

STATE OF THE UAE RETAIL ECONOMY

Perspective based on 2020 and Q1 2021
Performance and Consumer Data





Table of Contents

Foreword	1
Big Headlines, Big Data.....	3
Context	5
A Year in Review: 2020	7
2021 Predictions	11
Bouncing Back in 2021	15
UAE Retail Economy Spend	17
The Return of Tourism in the UAE	19
Top Consumer Trends for 2021	21
Conclusion	23
Methodology and Sources	25
Endnotes	27

Standing in the wake of a truly tumultuous year, we are presented with a new reality, a global reset that is redefining how we individually and collectively interact with the world around us.

The necessary and measured actions taken by the public and private sectors to protect our communities and industries through the pandemic saw our societies undergo a paradigm shift, triggering a dramatic acceleration of digital solutions, as citizens sought ways in which to safely navigate life through the far-reaching impact of COVID-19.

While some of those alternatives may cease to serve us in a post pandemic world, what is clear is the wants and needs of our customers have been fundamentally altered for the long-term. Understanding that new normal, and what it means to deliver on those expectations, will not only define commercial success today, but contribute to sustained inclusive and equitable growth, tomorrow.

As a market leader across multiple industries, Majid Al Futtaim can tap into a host of unique and detailed insights from the hundred million interactions we have with our customers. This data, correlated against independent economic and market statistics, affords us an unparalleled view as to the retail economy in which we find ourselves today.

In publishing these quarterly insights, we aim to provide a unique perspective on the drivers of the post COVID recovery within the UAE, and in doing so, further contribute to the collective prosperity of the communities we serve.

Alain Bejjani

Chief Executive Officer
Majid Al Futtaim



Big Headlines, Big Data



- While 2020 was an extraordinarily challenging year, the UAE retail economy is now inching towards pre-pandemic levels. Supported by decisive actions on the part of the UAE government, we saw customer footfall at our supermarkets and malls recover strongly in the latter half of 2020, after a substantial downturn at the onset of the pandemic.¹
- Online shopping has gathered tremendous momentum. According to VISA, the UAE is the most advanced e-commerce market in the Middle East, although penetration has yet to reach the levels in the UK, US, and France.²
- The fourth quarter of 2020 and the first quarter of 2021 were particularly strong as customer confidence returned³. This was demonstrated by the retail economy in December 2020 which declined by -2% in spend compared to pre-COVID levels in December 2019.
- As per our third-party POS data, the UAE retail economy ended the year with a shallow W-shaped recovery underway, which the latest data for March 2021 confirms.⁴
- More than half of UAE residents believe there will be a strong economic rebound from the pandemic.¹⁰
- Increased remote working will only accelerate the trend of digitisation.¹⁷
- Customer sentiments reflect pent-up demand not just for traditional retail but also for experiences, including hospitality and entertainment venues.¹⁷

Context



From environmental disasters to geopolitical upheaval and a global health crisis, 2020 was truly a maelstrom of events that has served to reshape our communities, reposition our priorities and redesign our industries.

Dominated by COVID-19, the past 18 months have seen governments, health authorities, industries and the public unite to stem infection tides, protect citizens and reinvent ways of working to survive the impact of the pandemic.

In doing so, new business models have emerged, with digital solutions sitting at the centre of efforts to maintain a semblance of normality in truly exceptional circumstances.

Confronted with movement restrictions, lockdowns and mandated temporary closures, the world went online. In retail, this saw customers pivot to interacting with brands online and through apps, whether that be to purchase goods and services or access customer services and support.

In the UAE, the result of this exponential shift to online channels has been the steady increase in the penetration of e-commerce, reaching double its 2019 levels. Based on our rich third-party POS data, it is estimated that up to a quarter of the country's electronics sales, between 7% and 9% of fashion purchases, and up to 8% of grocery sales are now occurring online.⁴

The pandemic has created other changes in behaviour. Significantly, it has served to make consumers more cautious in how they spend, particularly in the travel and tourism sectors. In parallel, the experience of spending online has come to dominate spending recurring patterns, especially with accessibility and convenience being key attributes of successful online transactions.

