



SMEs Business Optimism Survey

Q4, 2019

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Introduction

AT A GLANCE

- The SMEs Composite BCI registered a reading of 127 points in Q4, 2019, up from 118.8 points in Q4, 2018.
- Quarterly comparison indicates that the SMEs Composite BCI increased by 5.9 points from 121.1 points in Q4, 2019, with firms expecting strong performance across most parameters.
- Uptick in business sentiments is mainly supported by expectations of additional customers & projects, rise in demand arising from improved market conditions and increase in tourist footfalls.
- SMEs have stronger projections for Q1, 2020 as compared to large companies with Composite BCI scores of 127.0 and 124.8 points, respectively. Manufacturing SMEs are more optimistic about their business prospects for Q1, 2020 as compared to services and trading SMEs.
- Key challenges faced by SMEs include competition, delayed payments, insufficient demand and rise in operational expenses.
- Proportion of SMEs anticipating an improvement in business situation has increased from 57% for Q4, 2019 to 61% for Q1, 2020 while proportion expecting stable outlook has declined from 37% to 30% on a q-o-q basis.
- Large companies are more optimistic than SMEs about their capacity expansion plans. 45% of large companies expect to expand their current headquarters as compared to 29% of SMEs.



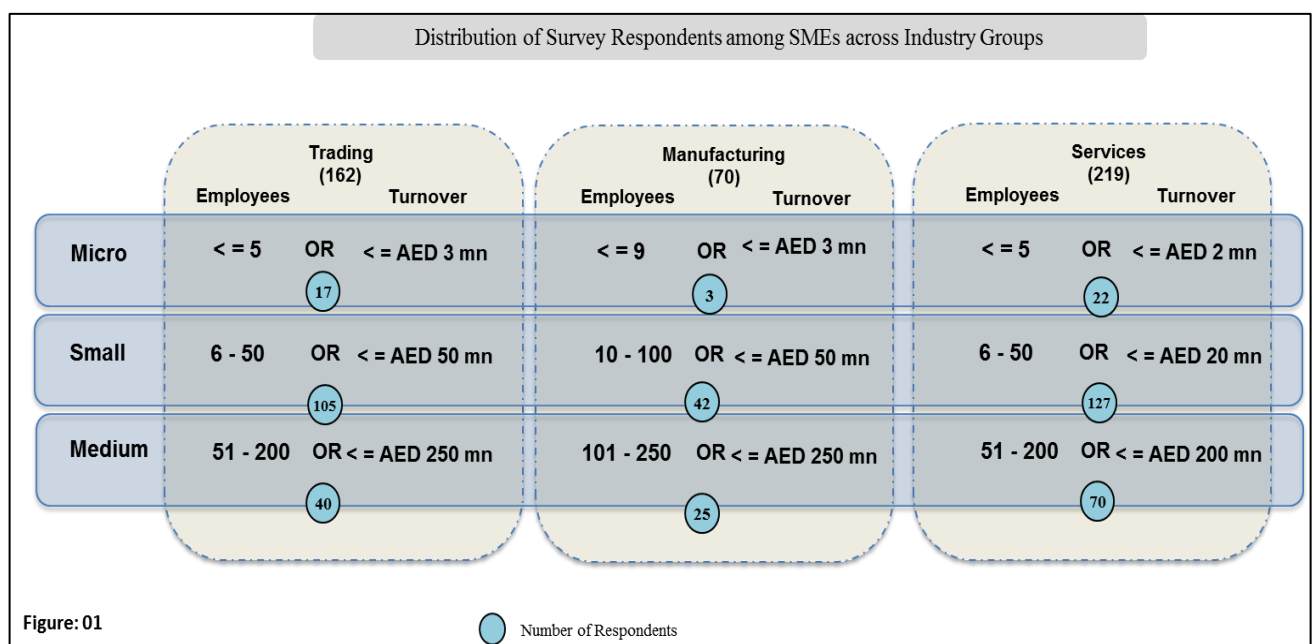
The Department of Economic Development (DED) is a Dubai Government entity mandated to achieve the key strategic objectives of fostering ‘Sustainable Economic Development’ and strengthening the ‘Competitiveness of Dubai’. In order to gauge perceptions of the business community, DED conducts a quarterly business survey, to assess the level of current economic activity and outlook of businesses for the next quarter. This document presents a summary of the survey conducted in the 4th Quarter of 2019 (Q4, 2019). 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 Q4, 2019 was conducted among 505 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, 451 of the 505 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:
(% of positive responses - % 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 such that Q2, 2011 = 100.

