lagos - Nigeria  
Phone: (+ 234) 706 112 5800  
(+ 234) 808 839 9122  
E-mail: nigeriarepresentativeoffice@byblosbank.com.lb

**DEMOCRATIC REPUBLIC OF CONGO**

Byblos Bank RDC S.A.R.L  
Avenue du Marché No. 4  
Kinshasa-Gombe, Democratic Republic of Congo  
Phone: (+ 243) 81 7070701  
(+ 243) 99 1009001  
E-mail: byblosbankrdc@byblosbank.com

**ADIR INSURANCE**

Dora Highway - Aya Commercial Center  
P.O.Box: 90-1446  
Jdeidet El Metn - 1202 2119 Lebanon  
Phone: (+ 961) 1 256290  
Fax: (+ 961) 1 256293