That is not to say bricks and mortar experiences are no longer a factor in consumer decision-making. Data suggests that up to half of all online sales for fashion and electronics start with the customer visiting a store before making their purchase online. In short, the in-person shopping experience continues to hold value for customers and in our view is something that can never be replaced by a sole reliance on digital.⁵

A Year in Review: 2020



Last year was a globally challenging one for most sectors and industries. However, in the UAE, consumer businesses proved more resilient than the wider economy, dropping by 12% compared to the 22% decline in the wider economy.⁴

Majid Al Futtaim data, which combines our third-party POS data with mall footfall across our assets, shows that the retail economy experienced a soft W-shaped recovery in the second half of 2020. That is to say, a sharp downturn that continued until the end of April followed by a rebound from May to August. A milder dip in October was reversed by a strong sales recovery as consumers grew in confidence, which took us closer to 2019 levels by the end of December.⁴

As per our third-party POS data, the standout trend for the year in the UAE was strong e-commerce growth, climbing from 5% of retail sales at the start of 2020 to 10% at the end of the year. Growth was particularly strong in the fourth quarter of the year, accelerated by targeted promotions and events, thereby contributing to overall consumer recovery.⁴

In addition to purchasing online, consumers turned to the digital space to maintain connections with family and friends as well as seeking entertainment options to replace shuttered leisure and entertainment facilities. This had a profound impact on physical leisure and entertainment centres, which saw a 58% year-on-year decline over 2020 as per our third-party POS data.⁴

Considering that as a result of pandemic impact, almost 70% of employers in the UAE introduced personnel measures such as salary reductions and/or headcount reduction⁶. It is not surprising that data shows that consumers were initially hesitant to spend on non-essential items.

However, it was not just domestic demand that impacted consumer businesses. A quarter of the decline in the retail economy in 2020 resulted from the suspension of tourism stemming from global measures to reduce infection rates.⁴

It was also noted that malls lost more business than the traditional high street, but not all malls were impacted equally. This was largely due to the quality and breadth of experiences that were offered, which accordingly drove greater customer interactions.⁴



How Grocery Shopping has been impacted due to the Pandemic in January 2021



25% (-1% pts vs Dec 2020)
Buy only Essentials
April 2020: 32%



30% (+1% pts vs Dec 2020)
Buy more on Promotion
April 2020: 25%



8% (-1% pts vs Dec 2020)
Switch to cheaper Brands
April 2020: 15%



13% (+0% pts vs Dec 2020)
Buy in Bulk/More in total
April 2020: 12%



7% (-1% pts vs Dec 2020)
Buy less in total
April 2020: 8%



17% (+2% pts vs Dec 2020)
COVID-19 has not impacted
my Grocery Shopping
April 2020: 7%

Grocery shopping behaviour has evolved throughout the pandemic. Of the people surveyed through our Happiness Lab in January 2021, 25% would buy only essentials. This is 1% pt lower than in December 2020 and 7% pts lower than April 2020 (32%).

Source: Consumer Sentiment Tracker UAE through Happiness Lab, January 2021 and compared to December 2020 & April 2020



Moving from commercial to residential, we noted that residential real estate was not immune from the effects of the pandemic. Fäm's Property Price Index reported Dubai's sale prices coming down 4% between Q4 2019 and the same period in 2020, while rental rates dropped 12% in the same period. In Abu Dhabi, the same index notes sales prices fell 4% and rental rates fell 3%.⁷

According to JLL, this trend continued, with Dubai sales prices today at 20% below the previous market low in 2010. In Q1 2021, overall residential sales prices decreased in Dubai by -5% year-on-year, while residential sales prices in Abu Dhabi remained flat (0%). Prices in Abu Dhabi and across the UAE have seen a continued decline since 2014, although primarily due to a 200% increase in residential supply over the past five years.⁸ The overall housing rental prices decreased this first quarter for both Dubai (-10%) and Abu Dhabi (-3.5%) as compared to Q1 of 2020.