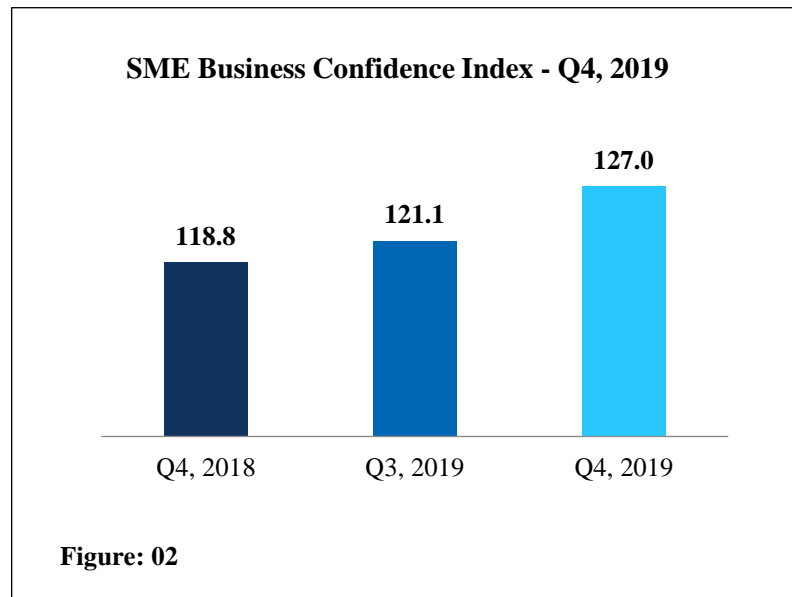
BCI scores are classified in the following three groups:

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

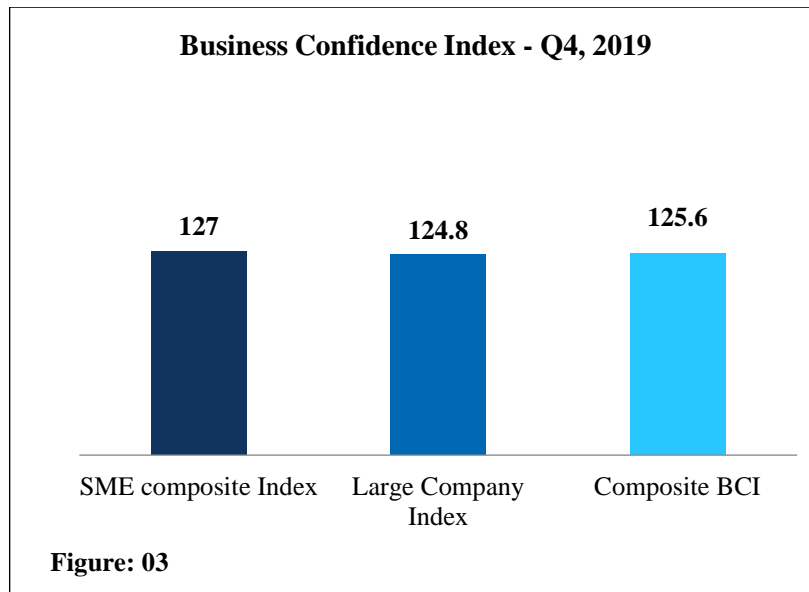


SME BUSINESS CONFIDENCE INDEX – Q4, 2019

According to the survey, Composite BCI for SMEs increased to 127.0 points in Q4, 2019, up from 118.8 points in Q4, 2018 and 121.1 points in Q3, 2019. (A score of 100 indicates stable/neutral sentiments).



SMEs displayed stronger projections than large companies with Composite BCI scores of 127 and 124.8 points respectively. SMEs are more optimistic than large companies for improvements in wage levels, selling prices, sales volumes, hiring, profits and new purchase orders.



SME BUSINESS OUTLOOK – Q1, 2020

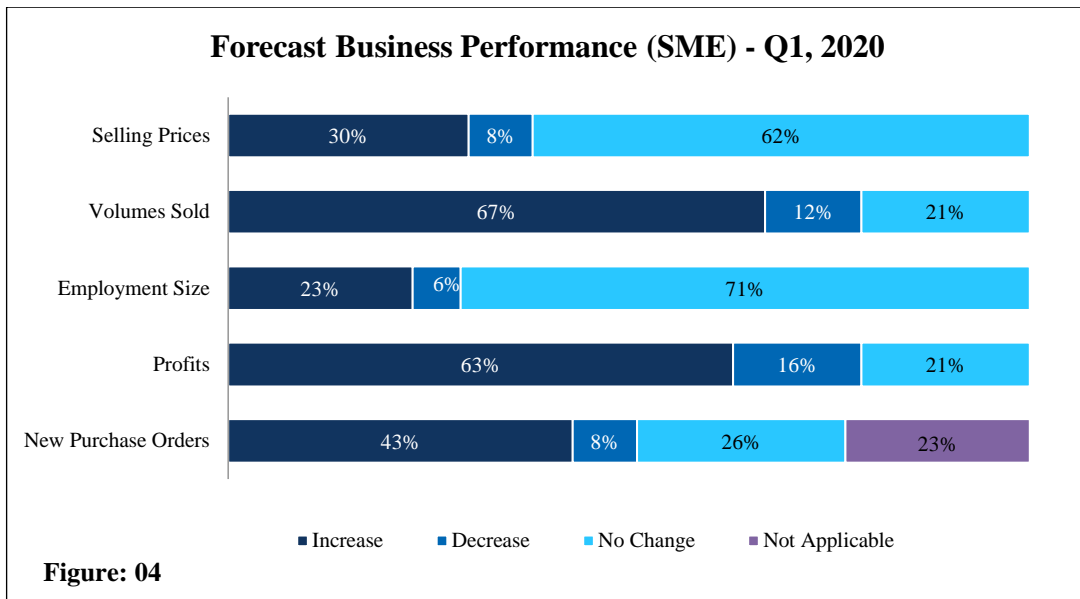
SMEs account for a dominant share in Dubai’s total business composition. In line with this, 451 of the 505 firms that were interviewed as part of the survey are SMEs.

