

Economics

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Dubai Macro View

Tourism Prospects Looking Up

- Dubai's tourism industry is a significant driver of GDP, contributing around 18% directly and 29% indirectly.
- In June, we argued that Dubai's economic fundamentals appeared solid, despite the real estate slump and debt overhang in Dubai's government related entities (GREs) (see *Dubai Macro View: Short-Term Pain, Long-Term Gain*, published 8 June, 2010). The key driver of Dubai's ongoing economic recovery, we argued, is the external sector, underpinned by recovering global demand. Tourism is an important component of that.
- Dubai's tourism industry has been growing rapidly over the past decade, although latest data show a levelling off in tourist arrivals in 2009. The main markets are the Arab states and Asia, but the UK is the largest single market. China is the fastest growing market.
- There are signs of recovery in the sector. Occupancy rates are edging up and revenue per available room (Rev PAR) has levelled off after a significant slide in 2008/2009. These trends are supported by a continued surge in air passengers passing through Dubai International Airport which was the world's fourth-busiest airport for international passenger traffic YTD in May 2010, and the fastest growing.
- We conclude that i) the resurgence in tourism is symptomatic of a wider recovery in the external sector, in line with our published views on Dubai's strong economic prospects, ii) the risks to the outlook remain external, iii) sluggish UK growth and weaker sterling will dampen tourism prospects, but should be offset by growth in the Arab states and Asia, iv) it is appropriate for the Dubai authorities to keep targeting tourism as an engine of growth, and v) the recovery should be supportive of asset values in the tourism and external sectors.

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Tourism prospects looking up

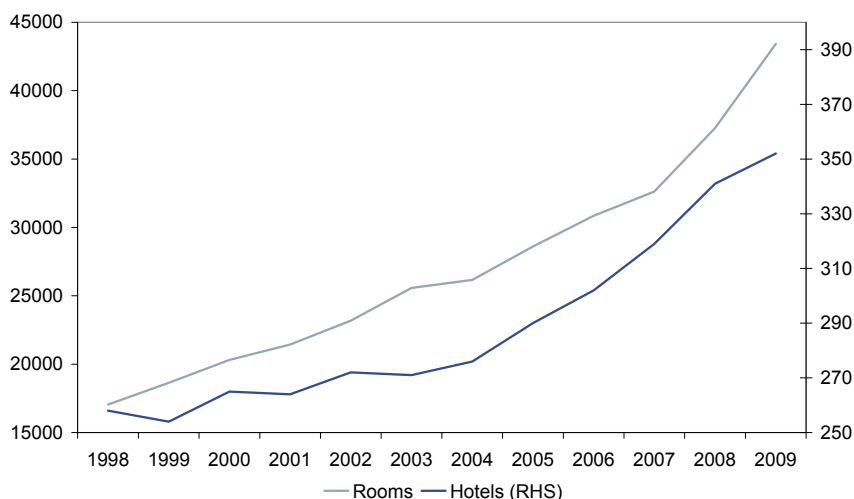
Dubai's tourism industry is a significant driver of GDP, both directly and indirectly. Data on its exact contribution are difficult to come by, but in 2007 the Dubai Department of Tourism and Commerce Marketing (DTCM) calculated that the direct and indirect shares in GDP of the tourism industry in Dubai were 18% and 29% respectively. This accords with the World Travel and Tourism Council's (WTTC) calculation that tourism accounted for around 20% of the UAE's GDP as a whole in 2009 (note that this includes Abu Dhabi, whose main output is oil, and which receives fewer tourists than Dubai).

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Some background to Dubai's tourism industry

Tourism is one of the key focus sectors in Dubai's 2015 Strategic Plan, the blueprint to Dubai's current development strategy. The industry has been growing rapidly over the past decade, as evidenced by the more than doubling of hotel rooms in the emirate during that period (Figure 1).

