WFP Lebanon Market Bulletin

October to December 2018

Highlights

- The Lebanese economy continues to be slow. Monetary and fiscal pressures persist with high demand on US Dollar, increasing interest rates, and increasing cost of public debt.

- The formation of the cabinet ending months of void is expected to boost the economy.

- The general inflation rate has recorded a level of 3.7% during the year 2018— of which only 0.33% in the last quarter of the year — compared to an inflation of 5% in 2017. The highest inflation rate was for clothes, followed by food, and fuel and gas.

- Food products prices have increased by 6.3% during 2018, which is the highest increase in eight years. Food prices have increased by 0.8% in Q4-2018, compared to 0.5% in Q3-2018.

- Inflation in cost of utilities and fuel recorded a level of 6.3% in 2018, compared to 8.9% in 2017.

- Construction permits issuing went down by 23% in 2018, and by 22% in Q4-2018 compared to Q4-2017, decreasing income opportunities for Lebanese labour and Syrian refugees.

Current economic situation

The latest formation of the new cabinet is expected to boost the general economic situation, following the delay in many dues and decisions, such as the CEDRE conference credit of US$10 billion, and one billion in donations.

Amongst the international and local concern toward the rising cost of public debt, the finance minister Mr. Ali Hassan Khalil has suggested a plan to restructure the public debt, which was opposed by the banking sector, being the biggest lender to the government[1].

Interest rates continue to rise slightly, indicating a slowness in the economic activities in most sectors, and exercising pressure on the Lebanese Lira, amongst rising demand on the US Dollar. In December, the ministry of finance has raised the interest rate on LBP treasury bills from 7.5% to 10.5%[2], reflecting a higher level of liquidity risk.

Key Indicators*

Interest rates on deposits	8.7% on LBP (Sep 2018: 8.1%) 5.5% on US$ (Sep 2018: 4.9%)
Interest on treasury bills in LBP	10.5% in Dec 2018 (previously 7.5%)
Consumer Price Index	109 in October, 109 in November, 108 in December
Trade Deficit	US$26 Billion (same as 2017)
Food basket price	-1.9% (Q4-2018/Q4-2017)
Energy price index	+6.3% (2018/2017)
Construction index	-15.5% (2018/2017)

Food prices inflation highest in 2018

As per the government's Central Administration of Statistics (CAS), the general inflation rate has recorded a level of 3.7% during the whole year of 2018, of which 0.3% during the last three months of the year. Sectors that witnessed the highest increases in cost were clothes and footwear (8.8%), followed by food and non-alcoholic beverages (6.3%), which is the highest since eight years, and utilities cost (6.3%). Utilities cost is the sum of water, gas, fuel, and electricity bills. Breaking it down by governorate, the highest inflation was recorded in the North/Akkar with an inflation rate of 7.3%, and the lowest inflation was observed in Bekaa/Baalbek-Hermel (2.7%). The Greater Beirut area has recorded an inflation rate of 3.8%[3] (figure 1).

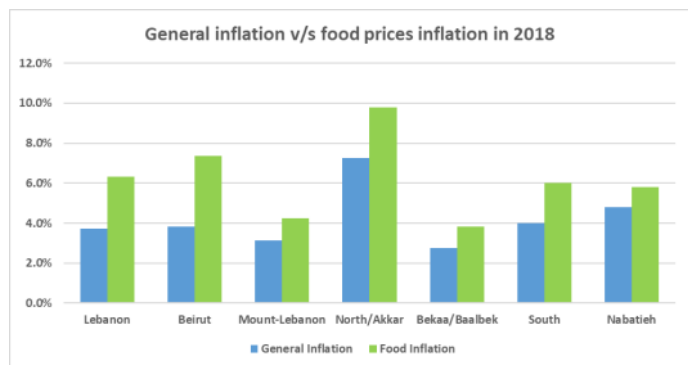*Prices of food have increased by 6.3% during 2018, highest hike in eight years*

Figure 1: General level of inflation v/s food prices inflation by the end of 2018, compared to 2017 (Source: CAS)

While generally food prices have been increasing in 2018 compared to the previous year, the WFP VAM prices database, based on retail prices in WFP contracted shops across Lebanon, has indicated a slight drop in basic food products in the fourth quarter of 2018 when compared to the fourth quarter of 2017. The major drop was observed in prices of white sugar (-13%), followed by white beans (-6.4%), and bulgur (-4.5%). The major increase was observed in the prices of pasta (4.5%). Prices of fuel have witnessed some increase in the last quarter of 2018, compared to the same period of 2017, as the price of heating diesel oil has increased by 15%, and the price of 95 Octane petrol has increased by 3%. The price of cooking gas has dropped by –7% in Q4-2018[4].

