



SMEs Business Optimism Survey

Q1, 2018

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The Introduction

AT A GLANCE

- The SME Composite BCI has slipped on a yearly basis from 117.1 points in Q1, 2017 to 110.6 points in Q1, 2018.
- A comparison of the outlook on a q-o-q basis shows that the SME Composite BCI was steady at 110.6 points. However, the selling prices parameter declined sharply on account of intense competition, slowing business conditions and lack of demand for products/services especially during the summer months.
- Large companies are more optimistic than SMEs with respect to the business outlook in Q1, 2018, with Composite BCI scores of 120.8 points and 110.6 points, respectively. Large companies are more optimistic than SMEs with respect to revenues, selling prices, volumes, hiring and profitability.
- Dubai's SMEs expect the business situation to strengthen in Q2, 2018 than that in the previous quarter. The proportion of firms that anticipate an improvement in the business environment stands at 50% for Q2, 2018 compared to 41% for Q1, 2018. Additionally, 50% of the survey respondents do not anticipate any obstacles to their business operations during Q1, 2018.
- The key challenges faced by the SMEs include VAT implementation and competition.
- Plans to expand capacity and upgrade technology have strengthened on an annual basis but are weak on a quarterly basis.

The Department of Economic Development (DED) is a Dubai Government entity that has the mandate to help achieve the key strategic objectives of fostering 'Sustainable Economic Development' and strengthening the 'Competitiveness of Dubai'. In order to gauge the perceptions of the business community, DED conducts a quarterly business survey to assess the level of current economic activity and the outlook of businesses for the next quarter.

This document presents a summary of the survey conducted in the first quarter of 2018.

In addition, the survey elicits feedback from businesses on challenges that may impact growth and development and assesses their investment outlook for the coming twelve months.

METHODOLOGY

The quarterly business survey for Q1, 2018 was conducted for 502 businesses in Dubai. The sample included a mix of small, medium and large enterprises and ensured an adequate representation from the manufacturing, trading and services sectors, in the same proportions as their respective contributions to Dubai’s GDP.

The survey was administered to 436 Small & Medium Enterprises (SMEs) in Dubai.

A detailed break-up of SME respondents by sector is as follows:

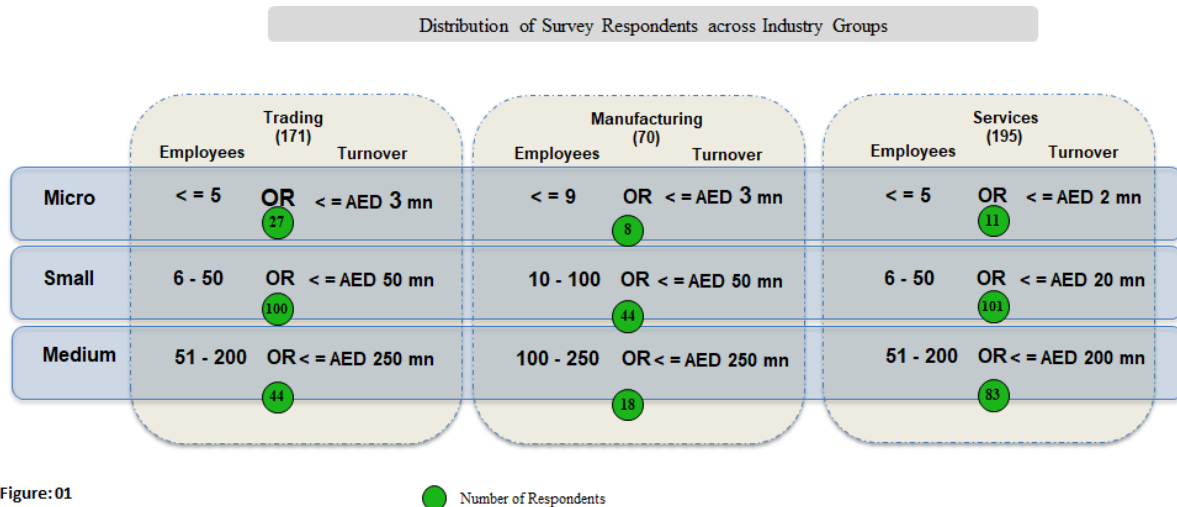


Figure:01

In order to tap ‘business outlook’ or expectations, the survey focused on key indicators, *such as sales, selling prices, volumes sold, profits and number of employees*. Respondents were asked to indicate if they expect an ‘increase’, ‘decrease’ or ‘no change’ in these indicators.



