

The 5 pillars of the UAE economy in 2024

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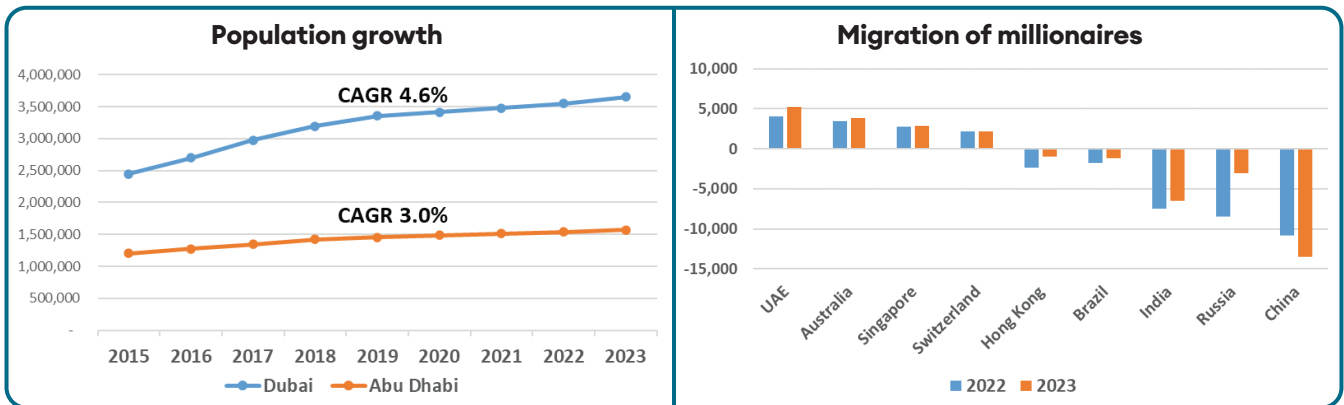
The UAE economy has displayed exceptional resilience in the face of rising interest rates. Growth in the population, booming tourism, a buoyant real estate market, surging non-oil economy and strong fiscal position of the government have been the drivers of the UAE's economic strength in 2023. In this month's report we will explore the potential of these five pillars of strength for the year ahead and assess the risks to our outlook.

1. Population

The top driver of the Nation's economic growth in the last couple of years has been the significant increase in population which has grown for a variety of reasons starting with the successful management of the pandemic that kept the business activity unhindered and led to the UAE becoming one of the first countries to open for international visitors, attracting the high networth population seeking a better quality of life. The launch of the UAE Golden Visa and changes in personal laws along with the attractive tax regime has attracted skilled professionals and new business formation in the country. It is estimated that the population of the UAE has crossed the 10 million mark in 2023 with Dubai leading in terms of growth. School enrollments in Dubai are estimated to have gone up by 12% while cell phone subscribers are estimated to have jumped 7% in Q3, compared to the same period in the previous year.

The number of new companies registered in the UAE also recorded significant increases in 2023. Dubai registered 48,616 new companies in the first nine months of 2023 with y-o-y growth of 42.9%. Based on data available, entities within the DIFC rose by 23% y-o-y in H1, 2023 and in Abu Dhabi Global Markets (ADGM) by 35% y-o-y in the first three quarters.

In 2022 and 2023 (estimated), the UAE has attracted the highest number of wealthy individuals worldwide. Over 5,200 millionaires relocated to the UAE in 2022, and it is estimated that another 4,500 relocated in 2023. This segment of the population has driven up private consumption across the board along with the demand for high-end properties, boosting overall economic growth in the UAE. Given that the UAE government continues to spend on providing the highest quality of life and creating a safe and secure environment for residents, this trend is likely to continue.



