

# CONSUMER CONFIDENCE IN LEBANON

## THE BYBLOS BANK/AUB CONSUMER CONFIDENCE INDEX

*Second Half 2014 Results and Analysis*

### Modest Improvement in Consumer Confidence in Second Half of 2014 from near Record-Low Level

#### CONTENTS

- I - Analysis of Results
  - A - Analysis on a Calendar Basis
  - B - Timeline Analysis
  - C - Analysis of Present Situation & Expectations Indices
  - D - General Trends
  - E - Consumer's Near-Term Outlook
- II - Results by Category
  - A - Consumer Confidence by Gender
  - B - Consumer Confidence by Age
  - C - Consumer Confidence by Occupation
  - D - Consumer Confidence by Income
  - E - Consumer Confidence by Administrative District
  - F - Consumer Confidence by Religious Affiliation
- III- Consumers' Responses to Select Survey Questions
  - A- Demand for Cars

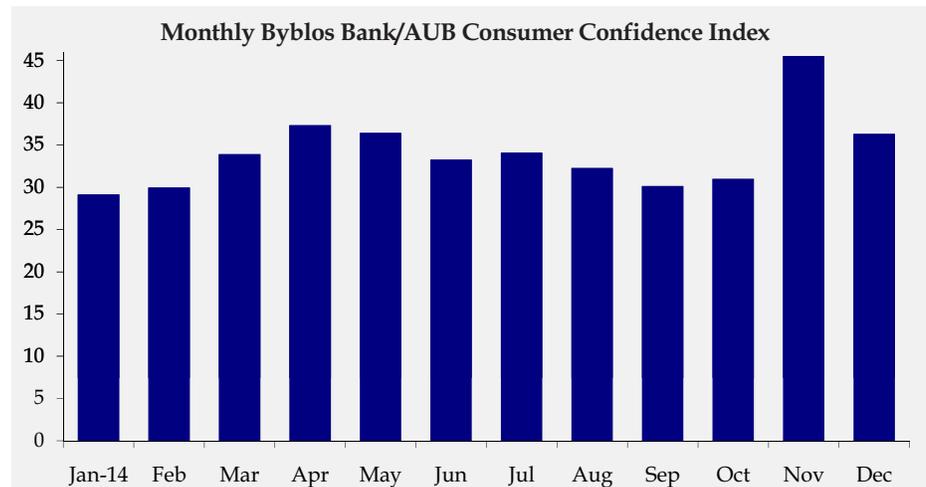
#### HIGHLIGHTS

- The Byblos Bank/ AUB Consumer Confidence Index recorded a monthly average of 34.9 in the second half of 2014, up by 4.6% from the first half of the year, and constituting the index's sixth lowest level on a semi-annual basis.
- The Byblos Bank/ AUB Consumer Confidence Index posted a monthly average of 32.2 in the third quarter of 2014, down by 9.8% from the second quarter of the year. The Parliament's failure to elect a President, security breaches, the public policy stalemate and spillovers from the conflict in Syria negatively affected sentiment in the third quarter.
- The Byblos Bank/ AUB Consumer Confidence Index reached 37.6 in the fourth quarter of 2014 and rose by 17% from the preceding three months. The improvement in security conditions, the reduction in telecom tariffs, the domestic impact of the decline in global oil prices and the launch of a food safety campaign supported sentiment in the fourth quarter of the year.
- The results of the fourth quarter of 2014 are the Byblos Bank/ AUB Consumer Confidence Index's highest outcome since the fourth quarter of 2011, but constitute the 12th lowest results since the index's inception.
- The Byblos Bank/ AUB Present Situation and Expectations indices posted their sixth lowest semi-annual readings in the second half of 2014 since the index's inception.
- The near-term expectations of households were lower than their views of their current conditions during the second half of 2014.
- The negative gap between the Expectations Index and the Present Situation Index widened significantly in the third quarter, but narrowed in the fourth quarter of 2014.
- In December 2014, nearly 95% of surveyed consumers did not have plans to buy a car in the coming six months.

# I - Analysis of Results

## A - ANALYSIS ON A CALENDAR BASIS

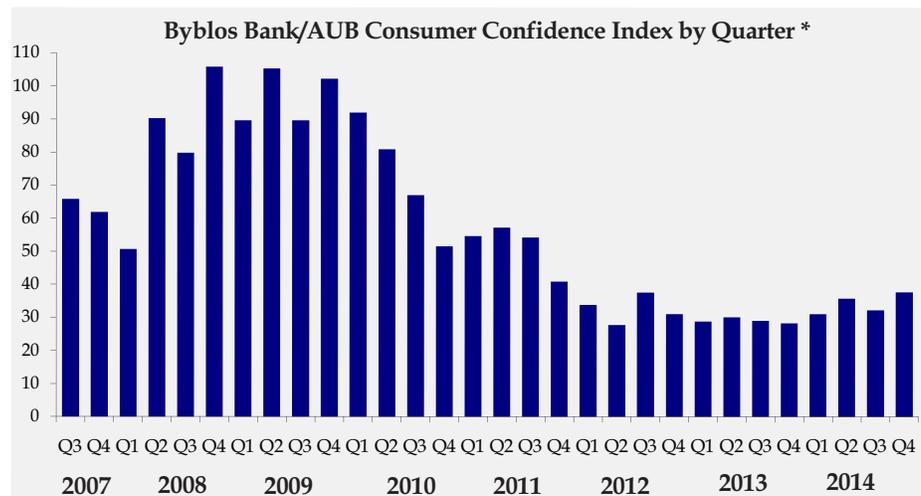
The level of consumer confidence in Lebanon remained at low levels during the third and fourth quarters of 2014, as reflected by the results of the Byblos Bank/AUB Consumer Confidence Index. The Index reached 34.1 in the July 2014 survey, up by 2.5% from 33.3 in June 2014. It then decreased by 5.4% to 32.3 in August and by another 6.6% to 30.1 in September 2014. The index improved in the fourth quarter of 2014, as it registered 31 in the October 2014 survey and increased by 2.8% from the previous month. It then jumped by 47% to 45.5 in November, reaching its highest level since August 2012, but regressed by 20.2% to 36.3 in December 2014. The confidence level of Lebanese consumers improved in the last two months of 2014, as the improvement in the security situation, the substantial pass-through of the drop in global oil prices and the reduction in telecom tariffs, as well as the start of a food safety campaign, put a floor to the deterioration in sentiment.



