



## SMEs Business Optimism Survey

Q3, 2019

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## Introduction

### AT A GLANCE

- The SMEs Composite BCI registered a reading of 121.1 points in Q3, 2019, up from 111.0 points in Q3, 2018, with businesses anticipating higher sales volumes, revenue, profits and hiring.
- A quarterly comparison indicates that the Composite BCI increased by 11.2 points from 109.9 points in Q2, 2019, with firms expecting strong performance across most parameters. Uptick in business sentiments is mainly supported by expectations of additional customers & projects, rise in seasonal demand and increase in tourist footfalls on the back of year-end festive season.
- Large companies continue to maintain stronger projections as compared to SMEs with Composite BCI scores of 135.6 and 121.1 points, respectively.
- Services SMEs are more optimistic about their business prospects for Q4, 2019 as compared to manufacturing and trading SMEs.
- Key challenges faced by SMEs include delayed payments, competition, lower demand and rise in operational expenses.
- Proportion of SMEs anticipating an improvement in business situation has increased from 46% for Q3, 2019 to 57% for Q4, 2019, while proportion expecting a stable outlook has declined from 44% to 37%.
- SMEs are optimistic than Large companies about capacity expansion plans. 30% of SMEs expect to expand their current headquarters as compared to 29% of Large companies.

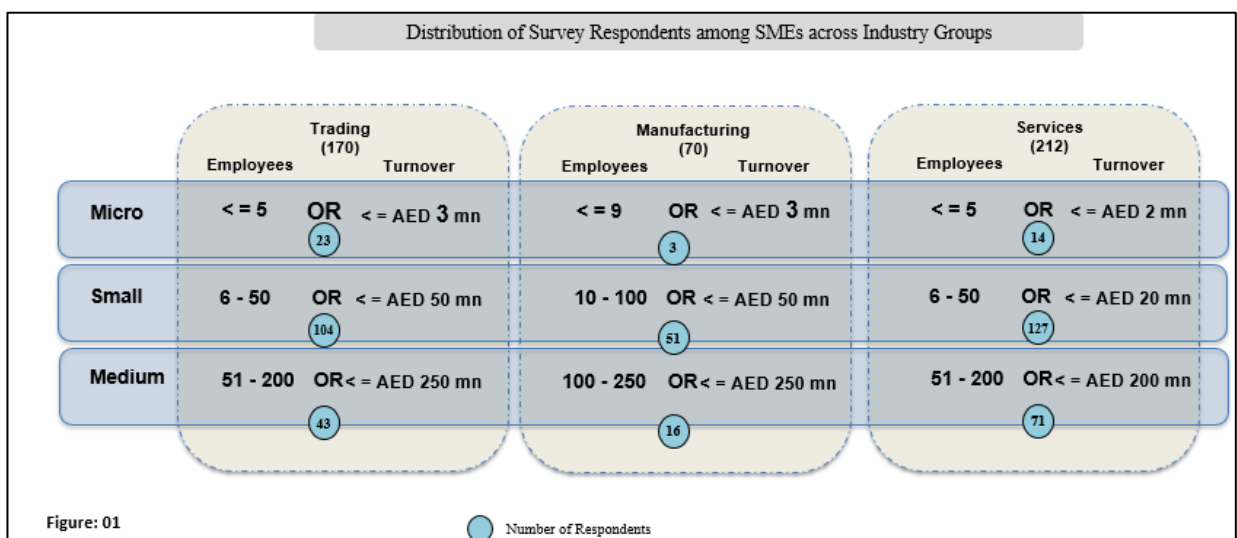
The Department of Economic Development (DED) is a Dubai Government entity mandated to achieve key strategic objectives of fostering ‘Sustainable Economic Development’ and strengthening the ‘Competitiveness of Dubai’. In order to gauge perceptions of the business community, DED conducts a quarterly business survey, to assess level of current economic activity and outlook of businesses for the next quarter. This document presents a summary of the survey conducted in the 3<sup>rd</sup> Quarter of 2019 (Q3, 2019). In addition, 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 Q3, 2019 was conducted among 506 businesses in Dubai. The sample included a mix of small, medium and large enterprises and ensured adequate representation from manufacturing, trading and services sectors, in line with their respective contributions to Dubai’s GDP.

Small & Medium Enterprises (SMEs) account for a dominant share in Dubai’s total business composition. Accordingly, 452 of the 506 firms that were interviewed as part of the survey are SMEs. These include micro, small, and medium enterprises as per Dubai’s SME definition.

