

# Weekly Insights

## 19 May 2023

### Will inflation play spoilsport to recovery in travel & tourism?

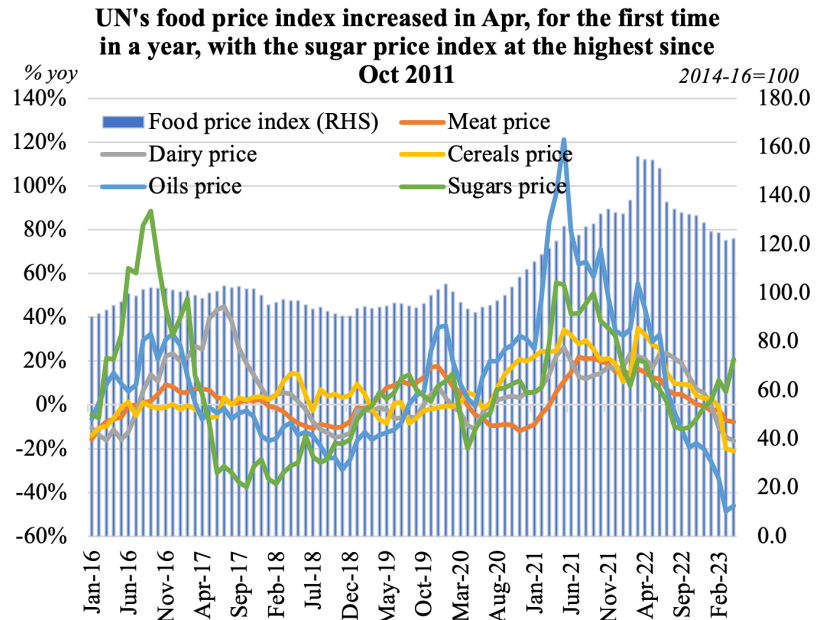
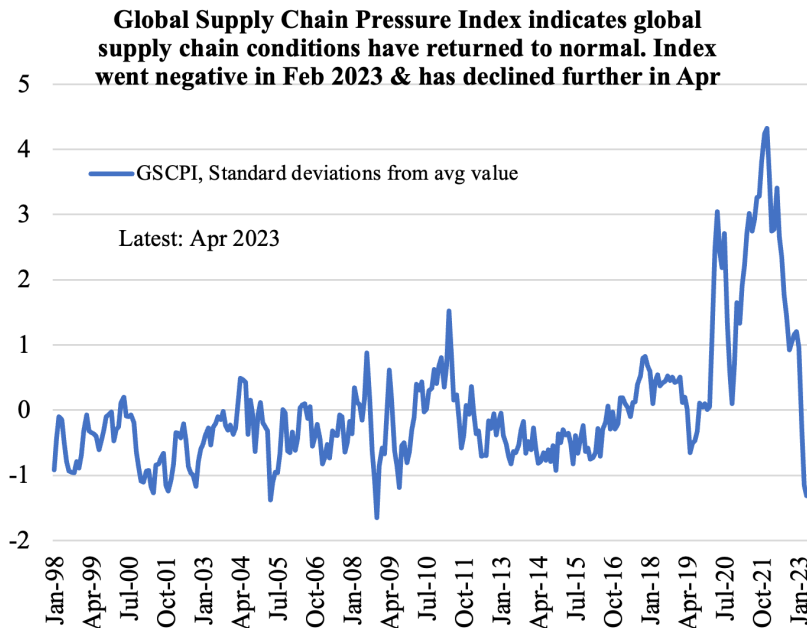
- *Global supply chain pressures decline further while global food prices edge up in Apr*
- *Inflation is easing in the GCC, with food costs also inching lower in many*
- *Middle East airlines impressive Q1 '23 performance*
- *Air passenger demand indicates a promising outlook, with full recoveries to pre-pandemic levels soon*
- *Middle East's strong recovery in Q1 2023 supports global international tourism, but inflation is a risk factor*
- *UAE banking sector sees a resurgence in loans to the private sector*