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

Overall, the second-half results of the Byblos Bank/AUB Consumer Confidence Index improved from the first half of 2014, but the index remained at very low levels, given the prevailing uncertainties and the ensuing anxiety of Lebanese households. The Index posted an average monthly value of 34.9 during the second half of 2014, constituting an increase of 4.6% from the first half of the year, and reached its highest level since the second half of 2011. But the second-half results constituted the index's sixth-lowest level on a semi-annual basis, and the results remained consistent with the ongoing trend of low consumer sentiment in the country that has prevailed since the first quarter of 2012.

Consumer confidence picked up in the fourth quarter of 2014



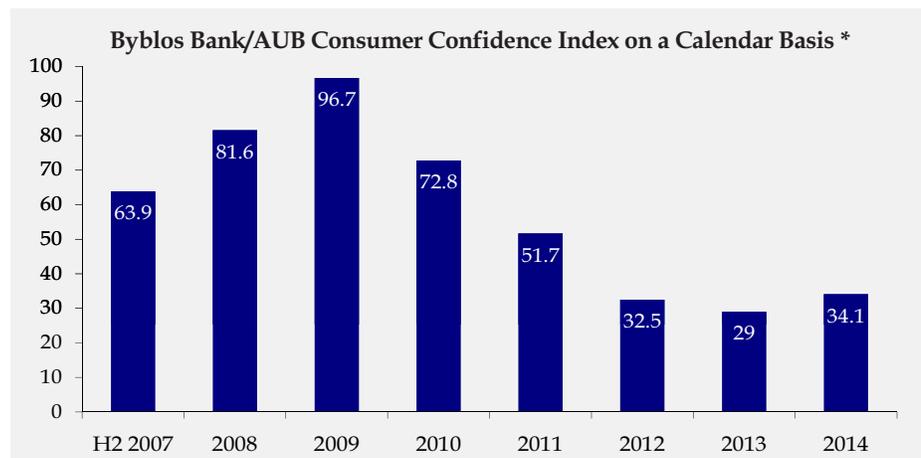
\* monthly average index by quarter

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

The Byblos Bank/ AUB Consumer Confidence Index averaged 32.2 in the third quarter of 2014, its eighth-lowest reading in 30 quarters. It also averaged 37.6 in the fourth quarter of 2014, the 12th-lowest quarterly result since the start of the index's calculation. The average score of the second half of 2014 declined substantially from the period of high confidence, as it decreased by 64.2% from the peak of 97.5 registered in the first half of 2009.

On an annual basis, the results of 2014 show that consumer sentiment recovered during the year from a record-low level in 2013. Indeed, the Byblos Bank/ AUB Consumer Confidence Index posted a monthly average of 34.1 in 2014, an increase of 17.6% from an average of 29 in 2013. Still, the level of consumer sentiment in 2014 reflected a decline of 64.7% from the index's peak of 96.7 in 2009, given the prevailing sense of instability, uncertainty and caution among Lebanese consumers.

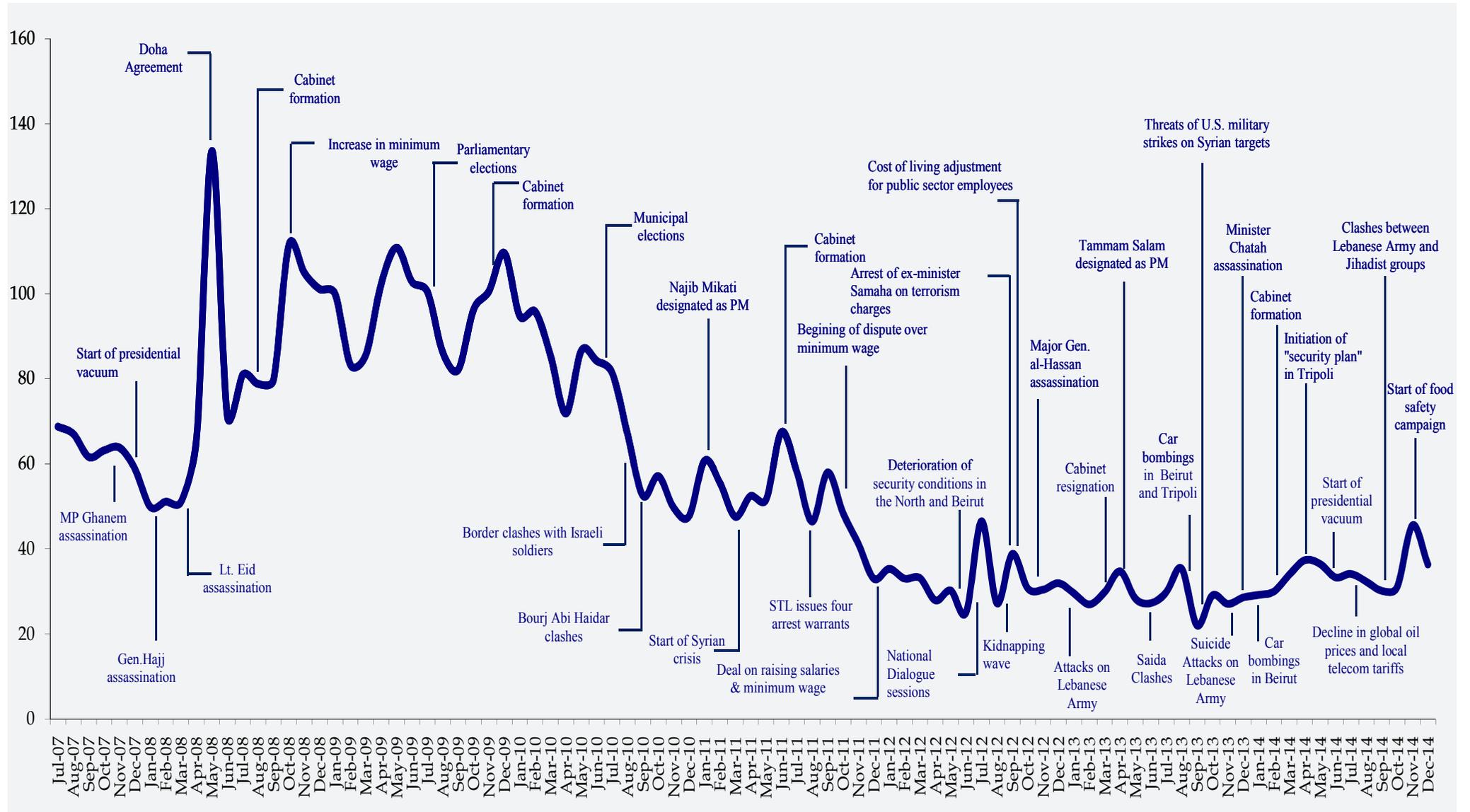
Household sentiment remained at low levels in 2014 despite improving from 2012 and 2013