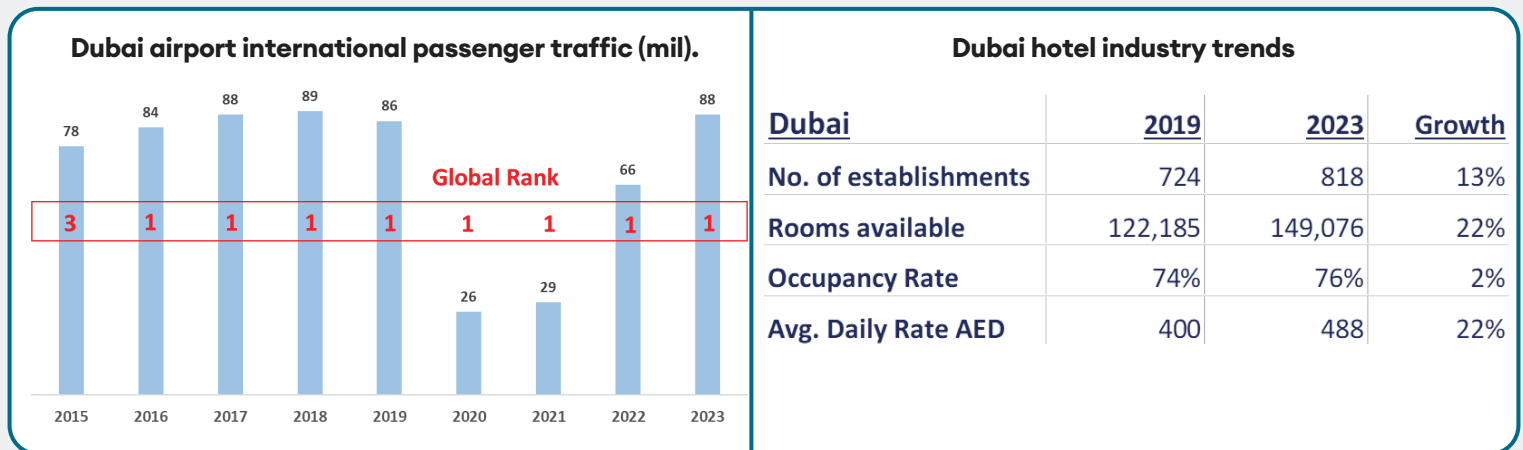
Source: Dubai Statistics Centre

Source: HenleyGlobal.com

2. Tourism

Strong pick up of global tourism also contributed to significant economic growth for the UAE. International passenger traffic at Dubai airport recovered to the previous peak touched in 2018. The airport was again ranked first for international passenger traffic. International visitors to Dubai exceeded the pre-pandemic peak even though there has been a drop in visitors from GCC countries and visitors from China are still 35% lower. Hotel rooms in Dubai have risen close to 150,000, up 22% from 2019, and yet the occupancy level reached 76% with the average daily rate up 22% from 2019. Similar trends in tourist arrivals and hotel occupancy have been witnessed in Abu Dhabi as well.

The tourism industry is a major mega-trend of the post-pandemic world with record number of flights and tourists across the world. The UAE has created several unique destinations within the country focusing on varied experiences and catering to different budget levels. As a result, the UAE has dominated the global tourism space and the sector will continue to be a significant contributor to economic activity.



Source: Moodie Davitt Report / DubaiAirports.ae

Source: Dubai Statistics Centre

3. Real estate

The UAE, and more particularly Dubai, has been the global hotspot for real estate. Changes in the visa rules, consequent increase in population and inflow of millionaires seeking better quality of life have led to a surge in demand for residential property across the entire spectrum of the market. The property market that had been almost flat for the previous 5 or 6 years suddenly turned around in 2021 and has since then been on an upward trajectory. The growth levels from 2020 have been extraordinary, with the number of residential property transactions up nearly 4 times, value of properties transacted up almost 6 times and property prices up almost 50%. The transaction numbers in 2023 are far higher compared to the numbers in 2022; however, the transaction numbers have been flattening out in the last quarter of 2023.

Despite significant gains in property prices in Dubai, it continues to remain attractive compared to other major cities in the world. Data from Knight Frank Wealth Report 2023 shows the relative attractiveness of various cities measured by the square meter of property that can be bought for US\$ 1 million. Dubai continues to be significantly cheaper compared to cities like London, Paris, New York or Tokyo, leaving room to increase further.



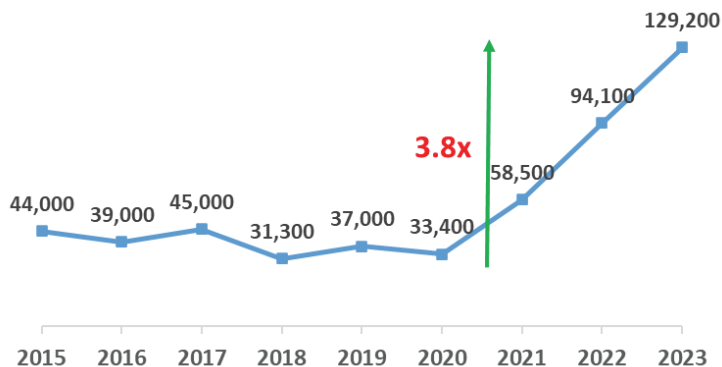
2023 Source: Knight Frank Wealth Report



Knight Frank has also reported that Dubai held the top spot in the world for homes sold above the price point of US\$ 10 million and US\$ 25 million, worldwide.