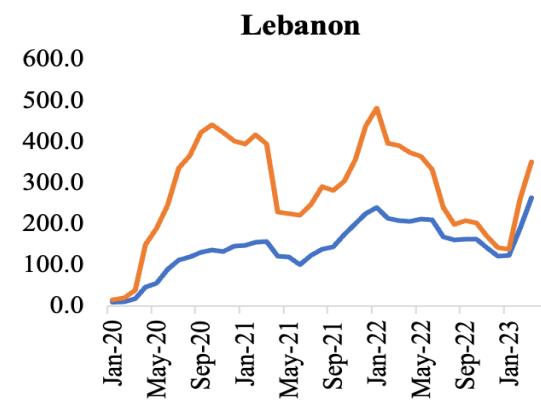
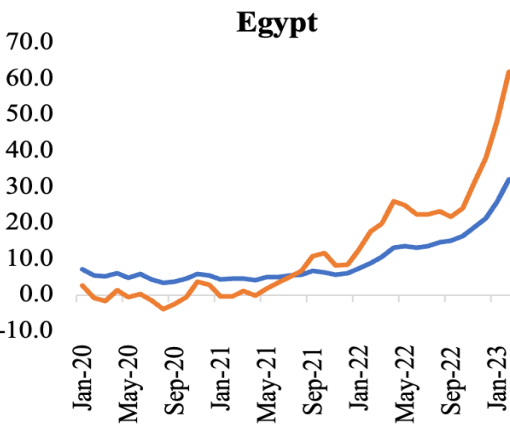
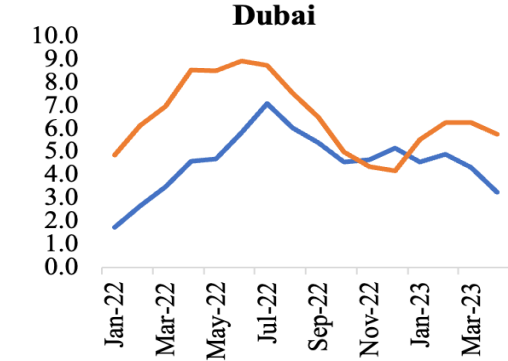
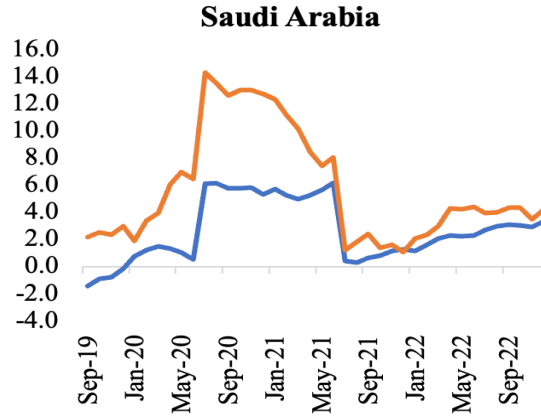
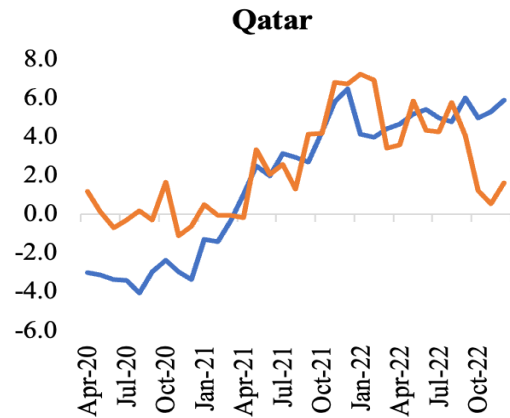
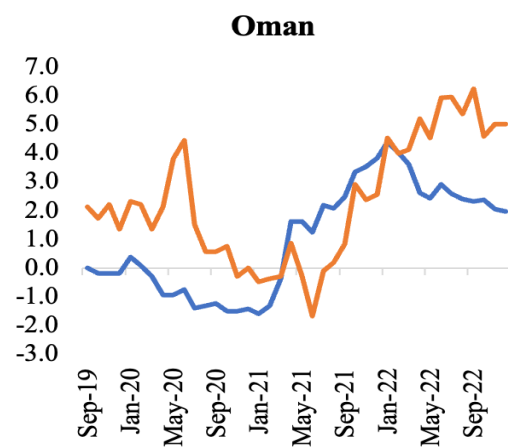
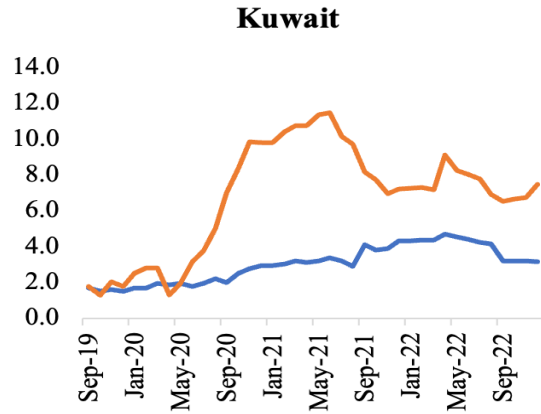
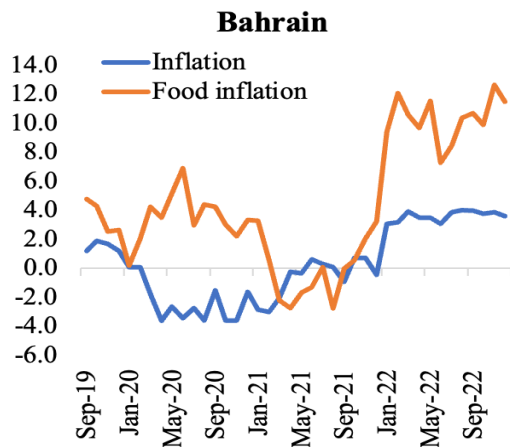
NASSER SAIDI

