Dubai & UAE outlook 2025

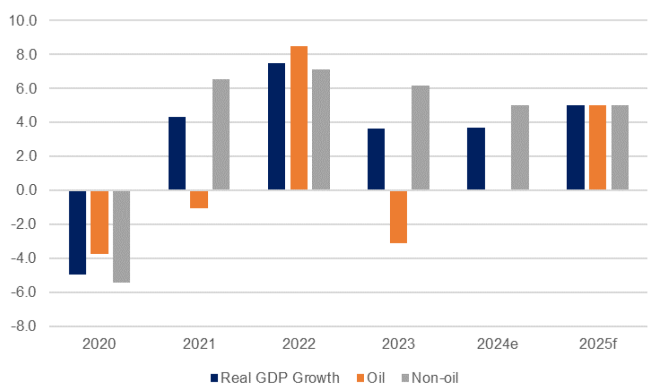
Research | 14 January 2025

Highlights

- The S&P Global PMI survey for the UAE ended 2025 on a high note as it picked up to 55.4, up from 54.2 the previous month and beating the 2024 average of 55.1, compared with 56.1 in 2023.
- The Dubai PMI survey for December also saw an uptick, with the headline reading at 55.5, the highest since March.
- Saudi Arabia's December PMI survey from Riyad Bank fell modestly to 58.4 in December, down from 59.0 in November.
- Egypt's S&P Global PMI survey fell to 48.1 in December, down from 49.2 previously and the fourth contractionary reading in a row after the index turned modestly positive in August.

We anticipate that GDP growth in the UAE will strengthen in 2025 as activity in the oil sector picks up while the non-oil sector maintains its robust pace of growth. We forecast a headline expansion rate of 5.0% this year, following an estimated 3.7% expansion in 2024, with both the oil and non-oil sectors set to grow at the same 5.0% pace. For Dubai, we estimate 2024 growth at 3.2%, with the expectation that it will accelerate to 3.7% in 2025, supported by an expansionary government budget.

UAE GDP, % y/y



Source: Haver Analytics, Emirates NBD Research

Non-oil growth maintained in 2024

The UAE recorded real GDP growth of 3.6% y/y in the first half of 2024 according to preliminary national accounts data from the FCSA, with Q2 growth of 3.9% y/y following the 3.4% recorded in the first quarter. Non-oil GDP outpaced the oil sector as it expanded by 4.8% in Q2, an acceleration on the 4.0% in Q1, while ongoing OPEC+ oil production curbs kept hydrocarbons growth at more moderate 1.2% y/y, down slightly from 1.4% growth in the previous quarter but an acceleration on the 3.1% contraction seen in 2023. As a result, the non-oil economy accounted for a historically high 74.9% of GDP in the second quarter, testament also to ongoing diversification efforts and the growth of new and established non-oil sectors.

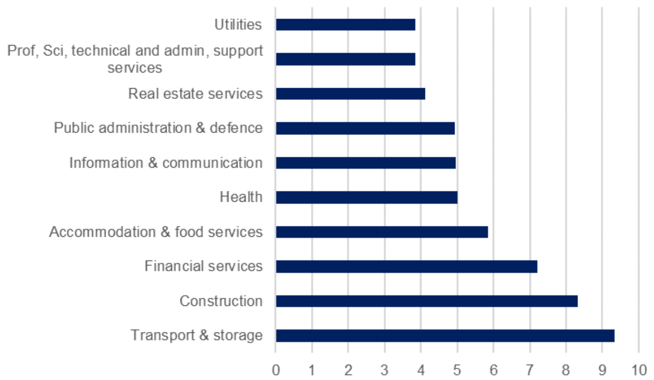
In Dubai, real GDP growth was 3.3% y/y in the second quarter, an acceleration on the 3.2% for Q1. The growth drivers were broad based across a range of sectors, testament to the ongoing diversification efforts in the economy, and this should mean increased resilience to any external shocks in the coming years. A larger economic base following several years of strong growth means that the pace of expansion has moved to a more sustained level, with expansion of more than 3% y/y for the last six quarters.