Table: 01

Forecast Business Performance (SMEs) – Q1, 2020

Parameter	Q1, 2019				Q4, 2019				Q1, 2020			
	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance
Sales Revenue	62%	10%	28%	52%	62%	9%	29%	53%	67%	13%	20%	54%
Selling Prices	17%	8%	74%	9%	7%	6%	87%	1%	30%	8%	62%	22%
Volumes Sold	57%	11%	32%	46%	62%	9%	29%	53%	67%	12%	21%	55%
Employment Size	21%	6%	73%	15%	15%	2%	83%	13%	23%	6%	71%	17%
Profits	53%	17%	30%	36%	61%	12%	27%	49%	63%	16%	21%	47%
New Purchase Orders	47%	7%	38%	40%	35%	6%	49%	29%	43%	8%	26%	35%

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



- Proportion of firms optimistic about their sales volumes have increased from 62% in Q4, 2019 to 67% in Q1, 2020, boosted by improvements in demand, increased customers and overall improvement in market conditions.
- Forecasts for selling prices are optimistic on a q-o-q and y-o-y basis with net balance increasing from 9% in Q1, 2019 and 1% in Q4, 2019 to 22% in Q1, 2020, boosted by expectations for higher demand and increased costs of production.
- Projections for new purchase orders showed a q-o-q increase, with net balance increasing from 29% in Q4, 2019 to 35% in Q1, 2020.
- Outlook for profits displayed a q-o-q decrease, with net balance decreasing from 49% in Q4, 2019 to 47% in Q1, 2020, weighed down by rising costs of production, high competition and delayed payments.
- Survey results indicate that 23% of firms are expecting to increase their employment size in Q1, 2020 as compared to 21% in Q1, 2019 and 15% in Q4, 2019.
- Firms are optimistic for wage levels on a q-o-q basis, with 23% of firms expecting an increase in wages in Q1, 2020 against 7% in Q4, 2019 inline with the annual appraisal cycle. On the other hand, 73% of firms plan to keep wages unchanged.
- 15% of firms expect an increase in prices of finished goods in Q1, 2020 as compared to 2% in Q4, 2019, due to an expected rise in the cost of raw materials.
- SME outlook for export sales improved q-o-q, registering a net balance of 21% for Q1, 2020 as compared to 14% for Q4, 2019.



