



The return of consumer confidence

There has been a marginal improvement in demand for personal loans in the GCC, while the liquidity situation is also getting better. But how has this progress impacted retail spending in the UAE and particularly in Dubai, which has emerged as the retail capital of the GCC? **Ritwika Chaudhuri** investigates.

Economics talks about rational expectation. But consumers, who constitute one of the most important pillars of any country's economic foundation, do not always expect or behave rationally. Nevertheless, however rational or irrational consumers' behaviour may be, their saving and spending habits ultimately reflect the health of an economy.

The MasterCard Worldwide Insights Report for the second quarter of 2009 on consumer confidence and recovery prospects in Asia Pacific, the Middle East and Africa referred to

John Maynard Keynes's description of confidence as animal spirit. The report noted: "Confidence [both consumer and business] has been referred to by John Maynard Keynes as 'animal spirit', without which a decision cannot be made in the face of uncertainty."

Since the future is uncertain, confidence is as important a guiding indicator as interest rates, price movement, the demand-supply scenario and consumption and investment patterns. This confidence is a collective data summation of what people in a country feel, which in turn reflects their faith in a system. If that is

true, then certain research-based findings on consumer confidence and spending in the UAE and in the region in the last couple of months are showing positive indications. There is more optimism now than there was in the early part of the year. There is also belief that economic gears are shifting for the better.

Consumer confidence surveys

Although the GCC region cannot be isolated from consumer behavioural trends in other parts of the world, survey results from different consultancy firms are pointing towards more resilient

people in the region. This circumstance, in turn, is engendering the belief that consumer confidence is coming back faster in the GCC region than in some of the other global economies.

According to a Nielsen Global Consumer Confidence Survey conducted in 28 markets in June 2009, consumers were more hopeful in the second quarter of 2009 about an end to the global economic crisis.

The Nielsen global consumer confidence index rose to 82 from 77 in March 2009, spurred by renewed consumer optimism and stock market gains in BRIC markets and key Asian countries. The survey suggests that consumer confidence in the UAE – the only country in the GCC to be surveyed – rose four index points to 93 in June (out of a possible 200 points) from 89 in the previous survey conducted in March 2009, though still down from 110 points in the second half of 2008.

Almost half of consumers surveyed by Nielsen in the UAE expected the country to emerge from the current downturn in the next 12 months. A total of 87 per cent of consumers questioned in the survey said they believed they were in

an economic recession, but 45 per cent said they were confident that the country would emerge from the downturn next year, up 13 per cent from the company's last survey in March (see graph 1).

The rise in confidence levels has been the result of some positive economic news being reported in the media. As a result, the UAE ranked as the seventh most optimistic country in the Nielsen survey. Of course, there is no denying that despite the rise in confidence, UAE consumers continue to remain cautious about job security, with the state of the economy weighing on their spending habits.

A Booz & Company survey of consumers in Saudi Arabia and the UAE conducted in May 2009 reported similar findings. This survey concluded that consumer sentiments and spending levels had held up better in the GCC than in other regions in the world. According to the survey, GCC residents had maintained their pre-recession spending levels. Only 28 per cent of consumers in the UAE and Saudi Arabia had reduced spending levels in the past six months, while 26 per cent had increased spending.

In the UAE, 55 per cent had maintained consistent spending levels since the crisis began, while 37 per cent had reduced spending. Nine per cent, however, were spending more. In Saudi Arabia, consumer spending was more resilient, as 36 per cent of consumers had maintained spending levels and 20 per cent had scaled back, while 43 per cent reported spending more.

"Reductions in spending are still not

widespread. They are concentrated within a relatively small portion of the population, suggesting that some consumers believe their local economies can remain resilient despite gloomy global developments," noted Gabriel Chahine, a partner at Booz & Company.

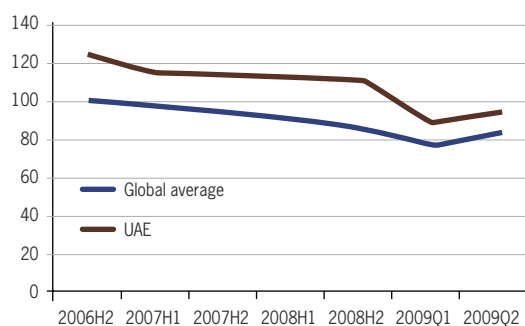
It was also clear from the Booz & Company survey that UAE nationals had made relatively fewer cuts, while Asian expatriates had made greater reductions in spending.