The transportation & storage sector remained the primary growth driver in Dubai in Q2, expanding 7.8% y/y. The sector is the second largest component of GDP, making up 13.6% of output in Q2, and contributing nearly a third of total growth, similar to the full-year 2023 results. It encompasses air travel, and the strong performance of the national carriers was cited by the government as helping boost growth, with passenger numbers up 4.5% y/y in the period. Dubai International Airport has seen even stronger growth, with passengers passing through the airport up 8% in the first half. Freight volumes at DXB are also up this year, as is cargo at Jebel Ali, the emirate's container-handling port. The facility handled 7.3mn twenty-foot equivalent units (TEUs) in the first half, growth of 3.9% y/y, while H2 got off to a strong start with a new record of 1.4mn boxes handled in July.

now accounts for 60% of passengers, compared with 40% prior to the pandemic.

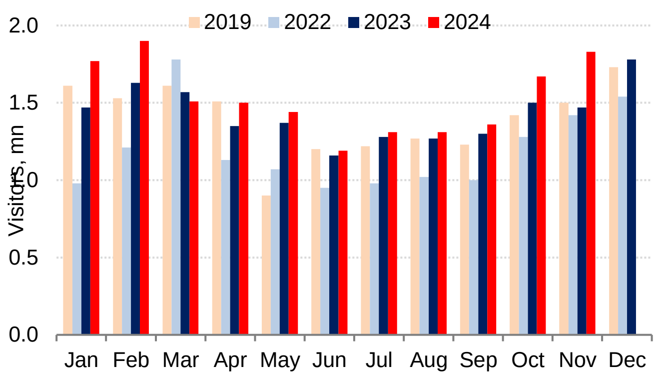
Related to this, accommodation and food services logged y/y growth of 4.7% in Q2, up from 3.8% in the first quarter. Growth last year was slower than the 9.7% recorded in 2023 as reopening gains are now in the base. Nevertheless, the number of tourists visiting Dubai continued to rise to new records, hitting 16.8mn over January to November, y/y growth of 9.2%.

Abu Dhabi Q2 GDP, % y/y by sector



Source: Haver Analytics, Emirates NBD Research

Dubai visitor numbers, mn



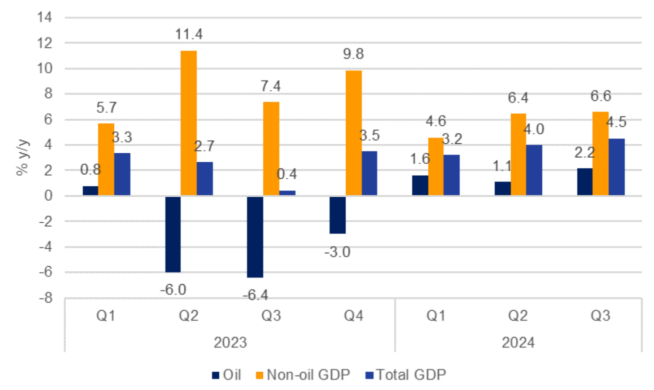
Source: DTCM, Emirates NBD Research

There are some moderate downside risks to the travel & transport sector in 2025. The risk of trade wars under a second Trump presidency could impact global shipping volumes. Nevertheless, Dubai remains in a good place to weather these challenges. Jebel Ali offers world class intermodal transport links and could benefit from disrupted regional trade routes, while the development of the domestic manufacturing sector should also be supportive. Manufacturing expanded 2.5% y/y in Q2, up from 1.6% the previous quarter and accounts for 9.1% of GDP. With development plans such as the D33 agenda, the sector should continue to grow. For air travel, IATA has announced that global numbers have now fully recovered from the Covid-19 pandemic slump, leaving diminished reopening gains to be won. However, the ongoing growth of Dubai's tourism sector should continue to fuel air travel demand, with Dubai Airports CEO Paul Griffiths stating that Dubai as final destination

The growth of Dubai's population is also likely supportive of the food services sector, with a host of proxy indicators such as school enrolment and mobile phone subscription figures highlighting an increase in inhabitants. In the GDP data, this was also reflected in 5.6% y/y growth in information & communication, with investment in developing new technologies also contributing to the expansion. The pace of population growth is likely moderating from the apparent sharp rise seen in 2023, however, and utilities (electricity, gas, AC supply) saw slower growth in Q2 at 2.9% y/y, down from 7.5% in Q1. The pace of population growth could also be behind an easing in the wholesale & retail trade sector, which expanded 2.2% y/y, down from 3.0% in Q1. The sector is the largest and arguably most developed in Dubai, however, accounting for around a quarter of output, and so it still accounted for 17% of the total growth.

