

CONSUMER CONFIDENCE IN LEBANON

THE BYBLOS BANK/AUB CONSUMER CONFIDENCE INDEX

Second Half 2018 Results and Analysis

Consumer Confidence Stagnates in Second Half of 2018

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 Confidence and Economic Growth
- F - Consumers' 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 Geographical Region
- F - Consumer Confidence by Religious Affiliation

HIGHLIGHTS

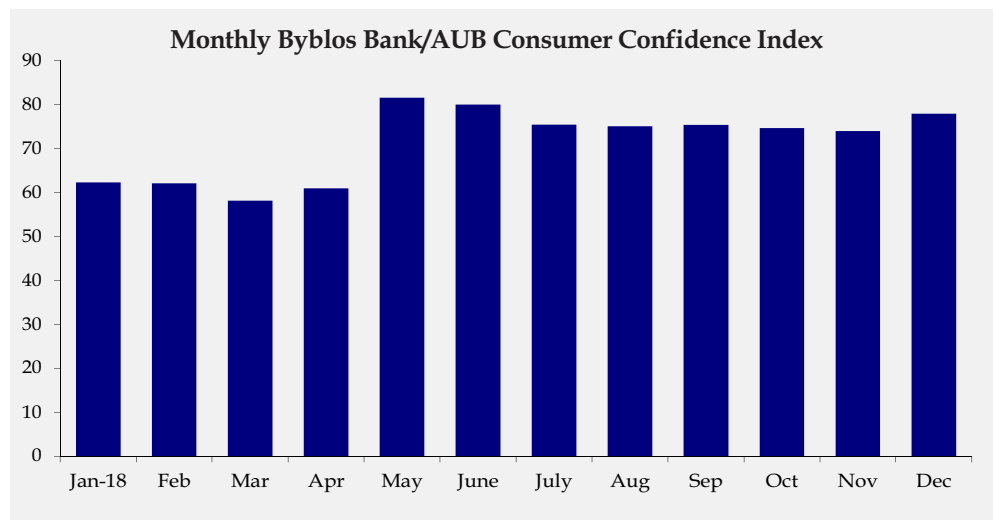
- The Byblos Bank/AUB Consumer Confidence Index posted a monthly average of 75.3 in the third quarter of 2018 and improved by 1.5% from the preceding quarter. The Index reached 75.5 in the fourth quarter of 2018, almost unchanged from the preceding three months.
- The results of the third quarter of 2018 were the 11th highest since the Index's inception in July 2007, while the outcome of the fourth quarter was the 10th highest in 46 quarters.
- The political deadlock that prevailed throughout the second half of 2018 prevented the formation of a new government, which led to the near stagnation in consumer sentiment in the third and fourth quarters of 2018.
- The Byblos Bank/AUB Consumer Confidence Index posted a monthly average of 75.4 in the second half of 2018, up by 11.7% from the first half of the year.
- The confidence level of consumers held steady throughout the second half of 2018, despite the flood of rumors about the impending collapse of the economy and of the national currency.
- The near-term expectations of households were higher than their views of their current conditions during the second half of 2018.
- Less than 10% of surveyed Lebanese in the fourth quarter of 2018 expected their financial conditions to improve in the coming six months.
- Only 9% of the Lebanese surveyed in the fourth quarter of 2018 expected business conditions in Lebanon to improve in the coming six months.
- The Byblos Bank/AUB Consumer Confidence Index posted a monthly average of 71.4 in 2018 compared to an average of 58.4 in 2017. Still, and for the second consecutive year, the increase of the Index did not lead to an improvement in economic activity, ushering a new normal of very low growth rates despite increasing confidence levels.

I - Analysis of Results

A - ANALYSIS ON A CALENDAR BASIS

Consumer confidence in Lebanon improved modestly in the third quarter of 2018, while it stagnated in the fourth quarter of the year, as reflected by the results of the Byblos Bank/ AUB Consumer Confidence Index. The Index reached 75.4 in July 2018, down by 5.7% from 80 in the preceding month. It then slightly regressed by 0.4% to 75.1 in August and increased by a marginal 0.3% to 75.3 in September 2018. Further, the Index posted a score of 74.6 in the October 2018 survey, down by 0.9% from the previous month. It then declined by 0.8% to 74 in November and grew by 5.3% to 77.9 in December 2018.

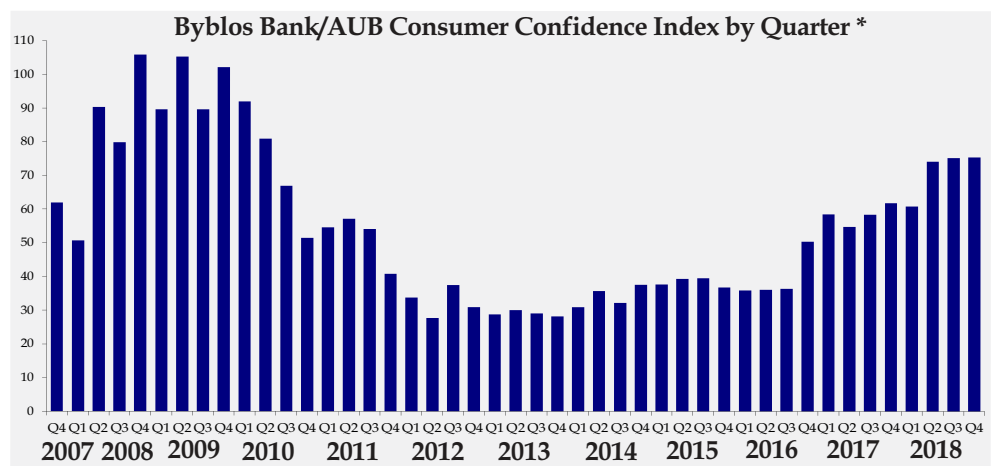
Consumer sentiment reached its highest level in December during the second half of 2018



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

The Byblos Bank/ AUB Consumer Confidence Index averaged 75.3 in the third quarter of 2018, constituting an increase of 1.5% from 74.2 in the second quarter of 2018, while it was nearly unchanged at 75.5 in the fourth quarter of 2018. The results of the third quarter of 2018 were the 11th highest since the Index's inception in July 2007, while the fourth-quarter results posted their 10th highest quarterly reading in 46 quarters.

