



بنك الإمارات دبي الوطني
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Sector Economics

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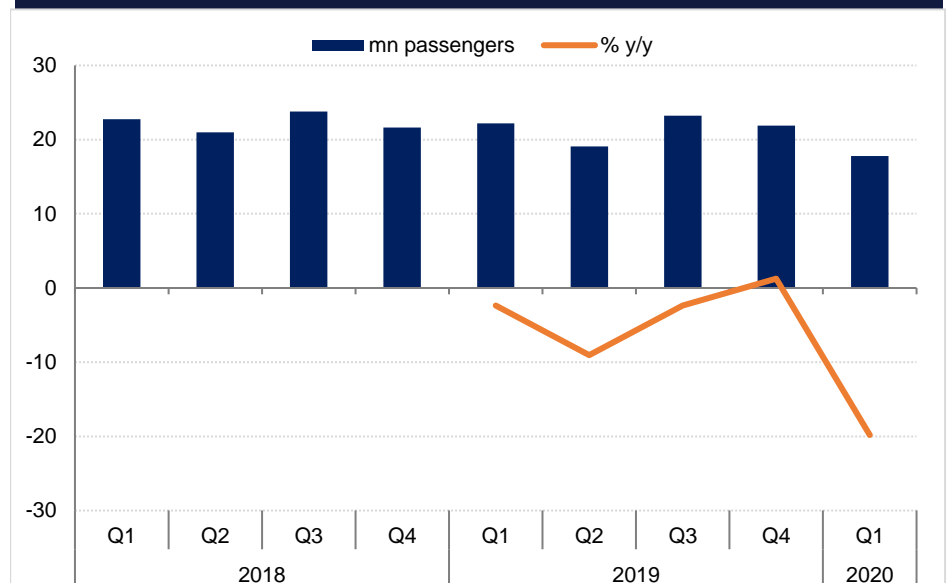
Dubai Tourism: A gradual recovery

Dubai's tourism sector is gradually charting a path to normalization, after Covid-19 mandated significant lockdown measures in Q2 especially. Almost every subsector within the emirate's wider tourism umbrella has been directly impacted by the pandemic, with operating capacity significantly curtailed as tourism flows dried up in Q2. **Policy response to the pandemic was key, and the emirate has been very pragmatic in dealing with the fallout on the sector.** It focused on a number of key priorities, the first being safety and health standards, followed by an early opening up the emirate, even as the dynamics of the pandemic remained in flux.

Dubai re-opened its doors to tourists July 7th, allowing visitors from all normally permitted international destinations to visit. While official visitor numbers have not been published, we expect the pickup to be gradual, largely as global travel restrictions continued to evolve, with sudden tightening of restrictions by some countries on returning travellers. **Regional tourism may also begin to recover in the coming weeks** as Saudi Arabia, Oman, and Bahrain have recently reopened their borders, again with some restrictions.

We emphasise the theme of a gradual recovery as the path forward for Dubai's tourism sector, post Covid-19. Normalization will remain tightly correlated to the development and global rollout of a vaccine and the resumption of global travel as governments around the world ease restrictions. The sector has, however, taken a number of decisive steps that have contained the impact of the pandemic and allowed for a stable ground on which to plan for the path to recovery, from targeting the domestic travel market to absorb slack capacity, to promoting hygiene and safety standards that have become industry norms. The path ahead remains challenging, especially as the situation concerning the pandemic remains in flux. However, decisive business decisions coupled with proactive policy response is key.

