

SMEs Business Optimism Survey

Q3, 2017

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The Introduction

AT A GLANCE

- The Composite BCI has gained on an annual basis from 110.8 points in Q3, 2016 to 113.8 points in Q3, 2017. Comparison of the outlook on a q-o-q basis shows that the Composite BCI has improved by 6.5 points, from 107.3 points in Q2, 2017 to 113.8 points in Q3, 2017, underlined by higher seasonal demand during the winter season.
- Large companies continue to be more optimistic than the SMEs with respect to the business outlook for Q3, 2017, with Composite BCI scores of 126.5 points and 113.8 points respectively. Large companies are more confident than the SMEs about their outlook for revenues, selling prices, volumes, hiring and purchase orders. SMEs have displayed a stronger forecast for profits.
- Dubai's SMEs expect the business situation in Q4, 2017 to be stronger than that in the previous quarter. The proportion of firms that anticipate an improvement in the business environment stands at 48% for Q4, 2017 compared to 40% for Q3, 2017. Additionally, 30% of the survey respondents do not anticipate any obstacles to their business operations during Q4, 2017.
- The key challenges faced by the SMEs are competition, poor market/demand conditions and increase in operational expenses.
- Plans to upgrade technology have strengthened both on a quarterly and annual basis; while capacity expansion plans are more bullish on a quarterly basis, but are at par on an annual basis.

The Department of Economic Development (DED) is a Dubai government Department 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 has been conducting Dubai's Quarterly Business Surveys which provides a snapshot of Dubai's current economic activity and the outlook for the quarter ahead.

This document presents a summary of the survey conducted in the 3rd Quarter of 2017. The survey was administered to 450 (Small & Medium Enterprises) SMEs in Dubai.

In addition to the current situation and future expectations, the survey addresses key challenges impacting business growth and development and assesses the investment outlook for the coming twelve months.

METHODOLOGY

The quarterly business survey for Q3, 2017 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.

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

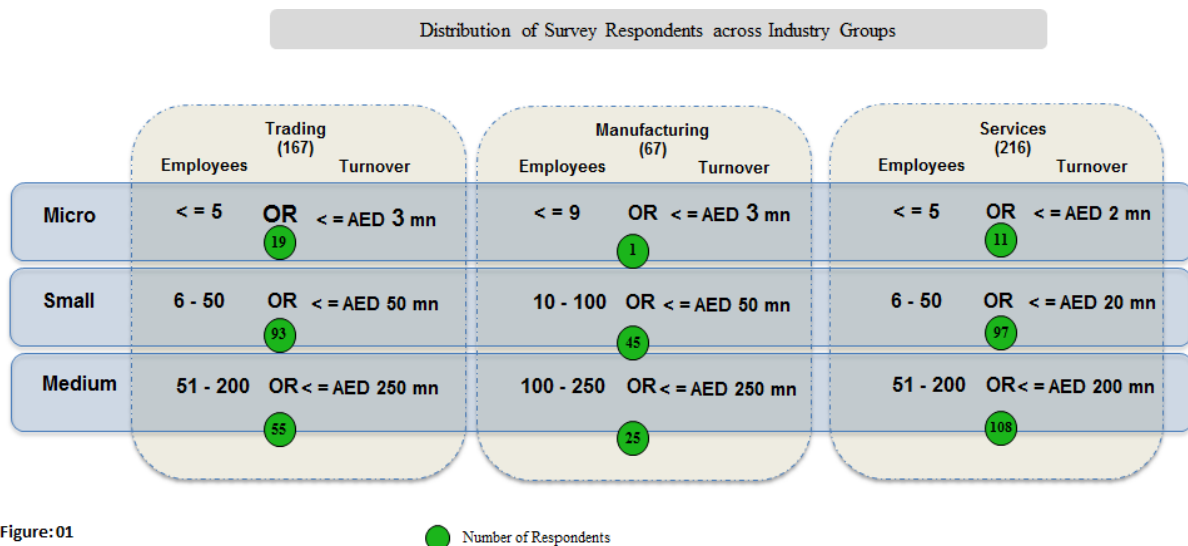


Figure:01

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:

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

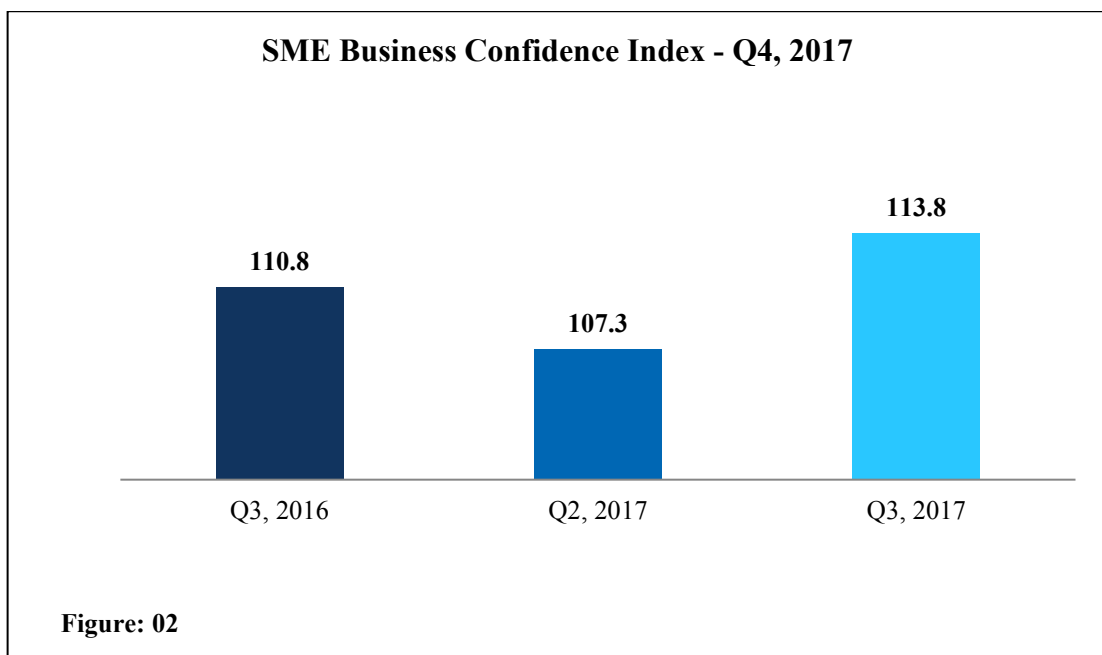
For calculating the SME Composite Business Confidence Index for Dubai, the resultant scores are multiplied with their corresponding parameter weights to arrive at a weighted average Index score. The SME composite index score is finally rebased so that Q2, 2011 = 100.

BCI scores are classified in the following three groups:

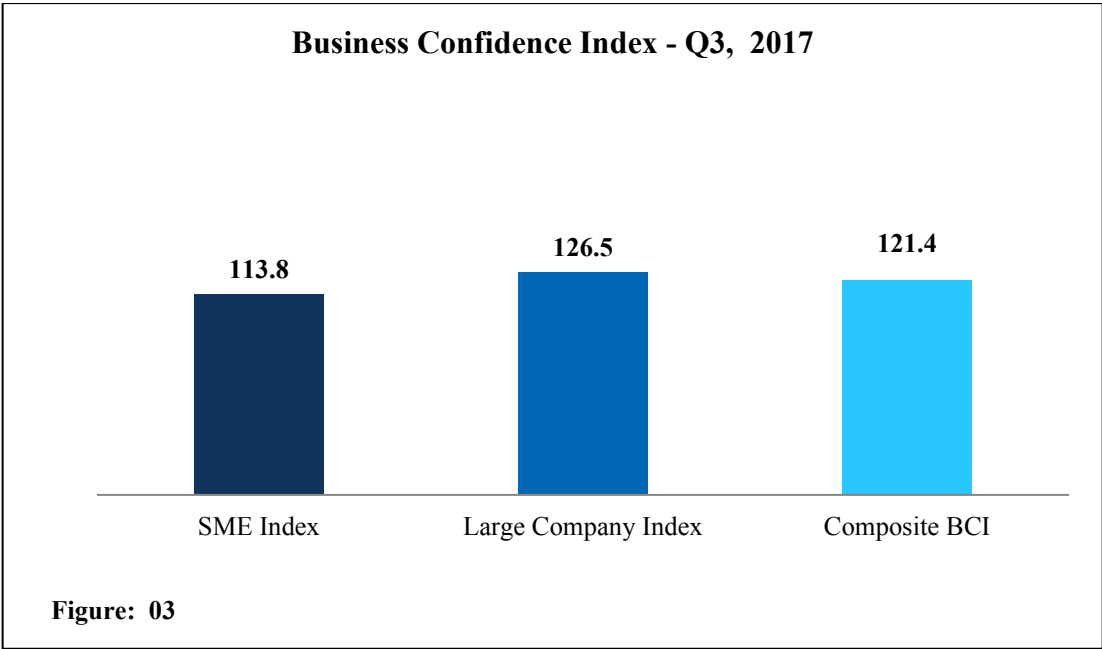
- ***BCI < 100, business expectations are negative***
- ***BCI = 100, business expectations are stable***
- ***BCI > 100, business expectations are positive***

SME BUSINESS CONFIDENCE INDEX – Q3, 2017

After subdued growth in 2017, the IMF has forecast a strong recovery in UAE’s GDP growth in 2018, led by improvement in non-oil sector growth and stronger external demand. UAE will benefit from the government’s economic diversification efforts and structural reforms. Dubai’s GDP growth for 2018 is projected at 3.5% compared to 2.9% and 3.3% in 2016 and 2017 respectively. Additionally, the gradual rebalancing of the oil market due to the successful implementation of OPEC’s production cut deal is supportive of the positive outlook for 2018. Dubai’s SMEs have forecast a positive outlook for Q4, 2017 with the Composite Business Confidence Index (BCI) at 113.8 points in Q3, 2017 (A score of 100 indicates stable/neutral sentiments).



The Composite BCI has gained on an annual basis from 110.8 points in Q3, 2016 to 113.8 points in Q3, 2017. Comparison of the outlook on a q-o-q basis shows that the Composite BCI has improved by 6.5 points, from 107.3 points in Q2, 2017 to 113.8 points in Q3, 2017, underlined by higher seasonal demand during the winter season. Stronger projections are driven by higher net balances for all parameters in the survey.