— & ASSOCIATES —

# 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 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.



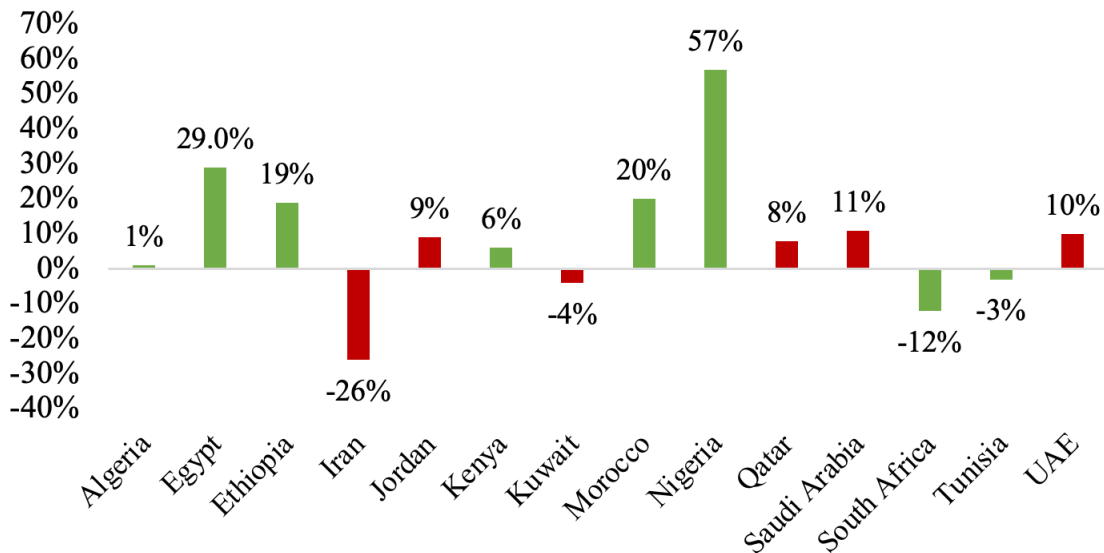


**Inflation is easing in the GCC, with food costs also inching lower in many. Lebanon saw inflation hit 264% yoy in Mar, the highest on record. In many nations, services & housing costs are still on the rise**