It is worth noting that we continue to see demand shift away from apartment living as individuals seek more outdoor space. The increase in sales prices for villas this quarter was 3.5% in Dubai and 2% in Abu Dhabi, when compared to the same period last year.⁹

2021 Predictions

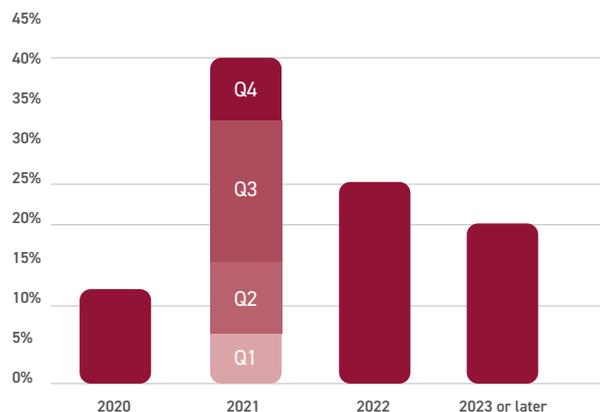


A. GLOBAL OVERVIEW

The rollout of COVID-19 vaccines provides light at the end of the tunnel, and although recovery has started, the pace is expected to vary widely between countries. Research shows there is considerable pent-up demand in most sectors across the globe except, perhaps, international air travel.¹⁰ McKinsey's global consumer survey, published in October 2020 found that countries with older demographics, such as France, Italy, and Japan, are less optimistic of a quick recovery and a return to pre-COVID levels, than those with younger populations, such as India and Indonesia.

It also found that consumers had become more price and value-conscious, leading to less loyalty towards previous shopping behaviour. This behaviour was particularly acute regarding vacation spend. The survey results also highlighted the belief that the current emphasis on e-commerce is likely to be a permanent state.¹¹

When do you expect activity in your business to return to pre-pandemic levels?



Oxford Economics says that more than two-fifths of global businesses do not expect to see a recovery before 2022 at the earliest and that the pace of recovery will depend on how individual governments respond to COVID-19 and their success in vaccinating their populations?

Source: Oxford Economics/ Haver Analytics



B. MIDDLE EAST OVERVIEW

The global perspective provided by Oxford Economics, a leader in global forecasting and quantitative analysis, is that Middle East economic recovery will lag behind Europe and North America - not returning to pre-COVID levels until 2022. Even so, the Purchasing Managers Index (PMI) for the UAE and Saudi Arabia, seen as a predictor of future economic performance, shows that a recovery is already underway.

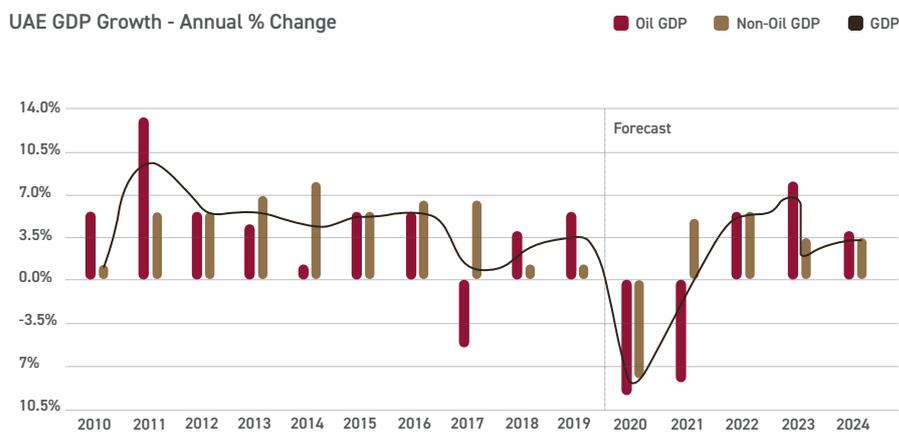
In early 2020, the UAE's PMI score dropped into the mid 40s, and Saudi Arabia's score to the lower 40s, far from the cut-off of 50 (above which an economy is considered to be expanding). By March 2021, Saudi Arabia was back to 53.3, and the UAE achieved 52.6, after a slight dip at the beginning of the year.¹²

Oil prices, impacted through 2020, recovered at the start of 2021. However, pending tax rises may affect retail activity,¹³ particularly in Oman, which introduced VAT to the country in April this year, and Saudi Arabia, which has increased its VAT levy from 5% to 15%.¹⁴



C. UAE OVERVIEW

In line with the Oxford Economics forecast, overall economic performance was up 5% year-on-year in March 2021 and retail revenues were 9% higher in March 2021 compared to March 2020. This would indicate optimism is returning to the UAE consumer market.⁴



Source: Oxford Economics/ Haver Analytics

Oxford Economics predicts the UAE economy will bounce back strongly in 2021 and maintain modest growth levels in subsequent years, although performance will vary significantly between different sectors of the economy

Looking across the Gulf Cooperation Council (GCC) countries, Oxford Economics expects the UAE to demonstrate the fastest growth in 2021 increasing ~3% in GDP. However, it warns that further waves of COVID-19 could stall the growth of the tourism sector and that the lingering effects of the pandemic may take time to reverse.