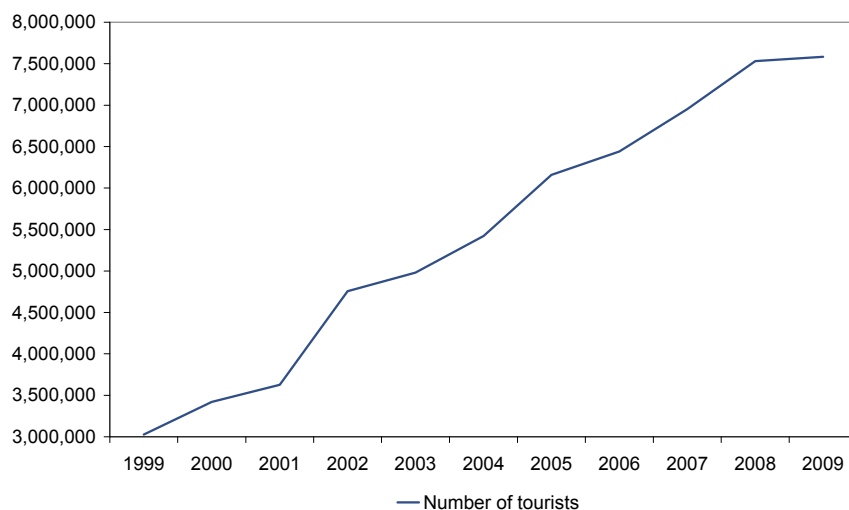
Figure 1. Rapid growth in Dubai's tourism infrastructure over the past decade



Source: DTCM

The number of tourists visiting Dubai (as measured by guests staying at hotels and apartment hotels in the emirate) has increased in accordance, but the latest data from the DTCM show a levelling off of guests in 2009, as the global economic downturn hurt international travel (Figure 2). This is also reflected in Dubai's overall economic growth, which we estimate to have shrunk by 3.1% in real terms in 2009 (see *Dubai Macro View: Short-Term Pain, Long-Term Gain*, published 8 June, 2010).

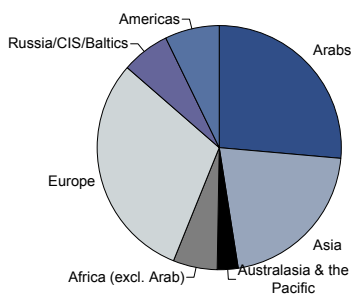
Figure 2. Number of tourists has grown steadily, but has slowed since 2008



Source: DTCM

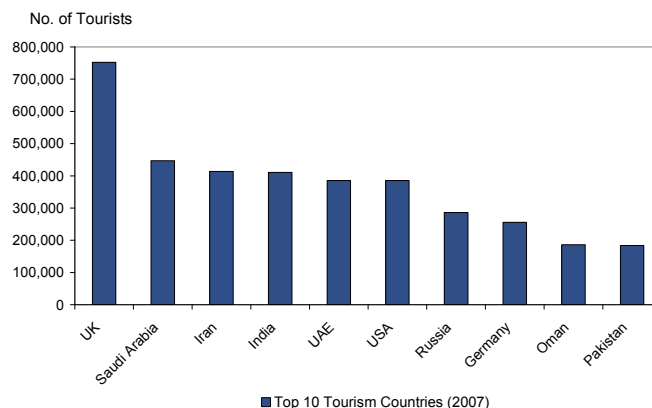
Data from the DTCM give a picture of the main markets for Dubai's tourism industry. Regional tourism from the Arab countries and Asia is the most significant market, accounting for 47% of the total in 2007 (by number of tourists) (Figure 3). That said, around 750,000 visitors in 2007 hailed from the United Kingdom, making it the most important single market by some distance (Figure 4). Neighbouring Saudi Arabia and Iran followed in terms of importance, then India and visitors from other emirates within the UAE.

Figure 3. Regional tourism is the most important component



Source: DTCM

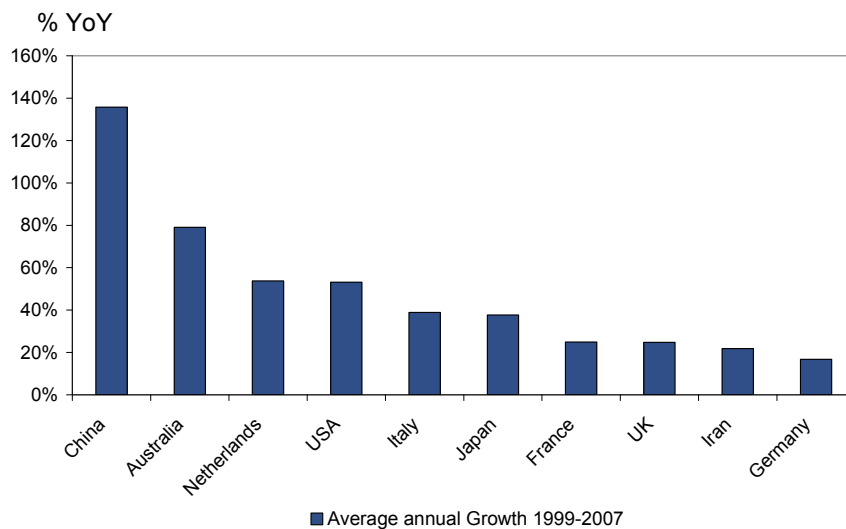
Figure 4. The UK is the largest single market for Dubai's tourism



