

SMEs Business Optimism Survey

Q4, 2017

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The Introduction

AT A GLANCE

- The Composite BCI has weakened both on an annual basis and quarterly basis from 119.0 points in Q4, 2016 and 113.8 points in Q3, 2017 to 110.6 points in Q4, 2017. A comparison of the outlook on a q-o-q basis shows a decline in most of the parameters on account of slowing business conditions, lack of demand for products/services, the potential impact of VAT and stiff competition.
- Large companies are more optimistic than SMEs with respect to the business outlook in Q4, 2017, with Composite BCI scores of 119.6 points and 110.6 points, respectively. Large companies are more confident than the SMEs about their outlook for revenues, volumes, hiring, profits and new purchase orders, while SMEs have displayed a stronger forecast for selling prices.
- Dubai's SMEs expect the business situation to weaken in Q1, 2018 than that in the previous quarter. The proportion of firms that anticipate an improvement in the business environment stands at 41% for Q1, 2018 compared to 48% for Q4, 2017. Additionally, 37% 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, VAT implementation and increase in operational expenses.
- Plans to expand capacity and upgrade technology have strengthened both on a quarterly and annual 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 4th quarter of 2017. The Survey was administered to 443 SMEs (Small & Medium Enterprises) in Dubai.

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, 2017 was conducted for 506 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:

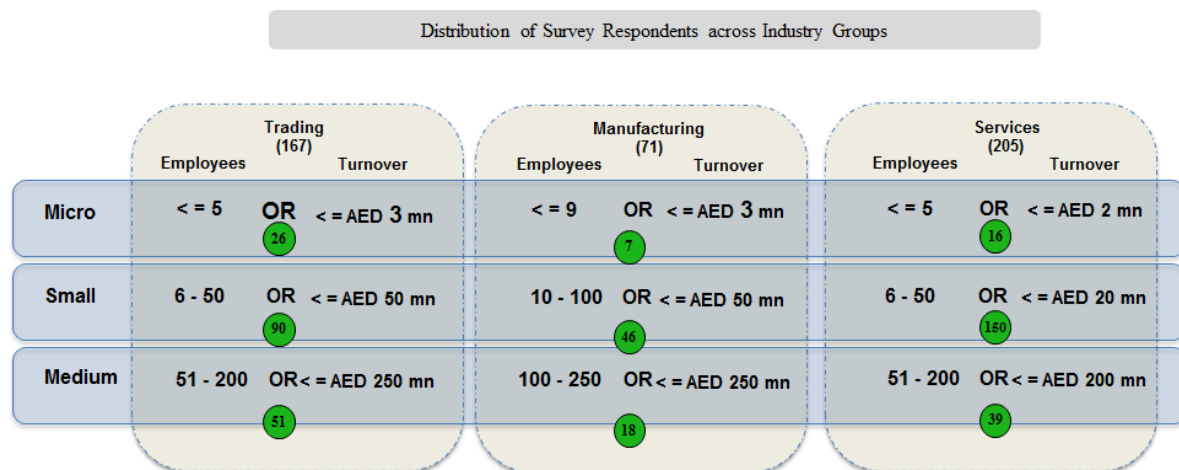


Figure:01

Number of Respondents



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:
(% 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 so that Q2, 2011 = 100.