SME Business Confidence Index Calculations

The SME Business Confidence Index (BCI) is calculated as a weighted average score of the following 'business outlook' indicators:

- Selling Prices
- Volumes Sold
- Number of Employees
- Profits

For each indicator, 'Resultant scores' are calculated using the net balances method:

$(\% \text{ of positive responses} - \% \text{ of negative responses}) + 100$

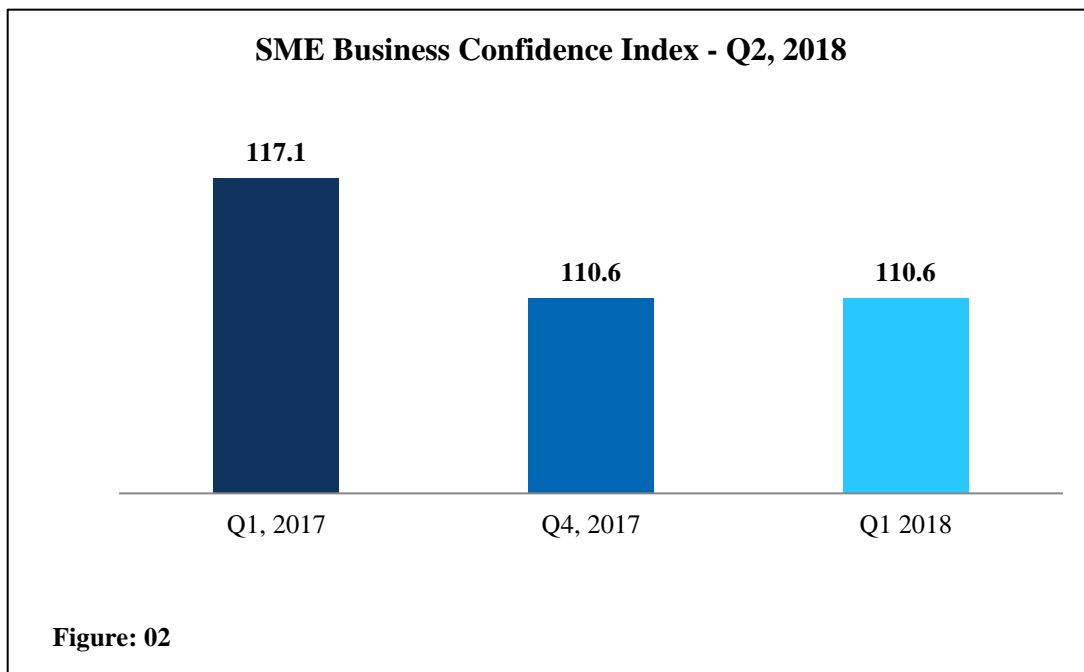
For calculating the SME Composite Business Confidence Index for Dubai, the resultant scores are multiplied with their corresponding parameter weights to arrive at a weighted average Index score. The SME composite index score is finally rebased so that Q2, 2011 = 100.

BCI scores are classified in the following three groups:

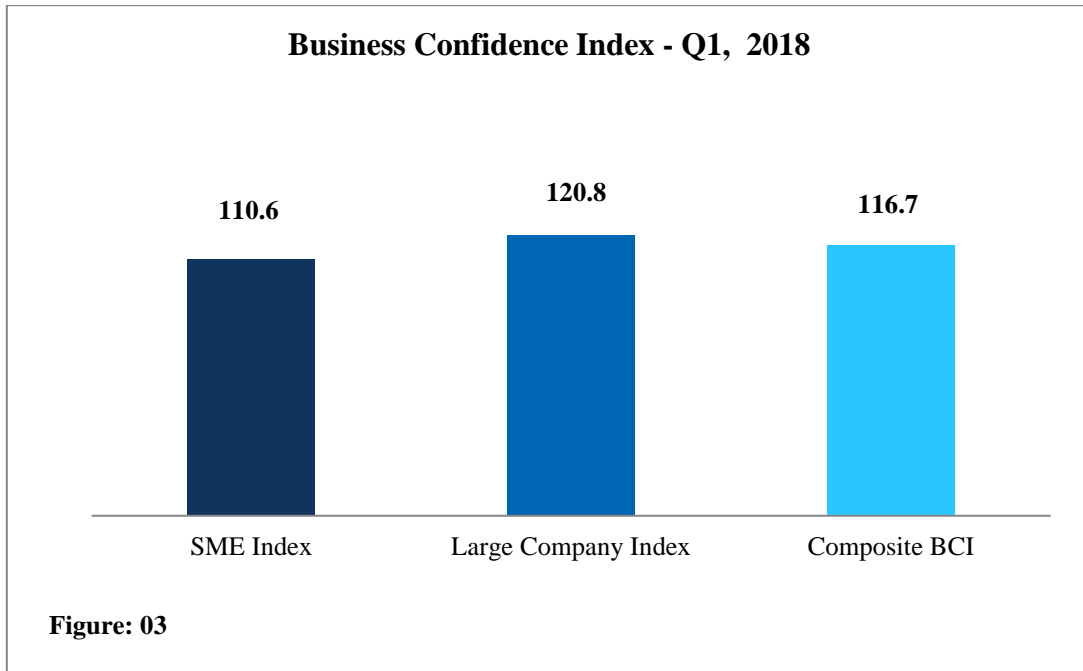
- *BCI < 100, business expectations are negative*
- *BCI = 100, business expectations are stable*
- *BCI > 100, business expectations are positive*

SME BUSINESS CONFIDENCE INDEX – Q2, 2018

Dubai’s economic performance is expected to improve in 2018 with firming oil prices, an improvement in global trade and the expected easing pace of fiscal adjustment. Real GDP, which grew 2.8% in 2016, is projected to grow 3.5% in 2018 and touch 3.7% in 2019 as infrastructure development and diversification policies continue apace. To back this growth, the Emirate is mulling to implement new measures to attract new investments and cut the cost of doing business across sectors from tourism to financial services. Dubai’s SMEs have a steady outlook for Q1, 2018 with the Composite Business Confidence Index (BCI) at 110.6 points in Q4, 2017 (A score of 100 indicates stable/neutral sentiments).