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

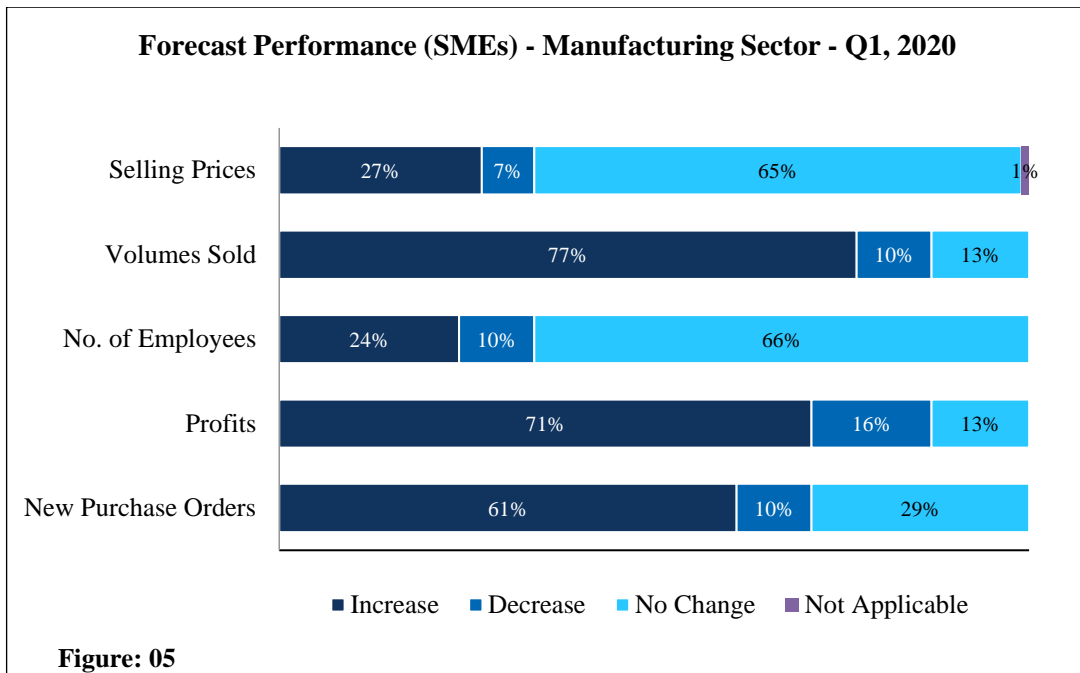
Manufacturing SMEs

Table: 02

Forecast Business Performance (Manufacturing SMEs) – Q1, 2020

Parameter	Q1, 2019				Q4, 2019				Q1, 2020			
	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance
Sales Revenue	69%	7%	24%	62%	64%	11%	25%	53%	77%	10%	13%	67%
Selling Prices	14%	1%	85%	13%	7%	10%	83%	-3%	27%	7%	65%	20%
Volumes Sold	61%	7%	32%	54%	66%	11%	23%	55%	77%	10%	13%	67%
Employment Size	29%	0%	71%	29%	19%	3%	78%	16%	24%	10%	66%	14%
Profits	56%	10%	34%	46%	63%	13%	24%	50%	71%	16%	13%	55%
New Purchase Orders	60%	6%	34%	54%	49%	10%	41%	39%	61%	10%	29%	51%

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



- Manufacturing SMEs are more optimistic about their sales revenue, selling prices, volumes sold, new purchase orders and profits for Q1, 2020 as compared to Q1, 2019 and Q4, 2019, on the back of expectations for better market conditions, higher demand and improvement in overall economy.
- A lower proportion of firms are expecting to increase their employment size, with net balance decreasing to 14% in Q1, 2020 as compared to 16% and 29% of the firms in Q4, 2019 and Q1, 2019 respectively. This was due to firms citing sufficient capacity and or lean set-up measures to control costs.
- Proportion of Manufacturing SMEs anticipating an improvement in their business situation increased from 59% for Q4, 2019 to 70% for Q1, 2020, while proportion expecting deterioration increased from 7% to 9% during the same period. During the same period, expectations for stable outlook declined from 34% to 21% q-o-q.
- Proportion of firms intending to export to new markets in Q1, 2020 rose to 31% as compared to 21% in Q4, 2019, while proportion of firms planning to export new products/services for the first time in Q1, 2020 fell to 7% from 19% in Q4, 2019.
- Manufacturing sub-segments most optimistic about sales volumes for Q4, 2019 are Metals, Food & Beverages and Furniture, registering a net balance of 73%, 62% and 57% respectively.



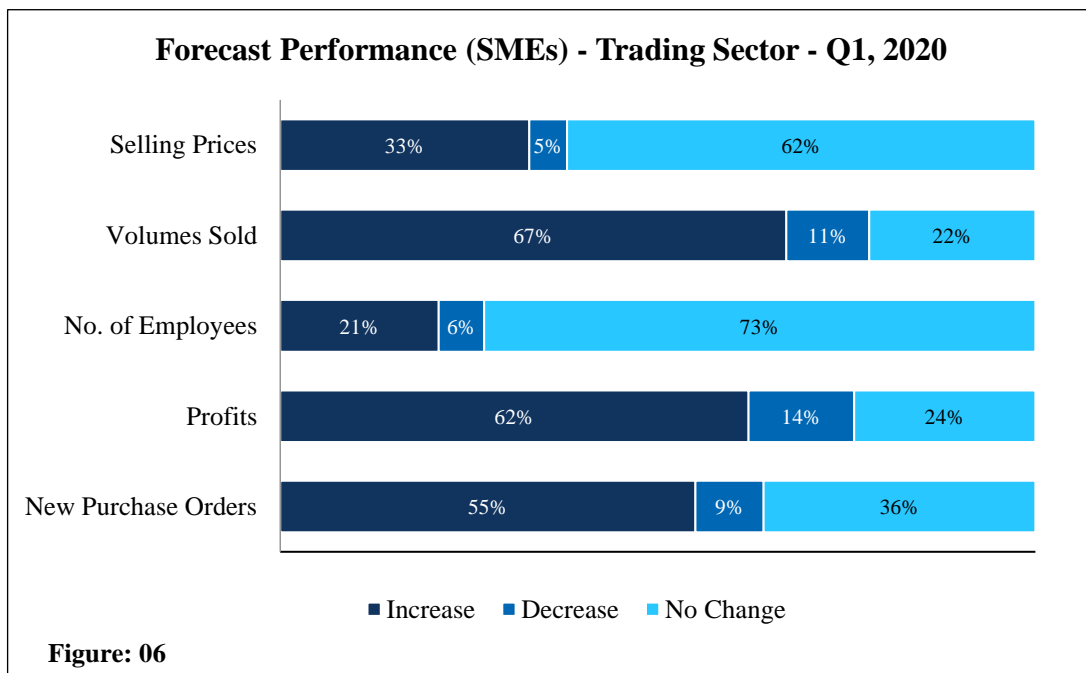
Trading SMEs

Table: 03

Forecast Business Performance (Trading SMEs) – Q1, 2020

Parameter	Q1, 2019				Q4, 2019				Q1, 2020			
	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance
Sales Revenue	59%	12%	29%	47%	57%	8%	35%	49%	67%	11%	22%	56%
Selling Prices	14%	8%	77%	6%	5%	5%	90%	0%	33%	5%	62%	28%
Volumes Sold	53%	14%	33%	39%	57%	8%	35%	49%	67%	11%	22%	56%
Employment Size	14%	7%	79%	7%	9%	2%	89%	7%	21%	6%	73%	15%
Profits	48%	20%	32%	28%	56%	11%	33%	45%	62%	14%	24%	48%
New Purchase Orders	45%	11%	44%	34%	40%	8%	52%	32%	55%	9%	36%	46%