Base effects following the rapid expansion in 2023 are also likely behind a moderation in real estate activities which grew 2.6% y/y in Q2, down from 3.7% in the first quarter. The sector remains vibrant, with more than 16,800 residential units transacted in September, a new record for the industry. Its corollary, construction, accelerated to 2.5%, from 1.6% previously and with the construction PMI index broadly in line with H1 so far in the second half and substantial private residential developments and public project works underway the outlook for the coming quarters remains positive.

UAE GDP, % y/y



Source: Haver Analytics, Emirates NBD Research

While we do not have Q3 data for the whole UAE or for Dubai, we do have the third quarter figures for Abu Dhabi which suggest that the growth momentum was maintained into the second half of the year. The emirate recorded real GDP growth of 4.5% y/y in Q3, up from 4.0% in Q2 and 3.2% in the first quarter. Growth was driven primarily by the non-oil sector which grew 6.6% y/y and 5.9% ytd, in line with our full-year estimate of 6.0% growth last year.

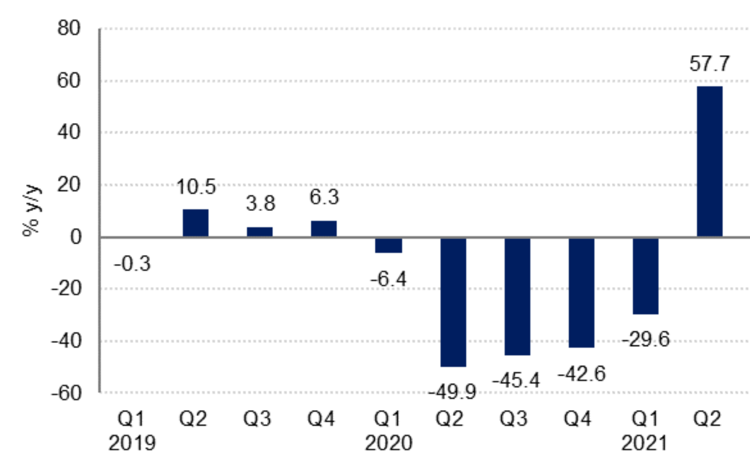
Outlook for 2025 strong

A revised production quota and gradual easing of OPEC+ production curbs, alongside ongoing investment in the sector will be supportive of growth in hydrocarbons activity this year. Looking at the GDP data available so far, the risks to our estimate of no growth in 2024 are to the upside given that Abu Dhabi reported 1.6% oil GDP growth over the first three quarters of the year. This GDP expansion likely reflects ongoing investment in the sector alongside growth in condensates production, which are not covered by the OPEC+ agreement, and natural gas. In 2025 we forecast production growth of 3.2% y/y, supporting our forecast for 5.0% growth in hydrocarbons GDP.

The outlook for the non-oil sector is also positive, with a robust pace of growth anticipated in both Abu Dhabi and Dubai. In Abu Dhabi, the rapid growth of the financial services and the transport and logistics sectors are particular bright spots.

Dubai's economy is in a strong position to record faster growth in 2025, even amid a larger base and some increased external uncertainties. Ongoing government reforms and targeted investment has made Dubai a more attractive place for international investment, with FDI inflows into an increasingly broad spectrum of industries supporting large levels of government investment into infrastructure. Ongoing population growth, even if not at the same pace as the last couple of years, will also be supportive of increased output as the target of 5.8mn inhabitants by 2040 is neared. Easing interest rates as the Federal Reserve has embarked on its rate-cutting should also give a fillip to growth, especially if it encourages increased borrowing and investment by businesses.