The Composite BCI has weakened both on an annual basis from 117.1 points in Q1, 2017 to 110.6 points in Q4, 2017 and Q1, 2018. A comparison of the outlook on a q-o-q basis shows a sharp decline in the selling prices parameter on account of intense competition, slowing business conditions and lack of demand for products/services especially during the summer months.



Large companies are more optimistic than SMEs with respect to the business outlook, with Composite BCI scores of 120.8 points and 110.6 points, respectively. While large companies are more confident than SMEs about their outlook for revenues, selling prices, volumes, hiring and profitability, SMEs have displayed a stronger forecast for new purchase orders.



SME BUSINESS OUTLOOK – Q2, 2018

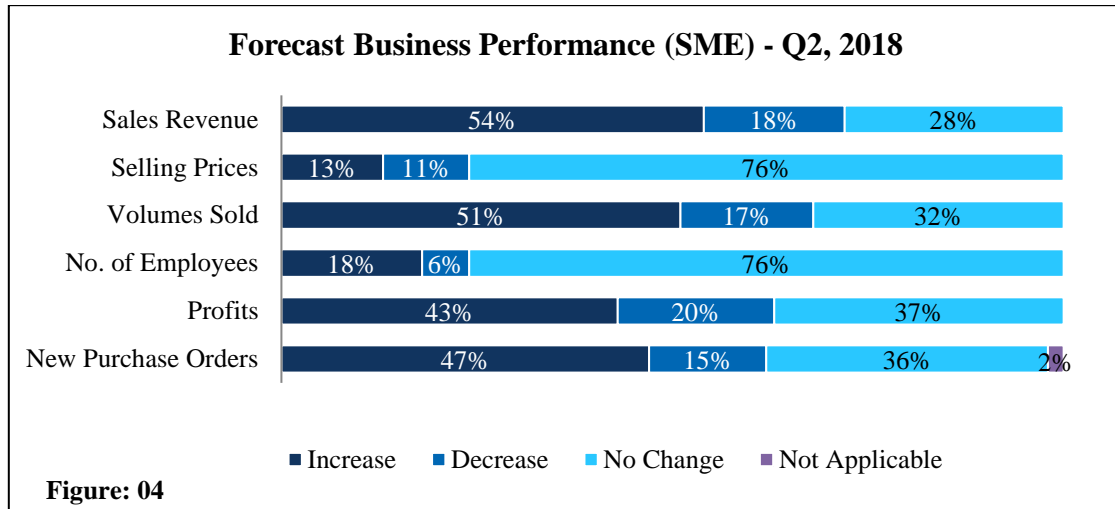
SMEs account for a dominant share in Dubai's total business composition, 436 of the 502 firms that were interviewed as part of the survey were SMEs. These included micro, small, and medium enterprises as per Dubai's SME definition.

Table: 01

Forecast Business Performance (SMEs) – Q2, 2018

Parameter	Q2, 2017				Q1, 2018				Q2, 2018			
	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance
Sales Revenue	54%	10%	36%	44%	47%	22%	31%	25%	54%	18%	28%	36%
Selling Prices	12%	9%	79%	3%	37%	7%	56%	30%	13%	11%	76%	2%
Volumes Sold	49%	9%	42%	40%	39%	18%	43%	21%	51%	17%	32%	34%
No. of Employees	24%	3%	73%	21%	21%	9%	70%	12%	18%	6%	76%	12%
Profits	47%	12%	41%	35%	32%	24%	44%	8%	43%	20%	37%	23%
New Purchase Orders	52%	9%	39%	43%	39%	16%	44%	23%	47%	15%	36%	32%

*Balance is the Not Applicable proportion



- The outlook for Q2, 2018 shows that SMEs are optimistic about most parameters in Q1, 2018 than they were for the previous quarter.
- Large companies are more optimistic than SMEs about their outlook in Q2, 2018 for revenues, selling prices, volumes, hiring and profitability; SMEs have displayed a stronger forecast for new purchase orders.
- The strengthening outlook for volumes is backed by expectations of higher demand from new customers and upcoming projects. The net balance for the sales volumes parameter has declined from 40% in Q2, 2017, to 21% in Q1, 2018 and 34% in Q2, 2018.
- The trading sector is most optimistic regarding its outlook for volumes for Q2, 2018, followed by the services sector.
- The outlook for the selling prices parameter is bearish in Q2, 2018; 76% of the respondents cited stability, while 13% reported a rise in prices, driven by expectations of higher demand and the potential increase in selling prices after implementing VAT.
- The profitability forecast is in line with the projections for volumes and revenues.
- Hiring expectations are firm over the quarter but has declined over the same quarter last year.
- 33% of manufacturing SMEs and 43% of services firms forecast an increase in their capacity utilization rates during Q2, 2018.
- Expectations regarding the business situation show that the proportion of firms anticipating an improvement has strengthened from 41% in Q1, 2018 to 50% for Q2, 2018.