Among these, a detailed break up of respondents by sector is as follows:



In order to tap ‘business outlook’ or expectations, the survey focused on key indicators *such as 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:

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

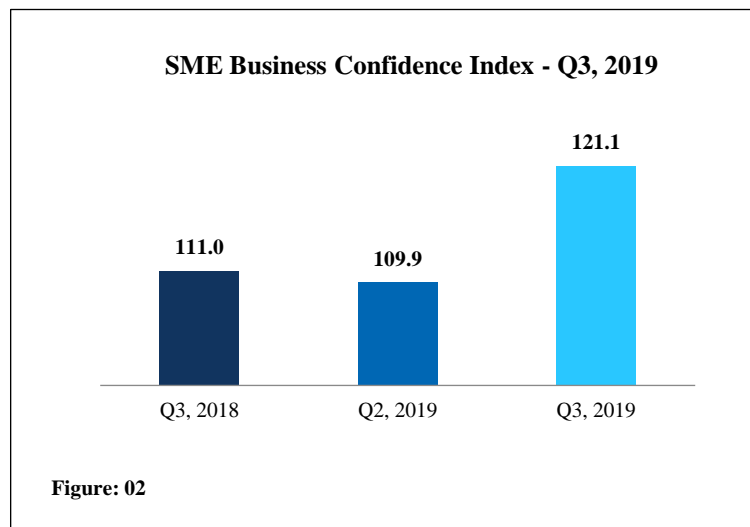
For calculating the SME Composite Business Confidence Index for Dubai, the resultant scores are multiplied with their corresponding parameter weights to arrive at a weighted average Index score. The SME composite index score is finally rebased so that Q2, 2011 = 100.

BCI scores are classified in the following three groups:

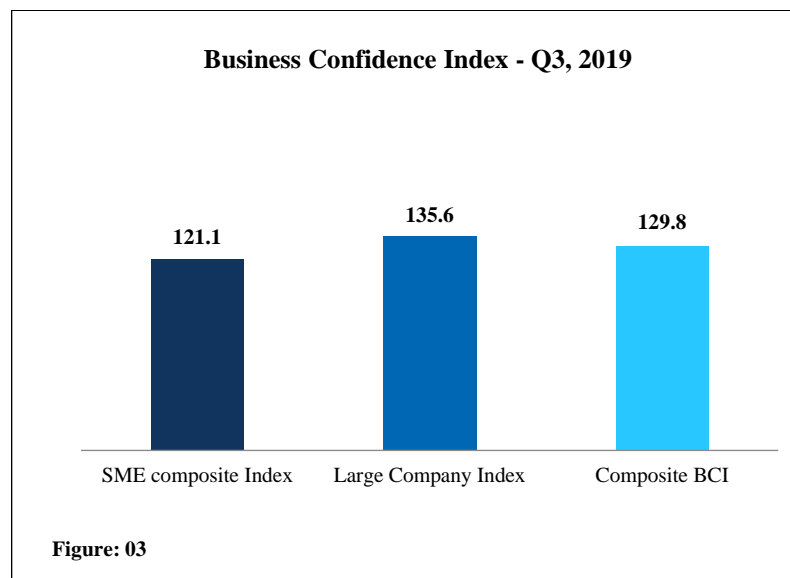
- ***BCI < 100, business expectations are negative***
- ***BCI = 100, business expectations are stable***
- ***BCI > 100, business expectations are positive***

### SME BUSINESS CONFIDENCE INDEX – Q3, 2019

According to the survey, Composite BCI for SMEs has displayed significant increase on a y-o-y and q-o-q basis, up from 111.0 points in Q3, 2018 and 109.9 points in Q2, 2019 to 121.1 points in Q3, 2019. (A score of 100 indicates stable/neutral sentiments).



Large companies continue to maintain stronger projections as compared to SMEs with Composite BCI scores of 135.6 and 121.1 points, respectively. Large companies are more optimistic than SMEs about their outlook for selling prices, volumes, hiring, profits and new purchase orders.



## SME BUSINESS OUTLOOK – Q4, 2019

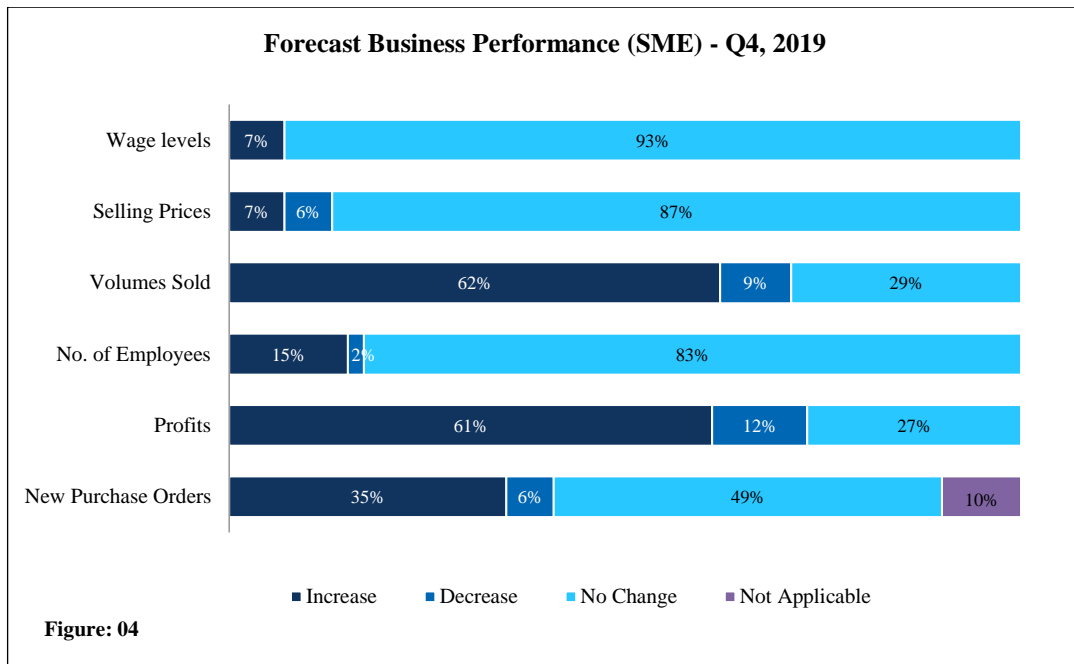
SMEs account for a dominant share in Dubai’s total business composition. In line with this, 452 of the 506 firms that were interviewed as part of the survey are SMEs.

