

The Credit Crunch: The Impact On Consumers In The Middle East

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The Middle East has been moderately affected by the credit crunch in that consumers are more cautious in part.

Since Middle Eastern consumers are not as overstretched as those in Western countries, the credit crunch has a shallower bite.

The lack of a credit/debit culture means that consumers buy outright. Those that cannot afford luxuries will not buy them and those that can afford them will "and will be happy to show off their treasures too.

Modesty is certainly not in the minds of Middle Eastern consumers; those that can afford it still pride themselves on their big cars, jewellery, lavish weddings and haute couture.

Key trends

- Business (more or less) as usual;
- Buy what you can afford (if you are poor);
- The West is not best;
- Bling is still in;
- Religious sensitivities.

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Commercial opportunities

- Advertise for Middle-Eastern solutions rather than "this is the way it is done in the West";
- Retain the appeal of the status symbol; provide opportunities to "show off" products;
- Be aware of the religious sensitivities and pride of consumers in the Middle East;
- Advertise to "tech-savvy" consumers;
- Introduce the concept of quality rather than quantity to attract the "cautious" consumer.

Background

While the Middle East was able to steer clear of the financial crisis at first, the decrease in oil prices has caused the crisis to hit home moderately. However, since few consumers have bank accounts or credit cards, many have been spared what Western consumers are going through: frugality.

Nesrine Malik, writing for the Guardian newspaper, stated that the reason for the Middle East remaining fairly unscathed by the financial crisis is due to "the south's overall isolation from the more sophisticated strands of finance which precipitated the credit crunch".

Therefore, the property boom in some Gulf states was not accompanied by overstretched consumer mortgages and other credit. Indeed, while the rest of the world is talking financial crisis and property slumps, Uptown Cairo is undergoing a massive property development of posh villas. Consumers in the Middle East have only ever spent what they can afford, and some can still afford lavishness, while many remain poor.

Business (more or less) as usual

There are two types of consumers in the Middle East: the very (oil) rich and the very (oil) poor. Not much sign of a growing middle class here. The global financial crisis, while not remaining completely unnoticed, has not changed the attitudes of consumers a great deal.

While Western states are finding themselves in despair over the economic situation, the Middle East has scaled down from a euphoric consumer-craze to an optimistic view. This is the view of Mohidin Bin Hendi, president of a retail-based conglomerate that operates throughout the region.

Bin Hendi revealed that sales are presently 15 to 20% down but that this is comparatively good given the economic climate: "Our restaurants are doing well and also our more expensive products. To achieve anything less than a 20% drop in sales makes me very happy and, in light of the present financial conditions throughout the world, we are really optimistic."

The Gulf countries that are reliant on oil for their riches have had a long boom period, with oil sheiks rising to be the

richest individuals in the world. Since liquidity was no problem in these countries, the credit crunch did not strike while Western countries were already in the depths of a financial meltdown and consumers were bracing themselves for frugal times.

However, the dramatic drop in oil prices has led to some oil magnates being more cautious in their spending habits.

At the other end of the spectrum are those consumers in Middle Eastern countries that are not rich in oil, such as Egypt.

These consumers were not used to a lavish lifestyle in any case. While they are suffering from the oil magnates' loss of liquidity, they are also benefiting from Western tourism and investment, which has provided jobs and therefore purchasing power in the credit crunch.

In a time of instability, poorer consumers in the region will also be spending more vigilantly.

Nassim Ghrayeb, CEO of YouGovSiraj (a research company conducting consumer surveys in the Middle East), commented that consumers in the region are exercising more caution. More cautious spending could lead to shopping for quality rather than quantity. Ghrayeb added that "those brands that offer excellent value to consumers when they need it most will be winners during these challenging times".

Some consumer goods have become a consumer 'staple', and are perceived by consumers as an everyday part of Middle Eastern life since it is believed that they embrace all the values that matter in Middle Eastern society. For example, technology is considered a 'staple' for achieving a better quality of life.

A study entitled 'Consumer Technology Trends in the Middle East' by the Consumer Electronics Association (CEA) showed that 85% of online consumers believe technology helps them better communicate with friends and family, 79% believe it makes life more fun and 71% believe it brings friends and family closer together. Consumer electronics are therefore unlikely to be affected by the crunch as much as other goods.

Demand for technology is high. BenQ, a Taiwanese technology company, has taken note of this demand. BenQ Middle East has recently released a wide variety of high-quality but affordable cool digital devices that include its Netbook range and LCD Monitors.

Buy what you can afford if you are poor

Middle Eastern consumers have always only bought what they can afford. Since they do not live in debt, no housing bubble was able to develop. As Nesrine Malik observes in the Guardian newspaper, in the Middle East "if you cannot afford to buy, you rent and if you cannot afford to rent your family will host you without fear of looking like a loser who still lives with his parents." Properties are therefore either bought outright from savings or in heavy short-term instalments.

Granted, the construction boom in Dubai has not been unaffected by the crunch. But a feeling of moderation prevails: the industry is no longer euphoric, but also not pessimistic. As the Daily Commercial News, a construction industry newspaper put it: "The skyline is still growing. But the visions have become suddenly downsized by the economic crisis".