Food Basket Cost: -1.9%

Food item and weight	Q4-2017 Av.	Q4-2018 Av.	Change %
Egyptian rice (6 KG)	7.44	7.58	1.8%
Pasta (1.5 KG)	1.42	1.49	4.5%
Bulgur (3.9 KG)	4.05	3.87	-4.5%
Canned meat (1.1 KG)	6.73	6.62	-1.6%
Vegetable oil (1 L)	1.43	1.41	-1.6%
Sugar (1.5 KG)	1.35	1.17	-13.0%
White beans (1.5 KG)	3.19	2.98	-6.4%
Salt (0.3 KG)	0.14	0.14	0.0%
Total in US$	US$ 25.75	US$ 25.26	-1.9%

Figure 2: Basic food items price change from Q4-2017 to Q4-2018 (WFP VAM price database, weights are based on monthly expenses per person, 2,100 Kcal per day)

WFP collects food prices through its retail traders network. The network consists of 460 retail traders across Lebanon. Price information is collected monthly via a point of sales system tracking price changes of basic food commodities. Figure 2 shows the price changes of basic food commodities on a national level between Q4-2018 and Q4-2017, calculated on a SMEB basis (Survival Minimum Expenditure Basket, per person, per month). The basic food basket, which includes rice, sugar, pasta, beans, bulgur, canned meat, vegetable oil and salt, has recorded a decrease in price of two percent in the fourth quarter of 2018, compared to the same period of 2017. A significant drop was observed in the price of white sugar, and a five percent increase was observed in the prices of pasta.

Slower real estate activities in 2018

The reduced demand, increasing interest rates, and the current economic challenges have inhibited any growth in the Lebanese real estate market in 2018. The recession in the construction market is affecting employment for Lebanese poor populations as well as for vulnerable Syrian refugees. Construction permits issuing has dropped from a total of 2 million sq. meters in Q4-2017 to a total of 1.6 million sq. meters in the last quarter of 2018. This represents a decrease of 21% year-on-year. Moreover, construction permits issuing has decreased by 23% during the year 2018, compared to full year 2017[5].

The major drop in the construction activity was observed in the northern governorate (-70%), followed by Beirut (-62%). The construction permits in the South have been barely affected[6]. This is by mostly attributed to the remittances influx from the high number of expats descended from the South. On average, agriculture and construction were reported to be the top two sectors employing 50% of the Syrian refugees' labour force, with construction alone employing 32% of Syrian refugees' male labour (The VASyR 2018).

Construction permits' issuing decreased by 23% during 2018

Rent market: +3.7% increase in 2018

Rent rates in Lebanon continues to increase, mostly because of the persistent demand: local, from refugees, and from expats, and especially after the halt of the government-backed housing loans since the end of 2017. Consequently, the young generation moving out of parents' houses have no choice then to seek rent, instead of a house loan. As per CAS, rent prices went up by 3.7% on a national level in 2018. This ranges between a 10% increase in Nabatieh, and a 1.6% increase in Mount-Lebanon[7]. Figure 3 shows the increases in the cost of rent by governorate between 2017 and 2018.
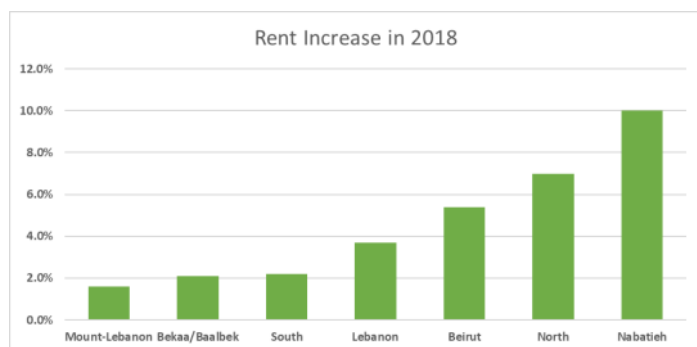