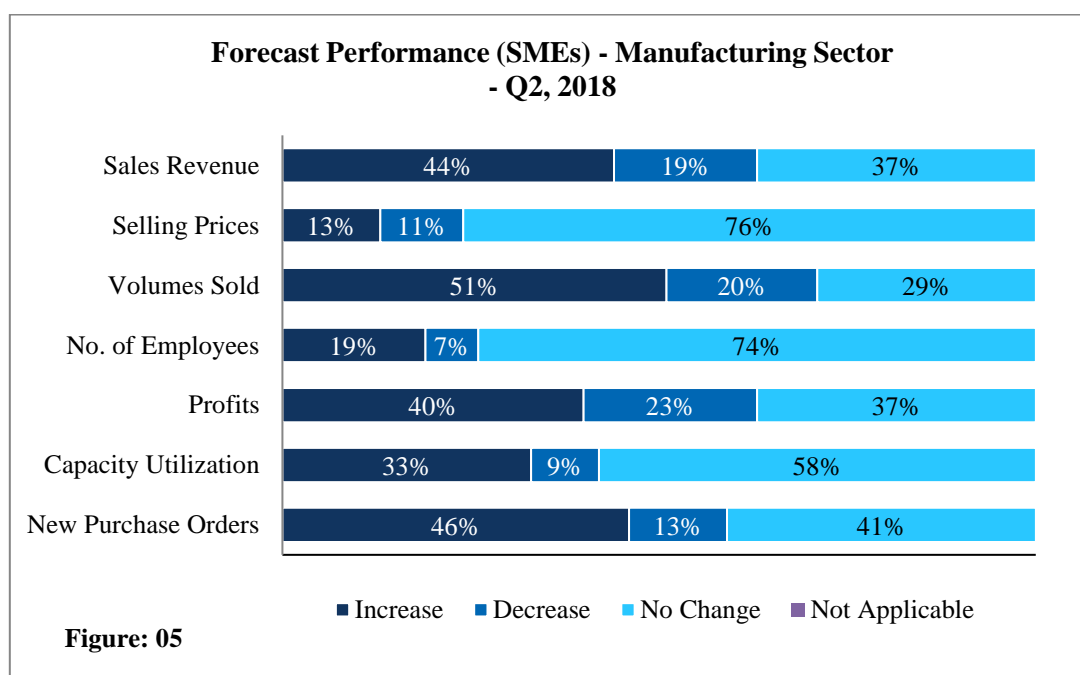
- Manufacturing SMEs

Table: 02

Forecast Business Performance (Manufacturing SMEs) – Q2, 2018

Parameter	Q2, 2017				Q1, 2018				Q2, 2018			
	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance
Sales Revenue	64%	8%	28%	56%	42%	24%	34%	18%	44%	19%	37%	25%
Selling Prices	21%	5%	74%	16%	34%	10%	56%	24%	13%	11%	76%	2%
Volumes Sold	56%	10%	34%	46%	32%	17%	51%	15%	51%	20%	29%	31%
No. of Employees	32%	3%	65%	29%	20%	13%	67%	7%	19%	7%	74%	12%
Profits	58%	10%	32%	48%	25%	32%	43%	-7%	40%	23%	37%	17%
New Purchase Orders	66%	8%	26%	58%	35%	14%	51%	21%	46%	13%	41%	33%

*Balance is the Not Applicable proportion



- Respondents in the manufacturing sector are confident about their volumes for Q2, 2018 than they were for the previous quarter backed by expectations of new projects and higher demand especially during the summer season. A majority 51% of all manufacturers expect that their volumes will increase in Q2, 2018.
- Manufacturing sub-segments most optimistic about their volumes for Q2, 2018 are cement, aluminium and glass.