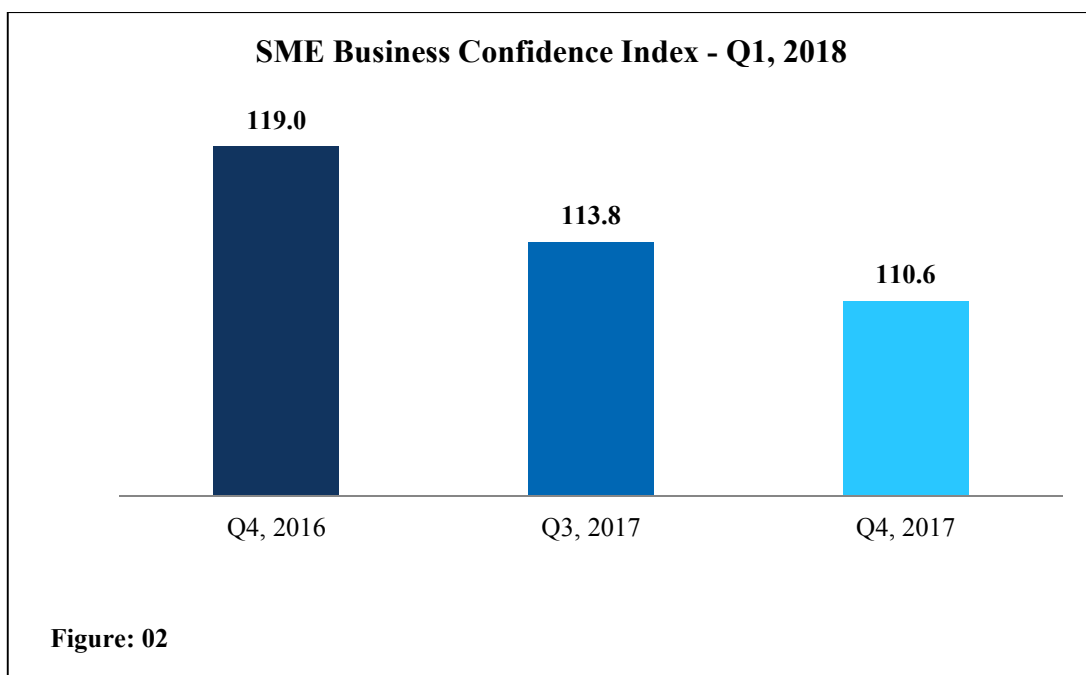
BCI scores are classified in the following three groups:

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

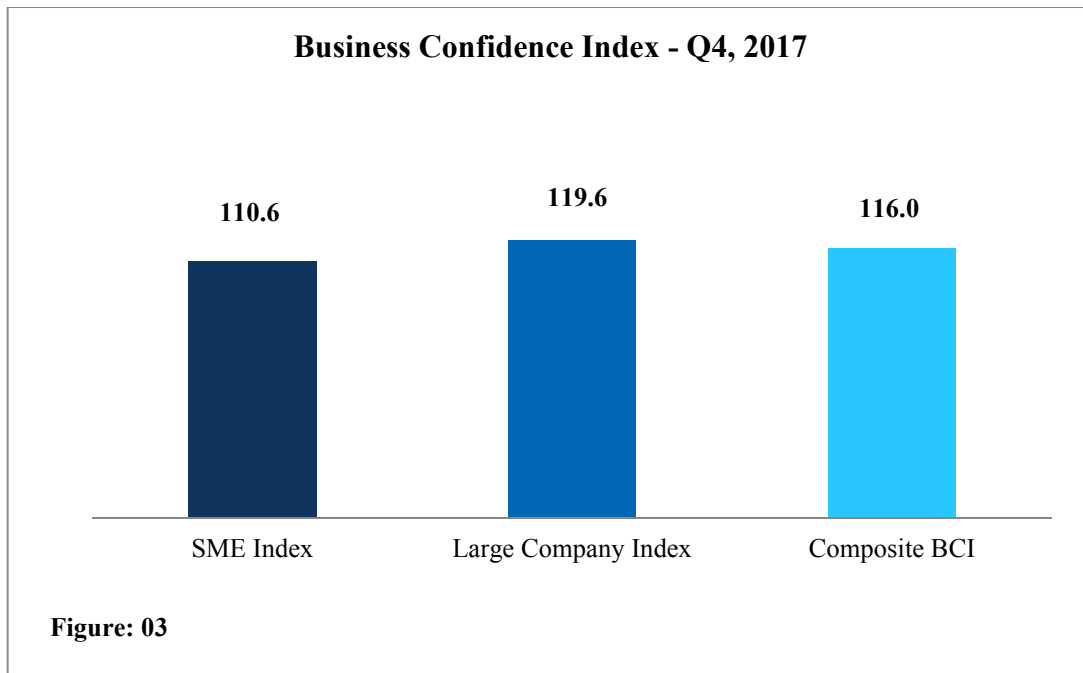


SME BUSINESS CONFIDENCE INDEX – Q4, 2017

Dubai’s budget for 2018 targets boosting infrastructure spending for Expo 2020. The budget will create 3100 new jobs, coupled with the growth of the social development sector. Further, the UAE introduced its Value Added Tax (VAT) on 01, January, 2018 in a bid to boost revenues. The UAE is expected to raise around USD 3.3 Bn from the tax. Dubai’s SMEs have a weaker outlook for Q4, 2017 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 and quarterly basis from 119.0 points in Q4, 2016 and 113.8 points in Q3, 2017 to 110.6 points in Q4, 2017. A comparison of the outlook on a q-o-q basis shows a decline in most of the parameters of the Survey on account of slowing business conditions, lack of demand for products/services, the potential impact of VAT and stiff competition.