\* monthly average index for the period

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

## Evolution of the Byblos Bank/AUB Consumer Confidence Index (July 2007-December 2014)



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

Results of the Byblos Bank/AUB Consumer Confidence Index, the Byblos Bank/AUB Present Situation Index and the Byblos Bank/AUB Expectations Index						
	Q3 2014			Q4 2014		
	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14
<b>CCI*</b>	<b>34.1</b>	<b>32.3</b>	<b>30.1</b>	<b>31.0</b>	<b>45.5</b>	<b>36.3</b>
Month-on-month change (%)	2.5%	-5.4%	-6.6%	2.8%	47%	-20.2%
Year-on-year change (%)	14.6%	-8.7%	37.1%	6.7%	68.4%	27.2%
<b>PSI**</b>	<b>35.2</b>	<b>35.9</b>	<b>33.2</b>	<b>32.4</b>	<b>46.8</b>	<b>36.9</b>
Month-on-month change (%)	-6.2%	1.8%	-7.6%	-2.3%	44.6%	-21.2%
Year-on-year change (%)	35.8%	-4.1%	62.1%	4.4%	45.2%	17.7%
<b>EI***</b>	<b>33.4</b>	<b>29.9</b>	<b>28.1</b>	<b>30.1</b>	<b>44.7</b>	<b>35.9</b>
Month-on-month change (%)	9.6%	-10.4%	-5.9%	6.9%	48.6%	-19.5%
Year-on-year change (%)	3.2%	-12%	22.2%	8.4%	89.6%	34.6%

\* CCI: Byblos Bank/AUB Consumer Confidence Index

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

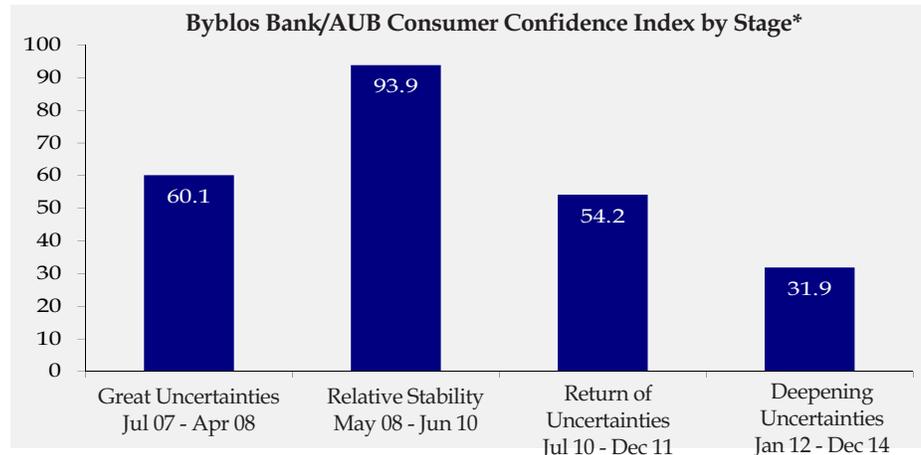
\*\*\* EI: Byblos Bank/AUB Expectations Index

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

## B -TIMELINE ANALYSIS

The results of the third and fourth quarters of 2014 upheld the trend in consumer confidence that started in January 2012. We have identified four distinct periods in the history of the Byblos Bank/ AUB Consumer Confidence Index: a period of Great Uncertainties, one of Relative Stability, a Return of Uncertainties phase, and a fourth of Deepening Uncertainties. The first period started in July 2007 and ended 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 was 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 stretched from July 2010 to December 2011, saw the return of uncertainties and an increase in political risks, as the Index averaged 54.2 during the 18-month period. The fourth period started in January 2012, with the index averaging 31.3 during the 30 months ending in June 2014. It was a “very high risk” period where political and institutional paralysis increased, while security conditions deteriorated, which helped worsen consumer sentiment. The results of the third and fourth quarters of 2014 extended and confirmed the Deepening Uncertainties period as the index averaged 31.9 over the January 2012-December 2014 period, constituting the lowest level of consumer confidence over the four periods.

*The period of deepening uncertainties extended into the second half of 2014*



\* monthly average index for the period

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

## C - ANALYSIS OF PRESENT SITUATION & EXPECTATIONS INDICES

*The Expectations Index was lower than the Present Situation Index over the second half of 2014*

The Byblos Bank/ AUB Present Situation Index and the Byblos Bank/ AUB Expectations Index moved in different directions in two out of three months of the third quarter of 2014. As such, the Present Situation Index decreased by 6.2% in July, increased by 1.8% in August and declined by 7.6% in September 2014; while the Expectations Index improved by 9.6% in July, regressed by 10.4% in August and decreased by 5.9% in September. In contrast, the two indices moved in the same direction during two out of three months in the fourth quarter of 2014. The Present Situation Index decreased by 2.3% in October, jumped by 44.6% in November and declined by 21.2% in December; while the Expectations Index improved by 6.9% in October, rose by 48.6% in November and fell by 19.5% in December 2014. The Present Situation Index regressed by 8% in the third quarter but improved by 11.4% in the fourth quarter of 2014, while the Expectations Index declined by 11.2% in the third quarter of 2014 but grew by 21.1% in the last three months of the year. Still, the Byblos Bank/ AUB Present Situation and Expectations indices posted their sixth-lowest semi-annual readings each during the second half of 2014. Also, the Present Situation and Expectations indices averaged 34.7 and 30.5, respectively, in the third quarter of 2014, constituting their ninth- and fifth-lowest quarterly readings, respectively, in 30 quarters. Further, the Present Situation and Expectations indices posted averages of 38.7 and 36.9 in the fourth quarter of the year, constituting their 13th- and 12th-lowest quarterly readings, respectively, since the start of the index's calculation. Generally, Lebanese consumers are more optimistic about future conditions over the near term than they are about their current situation. Indeed, there were only 10 out of 30 quarters between July 2007 and December 2014 when Lebanese consumers were more, or equally, pessimistic about the future than they were about present circumstances. But consumers were more pessimistic about the future than about present conditions in the third and fourth quarters of 2014. This trend demonstrates consumers' still uncertain outlook and raises alarms over the depth of their concerns.