Large companies continue to be more optimistic than the SMEs with respect to the business outlook in Q3, 2017, with Composite BCI scores of 126.5 points and 113.8 points respectively. Large companies are more confident than the SMEs about their outlook for revenues, selling prices, volumes, hiring and purchase orders. SMEs have displayed a stronger forecast for profits.

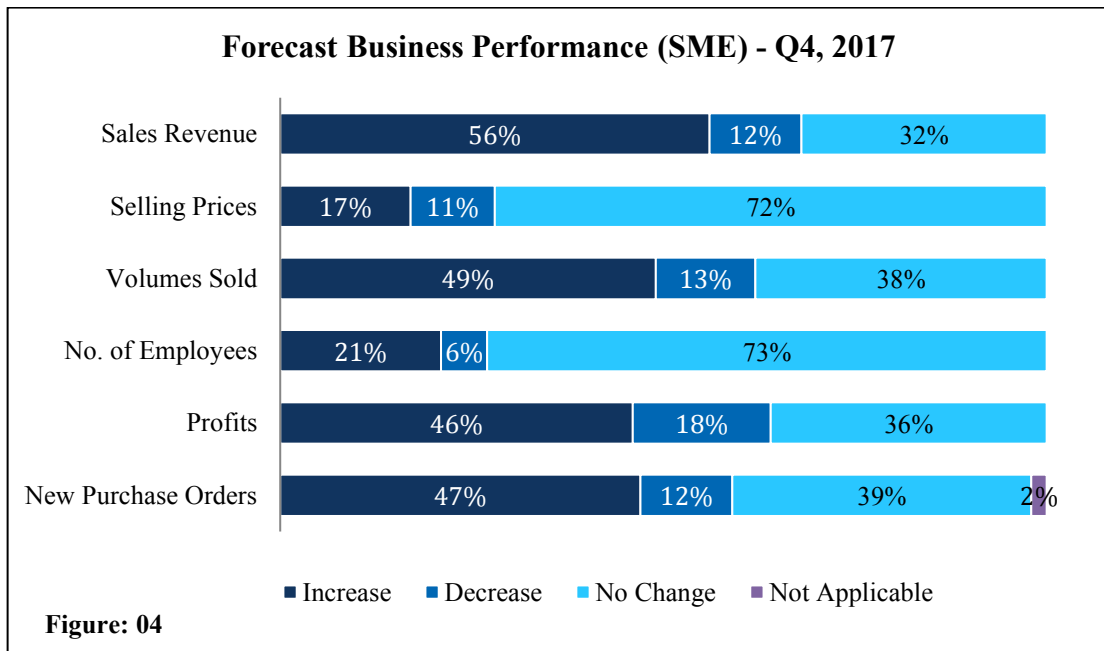
SME BUSINESS OUTLOOK – Q4, 2017

SMEs account for a dominant share in Dubai’s total business composition, 450 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) – Q4, 2017

Parameter	Q4, 2016				Q3, 2017				Q4, 2017			
	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance
Sales Revenue	48%	13%	39%	35%	43%	14%	43%	29%	56%	12%	32%	44%
Selling Prices	10%	10%	80%	0%	8%	11%	81%	-3%	17%	11%	72%	6%
Volumes Sold	47%	13%	40%	34%	45%	15%	40%	30%	49%	13%	38%	36%
No. of Employees	15%	6%	79%	9%	16%	7%	77%	9%	21%	6%	73%	15%
Profits	43%	14%	43%	29%	39%	18%	43%	21%	46%	18%	36%	28%
New Purchase Orders	45%	14%	41%	31%	43%	13%	44%	30%	47%	12%	39%	35%



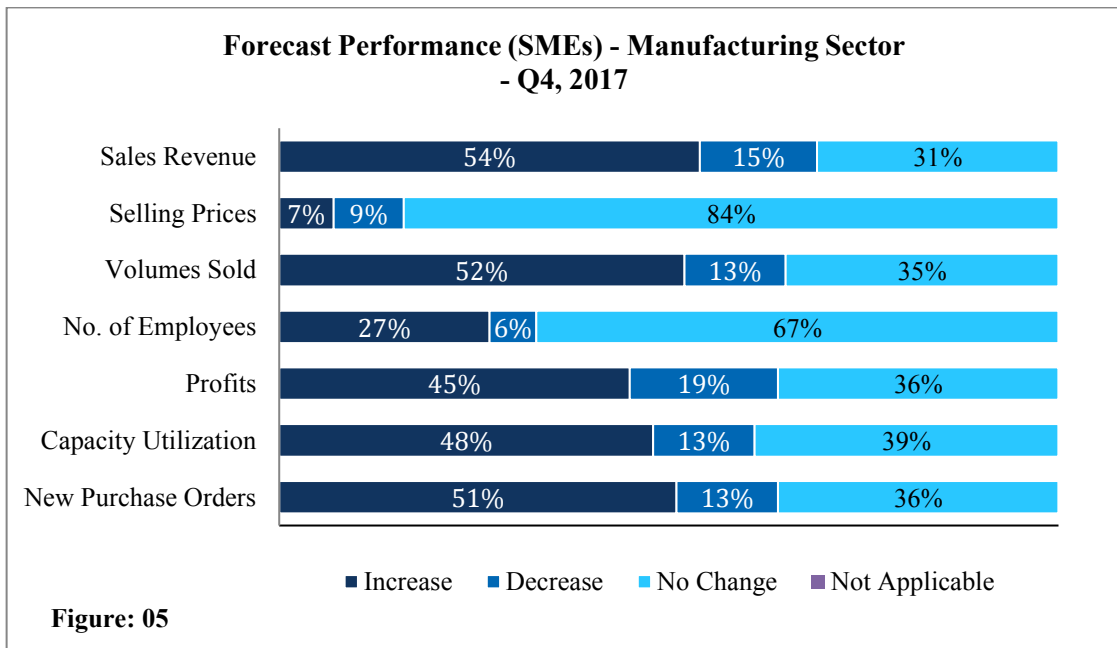
- A quarterly comparison shows that SMEs are more upbeat about all parameters for Q4, 2017 than they were for Q3, 2017, underlined by higher seasonal demand during the winter season. Y-o-y comparison also shows an improvement or steady forecasts for all parameters.