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





- Trading firms are optimistic about most parameters for Q1, 2020 on a q-o-q and y-o-y basis, on the back of expectations for a rise in demand and orders.
- Expectations for increase in selling prices improved on a q-o-q basis, with a net balance of 28% for Q1, 2020, boosted by expectations of higher demand and higher costs of production.
- Proportion of firms anticipating an improvement in their business situation increased marginally from 51% for Q4, 2019 to 52% for Q1, 2020, while proportion expecting deterioration increased from 6% to 8%. On the other hand, proportion of firms expecting a stable outlook has declined from 43% in Q4, 2019 to 40% in Q1, 2020.
- Proportion of firms intending to export to new markets in Q1, 2020 rose to 31% from 18% in Q4, 2019, while proportion of firms planning to export new products/services for the first time in Q1, 2020 fell to 4% from 12% in Q4, 2019.
- Within the sector, the Food & Beverages segment is most optimistic about volumes for Q1, 2020, registering a net balance of 69%. This is followed by Textiles and IT Products segments, recording a net balance of 68% and 64% respectively.

Services SMEs

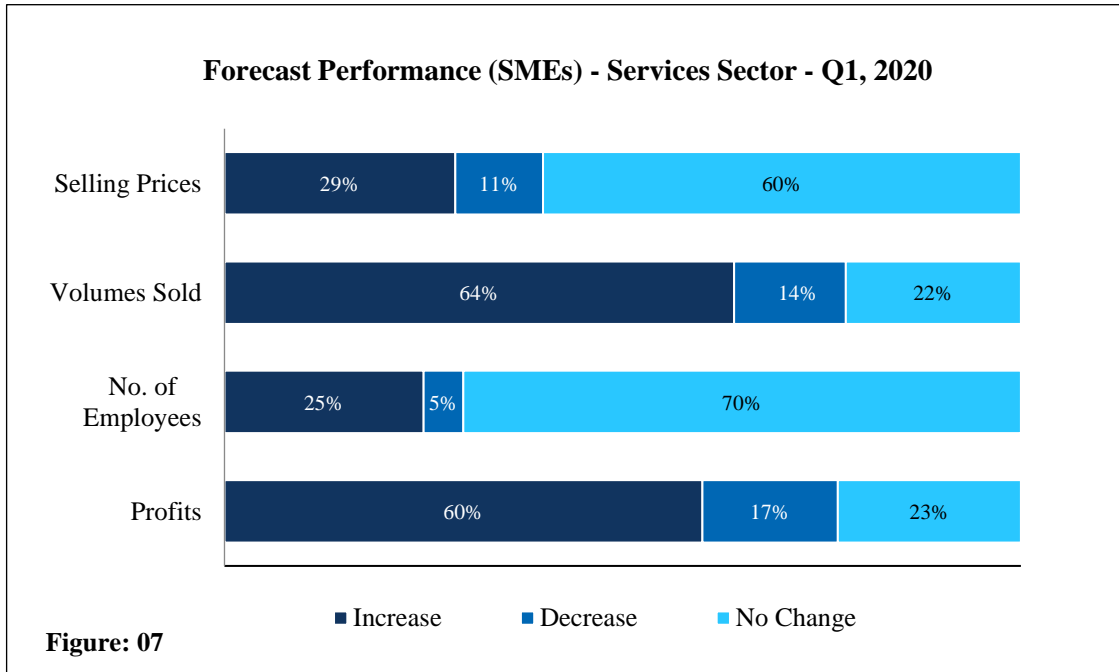
Table: 04

Forecast Business Performance (Services SMEs) – Q1, 2020

Parameter	Q1, 2019				Q4, 2019				Q1, 2020			
	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance
Sales Revenue	61%	10%	29%	51%	64%	9%	27%	55%	64%	15%	21%	49%
Selling Prices	21%	9%	69%	12%	9%	6%	85%	3%	29%	11%	60%	18%
Volumes Sold	60%	11%	29%	49%	65%	10%	25%	55%	64%	14%	22%	50%
Employment Size	24%	6%	70%	18%	19%	1%	80%	18%	25%	5%	70%	20%
Profits	57%	18%	25%	39%	63%	12%	25%	51%	60%	17%	23%	43%
New Purchase Orders	44%	6%	34%	38%	26%	3%	50%	23%	28%	5%	20%	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.



