

Weekly Insights 19 May 2023: Will inflation play spoilsport to recovery in travel & tourism?

Supply chain pressures & food prices. GCC inflation. Middle East airlines performance & strong tourism recovery. UAE bank loans resurgence.

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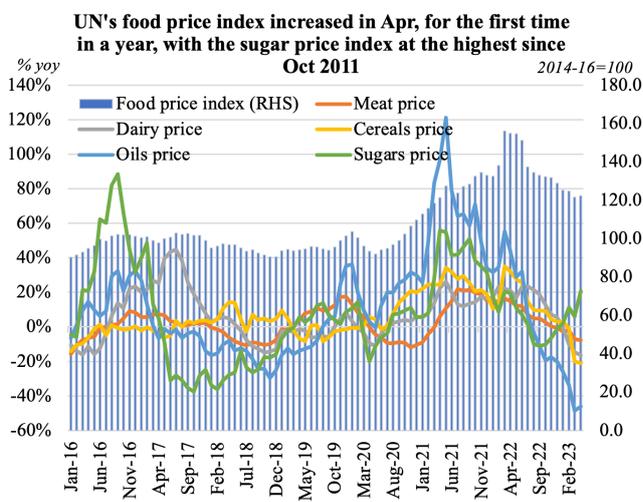
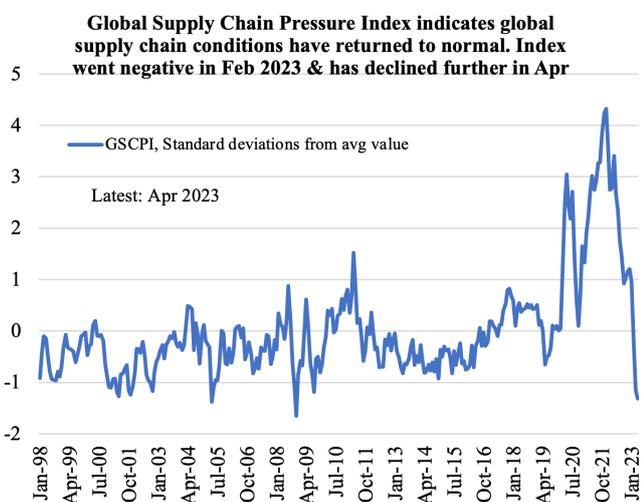
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1. Global supply chain pressures decline further while global food prices edge up in Apr

- The Fed's Global Supply Chain Pressures Index (GSCPI) readings slipped into negative from Feb 2023 onwards, and continued declining further (i.e. standard deviations are below index's historical average) – implies global supply chain conditions have returned to “normal”. This April's decline is largely due to the improvements in delivery times (especially in Europe), according to the Fed.
- Freight rates for oil tankers collapsed this month after the announcement of OPEC+ production cut: vessels carrying crude from the Middle East to China are earning just above USD 14k in early-May, down from USD 97k+ on Mar 20th. Short-term shipping costs have also fallen to

