

THE LEBANON BRIEF

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FINANCIAL MARKETS

Equity Market Stock Market

	19/10/2012	12/10/12	% Change
BLOM Stock Index*	1117.07	1117.95	-0.08%
Average Traded Volume	124,514	229,560	-45.76%
Average Traded Value	885,262	1,665,099	-46.83%

*22 January 1996 = 1000



Banking Sector

	Mkt	19/10/2012	12/10/12	% Change
BLOM (GDR)	BSE	\$7.80	\$7.80	0.00%
BLOM Listed	BSE	\$7.35	\$7.40	-0.68%
BLOM (GDR)	LSE	\$7.90	\$7.91	-0.15%
Audi (GDR)	BSE	\$5.90	\$5.90	0.00%
Audi Listed	BSE	\$5.52	\$5.50	0.36%
Audi (GDR)	LSE	\$5.85	\$5.88	-0.51%
Byblos (C)	BSE	\$1.51	\$1.48	2.03%
Byblos (GDR)	LSE	\$79.00	\$79.00	0.00%
Bank of Beirut (C)	BSE	\$19.00	\$19.00	0.00%
BLC (C)	BSE	\$1.90	\$1.90	0.00%
Fransabank (B)	OTC	\$28.00	\$28.00	0.00%
BEMO (C)	BSE	\$1.89	\$1.99	-5.03%

	Mkt	12/10/12	12/10/12	% Change
Banks' Preferred Shares Index *		\$106.12	\$106.14	-0.02%
BEMO Preferred 2006	BSE	\$100.00	\$100.00	0.00%
Audi Pref. D	BSE	\$10.20	\$10.20	0.00%
Audi Pref. E	BSE	\$100.00	\$100.00	0.00%
Audi Pref. F	BSE	\$100.00	\$100.00	0.00%
Byblos Preferred 08	BSE	\$102.40	\$102.30	0.10%
Byblos Preferred 09	BSE	\$103.60	\$103.20	0.39%
Bank of Beirut Pref. D	BSE	\$26.00	\$26.00	0.00%
Bank of Beirut Pref. E	BSE	\$25.80	\$25.80	0.00%
BLOM Preferred 2011	BSE	\$10.17	\$10.17	0.00%
Bank of Beirut Pref. H	BSE	\$25.97	\$26.17	-0.76%

* 25 August 2006 = 100

The BLOM Stock Index (BSI), Lebanon's leading Index, slid by 0.08% this week to close at 1,117.07 points, resulting in a 5.07% loss since year start, in a slow and down market that only picked up on Friday. Market capitalization dropped \$6.9M to \$8.8B, and traded volumes averaged 124,514 shares valued at \$885,262, lower than last week's 229,560 shares valued at \$1,665,099.

The Lebanese benchmark was outperformed by the 3 regional benchmarks this week as the MSCI Emerging Market Index rose 1.75% to 1013.36 points, the S&P AFE40 Index gained 0.18% to settle at 54.23 points, and the S&P Pan Arab Composite LargeMidCap Index added 0.19% to 110.13 points. On a regional level, Oman stock exchange rose by 1.22% followed by Dubai and Egypt stock exchanges that posted a weekly increase of 1.12% and 1.11% respectively, while Kuwait was the worst performer with its stock exchange dropping 0.99%.

The banking sector accounted for 58% of total value traded, while the real estate captured the remaining. BLOM listed lost 0.68% to \$7.35 and BEMO bank fell 5.03% to \$1.89 after a cross deal on over 300 thousands of its shares. On the other hand, Byblos gained 2.03% after frequent dealing this week to close at \$1.51, and Audi Listed added 0.36% to \$5.52. Regarding the preferred shares index, it slid 0.02% as Bank of Beirut Preferred shares H lost 0.76% to \$25.97 while Byblos Preferred shares 09 and 08 gained 0.39% and 0.10% to close at \$103.6 and \$102.4 respectively.

As for the real estate sector, Solidere witnessed increased selling and broke the \$12.5 floor this week where Class A lost 0.96% to \$12.38 and Class B fell 0.72% to \$12.41.

In the industrial sector, Holcim and Ciment Blancs share prices remained flat.

Real Estate

	Mkt	19/10/2012	12/10/12	% Change
Solidere (A)	BSE	\$12.38	\$12.50	-0.96%
Solidere (B)	BSE	\$12.41	\$12.50	-0.72%
Solidere (GDR)	LSE	\$12.49	\$12.53	-0.35%

In general, the reigning foggy environment in the region is negatively affecting the stock market despite the positive financial results of the three largest banks which will go out in the coming 10 days, while the Achrafieh explosive will take its toll next week on the markets as more details uncover about it.