Source: DTCM

In terms of growth, China is the most important developing market to Dubai's tourism strategy, growing at over 130% per year on average between 1998 and 2007 (Figure 5). While in 2007 the number of guests from China was less than 100,000 (18th in the country rankings), this represented a 35% increase on the previous year and is likely to keep growing at a similar rate in the future, in our view, given the growing affluence of the Chinese market and the increasing economic ties between Dubai and China.

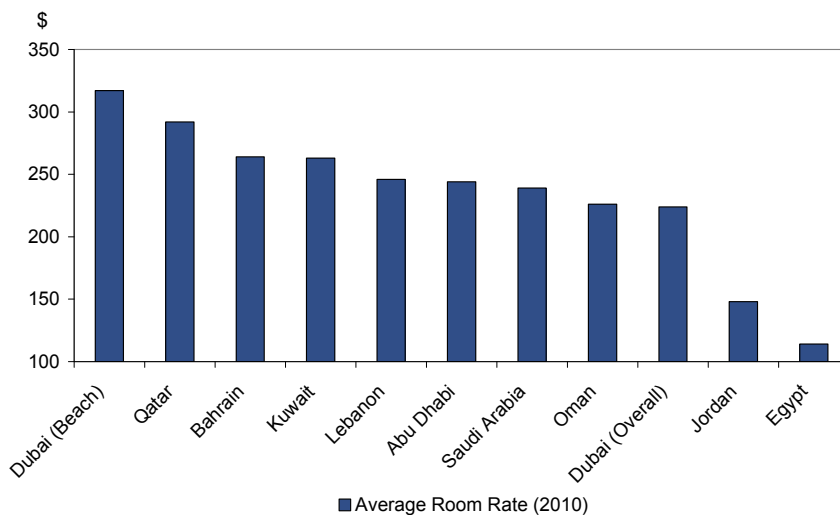
Figure 5. China is the main growth market



Source: DTCM

Dubai's tourism product caters mainly to high-end leisure and business travellers, with 40% of Dubai's hotel rooms within 5+ star establishments in 2008. Average room rates are thus among the most expensive in the region (Figure 6), especially for the beach-side resorts.

Figure 6. Dubai's beach-side resorts are the most expensive in the region

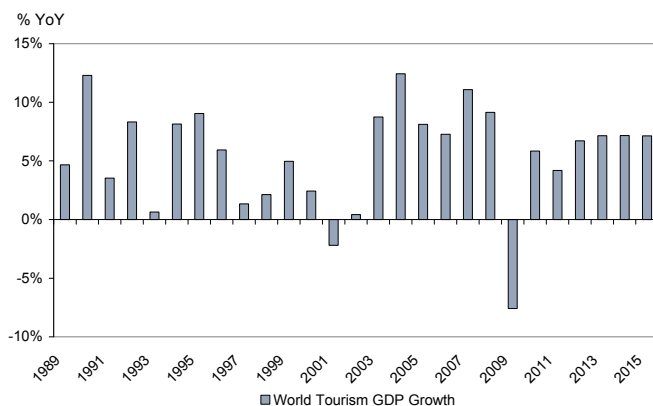


Source: Ernst & Young Middle East Hotel Benchmark Survey; June 2010

Recent indicators of performance in the industry augur well for the future

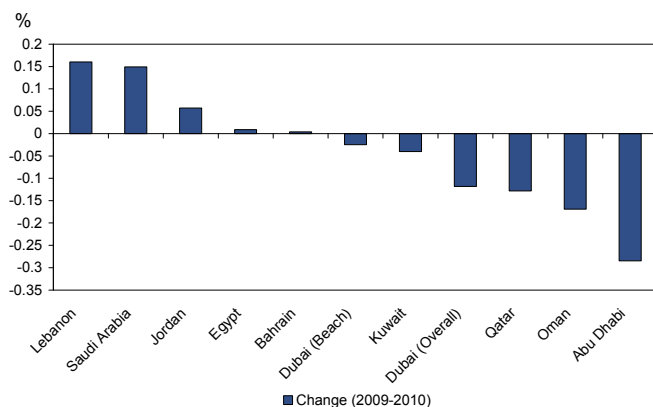
According to the WTTC, the global economic recovery will bring with it a recovery in global tourism, which slumped around 7% in 2009 but which is set to grow by an average of over 6% per annum in the coming five years (Figure 7). We believe this will provide a tail-wind to Dubai's own tourism industry, which has been growing at a faster rate than the global average in recent years. Indeed, local indicators are pointing towards an ongoing recovery in the sector.

