



بنك الإمارات دبي الوطني  
Emirates NBD

Economics  
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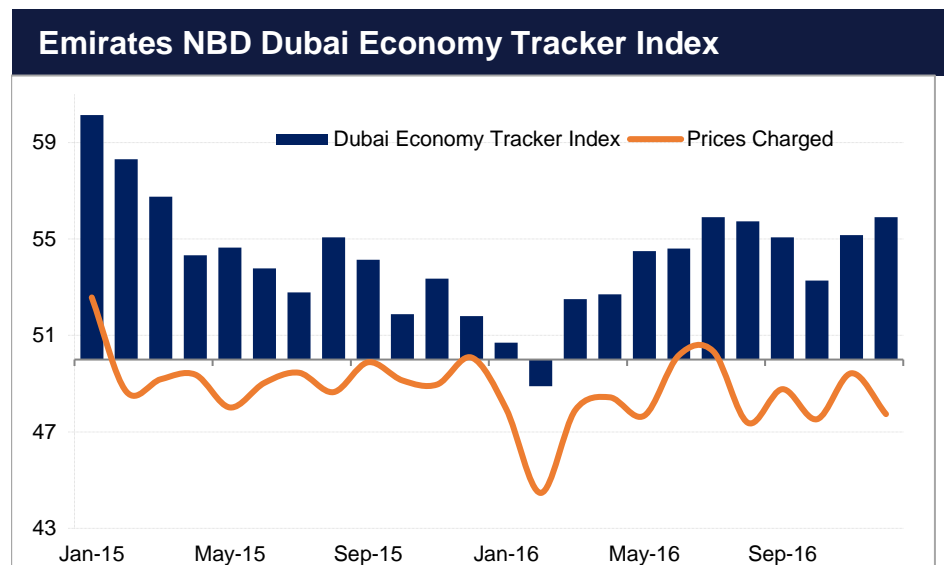
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## Dubai Economy Tracker at highest level in nearly 2 years

The Emirates NBD Dubai Economy Tracker Index (DET) rose to 57.1 in January from 55.9 in December, the highest reading since February 2015. Output/ business activity expanded at a faster pace across the whole of Dubai while new work growth was the fastest since March 2015.

As we have noted throughout 2016, the strong rise in activity and new orders volumes was driven partly by competitive pricing and promotional activity, and this appeared to be the case again in January. Output prices declined on average in January, with this index easing further to 47.5, despite higher input costs. Employment increased in January but the rise was modest, with the employment index at just 51.3. Firms were still optimistic about the coming 12 months, although the business expectations index declined to 70.9 in January from 74.5 in December.

All three sub-sectors covered in the Dubai Economy Tracker survey also showed faster growth in January, with travel & tourism continuing to outperform wholesale & retail trade and construction.



Source: IHS Markit, Emirates NBD Research

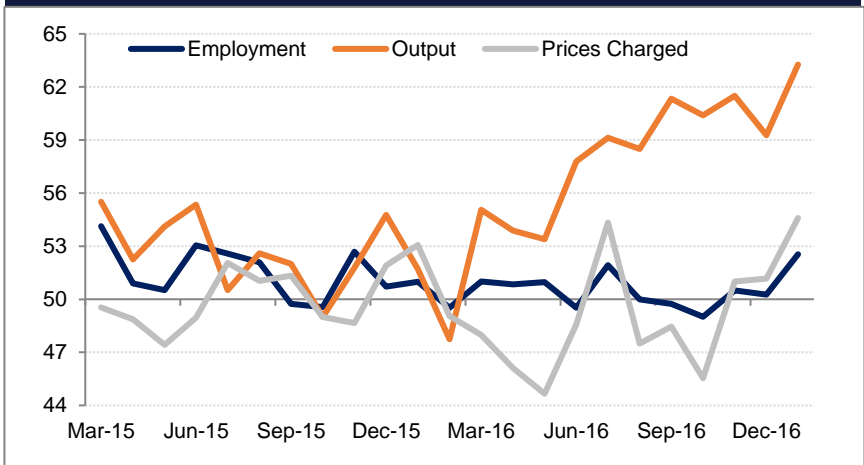
### Travel & tourism recovers some pricing power in January.

The travel & tourism sector index rose to 57.8 in January from 56.9 in December, the highest reading since the survey began in March 2015. Output also rose at the fastest rate on record last month and while new order growth slowed marginally, it remained exceptionally strong with an index level of 63.3.

Encouragingly, this strong growth in activity and new work was achieved even as firms in the sector increased prices at the fastest rate since the series began. The output price index rose to 54.6 in January from 51.2 in December. Input costs rose at a slower rate last month (52.0), providing some relief from the margin compression that was evident in 2016.

Employment in the travel & tourism sector also increased by the most since November 2015, with the employment index rising to 52.6 in January from 50.3 in December. Although firms in the sector remain strongly optimistic about order growth in the coming year, the business expectations index declined to 75.8 in January from 85.9 in December.