**Table: 01**

### Forecast Business Performance (SMEs) – Q4, 2019

Parameter	Q4, 2018				Q3, 2019				Q4, 2019			
	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance
<b>Sales Revenue</b>	55%	13%	32%	42%	50%	16%	34%	34%	62%	9%	29%	53%
<b>Selling Prices</b>	19%	11%	70%	8%	10%	11%	79%	-1%	7%	6%	87%	1%
<b>Volumes Sold</b>	45%	13%	42%	32%	48%	17%	35%	31%	62%	9%	29%	53%
<b>Employment Size</b>	15%	10%	75%	5%	15%	3%	82%	12%	15%	2%	83%	13%
<b>Profits</b>	43%	15%	42%	28%	45%	19%	36%	26%	61%	12%	27%	49%
<b>New Purchase Orders</b>	43%	12%	44%	31%	26%	10%	56%	16%	35%	6%	49%	29%

*Note: Increase % + Decrease % + % No Change = 100%. In an event it does not add up to 100%, the balance percentage is the Not Applicable figure.*



- Outlook for sales volumes has displayed a y-o-y and q-o-q increase, with net balance increasing from 32% for Q4, 2018 and 31% for Q3, 2019 to 53% for Q4, 2019, backed by expectations of higher seasonal demand, new projects and additional customers on account of year-end festive season and optimism surrounding Expo 2020.
- A stronger forecast for volumes has resulted in a more optimistic outlook for profits.
- Annual and quarterly comparison of the survey results indicate that SMEs are upbeat about employment size, with expected rise in hiring on account of Expo 2020.
- New purchase order forecast has strengthened on a q-o-q basis, driven by expectations of higher demand and additional projects.
- Outlook for selling prices has displayed a y-o-y decline, with net balance decreasing from 8% for Q4, 2018 to 1% for Q4, 2019. 87% of firms intend to keep their selling prices stable, while 6% plan to reduce prices due to competitive market conditions.
- A net balance of 50% was recorded for production volume in Q4, 2019, up from 23% in Q3, 2019. The uptick is mainly due to expected rise in seasonal demand ahead of Expo 2020.
- Net balance for wage levels was recorded at 7% for Q4, 2019 as compared to 8% for Q3, 2019. Additionally, majority of firms (93%) plan to keep wage level unchanged in Q4, 2019 amid rise in other operational expenses.
- SMEs outlook for export sales remained unchanged as compared to the previous quarter, registering a net balance of 14% for Q4, 2019.

- Services SMEs hold the strongest outlook for most parameters evaluated in the survey as compared to manufacturing and trading SMEs. **Manufacturing SMEs**