## D - GENERAL TRENDS

*Political uncertainties and the deterioration of security conditions weighed negatively on sentiment in the third quarter*

Consumer confidence in Lebanon improved in relative terms during the second half of 2014, as a pick up in the fourth quarter of the year offset the retreat of the third quarter. But, sentiment remained very sensitive to political and security developments during the covered period, in line with trends since the Index's inception in July 2007. The domestic political status-quo, the relative deterioration in security conditions, the presidential vacuum and paralyzed decision-making process within public institutions, in addition to the persistent spillovers from the Syrian conflict, combined to keep confidence at low levels. Indeed, several developments had a negative impact on the confidence of Lebanese consumers during the covered period: the Lebanese Army's military confrontation with jihadist groups in the Bekaa region in August and the ensuing abduction of more than 25 Lebanese military personnel, as well as the persisting high level of political uncertainties and volatility, took their toll on household sentiment.

*The downward momentum was reversed by positive security and socio-economic developments in the fourth quarter*

In parallel, the Lebanese Army's crackdown on suspected terrorists and the improvement in overall security conditions across the country in the fourth quarter of the year helped ameliorate consumer confidence. Moreover, economic and social factors contributed to the rise in sentiment, as the drop in telecom tariffs and the decline in global oil prices relieved somehow the stretched budgets of households, while the launch of a food safety campaign by the Ministry of Public Health helped reassure wary consumers. In turn, the rare positive socio-economic developments supported households' outlook towards the end of the year.

*The presidential vacuum and political neglect weighed negatively on consumer confidence in the second half of 2014*

The inability of Parliament to elect a President by the May 2014 constitutional deadline, followed by the chronic failure of the legislative branch to fulfill its constitutional duty throughout the remainder of the year, plunged the already fractious political process into disarray and raised the level of uncertainties, which took its toll on household sentiment. Indeed, the momentum created by the formation of the Cabinet in February 2014 led citizens to believe that this would carry over towards the crucial political milestone of electing the country's President by the May 25 constitutional deadline. But the refusal of several political parties represented in Parliament to even attend parliamentary sessions short-circuited the repeated attempts to elect a President in the second half of the year. In turn, this institutionalized the gridlock and perpetuated the presidential vacuum, which kept consumers' outlook dim as the year ended. Also, the Parliament's vote in November to extend its mandate for another two years and seven months raised households' already deep skepticism towards the political class and contributed to curtail their outlook.

The Syrian conflict, with all its ramifications, continued to affect consumers' sentiment during the second half of the year, as jihadist groups from Syria attacked in early August the Lebanese Army's positions in the Bekaa region at the Lebanese-Syrian border. The Lebanese Army prevailed after a five-day battle, but the militant groups managed to abduct 15 Lebanese soldiers and 16 members of the Internal Security Forces.

*Security breaches took their toll on household sentiment in the third quarter of 2014*

The deterioration of security conditions in the Bekaa took its toll on the outlook of consumers, as reflected by the decline in the Byblos Bank/ AUB Expectations Index, as well as by the widening of the gap between the Byblos Bank/ AUB Present Situation Index and the Expectations Index. Indeed, the Expectations Index regressed by 10.4% in August and by another 6% in September, as the monthly average value of the third quarter reached its fifth-lowest level ever. More alarmingly, the gap between the Present Situation Index and the Expectations Index widened from -5.3% in July to -16.7% in August and -15.2% in September. The Expectations Index registered lower values than the Present Situation Index in 27 out of 36 months since the start of 2012, including 11 out of 12 months in 2014. However, the spreads in August and September 2014 were the sixth and seventh widest, respectively, in 36 months, as well as the third and fourth widest in 2014, and the widest in the second half of 2014. This demonstrated the magnitude of the confrontations' impact on the perception of consumers and reflected the mounting anxiousness of households.

*Consumer confidence picked up in the fourth quarter of 2014 following positive developments*

Consumer sentiment improved in the fourth quarter of the year, especially in November and December, due to positive security, economic and political developments. First, security conditions improved during the last three months of the year after the sharp deterioration in the third quarter, as fears subsided that the confrontation between the Lebanese Army and jihadist groups could spread to other parts of the country. Indeed, the Army's success against the militant hordes solidified the population's already high level of trust in its military as a bulwark against instability. Also, the determined efforts of various military and security agencies stopped the frequent and deadly security breaches in major cities. Second, on the economic front, the substantial drop in global oil prices and the reduction of telecom tariffs in the second half of the year combined to raise the purchasing power of Lebanese households, with consumers materially and tangibly feeling this trend in the final two months of the year. Indeed, consumers benefited from the pass-through effect on local gasoline prices from the 50% drop in global crude oil prices in the second half of 2014. They also gained from the Ministry of Telecommunications' decision to reduce telecom tariffs by an average of 30% starting in June 2014.

Third, on the governance front, consumers' morale was boosted by the Ministry of Public Health's launch of a food safety campaign in November. The initiative consisted of a nationwide crackdown on food providers including, restaurants, factories, farms and slaughterhouses that did not meet the minimum health standards required by law. Fourth, on the political front, the long-awaited dialogue between the Future Movement and Hezbollah, that was first made public in November, began in December 2014.

These factors combined to put a floor to the deterioration of the Expectations Index and narrowed the gap between the Present Situation Index and the Expectations Index. Indeed, the average monthly value of the Expectations Index improved by 21% in the fourth quarter from the preceding three months, and reached its highest level during the year. Moreover, the gap between the Present Situation Index and the Expectations Index narrowed to -7.2% in October, to -4.6% in November and to -2.6% in December. Further, the spreads in November and December 2014 were the seventh and fifth narrowest, respectively, in 36 months, as well as the fourth and third narrowest in 2014, and the narrowest in the second half of 2014.

Looking at the full year, consumer confidence remained at very low levels despite its relative improvement from previous years. Security and safety-related issues dominated consumers' concerns during the year. But other powerful issues such as the long-standing political uncertainties, the continuing inability of authorities to satisfy citizens' basic needs, decaying public services, the weak rule of law, rising job insecurity, economic stagnation and socio-economic spillovers from the Syrian crisis resonated strongly among consumers. Consequently, the results of the Byblos Bank/AUB Consumer Confidence Index clearly reflect citizens' low confidence in the seriousness of the government, of public authorities and of political parties to bring about real stability and change, to meet their basic needs, as well as to improve their living standards and to provide a credible framework for economic opportunities.