Manufacturing Sector

	Mkt	19/10/2012	12/10/12	% Change
HOLCIM Liban	BSE	\$15.51	\$15.51	0.00%
Ciments Blancs (B)	BSE	\$3.50	\$3.50	0.00%
Ciments Blancs (N)	BSE	\$3.05	\$3.05	0.00%

Funds

	Mkt	19/10/2012	12/10/2012	% Change
Beirut Preferred Fund	BSE	\$103.00	\$102.80	0.19%
BLOM Cedars Balanced Fund Tranche "A"	----	\$6,731.66	\$6,722.98	0.13%
BLOM Cedars Balanced Fund Tranche "B"	----	\$5,100.47	\$5,094.48	0.12%
BLOM Cedars Balanced Fund Tranche "C"	----	\$5,112.74	\$5,106.15	0.13%
BLOM Bond Fund	----	\$9,859.37	\$9,859.37	0.00%

Retail Sector

	Mkt	19/10/2012	12/10/12	% Change
RYMCO	BSE	\$2.20	\$2.20	0.00%
ABC (New)	OTC	\$16.50	\$16.50	0.00%

Tourism Sector

	Mkt	19/10/2012	12/10/12	% Change
Casino Du Liban	OTC	\$565.00	\$565.00	0.00%
SGHL	OTC	\$4.50	\$4.50	0.00%

Foreign Exchange Market

Lebanese Forex Market

	19/10/2012	12/10/12	%Change
Dollar / LP	1502.50	1502.50	0.00%
Euro / LP	1967.27	1955.38	0.61%
Swiss Franc / LP	1627.27	1616.62	0.66%
Yen / LP	19.00	19.21	-1.09%
Sterling / LP	2419.24	2421.20	-0.08%
NEER Index**	103.29	103.51	-0.21%

*Close of GMT 09:00+2

**Nominal Effective Exchange Rate; Base Year Jan 2006=100

**The unadjusted weighted average value of a country's currency relative to all major currencies being traded within a pool of currencies. The NEER represents the approximate relative price a consumer will pay for an imported good.

Nominal Effective Exchange Rate (NEER)



The exchange rate between the Lebanese Pound and the US dollar remained this week at \$/LP 1,501 - \$/LP 1,504 with a mid-price of \$/LP 1,502.5. Foreign assets (excluding gold) at the Central Bank had decreased by a monthly 0.5% to \$35.09 billion by the end of September 2012, while the dollarization rate of private sector deposits remained slightly below 65% by the end of August 2012, compared to 66% in December 2011.

In international markets, the euro popped up by the end of the week after Eurozone leaders agreed to create a single supervisor for regional banks, but quickly trimmed its gains as talks on whether Spain will request a bailout remained vague. By Friday October 19, 2012, 12.30 pm Beirut time, the euro closed at €/€ 1.3050 recording a 0.61% increase from the previous week. The dollar-pegged Lebanese Pound thus depreciated to €/LP 1967.27, from €/LP 1955.38. The Nominal effective exchange rate (NEER) diminished by 0.21% to 103.29 points.

Money & Treasury Bills Markets

Money Market Rates

	19/10/2012	12/10/2012	Change bps
Overnight interbank	2.75	2.75%	0
BDL 45-day C	3.57%	3.57%	0
BDL 60-day CD	3.85%	3.85%	0

Treasury Yields

	12/10/12	12/10/12	Change bps
3-M TB yield	4.39%	4.39%	0
6-M TB yield	4.87%	4.87%	0
12-M TB yield	5.08%	5.08%	0
24-M TB coupon	5.84%	5.84%	0
36-M TB coupon	6.50%	6.50%	0
60-M TB coupon	6.74%	6.74%	0

Broad money M3 increased by LP695B (\$461.03M) during the week ending October 04 to reach LP155,214B (\$102.96B). Accordingly, M3 increased by 7.58% y-o-y and 5.89% from end of December 2011. M1 expanded during the week by LP603B (\$400M) due to a LP417B (\$276.62M) rise in money in circulation, while demand deposits climbed by LP186B (\$123.38M). Total deposits (excluding demand deposits) advanced by \$61.03M as term and saving deposits in LP increased by \$61.03M, and deposits denominated in foreign currencies remained unchanged. As for the dollarization rate of broad money, it dropped by 26 basis points (bps) on a weekly basis to 58.08%. The overnight interbank rate on funds in LBP stood at 2.75% during the month of August, according to the Association of Lebanese Banks.