UAE GDP, % y/y

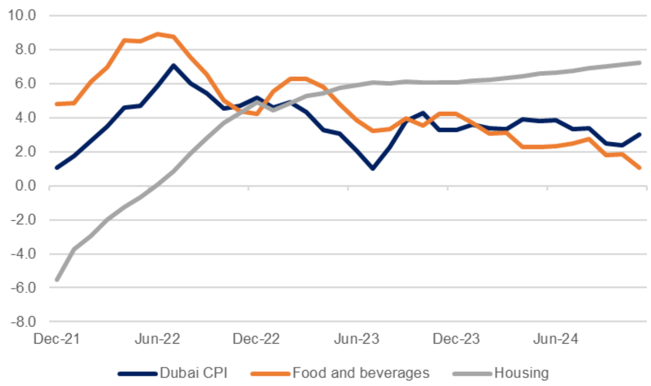


Source: Haver Analytics, Emirates NBD Research

Inflation remaining moderate

Dubai's annual CPI inflation rate accelerated to 3.0% y/y in November, up from 2.4% the previous month. This marked the fastest pace of annual price growth since August, while on the monthly measure inflation was at 0.5%, up from 0.2% in October. Over the year to date, headline annual inflation has averaged 3.3%, the same pace as seen in 2023. This year we forecast that price growth will slow to an average 2.8% y/y, with transport set to remain a drag on the headline measure but housing remaining the key driver.

CPI inflation, % y/y



Source: Haver Analytics, Emirates NBD Research

As has been the case for the past several years, the primary driver of inflation in Dubai in November was housing prices, which were up 7.2% y/y, unchanged from the previous month. Housing accounts for around 40% of the basket, so the average 6.7% ytd has kept the headline measure more elevated than it would otherwise have been. Annual rents were up 20.8% y/y in November and housing is likely to remain the key determinant of Dubai's inflation metric, tempered by lower prices elsewhere, especially in transport.

Expansionary Dubai budget supportive of growth

The announcement of an expansionary budget for Dubai, with a significant allocation for infrastructure spending, is supportive of our view that growth will remain constructive over the coming years. Even with the rise in spending the budget balance is projected to remain in surplus, indicative of the equally strong growth expected in revenue collection as the economy expands and government income sources are increasingly diversified.

Dubai Budget 2025, AED bn

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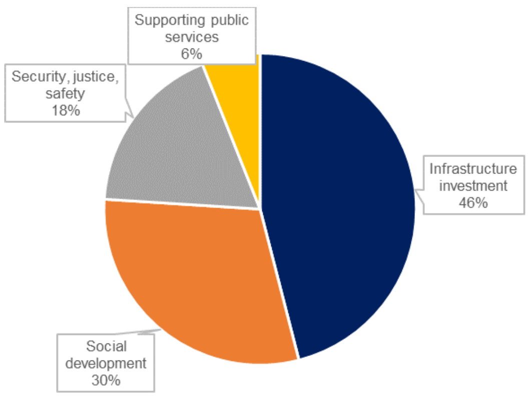

Source: Haver Analytics, Emirates NBD Research

Dubai's three-year budget spanning 2025-27 has been approved by HH Sheikh Mohammed bin Rashid al Maktoum, Vice President and Prime Minister of the UAE. This allows for total expenditure of AED 272bn (USD 74bn) over the three years and projects total revenue of AED 302bn, implying a budget surplus over the period. The budget is the largest recorded for Dubai.

For 2025, AED 86.3bn of spending has been allocated. This would mark a 9% y/y expansion in spending compared to the AED 79.1bn figure that was allocated for

2024 in the previous budget (actual spending data has not been released). This is somewhat slower than the 17% rise announced for 2024, which followed a 13% increase in 2023, but government spending is still expanding at a faster pace than inflation, indicating robust real growth. This is both reflective of, and supporting, the ongoing expansion of the economy as part of the Dubai Strategic Plan 2030, the Dubai Economic Agenda D33, and the Quality-of-Life Strategy 2033.

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