Hospitalitynews MIDDLE EAST

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MIDDLE EAST RESTAURANT SECTOR

Weak oil prices meant that last year was a daunting one for the region's economy. However, fortunately for restaurant operators who've had to adapt to increased saturation caused by tougher competition and poor sales, 2017 still brought glimmers of hope. **Chadi Chidiac**, managing partner of PROTOCOL, tells HN what the region's macroeconomic indices reveal for the Middle East restaurant industry

Diverse sectors are feeling the fall-out

Uncertainty has prompted high-net-worth individuals (those with USD 2 million and above in investable assets) to protect their wealth through more careful and prudent investments. Numbers at the end of 2016 reveal a continued trend toward more liquid assets, such as cash and deposits. Meanwhile, appetite for investments is waning across all assets for the near future, year-on-year. Considerably fewer high-net-worth individuals are looking to increase their portfolio through direct investment and private equity.

Lower demand

Demand is undoubtedly weaker than ever. Big retailers will continue to exhibit growth, while smaller ones will struggle, given the number of potential risks that need to be considered, which include: volatility and decline of oil prices; OPEC futures remaining uncertain; and Saudization and the additional cost of labor in the KSA on the back of its ongoing diversification and the growing part played by non-oil activity in pushing the overall economy forward. Yet since the regional economy's cornerstone is still highly reliant on oil revenues, gaining positive momentum will not come easily.

Adjusting to the 'NEW NORMAL'

In April, the International Monetary Fund (IMF) announced that it had cut its forecast this year for GCC oil producers' economic growth, on the back of the group's deal to reduce output, which is expected to wipe out gains in terms of government revenue from higher oil prices. Growth rates for the period 2017 to 2021 have been revised downwards in all countries, except for Bahrain and Qatar, with those for 2018 following this pattern. The trend is being dubbed by some 'The New Normal' for the region, marked by lower oil revenues, but stable oil prices and greater levels of economic diversification, including a stronger tourism industry. Restaurant operators will see food prices stand still or fall, in part due to the stronger US dollar, yielding a lower food cost for both restaurants operators and Food at Home. Oil prices hit rock bottom last year and are still leveling off, remaining unstable due to question marks surrounding the future of supply from OPEC. Another challenge, at least for GCC restaurant operators, is the imminent implementation of the bloc's value-added tax (VAT). A 5 percent VAT will be imposed on most products starting January 2018, though it remains unclear if the levy will be applied to food. Even if it transpires that food in restaurants is exempt from VAT, consumers may decide to tighten their broader spending, since they will be facing a 5 percent tax on most other purchases. Both the KSA and the UAE have ratified the agreement. The new taxation strategy is expected to enable GCC nations to boost their GDP by around one percent.

Retail will continue to surge

Grow rate forecasts for the retail sector remain high, with projections indicating they will rise 25 percent in square meters over the upcoming three years. Restaurants will need to stabilize demand to balance with occupancy costs. Bearing in mind that 139 hotel projects are in the pipeline in Dubai alone (all of which will include F&B operations), F&B operators will be facing both fierce competition and higher risks of possible market saturation. Longer term, the appeal and quality of concepts will determine success. Tourism growth will boost the restaurant industry in the Middle East. Around USD 79 billion is planned for airport projects in the region, with the aim of transporting 400 million passengers per year over the next decade. More inbound tourism will mean greater demand for food and new opportunities for operators to differentiate themselves with homegrown unique concepts.

Growth expected to pick up in 2018

A regional commitment to economic diversification deserves praise. Structural reforms and spending cuts, as well as higher oil prices, are helping states to reduce some of the world's highest budget deficits. The IMF has acknowledged the steps taken and noted the region's progress in its bid to transform economies which have relied on hydrocarbons for more than five decades. Most of the six GCC members have made substantial fiscal adjustments. Salary increases, which mean higher levels of disposable income, signal further good news for restaurant operators. Wages are expected to rise by an average of four percent across the region in 2017 and 2018, supported by forecasts of higher GDP growth for the year ahead. The IMF expects the cumulative budget shortfall of the six countries through 2021 to total around USD 240 billion, down from approximately USD 350 billion in 2016.

PROTOCOL Hospitality Management & Consultancy *protocollb.com*

Where Consumers Spent in 2016

Category	Percent of
Housing	33%
Transportation	17%
Food	13%
Insurance/pensions	11%
Healthcare	8%
Entertainment	5%
Contributions	3%
Clothing	3%
Other	7%
Total	100%

Source: PROTOCOL Study 2017