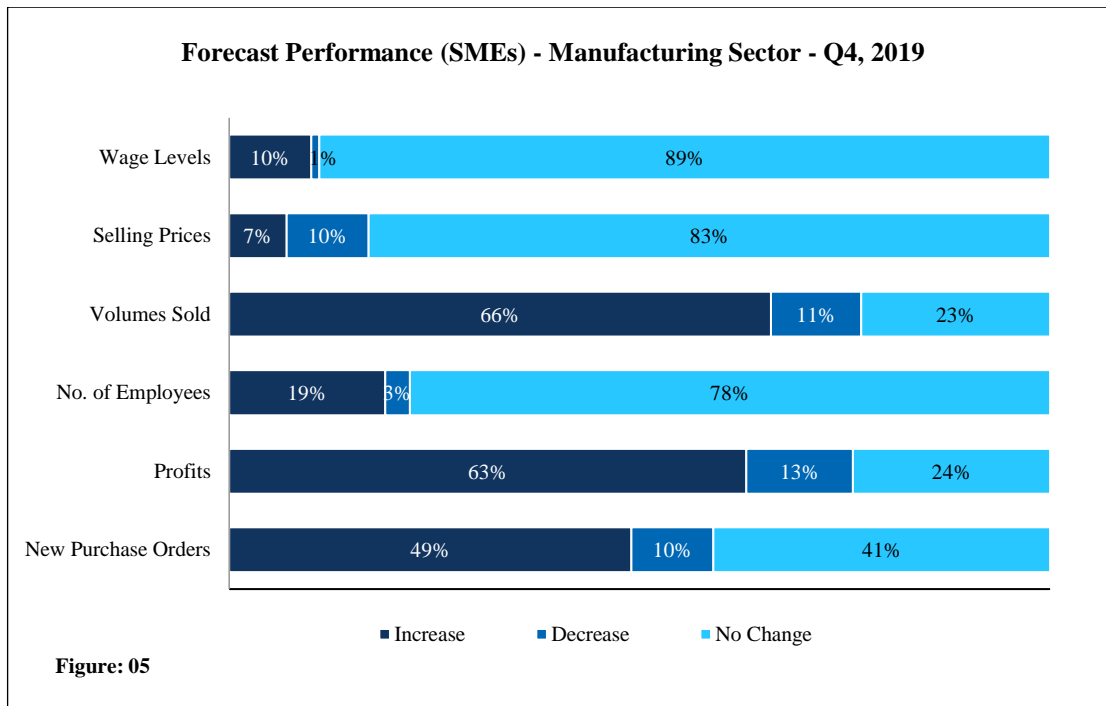
Table: 02

Forecast Business Performance (Manufacturing SMEs) – Q4, 2019

Parameter	Q4, 2018				Q3, 2019				Q4, 2019			
	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance
Sales Revenue	57%	14%	29%	43%	51%	25%	24%	26%	64%	11%	25%	53%
Selling Prices	17%	9%	74%	8%	13%	12%	75%	1%	7%	10%	83%	-3%
Volumes Sold	43%	15%	42%	28%	48%	25%	27%	23%	66%	11%	23%	55%
Size of Employment	12%	9%	79%	3%	19%	5%	76%	14%	19%	3%	78%	16%
Profits	42%	14%	44%	28%	44%	31%	25%	13%	63%	13%	24%	50%
New Purchase Orders	43%	12%	45%	31%	36%	23%	38%	13%	49%	10%	41%	39%

*Note: Increase % + Decrease % + % No Change = 100%. In an event it does not add up to 100%, the balance percentage is the Not Applicable figure.*





- Annual and quarterly comparison of survey results indicate that Manufacturing SMEs are more upbeat about sales volumes, profit level, increased hiring and additional purchase orders for Q4, 2019. This is supported by expectations of improvement in global economic/market conditions, coupled with anticipation of rise in demand on the back of Expo 2020 and launching of new products/services in the coming quarter.
- In line with the improved outlook, Manufacturing SMEs are more optimistic about production volumes for Q4, 2019 as compared to Q3, 2019.
- However, outlook for selling prices has weakened on a y-o-y and q-o-q basis, with net balance decreasing from 8% for Q4, 2018 and 1% for Q3, 2019 to negative 3% for Q4, 2019. 10% of firms plan to reduce prices due to competition pressure.
- Proportion of Manufacturing SMEs anticipating an improvement in business situation has increased from 47% for Q3, 2019 to 59% for Q4, 2019, while proportion expecting a stable outlook has declined from 39% to 34% on a q-o-q basis. Additionally, share of firms expecting deterioration has declined from 14% to 7% during the same period.
- According to the survey, 19% of manufacturing firms have indicated plans to export new products/services and 21% intend to export to new markets in Q4, 2019.
- Manufacturing sub-segments optimistic about sales volumes for Q4, 2019 are Metals, Food & Beverages and Furniture, registering a net balance of 79%, 75% and 62%, respectively.