**NS**

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

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

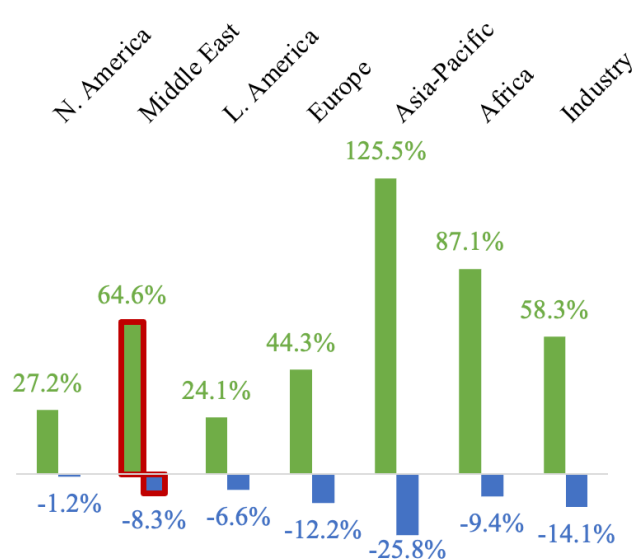


## Middle East airlines post impressive Q1 '23 performance

- 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.

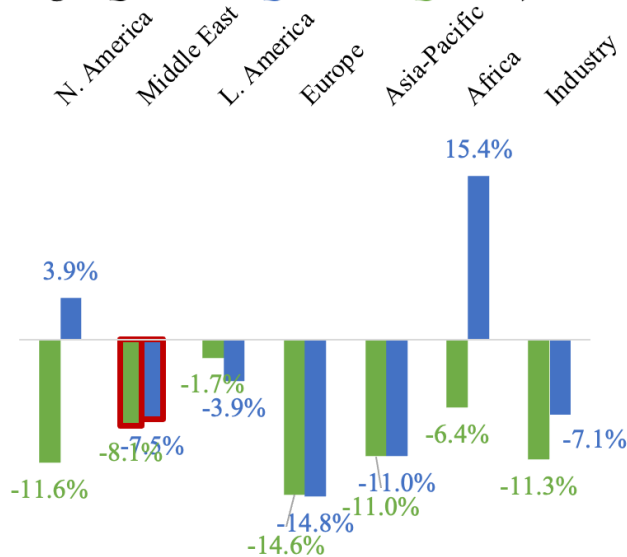
### Growth in RPKs

(% chng in Q1 2023 vs Q1 2019 & Q1 2022)



### Growth in CTKs

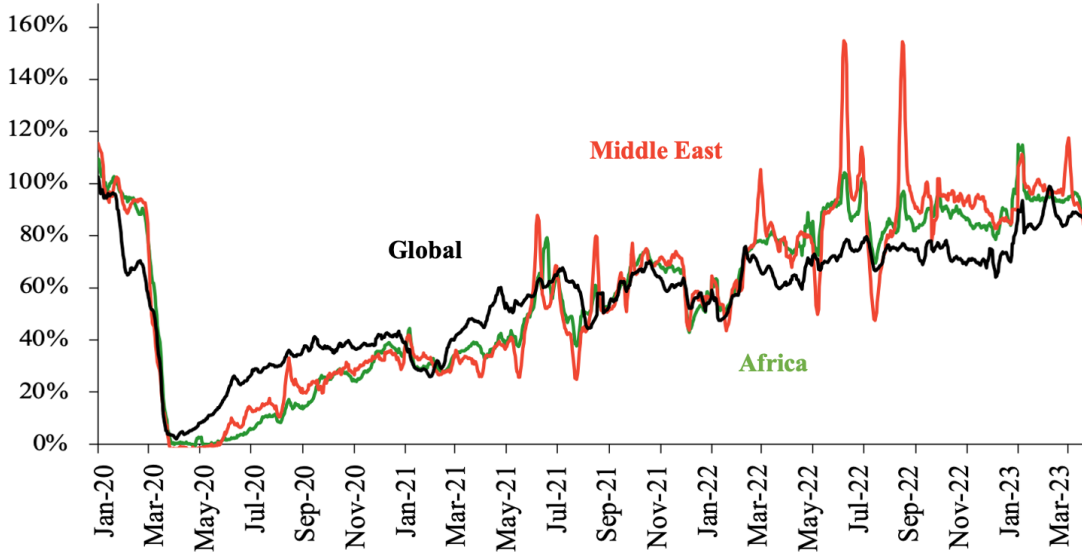
(% chng in Q1 2023 vs Q1 2019 & Q1 2022)



