



بنك الإمارات دبي الوطني  
Emirates NBD

Economics  
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# Dubai Economy Tracker: Slower growth in Q4 2018

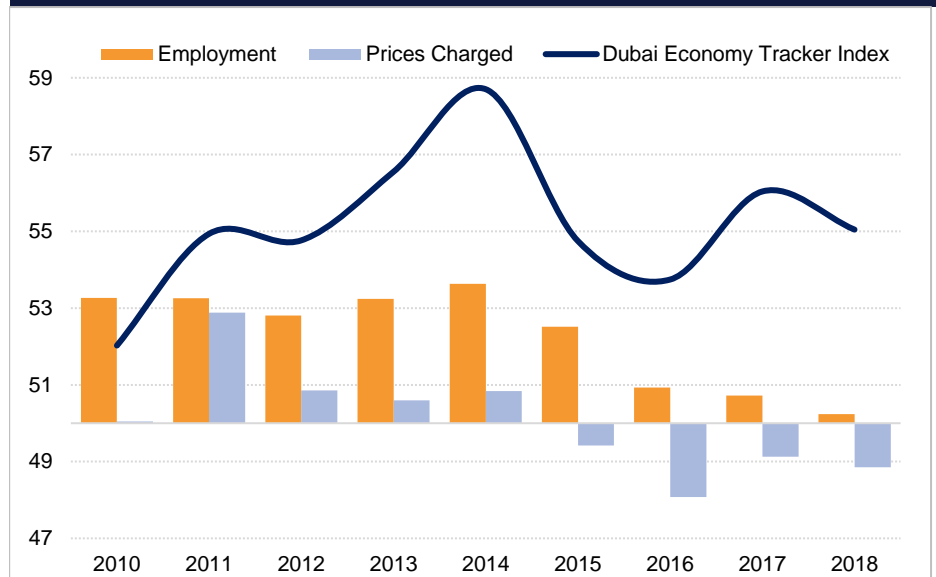
The headline Dubai Economy Tracker Index declined to 53.7 in December on slower output and new order growth. The average DET reading for Q4 was 53.8, the lowest since Q1 2016. Looked at another way, the last time the DET was at a similar level, the average oil price was USD 47/b rather than the USD 68/b average in Q4 2018.

While private sector firms reported solid increases in output in December, and indeed for the year as a whole, this has come on the back of **consistent and continued price discounting in a very competitive environment**, despite rising input costs. The prices charged index improved to 48.0 in December 2018, from a near-record-low of 45.8 in November but still indicated lower selling prices last month.

The pressure on firms' margins and efforts to find costs savings is reflected in almost no job growth in Dubai's private sector last year: **the employment index averaged 50.2, the lowest in the 8 year survey history**. Firms have also become more adept at managing their pre-production inventory; stocks of purchases in December rose at the slowest pace since early 2016 in December.

Despite the softness in the December survey, firms were still optimistic about their future prospects. 64% of firms surveyed believed that their output would be higher in a year's time, while just 5.3% of firms expected further weakness. However, the degree of optimism was the weakest since July 2018.

## Emirates NBD Dubai Economy Tracker: Weakest employment growth on record



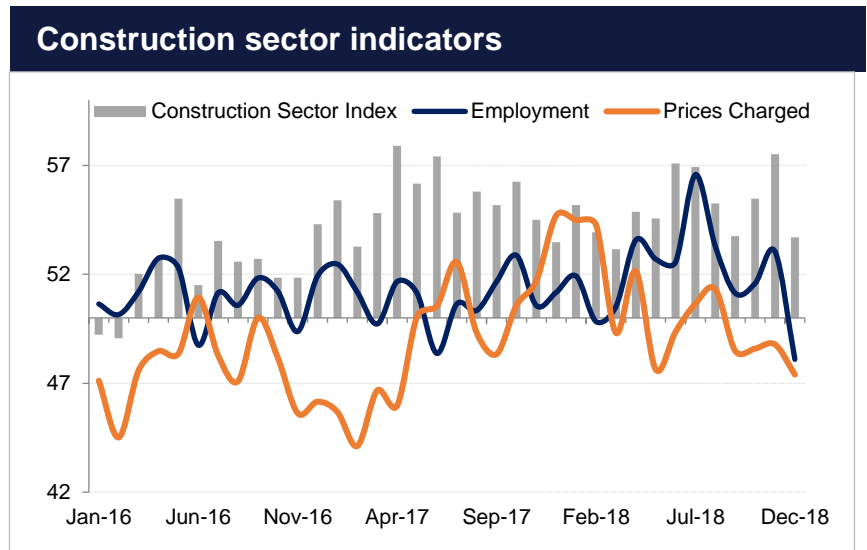
Source: IHS Markit, Emirates NBD Research

**Overall, the Dubai Economy Tracker index data suggests that Dubai's economy grew at roughly the same rate in 2018 as in 2017.** Preliminary official estimates put GDP growth at 2.8% in 2017 and we have pencilled in the same for 2018. This is slower than we had anticipated at the start of last year. We do expect GDP growth to accelerate in 2019 however, as government spending is likely to rise and as the bulk of Expo 2020 projects near completion.

