While the UAE has unveiled a series of stimulus measures to support businesses during COVID-19, the economic fallout of the pandemic has taken its toll on consumer behavior. With many of the country's key sectors heavily affected by the virus and facing a potentially long period of recovery, businesses will need to adapt to new consumer preferences if they are to encourage a rebound in spending.

As economic activity increases, what might recovery look like in the UAE? The re-opening of retail outlets and loosening of lockdown orders have allowed some normalcy to return. But edging towards normalcy in terms of mobility and access to retail does not necessarily equal a return to normal consumer behavior.

The new normal will be bound by changes in the labor force, the efficacy of stimulus and support measures to the private sector and state-related entities, and how the global economy shifts demand for travel and logistics. Much of the recovery of economic activity will be dictated by forces far beyond the control of the federal (or emirate-level) government.

Support geared towards banks and businesses

The stimulus and support measures in place have mainly served to provide liquidity to the banking sector, offer more flexibility to employers to reduce staff, and help reduce business licensing fees and some utility expenses.[1]

The $27bn stimulus package first announced by the central bank in March quickly increased in size to $70bn by April 5. The measures encouraged banks to increase their lending capacity by reducing reserve requirements and prompting leniency on loans to real estate entities and small and medium-sized enterprises.[2]

In the labor market, the Ministry of Human Resource and Emiratization essentially froze new foreign worker hires by suspending the issuance of work permits on March 19. New guidelines have also allowed employers in the private sector to shift workers to telework, direct employees to take annual leave or unpaid leave and reduce salaries.[3]

Meanwhile, instead of tripling the VAT as Saudi Arabia has done, the UAE has moved to reduce fees, road tolls and Customs duties.[4]These measures have helped provide some flexibility to businesses that need to reduce staff or access loans. The lower municipality and licensing fees are attractive to potential new businesses, but are unlikely to spur potential entrepreneurs who are on the fence. Meanwhile, the measures enabling staff reductions should be helpful across the board, as all kinds of employers – from government-related entities in the travel industry to those in hospitality – seek to cut costs.

Despite directing efforts towards businesses, there are few mechanisms for the federal government or emirate-level governments to directly support consumers. Without a cash transfer, unemployment support or stipend, the general consumption of goods and services is expected to continue to decline. The labor force is bound to contract, especially among foreign workers, and with it the consumer base of the UAE.[5]

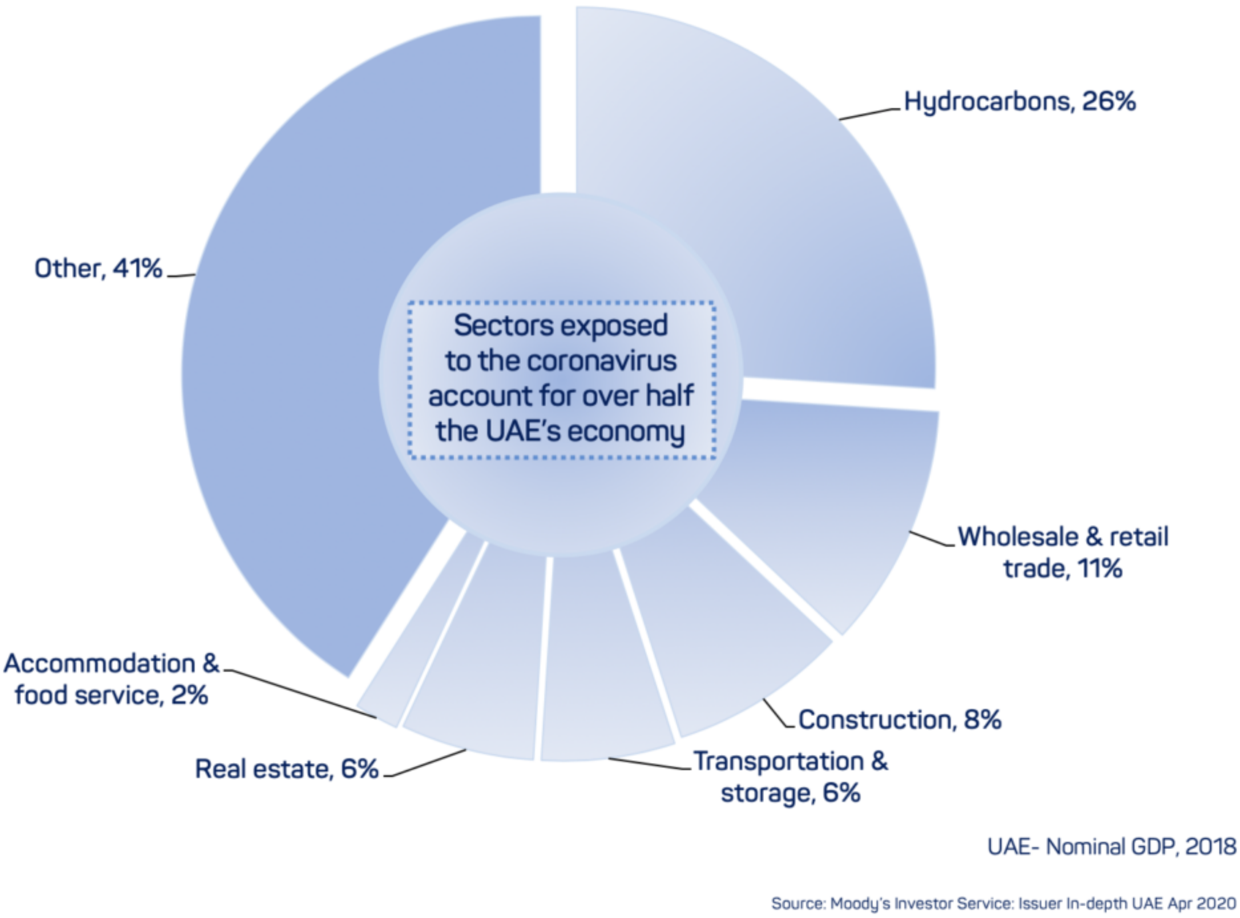
The composition of the shrinking labor force also matters a lot. Who leaves, and what kind of work they did in the UAE, will have a large effect on the recovery of consumer demand. Because foreign workers make up the majority of the population, economic activity from grocery stores to high-end retail and restaurants depend on their consumption patterns. As higher-wage earners leave, they have a disproportionate effect on retail, hospitality and rental real estate markets than lower-wage construction workers, who generally do not spend their wages on rent (many live in dormitories provided by employers) or retail, but in remittances sent home.