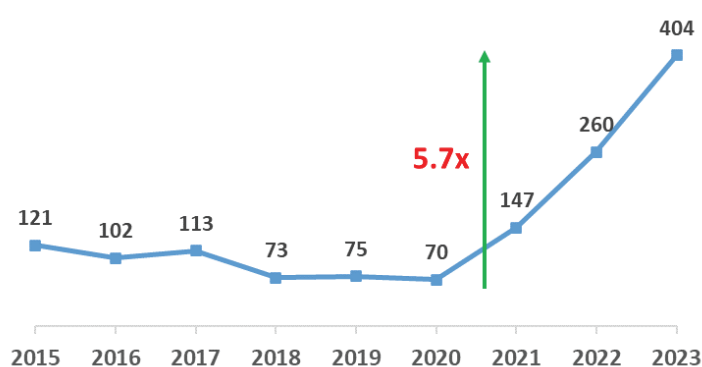
These trends are likely to continue to support the UAE real estate market. However, the pace of growth is likely to moderate, in comparison to the previous two years.

Number of Residential Transactions



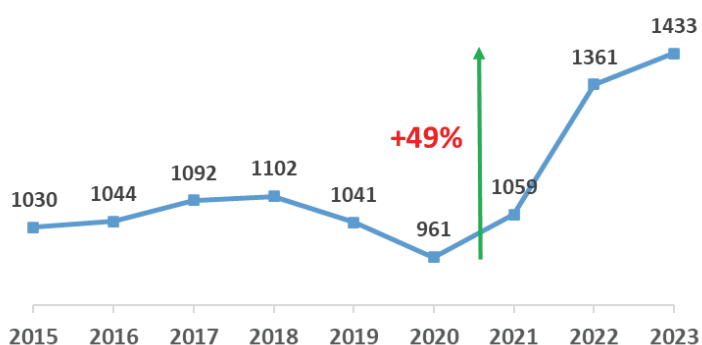
Source: Dubai Land Department / DxbInteract.com

Value of Residential Transactions AED billion



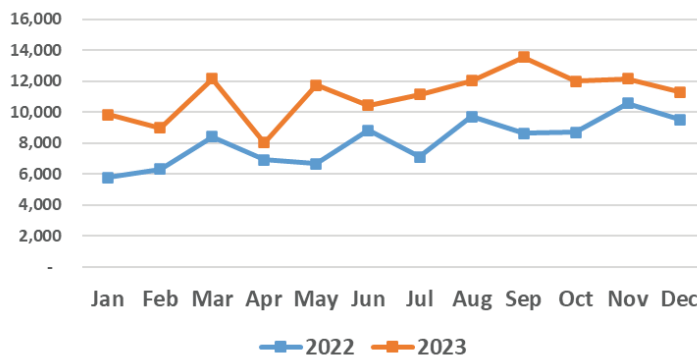
Source: Dubai Land Department / DxbInteract.com

Residential price per sft AED



Source: Dubai Land Department / DxbInteract.com

Monthly Property Sales Volumes



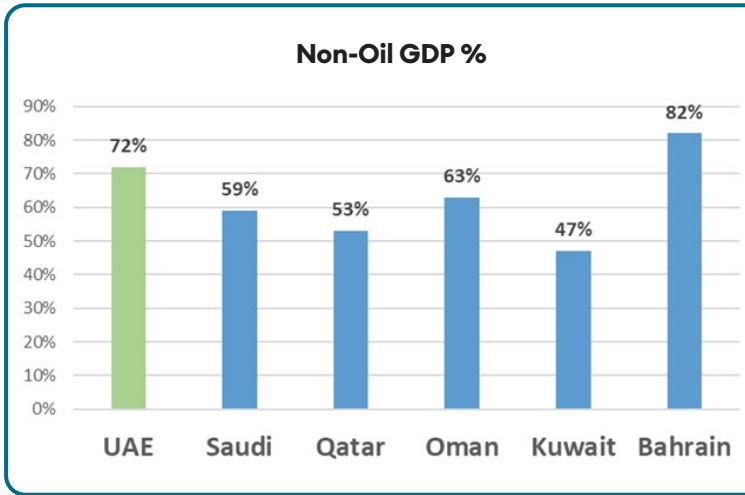
Source: Dubai Land Department / DxbInteract.com