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

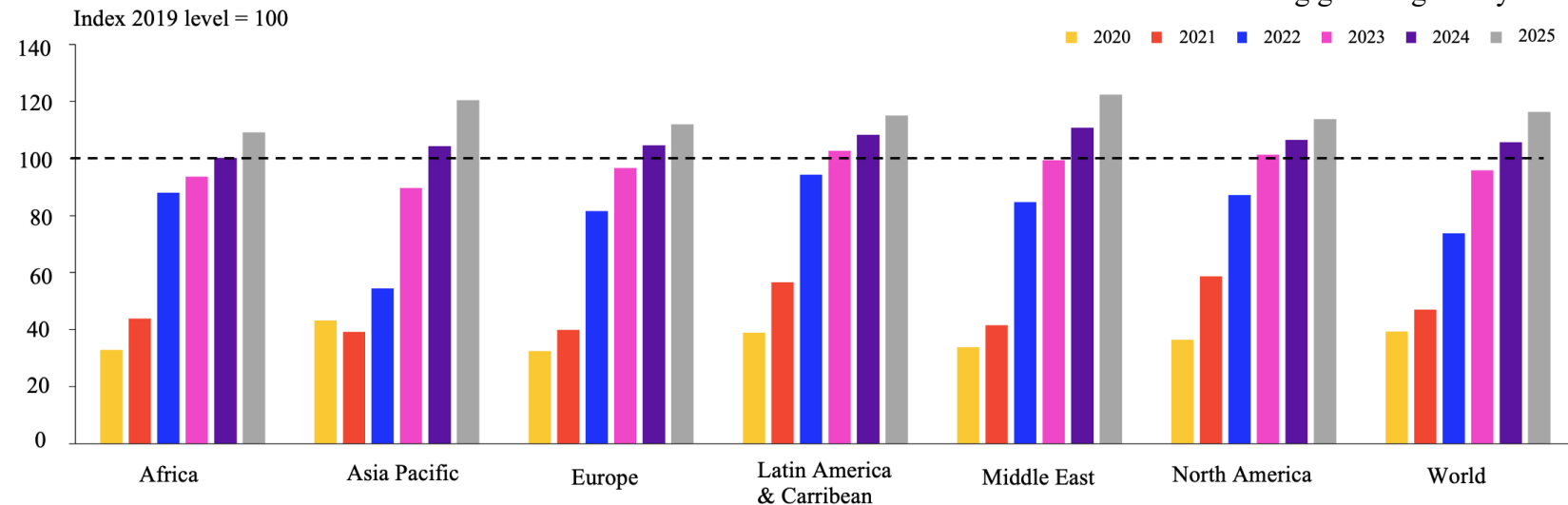
# Air passenger demand indicates a promising outlook, with full recoveries to pre-pandemic levels soon

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



- **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.

