United Arab Emirates

September 2020

Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction Const.Mtrls	Consumer Durables	Electronics/ ICT	Financial Services	Food	Machines/ Engineering	Metals	Paper	Services	Steel	Textiles

Source: Atradius

Industry performance

Changes since June 2020 · Sources: Atradius, Oxford Economics

Automotive/Transport

Remains Poor

Due to the economic downturn, domestic sales of passenger cars and commercial vehicles decreased 30% year-on-year in H1 of 2020, which has led to increased credit risk for the car retail segment. Due to low business and consumer sentiment, there is no comprehensive rebound on the horizon, and automotive value added is expected to decline 20% in 2020. The same accounts for the transport segment, which has been impacted by lockdown measures and decreased demand for logistics, with the airline segment severely hit.

Chemicals/Pharmaceuticals

Remains Fair

Until recently, chemicals and pharmaceuticals businesses have shown acceptable business financials. However, the deteriorating demand from key buyer sectors has had a negative impact on chemicals performance. Payment performance of businesses in the plastic and related segments remains poor, while the payment performance of pharmaceutical businesses is better, given increased demand for medicines and medical products due to the pandemic.

Construction/ Construction Materials

Remains Poor

The industry was already performing poorly before the coronavirus outbreak, as modest economic growth over the past couple of years prevented higher spending on building projects. This already led to increased cash difficulties and tight margins for construction businesses, especially for smaller players. Construction businesses are adversely impacted by the ongoing recession, especially by reduction in government spending, low capital expenditure from corporates and decreased demand for housing. Many high-profile building projects have been delayed or stopped. Sector value added is expected to contract by 5% in 2020.

Consumer Durables

Remains Poor

The domestic consumer durables market remains characterised by high competition (online and offline), single-digit margins, low entry barriers, high indebtedness of businesses and prudent bank support with loans. Consumption of non-food consumer goods has decreased due to comprehensive lockdown measures (e.g. temporary closure of shopping malls and commercial centres), and the fact that about 5% of the population (approximately 500,000 mainly expatriate workers) have left the country due to pandemic. Retail value added is forecast to contract 7% in 2020. Distributors present in Dubai's free trade zones and redistributing to the wider Middle East and Africa are impacted by sharply decreased demand in those end-markets.

Payment delays and protracted defaults continue to remain high due to deteriorating demand, cash flow problems, fierce competition and lack of support from banks. The level of non-payment notifications and credit insurance claims in the non-food retail sector is expected to increase further, particularly in Dubai.

Electronics/ICT

Remains Poor

The ICT value chain in the UAE encompasses vendors, distributors, power retailers, resellers and other small retailers. There is no manufacturing. Most of the vendors and distributors are in Dubai's free trade zones and redistribute to the wider Middle East. The market is characterised by stiff competition, low and declining margins, low entry barriers and a lack of support from banks. While domestic demand for ICT products has been sustained by the general movement restrictions and more reliance on digital connectivity, re-export sales have deteriorated, and non-payment notifications have sharply increased year to date in 2020.

Financial Services

Remains Fair

The banking sector has proved largely resilient in 2018 and 2019, despite a subdued economic performance and deteriorating government finances, both triggered by low oil prices. However, increased financial troubles for businesses and consumers alike due to the ongoing recession have led to increased non-performing loans and problematic assets. As a result, lending conditions remain tight in the UAE.

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Industry performance

Changes since June 2020 · Sources: Atradius, Oxford Economics

Food

Remains Poor

Sales have been negatively impacted by lockdown measures, a decreasing population (approximately 500 thousand people, mainly expatriate workers, have left the country due to pandemic), declined consumer confidence and less demand from still struggling hotels and restaurants. As a result, payment defaults are expected to increase in this segment.

Machines/Engineering

Remains Poor

The business outlook has worsened due to decreasing orders on hand, which resulted from the economic downturn. Domestic demand from key buyer sectors like construction and oil and gas has deteriorated. Engineering value added is expected to contract by more than 9% in 2020.

Metals and Steel

Remain Poor

In 2019 the metals industry already showed a subdued performance, with lower demand from key sectors like construction, along with rising pressure on margins. In 2020 the situation has further worsened, due to the severe economic downturn triggered by the coronavirus pandemic. Reduced demand from both local and offshore re-export business has impacted metal and steel providers. Steel value added is forecast to decrease almost 7% in 2020.

Services

Remains Poor

Due to the comprehensive lockdown measures in early 2020 and the ongoing pandemic, many service businesses suffered heavily in H1 of 2020, especially hotels and catering, restaurants, bars, entertainment and cultural events, travel agencies and tour operators. Hotel and catering value added is expected to contract by 34% in 2020.

Service sectors in Dubai have been especially severely affected by the massive deterioration in tourism inflow. Many hotels, private tourist related businesses and restaurants have closed, while establishments which have reopened are still running below optimal utilization levels. This leads to stress on the financial performance, and both payment delays and insolvencies are expected to increase.

Textiles

Remains Poor

Wholesalers and retailers are negatively affected by changes in customer behaviour and increased competition from new online retailers. Their performance has further deteriorated due to low sales during the lockdown in early 2020 and subdued consumer sentiment. Textiles value added is forecast to decrease almost 8% in 2020.