*A significant rise in consumer confidence remains dependent on positive political shocks*

Overall, the level of the Byblos Bank/AUB Consumers Confidence Index in 2014 does not bode well for a substantial resurgence of economic activity in the near term. In fact, consumer sentiment remained at such low levels in 2014 that we reiterate that Lebanese consumers require a positive political shock of the magnitude of the Doha Accord, and not just the election of a new President, in order to restore their confidence to levels reached in 2008, 2009 and 2010. Therefore, we expect economic growth to remain subdued in the absence of any lasting positive political or economic shocks.

## E - CONSUMERS' NEAR-TERM OUTLOOK

The level of consumer confidence decreased in 22 out of the 26 sub-categories of the Byblos Bank/ AUB Consumer Confidence Index during the third quarter of 2014. However, consumer sentiment rose across all 26 sub-categories in the fourth quarter of 2014. On a semi-annual basis, the level of consumer sentiment improved in 20 out of 26 sub-categories in the second half of 2014 from the first half of the same year.

Male consumers had a relatively less pessimistic outlook for the coming six months than their female counterparts in the third quarter of 2014, while females had a relatively more optimistic outlook than males in the fourth quarter of the year. The average monthly reading of the Expectations Index was 31.5 for males compared to 29.4 for females in the third quarter of 2014, and reached 35.4 for males relative to 38.4 for females in the fourth quarter of the year. Overall, female consumers had a relatively less pessimistic outlook for the coming six months than their male counterparts during the second half of 2014.

Consumers who are in the 21 to 29 year-old bracket were less pessimistic over the near term than consumers in older age brackets during the third and fourth quarters of 2014. In contrast, consumers aged 60 years or older and those in the 50 to 59 year-old bracket were the most pessimistic among age groups during the third and fourth quarters of 2014, respectively. During the third quarter of 2014, private sector employees were the least pessimistic about economic prospects among occupational sub-categories, as the Expectations Index for this segment averaged 37.7 in the covered quarter. Freelancers and students followed with readings of 32.4 and 29.9, respectively. In the fourth quarter of the year, students were the least pessimistic with an average Expectations Index of 45.8, followed by public sector and private sector employees with readings of 41.1 and 39, respectively. The unemployed were the most pessimistic among all occupational categories during the third and fourth quarters of 2014.

*Younger consumers had a higher level of confidence in the second half of 2014*

In parallel, consumers with a monthly household income of \$2,500 or higher were less pessimistic relative to other income brackets during the second half of 2014, as the Expectations Index for this segment averaged 38.7. During the third quarter of 2014, consumers with earnings of \$2,500 or higher per month were less pessimistic than other income brackets, followed by consumers with a monthly household income of \$750 or less and households with earnings between \$1,500 and \$2,499 per month. Moreover, during the fourth quarter of the year, consumers with a household income of \$750 per month or less were the least pessimistic about future prospects relative to other income sub-categories, followed by consumers with a monthly household income of \$2,500 or more and those with earnings between \$1,500 and \$2,499 per month. During the fourth quarter, consumers with a household income between \$750 and \$1,499 per month had the most positive outlook among income sub-categories, as the Expectation Index for this segment rose by 29% during the quarter.

*Upper income consumers were the least pessimistic in the second half of 2014*

Consumers in the North had the least pessimistic outlook among the country's five administrative districts during the third and fourth quarters of 2014. Consumers in the Bekaa were the most pessimistic about future prospects dur-

ing the third quarter of 2014, while those in Beirut were more pessimistic than those in other administrative districts over the fourth quarter of the year.

In terms of religious affiliations, Christian consumers were the least pessimistic in the third quarter of 2014, followed by Sunni and Shiite consumers. In parallel, Shiite consumers were the least pessimistic about the near-term economic outlook during the fourth quarter of the year, followed by Christians and Sunnis. Druze consumers were the most pessimistic about future prospects during the third and fourth quarters of 2014.

## 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 Index is compiled, implemented and analyzed in line with international best practices and according to criteria from leading consumer confidence indices worldwide. The monthly field survey is conducted by Statistics Lebanon sarl, one of the leading market research and opinion polling firms in the country.

## II - Results by Category

### A - CONSUMER CONFIDENCE BY GENDER

The results of the Byblos Bank/ AUB Consumer Confidence Index show that male consumers recorded a relatively higher level of confidence than their female counterparts during the second half of 2014. The results are in line with a trend that started in the first half of 2011. Also, male and female consumers posted higher confidence levels of 36.1 and 33.7, respectively, in the second half of 2014 compared to confidence levels of 35.5 and 31.1, respectively, in the first half of the year.

Male and female consumers posted average confidence levels of 34.3 and 30.1, respectively, during the third quarter of 2014 and confidence levels of 38 and 37.2, respectively, in the fourth quarter of the year. As such, male and female consumers posted higher levels of confidence in the fourth quarter of 2014 from the preceding quarter. The third quarter results represent males' seventh-lowest level of confidence in 30 quarters, while females' confidence level posted the eighth-lowest score ever in the same quarter of 2014. Also, male and female consumers posted their 10th- and 12th-lowest quarterly results, respectively, in the fourth quarter of the year. Female consumers had a higher confidence level than their male counterparts in seven out of the first eight quarters since the index's inception in July 2007, but the trend reversed with males having a higher confidence level than females in 21 of the following 22 quarters.

On a monthly basis, the confidence level of males reached 30.7 in February and that of females was 27.5 in January 2014, reflecting the lowest levels reached in full year 2014. On average, male consumers had higher confidence levels than female consumers in 63 out of 90 months, representing a 70% frequency of occurrence since the index's inception in July 2007. Overall, male consumers had a higher level of confidence than their female counterparts in 2014, in line with a general trend that started in 2009. Both genders posted in 2014 their third-lowest annual confidence levels of 35.8 and 32.4, respectively.

*The confidence level of males was higher than that of females in the second half of 2014*

Byblos Bank/AUB Consumer Confidence Index by Gender		
Month	Male	Female
Jul-14	36.6	31.6
Aug-14	34.8	29.8
Sep-14	31.4	28.8
Av. Index Q3 2014*	34.3	30.1
Oct-14	32.6	29.4
Nov-14	44.3	46.7
Dec-14	37.1	35.6
Av. Index Q4 2014*	38.0	37.2

\* average monthly index

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

## B - CONSUMER CONFIDENCE BY AGE

Consumers in the 21 to 29 year-old bracket posted a higher level of confidence in the second half of 2014 than other age groups. This is consistent with the general trend since the index's inception, where consumers in this age bracket have posted the highest confidence level on a semi-annual basis, with the exception of the first and second halves of 2012.