## Construction sector slowed sharply in December

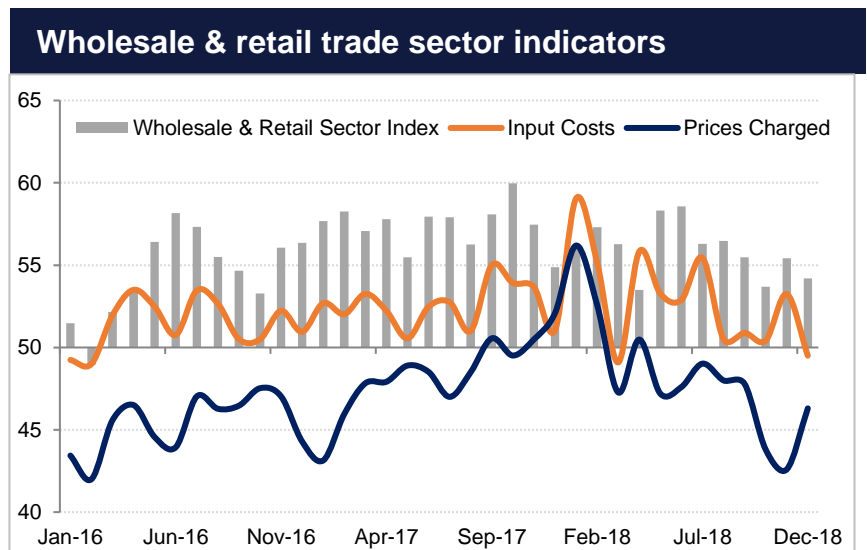
The construction sector index declined to 53.7 in December from 57.5 in November, signalling the weakest expansion in the sector since March 2018. Output increased sharply, but at a slower rate than in November while new order growth was the weakest since March. The slowdown in new work came despite deeper discounts on prices charged, which fell at the fastest rate since April 2017.

Unsurprisingly, employment in the construction sector declined in December, for the first time since February. Business optimism in the construction sector was also much weaker than in recent months, declining to 74.4 from more than 89 in September and October.



Source: IHS Markit, Emirates NBD Research

## Wholesale & retail trade sector index averages 56.0 in 2018



Source: IHS Markit, Emirates NBD Research

The wholesale & retail trade sector index slipped to 54.2 in December from 55.4, as both output and new work increased at a slower rate. However, the index averaged a respectable 56.0 for 2018 as a whole, slightly lower than the average of 57.4 recorded in 2017.

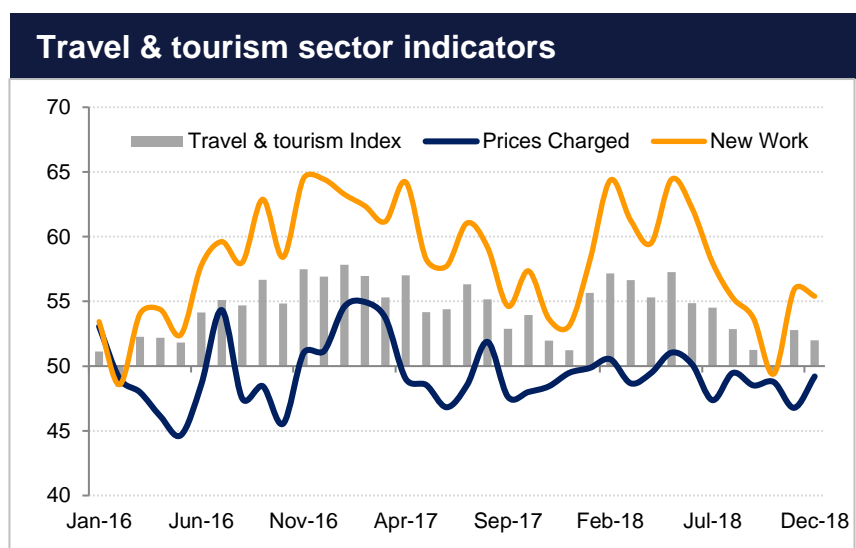
Although the headline index points to sector growth in real terms (ie the volumes of goods and services), this has come on the back of continued price discounting on the part of wholesalers and retailers. The average prices charged index stood at 48.2, similar to 2017 but better than the average for 2016 which reflected even deeper price cuts. Employment in the sector was also weaker than in 2016 and 2017.

### Travel & tourism sector sees slowest quarter in nearly 3 years

The travel & tourism index declined to 52.0 in December 2018, ending the worst performance for the sector (in terms of survey data) since Q1 2016. The average index reading was 51.5 in Q4 2018, much lower than the Q1 2018 reading of 56.5. Output rose at a markedly slower rate than in November, while the new work index remained in the mid-50s too, well below readings in the first half of 2018. While average prices charged decreased slightly last month, the rate of price discounting was not as severe as in the previous month.

**In our view, two factors likely contributed to softness in the travel & tourism sector data last year. The first was USD strength**, particularly against EM currencies in the second half of last year, as (non GCC) emerging markets account for more than half of all international visitors to Dubai. Moreover, visitor numbers from other GCC countries (excluding Qatar) were down around 5% y/y in 2018 despite their currencies being pegged to the USD. Overall, international visitor numbers for Dubai were broadly flat in the year to November.

**The second factor was the increase in the supply of hotel rooms** in Dubai last year, which put further pressure on room rates (and thus profit margins). STR global data shows that there were more than 109k hotel rooms in Dubai at the end of November 2018, up 12.8% y/y. Additional new supply is expected to come online in 2019, ahead of Expo in 2020.



Source: IHS Markit, Emirates NBD Research

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