One such effect is on the number of expatriates working in the country. Oxford Economics notes that around one in ten expatriates returned home as a result of the pandemic and expects pre-COVID levels not to return until 2024.¹⁰

Bouncing Back in 2021

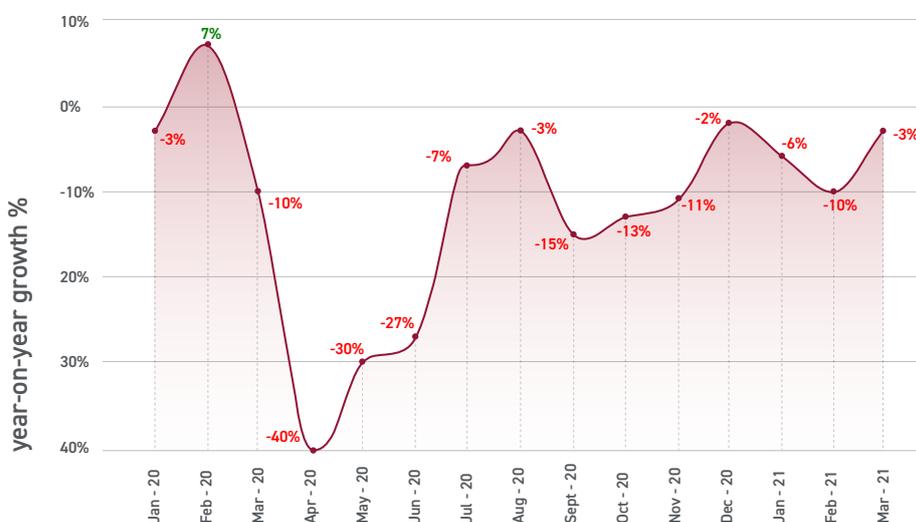


This section draws on our third-party POS data⁴ (as of March 2021) and Majid Al Futtaim Happiness Lab insights⁵, which for the purposes of this report include consumer sentiment and behaviour up to and including January 2021.

Majid Al Futtaim's forecast at the end of last year that the UAE would experience a soft W-shaped economic recovery has been confirmed with data showing the economic spend reached 5% above its March 2020 level.⁴

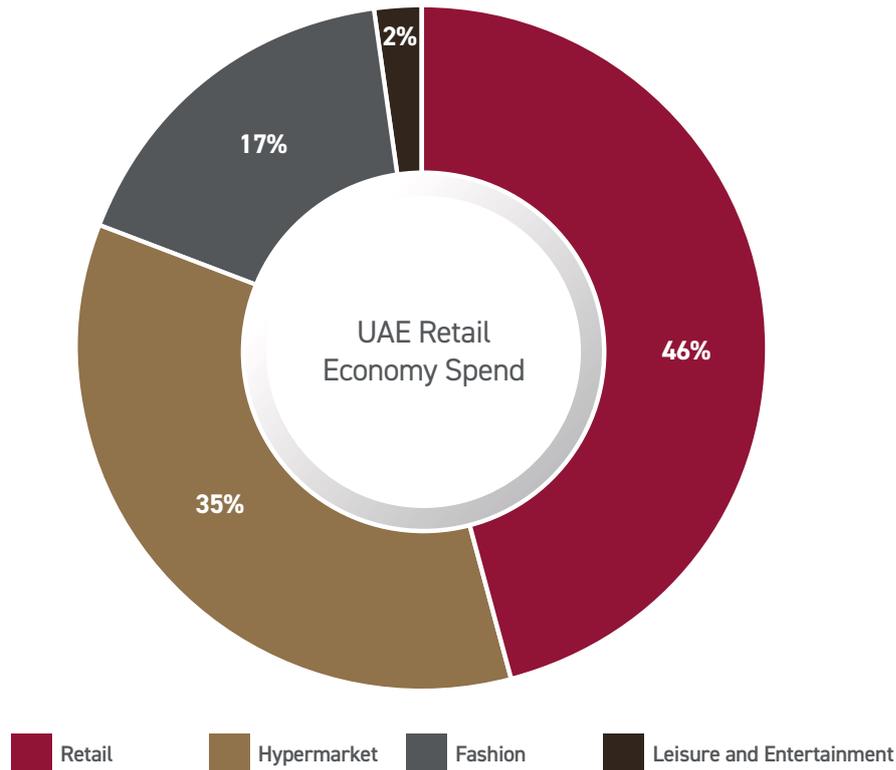
The economic activity over the past four months has seen steady progress towards pre-COVID levels, declining by only 2% in December 2020 vs December 2019 due to a strong holiday season. Per the chart below, consumer spending dipped in January and February 2021, declining 6% and 10% respectively. However, we then see a recovery beginning to take shape in March to a level that was only 3% below that of pre-COVID retail economy spend.