A few other interesting trends also emerged from the survey. For example, it was seen that items on sale had greater resiliency, while high-value items were finding fewer takers. There was also a decline in the number of shopping trips and fewer occasions of dining out. Entertainment was beginning to revolve around visits to friends' homes, rather than going out. But most consumers who had reduced spending had not done so out of compulsion, but rather out of choice because of lingering uncertainty in the economy, according to the survey.

The latest MasterCard Worldwide Index of Consumer Confidence indicated similar trends in purchasing priorities and saving and investments in the Middle East and Africa (MEA) region. As far as savings and discretionary spending are concerned, 83.72 per cent people in the UAE had decided to save for precautionary reasons, which was much higher than the MEA average of 73.43 per cent. In the UAE, nearly 46.50 per cent had decided to save more in the next six months compared to the previous six months, a figure much more than the corresponding

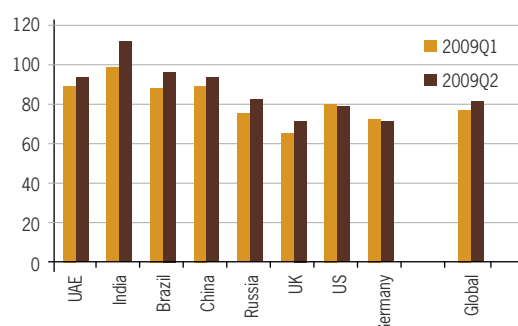
Graph 1

Global and UAE consumer confidence index



Source: Dubai Chamber based on data from the Nielsen consumer confidence survey

Consumer confidence index for selected countries



Source: Dubai Chamber based on data from the Nielsen consumer confidence survey

MEA figure of 31.47 per cent. In the UAE, only four per cent said they would increase discretionary spending in the next six months compared to the previous six months, whereas 52.75 per cent said they would only decrease spending in the next six months (see table 1).



Hugh Dickerson

Relatively speaking, however, there was considerable optimism across different age groups and genders in the MEA region in the first half of 2009 compared to other regions like Asia Pacific. The optimism index was down in absolute terms from 68.2 in the first half of 2008 to 53.9 in the first half of 2009. But even this lower index was better than that of Asia Pacific, which had become pessimistic at -38.7 in the first half of 2009 compared to 56.0 in the first half of 2008.

It is also important to look at changing purchasing priorities (see table 2). In the entire MEA region, dining and entertainment came out on top, followed by fashion and accessories and fitness and wellness. In the UAE, however, travel was more important than fashion and accessories, while children's education and property were more important than fitness and wellness.

The retail spending scenario

The GCC has always been a retailer's, and hence a shopper's, paradise. This is especially true for the UAE and Dubai in particular. Retail alone contributes to one-third of Dubai's GDP. Total consumer

spending in Dubai hit AED37.9 billion (US\$10.3 billion) in 2008, according to data from the Dubai Statistics Centre (DSC).

Although there are no figures available for 2009, a local newspaper quoting retail industry estimates reported in December 2008 that retail spending in the UAE would remain around AED36.7 billion (US\$10 billion) in 2009. Of this number, Dubai's share was likely to be US\$8 billion, while Abu Dhabi's share was likely to be US\$2 billion.

Sources among large retailers roughly estimate that retail spending in Dubai declined somewhere between 15 per cent and 40 per cent in the first half of the current year, compared to the same period in the previous year. There is, of course, no way to independently verify these estimates. But according to *The National*, despite a 36.5 per cent increase in the number of GCC visitors to Dubai since the start of this year's Dubai Summer Surprises (DSS) over the same period in 2008, retail sales in the emirate have dropped by as much as 20 per cent from last year.

Industry sources say that almost all industries have been affected. The electronics industry has seen a decline of up to 40 per cent, according to J. P. Nambiar, general manager of Jumbo Electronics' retail division. Nambiar attributes

the decline in the sales revenues of electronics goods to a contraction in prices. Low tourist traffic and resident customers being cautious in spending have also affected sales, he adds.

Hugh Dickerson, general manager of sales and marketing at Al Futtaim Motors, believes that the automobile sales market has fallen considerably year on year as the general economic situation, particularly banking and customer confidence, has fallen. Dickerson, however, fails to provide any numbers, citing the unavailability of official statistics in the UAE.

"The data available is heavily distorted by vehicles re-exported abroad," he points out.

The story is the same for other sectors. Siddharth Suri, head of marketing for Britannia and its subsidiaries in the region, confirms that the group's rate of growth has slowed down.

"Our sales and volumes have been affected far more in the UAE compared to other GCC countries. However, in the GCC region, Qatar continues to grow and has barely seen any impact," he notes.

Even Landmark Group, one of the largest non-food retailers in the market, has been affected, albeit more in the sales of big ticket items like electronics and home furnishings.