**Passenger traffic forecast and estimated year of recovery to 2019 levels**

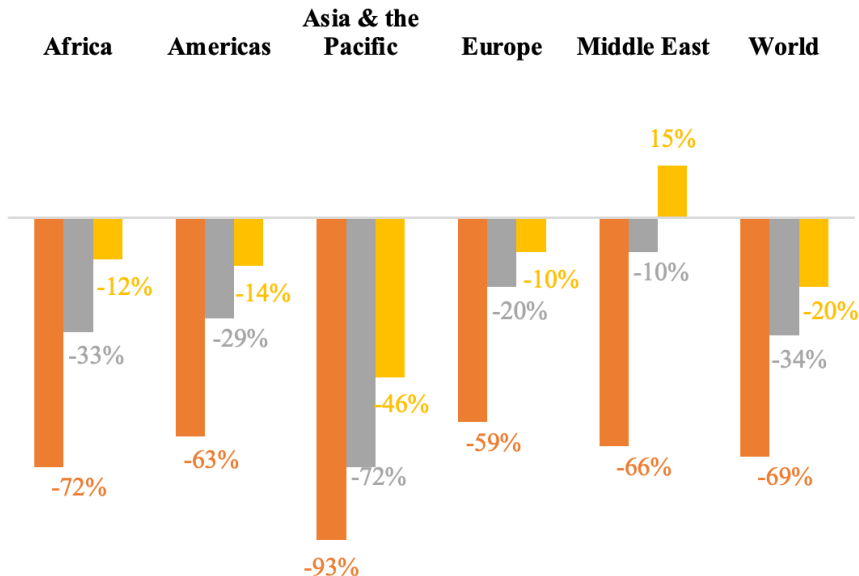


Source: IATA Quarterly Air Transport Chartbook Q1 2023 (issued May 2023)

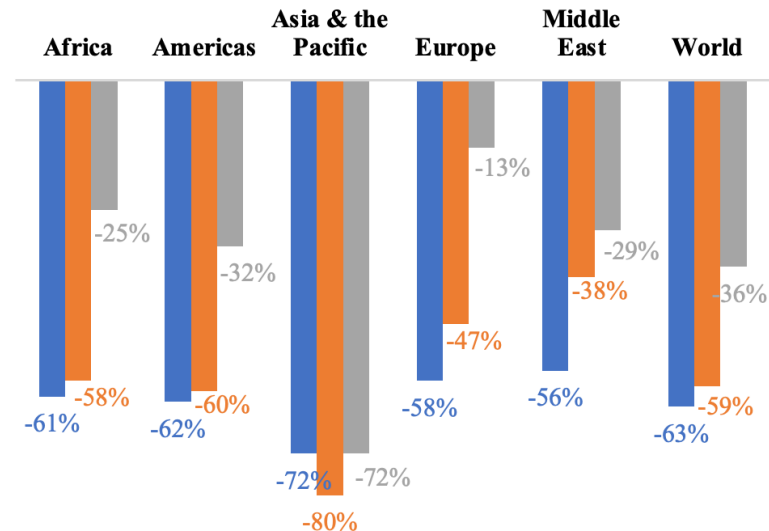
# Middle East's strong recovery in Q1 2023 supports global international tourism, but inflation is a risk factor

- 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 (2<sup>nd</sup>, +64%) and Morocco (13<sup>th</sup> 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)



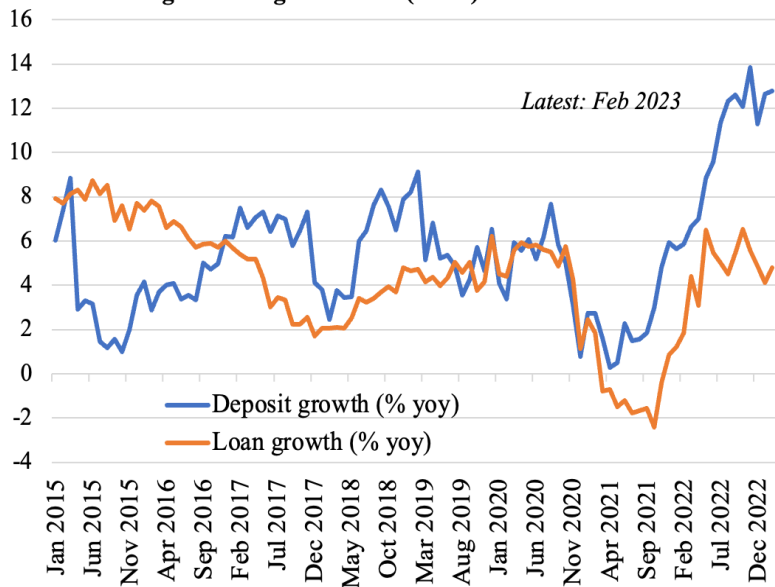
**Growth in International Tourism Receipts**  
(% chng 2020, 2021, 2022 vs 2019)



Source: World Tourism Barometer, UNWTO (May 2023)