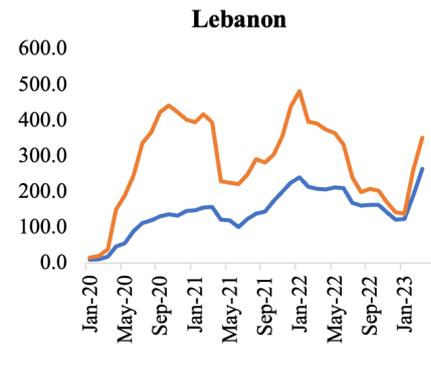
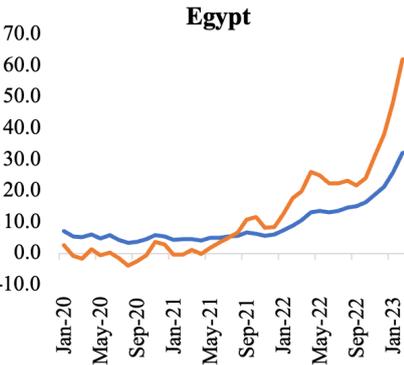
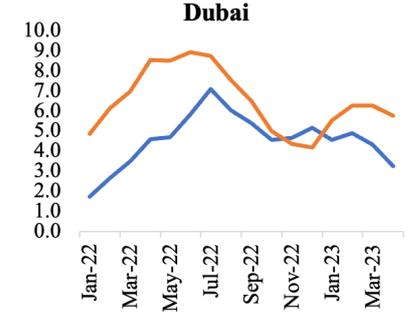
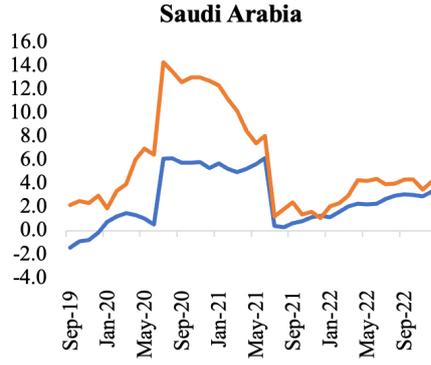
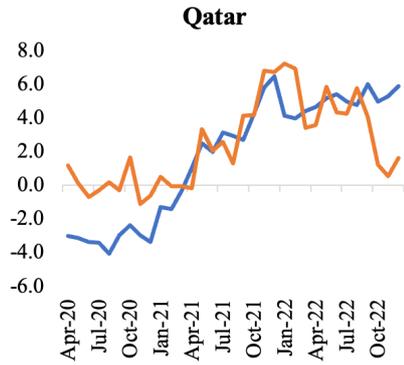
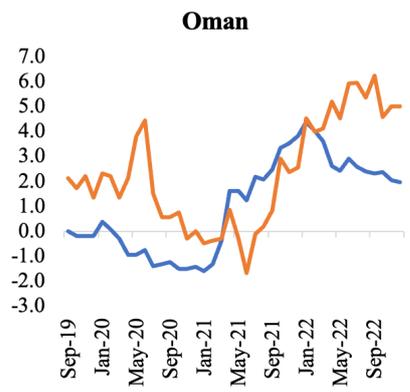
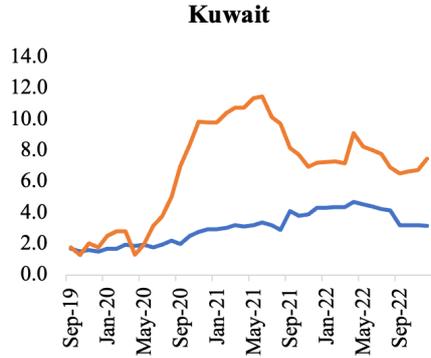
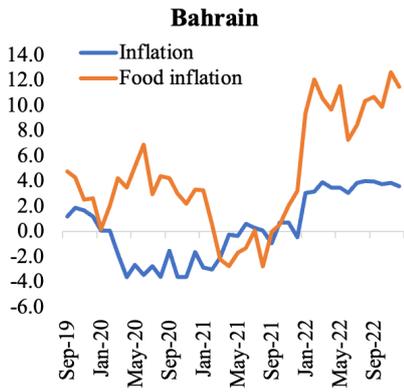
pre-pandemic levels; shipping firms are also likely to face over capacity soon, as new vessels are delivered, leading to further decline in freight rates.

- If the Index remains below the historical average over a few months, it could lead to a decline in CPI; however, the **pace will depend on the other drivers of inflation** e.g. increases due to services costs or housing would be unaffected by supply chains.
- Meanwhile, **UN's food price index inched up in Apr**, after declining for the last 12 months, driven by prices of sugar (+17.6% mom to the highest level since Oct 2011), meat and rice: however, it is still 21.7% lower compared to the March 2022 peak.
- From the recent earnings calls, **many companies are more concerned about labour shortages and pressure on wages and prices** than supply chain pressures; as mentioned earlier, ongoing hike in wages will contribute to stickier inflation & a rise in core inflation.