Household sentiment stagnated in the fourth quarter of 2018



* average monthly score by quarter

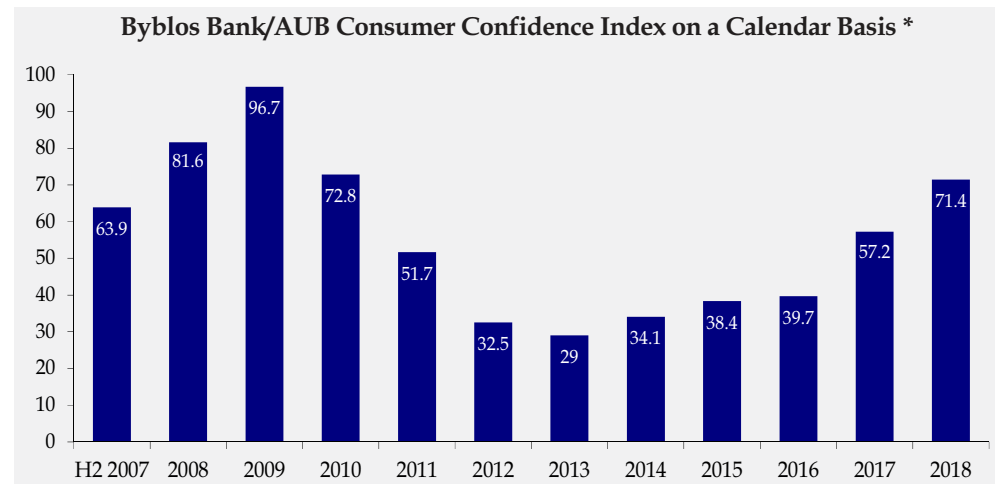
Source: Byblos Research, based on surveys conducted by Statistics Lebanon

Household sentiment was influenced during the third quarter of 2018 by the unexpected delays in the formation of a new Cabinet in Lebanon, which sapped any momentum in confidence that the May 2018 parliamentary elections generated. In parallel, the protracted political impasse and the deliberate obstacles to the formation of a government extended the stagnation in household sentiment into the fourth quarter of 2018.

The average monthly score of the Index in the third quarter of 2018 was 29% lower than the quarterly peak score of 105.8 registered in the fourth quarter of 2008. Still, the third-quarter results were 35.6% higher than the monthly trend average score of 55.5 since the inception of the Index in July 2007. Further, the average monthly score of the Index in the fourth quarter of 2018 was 28.6% lower than the outcome of the fourth quarter of 2008. But it was 36.1% higher than the monthly trend average score since July 2007.

In parallel, the Index posted an average monthly value of 75.4 during the second half of 2018, constituting an increase of 11.7% from 67.5 in the first half of the year. The second-half results represented the Index's fifth-highest level in 23 semi-annual readings. They were also 35.8% higher than the Index's trend average score since July 2007. However, the average monthly score of the second half of 2018 represented a decline of 22.6% from the peak of 97.5 registered in the first half of 2009.

Consumer confidence in 2018 remained below the peak level of 2009



* average monthly score for the period

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

The results of the Byblos Bank/AUB Consumer Confidence Index for the second half of 2018 were mixed, as the Index decreased in four out of six months, reaching a low of 74 in November 2018. The Index peaked in December following increased prospects for the formation of a new government.

In addition, the Byblos Bank/AUB Consumer Confidence Index posted a monthly average score of 71.4 in 2018, constituting an increase of 22.4% from an average of 58.4 in 2017. However, the level of consumer sentiment in 2018 was 26.1% lower than the Index's peak score of 96.7 in full year 2009, while it was 28.7% higher than the Index's monthly trend average since its inception.

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

	Q3 2018			Q4 2018		
	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18
CCI*	75.4	75.1	75.3	67.0	75.0	77.9
Month-on-month change (%)	-5.7%	-0.4%	0.3%	-11.1%	12.0%	3.9%
Year-on-year change (%)	23.4%	30.1%	33.5%	14.9%	16.1%	24.4%
PSI**	65.6	65.5	67.0	84.9	93.2	69.3
Month-on-month change (%)	-12.2%	-0.2%	2.3%	26.7%	9.8%	-25.7%
Year-on-year change (%)	10.7%	20.4%	19.7%	50.9%	47.0%	14.7%
EI***	81.9	81.5	80.9	81.1	79.5	83.7
Month-on-month change (%)	-1.9%	-0.5%	-0.7%	0.2%	-2.0%	5.3%
Year-on-year change (%)	31.5%	35.9%	42.6%	36.0%	21.4%	30.4%

* CCI: Byblos Bank/AUB Consumer Confidence Index

** PSI: Byblos Bank/AUB Present Situation Index

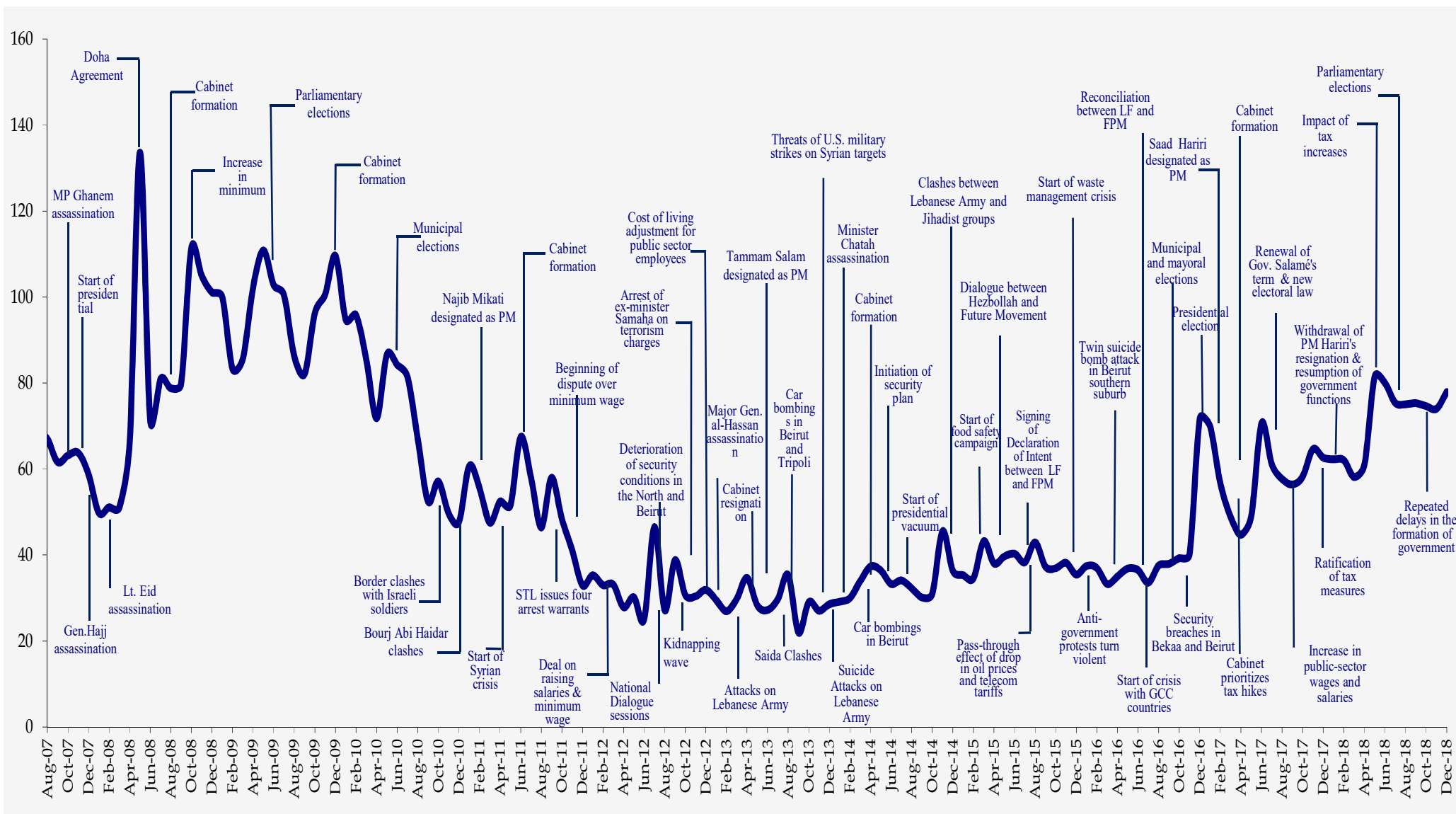
*** EI: Byblos Bank/AUB Expectations Index