In Egypt, only 10% of the large population had bank accounts in 2008 and of that three to four million have credit cards, estimates Denzel Lawson, general manager of MasterCard Worldwide. In a recent survey on internet shopping (where payment is made by credit card), Egypt therefore came last out of 48 countries.

The Nielsen survey found that 67% of the online population in Egypt had never made a purchase over the internet. Since banks are still fairly stable and since consumers do not have large debts, banks are still viewed favourably. A survey, which questioned 1,200 Egyptians, revealed that the National Bank of Egypt is recognised as a 'Top Brand'.

Living from credit is, however, becoming more popular in smaller wealthier Middle Eastern countries such as the UAE. Crucially, it is only those that can afford it that see credit as an option. According to the creditcardforum.com blog, one in two people has a Visa card in the UAE.

The West is not best

Although many of the brands on the market are Western brands, the credit crunch has indicated to Middle Eastern consumers that the West is not the best. Middle Eastern consumers have always been wary of debt and credit and now feel strengthened in this scepticism. In some countries such as Iran, the feeling is all but one of outright "schadenfreude" for the West.

The distrust in Western ways is moving to Western brands. Western brands are still omnipresent in the Middle East, but, according to Nielsen, this is mainly down to the large advertising know-how and budgets of Western brands. Companies are therefore consulting on how to market Middle Eastern brands better.

According to online news magazine [Businesstoday.com](http://www.Businesstoday.com), local companies are being coached in how to get their products

recognised in a market where international brands have a huge advantage.

However, the relationship with Western products is paradoxical. Western cars, consumer electronics, and other brands are still very popular since they are associated with anything "modern".

According to Euromonitor International forecasts, consumer expenditure on audio-visual, photographic and information processing equipment is set to rise by 130% in Saudi Arabia, 105% in Kuwait and 97% in the UAE between 2008 and 2020.

Sales of vehicles from Western car companies, although suffering from climbing oil prices, have also been strong. Robin Colgan, Managing Director for Land Rover in the Middle East & North Africa, said that Land Rover sales grew by 25% and Jaguar sales grew 35% in the first half of 2008.

Bling is still in

While the credit crunch has caused consumers in other countries to be discreet about lavish spending, bling is still fashionable in the Middle East. Although there is an air of caution in spending decisions, there are certain luxuries that consumers of the Middle East do not want to give up.

Such insistence on luxuries can be observed in the multi-billion wedding industry of the United Arab Emirates (UAE). In January 2009, thousands of brides-to-be descended on The Bride Show in Abu Dhabi. According to online newspaper Albawaba.com, the exhibition suggests that the "UAE wedding industry remains resilient in the face of the global downturn".

Organiser IIR Middle East is now expecting the bigger sister event (to take place from 8-11th April in Dubai) to thrive. A survey conducted by IIR Middle East showed that more than a third of visitors (34%) would spend between AED 100,000 and AED 250,000 on their big day. Up to one third of the money is spent on jewels alone.

Haute couture from Paris and London is also still much favoured among young Middle Eastern fashionistas. Harold Tillmann, Chairman of the British Fashion Council commented in September 2008 that demand from boutiques in the Middle East is largely for luxury goods.

Young designers are increasingly moving away from the cash-deprived Western markets to the Middle East. Up-and-coming designer Afshin Feiz commented that the loss of opportunities in New York has pushed him to the Middle East: "It's a massive market for me right now. I've got shops in Dubai, Riyadh, Cairo and Kuwait."

Religious sensitivities

One of the reasons why the credit crunch has not affected the Middle East as badly as elsewhere in the world is the religious sensitivity to banking. Muslim countries have a religious aversion to interest-based transactions. Although the banks have recently started lending with interest, the suspicion of credit on an individual level is still deep-seated.

The issuing of credit cards was only possible after eminent religious leaders said that under certain circumstances credit cards could be in tune with the Sharia, the Islamic law. With the introduction of such cards came a number of articles to inform consumers such as "can a credit card ever be Halal?" on the Business Intelligence Middle East website.

Middle Eastern women similarly want to combine their religious views with consumerism for a modern solution that is compatible with Islam. According to news website Al Arabiya, a group of women in Egypt have formed the first organisation for "Hijab fashion". According to Al Arabiya, models wearing the Hijab are now increasingly favoured to Western non-veiled models because they more accurately represent their society.

These trends indicate that consumers of the Middle East are attempting to combine their religious views with consumerism.

Since many countries in the Middle East see the West as having failed at its attempts at capitalism, they want a Middle Eastern approach to consumerism that takes religion into account and preserves them from such embarrassments as the credit crunch.

Outlook

The outlook for Middle Eastern consumers is likely to be cautiously optimistic. Many Middle Eastern consumers have only just befriended consumerism, credit cards, and bling, and are not yet weary of this new-found luxury. These consumers will not be as willing to give up lavish and modern lifestyles as has been the trend in Western consumer-jaded countries.

Although the Middle East is feeling the impact of the global credit crunch, no long-term attitude to frugality will be enshrined, which is good news for any companies advertising and reaching out to consumers in the region.

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