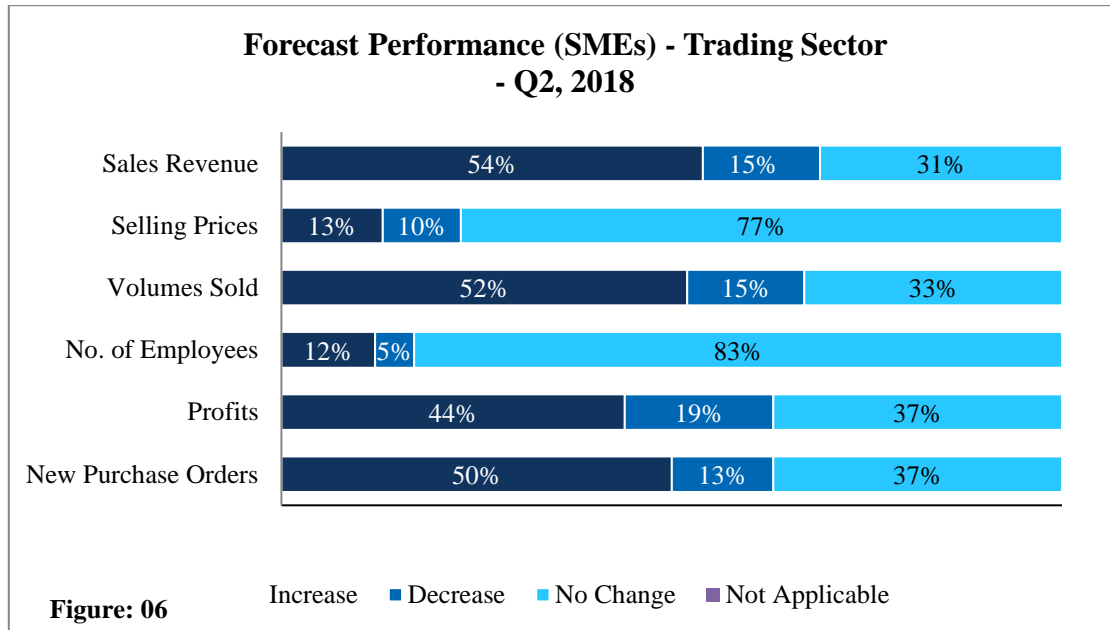
Trading SMEs

Table: 03

Forecast Business Performance (Trading SMEs) – Q2, 2018

Parameter	Q2, 2017				Q1, 2018				Q2, 2018			
	No Change	Net Balance	Increase	No Change	Net Balance	Increase	No Change	Net Balance	Increase	No Change	Net Balance	Increase
Sales Revenue	46%	11%	43%	35%	40%	29%	31%	11%	54%	15%	31%	39%
Selling Prices	8%	5%	87%	3%	43%	7%	50%	36%	13%	10%	77%	3%
Volumes Sold	45%	11%	44%	34%	32%	27%	41%	5%	52%	15%	33%	37%
No. of Employees	15%	5%	80%	10%	15%	13%	72%	2%	12%	5%	83%	7%
Profits	44%	12%	44%	32%	25%	29%	46%	-4%	44%	19%	37%	25%
New Purchase Orders	44%	12%	44%	32%	32%	26%	42%	6%	50%	13%	37%	37%

*Balance is the Not Applicable proportion



- The trading sector's forecast for volumes for Q2, 2018 has strengthened over the quarter but is weak in the same quarter a year ago. 52% of traders anticipate an increase in volumes during Q2, 2018 versus 32% for Q1, 2017 and 45% for Q2, 2017. The trading sector's projections are the most favorable among the key sectors for revenues, selling prices, volumes, profits and new purchase orders.
- Key sectors most optimistic of higher demand about their volumes during Q2, 2018 are auto and electronics traders.