4. Non-oil GDP

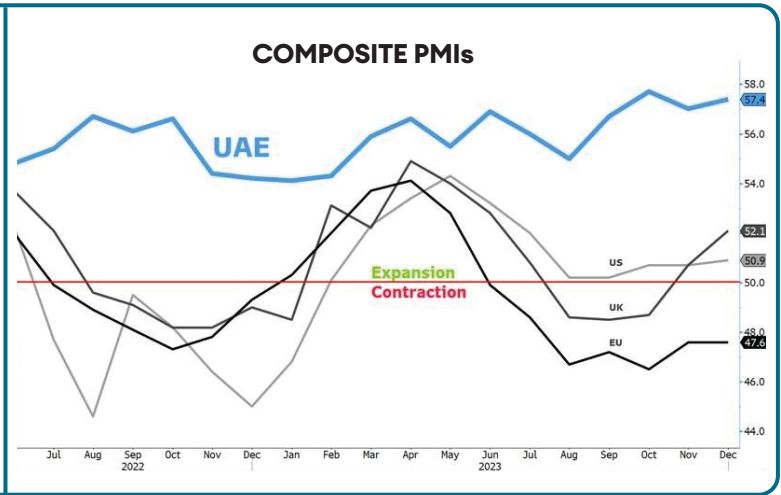
The UAE is the most diversified economy within the GCC with 72% of the gross domestic product being derived from non-oil activity. The Nation's dominance in the fields of tourism, trade, transport, logistics, retail, financial services and real estate and its lower dependence on oil for government revenue insulates it, to a large extent, from the volatility of oil prices. Given the multiple growth drivers of the UAE's non-oil economy, any weakness in oil prices is unlikely to pose any major risk to the economic growth prospects in 2024.

The Purchasing Managers Index (PMI) reading for Dubai, currently at 57 in December 2023, has consistently remained high in the expansion territory. By comparison, the PMI indices for major economies in the West has been volatile and are currently close to the neutral level. The PMI is based on a survey of business professionals and considers a wide range of factors like new orders, output, prices, employment, and stocks of purchases. Given that the PMI is a leading indicator of economic activity, the current reading points to a sustained business momentum for 2024.





Source: IMF



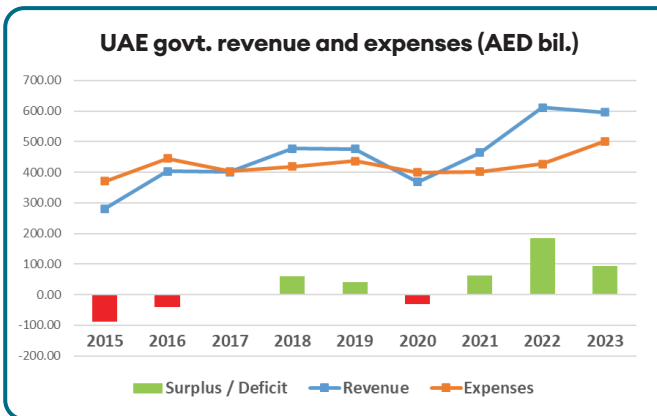
Source: Bloomberg

5. Fiscal strength

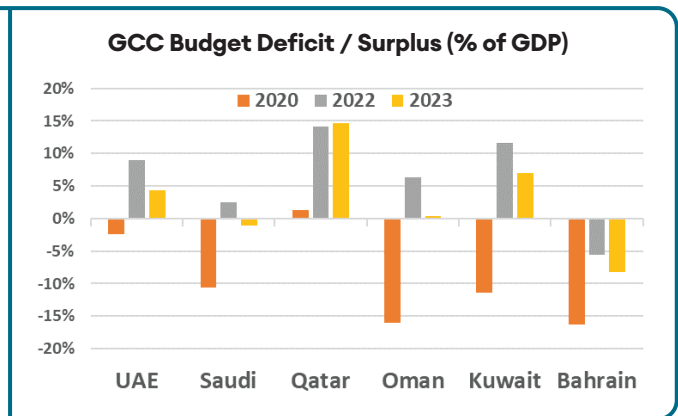
Government spending has been another engine of economic growth in the last few years. Data for the first nine months of the year, available from the Ministry of Finance, shows government spending (current spending and investment spending) up more than 10% even though revenue is down -18.4% during the same period. Of the total spending, current spending increased 7.8% while investment spending was up a whopping 63.8% in the first nine months of 2023. This clearly shows that the government continues to invest in projects that will further enhance diversification and boost growth in the coming years.