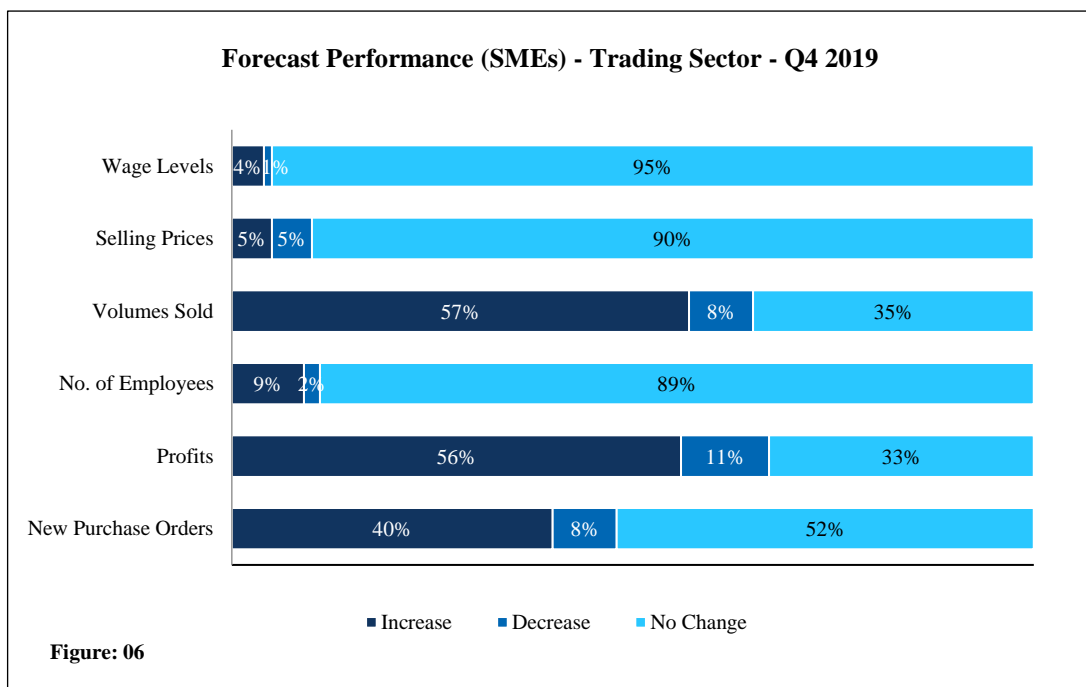
## Trading SMEs

Table: 03

Forecast Business Performance (Trading SMEs) – Q4, 2019

Parameter	Q4, 2018				Q3, 2019				Q4, 2019			
	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance
Sales Revenue	51%	14%	35%	37%	50%	16%	34%	34%	57%	8%	35%	49%
Selling Prices	9%	13%	78%	-4%	8%	13%	79%	-5%	5%	5%	90%	0%
Volumes Sold	43%	17%	40%	26%	49%	16%	35%	33%	57%	8%	35%	49%
Size of Employment	7%	12%	81%	-5%	14%	0%	86%	14%	9%	2%	89%	7%
Profits	35%	19%	46%	16%	47%	20%	33%	27%	56%	11%	33%	45%
New Purchase Orders	41%	16%	42%	25%	29%	8%	63%	21%	40%	8%	52%	32%

Note: Increase % + Decrease % + % No Change = 100%. In an event it does not add up to 100%, the balance percentage is the Not Applicable figure.



- Firms in trading sector are optimistic about sales volumes, revenues, profit level and new purchase orders for Q4, 2019 than they were in the previous quarters under review. Expectations of rise in seasonal demand and additional customers/new projects on the back of year-end festive season were the reasons cited by firms for better business condition in the coming quarter.
- Projection for hiring has strengthened on an annual basis; however, it softened on a quarterly basis.
- Outlook for selling prices improved on a q-o-q and y-o-y basis, with net balance increasing from negative 4% for Q4, 2018 and negative 5% for Q3, 2019 to 0% for Q4, 2019. Majority of traders (90%) are planning to keep their prices unchanged for the coming quarter.
- Net balance for wage levels stood at 3% for Q4, 2019 as compared to 7% for Q3, 2019. 95% of firms plan to keep wage level unchanged amid rise in other operational expenses.
- Proportion of SMEs in trading sector anticipating an improvement in business situation has increased from 45% for Q3, 2019 to 51% for Q4, 2019, while proportion expecting a stable outlook has declined from 46% to 43% on a q-o-q basis. Additionally, share of firms expecting deterioration has declined from 9% to 6% during the same period.
- According to the survey, 12% of trading firms have indicated plans to export new products and 18% intend to export to new markets in the coming quarter.
- Within the sector, Computer segment is most optimistic about volumes for Q4, 2019, registering a net balance of 88%. This is followed by Food & Beverages and Auto (spare parts) segments, recording a net balance of 67% and 52%, respectively.