Large companies are more optimistic than SMEs with respect to the business outlook in Q4, 2017, with Composite BCI scores of 119.6 points and 110.6 points, respectively. While the former is more optimistic about their outlook for revenues, volumes, hiring, profits and new purchase orders, the latter has displayed a stronger forecast for selling prices.



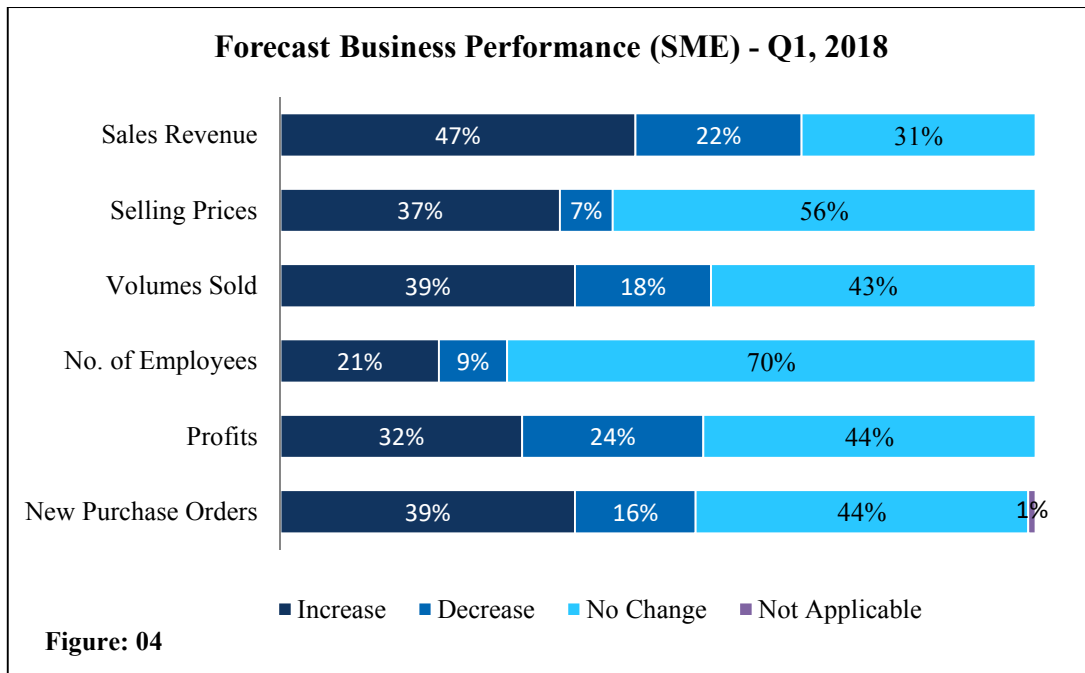
SME BUSINESS OUTLOOK – Q1, 2018

SMEs account for a dominant share in Dubai's total business composition, 443 of the 506 firms that were interviewed as part of the Survey were SMEs. These included micro, small, and medium enterprises as per UAE's SME definition.

Table: 01

Forecast 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	54%	8%	38%	46%	56%	12%	32%	44%	47%	22%	31%	25%
Selling Prices	12%	9%	79%	3%	17%	11%	72%	6%	37%	7%	56%	30%
Volumes Sold	53%	8%	39%	45%	49%	13%	38%	36%	39%	18%	43%	21%
No. of Employees	22%	4%	74%	18%	21%	6%	73%	15%	21%	9%	70%	12%
Profits	51%	10%	39%	41%	46%	18%	36%	28%	32%	24%	44%	8%
New Purchase Orders	52%	8%	40%	44%	47%	12%	39%	35%	39%	16%	44%	23%