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

METHODOLOGY

The Byblos Bank/ AUB Consumer Confidence Index is a measure of the sentiment and expectations of Lebanese consumers towards the economy and their own financial situation. The Index is compiled, implemented and analyzed in line with international best practices and according to criteria from leading consumer confidence indices worldwide. 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, geographical region, and religious affiliation. The Byblos Bank Economic Research & Analysis Department has been calculating the Index on a monthly basis since July 2007, with January 2009 as its base month. The Index is based on a face-to-face monthly survey of a nationally representative sample of 1,200 males and females living throughout Lebanon. The survey has a margin of error of +/- 2.83%, a confidence level of 95% and a response distribution of 50%. The monthly field survey is conducted by Statistics Lebanon Ltd, a market research and opinion-polling firm.

Evolution of the Byblos Bank/AUB Consumer Confidence Index (July 2007 - December 2018)



Source: Byblos Research

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

	Q3 2018			Q4 2018		
	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18
CCI*	75.4	75.1	75.3	67.0	75.0	77.9
Month-on-month change (%)	-5.7%	-0.4%	0.3%	-11.1%	12.0%	3.9%
Year-on-year change (%)	23.4%	30.1%	33.5%	14.9%	16.1%	24.4%
PSI**	65.6	65.5	67.0	84.9	93.2	69.3
Month-on-month change (%)	-12.2%	-0.2%	2.3%	26.7%	9.8%	-25.7%
Year-on-year change (%)	10.7%	20.4%	19.7%	50.9%	47.0%	14.7%
EI***	81.9	81.5	80.9	81.1	79.5	83.7
Month-on-month change (%)	-1.9%	-0.5%	-0.7%	0.2%	-2.0%	5.3%
Year-on-year change (%)	31.5%	35.9%	42.6%	36.0%	21.4%	30.4%

* 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

METHODOLOGY

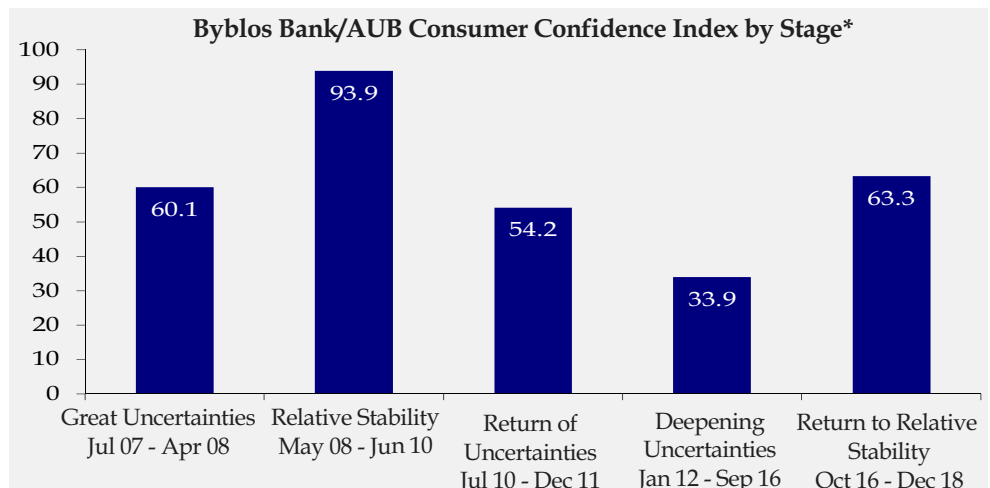
The Byblos Bank/ AUB Consumer Confidence Index is a measure of the sentiment and expectations of Lebanese consumers towards the economy and their own financial situation. The Index is compiled, implemented and analyzed in line with international best practices and according to criteria from leading consumer confidence indices worldwide. 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, geographical region, and religious affiliation. The Byblos Bank Economic Research & Analysis Department has been calculating the Index on a monthly basis since July 2007, with January 2009 as its base month. The Index is based on a face-to-face monthly survey of a nationally representative sample of 1,200 males and females living throughout Lebanon. The survey has a margin of error of +/- 2.83%, a confidence level of 95% and a response distribution of 50%. The monthly field survey is conducted by Statistics Lebanon Ltd, a market research and opinion-polling firm.

B -TIMELINE ANALYSIS

The results of the third and fourth quarters of 2018 supported the trend in consumer confidence that started towards the end of 2016 following the election of President Michel Aoun and the formation of a government of national unity, and continued in 2017 with the renewal of the term of Banque du Liban's Governor Riad Salamé and the approval of a new parliamentary electoral law. The period of relative political stability extended into 2018 to reflect improved expectations of households following the organization of the parliamentary elections in May 2018. These developments reflected a breakthrough in the domestic political climate that ushered a period of improved stability in the country since the start of 2017. We identified five 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, a period of Deepening Uncertainties, and a fifth of Return to Relative Stability.