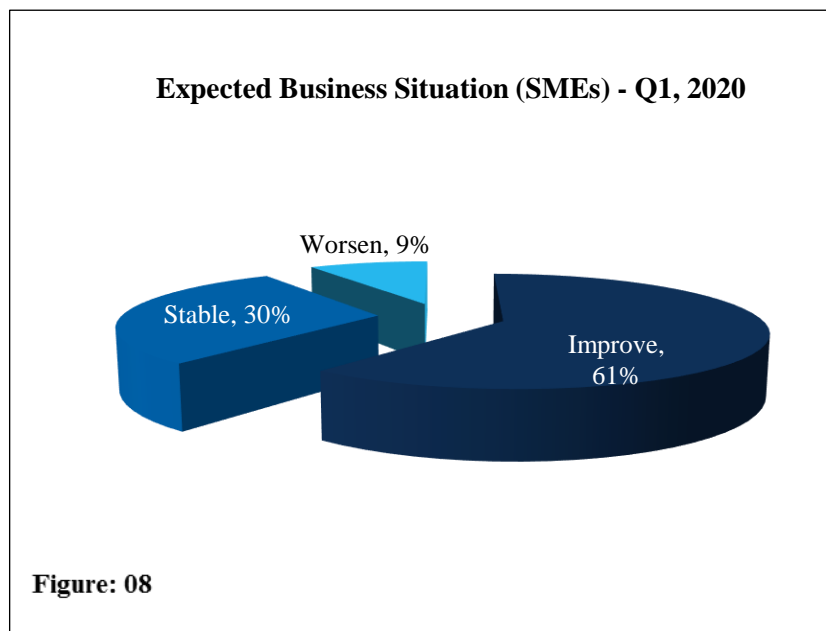
- Services SMEs have displayed a stronger forecast for selling prices and employment size as compared to the previous quarters under review in anticipation of increased tourists.
- Firms indicated they were less optimistic about their sales revenue on a q-o-q and y-o-y basis, with net balance decreasing to 49% for Q1, 2020 as compared to 51% and 55% in Q1, 2019 and Q4, 2019, respectively, due to high competition pressures and slow market conditions.
- Net balance for wage levels stood at 16% for Q1, 2020, up from 8% for Q4, 2019 with majority of firms (74%) planning to keep wage level unchanged.
- In line with above trends, 64% of firms expect the business situation to improve in Q1, 2020 as compared to 61 % in Q4, 2019. Number of firms expecting a stable outlook have declined from 40% to 26% while proportion of firms expecting a decline have increased from 8% to 10% in the same period.



- Proportion of firms intending to export to new markets in Q1, 2020 rose to 10% from 5% in Q4, 2019 while proportion of firms planning to export new services for the first time in Q1, 2020 rose to 5% from 2% in Q4, 2019.
- Within the sector, the Hotels & Restaurants segment is most optimistic about volumes for Q1, 2020, registering a net balance of 81%. This is followed by the Transport & Storage segment, recording a net balance of 54%.

EXPECTED BUSINESS SITUATION

According to the survey, proportion of SMEs anticipating an improvement in business situation increased from 57% for Q4, 2019 to 61% for Q1, 2020, while proportion of firms foreseeing deterioration in business situation rose from 6% to 9% during the same period. Share of firms expecting a stable outlook decreased from 37% to 30% on a q-o-q basis.



9% of SMEs are planning to export new products/services for the first time while 21% of firms have indicated plans to export to new markets during Q1, 2020. The leading markets for export diversification are Africa, GCC and Europe.



DUBAI SME OUTPUT – Q4, 2019

Although the main purpose of the 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) – 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	22%	38%	40%	-16%	16%	51%	33%	-35%	26%	41%	33%	-15%
Selling Prices	10%	27%	63%	-17%	6%	27%	67%	-21%	11%	33%	56%	-22%
Volumes Sold	25%	38%	37%	-13%	17%	52%	31%	-35%	26%	41%	33%	-15%
Employment Size	14%	16%	70%	-2%	11%	12%	77%	-1%	14%	12%	74%	2%
Profits	18%	48%	34%	-30%	15%	54%	31%	-39%	22%	50%	28%	-28%
New Purchase Orders	25%	21%	46%	4%	14%	27%	50%	-13%	22%	23%	32%	-1%

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 Q4 2019, 26% of firms reported increase in sales volumes, up from 17% in Q3, 2019 while firms that experienced a decrease in sales volumes fell to 41% from 52% in the same period. The increase is supported by rise in seasonal demand and higher number of tourists.
- 50% of firms experienced a fall in profits in Q4, 2019 as compared to 48% in Q4, 2018 due to delayed payments, increased operational costs and high competition.
- Hiring intentions have improved on a q-o-q basis, with 14% of firms increasing employment size in Q4, 2019 as compared to 11% in Q3, 2019. 74% kept their employment size the same.