*Younger consumers were the least pessimistic in the second half of 2014*

Consumers between 21 and 29 years old registered the highest confidence level during the third and fourth quarters of 2014, as the index for this age segment averaged 40.6 and 44.4, respectively. This is in line with the results of the July 2007-June 2014 period, with the exception of the third quarter of 2008, and the first, second and fourth quarters of 2012.

Further, consumers in the 21 to 29 year-old bracket produced the highest level of confidence among age segments in every month of the second half of 2014. In parallel, consumers in the 50 to 59 year-old bracket posted the lowest level of confidence in September (23.3), November (34.4) and December (22.9) during the second half of 2014.

On a monthly basis, consumers between 21 and 29 years old had the highest confidence level in 62 out of 90 months, representing a 68.9% frequency of occurrence. Overall, consumers in the 21 to 29 year-old bracket posted the highest level of confidence in 2014 among age groups, in line with the results in 2008, 2009, 2010, 2011 and 2013. The only exception was in 2012, when consumers who were 60 years or older had the highest level of confidence among all age groups.

Byblos Bank/AUB Consumer Confidence Index by Age					
Month	21-29 yrs	30-39 yrs	40-49 yrs	50-59 yrs	≥60 yrs
Jul-14	37.2	34.1	31.0	36.6	29.4
Aug-14	46.4	29.6	23.2	23.4	28.5
Sep-14	38.2	28.9	26.5	23.3	26.9
Av. Index Q3 2014*	40.6	30.8	26.9	27.7	28.3
Oct-14	38.1	30.4	24.6	26.6	30.0
Nov-14	52.1	45.0	44.5	34.4	46.5
Dec-14	43.1	37.3	34.3	22.9	37.8
Av. Index Q4 2014*	44.4	37.6	34.5	28.0	38.1

\* average monthly index

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

## C - CONSUMER CONFIDENCE BY OCCUPATION

*Private sector employees had the highest confidence level in the third quarter of 2014*

Students recorded a higher level of confidence relative to other occupational categories in the second half of 2014 with an average monthly reading of 41.1, constituting the 11th such occurrence in 15 semi-annual periods since the index's inception. Private sector employees were relatively more confident than other occupational categories during the third quarter of 2014, as the index for this segment averaged 38.3 in the covered period. They were followed by students with an average confidence level of 34, the self-employed (32.9), public sector employees (29.2), the unemployed (26.3) and housewives (24.1). However, students had the highest level of confidence during the fourth quarter of 2014 as the index averaged 48.3 for this segment. They were followed by public sector employees with an average reading of 40.8, private sector employees (40.5), the self-employed (35.3), housewives (34.9) and the unemployed (34.5).

The consumer confidence level of the unemployed reached its lowest level ever during the third quarter of 2014, with an average reading of 26.3. On a monthly basis, students were less pessimistic than other occupational groups in the August (44.8), November (64.3) and December (48.2) polls. Also, the self-employed recorded the highest level of confidence in the July poll at 40.1, while private sector employees were most optimistic in the September (37.3) and October (38.2) polls. Overall, students' sentiment was highest in 49 out of 90 months, representing a 54.4% frequency of occurrence; while private sector employees had a higher level of consumer confidence in 22 out of 90 months. In 2014, private sector employees posted the highest level of confidence among occupational categories, reflecting the first such instance since 2008. Historically, when excluding students, private sector employees had a higher level of sentiment than other occupational groups. In parallel, the unemployed posted their lowest level of confidence among occupational categories in 2014, constituting the third such instance since the index's inception. Also, two out of six occupational categories posted their lowest levels of confidence in 2014 when compared to previous years.

Byblos Bank/AUB Consumer Confidence Index by Occupation						
Month	Private Sector Employee	Public Sector Employee	Self-employed	Student	Housewife	Unemployed
Jul-14	38.3	29.4	40.1	24.3	28.9	23.0
Aug-14	39.5	30.6	28.4	44.8	20.9	32.8
Sep-14	37.3	27.6	30.3	32.9	22.4	23.1
Av. Index						
Q3 2014*	38.3	29.2	32.9	34.0	24.1	26.3
Oct-14	38.2	21.7	30.0	32.4	25.5	30.2
Nov-14	46.9	60.9	39.9	64.3	46.4	41.4
Dec-14	36.3	39.7	36.1	48.2	32.9	31.9
Av. Index						
Q4 2014*	40.5	40.8	35.3	48.3	34.9	34.5

\* average monthly index

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

## D - CONSUMER CONFIDENCE BY INCOME

The results of the Byblos Bank/AUB Consumer Confidence Index show that consumers with an income of \$2,500 or more per month had the highest level of confidence among income brackets in the second half of 2014. Consumer sentiment for this category posted an average reading of 47.4 in the second half of 2014, up from a confidence level of 42.4 in the first half of the year.

*Upper income consumers continued to be more optimistic than lower income citizens in the second half of 2014*

The Index shows that consumers with an income of \$2,500 or more per month recorded the highest level of confidence among income brackets in the third and fourth quarters of 2014, with average readings of 44.9 and 49.8, respectively. Conversely, consumers with an income between \$750 and \$1,499 per month had the lowest level of confidence among all income brackets in the third and fourth quarters of the year. The results show that consumers with a household income of \$2,500 or higher per month held the highest confidence level by income bracket every month in the second half of 2014.

Consumers with a monthly income of \$2,500 or higher were less pessimistic in full year 2014 than other income brackets. Consumers at this income level held the highest level of confidence in 11 out of 12 months, representing a 91.7% frequency of occurrence.

We have adopted in January 2014 four new income sub-categories for the Byblos Bank/AUB Consumer Confidence Index to reflect more accurately the monthly income distribution of Lebanese citizens. As such, respondents were selected from a random population sample of 5,474 and were questioned about their monthly income. As a result, the sample shows that 29.23% of individuals earn below \$750 per month, 36.54% of Lebanese have incomes between \$750 and \$1,499 per month, 23.86% of citizens earn between \$1,500 and \$2,499 per month, while 10.38% of individuals reported earnings at \$2,500 or higher per month.

Byblos Bank/AUB Consumer Confidence Index by Income*				
Month	<\$750	\$750-\$1,499	\$1,500-\$2,499	≥\$2,500
Jul-14	35.9	26.4	36.9	46.9
Aug-14	38.3	25.7	29.7	43.6
Sep-14	35.4	25.1	26.2	44.3
Av. Index Q3 2014**	36.6	25.7	30.9	44.9
Oct-14	36.2	24.3	30.5	44.1
Nov-14	49.9	38.3	45.3	57.4
Dec-14	39.0	30.4	36.0	48.0
Av. Index Q4 2014**	41.7	31.0	37.3	49.8

\* monthly household income

\*\* average monthly index

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

## E - CONSUMER CONFIDENCE BY ADMINISTRATIVE DISTRICT

Consumers in the North registered the highest level of confidence among administrative districts in the second half of 2014 with an average index reading of 42.1, constituting the fifth time since the index's inception that the district posts the highest level of confidence on a semi-annual basis.