Dubai Airport passenger traffic



Source: Dubai Airports, Emirates NBD Research

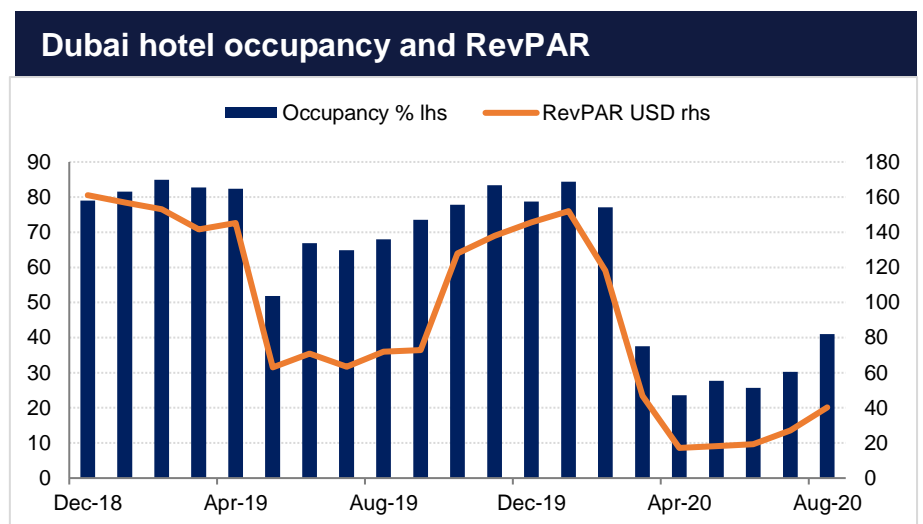
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Hotels

The closure of borders to contain the spread of Covid-19 has severely curtailed global travel. **The World Tourism Organization expects tourism to drop by up-to 80% in 2020.** Timing for Dubai’s hotel sector presents a challenge, especially as in the run-up to Expo 2020 Dubai had been ramping up hotel capacity to cater to the mega-event that was expected to start in October 2020. In just one year between January 2019 and January 2020, the emirate added almost 11k new hotel rooms according to figures by STR Global. This resulted in significant overcapacity in Dubai’s hotel sector once borders were closed in March. In response, many operators temporarily closed hotels or floors in hotels, reducing the supply of rooms in the market. **The number of hotel rooms in Dubai declined from 119K in February to almost 97K in April according to data by STR Global.**

Furthermore hotel operators had to take difficult decisions in regard to staffing but doing so without impacting service levels is a challenge. **The employment component of Dubai’s travel & tourism employment component of the PMI contracted sharply to 39.7 in March** from 49.9 in February, and while improving in subsequent months, it remained in contraction territory through that period, with the latest reading in August at 45.7.

Dubai’s hotel sector was, however, one of the first subsectors to re-open. **The focus in the early stages has been on attracting residents through domestic staycation packages,** especially given that the pandemic deterred many residents from taking traditional summer breaks. Hotel operators offered aggressive price cuts in order to encourage staycations, especially given the non-seasonal nature of those breaks, (i.e beach breaks during the hot midsummer months). The efforts did have some success; while levels in absolute terms remain significantly below February numbers, hotel occupancy has recovered from the April low, reaching 41% in August, and RevPAR has more doubled over the same period. Nevertheless, both hotel occupancy and RevPAR remain well below year-ago levels.



Source: STR Global, Emirates NBD Research

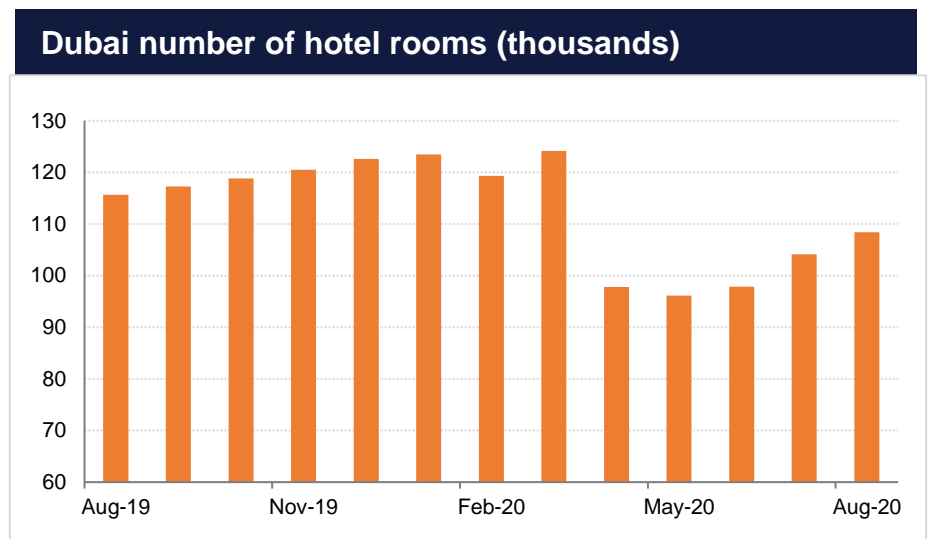
Dubai’s hotel industry is highly geared towards international travel which could take years to fully recover from the pandemic. The hotel sector will struggle to achieve pre-pandemic levels until a vaccine is rolled out globally and other countries’ quarantine restrictions are eased. **Adapting to constantly evolving domestic and international government mandated restrictions, means hotels need to adapt even more flexible rules** in dealing with issues ranging from last minute cancellations to limits on entertainment activities. However, many operators are using the downtime to improve