- Large companies are more confident than the SMEs about their outlook in Q3, 2017 for revenues, selling prices, volumes, hiring and purchase orders. SMEs have displayed a stronger forecast for profits
- The seasonal rise in demand has resulted in a stronger outlook for volumes; the net balance has increased from 30% for Q3, 2017 to 36% for Q4, 2017. Nearly half (49%) of the respondents anticipate higher volumes during Q4, 2017, bolstered by expectations of higher demand, more customers and new projects. 38% of the businesses expect no change in the parameter, while 13% anticipate a decline due to fewer customers, stiffer competition, and poor market conditions. The net balance for large firms is 44%.
- The services sector is most optimistic regarding its outlook for volumes for Q4, 2017, followed by the manufacturing sector.
- The selling prices forecast is also more bullish for Q4, 2017 compared to the previous quarter, driven by predictions of higher demand, rise in the price of raw materials and respondents' hopes of getting new projects.
- A stronger forecast (q-o-q) for selling prices and volumes has resulted in a more confident outlook for net profits.
- Hiring expectations have improved both on an annual and quarterly basis.
- 48% of manufacturing SMES and 50% of services firms forecast an increase in their capacity utilization rates during Q4, 2017.
- The latest survey shows that Dubai's SMEs expect the business situation to be stronger in Q4, 2017 than in the previous quarter. The proportion of firms that anticipate an improvement in the business environment stands at 48% for Q4, 2017 compared to 40% for Q3, 2017. Additionally, the share of businesses expecting a deterioration has declined from 10% for Q3, 2017 to 8% for Q4, 2017.

Manufacturing SMEs

Table: 02
Forecast Business Performance (Manufacturing SMEs) – Q4, 2017

Parameter	Q4, 2016				Q3, 2017				Q4, 2017			
	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance
Sales Revenue	57%	7%	36%	50%	64%	11%	25%	53%	54%	15%	31%	39%
Selling Prices	13%	6%	81%	7%	8%	11%	81%	-3%	7%	9%	84%	-2%
Volumes Sold	63%	10%	27%	53%	56%	9%	35%	47%	52%	13%	35%	39%
No. of Employees	19%	1%	80%	18%	27%	5%	68%	22%	27%	6%	67%	21%
Profits	54%	10%	36%	44%	52%	13%	35%	39%	45%	19%	36%	26%
New Purchase Orders	63%	10%	27%	53%	56%	6%	38%	50%	51%	13%	36%	38%



- Respondents in the manufacturing sector are less confident about their volumes for Q4, 2017 than they were for the previous quarter or for Q4, 2016 due to fewer projects and lower demand. However, over half (52%) of all manufacturers expect an increase in their volumes during Q4, 2017, driven by expectations of better market conditions and new projects/clients/orders/contracts. Another 35% of the firms anticipate that their volumes will remain steady in Q4, 2017 at the previous quarter's levels.

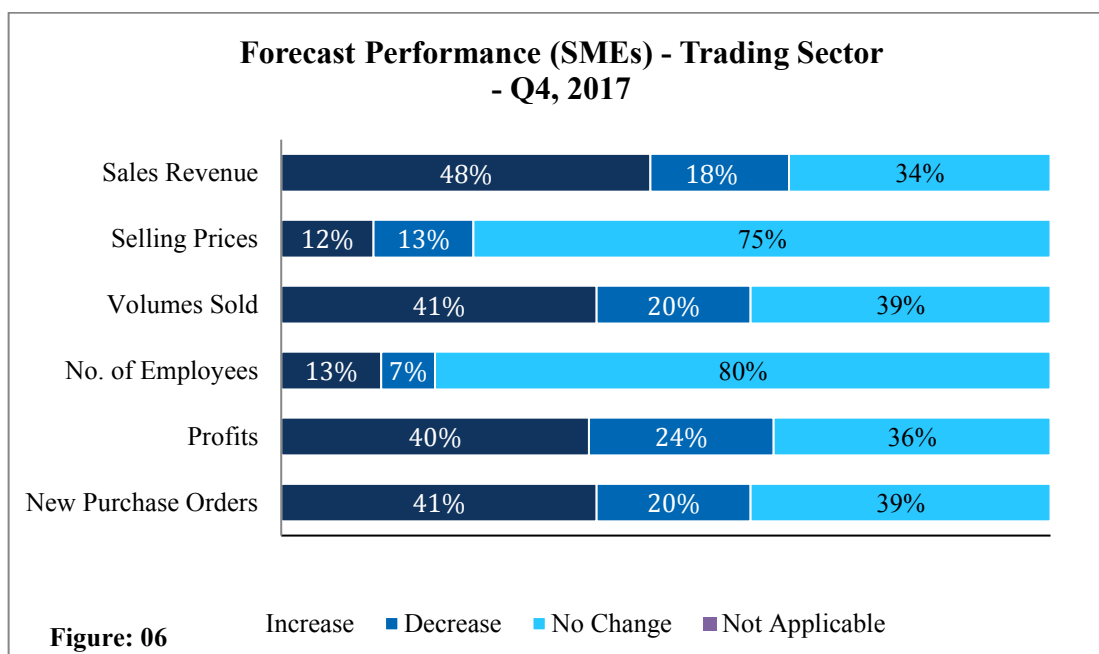
- Manufacturing sub-segments most optimistic about their volumes for Q4, 2017 are aluminium, furniture, metals and glass. Plastics, food and cement manufacturers are not as confident about their volumes.