Moreover, consumers in the North were the least pessimistic among all administrative districts in the third and fourth quarters of 2014, with average readings of the Byblos Bank/ AUB Consumer Confidence Index at 39.5 and 44.6, respectively. There were only eight other instances where the North recorded the highest confidence level on a quarterly basis among administrative districts during the July 2007-June 2014 period.

*Households in the North were the least pessimistic in 2014*

The results of the second half of 2014 show that consumers in the North registered the highest level of confidence among administrative districts in the August, September, October and December polls. Also, residents of Mount Lebanon posted the highest confidence level in July at 39.8 and residents of the South registered the highest level of confidence among administrative districts in November at 55.7.

Consumers in Mount Lebanon held the highest level of confidence in 25 out of 90 months, representing a 27.8% frequency of occurrence, followed by consumers in the North with an incidence of 26.7%, households in the South with 24.4%, Beirut consumers with 20% and households in the Bekaa with a frequency of 1.1%. Overall, consumers in the North posted the highest annual level of confidence among administrative districts in 2014, constituting the third such instance since 2008. Also, households in the Bekaa posted their lowest level of confidence ever in 2014.

Byblos Bank/AUB Consumer Confidence Index by Administrative District					
Month	Beirut	Mount Lebanon	North	Bekaa	South
Jul-14	28.4	39.8	35.7	26.3	31.5
Aug-14	25.1	33.0	45.3	24.1	28.2
Sep-14	24.9	34.0	37.4	19.3	27.0
Av. Index Q3 2014*	26.1	35.6	39.5	23.2	28.9
Oct-14	28.4	35.0	36.6	20.8	26.3
Nov-14	27.5	40.5	53.8	53.3	55.7
Dec-14	24.9	34.4	43.5	36.8	41.6
Av. Index Q4 2014*	26.9	36.6	44.6	37.0	41.2

\* average monthly index

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

## F - CONSUMER CONFIDENCE BY RELIGIOUS AFFILIATION

The results of the Byblos Bank/AUB Consumer Confidence Index show that Christian consumers had the highest level of confidence among all religious affiliations in the second half of 2014, constituting the sixth such semi-annual occurrence since the start of the survey's calculation. In contrast, Druze consumers were the most pessimistic during the covered period with an average Index reading of 22.2, their lowest level in 15 semi-annual periods.

*Christian households were the most optimistic in the second half of 2014*

Christian consumers were the least pessimistic among all religious affiliations during the third and fourth quarters of 2014, with average index readings of 38.1 and 41.6, respectively. The results of the third and fourth quarters of 2014 constituted their fourth- and ninth-lowest quarterly results, respectively, since the start of the index's calculations. In parallel, the confidence of Druze consumers recorded its lowest level during the third quarter of 2014, and its second-lowest level in the fourth quarter of the year in 30-quarters.

Christian consumers had the highest confidence level in five out of six months in the second half of 2014. Overall, Christians held the highest level of confidence in 39 out of 90 months since the index's inception, representing a 43.3% frequency of occurrence, followed by Druze consumers with an incidence of 26.7%, Sunni consumers with 15.6% and Shiite households with a frequency of 14.4%. Christian consumers posted the highest level of confidence among all religious affiliations in 2014 for the fourth time since 2008. Also, Druze consumers posted their lowest level of confidence in 2014 when compared to previous years.

Byblos Bank/AUB Consumer Confidence Index by Religious Affiliation				
Month	Christians	Sunnis	Shiites	Druze
Jul-14	41.9	32.6	27.5	18.0
Aug-14	35.5	32.7	28.2	26.7
Sep-14	36.8	26.1	25.3	20.6
Av. Index Q3 2014*	38.1	30.4	27.0	21.8
Oct-14	36.9	30.0	25.1	20.5
Nov-14	47.6	40.3	52.8	27.4
Dec-14	40.3	32.6	38.4	20.1
Av. Index Q4 2014*	41.6	34.3	38.8	22.7

\* average monthly index

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

# III - Consumers' Responses to Select Survey Questions

## A - DEMAND FOR CARS

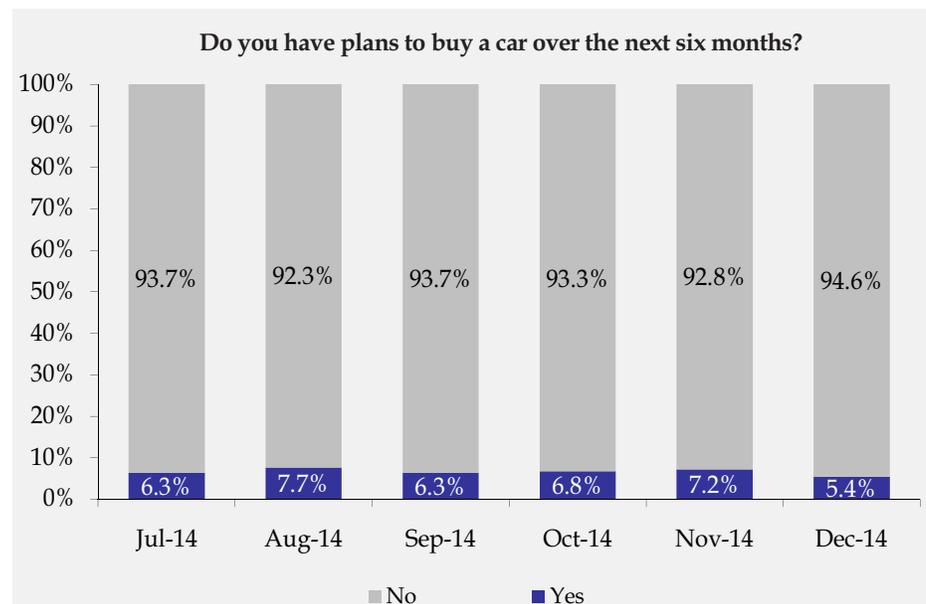
*Nearly 93% of respondents did not have plans to purchase a car in the near term*

The overall muted outlook of Lebanese consumers during the second half of 2014 was reflected in their answers to questions about purchasing a car. The survey's results show that, on average, 93.2% of Lebanese consumers polled in the third quarter of 2014 did not plan to buy a vehicle in the next six months. Consumers' decision was nearly unchanged during the fourth quarter of the year, as 93.6% of respondents indicated that they did not intend to purchase a car in the near term. The high percentage of respondents who did not plan to purchase a vehicle reflects, at large, the economic slowdown, political uncertainties, job insecurity and low disposable income in the country.