- The outlook for Q1, 2018 shows that SMEs are less upbeat about most parameters than they were for Q4, 2017.
- Large companies are more optimistic than SMEs about their outlook in Q1, 2018 for revenues, volumes, hiring, profits and new purchase orders. SMEs have displayed a stronger forecast for selling prices.
- The weak outlook for SMEs with reference to volumes stems from the lack of demand for products/service coupled with slowing business conditions. The net balance for the sales volumes parameter has declined from 45% in Q1, 2017, to 36% in Q4, 2017 to 21% in Q1, 2018. 43% of the businesses expect no change in the parameter, while 18% anticipate a decline in Q1, 2018.
- The services sector is most optimistic regarding its outlook for volumes for Q1, 2018, followed by the manufacturing sector.
- The outlook for the selling prices parameter is more bullish in Q1, 2018, with 56% of the respondents citing stability, while 37% reported a rise in prices, driven by expectations of higher demand, competition and the potential increase in selling prices after implementing VAT.
- The profitability forecast is in line with the projections for volumes and revenues.
- In line with the decline in volumes, hiring expectations have weakened.



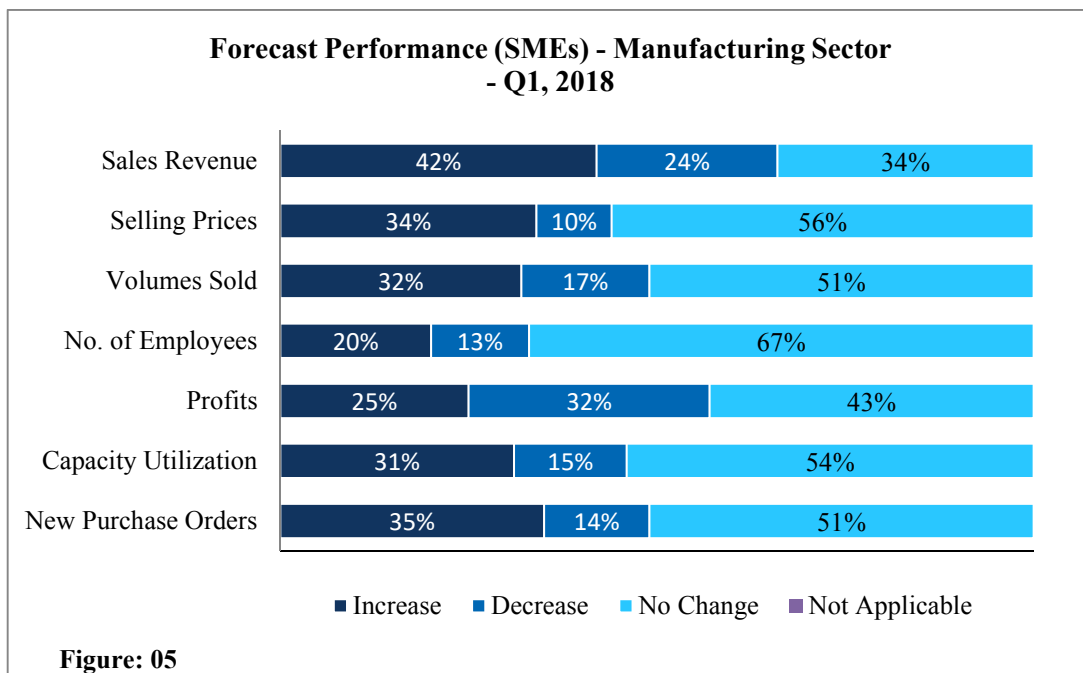
- 31% of manufacturing SMEs and 41% of services firms forecast an increase in their capacity utilization rates during Q1, 2018.
- According to the latest Survey, expectations regarding the business situation show that the proportion of firms anticipating an improvement has declined from 48% in Q4, 2017 to 41% for Q1, 2018, while the number of businesses expecting stability remained firm at 8%.

Manufacturing SMEs

Table: 02

Forecast Business Performance (Manufacturing 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	68%	4%	28%	64%	54%	15%	31%	39%	42%	24%	34%	18%
Selling Prices	10%	6%	84%	4%	7%	9%	84%	-2%	34%	10%	56%	24%
Volumes Sold	67%	4%	29%	63%	52%	13%	35%	39%	32%	17%	51%	15%
No. of Employees	33%	3%	64%	30%	27%	6%	67%	21%	20%	13%	67%	7%
Profits	64%	6%	30%	58%	45%	19%	36%	26%	25%	32%	43%	-7%
New Purchase Orders	65%	6%	29%	59%	51%	13%	36%	38%	35%	14%	51%	21%