Trading SMEs

Table: 03

Forecast Business Performance (Trading SMEs) – Q4, 2017

Parameter	Q4, 2016				Q3, 2017				Q4, 2017			
	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance
Sales Revenue	49%	10%	41%	39%	41%	20%	39%	21%	48%	18%	34%	30%
Selling Prices	5%	10%	85%	-5%	8%	11%	81%	-3%	12%	13%	75%	-1%
Volumes Sold	48%	10%	42%	38%	37%	22%	41%	15%	41%	20%	39%	21%
No. of Employees	9%	6%	85%	3%	10%	8%	82%	2%	13%	7%	80%	6%
Profits	44%	12%	44%	32%	28%	25%	47%	3%	40%	24%	36%	16%
New Purchase Orders	46%	11%	43%	35%	34%	19%	47%	15%	41%	20%	39%	21%



- The trading sector's forecast for volumes for Q4, 2017 is stronger in comparison to the outlook for Q3, 2017, but weaker when compared to the projections for Q4, 2016. While 41% of the traders hope to sell higher volumes during Q4, 2017, 20% expect a decline in

the parameter. The survey shows that traders hold the weakest forecast for revenues, volumes, hiring, net profits and new purchase orders.

- Key sectors optimistic of higher demand about their volumes during Q4, 2017 are electronics and food & beverages traders.

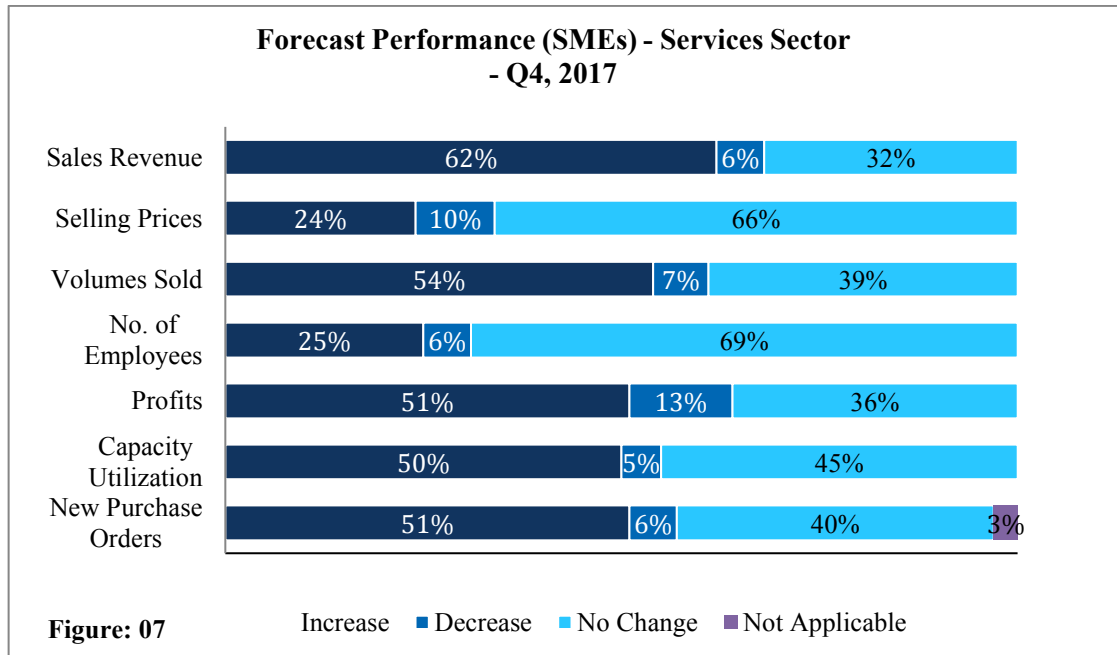
Services SMEs

Table: 04

Forecast Business Performance (Services SMEs) – Q4, 2017

Parameter	Q4, 2016				Q3, 2017				Q4, 2017			
	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance
Sales Revenue	44%	16%	40%	28%	39%	10%	51%	29%	62%	6%	32%	56%
Selling Prices	13%	11%	76%	2%	9%	10%	81%	-1%	24%	10%	66%	14%
Volumes Sold	41%	16%	43%	25%	48%	12%	40%	36%	54%	7%	39%	47%
No. of Employees	18%	8%	74%	10%	18%	6%	76%	12%	25%	6%	69%	19%
Profits	38%	17%	45%	21%	44%	14%	42%	30%	51%	13%	36%	38%
New Purchase Orders	39%	17%	44%	22%	47%	10%	43%	37%	51%	6%	40%	45%