Moreover, the December 2014 survey revealed that 94.6% of participants did not have plans to acquire a vehicle in the coming six months, reflecting the second-highest percentage in 90 months.

On an annual basis, 93.3% of consumers polled in 2014 did not have plans to buy a car, constituting the highest level since 2008, and up from 89.7% in 2011, 92.7% in 2012 and 93% in 2013.

*Consumers are consistently hesitant to purchase a car due in part to economic and political uncertainties*



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

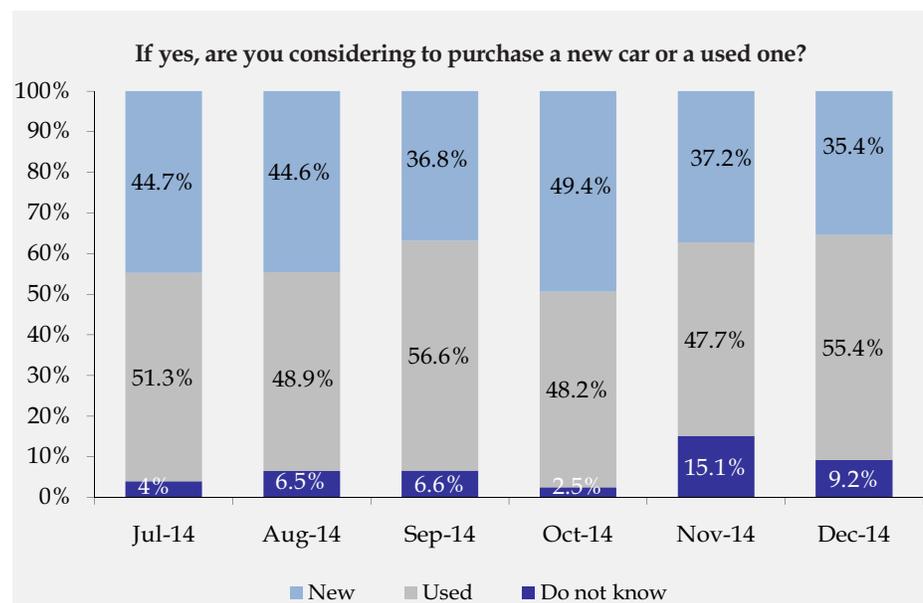
On a quarterly basis, 52.3% of respondents polled during the third quarter and 50.4% of interviewed participants during the fourth quarter of 2014 intended to buy a used vehicle, in line with the historical trend. Indeed, there were 17 out of 30 quarters between July 2007 and December 2014 when Lebanese consumers favored buying a previously-owned automobile.

The emergence of affordable and reliable new factory-warranty vehicles has encouraged households to shift their preferences towards new cars from 2010 through 2013 as reflected by the survey's results. Indeed, Lebanese citizens considered the purchase of a new vehicle rather than a used one in 2010, 2011, 2012 and 2013.

But this trend changed in 2014 as a slim majority of consumers (50.4%) planned to purchase a used vehicle in 2014, in line with the results of 2008 and 2009. Consumers' intentions to purchase a used car were the third highest in 2014 compared to previous years. Overall, consumers preferred to buy a used car in eight out of 12 months in 2014.

The demand for new and used cars is expected to remain subdued if the government does not alleviate the direct and indirect taxation that consumers have to pay when purchasing a car. The government should reduce the very high customs tariffs and registration fees that are imposed on car buyers. This would reduce the retail price of vehicles and would bring it in line with the budgets of a large number of consumers. In turn, this would increase the demand for cars.

*A majority of consumers prefer to purchase a used car*



Source: Byblos Research, 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)**

*Consumer Confidence in Lebanon: The Byblos Bank/AUB Consumer Confidence Index - Second Half 2014 Results and Analysis* is a research document that is owned by Byblos Bank sal and published by Byblos Bank sal in cooperation with the American University of Beirut. The contents of this publication, including all intellectual property, trademarks, logos, design and text, are the exclusive property of Byblos Bank sal, and are protected pursuant to copyright and trademark laws. No material from *Consumer Confidence in Lebanon: The Byblos Bank/AUB Consumer Confidence Index - Second Half 2014 Results and Analysis* may be modified, copied, reproduced, repackaged, republished, circulated, transmitted, redistributed or resold directly or indirectly, in whole or in any part, without the prior written authorization of Byblos Bank sal.

The information and opinions contained in this document have been compiled from or arrived at in good faith from sources deemed reliable. Neither Byblos Bank sal, nor any of its subsidiaries or affiliates or parent company will make any representation or warranty to the accuracy or completeness of the information contained herein.

Neither the information nor any opinion expressed in this publication constitutes an offer or a recommendation to buy or sell any assets or securities, or to provide investment advice. This research report is prepared for general circulation and is circulated for general information only. Byblos Bank sal accepts no liability of any kind for any loss resulting from the use of this publication or any materials contained herein.

The consequences of any action taken on the basis of information contained herein are solely the responsibility of the person or organization that may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities or investment strategies that may be discussed in this report and should understand that statements regarding future prospects may not be realized.

## 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](mailto: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](mailto:erbilbranch@byblosbank.com.lb)

Baghdad Branch, Iraq  
Al Karrada - Salman Faq 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](mailto:baghdadbranch@byblosbank.com.lb)

Basra Branch, Iraq  
Intersection of July 14th, Manawi Basha Street, Al Basra – Iraq  
Phone: (+ 964) 770 4931900 / (+ 964) 770 4931919  
E-mail: [basrabranch@byblosbank.com.lb](mailto:basrabranch@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](mailto: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](mailto: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](mailto: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](mailto:byblos.europe@byblosbankeur.com)

### UNITED KINGDOM

Byblos Bank Europe S.A., London Branch  
Berkeley Square House  
Berkeley Square  
GB - London W1J 6BS - United Kingdom  
Phone: (+ 44) 20 8518 8100  
Fax: (+ 44) 20 8518 8129  
E-mail: [byblos.london@byblosbankeur.com](mailto:byblos.london@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](mailto: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](mailto: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](mailto: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](mailto: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