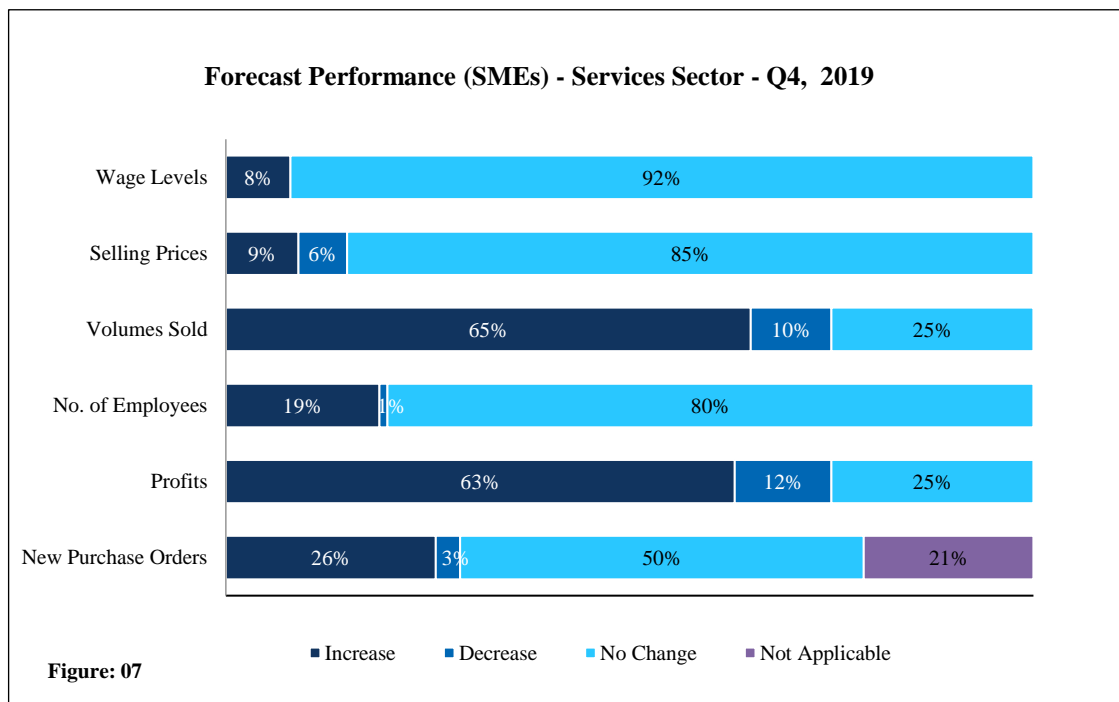
## Services SMEs

Table: 04

### Forecast Business Performance (Services SMEs) – Q4, 2019

Parameter	Q4, 2018				Q3, 2019				Q4, 2019			
	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance
Sales Revenue	58%	12%	30%	46%	49%	13%	38%	36%	64%	9%	27%	55%
Selling Prices	29%	10%	61%	19%	10%	9%	80%	1%	9%	6%	85%	3%
Volumes Sold	47%	8%	45%	39%	47%	14%	39%	33%	65%	10%	25%	55%
Size of Employment	23%	8%	69%	15%	15%	6%	79%	9%	19%	1%	80%	18%
Profits	50%	11%	39%	39%	43%	15%	42%	28%	63%	12%	25%	51%
New Purchase Orders	45%	8%	45%	37%	21%	6%	56%	15%	26%	3%	50%	23%

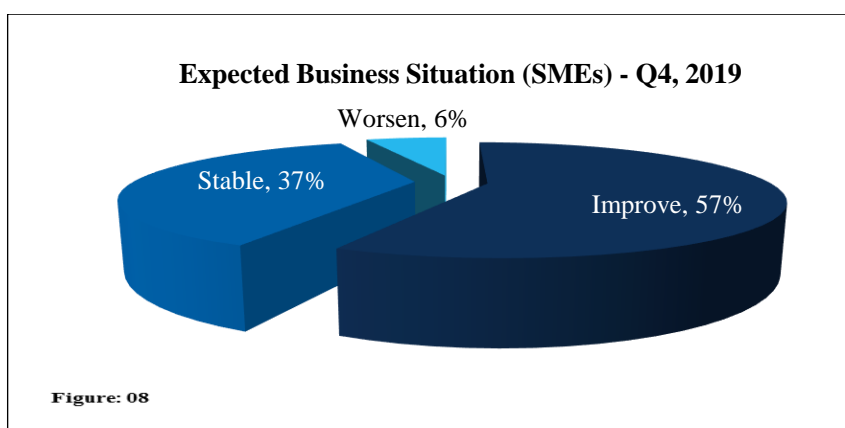
*Note: Increase % + Decrease % + % No Change = 100%. In an event it does not add up to 100%, the balance percentage is the Not Applicable figure.*



- Firms in services sector have displayed a stronger forecast for volumes, revenue, hiring and new purchase orders for Q4, 2019 as compared to the previous quarters under review. Expectations of rise in seasonal demand, higher number of tourists & customers on account of year-end festive season and upcoming Expo 2020 were the major reasons cited by respondents.
- However, Services firms are less bullish about their selling prices for Q4, 2019 than they were in the same quarter a year ago.
- Net balance for wage levels stood at 8% for Q4, 2019, down from 9% for Q3, 2019 with majority of firms (92%) planning to keep wage level unchanged.
- Proportion of services SMEs anticipating an improvement in business situation has increased from 46% for Q3, 2019 to 61% for Q4, 2019, while proportion expecting a stable outlook has decreased from 45% to 33% on a q-o-q basis. Additionally, share of firms expecting deterioration has declined from 9% for Q3, 2019 to 6% for Q4, 2019.
- 2% of firms have indicated plans to provide new services export , while 5% of firms intend to provide services to new export markets in Q4, 2019.
- Within the sector, Tourism & Hospitality (hotels & restaurants, travel and car rentals), Transportation and Construction segments are most optimistic about volumes and expect better market conditions in the coming quarter.

### **EXPECTED BUSINESS SITUATION**

According to the survey, proportion of SMEs anticipating an improvement in business situation has increased from 46% for Q3, 2019 to 57% for Q4, 2019, while proportion expecting a stable outlook has decreased from 44% to 37% on a q-o-q basis. Additionally, share of firms foreseeing deterioration in business situation has declined from 10% to 6% during the same period.



12% of SMEs have indicated plans to export to new markets during Q4, 2019, down from 21% in Q3, 2019. The leading markets for export diversification are Africa and GCC. Additionally, 12% of firms did not face any hurdles in their business operations in Q3, 2019.