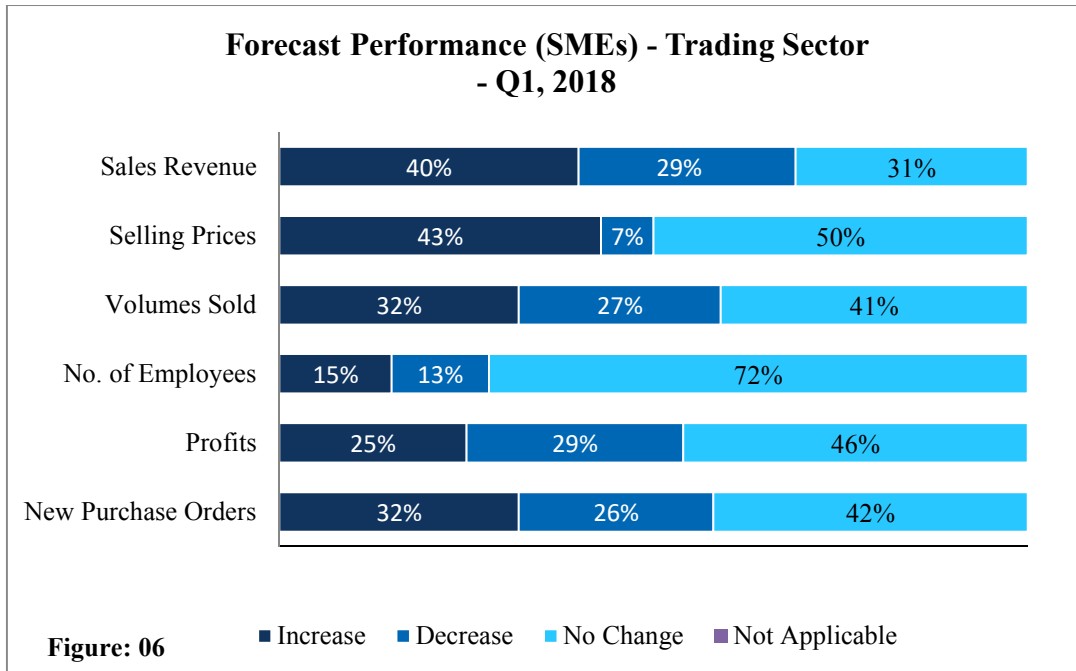
- Respondents in the manufacturing sector are less confident about their volumes for Q1, 2018 than they were for the previous quarter and in the same quarter a year ago due to slowing business conditions, rising competition and the potential impact of VAT. However, 51% of all manufacturers expect that their volumes will remain steady in Q1, 2018 while 32% foresee an increase in volumes backed by new projects and higher demand.
- Manufacturing sub-segments most optimistic about their volumes for Q1, 2018 are cement, aluminium, furniture, glass and metals.

Trading SMEs

Table: 03

Forecast Business Performance (Trading 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	47%	9%	44%	38%	48%	18%	34%	30%	40%	29%	31%	11%
Selling Prices	4%	10%	86%	-6%	12%	13%	75%	-1%	43%	7%	50%	36%
Volumes Sold	45%	9%	46%	36%	41%	20%	39%	21%	32%	27%	41%	5%
No. of Employees	10%	6%	84%	4%	13%	7%	80%	6%	15%	13%	72%	2%
Profits	43%	10%	47%	33%	40%	24%	36%	16%	25%	29%	46%	-4%
New Purchase Orders	45%	9%	46%	36%	41%	20%	39%	21%	32%	26%	42%	6%