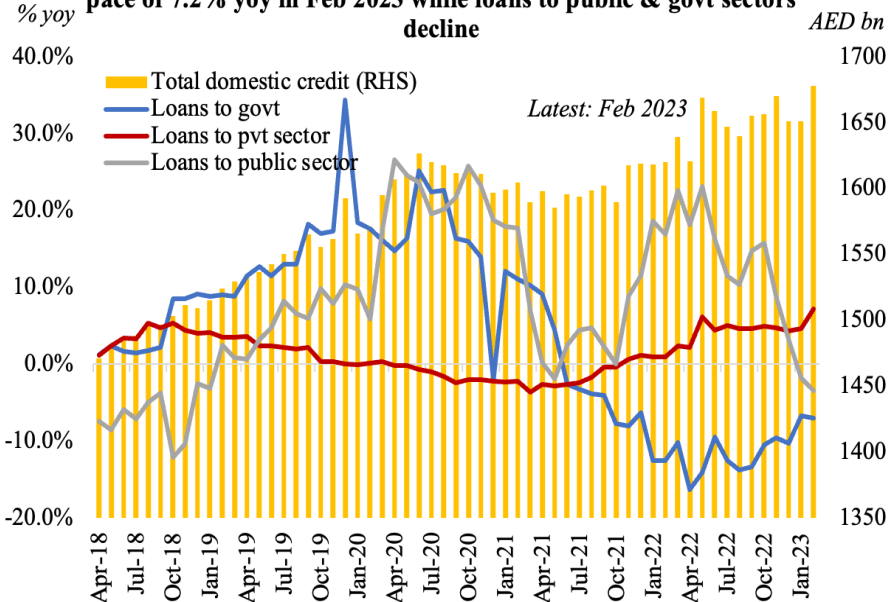
**Deposit growth in UAE (12.8%) continues to outpace growth in gross credit (4.8%) in Feb 2023**



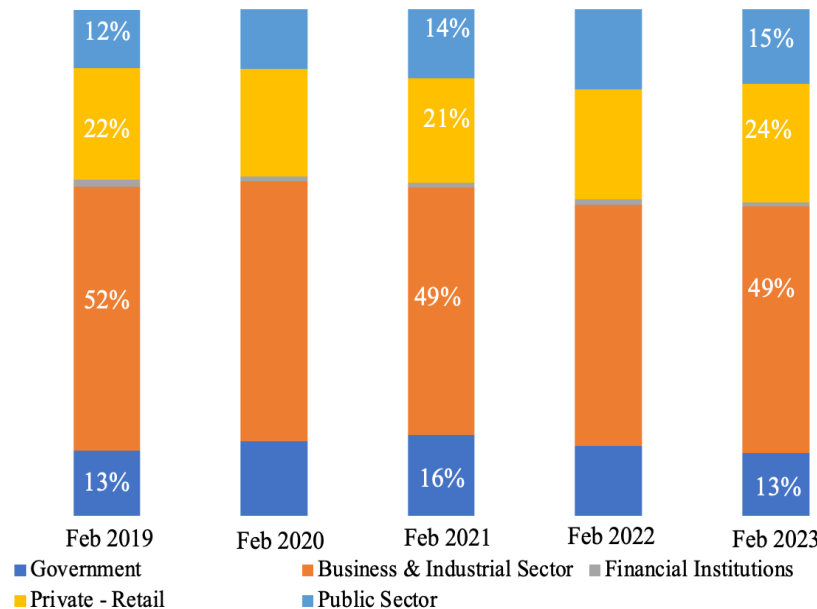
# UAE banking sector sees a resurgence in loans to the private sector

- **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%).

**Loans disbursed to UAE's private sector rises by a much faster pace of 7.2% yoy in Feb 2023 while loans to public & govt sectors decline**



**Credit to govt & public sector grows to 27% of total in Feb '23 (Feb '19: 24%); share of loans to business & industrial sector slips to 49% (from 52%)**



Source: UAE Central Bank. Charts by Nasser Saidi & Associates

***Prepared by:***

Dr. Nasser Saidi  
Founder & President  
[nsaidi@nassersaidi.com](mailto:nsaidi@nassersaidi.com)

Aathira Prasad  
Director, Macroeconomics  
[aathira@nassersaidi.com](mailto:aathira@nassersaidi.com)

NASSER SAIDI

— & ASSOCIATES —