Due to wider diversification of the economy, the UAE government has been operating with budget surpluses since 2021 and is likely to remain in surplus. By comparison, the Saudi Arabian government is likely to slip into budget deficit this year due to large cuts in oil production.

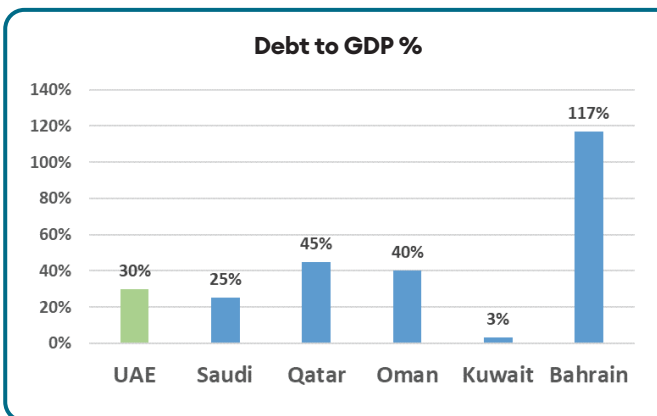
Other factors that continue to support the UAE fiscal strength are its low debt-to-GDP ratio and massive external reserves that are held through several sovereign wealth funds.



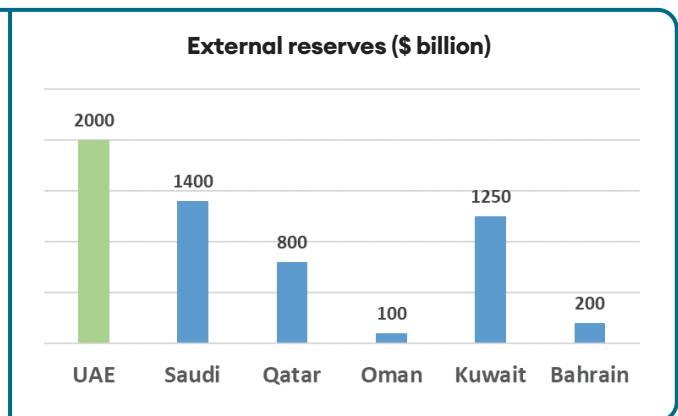
Source: IMF WEO



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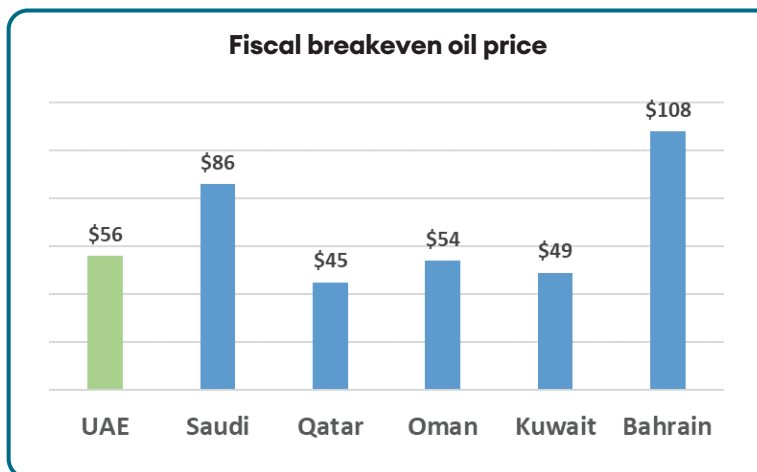
Source: Bloomberg