### DUBAI SME OUTPUT – Q3, 2019

Although the main purpose of survey is to gauge business expectations for future activity, it also captures actual changes in business performance from one quarter to another, as elicited from the feedback given by responding firms.

**Table: 05**

#### Overall Business Performance (SMEs) – Q3, 2019

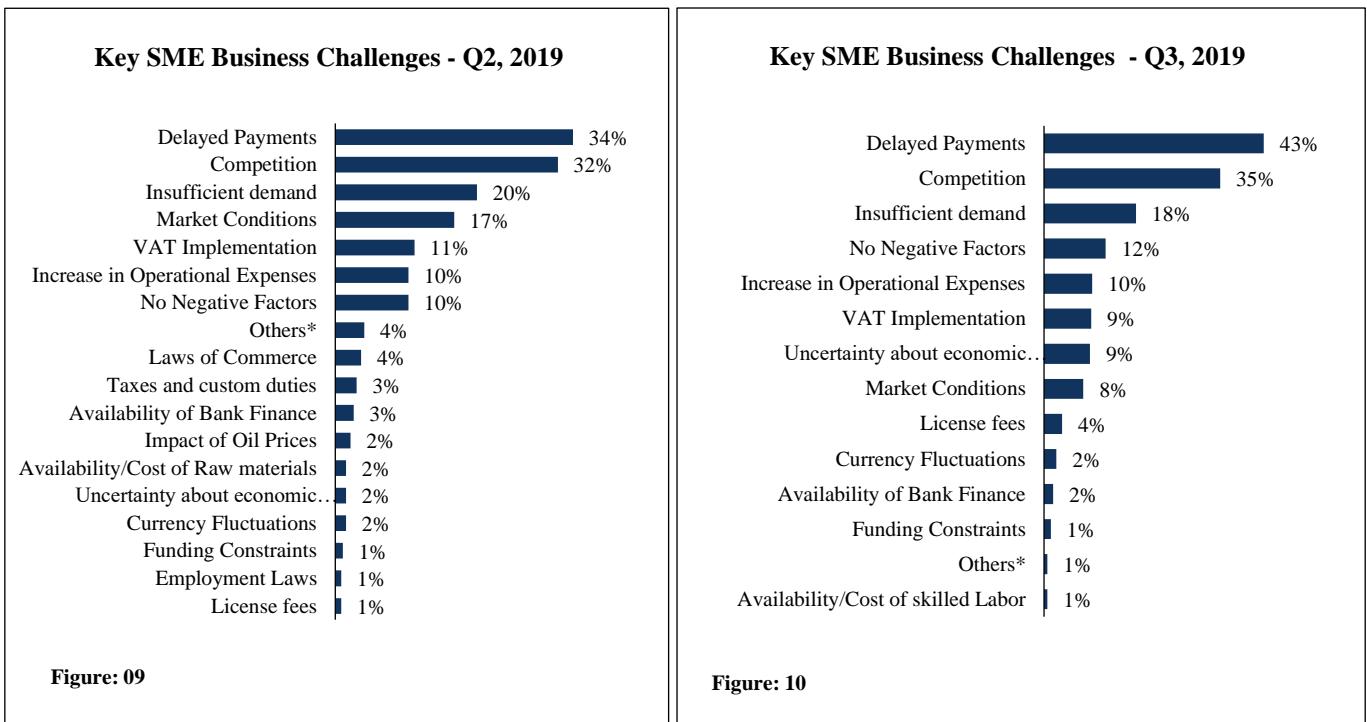
Parameter	Q3, 2018				Q2, 2019				Q3, 2019			
	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance
Sales Revenue	16%	41%	43%	-25%	23%	44%	33%	-21%	16%	51%	33%	-35%
Selling Prices	8%	28%	64%	-20%	8%	30%	61%	-22%	6%	27%	67%	-21%
Volumes Sold	15%	42%	43%	-27%	21%	47%	32%	-26%	17%	52%	31%	-35%
Employment Size	11%	17%	72%	-6%	16%	12%	72%	4%	11%	12%	77%	-1%
Profits	12%	49%	39%	-37%	20%	51%	29%	-31%	15%	54%	31%	-39%
New Purchase Orders	15%	34%	51%	-19%	15%	26%	51%	-11%	14%	27%	50%	-13%

*Note: Increase % + Decrease % + % No Change = 100%. In an event it does not add up to 100%, the balance percentage is the Not Applicable figure.*