UAE Retail Economy - Monthly Growth vs 2019 Levels



Source: Third-party POS data for 2020/2021

UAE Retail Economy Spend



Source: Third-party POS Data for March 2021

According to our third-party POS data, Q4 2020 onwards has seen an upward shift of consumer spending behaviour towards non-essential goods like fashion, hotels, food & beverage and other retail categories. In particular, the fashion sector performance improved in March this year, rising to pre-COVID levels. Non-essential retail also showed gains in the same month seeing increases in consumer spend on hotels (117%), food & beverage (50%), home furnishing (49%), pharmacy & health (9%) and duty free (2%) as compared to March 2020.

Following a strong 2020 holiday season that saw an increase in resident spend, the following months experienced an expected decline, witnessing a 6% decrease in January and 12% in February 2021 vs. 2020. This reversed in March with an increase of 17% in resident consumer spending from February to March 2021⁴.

Retail economy was up 9% in March 2021 vs. March 2020 and 3% lower than the same period in 2019, opening the path to normal economic cycles. Sales in malls were up 10% year-on-year, while non-mall sales were up by 8% in March 2021. Sales in malls have increased more than non-malls for the first time since 2020.

In comparison to other sectors, leisure and entertainment is still down compared to pre-COVID levels. In March 2021 the sector was 52% below March 2019 but the underlying trend was upwards, growing 17% between February and March of this year.

Additionally, consumers focused more on essential household durables in 2020 while spending at hypermarkets and supermarkets was not as strong in March 2021, with the segment seeing a 27% dip year-on-year.

E-commerce has also continued to remain relevant with spend in February 2021 reported as 30% up year-on-year. The axiom that the growth of online shopping is a manifestation of a growing desire for convenience is underpinned by data showing as much as a quarter of all electronics, between 7% and 9% of fashion items, and 6% to 8% of groceries, are now purchased online in the UAE.⁴

The Return of Tourism in the UAE



According to the Department of Tourism & Commerce Marketing (DTCM), there was a decline of 73% in tourist visits to Dubai for the period from January to March 2021 compared to the same period in 2019.

Despite fewer tourists visiting Dubai, there was a 38% increase in the average nights stayed by tourists in Dubai over the same period, from 3.7 to 5.1 nights per stay.²⁰

The total unique credit cards used by tourists in Dubai (e.g., cards that were not issued in the UAE) decreased by 39% year-on-year over the Q1 period. For other Emirates in the UAE, the decline over the same period was limited to 30%.⁴

While the number of tourist payment cards (e.g., the non-UAE cards) used in Dubai witnessed a steep decline, it is worth mentioning that the total spend from these cards was up by 3% in Q1 2021 vs. Q1 2019. This can be attributed to an increase in average spend per card of 65% in Q1 2021 vs. Q1 2019.⁴

When looking specifically at March 2021, there was an increase in total spend of 7% vs. March 2019. This can be attributed to an increase in average spend per card of 61% in March 2021 vs. March 2019.⁴

Tourist spending in Q1 2021, saw a notable spend increase in the categories of fashion & accessories (91%), watches & jewellery (207%) and electronics (90%), compared to Q1 2019. This spend was predominantly from tourists originating from Russia, the United Kingdom, and Egypt.⁴

Top Consumer Trends for 2021

A. DIGITISATION

Majid Al Futtaim data reveals that what Euromonitor describes as the 'phygital' age has arrived for consumers in the UAE. Today, digital shopping has become established alongside physical shops as a part of the retail experience.¹⁷

As elsewhere in the world, movement restrictions and the need for social distancing have led people to increasingly adopt internet-connected devices to enable them to continue with their daily lives.