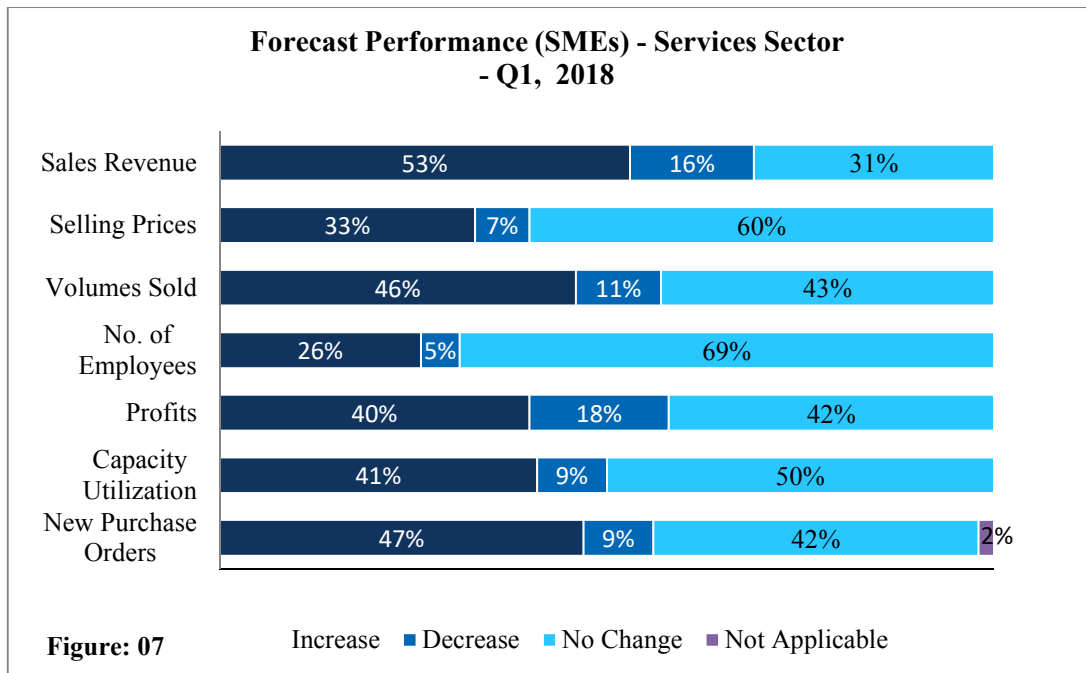
- The trading sector’s forecast for volumes for Q1, 2018 has moderated both on quarterly and annual basis. 32% of traders anticipate an increase in volumes during Q1, 2018 versus 41% for Q4, 2017 and 45% for Q1, 2017. Also, the trading sector’s projections are the least favorable among the key sectors for revenues, volumes, hiring and new purchase orders.
- Key sectors less optimistic of higher demand about their volumes during Q1, 2018 are auto and computer traders.