- In Q3 2019, 17% of firms indicated an increase in sales volume, while 52% reported a decrease, resulting in a net balance of negative 35%. Firms that reported increase in this parameter cited reasons including higher demand and additional projects post Ramadan season.
- Annual and quarterly comparison indicate that profit level weakened in Q3, 2019 due to lower sales and reduction in selling prices on account of subdued market/demand conditions and competition.
- A net balance of negative 1% was recorded for employment size in Q3 2019, down from 4% in Q2, 2019 and up from negative 6% in Q3, 2018. In Q3, 2019, 77% of firms reported that size of labour force remained unchanged, while 12% reported decline due to slowdown in business activity.
- 14% of firms indicated increase in new purchase orders in Q3 2019 on expectations of rise in seasonal demand in the coming quarter. However, 27% reported decrease due to slowing demand conditions and competition.
- Majority of firms (67%) reported stability in their selling prices, while 27% had to reduce prices to attract customers in light of competition and uncertain market/demand conditions. On the other hand, 6% of respondents increased their prices due to rise in operational expenses and increase in prices of raw materials.
- A net balance of negative 10% was recorded for rental cost as compared to negative 9% in Q2, 2019. 14% of firms reported decline in rent, while 73% mentioned that such cost remained unchanged over the quarter.
- 19% of firms reported their current business situation as 'Good' and 64% stated it to be 'Stable'. The remaining 17% of businesses reported 'Poor' performance in current quarter due to lower demand during summer/holiday season, competition pressure, uncertain market conditions, lower profit margin and delayed payments.
- A comparison of performance in the current quarter among the key economic sectors reveal that manufacturing SMEs have performed better in terms of sales volumes, hiring, profits and selling prices as compared to services and trading SMEs. On the other hand, services SMEs reported better performance with respect to new purchase orders, wage levels and export sales.
- Large companies reported better performance than SMEs for all parameters.

## KEY SME CHALLENGES IN DUBAI

The survey highlights key challenges perceived by businesses at the end of Q3, 2019 that may impact near term business growth and development.



\*Others include challenges related to lower rental cost and price fluctuations.

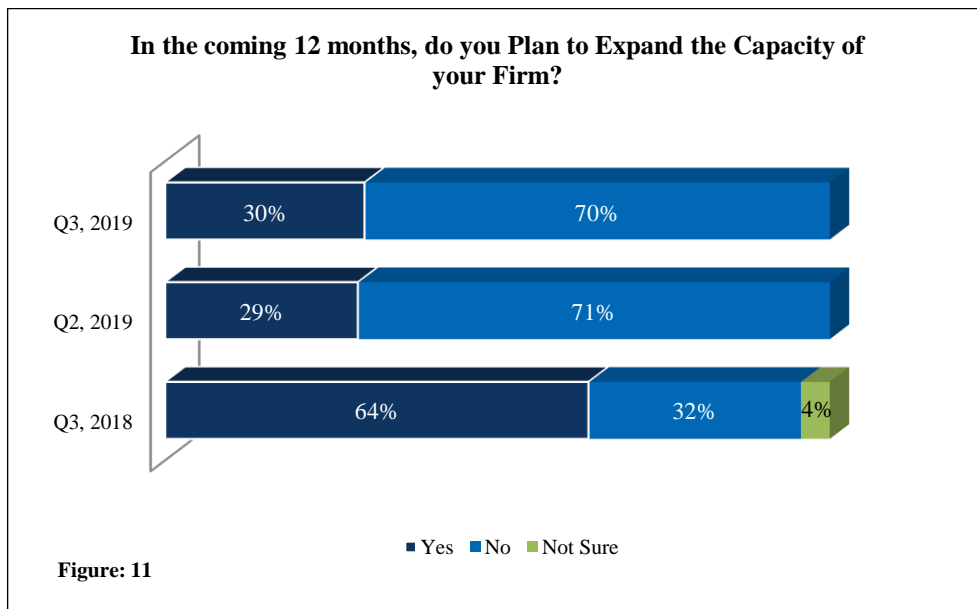
A summary of the major challenges faced by Dubai SMEs are as follows:

- **Delayed Payments:** 43% of firms faced this challenge in their business operations in Q3, 2019. Among these, 48% of respondents reported an increase in intensity of the challenge over the quarter.
- **Competition:** Among 35% of firms that considered competition as one of their major challenges, 47% stated that its intensity increased over the quarter.
- **Insufficient Demand:** Among 18% of firms which considered this as a key challenge, 56% reported an increase in the intensity of the challenge over the quarter.
- **Increase in Operational Expenses:** 10% of firms consider this as a key business challenge.
- The remaining concerns each affected 9% or fewer of the respondents.



## INVESTMENT OUTLOOK

The survey also gauges business community's investment outlook over a twelve-month horizon.



*Note: Plans for capacity expansion includes technology upgradation, headquarter expansion and opening of new branches.*

- In the coming 12 months, 30% of firms plan to expand their current headquarters by a way of upgrading technology, adding new products/services and opening new branches.
- Manufacturing SMEs are more optimistic about capacity expansion plans followed by trading and services SMEs.
- In the coming 12 months, 8% of firms are planning to open new branches within/outside UAE. Among these, 50% are planning to open new branches within Dubai, 26% are planning to open in other Emirate, 16% are planning to open outside the UAE and 8% are not sure of their expansion plans.
- SMEs are slightly more optimistic than Large companies about capacity expansion plans. 30% of SMEs expect to expand their current headquarters as compared to 29% of Large companies.