The period of Return to Relative Stability extended into the third and fourth quarters of 2018

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 security and political 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 33.8 during the 54 months ending in June 2016. It was a "very high risk" period as political and institutional paralysis increased and security conditions deteriorated, which negatively weighed on consumer sentiment. The Index averaged 33.9 over the January 2012-September 2016 period, constituting the lowest level of household sentiment over the five periods. The fifth period started in the fourth quarter of 2016 and continued throughout 2017 and 2018. Several political and security developments helped improve consumer confidence, which led us to classify this timeframe as a period of "Return to Relative Stability". The results of the third and fourth quarters of 2018 extended this period, as the Index averaged 63.3 during the October 2016-December 2018 timeframe, constituting the second highest level of household confidence among the five periods.



* average monthly score for the period

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

C - ANALYSIS OF PRESENT SITUATION & EXPECTATIONS INDICES

The Byblos Bank/ AUB Present Situation Index decreased by 2.3% in the third quarter of 2018 from the preceding quarter, while the Expectations Index grew by 3.6% in the covered quarter. In parallel, the Present Situation Index improved by 1.1% in the fourth quarter of 2018 from the third quarter, while the Expectations Index was nearly unchanged quarter-on-quarter.

The Byblos Bank/ AUB Expectations Index posted higher values than the Present Situation Index during the third and fourth quarters of 2018, similar to the first and second quarters of the year, and in line with all quarters of 2015, 2016 and 2017. Also, the gap between the Expectations Index and the Present Situation Index registered a positive spread of +15.4 in the third quarter of 2018, and narrowed to +14.7 in the fourth quarter of the year.

The Present Situation Index and the Expectations Index moved in the same direction in two out of the three months of the third quarter of 2018. The Present Situation Index decreased by 12.2% in July, regressed by 0.2% in August and grew by 2.3% in September 2018, while the Expectations Index declined by 2% in July, retreated by 0.5% in August and regressed by 0.7% in September 2018. Also, the Present Situation and Expectations indices averaged 66 and 81.4, respectively, in the third quarter of 2018, constituting their 13th and 10th highest quarterly readings, respectively, since the Index's inception in July 2007.

In parallel, the two indices moved in the same direction in one out of the three months of the fourth quarter of 2018. As such, the Present Situation Index and the Expectations Index increased by 5.2% and 5.3%, respectively, in December. But the Present Situation Index posted a decrease of 2.9% in October and an increase of 1.3% in November 2018, while the Expectations Index improved by 0.2% in October and regressed by 2% in November. In addition, the Present Situation and Expectations indices averaged 66.7 and 81.4, respectively, in the fourth quarter of 2018, constituting their 12th and 11th highest quarterly readings, respectively, in 46 quarters.

Generally, Lebanese consumers have been more optimistic about their near-term future conditions than about their current situation, a trend upheld in the third and fourth quarters of 2018, as the Expectations Index posted higher values than the Present Situation Index in each of the last six months of 2018. In fact, Lebanese consumers have been more optimistic about the future than they were about present circumstances in 36 out of 46 quarters and in 103 out of 138 months between July 2007 and December 2018, representing a 74.6% monthly frequency of occurrence.

The results of the second half of 2018 reflect households' wait-and-see attitude about their future conditions, as 10.5% of Lebanese polled in the covered period expected their financial conditions to improve in the coming six months, relative to 11.1% in the first half of the year. In addition, 58% of respondents in the second half of 2018 believed their financial situation will deteriorate in the coming six months, compared to 60.5% in the first half of the year, while 29% expected their financial conditions to remain the same.

The Expectations Index was higher than the Present Situation Index during the third and fourth quarters of 2018

D - GENERAL TRENDS

Consumer confidence in Lebanon was relatively stable during the second half of 2018, as the minor increase in sentiment in the third quarter was followed by the stagnation in confidence in the fourth quarter of the year. The repeated and protracted delays in the formation of a new government affected households' expectations and led the Index to stand still during the third and fourth quarters of 2018. Confidence remained highly sensitive to political developments during the second half of 2018, in line with the trend since the Index's inception in July 2007. In fact, political and security developments, whether they are positive or negative, have been the single most important factor to affect the confidence of Lebanese consumers in the past 46 quarters.

Unexpected obstacles to the government formation sapped the momentum in confidence

The unexpected obstacles that delayed the formation of a new Cabinet in Lebanon was a negative development that affected consumer sentiment throughout the third quarter of 2018. In fact, Lebanese citizens had high expectations following the May parliamentary elections that the main political parties would quickly form a government and start implementing concrete measures to improve their quality of living and economic well-being, as they were led to believe that changing the electoral law would improve the performance of politicians and would result in better accountability.

However, citizens discovered that the behavior of most political parties hardly changed after the elections, given the parties' seemingly insatiable appetite for power and their prevailing quest to divide the political pie, aggravated by the mushrooming of claims for ministerial portfolios that border on entitlements. This sapped any momentum in confidence that the parliamentary elections generated, triggered rumors about the stability of the Lebanese pound and the state of public finances, and led to lost opportunities for the Lebanese economy. As a result, 67.4% of the Lebanese surveyed in September 2018 anticipated business conditions in Lebanon to deteriorate in the coming six months, similar to previous trends, while less than 10% of respondents expected business conditions to improve during the upcoming period.

Rumors and scare tactics failed to generate citizen panic

Further, the false alerts and sudden stops in October and December about the impending announcement of a new government made way to the protracted political deadlock, thereby extending the stagnation of consumer sentiment from the third quarter to the fourth quarter of the year. However, the flood of rumors and scare tactics since the summer about the impending collapse of the Lebanese economy and of the national currency did not succeed in triggering broad panic among citizens. It is true that the momentum in confidence evaporated soon after the elections, but the Byblos Bank/AUB Consumer Confidence Index held steady during the second half of the year, instead of regressing throughout the months of negativism.

Meanwhile, households continued to feel the impact of the 2017 tax increases through inflationary pressure, economic stagnation, decrease in their purchasing power, and higher cost of living. As such, the fourth-quarter results showed a deterioration in households' outlook about their future conditions, as only 9.6% of the Lebanese polled in the fourth quarter expected their financial conditions to improve in the coming six months, down from 11.5% in the third quarter of the year.

In parallel, 58% of respondents in the covered quarter believed that their financial situation will deteriorate. In addition, only 9.6% of the Lebanese surveyed in December 2018 expected business conditions in Lebanon to improve in the coming six months, while 65.8% of respondents anticipated business conditions to deteriorate.