On October 11, the Ministry of Finance (MoF) raised LP440.91B (\$292.48M) through the issuance of Treasury Bills. The 60M paper took 56.82% of total subscriptions, while the 6M and 3M papers captured 39.83% and 3.35% of total demand respectively. The average discount rate for the 3M and 6M papers were unchanged at 4.39% and 4.87% respectively, with the average coupon rate for the 60M paper also steady at 6.74%. To note that the MoF continues to undertake all accepted bids.

Eurobond Market

Eurobonds Index and Yield

	19/10/2012	12/10/12	Change	Year to Date
BLOM Bond Index (BBI)*	109.490	109.310	0.16%	-1.31%
Weighted Yield**	4.90%	5.00%	-10	12
Weighted Spread***	417	438	-21	11

*Base Year 2000 = 100; includes US\$ sovereign bonds traded on the OTC market

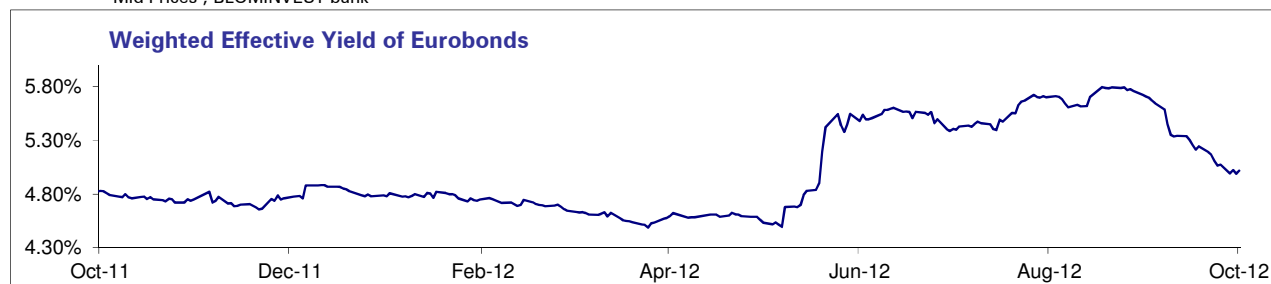
** The change is in basis points

***Against US Treasuries (in basis points)

Lebanese Government Eurobonds

Maturity - Coupon	19/10/2012 Price*	12/10/12 Price*	Weekly Change%	19/10/2012 Yield	12/10/12 Yield	Weekly Change bps
2013, Mar - 9.125%	103.00	102.50	0.49%	1.25%	2.83%	-157
2013, Jun - 8.625%	104.13	103.50	0.60%	2.26%	3.34%	-108
2014, Apr - 7.375%	107.50	106.25	1.18%	2.17%	3.06%	-89
2014, May - 9.000%	108.50	108.25	0.23%	3.23%	3.46%	-23
2015, Jan - 5.875%	104.50	104.50	0.00%	3.75%	3.76%	-2
2015, Aug - 8.500%	111.75	111.75	0.00%	3.99%	4.02%	-3
2016, Jan - 8.500%	112.25	112.50	-0.22%	4.39%	4.34%	6
2016, May - 11.625%	122.50	122.50	0.00%	4.67%	4.70%	-3
2017, Mar - 9.000%	116.25	116.25	0.00%	4.86%	4.87%	-2
2018, Nov - 5.150%	100.38	100.50	-0.12%	5.08%	5.05%	2
2020, Mar - 6.375%	105.25	104.50	0.72%	5.50%	5.62%	-12
2021, Apr - 8.250%	116.50	116.50	0.00%	5.76%	5.76%	0
2022, Oct - 6.100%	102.25	102.25	0.00%	5.80%	5.80%	0
2024, Dec - 7.000%	107.75	106.63	1.06%	6.09%	6.21%	-13
2026, Nov - 6.600%	102.50	102.50	0.00%	6.33%	6.33%	0