### Travel & tourism sector indicators



Source: IHS Markit, Emirates NBD Research

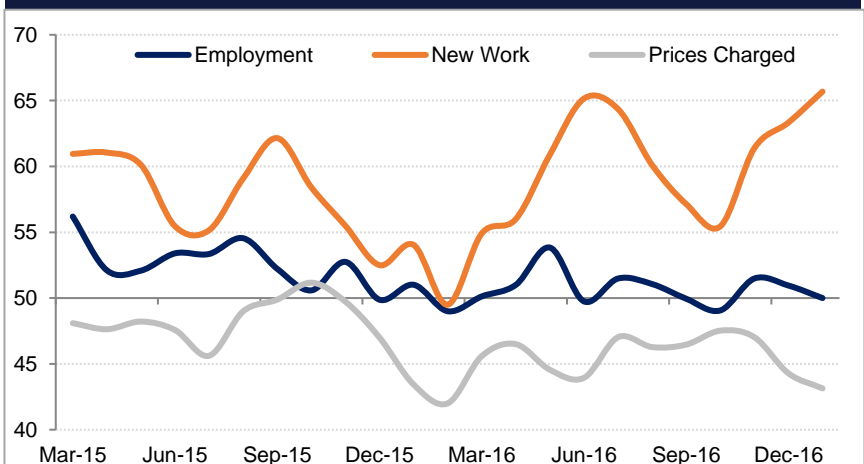
### Wholesale & retail trade sector discounts drive demand

The wholesale & retail trade sector index climbed to 57.7 in January from 56.4 in December, signaling the fastest rate of expansion in the sector since June 2016. New orders grew at the fastest rate on record (65.7) and the output index also rose in January, reaching 62.7.

Survey respondents noted ‘improved market conditions’ as the reason for the stronger growth in new work and output. However, the data suggests that further price discounting likely contributed to improved demand. The output price index fell to 43.1 in January, signaling the most extensive selling price cuts since February last year. The data is seasonally adjusted, so the decline in selling prices cannot be wholly attributed to the shopping festival and ‘January sales’ phenomena.

Meanwhile, input costs in this sector rose at the fastest pace since August 2016. There was no change in employment in the wholesale & retail trade sector last month. Despite the sustained pressure on margins, businesses in the wholesale & retail trade sector were the most optimistic about new order growth in the next 12 months, with the business expectations index easing only slightly from December to 80.1.

### Wholesale & retail sector indicators



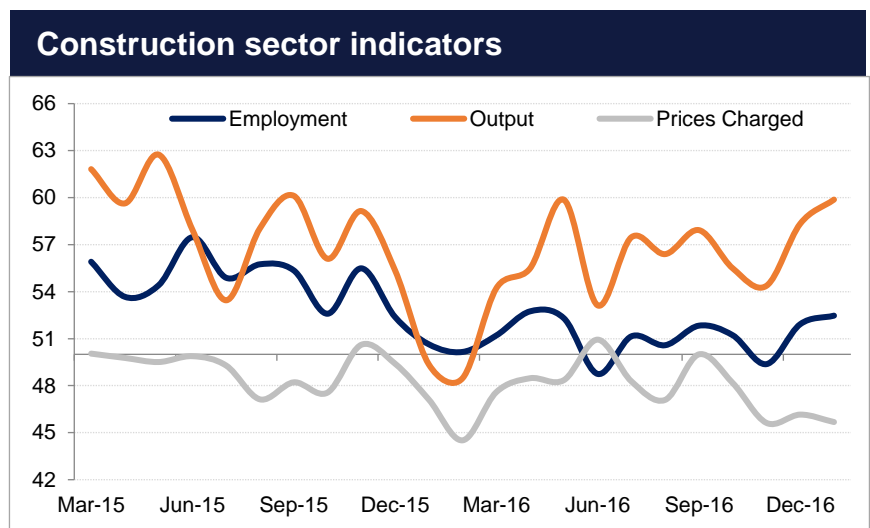
Source: IHS Markit, Emirates NBD Research

## Construction sector gains momentum in January

The construction sector index rose to 55.4 in January from 54.3 in December, the highest reading since May 2016, on faster growth in output and new work. Firms surveyed cited improved market conditions and new projects as reasons for the rising new orders and output last month. The Dubai government budget for 2017 allocated more funds for infrastructure spending, as the emirate gears up for Expo 2020, and this is likely to underpin activity in the construction sector over the next three years.

Although new projects contributed to faster expansion in the construction sector last month, **firms also cut selling prices again** as they competed for new work. Output prices in the construction sector have declined on average for 19 of the last 23 months since the survey began. **Input cost** inflation eased in January but input costs were marginally higher than in December.

On the back of accelerating order and output growth, **employment in the construction sector increased in January**, with the employment index rising to 52.5 from 51.9 in December. **Purchasing activity** increased at a solid rate as firms anticipated future order growth. **Expectations** for the coming year slipped a little in January but firms remain highly optimistic about their prospects overall.



Source: IHS Markit, Emirates NBD Research

## Conclusion

2016 was a challenging year for non-oil private sector firms in Dubai, as fiscal consolidation, weaker confidence on the back of lower oil prices, and a strong USD proved to be something of a triple-whammy. Firms responded partly by lowering selling prices to help offset the impact of USD strength, thus helping to supporting demand. However, employment largely stagnated as tighter margins forced firms to keep costs contained.

The January DET suggests that there is still very little pricing power for firms in the non-oil private sector in Dubai, with the exception of those in the travel & tourism sector which have been able to increase their selling prices while still generating new work and increasing output. Overall, we expect economic conditions in Dubai to improve this year, provided oil prices remain in the USD 50-60/b range, and government spending on infrastructure rises as forecast.

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