Source: NY Fed, UN FAO. Charts by Nasser Saidi & Associates

2. Inflation is easing in the GCC, with food costs also inching lower in many. Lebanon saw inflation hit 264% yoy in Mar, the highest on record. In many nations, services & housing costs are still on the rise



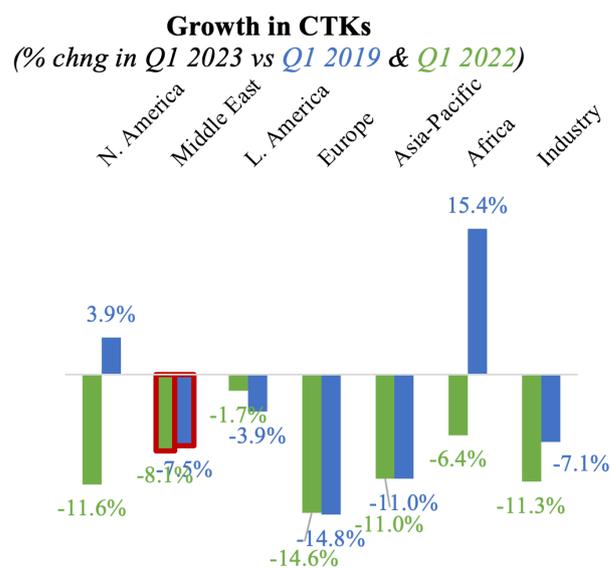
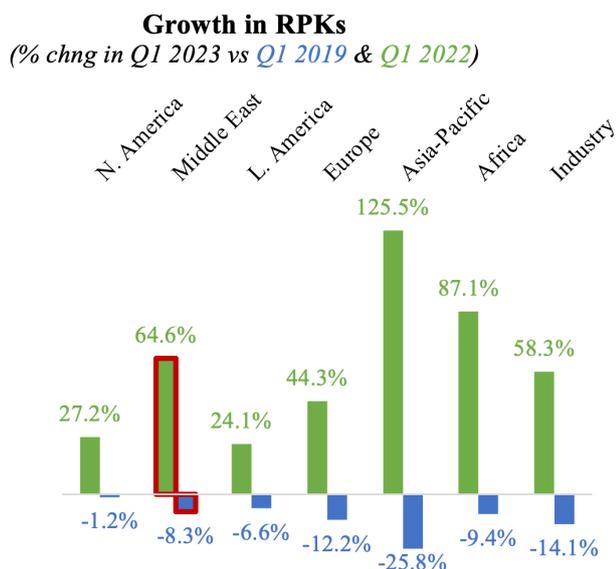
Source: Refinitiv Eikon; Charts by Nasser Saidi & Associates
 Note: Data as of Apr 2023, except for Bahrain, Oman & Lebanon (Mar 2023)

3. Middle East

Passenger Traffic by country in **Middle East & Africa**
(% chng in Q1 2023 vs Q1 2019)



- **Passenger traffic in the Middle East grew by 64.6% yoy** in Q1 & revenue passenger kilometres (RPKs) were within 8.3% of Q1 2019 levels.
- **Most countries in the Middle East region rebounded:** while Jordan, Qatar, Saudi Arabia, and UAE posted positive numbers (vs Q1 2019), Iran and Kuwait were lower (the former due to domestic conditions)
- The **decline in cargo activity** meanwhile is reflective of the global slowdown (as a result of weaker demand for goods). The region had seen volumes higher than pre-pandemic in 2021 but has since then declined.