• Mid Prices ; BLOMINVEST bank



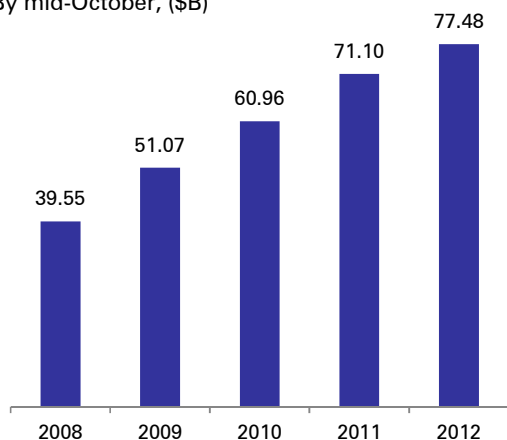
The Eurobond market picked up again following a short break last week as the BLOM Bond Index increased 0.16% to 109.49 points and the portfolio's average weighted yield dropped 10 basis points (bps) to 4.9%. Shorter term issuances gained on average 0.25% while longer term papers added an average 0.12%. This somewhat indicates a liquidity preference at this point, ahead an expected \$2 billion issuance early November and especially as prices of shorter term papers had previously increased at a slower pace and were relatively under bought. The spread between average Eurobond and US Treasury yields narrowed by 21 bps to 417 bps as the latter increased by 12 bps from last week as improved prospects in Europe relieved some of the need for safe-haven Treasuries.

Lebanon's credit default swap for 5 years (CDS) posted a noticeably lower spread going down to 381-413 bps from 430-460 bps last week. Emerging markets JP Morgan Bond Index was quoted at 658-661 bps, and regional markets reflected positive expectations where Dubai and Saudi Arabia 5-yr CDS quotes retracted significantly from last week to 243-255bps and 78-88 bps respectively. Also Turkey and Brazil saw narrowing spreads where the 5yr CDS were quoted at 149-152bps and 107-110 bps respectively.

ECONOMIC AND FINANCIAL NEWS

BdL Total Assets

By mid-October, (\$B)



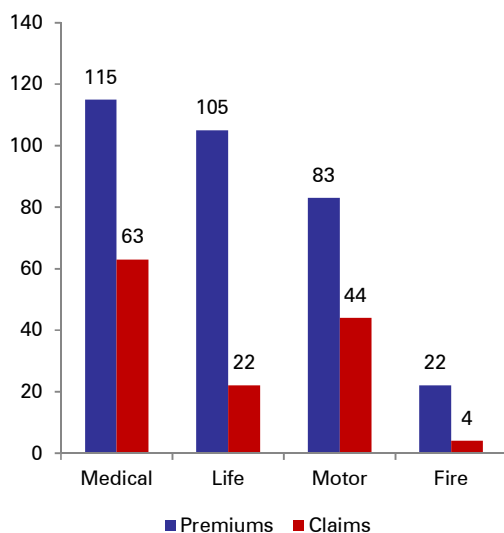
Source: BdL

BdL Assets Reach \$77.48 billion by mid-October; Currency in Circulation Outside BdL Jumps by a Monthly 4.66%

In the period between 15 September and 15 October 2012, total assets at Lebanon's Central Bank (BdL) edged up by 0.3% to \$77.48 billion, 10% above their value in December 2011. During the period, the value of BdL's gold reserves diminished by 1.46% to \$16.11 billion, as the international gold prices dropped to \$1,735 per ounce from \$1772 per ounce a month earlier. The Central Bank's Securities' portfolio expanded 1.26% to \$11.6 billion. BdL's foreign assets inched up by only 0.16% to \$35.14 billion, while other assets rose by a monthly 2.69% to 12.71 billion. With regards to BdL's liabilities, financial sector deposits that account for 70% of the bank's liabilities increased by 0.45% m-o-m to \$54.37 billion, while public sector deposits slid 1.4% m-o-m to reach \$5.68 billion. Currency in circulation outside BdL added a monthly 4.66% to reach \$2.29 billion.

Collected Premiums Versus Claims in Major Insurance Lines

Q2 2012, (\$M)



