UAE: Surveys point to steady non-oil growth despite higher interest rates

- The non-oil sector continues its recovery on the back of improvements in domestic demand.
- CPI inflation remains modest as housing inflation maintains its downward trend.
- Residential property prices in Dubai continue to face downward pressures amid higher housing supply.
- Credit growth eases following rate hikes, while higher oil prices drive deposit growth to multi-year highs.
- Annual growth in M2 money supply reaches multi-year highs even as interbank rates edge higher.
- Better economic sentiment continues to pull credit default swaps lower.
- Growth in Dubai appears to have reversed its downward trend at the end of 2016.

**Purchasing Managers’ Index**

The non-oil sector continues its steady recovery, thanks to an ongoing improvement in domestic conditions.

**Consumer price inflation by sector**

CPI inflation has remained fairly modest against a backdrop of slowing housing inflation and soft food inflation.

**Residential property sales prices in Dubai**

Dubai’s residential sales prices continue to face downward pressures amid high levels of housing supply.

**Bank lending and deposits**

Higher rates and tighter rules led credit growth lower in 1H17. Deposit growth hit multi-year highs on higher gov’t deposits.
Annual growth in broad money supply (M2) saw healthy gains in 1H17, even as interbank rates edged higher.

Source: Thomson Reuters Datastream

Interbank rates continued to reach multi-year highs, following two additional 25 bps hikes in the key policy rate in 1H17.

Source: Thomson Reuters Datastream

The main markets maintained their sideways trend as oil prices remained subdued despite the supply cut extension by OPEC.

Source: Thomson Reuters Datastream

The main CDS’s remain close to multi-year lows amid the improving economic climate.

Source: Thomson Reuters Datastream

Growth in Dubai appeared to have reversed its downward trend at the end of 2016, reflecting the better survey data.

Source: Dubai Statistics Centre, Statistics Centre – Abu Dhabi

But Dubai’s recovery is still being weighed down by a weakness in export demand.

Source: Emirates NBK Research