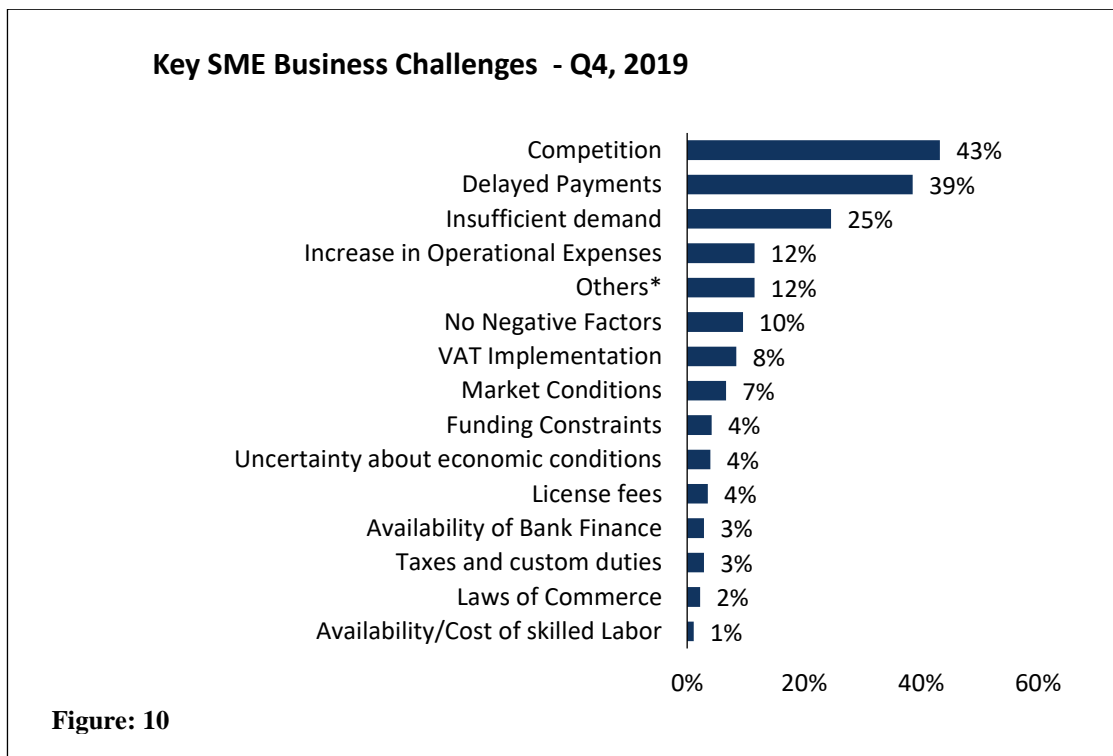
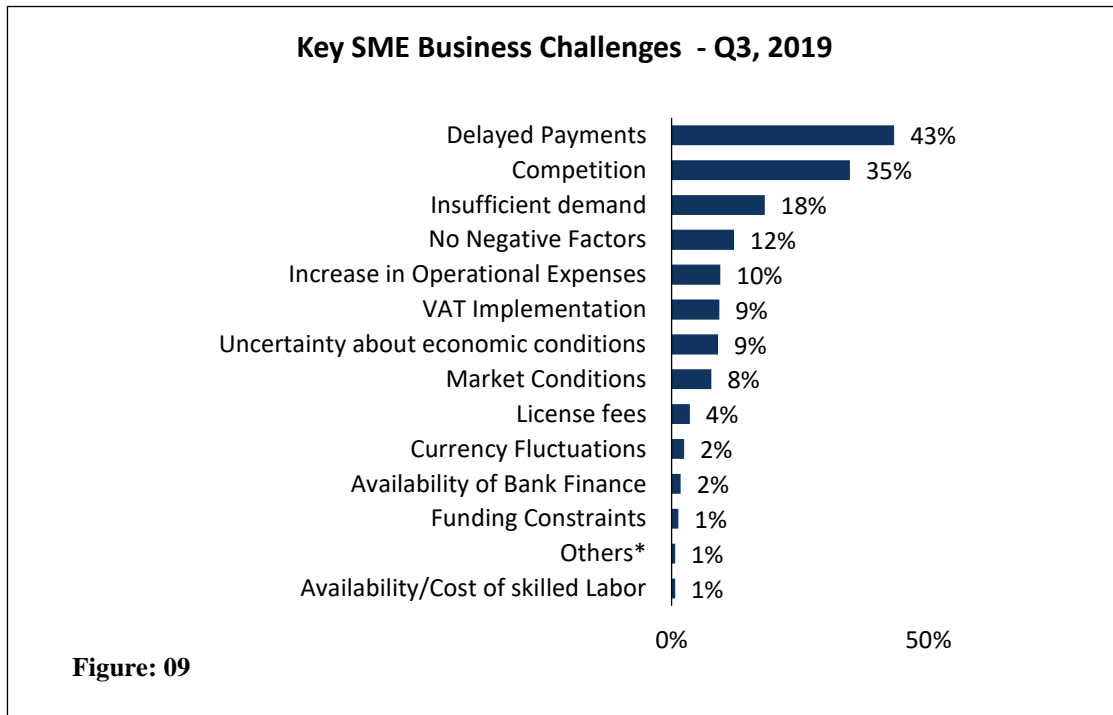