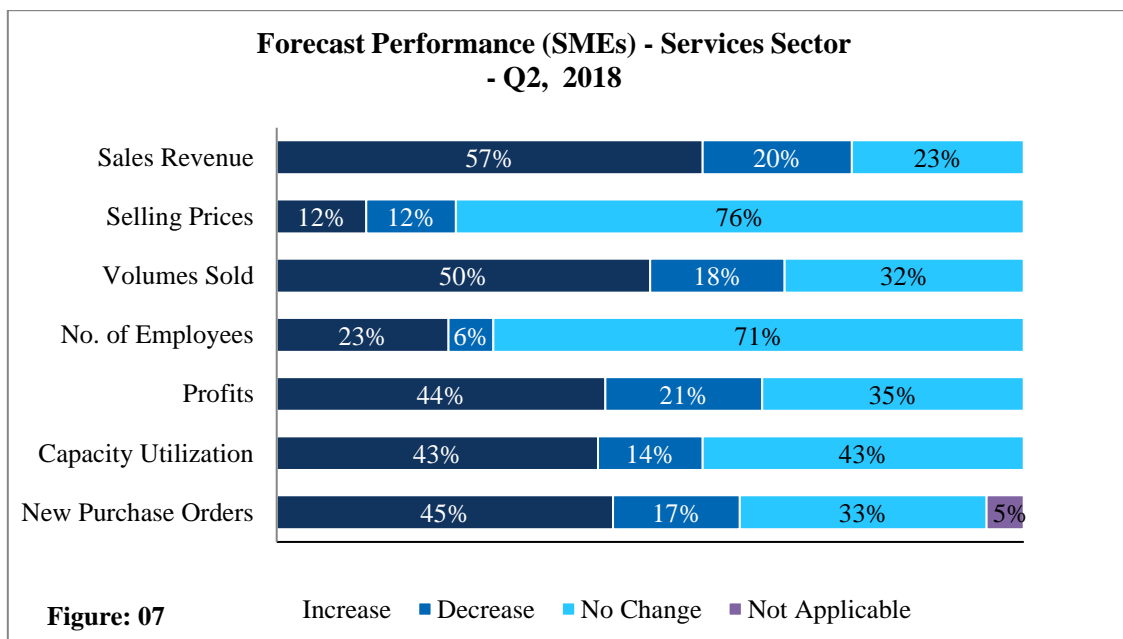
Services SMEs

Table: 04

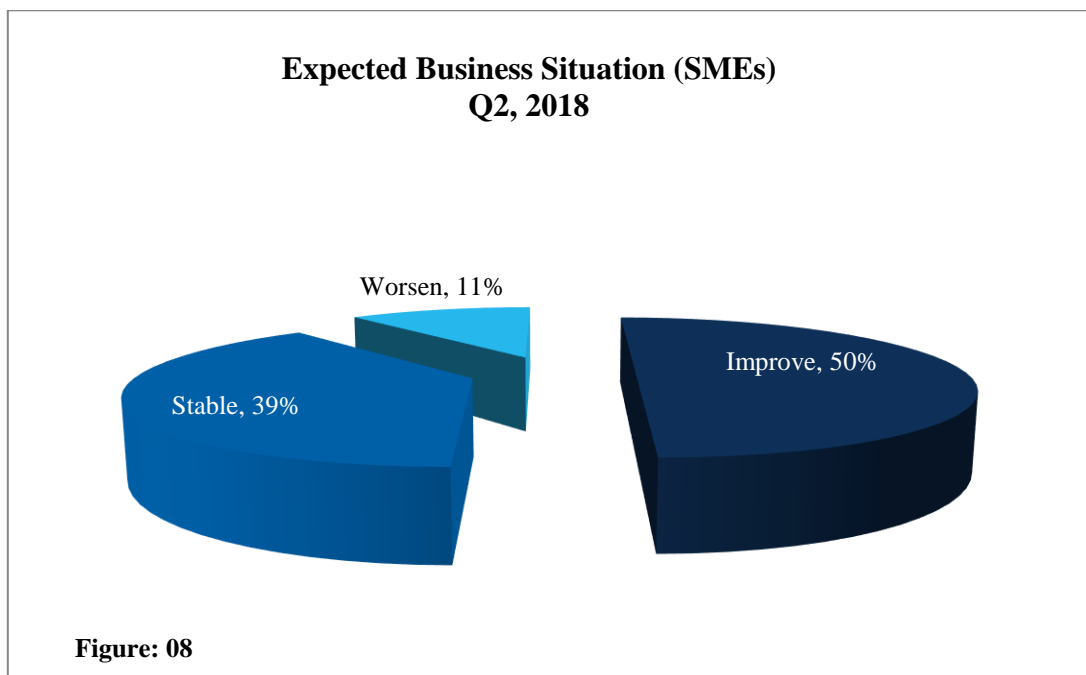
Forecast Business Performance (Services SMEs) – Q2, 2018

Parameter	Q2, 2017				Q1, 2018				Q2, 2018			
	No Change	Net Balance	Increase	No Change	Net Balance	Increase	No Change	Net Balance	Increase	No Change	Net Balance	Increase
Sales Revenue	56%	9%	35%	47%	53%	16%	31%	37%	57%	20%	23%	37%
Selling Prices	12%	13%	75%	-1%	33%	7%	60%	26%	12%	12%	76%	0%
Volumes Sold	51%	8%	41%	43%	46%	11%	43%	35%	50%	18%	32%	32%
No. of Employees	28%	2%	70%	26%	26%	5%	69%	21%	23%	6%	71%	17%
Profits	46%	12%	42%	34%	40%	18%	42%	22%	44%	21%	35%	23%
New Purchase Orders	54%	7%	39%	47%	47%	9%	42%	38%	45%	17%	33%	28%

*Balance is the Not Applicable proportion



- The services sector has displayed a weaker forecast for Q2, 2018 in comparison to the projections for Q2, 2017, and Q1, 2018. The quarterly dampening of sentiments is due to less demand during the summer and Ramadan season.
- Within the services sector, the hotels & restaurants sector is the least optimistic with a net balance of negative 47%; while 12% expect an increase in volumes, 59% foresee a decline in this parameter.



While 50% of SMEs expect an improvement in the business situation during Q2, 2018, the corresponding proportion for large companies is at 48%.

DUBAI SME OUTPUT – Q1, 2018

Although the main purpose of the survey is to gauge business expectations for future activity, it also tries to capture the actual changes in business performance from one quarter to another.

Table: 05

Overall Business Performance (SMEs) – Q1, 2018

Parameter	Q1, 2017				Q4, 2017				Q1, 2018			
	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance
Sales Revenue	19%	30%	51%	-11%	24%	37%	39%	-13%	16%	48%	36%	-32%
Selling Prices	10%	20%	70%	-10%	11%	18%	71%	-7%	20%	22%	58%	-2%
Volumes Sold	20%	29%	51%	-9%	23%	34%	43%	-11%	16%	46%	38%	-30%
No. of Employees	11%	13%	76%	-2%	13%	18%	69%	-5%	13%	19%	68%	-6%
Profits	17%	36%	47%	-19%	17%	43%	40%	-26%	12%	52%	36%	-40%
New Purchase Orders	21%	27%	52%	-6%	25%	29%	45%	-4%	17%	40%	41%	-23%