"While we look at the group as a whole, our like-to-like sales have experienced a small growth during the period. Overall, though,



Siddharth Suri

UAE, Kuwait, Qatar, Saudi Arabia and MEA-purchasing priorities										
Purchasing priorities	Dining and entertainment	Fashion and accessories	Fitness and wellness	Children's education	Consumer electronics	Property	Own education	Travel	White goods	Automobiles
MEA	66.59	49.09	35.25	36.16	41.88	38.00	22.72	31.41	25.94	31.81
UAE	57.00	39.75	29.50	32.25	26.25	38.50	26.00	50.75	12.50	18.75
Kuwait	85.75	46.00	34.25	35.50	51.25	40.00	14.75	70.50	20.25	38.75
Qatar	51.00	52.75	22.75	24.25	23.50	23.00	5.00	22.50	10.00	20.25
Saudi Arabia	87.5	53.75	44.00	51.00	53.25	60.75	27.25	30.00	51.75	56.50

Source: MasterCard Worldwide consumer confidence insight report, Q2 2009. All figures in percentage.

the company has done well because we operate in multi-brands and in a GCC-wide environment,” says Vipin Sethi, CEO of Landmark Group.

But Sethi admits that DSS did not show a significant improvement in sentiment. Moreover, with Ramadan being in the summer at a time when kids had to go back to school, the increase in sales during the period was not significant for the Landmark Group.

Since Dubai has emerged as the GCC region's retailing capital, the emirate has borne the brunt of the downturn in retail spend.

Keith Flanagan, general manager of Al Ghurair Retail, explains: “Dubai has been hit mainly because of its dependence on tourism. In Dubai, 15 to 40 per cent of retail sales used to come from tourists depending on malls. In Abu Dhabi, it used to be only 10 per cent, and it was even less in Al Ain and Ras Al Khaimah. That's why the other emirates do not feel the impact as much.”

Nambiar says that all malls in Dubai have been severely hit and are drawing traffic only during weekends.

“The new malls may have generated traffic out of novelty value initially, only to find it difficult to sustain the momentum over a period of time,” he points out.

But does that mean that the shine in the shopper's paradise is fading? Not necessarily. Some have already seen signs of recovery, while others feel that recovery is yet to come and may take



Vipin Sethi

until the middle of next year to turn around.

Dickerson is among those who are more positive. He feels that the worst is over.

“Banks' desire to lend has improved considerably since the beginning of the year, and we find customers more confident than they were a few months ago,” he says.

Suri also expects the market to grow. Sethi sees no signs of recovery yet, but feels that the market has bottomed out and that a recovery at the end of this year or the early part of next year is imminent. Flanagan and Nambiar expect the recovery much later in the second half of 2010.

“The recoveries that we see now are more stimuli and cyclical led. We expect the spend-led recovery to happen only during the second half of 2010,” says Nambiar.

Personal loan and credit scenario

Personal loans and private consumption are perhaps the best proxies to judge consumer behaviour in a country. Figures for the past few months paint a gloomy picture, although bankers are of the opinion that the situation is gradually improving.

In the UAE, personal loans grew by only 0.7 per cent to AED208.8 billion at the end of July 2009 from AED207.2 billion at the end of 2008, as per UAE central bank

data. The first half of 2008 had seen some very strong activity in personal loans. The figure grew from around AED137.31 billion at the end of 2007 to a record AED201.65 billion at the end of June 2008. In the second half of 2008, however, banks hardly lent any money.

Private consumption in the UAE, which covers spending by individuals and non-profitable organisations on goods and services, also started registering slow growth in 2008, growing by around 16.6 per cent compared to 31.5 per cent in 2007 and 24.1 per cent in 2006.

Personal loans were at their peak during early 2008, but suffered a steep fall during the fourth quarter of 2008 and the first quarter of 2009. Bankers estimate that the fall may be a third to a quarter of the previous peak figure. Some are of the view that the mortgage finance market dropped by one-tenth of the peak volume in this period.