Confidence level in 2018 was fourth highest in 10 years

Looking at the results of the full year, consumer confidence improved from 2017, with the Index reaching its fourth highest annual level since 2008. However, most of the increase occurred during the second quarter of 2018, as the Index declined by 1.6% in the first quarter, rose by 22% in the second quarter, grew by 1.5% in the third quarter and was nearly unchanged in the fourth quarter of 2018. The main factor that affected household sentiment during the year was the organization and outcome of Lebanon's long-delayed parliamentary elections in May 2018, as well as the uncertainties about the formation of a post-elections government. In fact, the increase in the Index during the second quarter of 2018 was due to renewed expectations of citizens following the parliamentary elections, rather than from any tangible improvement in their standard of living or economic well-being.

The Byblos Bank/ AUB Consumer Confidence Index posted mixed results in 2018, as the Index decreased in eight out of 12 months, reaching a low of 58.1 in March and a high of 81.6 in May 2018. In parallel, the spread between the Byblos Bank/ AUB Expectations Index and the Byblos Bank/ AUB Present Situation Index remained positive in each month of 2018. The spreads ranged from a low of +1.3 in April to a high of +23 in May 2018, their highest level since July 2011, which reflects the fluctuation of consumers' outlook.

High level of consumer confidence requires improvements in standards of living

Despite the improvement of the Byblos Bank/ AUB Consumer Confidence Index in 2018, Lebanese citizens still need to see concrete evidence and tangible solutions that would improve their standard of living and economic well-being, in order to sustain their confidence level, especially with the ongoing deterioration in public-service delivery. The developments of 2018 reinforced this trend, given that citizens have repeatedly seen many politicians put personal or partisan agendas ahead of the national interest. In fact, the delays in the formation of the government became the latest chapter of a pattern that has transformed the longstanding skepticism of households into disillusionment about the seriousness of the political class to improve their quality of living.

E - CONSUMER CONFIDENCE AND ECONOMIC GROWTH

The fluctuations of the Byblos Bank/AUB Consumer Confidence Index have generally reflected trends in economic growth. More precisely, real GDP growth rates have been correlated historically to the levels of consumer sentiment, because households account for about 87% of private consumption in Lebanon. However, the double-digit increase of the Index in 2018 has not resulted in improved economic activity last year for multiple reasons.

Uncertainties led households to postpone non-essential expenditures

First, the extended government vacuum, which was accompanied by a flood of rumors about the impending collapse of the economy and of the national currency, affected consumer behavior, even though it did not create panic among citizens. As such, households postponed non-essential spending as they awaited clearer political and economic skies, a decision that was reflected by the results of the Index's monthly survey about their outlook towards their personal finances and the business environment in the country.

Second, the already-stretched budgets of households accelerated their decision, as the authorities' ill-conceived increase in taxes on consumption, income, profits and capital gains, which went into effect at the start of 2018, led to a massive redistribution of income from the productive private sector and from households to the bloated public sector.

Third, this resulted in a shortage of liquidity in the local market at the retail and wholesale levels that triggered cash flow problems for companies in most sectors, leading firms of all sizes to postpone expansion plans or suspend new projects, and for corporates to shift into cost cutting mode.

Fourth, the economy and the private sector were already suffering from high operating costs, due to the expanding size and inefficiencies of the public bureaucracy and its increasing burden on the private sector, as well as due to the low level of economic competitiveness, the deteriorating investment climate, the inadequate infrastructure and the weak business environment. As such, the increase in taxes in a low growth environment exacerbated the operating costs on firms and contributed directly to the slowdown in economic activity in 2018.

Public sector wage hike did not increase domestic consumption

Fifth, the massive increase of the public sector's wages, salaries and benefits did not produce the much-hyped positive impact on domestic consumption, as claimed by the advocates of this decision back in 2017. In fact, anecdotal evidence suggests that part of the increase benefited the economies of several Middle Eastern and European countries, as many recipients of this salary raise used part of their newfound disposable income and purchasing power to take vacations abroad, rather than spending their money domestically.

Sixth, the increase of the value-added tax and the raise in the wages and salaries of public sector workers combined to push the inflation rate in 2018 to its highest level since 2012, thereby reducing the purchasing power of households.

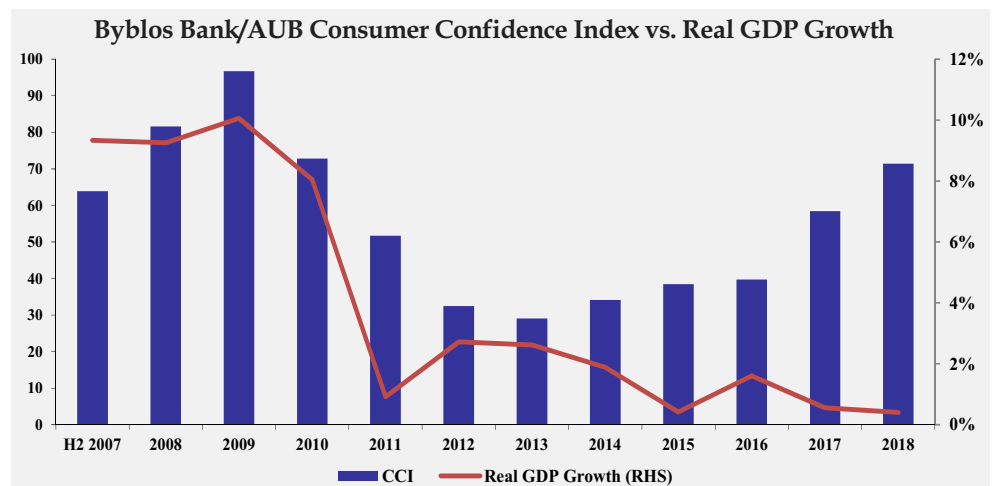
Sharply diverging confidence trends among segments of society

Seventh, the widening discrepancy in the confidence levels of public sector workers on one hand, and of private sector employees and the self-employed on the other hand, shows the negative impact of the public-sector wage decision on economic activity. In fact, a particular segment of society benefited at the expense of the larger segments society, especially that the latter constitute the engine of economic activity in the country. Indeed, the confidence levels of private sector employees and the self-employed have consistently exceeded the confidence level of public sector workers since the Index's inception, a necessity for consumption and economic activity. However, public sector employees posted throughout 2018, and for the first time, not only a higher but also a much wider confidence level than their private sector counterparts.