Figure 3: rent increase by governorate in 2018, compared to 2017 (Source: CAS)

Average rent for Syrian refugees remained unchanged in 2018

Generally, there has been little change in rents of Syrian

refugees, from a mean of US$ 183 in 2017 to a mean of US$ 182 in 2018. However, there have been changes at the governorate and district levels. At the governorate level, El Nabatieh had the highest increase (15%) with an average rent of US$ 178 in 2018, compared to US$ 155 in 2017. Baalbek-El Hermel had the greatest decrease in rent expense (-9%) of all governorates, from US$88 in 2017, to an average of US$80 in 2018 (VASyR 2018).

Cost of renting residential shelter remained unchanged, while rent of non-permanent shelter has increased by 66%

At the district level, Sour has recorded the largest increase in rents (+16.5%), from US$ 140 in 2017 to US$ 163 in 2018, while rents in Jezzine and Jbeil declined the most, with a 21.5% decrease for both. Rents declined in Jezzine from US$ 248 in 2017 to US$194 in 2018, and in Jbeil from US$ 344 in 2017 to US$270 in 2018. When comparing by type of shelter, non-permanent housing increased in rent by 66%, from an average of US$ 35 in 2017, to US$ 58 in 2018. Non-residential units have increased in rent from US$ 136 in 2017 to US$ 149 in 2018. On the other hand, formal residential units have remained almost unchanged, with an average rent expense of US$ 221 (compared to US$ 219 last year). No significant change in rent prices was observed when analysed by gender of the head of the household (female: 2018 US$ 149 / 2017: US$ 151; male: 2018 US$ 188 / 2017: US$ 190)[8].

Fuel prices: increase in 2018

On average, fuel prices have increased in 2018 compared to 2017 (petrol: 13%, diesel 26%, cooking gas 3%) and decreased in Q4-2018 compared to the previous quarter. In October, fuel prices in Lebanon started a noticeable drop in line with the world's falling oil prices. Diesel oil, with an average price of LBP19,200 for the 20 liters in 2018 (average of LBP15,200 in 2017), is widely used for heating amongst Syrian refugees and Lebanese, especially in the mountains. Cooking gas prices have been stable during 2018, and also decreased starting October, to end the year with an average of LBP13,300 for the 10KG bottle, compared to LBP16,100 at the beginning of the year[9]. Figure 4 shows the evolution of the prices of the three basic fuel categories affecting the daily lives of poor Lebanese population, as well as Syrian refugees.
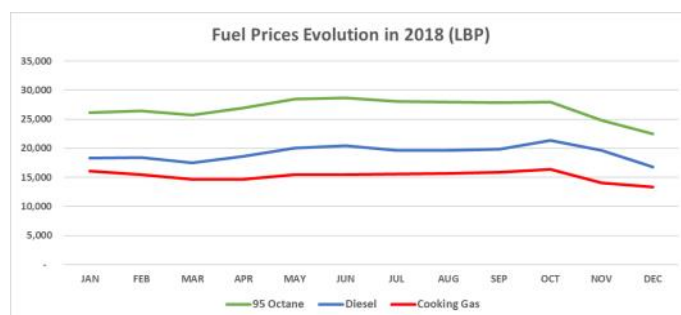

Figure 4: the prices of fuel and cooking gas in Lebanon throughout 2018 (Source:IPT)