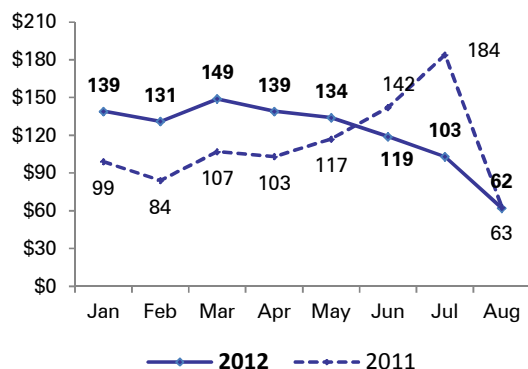
Source: ACAL

Insurance Premiums Up 9% to \$680.8M in H1

The Lebanese insurance sector saw a better turnover during the first half of 2012 as gross written premiums went up 9% from a year earlier to \$680.8M, however coupled with a 5% lower figure in issued contracts to 1.62M indicating a narrower insured base. Paid indemnities totaled \$285.5M by the end of June, rising by 9% compared to 2011, and investment income generated \$56.2M growing by 17%, according to figures released by the Association of Insurance Companies in Lebanon (ACAL). The Non-life insurance continued to make the bulk of premiums accounting for 72.8%, even higher than 2011's 71%, while the Life insurance's share remained low affected by the slow-changing socio-economic characteristics of the population, despite having achieved the highest growth of 23%. The motor insurance witnessed the worst performance with the number of contracts for non-compulsory insurance down 4% and premiums value diminishing by 2%, mirroring the shifting priorities for consumers in a difficult economic environment. Medical insurance premiums hopped by 4% boosted by the expansion of the expatriate base and higher medical costs when in fact the number of contracts for insured residents fell by 1%. During the second quarter, medical insurance ranked first holding 31.4% of total premiums, followed by life insurance at 27.2%, motor insurance at 23.3%, fire insurance at 7.5% and workmen and cargo insurances at 3.1% and 2.6% respectively. Medical claims represented 43% of total paid indemnities, motor claims accounted for 31%, life insurance claims took 15.4% and fire claims 3.4%.

Occupancy Rates in Beirut Hotels at 60% Up to August

Revenues Per Available Room

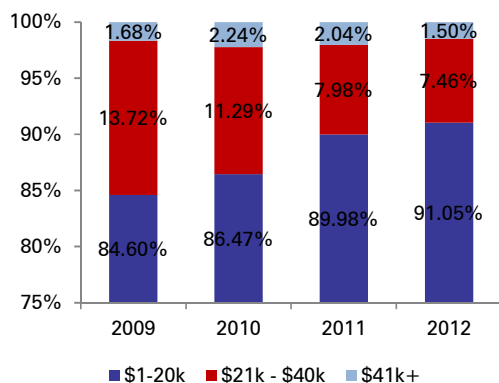


Sources: E&Y, Blominvest

Hotel occupancy rates in Beirut reached 60% during the first 8 months of 2012 compared to 52% last year, according to the survey conducted by Ernest&Young, placing the Lebanese capital at the 8th rank on the lowest activity scale among 21 regional markets. Achieved rates up to August 2012 were all better than 2011's except for the months of June and July, noting that August saw the lowest rate this year, recording 34% against 31% in August 2011. Average room rate in Beirut hotels registered \$203 over the 8 months period of 2012 against a regional average of \$183.1, making the city the 10th most expensive one in the region. However, the current room rate is 6.5% less than that of 2011's, and represents the 6th highest drop in rates in the region. Revenues per available room (Rev PAR) went up by a YTD rate of 6% from \$115 in 2011 to \$122 this year, while the average regional increase was 6.3%, ranking Beirut as the 12th in the region.

Cars' Sales Breakdown According to Prices

Up to September



Source: Association of Cars Importers in Lebanon

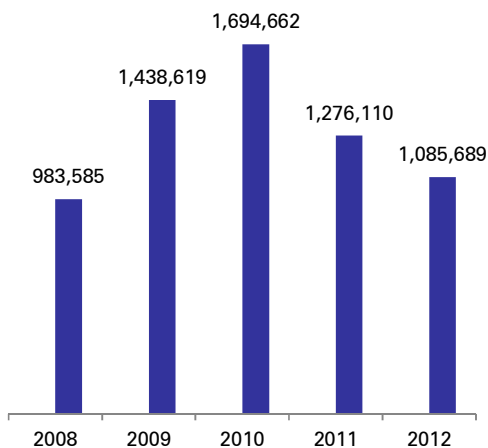
Automotive Sales Until September Grow 7.4%, Trends Favor Low Tag Vehicles.

New cars' sales rose 7.4% over the first 8 months of 2012 as 27,832 units (including commercial vehicles) were registered compared to 25,904 last year, according to data released by The Association of Cars Importers in Lebanon. However, trends are shifting towards lower-priced cars (below \$20k) which now take up to 91% of total cars sold compared to 84.6% by September 2009, and cannibalization mostly hit cars falling in the price range of \$20k to \$40k. Korean cars still top the lists taking over 44.8% of the market with 11,714 new vehicles sold, also achieving the best growth of 14.5% compared to last year, noting that Kia continues to hold the highest single brand market share at 26.9%, followed by Hyundai at 17.9%. Japanese cars took 27.26% of the market by selling 7,126 cars, led by Nissan which alone acquired 16.6%, however they dropped by 1.7% compared to 2011. European cars lagged behind with 20.5% of the market or 5,354 cars. In September alone, a total of 3,130 new cars were sold picking up by 5.9% over September 2011.