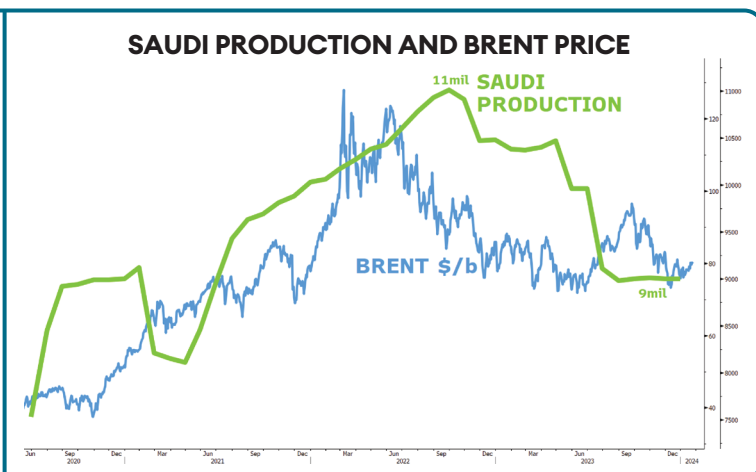
Risks

Even though the economic momentum driven by the five pillars discussed remain very strong, risks can emerge on the margin due to the following factors:

Oil price: Even though the UAE is the most diversified economy within the GCC, crude oil still contributes to 55% of the government revenues and 28% of the national GDP. Brent crude prices have failed to hold on to their gains made last year despite continued production cuts by OPEC, led by Saudi Arabia and the UAE. Brent is now trading at \$82 per barrel which is about 15% lower than the peak of last year. In mid-December it was trading 25% below the peak of 2023 prices. The recent jump in Brent price is due to tensions in the Red Sea rather than any signs of an increase in demand. The synchronous economic slowdown, globally, and particularly in China will be a dampener for crude prices, at least in the first half of 2024.



23 Source: IMF Statistical Appendix Oct



Source: Bloomberg

Geopolitics: Any escalation of the geopolitical tensions in the region can adversely impact sentiments towards the regional economies. The UAE, being the most diversified, open, and globally interconnected economy may feel the impact more than the other GCC countries. Tourism, trade, and investment flows would be most susceptible to any flareup of tensions in the region.

MARKET DATA

Global Equities	2022	2023	YTD 2024
MSCI World	-19.46%	21.77%	1.14%
Dow Jones Ind.	-8.78%	13.70%	1.22%
S&P 500	-19.44%	24.23%	1.59%
NASDAQ COMP	-33.10%	43.42%	1.02%
EUROSTOXX 600	-12.90%	12.74%	1.39%
FTSE 100	0.91%	3.78%	-1.33%
India Nifty50	4.73%	20.03%	-0.03%
Nikkei 225	-9.37%	28.26%	7.61%
Shanghai Comp	-15.13%	-1.93%	-6.27%

Currencies	2022	2023	YTD 2024
Dollar Index	7.60%	-2.11%	1.92%
Euro	-5.08%	3.30%	-2.05%
GBP	-10.19%	5.50%	-0.37%
JPY	-13.61%	7.50%	-3.88%
CHF	-0.29%	8.97%	-2.45%
AUD	-5.25%	0.23%	-3.48%
CNH	-8.46%	-2.94%	-0.81%
INR	-11.08%	-0.63%	0.20%
SGD	-1.09%	1.49%	-1.43%

Regional Equities	2022	2023	YTD 2024
Dubai DFM	4.40%	21.69%	2.69%
Abu Dhabi ADX	20.30%	-6.20%	-0.73%
Saudi Tadawul	-7.10%	13.87%	-1.13%

Commodities	2022	2023	YTD 2024
WTI Crude	6.90%	-10.73%	5.88%
Brent Crude	10.56%	-10.32%	4.56%
Nat Gas	18.87%	-43.82%	-15.08%
Gold	0.06%	13.47%	-1.06%
Silver	3.52%	0.18%	-3.46%
Copper	-14.39%	2.10%	0.17%
Corn	14.37%	-30.55%	-4.88%

Bonds	2022	2023	YTD 2024
US IG Bond Index	-12.30%	5.15%	-0.27%
GCC Bond Index	-12.76%	5.14%	-1.42%
EM Bond Index	-14.93%	8.85%	-0.56%

Market Data As of 31 January 2024



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MULTI-ASSET	<ul style="list-style-type: none">• Income distributing mutual funds, from leading fund managers in the world, investing in equities and fixed income
SYSTEMATIC INVESTMENT PLAN	<ul style="list-style-type: none">• Invest regularly in globally diversified and actively managed portfolios on CBD's award-winning mobile app CBD Investr
ALTERNATIVES	<ul style="list-style-type: none">• Mutual funds investing in US senior secured loans delivering regular income

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