Services SMEs

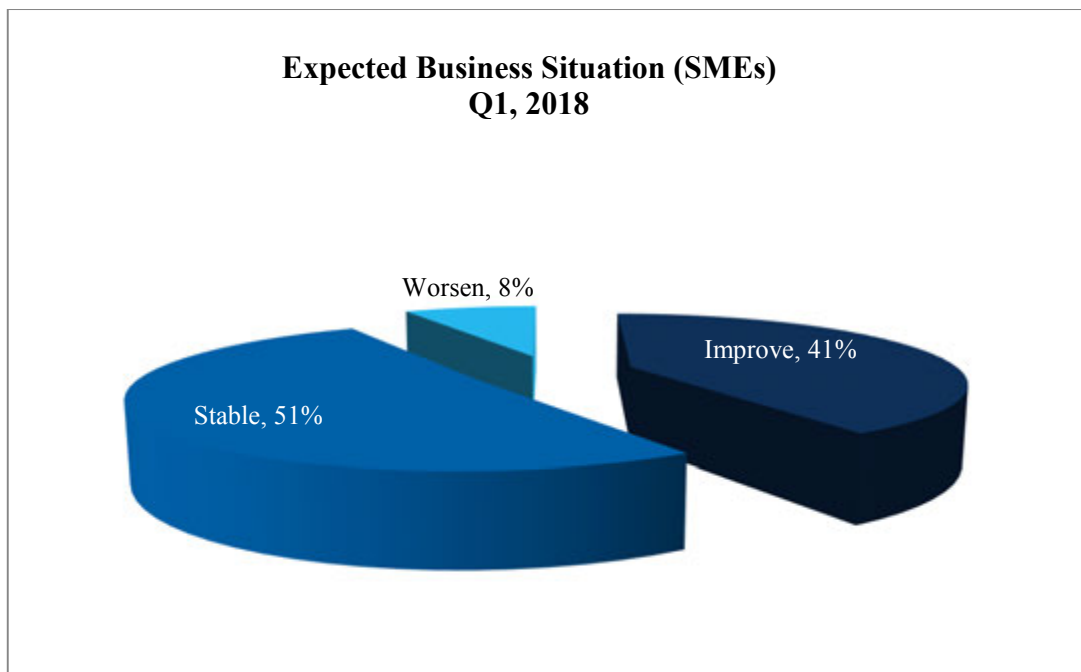
Table: 04

Forecast Business Performance (Services 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	54%	8%	38%	46%	62%	6%	32%	56%	53%	16%	31%	37%
Selling Prices	18%	9%	73%	9%	24%	10%	66%	14%	33%	7%	60%	26%
Volumes Sold	54%	8%	38%	46%	54%	7%	39%	47%	46%	11%	43%	35%
No. of Employees	28%	4%	68%	24%	25%	6%	69%	19%	26%	5%	69%	21%
Profits	52%	11%	37%	41%	51%	13%	36%	38%	40%	18%	42%	22%
New Purchase Orders	52%	8%	40%	44%	51%	6%	40%	45%	47%	9%	42%	38%



- The services sector has displayed a weaker forecast for Q1, 2018 in comparison to the projections for Q4, 2017, and Q1, 2017. The quarterly dampening of sentiments is due to poor market conditions, less demand and stiff competition.
- Within the services sector, construction firms are most bullish about their volumes during Q1, 2018, with a net balance of 50%. Hotels & Restaurants, with a net balance of 47% are also optimistic about their volumes for Q1, 2018. Among construction, architecture & real estate firms, 49% are hopeful of an increase in volumes, while 9% expect a decrease, resulting in a net balance of 40%. In the transportation segment, 51% of the respondents expect higher volumes during Q1, 2018, while 15% foresee a decrease.



While 41% of SMEs expect an improvement in the business situation during Q1, 2018, the corresponding proportion for large companies is at 40%.



DUBAI SME OUTPUT – Q4, 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) – 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	25%	29%	46%	-4%	17%	42%	41%	-25%	24%	37%	39%	-13%
Selling Prices	8%	17%	75%	-9%	10%	25%	65%	-15%	11%	18%	71%	-7%
Volumes Sold	24%	29%	47%	-5%	19%	42%	39%	-23%	23%	34%	43%	-11%
No. of Employees	12%	13%	75%	-1%	12%	18%	70%	-6%	13%	18%	69%	-5%
Profits	23%	30%	47%	-7%	14%	48%	38%	-34%	17%	43%	40%	-26%
New Purchase Orders	25%	29%	46%	-4%	19%	36%	43%	-17%	25%	29%	45%	-4%

- In Q4, 2017, almost a quarter of the respondents (23%) indicated an increase in their volumes, while 34% reported a decrease, resulting in a net balance of negative 11%. Firms that experienced a decline in their volumes cited reasons including lack of demand, competition, poor market conditions and fewer projects.
- Large companies performed stronger than SMEs for all parameters – revenues, selling prices, volumes, hiring, profits and new purchase orders.
- A majority 71% of the respondents reported stability in their selling prices in Q4, 2017, while 18% had to reduce their prices mainly due to competition and poor market conditions.
- A majority of the firms (69%) kept the size of their labor force intact in Q4, 2017, while 13% hired new staff for their business.



- With respect to net profits, firms reported a weaker performance on an annual basis but an improvement over the quarter.
- Capacity utilization rates for manufacturing firms steadied on a quarterly and annual basis. For service providers, capacity utilization rates improved on a quarterly basis but was weak on an annual basis.
- Labor costs increased for 38% of the firms due to a hike in wages & salaries and rise in the cost of accommodation, but it remained unchanged for 59% of the businesses.
- The cost of raw materials impacted 24% of the firms, while 39% reported no change in the parameter. Among large companies, 27% reported an increase in such costs.
- Rental costs increased for 23% of the SMEs and 25% of the large firms.

KEY SME CHALLENGES IN DUBAI

The Survey also addressed key challenges perceived by businesses at the end of Q4, 2017 that may impact near term business growth and development. 37% of the respondents do not expect to face any hurdles in their business operations in Q4, 2017 versus 30% in the previous quarter.