Tourism Remains Weak in September

Number of Tourists to Lebanon

Up to September



Source: Ministry of Tourism

The tourist sector continued to suffer during the month of September from heightened risk perception and fears that violence could spill over from Syria, after sporadic skirmishes in Northern Lebanon early during the summer weighed down further on an already weak season. Visitors to Lebanon in September were thus only 99,670; the lowest figure since low-season February and down by an annualized 33%. Europe led with more than one-third of total visitors or 34,308 tourists compared to 39,191 tourists in September 2011. The number of Arab visitors dropped 49.2% y-o-y to 30,598 while the number of American visitors slid 7.5% y-o-y to 16,877. The largest annual decrease during the month was from Asia, from where 9,084 tourists arrived to Lebanon, compared to 19,910 arrivals in September 2011. During the first three quarters of 2012, the number of tourists to Lebanon was down by almost 15% year-on-year to 1 million 85 thousand, after having plunged by 24.7% y-o-y in the same period last year. Incomers from Arab countries between January and September 2012 declined by 15% y-o-y to 366,159 after the escalation in regional violence and domestic turbulence kept Lebanon's customary year-round visitors away. Tourists from Asia more than halved during the period to 100,297 while the number of European visitors decreased by 5.8% y-o-y to 352,946. Moreover, tourists from Africa and the Americas came in slightly smaller numbers or 44,872 and 179,190 respectively.

CORPORATE DEVELOPMENTS

Audi Bank Profits Jump 14% Year-on-Year to \$309 Million in First Three Quarters

Audi Bank Financial Highlights (\$M)

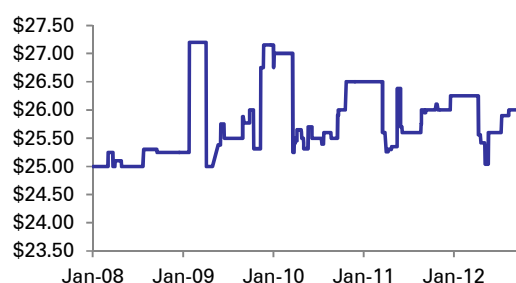
	Sep-12	Sep-11	% Change
Total Assets	29,181	28,714	1.63%
Customers' Deposits	24,457	24,678	-0.90%
Loans and Advances	9,045	8,419	7.43%
Net Profits	309.4	271.25	14.06%

Source: Company Data

Audi Bank, Audi Saradar Group released its financial results for the first three quarters of 2012 revealing a 14.1% annual increase in profits to \$309.4 million, of which \$32.8 million were net profits after taxes and expenses stemming from discontinued operation following its sale of 80% of its stake in LIA insurance. Audi had increased its net provisions by \$93 million in the first 9 months of 2012, following the escalation of the crisis in Syria, taking its total provisions to \$188.9 million. Total Loans climbed by 7.43% y-o-y to \$9.04 billion, while net doubtful; loans were at a mere 0.72% of gross loans. The bank's consolidated assets were \$29.2 billion by end-September 2012, up by 1.63% from the same period a year earlier, despite a substantial decline in Bank Audi Syria's assets to one-third of their December 2010 levels. Customers' deposits amounted to \$24.9 billion, sliding by 0.9% y-o-y and total equity reached \$2.6 billion, accounting for 9% of the bank's consolidated assets, and translating into a Basel III capital adequacy ratio of around 12%.