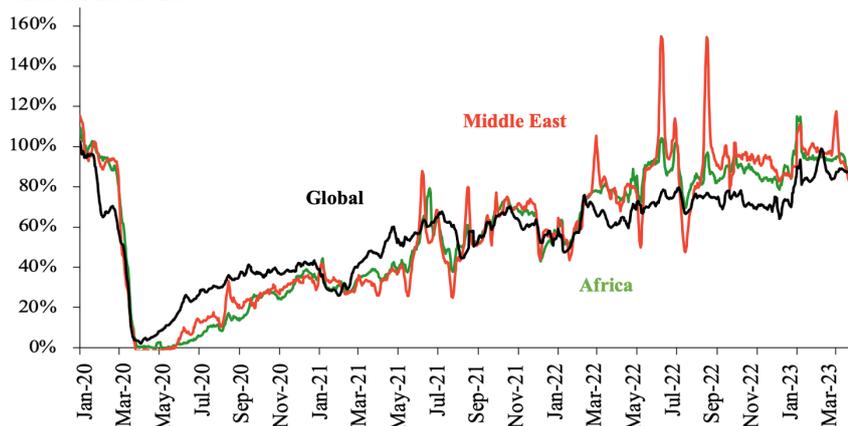


Source: IATA Quarterly Air Transport Chartbook Q1 2023 (issued May 2023)

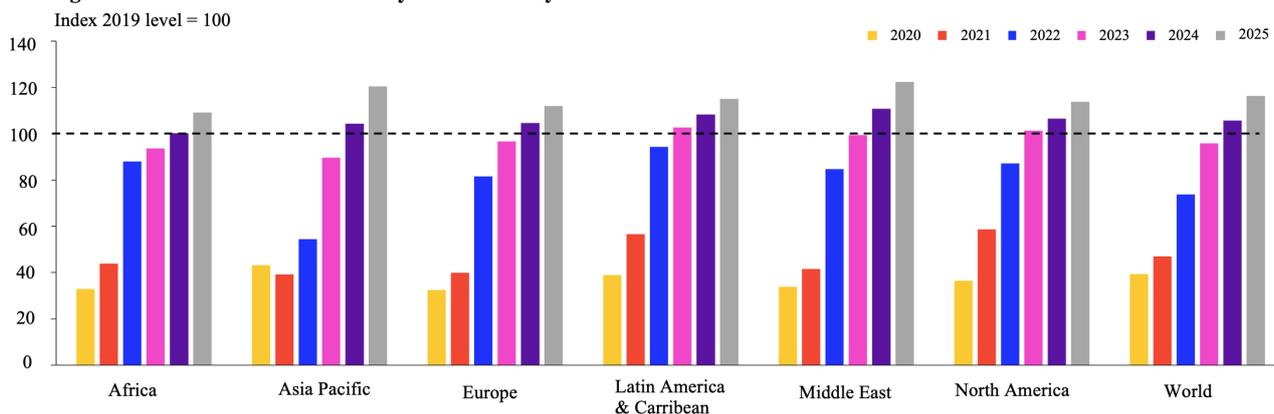
4. Air passenger demand indicates a promising outlook, with full recoveries to pre-pandemic levels soon

- Ticket sales in the Middle East has been consistently higher compared to the global average (which was above 80% of 2019 levels). Though the gap has been narrowing recently, the positive trend will work in the region's favour ensuring sustained demand.
- This is also reflected in the passenger traffic forecast, wherein it is estimated that **the Middle East will reach its 2019 levels by 2024** (in line with global forecasts).
- IATA estimates **global air passenger traffic to grow** at an average annual growth rate of 3.2% till 2040.
- There however are **multiple risks to this outlook** including higher energy prices (especially jet fuel), overall prices (that might deter international travel) and supply-side constraints in the air industry in addition to slowing growth globally.

Ticket sales by region (7-day moving average, % chng vs same period in 2019), Africa-Middle East



Passenger traffic forecast and estimated year of recovery to 2019 levels



Source: IATA Quarterly Air Transport Chartbook Q1 2023 (issued May 2023)

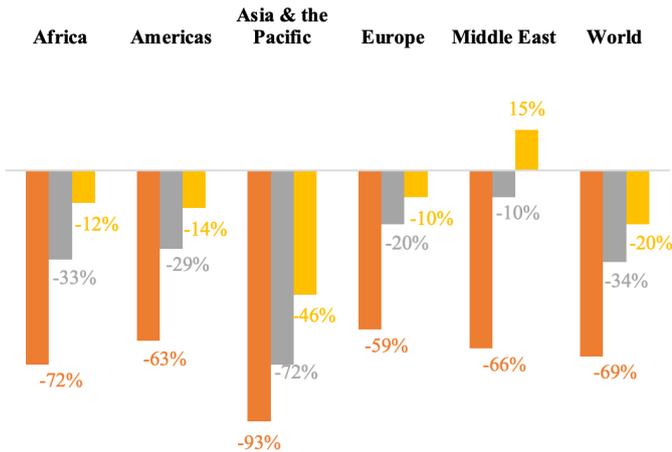
5. Middle East's strong recovery in Q1 2023 supports global international tourism, but inflation is a risk factor