Consumers have also embraced the digital world for entertainment with a 30% increase in the number of consumers who consider using streaming platforms, so much so that films are now released for streaming at the same time as arriving in cinemas.¹⁸

B. SUSTAINABILITY AND HEALTH

Post-pandemic, sustainability and the environment are returning as a focus for consumers in the UAE who are looking for brands that help make the world cleaner, healthier, and more sustainable.

Majid Al Futtaim's January 2021 Happiness Lab survey¹⁹ found two-thirds (66%) of UAE consumers said the pandemic has made them more concerned about the environment, more than half said they are likely to purchase environmentally friendly products, and the same percentage stated they intended to recycle more often.

Increasing awareness as to the importance of maintaining a healthy diet for immunity translated to a 13% growth in sales in the health and wellness categories in our Carrefour stores last year.

Research shows that although these customers want value for money, they also want to understand the story behind the product and purchase products and services that take health and wellness, self-care, and mental wellbeing into consideration.

C. CAREFUL SPENDING

The increased desire to receive value for money is not just a reaction to the economic contraction brought about by the pandemic. In the case of Millennials and Generation Xers, the desire to save money on everyday essentials is being driven by a desire to free up cash to purchase items and experiences that offer an emotional connection.

We have noted that a growing number of consumers align to a persona which Euromonitor has called "thoughtful thrifters", or people who spend carefully to save for unforeseen events in the future.¹⁷

"Thoughtful thrifters" often downgrade from brands to private-label products, avoid impulse purchases, and have sustainable consumption habits based on planning their purchases.

Our Happiness Lab research shows that 51% of consumers in the UAE do not plan to spend on luxury products; 88% of consumers use loyalty cards and vouchers; 8% switched to cheaper brands; and 30% buy more on promotion. This change in behaviour has resulted in a change of perspective for retailers, resulting in a recalibration of product portfolios, distribution channels, promotions, and supply chains to cater to these new behaviour patterns.

Conclusion



The widespread availability of COVID-19 vaccinations offer the hope of a return to previous levels of economic activity. Signs in the UAE are positive for a return to pre-pandemic levels by the end of 2021.

Consumers have weathered the economic storm by becoming more value-conscious, turning to online solutions, and embracing the digital world for experiences that are either unavailable or difficult to access in the physical world.

Equally consumers are keen to re-establish a sense of normality, both in the UAE and across the region.

Rapid and balanced action by the Government helped protect businesses and communities while making a strong contribution to overall trust and resilience. Confidence is returning, and Majid Al Futtaim believes there are grounds for optimism about 2021. The UAE is poised for a retail recovery - and retail innovation that allows the changing needs and aspirations of customers to be successfully met - sits at the core of that recovery.

Digital offerings are an integral component of the retail experience in the UAE. Click & Collect and delivery services will continue to grow in importance. Online platforms that interest, educate and inspire consumers will play a vital role in what has become an omnichannel world.

Corporate citizenship and sustainability are becoming ever more important to consumers. Both retailers and policymakers will need to demonstrate that they are walking the talk on related issues.

Society is entering an era of innovation that will be both challenging and exciting. The outlook is positive and offers genuine opportunity for all to contribute through active stakeholder engagement. By working in concert, government, business and communities can drive economic growth to achieve a sustainable future.

Methodology and Sources



This report has been put together by Majid Al Futtaim's Consumer and Business Insights (CBI) Initiative. It draws on the following main sources:

- The Happiness Lab – Majid Al Futtaim's Market Research Online Community (MROC) in the UAE. Happiness Lab has a total of 23,000 members in the UAE that regularly participate in various types of consumer surveys.
- According to our third-party POS data, over 370 million point-of-sale (POS) transactions totaling AED 105 billion from POS payment. We estimate that the data sample covers ~10-15% of the economy's total transactions. POS data covers ~40% of overall card-based transactions, and cash transactions account for ~40-50% of the economy. All insights need to be considered through the inherent biases of these data sources.
- YouGov data based on 40,000 consumer surveys in 2020

Other sources are quoted individually and reflected in the endnotes.

ENDNOTES

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