Bank of Beirut to Redeem Preferred Shares Class D

BoB Preferred Class D Share Performance



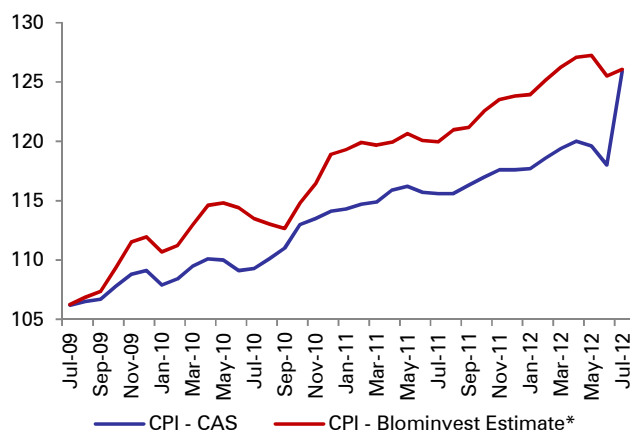
Source: BSE, Blominvest

As per the decisions taken during their September 4, 2012, Bank of Beirut's Board of Directors announced to its owners of Preferred shares (Class D) that it will redeem and cancel the Class D Preferred shares, according to the provisions that govern these shares, as defined by the Extraordinary General Assembly of shareholders of Bank Of Beirut SAL. The redemption date is will be on December 28, 2012, which is the last working day of the fifth financial year after the completion of the operation. The last trading day in these shares on the Beirut stock Exchange will be Friday, 21 December 2012.

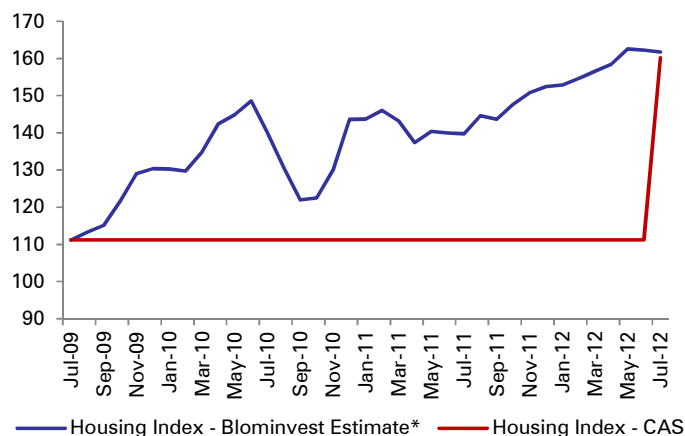
FOCUS IN BRIEF

The CPI Computation Revisited: Smoothing the Jump in the Housing Index

Consumer Confidence Index (CPI)



Housing Index



* incorporates the monthly change in housing index

* The 44% rise in housing index over the past three years as of July 2012 is smoothed out over the months

Source: The Central Administration for Statistics (CAS); Directorate of Real Estate, Ministry of Finance; Blominvest Research Department

The CPI of July 2012 showed a large increase in prices due to the inclusion of the housing survey results done during the same month for the first time in three years. In July 2012, the CPI grew by a sharp 6.1% month-on-month (m-o-m) and a strong 8.9% year-on-year (y-o-y), to reach a level of 125.9. The rise was caused by a 44% m-o-m rise in the housing index, which value increased from 111.2 in June 2012 to 160.2 in July 2012. While no major shocks have hit the real estate sector during the month, and real estate prices changed only modestly, the Central Administration of Statistics (CAS) incorporated in its measure for the CPI in July 2012 the increase in housing prices that occurred over the past three years and which monthly change was not factored in for the calculation of the indicator since July 2009. This has hence triggered the inaccurate sharp growth in CPI in July.

In this study, we try to rectify the jump in prices that occurred in July as we believe that the bulk of the 44% rise in the housing index occurred in 2009 and 2010. During the latter years the real estate sector was booming and the economic activity of the country closer to its full potential with GDP growth rate peaking at 9 % in 2009, before decelerating slowly to 7% in 2010, and sharply to an estimated 3%¹ in 2011 and a projected 1.2%² in 2012. Demand was therefore increasing exponentially with massive inflows of investments targeting the sector, and supply was trying to keep up with cement deliveries up by 16% y-o-y in 2009 and by 6.7% y-o-y in 2010 and 2011. The balance of payments hence remained in positive territory, boosted up by inflows from expatriates and Arabs; the surplus of the balance was the strongest in 2009, recording \$7.8 billion before falling gradually to \$3.3 billion in 2010 and losing momentum in 2011, when the balance recorded a deficit of to \$2 billion.

The monthly CPI computed by CAS is a Geometric Laspeyres average based on 12 time series³ that form 12 sub-indices, namely, Food and non-alcoholic Beverages; Alcoholic Beverages, Tobacco, and Narcotics; Clothing and Footwear; Housing, Water, Electricity and Other Fuels⁴; Furnishing, Household Equipment & Routine Household Maintenance; Health;

¹ Per Blominvest estimate

² Per the Institute of Per Blominvest estimate International Finance estimate

³ Compiling the monthly prices of 50,000 goods at 2,000 point of sales

⁴ Which are considered as two different series, the first being Housing, and the Second being Water, Electricity, Gas and Other Fuels

Transport; Communication; Recreation and Culture; Education; Restaurants and Hotels; Miscellaneous Goods and Services. Weights extracted from “the National Survey of Household Living Conditions and Budget 2004-2005” are used to show the average household’s expenditure on goods and services⁵. They were revised and altered once in 2004 since CAS started publishing the index back in 1997.