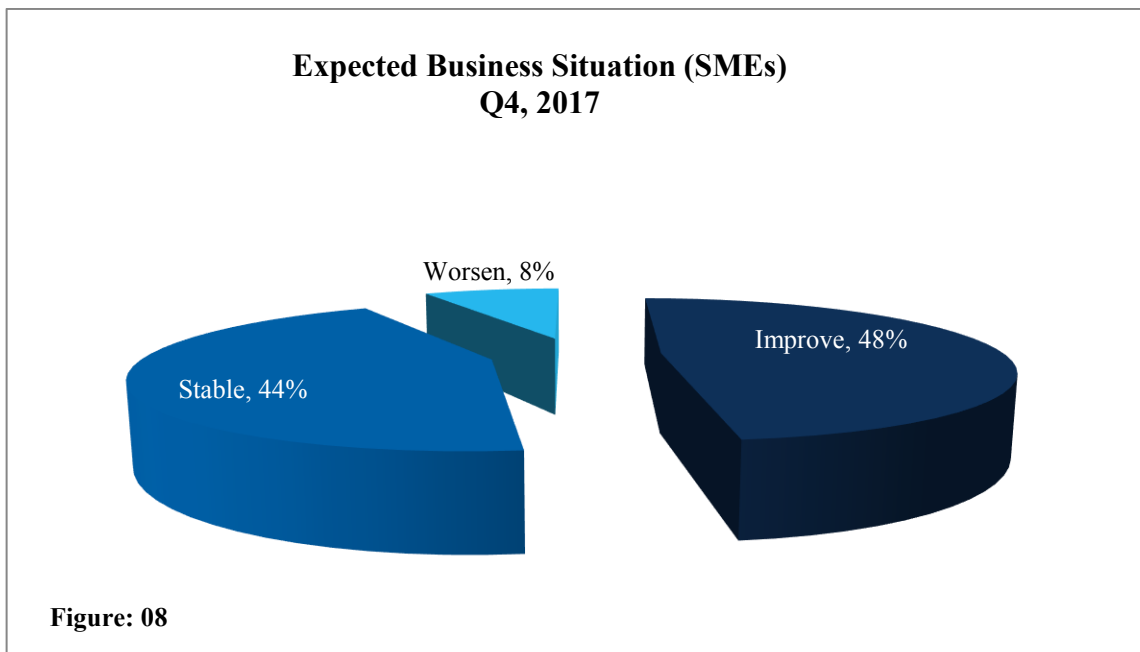
Table: 04



- Firms in the services sector are have displayed a stronger forecast for their volumes for Q4, 2017 when compared quarterly and annually. This bullish outlook is based on expectations

of higher demand during the winter months, and hopes of getting new customers/projects/contracts/orders.

- Within the services sector, hotels and restaurants are most bullish about their volumes during Q4, 2017, with a net balance of 95%. This optimism is due to expectations of higher number of tourists during the winter season. Hospitality firms (travel, car rentals), with a net balance of 50% are also optimistic about their volumes for Q4, 2017, supported by the high tourist season. Among construction, architecture & real estate firms, 53% are hopeful of an increase in volumes during Q4, 2017 with expectations of getting new projects/orders, while 9% expect a decrease, resulting in a net balance of 44%. In the transportation segment, 45% of the respondents expect higher volumes during Q4, 2017, while 6% project a decrease. The remaining predict no change in the parameter.



48% of SMEs expect an improvement in the business situation during Q4, 2017; the corresponding proportion is higher for large companies at 56%.