productivity metrics, focus on post vaccine recovery, and continue to drive domestic business in light of a weak international travel market. The overall trend is one of a slow but steady recovery.

Aviation

Dubai's aviation sector has been a global industry leader in responding to the pandemic. Emirates has led the industry in setting the standard for safe travel in a global environment that remains dictated to by the dynamics of the pandemic. Early on Emirates introduced many measures to gain passenger trust including the provision of complementary hygiene kits to all passengers at check-in counters at Dubai International Airport and mandatory Covid-19 tests for all flights. Furthermore all cabin crew are fitted with full PPE kits and the airline highlights other measures including on board HEPA cabin air filters keep circulated air inflight at 99.97% filtration rate.

Given the capacity at Emirates, difficult decisions had to be taken in regards to staff retention, especially given the long dated outlook for volumes returning to pre-pandemic levels only around 2022. This is a point most sector analysts and business leaders are conceding to be a realistic horizon for the sector.



Source: STR Global, Emirates NBD Research

Emirates is currently flying to 94 destinations, up from nine when the emirate resumed international travel operations in May. This means the airline is now serving close to 58% of its pre-pandemic destinations total of 161. This number continues to rise weekly and the airline has worked with policymakers in its network footprint with assurances over safe travel standards. The frequency of flights to these destinations is much lower, however, and constantly evolving global travel restriction will likely keep passenger growth slow.

This gradual global restart is allowing the airline to work on its productivity metrics, and map the road ahead for the post-Covid-19 aviation market with more confidence. **Furthermore the airline has recently announced it has refunded close to USD 1.4bn, clearing up 1.9mn refund requests or almost 90% of its backlog related to the pandemic.** This should further improve the goodwill of the airline with its customers in the long term, especially given some difficult experiences travellers had with other global carriers.

Food and Beverage

Dubai's food and beverage sector is adapting to the same challenges much of the industry is struggling with, namely overcapacity. The decline in the number of international tourists has presented a challenge to the sector's operating metrics. However, adapting and re-gearing capacity has been key. Just as the hotel sector focused on capturing a wider share of the domestic market, the F&B sector has moved in line, promoting home food delivery, and highlighting and emphasising safety initiatives across all food venues in the emirate, including the provision of hand sanitizers, sanitizing tables and seats and social distancing between tables.

The sector did face policy headwinds in the opening up phase, with bars for example asked to cease operations for a couple of weeks during summer due to lack of adherence to regulations. Operators in F&B also need to adapt to evolving regulations. On September 27th, Dubai's tourism authority announced new guidelines to curb the spread of Covid-19. Bars and restaurants in Dubai must suspend all entertainment activities by 1am and hotels must also cease providing food and beverage services after 3am, with the exception of delivery and room service. The announcement comes after Dubai Municipality said on September 25th that only eight diners must be permitted per table at restaurants in the city. Restaurants have also been given the option to use dividers instead of placing tables two metres apart, which has been a requirement since March.

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