Figure 7. After a blip in 2009, world tourism is set to recover



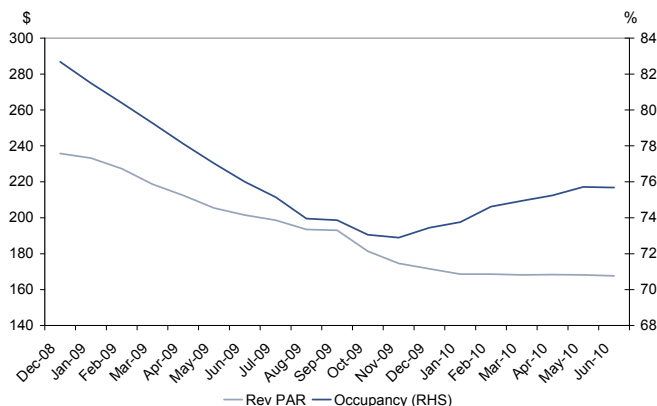
Source: WTTC

Figure 9. Room rates in Dubai have held up relatively well this year



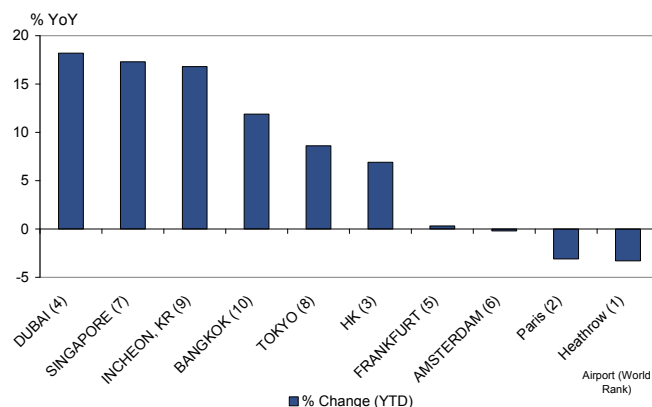
Source: Ernst & Young

Figure 8. Dubai Rev PAR has levelled off while occupancy rates are heading up



Source: Ernst & Young

Figure 10. Passenger traffic growth at Dubai airport highest in the world



Source: Airports Council International

Occupancy rates, which fell from the mid 80s to the low 70s towards the end of 2009 (Figure 8) have been edging upwards over the past few months.

Importantly, this has not been achieved through a dramatic slashing of room rates, which have held up pretty well overall in 2010 (Figure 9). Revenue per available room (Rev PAR – Figure 8), a key indicator of the hotel industry's financial performance, has levelled off in that period, having fallen about one-third since mid-2008. These trends are supported by a continued surge in air passengers passing through Dubai International Airport (Figure 10), which, according to Airports Council International (ACI), was the world's fourth-busiest airport for international passenger traffic YTD in May 2010, and the fastest growing.

Conclusions/policy implications

- We believe the apparent pick-up in Dubai's tourism industry is symptomatic of a broader resurgence in the external sector, and is in line with our views on the strong prospects for Dubai's economic growth in the medium term.
- The key risks to the outlook remain external. These include the potentially sluggish recovery in the West, concerns over the sustainability of China's growth, the outlook for commodity prices, and regional geopolitics, among others.
- Slower growth in the UK and weaker sterling may have a dampening effect on Dubai's tourism industry, as the UK remains the key market. However, this will be offset by continued strong growth in Asia (especially China) and the Arab states, in our view. GDP growth in these countries is expected to be far above the global average.
- It would appear appropriate for the Dubai authorities to continue to target tourism as an engine for domestic growth, in our view, with a particular focus on expanding regional and Asian markets.
- While the overall economy will benefit from the upswing in tourism, in our view, tourism-related assets and, more generally, those in the external sector are likely to be supported by ongoing developments in these sectors.

Appendix A-1

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