DUBAI SME OUTPUT – Q3, 2017

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) – Q3, 2017

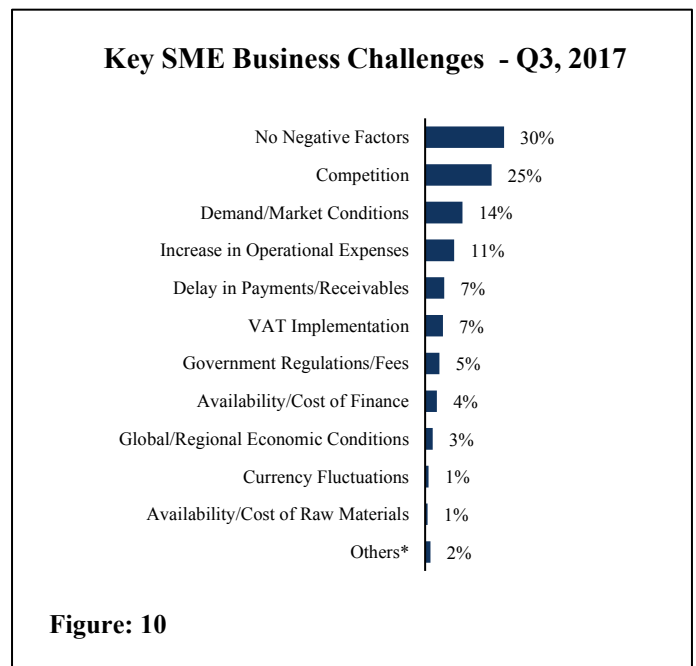
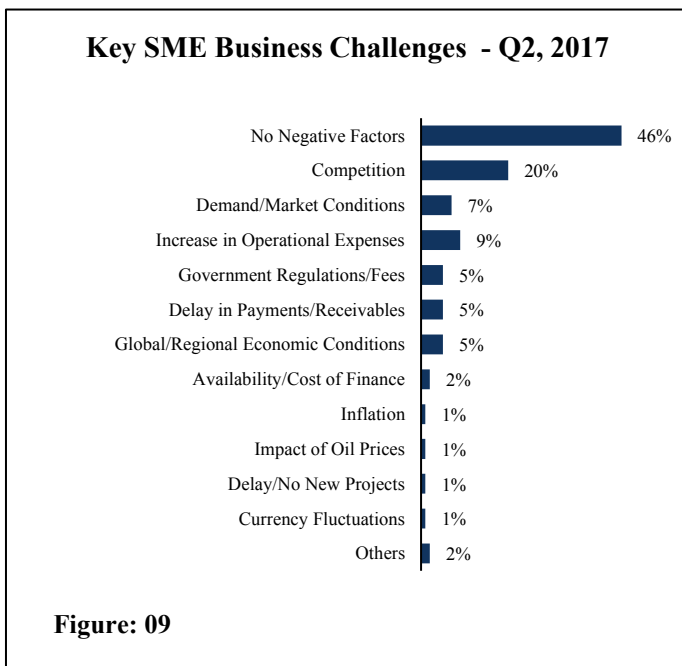
Parameter	Q3, 2016				Q2, 2017				Q3, 2017			
	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance
Sales Revenue	18%	28%	54%	-10%	17%	41%	42%	-24%	17%	42%	41%	-25%
Selling Prices	7%	21%	72%	-14%	10%	24%	66%	-14%	10%	25%	65%	-15%
Volumes Sold	18%	27%	55%	-9%	20%	38%	42%	-18%	19%	42%	39%	-23%
No. of Employees	12%	12%	76%	0%	15%	19%	66%	-4%	12%	18%	70%	-6%
Profits	15%	30%	55%	-15%	17%	45%	38%	-28%	14%	48%	38%	-34%
New Purchase Orders	17%	26%	57%	-9%	19%	33%	48%	-14%	19%	36%	43%	-17%

- In Q3, 2017, 19% of the respondents indicated an increase in their volumes, while 42% reported a decrease, resulting in a net balance of negative 23%. Firms that experienced a decline in their volumes cited several reasons including off-season during the summer months, competition, poor market conditions, late payments, fewer projects, and political concerns in the region.
- Large companies performed stronger than SMEs for revenues, volumes, hiring, net profits and purchase orders.
- A majority of the respondents (65%) reported stability in their selling prices in Q3, 2017, while 25% had to reduce their prices mainly due to competition, poor market conditions and fewer customers.
- 70% of the respondents were able to maintain the size of their labor force, while 12% had to increase it to meet business requirements, and 18% had to reduce the number of employees.
- Firms reported a weaker performance with respect to net profits both on a quarterly and annual basis.

- Capacity utilization rated improved for manufacturing firms both on a quarterly and annual basis. For service providers, capacity utilization rates stayed steady on a q-o-q basis but were weaker when compared on an annual basis.
- Labor costs increased for 35% of the firms, but it remained unchanged for 61% of the businesses.
- The rising cost of raw materials impacted 23% of the firms, while 54% reported no change in the parameter. Among large companies, 31% reported an increase in such costs.
- Rental costs increased for 27% of the SMEs and 13% of the large firms.

KEY SME CHALLENGES IN DUBAI

The survey also addressed key challenges perceived by businesses at the end of Q3, 2017 that may impact near term business growth and development. 30% of the respondents do not expect to face any hurdles in their business operations in Q3, 2017 compared to 46% in the previous quarter.