- The **UNWTO** reported in its latest World Tourism Barometer that **an estimated 235mn tourists travelled internationally in Q1 2023**. The **Middle East stands out, being the only region to recover pre-pandemic levels in a full quarter**; Europe and Africa are close behind, having reached 90% & 88% of pre-pandemic levels.
- Among the **best performing destinations in Q1 2023** in terms of international tourist arrivals were Qatar (top, +98% vs 2019), Saudi Arabia (2nd, +64%) and Morocco (13th highest, +17%).
- **International tourism receipts also recovered**, up 50% yoy to over USD 1trn in 2022, and 64% of pre-pandemic levels. The opening up of China and anecdotal evidence of ticket sales during the May Day holiday suggests a

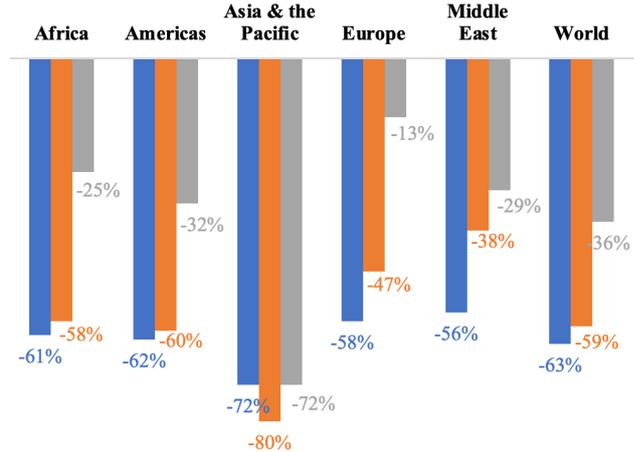
sustained recovery.

- According to UNWTO panel of experts survey, the **main factors weighing on recovery were economic environment (71% of experts mentioned this), higher transport & accommodation costs (62%) and Russia-Ukraine uncertainty (31%)**.

Growth in International Tourist Arrivals
(% chng 2021, 2022, Q1 2023 vs 2019)



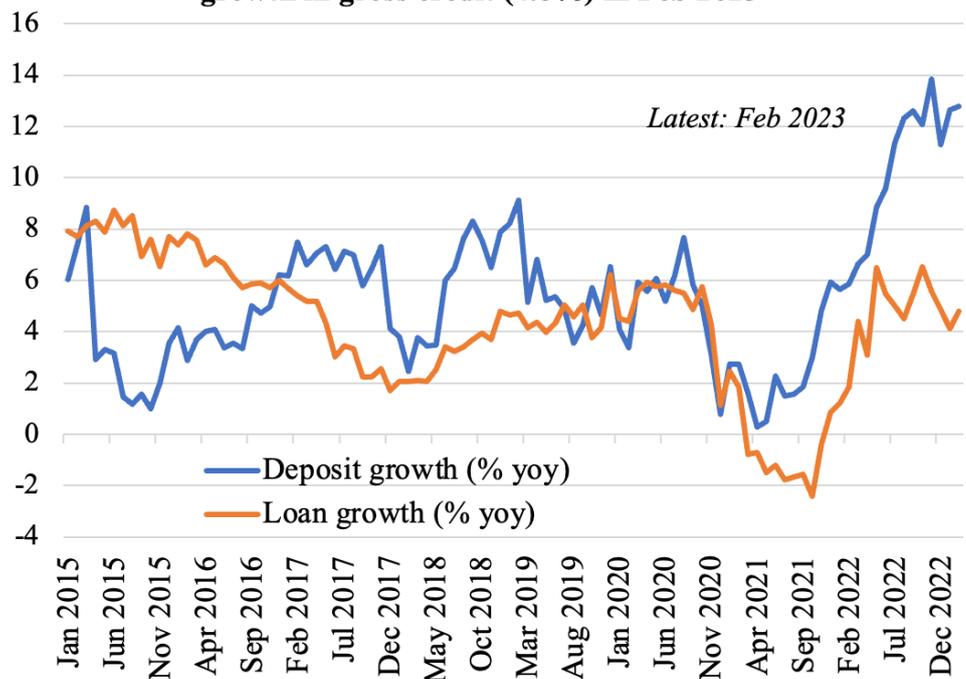
Growth in International Tourism Receipts
(% chng 2020, 2021, 2022 vs 2019)