The survey's results show that the confidence level of public sector workers increased by 22.5% in 2018, in sharp contrast to a drop of 2.5% in the confidence of private sector employees during the year. This was accompanied by a gap between the two categories that worsened during the year, as the confidence level of public sector workers was 17% higher than that of private sector employees in the first quarter of the year, but it widened to 49% in the second quarter, to 37% in the third quarter, and to 29% in the fourth quarter. Moreover, the confidence level of public sector workers was 10% higher than the confidence level of the self-employed in the first half of 2018, but it widened to 21% in the second half of the year. This new trend in consumer sentiment backfired on consumption and investment in 2018, with direct consequences for economic activity.

Improved confidence level not translating into better growth rates

Eighth, as a result of all the above factors, we estimate that real GDP grew by a modest 0.4% in 2018, despite the increase of the Byblos Bank/AUB Consumers Confidence Index by 22.4% during the year. This was not the first such instance since the Index's inception, as the Index increased by 47.1% in 2017 from a low base, but real GDP grew by a modest 0.6% during the year. In turn, this points to a more significant trend, which is the decline in the potential growth of the Lebanese economy and the need for deep structural reforms to restore this potential to its previous levels. In addition, reforms have become more urgent in order to avoid the new normal of very low growth rates despite increases in consumer confidence.



Source: Byblos Bank Economic Research & Analysis Department

F - CONSUMERS' NEAR-TERM OUTLOOK

Lebanese females had a more optimistic near-term outlook than their male counterparts in the third and fourth quarters of 2018. The average monthly reading of the Expectations Index was 84.6 for females compared to 78.3 for males in the third quarter of 2018, and reached 83.5 for females relative to 79.3 for males in the fourth quarter of the year.

Younger consumers were the most optimistic in the second half of 2018

Consumers who are in the 21 to 29 year-old bracket were more optimistic about the near term than their counterparts in other age brackets during the third and fourth quarters of 2018, while consumers who are 60 years or older were the most pessimistic during the covered quarters.

Further, students were the least pessimistic about economic prospects among occupational sub-categories in the third quarter of 2018, as the Expectations Index for this segment averaged 128.9, while public-sector employees were the most optimistic during the fourth quarter of the year, with the Expectations Index for this category averaging 91.4 in the covered quarter. Conversely, private-sector employees were the most pessimistic about the near future among all occupational categories in the third quarter of 2018, while students were the least optimistic during the fourth quarter of the year.

Political populism raised the expectations of low-income citizens

In parallel, consumers who earn a monthly income of \$750 or less had higher expectations about future economic prospects than citizens in other income brackets during the third quarter of 2018, most likely due to the incessant promises by politicians before and after the elections to raise the income and standard of living of the poor. In parallel, citizens with a monthly income of between \$1,500 and \$2,499 were the most optimistic in the fourth quarter of the year. In contrast, consumers with a monthly income between \$750 and \$1,499 were the most pessimistic about the near future among all income categories during the third quarter of the year, while citizens with a monthly income of \$750 or less were the least optimistic about future economic prospects than citizens in other income brackets during the fourth quarter of 2018.

In addition, residents of North Lebanon had a more positive outlook than their counterparts in other geographical regions during the third and fourth quarters of 2018. Conversely, consumers who reside in Beirut were more pessimistic about future prospects than those in other geographical regions during the third quarter of 2018, while those who live in Mount Lebanon were the most pessimistic during the fourth quarter of the year.

Shiite citizens were the most optimistic about future prospects in the second half of 2018

In terms of religious affiliation, Shiite citizens were more positive about the country's near-term economic outlook in the third and fourth quarters of 2018 than Lebanese from other religious denominations. This can be attributed to the overwhelming victory of the two main Shiite political forces in the elections, which constituted a clear political statement that went beyond the numerical results. In parallel, Christian consumers were the most pessimistic about future prospects during the third quarter of 2018, while Sunni households were the least optimistic during the fourth quarter of the year.

II - Results by Category

A - CONSUMER CONFIDENCE BY GENDER

The results of the Byblos Bank/AUB Consumer Confidence Index show that female consumers registered a higher level of confidence than their male counterparts during the third and fourth quarters of 2018. Also, females were more confident than males in five out of six months in the second half of 2018.

The confidence level of females grew by 4.3% in the third quarter of 2018 and regressed by 0.4% in the fourth quarter, while the level of sentiment among males decreased by 1.3% in the third quarter and increased by 1.2% in the fourth quarter of 2018. Females and males posted average confidence levels of 77.2 and 73.3, respectively, during the third quarter of 2018, as well as confidence levels of 76.9 and 74.2, respectively, in the fourth quarter of the year. The third-quarter results represent the 10th highest level of confidence of Lebanese females in 46 quarters, while the confidence level of males was the 12th highest in the covered quarter. Moreover, female and male consumers posted their 11th highest quarterly results each in the fourth quarter of 2018.

On a semi-annual basis, female and male consumers posted average confidence levels of 77 and 73.8, respectively, during the second half of 2018, relative to confidence levels of 66.5 and 68.4, respectively, in the first half of the year. As such, the confidence level of females increased by 15.8% and grew by 7.8% for males in the second half of 2018. Moreover, males and females posted their fifth highest levels of confidence each in 23 semi-annual results.

The results show that female consumers had a higher confidence level than their male counterparts in seven out of the first eight quarters following the Index's inception in July 2007. This trend reversed, as males became more confident than females in 21 out of the following 22 quarters until the end of 2014. The trend changed again in 2015, as females started to post higher confidence levels than their male counterparts in 13 out of the following 16 quarters until the end of 2018.

On an annual basis, Lebanese females had a higher level of confidence than their male counterparts in 2018, representing the fifth such instance since the start of the Index's calculation. Still, male consumers were more confident than females in 74 out of 138 months since the Index's inception in July 2007, representing a 53.6% frequency of occurrence.

Females were more confident than males in the second half of 2018

Byblos Bank/AUB Consumer Confidence Index by Gender		
Month	Male	Female
Jul-18	73.5	77.2
Aug-18	73.9	76.2
Sep-18	72.5	78.2
Av. Index Q3 2018*	73.3	77.2
Oct-18	74.1	75.2
Nov-18	70.2	77.9
Dec-18	78.3	77.6
Av. Index Q4 2018*	74.2	76.9

* average monthly score

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 than citizens in other age brackets in the third and fourth quarters of 2018. In contrast, consumers who are 60 years old or above were the least confident among age segments in the covered quarters.