The weight for the Housing index in the CPI basket stands at 16.2%, the highest following that of Food and Non-alcoholic Beverages, equaling 19.2%. The impact produced by a given change in the growth of real estate prices on the CPI is hence significant when compared to the impact created by the same change in the growth of other indices constituting the CPI. The housing survey, conducted and published on a yearly basis, was not issued for three consecutive years as of 2009, hence no estimate for the growth in real estate prices in Lebanon was delivered. The housing index used in CPI calculation, which tracked the monthly change in rental prices in Lebanon, therefore maintained its value of July 2009 over the course of the following 36 months. That said, the growth in CPI does not reflect the change in real estate prices in Lebanon over that period.

As monthly data measuring the increase in rentals in Lebanon is not made available, we use the average monthly value per property sale transaction as a proxy for housing index. The interruption in the housing survey led by the CAS and conducted in 2009 and 2012, hopping two years in between, brings the urge to smooth the rise in housing index and to distribute its growth throughout the three years in such a way that reflects significantly the behavior of rental prices during the period.

With that in mind, we rely on the 3-month moving average for the average monthly values per property sale transaction (VPS) for a better estimate⁶, in order to eliminate seasonality and other of volatility as the monthly average price per transaction tend to be more volatile than rental prices. The 3-month moving average for the considered indicator, records a 44.4% rise from July 2009 to July 2012, compared to a 44% rise in the VPS indicator, an observation that adds significance to the choice of the indicator involved in the process. The derived monthly growth rates in the housing index are then incorporated in the calculation of monthly level values of housing index from July 2009 to July 2012, which is substituted for the previous value of the index⁷ in the derivation of monthly CPI⁸.

The growth in the CPI to which the monthly change in the housing index is incorporated, compares modestly but more comprehensively, to that as per CAS calculation, due to the incorporation of a more realistic spread-out of housing index growth over the past three years. When the monthly growth in housing index is factored in, CPI growth stands at 1.8% year-to-date (y-t-d) in July 2012, compared to a sharper 7.1% y-t-d as per CAS calculations. Also, when considered on a year-on-year (y-o-y) basis, newly derived CPI records a 5.1% rise in July 2012, compared to a louder 8.9% increase as per CAS calculations. Going back to previous years, the newly computed CPI registered the most of its rise over the second half of 2009, growing by a strong 5.4%, compared to only 2.9% as per CAS estimate. The increase then reached 6.2% in 2010 and decelerated to 4.1% in 2011, before falling sharply to 1.8% over the first half of 2012. In comparison, the CPI as computed by CAS, recorded a 4.6% rise in 2010, a lower 3.1% increase in 2011 and a sharp 7.1% upsurge over the first half of 2012. This highlights the cruciality of spreading out the 3-year rise in housing index over the months to provide a better estimate for the CPI and to reflect better the economic dynamics of the country.

Blominvest spreads the 44% 3-year growth in housing index⁹ in such a way to reflect best the economic and political developments impacting Lebanon and the real estate sector during that period. When considered on a y-t-d basis, housing index growth per CAS calculations grew by 44%, compared to a shier yet more accurate 6.1% growth per Blominvest estimate¹⁰. According to our estimates, the bulk of the growth in the index is estimated to have happened over the second half of 2009, reaching 17.2%, well in line with the booming real estate sector in the country during that period, boosted up by regional and international woes. The housing index rose by 10.1% in 2010, and by only 6.1% over 2011 and over the first half of 2012, reflecting well the slowdown in real estate sector in Lebanon, amidst chaotic political and economic, regional and local settings, dragging down growth in the real estate sector. This translates into more inclusive and comprehensive values of monthly CPI growth.

⁵ The weights do not take into account the household’s size, income, and social status and hence do not represent the expenditure of a typical average household in Lebanon

⁶ Published by the Directorate of Real Estate, Ministry of Finance

⁷ Unchanged at 111.2 over the course of the past 3 years

⁸ The derived values of CPI are shown in the upper graph

⁹ From July 2009 to July 2012

¹⁰ Which explains the more modest growth rates obtained per Blominvest estimates compared to CAS estimates



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