Source: World Tourism Barometer, UNWTO (May 2023)

6. UAE banking sector sees a resurgence in loans to the private sector

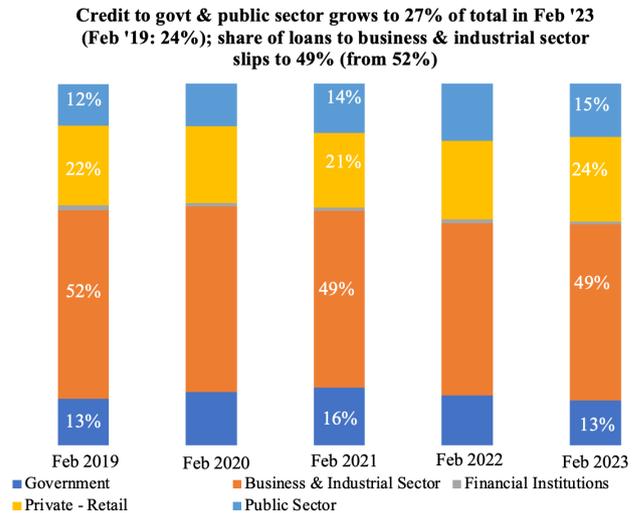
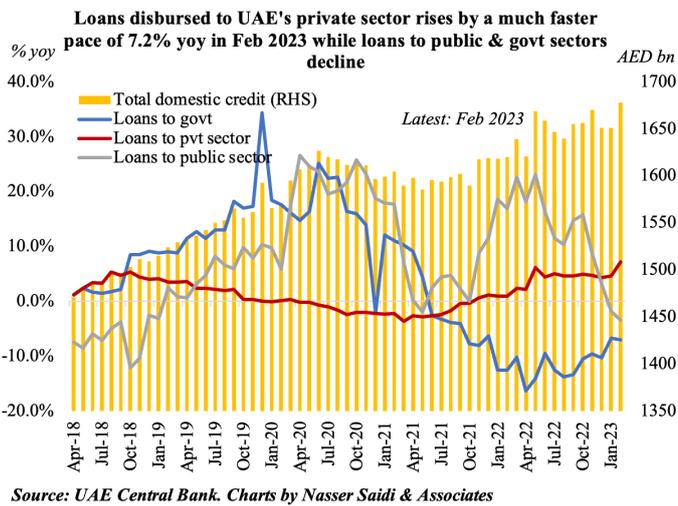
Deposit growth in UAE (12.8%) continues to outpace growth in gross credit (4.8%) in Feb 2023



- Bank deposits in the UAE surged by 0.4% mom and 12.8%

yoy to over AED 2.24trn in Feb, driven by the increase in non-resident deposits (+2% mom). Meanwhile, **gross credit grew by 1.2% mom and 4.8% yoy** to AED 1.9trn in Feb 2023, driven by the increase in domestic credit.

- In Feb, there was an **increase in the pace of loans to the private sector**: it rose by 2.8% mom and 7.2% yoy (faster than Jan's 4.6% yoy & 2022's average of 3.8% yoy). Credit to both the public sector (GREs) and governments fell by 3.4% yoy and 7% respectively.
- Loans disbursed to UAE's **business & industrial sector accounts for just under 50% of total domestic credit** in Feb 2023 (Feb 2019: 52%). Share of loans to GREs have edged up to 15% of the total (Feb 2019: 12%).



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