The level of sentiment among consumers who are between 50 and 59 years old increased by 18.6% in the third quarter of 2018, followed by citizens in the 30 to 39 year-old bracket (+1.8%) and consumers aged between 21 and 29 years old (+0.1%); while the confidence level of citizens who are 60 years or older regressed by 6.3% and that of consumers in the 40 to 49 year-old bracket dropped by 3.7% in the covered quarter. In parallel, the confidence level of consumers in the 40 to 49 year-old bracket rose by 3.8% in the fourth quarter of 2018 and grew by 2.7% for citizens aged between 30 and 39 years; while the sentiment of Lebanese in the 50 to 59 year-old bracket decreased by 3.2% in the covered quarter, followed by citizens who are 60 years or older (-2.5%) and consumers aged between 21 and 29 years (-1.2%).

The confidence level of older consumers regressed in the second half of 2018

On a semi-annual basis, consumers who are in the 21 to 29 year-old bracket had the highest level of confidence in the second half of 2018, constituting the 18th such occurrence in 22 semi-annual periods. This trend reflects the normal exuberance of young men and women in Lebanon, in contrast to the constant self-serving and fact-free rumors about the despondency of Lebanese youth.

Consumers who are in the 21 to 29 year-old bracket had the highest level of confidence among age segments in each month of the second half of 2018. In contrast, citizens who are 60 years or older were the least confident in all six months of the second half of the year. Overall, consumers in the 21 to 29 year-old bracket were more confident in 2018 than other age groups, the ninth such occurrence since 2008. Generally, consumers aged between 21 and 29 years have been more confident than older consumers, as they posted the highest confidence level in 37 out of 46 quarters, which represents a 80.4% frequency of occurrence. Also, consumers who are 21 to 29 years old were the most confident in 93 out of 138 months since the Index's inception, representing a 67.4% frequency of occurrence.

Byblos Bank/AUB Consumer Confidence Index by Age					
Month	21-29 yrs	30-39 yrs	40-49 yrs	50-59 yrs	≥60 yrs
Jul-18	89.3	72.9	73.1	68.9	56.4
Aug-18	82.4	74.1	71.3	77.3	60.0
Sep-18	92.3	71.8	75.5	65.5	51.8
Av. Index Q3 2018*	88.0	72.9	73.3	70.6	56.1
Oct-18	90.9	72.1	75.9	61.9	51.4
Nov-18	82.9	74.6	72.6	75.2	50.6
Dec-18	87.2	78.0	79.8	68.0	61.9
Av. Index Q4 2018*	87.0	74.9	76.1	68.4	54.6

* average monthly score

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

C - CONSUMER CONFIDENCE BY OCCUPATION

Students posted a higher level of confidence than consumers in other occupational categories in the second half of 2018, constituting the 16th such occurrence in 23 semi-annual periods since the Index's inception in July 2007. In contrast, the unemployed were the most pessimistic during the second half of 2018, constituting the 15th such instance in 23 semi-annual periods since the start of the Index's calculation.

Public-sector workers were significantly more confident than private-sector employees

On a quarterly basis, students had the highest level of confidence in the third quarter of 2018, followed by public-sector employees, the self-employed, housewives, private-sector employees and the unemployed. Similarly, students posted a higher level of confidence than other occupational categories during the fourth quarter of 2018, followed by public-sector employees, housewives, the self-employed, private-sector employees and the unemployed.

Further, the sentiment of students surged by 21.6% quarter-on-quarter in the third quarter of 2018 and increased by 8.1% for private-sector employees; while the confidence level of the self-employed regressed by 5.4% in the covered quarter, followed by housewives (-2.1%), the unemployed (-1.6%) and public-sector employees (-0.8%). During the fourth quarter of 2018, the confidence level of housewives grew by 5.2% and increased by 1.7% for students; while the sentiment of public-sector employees declined by 7.4% in the covered quarter, followed by the self-employed (-2.3%), the unemployed (-2.2%) and private-sector employees (-1.6%).

In fact, the unemployed were the least confident among occupational categories in 2018, in line with the trends since 2014 and reflecting the persistent challenges that citizens continue to face to secure a job amid the ongoing economic stagnation in the country. In parallel, the sentiment level of students was the highest in 75 out of 138 months, representing a 54.3% frequency of occurrence, followed by private-sector employees with an incidence of 23.2%, public-sector employees with 8.7%, the unemployed and the self-employed with 5.8% each, and housewives with a frequency of 2.2%.

Byblos Bank/AUB Consumer Confidence Index by Occupation						
Month	Private Sector Employee	Public Sector Employee	Self-employed	Student	Housewife	Unemployed
Jul-18	63.8	78.3	71.5	115.3	67.3	54.2
Aug-18	67.1	100.7	66.4	122.6	69.4	56.7
Sep-18	59.1	81.6	72.2	118.2	67.4	48.3
Av. Index						
Q3 2018*	63.4	86.9	70.1	118.7	68.0	53.0
Oct-18	60.7	79.7	66.0	123.5	70.5	59.1
Nov-18	62.3	80.0	66.4	117.2	71.4	50.1
Dec-18	64.1	81.6	72.9	121.4	72.8	46.4
Av. Index						
Q4 2018*	62.4	80.4	68.4	120.7	71.6	51.9

* average monthly score

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 were more confident than citizens in lower income brackets in the third and fourth quarters of 2018. Conversely, citizens with a monthly income of \$750 or less were the least confident among all income categories in the last two quarters of 2018.

The confidence level of consumers with a monthly income of \$2,500 or more grew by 4.3% in the third quarter of 2018 from the preceding quarter and increased by 3.7% for citizens in the \$750 to \$1,499 per month income bracket; while it regressed by 1.5% for consumers with a monthly income of \$750 or less, and was unchanged for consumers in the \$1,500 to \$2,499 per month income bracket. Moreover, the confidence level of consumers with an income of \$1,500 to \$2,499 per month increased by 5.5% in the fourth quarter of 2018 and grew by 2.9% for citizens who earn between \$750 and \$1,499 per month. In contrast, the sentiment of consumers who earn \$750 or less declined by 5.7% and regressed by 4.7% for citizens who earn \$2,500 or more per month.

Consumer sentiment remains correlated to income levels

On a semi-annual basis, consumers with a monthly income of \$2,500 or more had the highest level of confidence among all income brackets in the second half of 2018. Consumer sentiment for this category posted an average reading of 84.8 in the second half of 2018, up by 4.8% from 80.9 in the first half of the year. In addition, citizens with a household income of \$2,500 or higher held the highest level of confidence in all semi-annual readings.