- Selling prices witnessed a q-o-q and y-o-y decline with net balance of negative 22% in Q4, 2019 as compared to negative 21% and negative 17% in Q3, 2019 and Q4, 2018, respectively, due to competition pressure and subdued demand conditions.
- Rental costs fell for a higher number of firms, with 20% of firms having lower rents in Q4, 2019 as compared to 14% in Q3, 2019.
- According to the survey, 23% of firms reported their current business situation as 'Good' in Q4, 2019 as compared to 19% in Q3, 2019 while 57% stated it to be 'Stable' as compared to 64% in the same period. The remaining 20% of businesses reported 'Poor' performance in current quarter as compared to 17% in the previous quarter.
- A comparison of performance in the current quarter among the key economic sectors reveal that manufacturing SMEs have performed better in terms of sales revenue, selling prices and sales volumes as compared to services and trading SMEs. On the other hand, trading SMEs reported better performance with respect to profits, new purchase orders, wage levels and export sales. Services SMEs outperformed trading and manufacturing SMEs in terms of hiring.
- Large companies have performed better than SMEs in terms of revenue, sales volume, selling prices, profits and new purchase orders. On the other hand, latter performed better in terms of export level & orders.



KEY SME CHALLENGES IN DUBAI

The survey highlights key challenges perceived by businesses at the end of Q4, 2019 that may impact near term business growth and development.





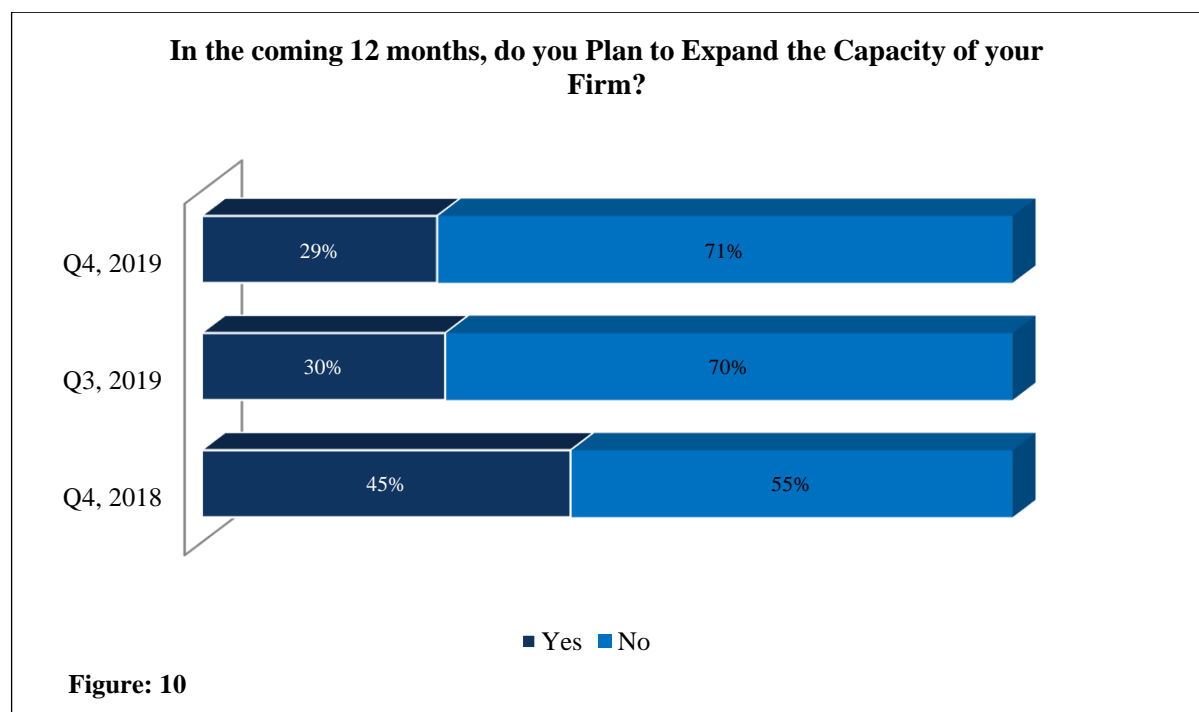
**Others include challenges related to lower rental cost and price fluctuations.*

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

- **Competition:** 43% of firms faced this challenge in their business operations in Q4, 2019. Among these, 77% reported an increase in intensity of the challenge over the quarter.
- **Delayed Payments:** Among 39% of firms that considered delayed payments as one of their major challenges, 70% stated that its intensity has increased over the quarter.
- **Insufficient Demand:** Among 25% of firms which considered this as a key challenge, 84% reported an increase in the intensity of the challenge over the quarter.
- **Increase in Operational Expenses:** 12% of firms consider this as a key business challenge.
- The remaining concerns each affected 8% or fewer of the respondents. Additionally, 10% of firms did not face any hurdles in their business operations in Q4, 2019.

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, 29% of firms plan to expand their business by 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.
- Large companies are more optimistic than SMEs about capacity expansion plans. 45% of large companies expect to expand their business as compared to 29% of SMEs.