Consumer confidence index

Despite the uncertainties in the markets, the Lebanese consumer confidence index issued by Byblos Bank and the American University of Beirut (AUB) on a quarterly basis, has remained unchaged in Q4-2018 compared to the previous quarter. Only 9.6% of the surveyed population have expressed positive expectations for their financial situation for the coming few months, compared to 11.5% in Q3-2018. Out of the surveyed population, 58% expected that their financial situation will likely worsen in the coming quarter, almost the same percentage has been recorded in the previous quarter. The index measures the sentiment and expectations of Lebanese consumers toward the economy and their own financial situation[10] (Figure 5).
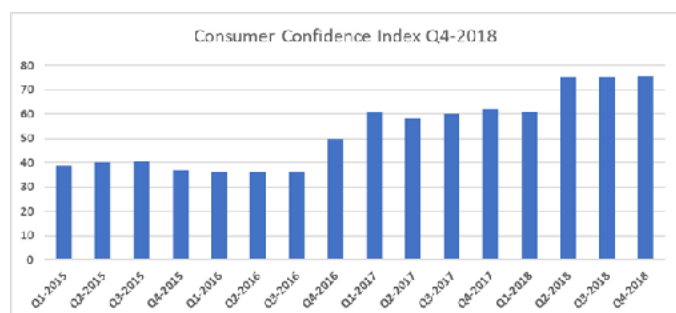

Figure 5: The consumer confidence index levels for the last four years (AUB/Byblos Bank)

Economic outlook

The economic situation in Lebanon is still viewed as very critical as per many references, an economic and monetary downturn is still a risk. By the beginning of the new year 2019, Moody's has downgraded Lebanon's credit from a previous B3 in December to a Caa1, reflecting a more pessimistic view of the economy and country's long term investments[11].

The public debt is the heaviest burden on Lebanon, currently at US$83 billion, which is more than 150% of the GDP, and with an annual cost of debt of US$4 billion for the year 2018 (almost 40% of the government's revenues), and expected to hit the level of US$5 billion in 2019[12].

The formation of the new government in the first month of 2019 is likely to revamp the local and international confidence and investment appetite, which eventually will lift employment levels for the most vulnerable populations, and provide better income opportunities.

Note: food and basic needs prices information can be found on WFP's VAM food prices database here

Sources

* The sources of the Key Indicators table are: 1– Interest rates on deposits: Lebanese Central Bank, 2– Interest rates on TBs: Al Akhbar Newspaper, December 5th 2018, 3– CPI: Central Administration of Statistics (CAS), 4– Trade deficit: Lebanese Customs, 5– Food basket price: WFP VAM price database, 6– Energy prices: Central Administration of Statistics (CAS), 7– Construction figures: Lebanese Order of Engineers and the Lebanese Land Registry.

1– Nasdaq news, January 11th, 2019 https://www.nasdaq.com/article/lebanon-dollarbonds-tumble-after-debt-rescheduling-report-20190111-00382

2- Al Akhbar Newspaper, December 5th 2018 https://www.al-akhbar.com/Editions/2018/12/5/PDF

3– The Central Administration of Statistics (CAS) 2018 http://www.cas.gov.lb/index.php/economic-statistics-en?layout=edit&id=185#cpiresults

4– The WFP VAM price database http://dataviz.vam.wfp.org/economic_explorer/prices?adm0=141

5- Order of Engineers and Lebanese Real Estate Registry http://www.oea.org.lb/Arabic/Default.aspx?pageid=7 https://www.lrc.gov.lb/en

6- Order of Engineers and Lebanese Real Estate Registry http://www.oea.org.lb/Arabic/Default.aspx?pageid=7 https://www.lrc.gov.lb/en

7– The Central Administration of Statistics (CAS) 2018 http://www.cas.gov.lb/index.php/economic-statistics-en?layout=edit&id=185#cpiresults

8- VASyR 2018 https://www1.wfp.org/publications/vulnerability-assessment-syrian-refugees-lebanon-vasyr-2018

9– Issa Petrol Trading IPT https://www.iptgroup.com.lb/ipt/en/our-stations/fuel-prices

10– The AUB and Byblos Bank Consumer Confidence Index, results published in AL Akhbar Newspaper, January 29th https://www.al-akhbar.com/PDF_Files/3674/pdf/08_09_20190129.pdf

11– Bloomberg, January 22nd, https://www.bloomberg.com/news/articles/2019-01-22/lebanon-rating-cut-deeper-into-junk-by-moody-s-on-default-risks

12– Jad Chaaban, Is Lebanon's Economy On The Brink Of Collapse?, Beirut Today January 18th, 2019 http://beirut-today.com/2019/01/16/lebanons-economy-brink-collapse/

For further information, please contact the VAM Lebanon Team:

Lebanon.MEVAM@wfp.org