*Others include logistics & transport concerns

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

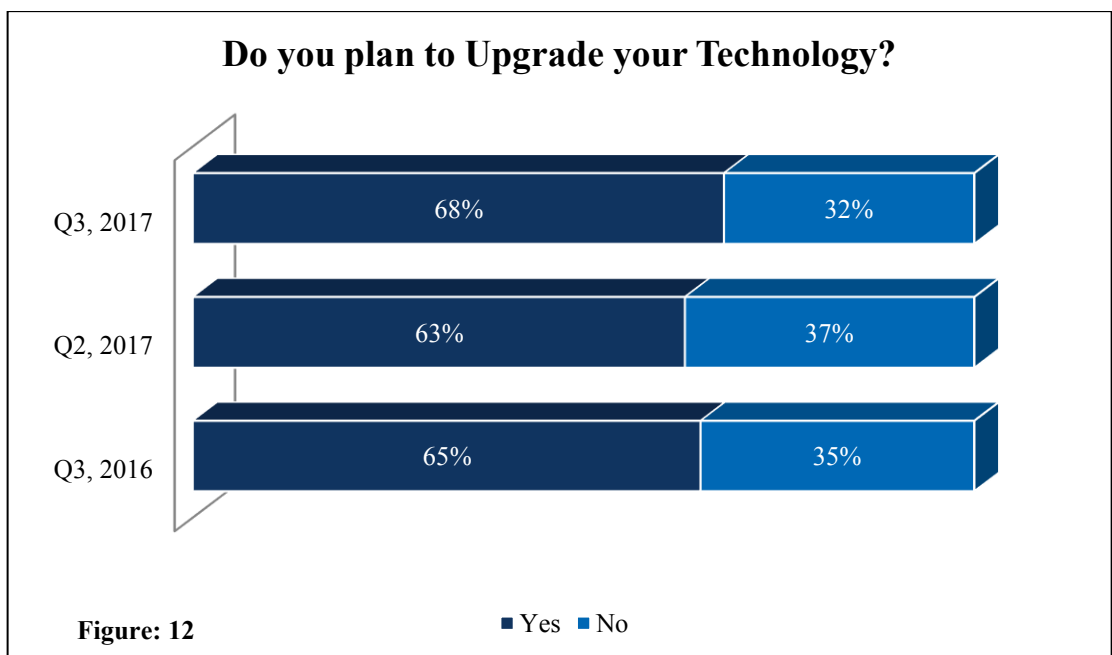
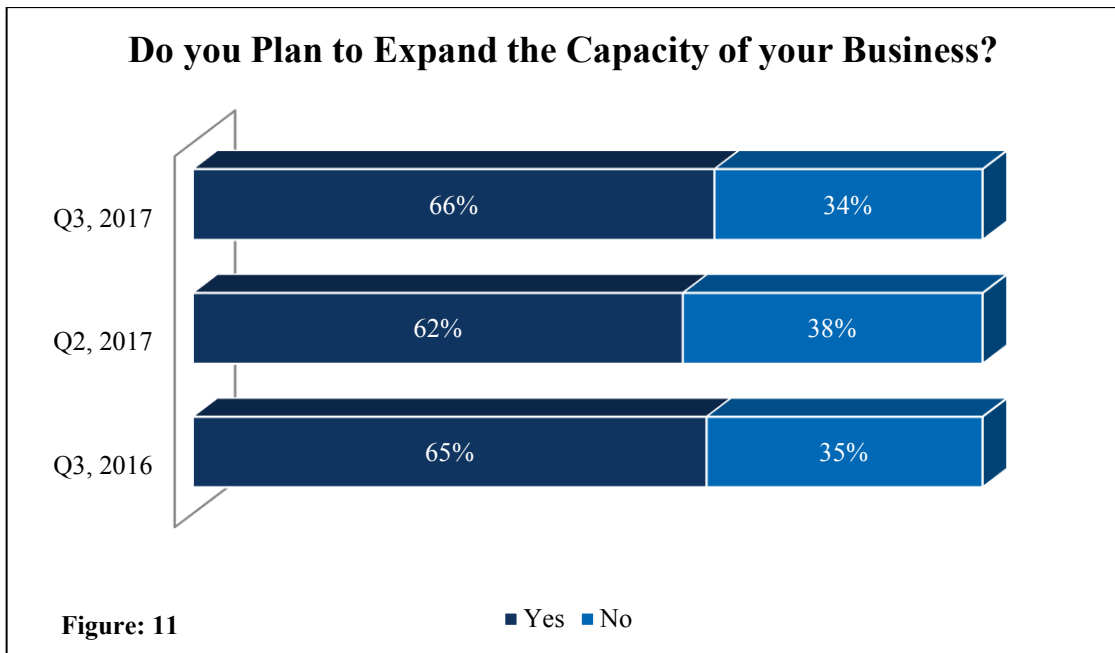
1. Competition: This is the most important challenge faced by respondents. Of all the firms that expect to get impacted by competition, 71% of the firms predict that it will intensify.
2. Demand/market conditions: Slow demand and poor market conditions are a hindrance to 14% of the respondents.
3. Increase in operational expenses: 11% of the firms face this obstacle in their business operations.
4. Delay in payments/receivables: 7% of the respondents' operations are hampered by this factor.
5. VAT implementation: 7% of the firms are concerned about the impact of VAT.

The remaining concerns were less important and each impacted 5% or fewer of the participants.

The important challenges reported by large companies were competition, increase in operational expenses and delays in payments.

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.



- Plans to upgrade technology have strengthened both on a quarterly and annual basis; the proportion of respondents intending to upgrade technology has increased from 65% for Q3, 2016 and 63% for Q2, 2017 to 68% for Q3, 2017. Capacity expansion plans are more bullish on a quarterly basis, but are at par on an annual basis (65% intended to expand capacity at the end of Q3, 2016 and 62% in Q2, 2017 versus 66% in Q3, 2016).

- Key reasons cited by respondents for not considering expanding business capacity include poor market conditions, delays in payments, no plans to expand business and uncertainty regarding the VAT implementation.
- Companies in the service sector are most optimistic about capacity expansion plans and technology upgrades. 73% of services versus 60% of manufacturing and 59% of traders have capacity expansion plans. 71% of services versus 66% of manufacturing and 65% of traders expect to implement technology upgrades.
- SMEs are more confident than large firms about investment in business expansion and technology upgrades.