Sanjoy Sen, consumer bank head for the Middle East at Citibank, notes that the steep growth and fall of personal

loans always follows the economic cycles, especially in markets where the borrowing levels of individuals are not regulated by credit bureaus. This means that during a period of high economic growth, there are huge increases in the disbursement of personal



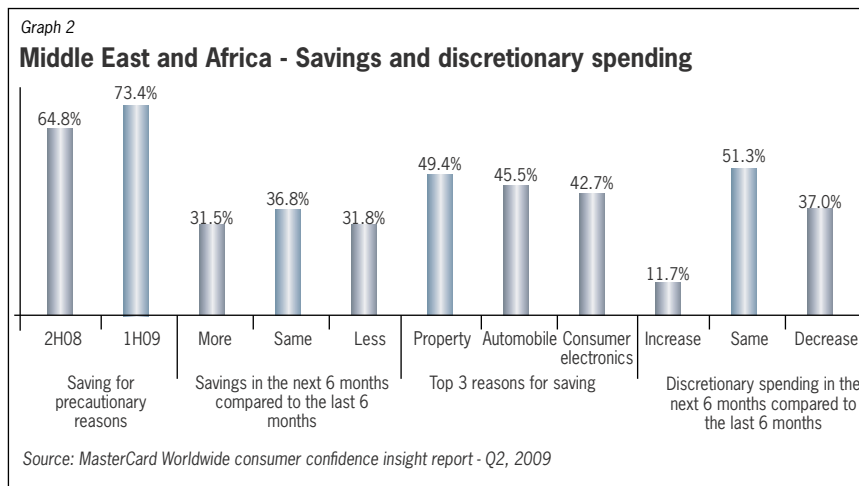
Sanjoy Sen

Savings and discretionary spending - MEA, UAE, Kuwait, Qatar and Saudi Arabia

Table 2

		Savings in the next six months compared with the last six months			Discretionary spending in the next six months compared to the last six months		
Purchasing priorities	Savings for precautionary reasons	More	Same	Less	Increase	Same	Decrease
UAE	83.72%	46.50%	28.75%	24.75%	4.00%	43.25%	52.75%
Kuwait	69.75%	27.75%	50.25%	22.00%	12.75%	68.50%	18.75%
Qatar	83.49%	44.00%	34.75%	21.25%	21.00%	44.75%	34.25%
Saudi Arabia	62.46%	25.00%	58.25%	16.75%	11.25%	67.25%	21.50%
MEA	73.43%	31.47%	36.78%	31.75%	11.66%	51.34%	37.00%

Source: MasterCard Worldwide consumer confidence insight report, Q2 2009



loans. The lending levels fall at the same speed during an economic recession, since the lending institutions become more sensitive towards the ability of the borrower to repay. This reality is reflected in the region.

“Personal loans have been affected by the economic slowdown, with a drop in overall demand during the first half of 2009 of more than 20 per cent when compared to the last quarter of 2008,” says Arup Mukhopadhyay, executive vice president and head of consumer banking at Abu Dhabi Commercial Bank.

Starting with the economic slowdown, most banks suffered a decline in the growth rate of personal loans due to job losses, uncertainty, less spending by individuals and significant policy tightening in the second quarter of 2008 by the local government.

“Consumers have become more discretionary in their spending habits. As a result, there has been an overall decline in credit card spend worldwide. The same trends are observed in the UAE,” adds Mukhopadhyay.

Sources in the UAE banking industry estimate that there was roughly a 30 per cent reduction in overall credit card spend between the fourth quarter of 2008 and the second quarter of 2009.

However, according to both retailers and retail bankers, a significant portion

of this cut came from spending less on luxury good items.

Rana Zeeshan Salem, consumer banking director for the UAE at Barclays, notes: “There has been a marked change [decline] in spending on big ticket items like holidays abroad, jewellery

and furnishings, as visible from credit card spending habits, but this is not visible for small ticket items or spend on utilities.”

In contrast to credit cards, debit card spending has either remained flat or increased in some cases, as consumers are using more of their personal funds. This fact is also corroborated

by the Booz & Company study, which indicated that consumers had delayed luxury purchases along with higher-end home goods while spending on necessities such as groceries.

Along with reduced demand for loans, there are increasing trends in delinquencies and loan defaults, as customers used to take multiple loans for different purposes without having adequate debt servicing capability and have failed to service their loans.

“Though every product has



John Malouf

People have become aware of their spending patterns and are using cards responsibly on the whole,” says John Malouf, general manager of consumer banking at National Bank of Abu Dhabi.

The third quarter of the year is actually bringing some hope to the UAE, as demand for personal loans has picked up in the last couple of months and there has been stronger growth.

“The marginal improvement we have experienced over the last few months is primarily driven by increased demand as the job market stabilises and consumer confidence begins to rise,” observes Mukhopadhyay.

Malouf is also of the opinion that the global financial crisis has weakened and people have become more confident about borrowing again, which is reflected in the marginal improvement in demand.

While the UAE’s banking industry expects the growth trend to get stronger in the months ahead, retailers are expecting Abu Dhabi and other smaller emirates to show the first signs of growth, as they have not been hit as hard as Dubai. The consensus is that Dubai might take more time – namely until the middle of next year – to see marked improvement in retail margins.



Rana Zeeshan Salem