Diversified economy vulnerable to virus slowdown

Unfortunately, the UAE's economy, although diversified, is highly exposed to the sectors most vulnerable to the COVID-19 impact. These sectors are also more likely to be slow to recover, if not significantly changed for the foreseeable future, as a result of the pandemic.

Global efforts at virus containment have greatly affected travel, business and educational institutions. For the UAE, over half of its GDP is generated from sectors like hydrocarbons, hospitality, transport and tourism, which are all highly sensitive to not only the current COVID-19 impact, but also the projected recovery over the next two to three years.

These sectors are significantly affected by the demand destruction of energy products globally, as well as the pro-cyclical nature of Gulf government spending, which directly impacts growth in real estate and contracting. For trade and accommodation/food services, the demand destruction in the local economy due to shifting demographics and labor markets will be difficult to jump start over the next few years.



For Dubai, where the situation is even more pronounced, the diminished air traffic and stopover tourism will continue to hurt hotels, as well as retail and food and beverage outlets. Tourism accounts for 11.5% of Dubai's GDP, and the emirate's conference-hosting alone accounts for 1% of its GDP.

With flight traffic increasing following a resumption in selected connections in late May, a slow recovery of the industry over the quieter summer is clearly preferable to a return during the busier tourist months of the winter (Dubai's busy tourist season runs from November to April). However, even in recovery mode, few corporates and industry groups will be planning major staff travel or large conferences and meetings abroad for the rest of this year and 2021.

Elsewhere, the UAE's real estate sector, already weakened pre-COVID, now faces strong headwinds. Residential real estate prices continue to fall, with Moody's estimating that prices are now almost 30% below their peak of late 2014.

China key to trade recovery

The virus has also exacerbated pre-existing weaknesses in port-based transport and trade, from the decline in re-export markets to Qatar to the effects of the US-China trade war.

In fact, the UAE's sensitivity to China's recovery trajectory will be acute. As factory productivity and output has stalled in China, so have its exports, ultimately affecting container volumes at UAE ports. Approximately 16% of the UAE's imports come from China.

Meanwhile, Chinese tourists and property buyers have been a target of Dubai's economic planning for some time (and with some disappointment), and again are unlikely to sustain a local recovery in the short term.

Spending patterns to change post-COVID-19

Diversification has its own vulnerabilities, as does a large expatriate labor force. But even in the consumer behavior of citizens and long-term residents, spending patterns are bound to change.

If we take Saudi consumer behavior as a point of comparison, there are declines across the board in the retail, luxury, automotive and hospitality sectors. Only food and some telecommunications/mobile applications have seen increased consumer spending since January.

Recovery in the UAE, as in other integrated markets dependent on global trade flows and tourism, will be vulnerable to trends outside of national boundaries. We can expect more of a W-shaped path to come, with fits and starts. The local economy will stratify, even between emirates, depending on the impact of business closures, mergers or restructures, and state financial intervention. Foreigners, as consumers and investors, are likely to gain some leverage with their purchasing power. We might expect more regulatory changes to federal and emirate-level rules on longer-term residency visas, as well as incentives for property owners and entrepreneurs.

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