On an annual basis, consumers with a monthly income of \$2,500 or more had a higher level of confidence than those in lower income brackets in 2018, in line with the results since 2014. In addition, consumers in this category had the highest level of confidence in 53 out of 60 months, representing an 88.3% 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. Respondents were selected from a random population sample of 5,474 and were questioned about their monthly income. The results show 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-18	69.6	76.4	76.7	83.5
Aug-18	76.0	75.1	70.8	82.6
Sep-18	67.9	72.3	79.1	94.4
Av. Index Q3 2018**	71.2	74.6	75.5	86.8
Oct-18	66.7	74.5	78.5	85.1
Nov-18	67.2	75.6	78.0	76.5
Dec-18	67.4	80.1	82.6	86.5
Av. Index Q4 2018**	67.1	76.7	79.7	82.7

* monthly household income ** average monthly score

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

E - CONSUMER CONFIDENCE BY GEOGRAPHICAL REGION

The results of the Byblos Bank/ AUB Consumer Confidence Index show that residents of the Bekaa region had a higher level of confidence relative to consumers in other regions in the third and fourth quarters of 2018. Conversely, residents in Mount Lebanon were the most pessimistic among all geographical regions in the last two quarters of 2018.

Consumer sentiment in Beirut grew by 14% in the third quarter of 2018 and posted the highest increase across geographical regions, followed by residents in the Bekaa (+13%), the North (+2.7%) and the South (+1%). In contrast, the confidence level of consumers in Mount Lebanon dropped by 9.1% in the covered quarter. Further, the sentiment of citizens in Beirut rose by 13.9% in the fourth quarter of 2018, followed by residents in the South (+3%), in Mount Lebanon (+0.5%) and in the Bekaa area (+0.3%); while the confidence level of consumers in the North decreased by 7.4% from the third quarter.

Household sentiment in Mount Lebanon was the lowest across regions in the second half of 2018

On a semi-annual basis, households in the Bekaa region posted the highest level of confidence across geographical regions in the second half of 2018, followed by consumers in the North, residents in the South, citizens in Beirut and consumers in Mount Lebanon.

On an annual basis, residents of the North posted the highest level of confidence among geographical regions in 2018, in line with the results of 2008, 2009 and 2014. They were followed by residents in the Bekaa, then households in Mount Lebanon, in the South and in Beirut. Overall, consumers in Mount Lebanon held the highest level of confidence in 50 out of 138 months, representing a 36.2% frequency of occurrence, followed by consumers in the North with an incidence of 24.6%, households in the South with 20.3%, consumers in Beirut with 14.5% and households in the Bekaa with a frequency of 4.3%.

Byblos Bank/AUB Consumer Confidence Index by Geographical Region					
Month	Beirut	Mount Lebanon	North	Bekaa	South
Jul-18	67.8	61.5	92.9	99.1	68.8
Aug-18	60.1	61.8	100.5	95.1	66.9
Sep-18	60.6	64.8	92.5	98.2	68.6
Av. Index Q3 2018*	62.8	62.7	95.3	97.5	68.1
Oct-18	62.1	60.3	88.0	104.1	73.6
Nov-18	72.4	62.3	89.4	86.7	70.5
Dec-18	80.2	66.5	87.2	102.5	66.2
Av. Index Q4 2018*	71.6	63.0	88.2	97.8	70.1

* average monthly score

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 Shiite households were the most optimistic among all religious affiliations in the third and fourth quarters of 2018. In addition, the results of the third and fourth quarters constituted the fifth and sixth time, respectively, since the Index's inception that Shiite households post the highest level of confidence on a quarterly basis. In parallel, Christian citizens were the most pessimistic during the third quarter of 2018, while Druze households registered the lowest level of confidence during the fourth quarter of the year. In general, Christians posted the highest level of confidence in 23 out of 46 quarters, while Shiite citizens posted the lowest level of confidence in 28 out of 46 quarters, representing a 61% frequency of occurrence since the Index's inception in July 2007.

The confidence level of Shiite households grew by 12.3% in the third quarter of 2018, the highest quarterly increase among religious affiliations, while it increased by 9.4% for Sunni households. In contrast, the sentiment of Druze consumers dropped by 14.3% in the covered quarter and regressed by 4.7% for Christian households. In parallel, the confidence level of Christian consumers grew by 2.5% in the fourth quarter of 2018; while the confidence level of Sunni households regressed by 2.9%, followed by Druze consumers (-0.3%) and Shiite households (-0.1%).

On a semi-annual basis, Shiite households registered the highest level of confidence among all religious affiliations in the second half of 2018. Also, the sentiment of Shiite consumers grew by 38.2% in the covered period from the first half of 2018, the highest such improvement among other religions. The increase in the sentiment of Shiite consumers was mainly due to the general satisfaction of Shiite voters with the elections' results, which, in turn, raised their expectations that the new Parliament and ensuing government would work towards improving their standard of living and economic well-being.

On an annual basis, Druze consumers posted the highest level of confidence among all religious affiliations in 2018, the fourth time since 2008, followed by Christians, Shiite and Sunni households. Overall, Christians held the highest level of confidence in 56 out of 138 months since the Index's inception, representing a 40.6% frequency of occurrence, followed by Druze citizens with an incidence of 29.7%, Sunni consumers with 15.2% and Shiite citizens with a frequency of 14.5%.

Byblos Bank/AUB Consumer Confidence Index by Religious Affiliation				
Month	Christians	Sunnis	Shiites	Druze
Jul-18	73.2	67.3	89.1	72.1
Aug-18	74.5	75.6	75.5	75.2
Sep-18	70.4	84.9	75.4	71.8
Av. Index Q3 2018*	72.7	75.9	80.0	73.1
Oct-18	72.4	72.9	78.7	79.6
Nov-18	78.2	70.1	74.2	64.1
Dec-18	73.2	78.2	86.9	74.9
Av. Index Q4 2018*	74.6	73.7	79.9	72.9

* average monthly score

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

The confidence level of Shiite households improved significantly in the second half of 2018

**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
www.byblosbank.com**

Consumer Confidence in Lebanon: The Byblos Bank/AUB Consumer Confidence Index - Second Half 2018 Results and Analysis is a research document that is owned and published by Byblos Bank sal. 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 2018 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

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

Sulaymaniyah Branch, Kurdistan, Iraq
Salem Street, Kurdistan Mall - Sulaymaniyah
Phone: (+ 964) 773 042 1010 / (+ 964) 773 041 1010

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

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

UNITED ARAB EMIRATES

Byblos Bank Abu Dhabi Representative Office
Al Reem Island - Sky Tower - Office 2206
P.O.Box: 73893 Abu Dhabi - UAE
Phone: (+ 971) 2 6336050 - 2 6336400
Fax: (+ 971) 2 6338400
E-mail: abudhabirepoffice@byblosbank.com.lb

ARMENIA

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

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

BELGIUM

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

UNITED KINGDOM

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

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

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