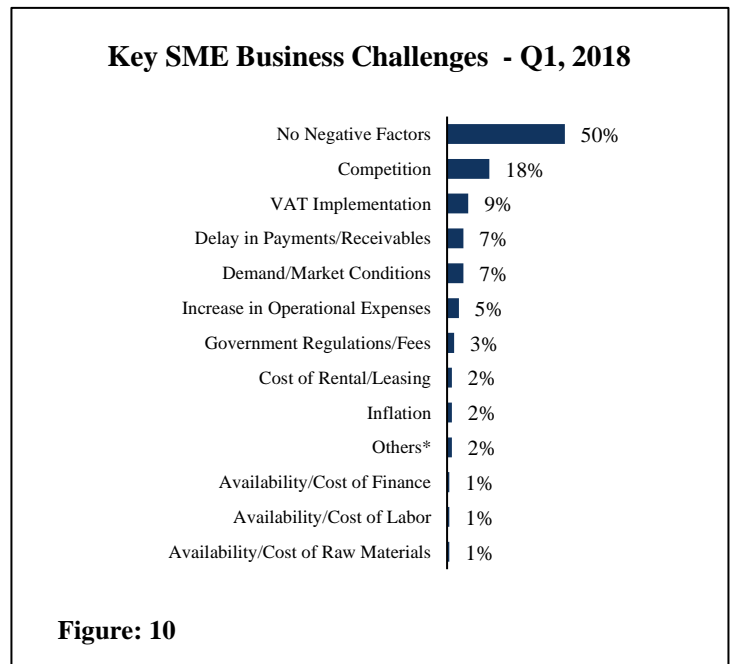
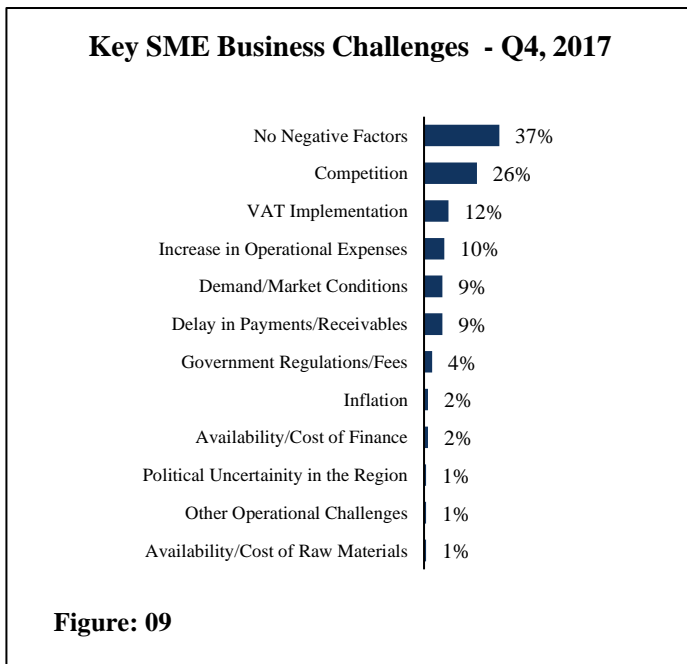
*Balance is the Not Applicable proportion

- In Q1, 2018, a majority 46% of the participants indicated a decrease in their volumes, while 38% reported stability. Firms that experienced a decline in their volumes cited reasons including lack of demand, competition and poor market conditions.
- Large companies continued to perform stronger than SMEs for all parameters – revenues, selling prices, volumes, hiring, profits and new purchase orders.
- 58% of the respondents reported stability in their selling prices in Q1, 2018, while 22% had to reduce their prices mainly due to competition.
- A majority 68% of the respondents kept the size of their labor force intact in Q1, 2018, while 13% hired new staff for their business.

- With respect to net profits, firms reported a weaker performance both on an annual basis and over the quarter.
- Capacity utilization rates for manufacturing firms steadied on a quarterly basis. For service providers, capacity utilization rates weakened over the quarter.
- Labor costs increased for 42% of the firms due to a hike in wages & salaries and rise in the cost of accommodation, but it remained unchanged for 54% of the businesses.
- The cost of raw materials impacted 26% of the firms, while 33% reported no change in the parameter. Among large companies, 36% reported an increase in such costs.
- Rental costs increased for 27% of the SMEs and 17% of the large firms.

KEY SME CHALLENGES IN DUBAI

The survey also addressed key challenges perceived by businesses at the end of Q1, 2018 that may impact near term business growth and development. 50% of the participants do not expect to face any hurdles in their business operations in Q1, 2018 versus 37% in the previous quarter.



*Others include purchasing power of customers, challenges surrounding pricing strategy

A summary of the major challenges facing Dubai's SME community are as follows:

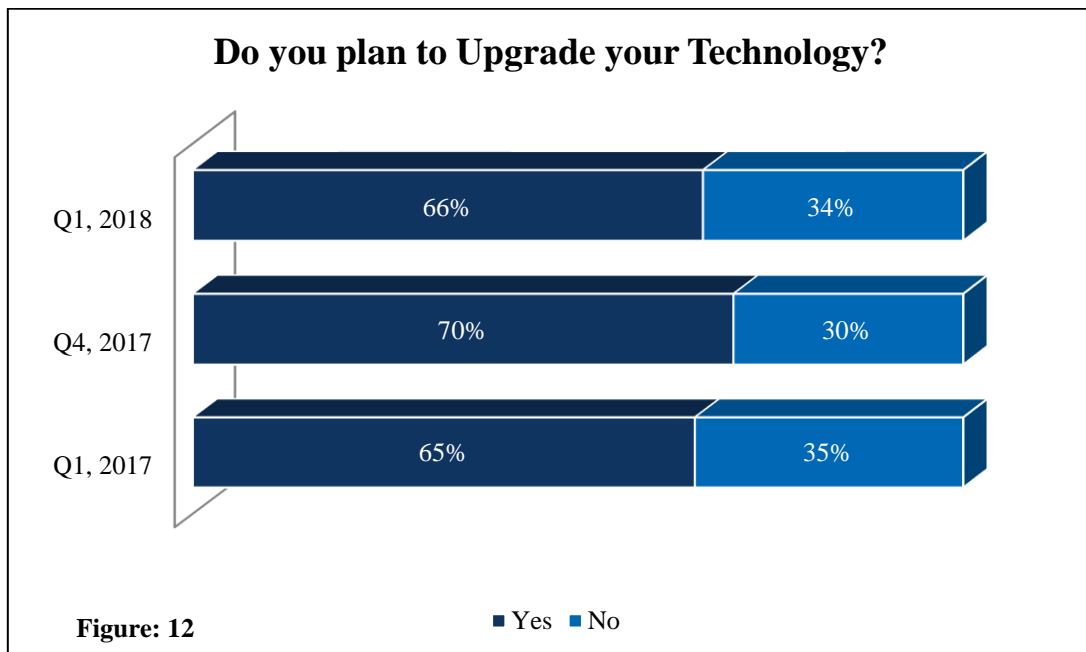
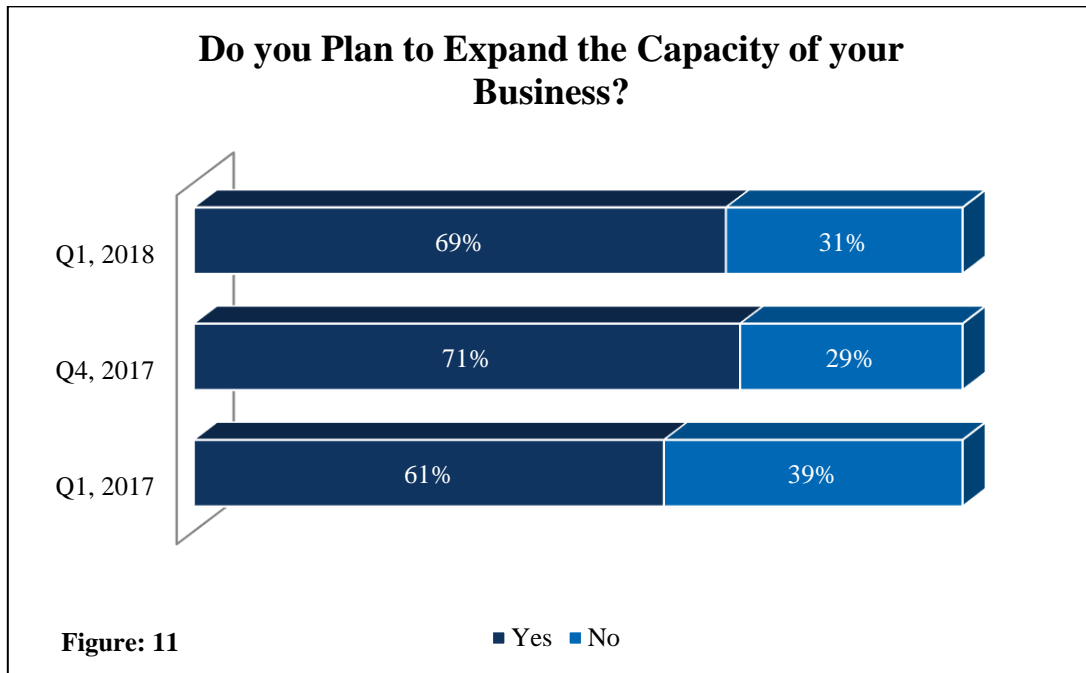
1. Competition: Dubai's SMEs continue to face competition. Of all, 70% of the firms predict that it will intensify.
2. VAT Implementation: This is an obstacle to 9% of the respondents, with 45% of them anticipating worsening of the factor.
3. Delay in Payments/Receivables: 7% of the firms face this impediment in their business operations.
4. Demand/Market Conditions: This is an impediment to 7% of the firms.
5. Increase in Operational Expenses: 5% of the participants have identified this to be an important challenge facing them.

The remaining concerns were less important and each impacted 3% or fewer of the participants.

The important challenges reported by large companies were competition, poor market/demand conditions and the impact of VAT on business concerns.

INVESTMENT OUTLOOK

The survey also gauges the business community's investment outlook with respect to capacity expansion and technology upgrade plans over the coming twelve-month horizon.





- Capacity expansion plans are bullish on an annual basis but weaker over the quarter. 69% intended to expand capacity in Q1, 2018 and 71% in Q4, 2017 versus 61% in Q1, 2017. Plans to upgrade technology also highlight a similar trend; the proportion of respondents intended to upgrade technology is recorded at 66% for Q1, 2018, 70% for Q4, 2017 versus 65% for Q1, 2017.
- Key reasons cited by respondents for not considering expanding business capacity include poor market conditions, the potential impact of implementing VAT and no plans to expand business for now.
- Companies in the services sector are most optimistic about capacity expansion plans and technology upgrades. 70% of services versus 66% of manufacturing and 69% of traders have capacity expansion plans. 72% of services versus 59% of manufacturing and 63% of traders expect to implement technology upgrades.
- Large companies are more confident than SMEs about investment in business expansion and technology upgrades.