Key SME Business Challenges - Q3, 2017

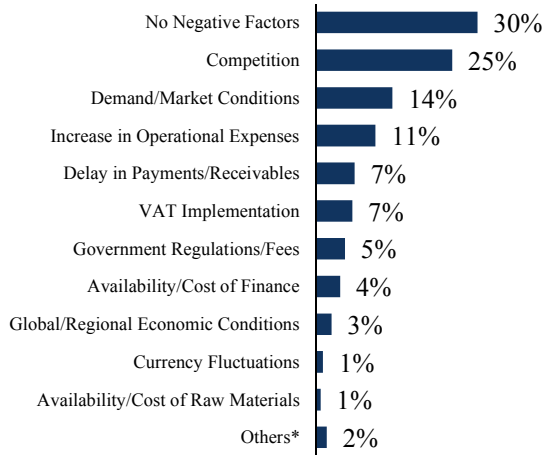


Figure: 09

Key SME Business Challenges - Q4, 2017

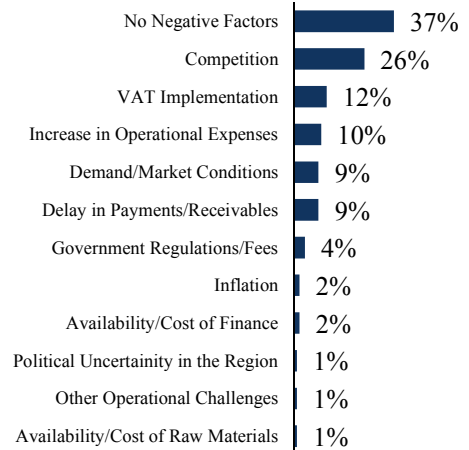


Figure: 10

*Others include logistics & transport concerns

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

1. Competition: Dubai's SMEs continue to face the challenge of competition. Of all the firms that expect to get impacted by competition, 68% of the firms predict that it will intensify.
2. VAT Implementation: This is an impediment to 12% of the respondents, with 26% of them anticipating worsening of the factor.
3. Increase in Operational Expenses: 10% of the firms face this obstacle in their business operations.
4. Demand/Market Conditions: Poor market conditions are an important impediment to 9% of the firms.
5. Delay in Payments/Receivables: 9% of the participants have identified this to be an important challenge facing them.

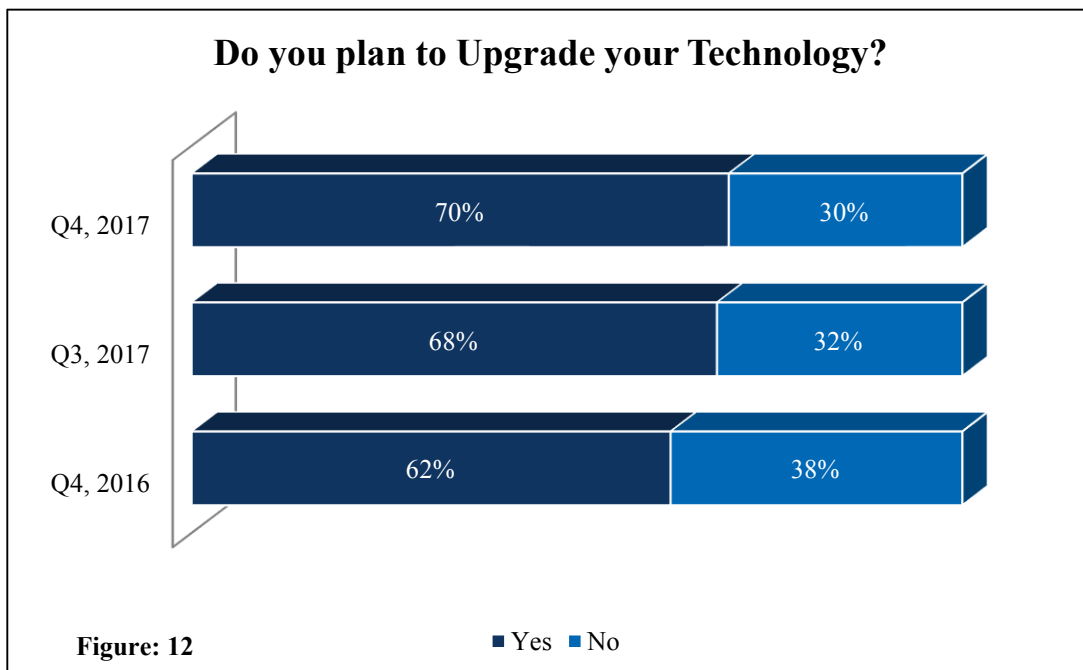
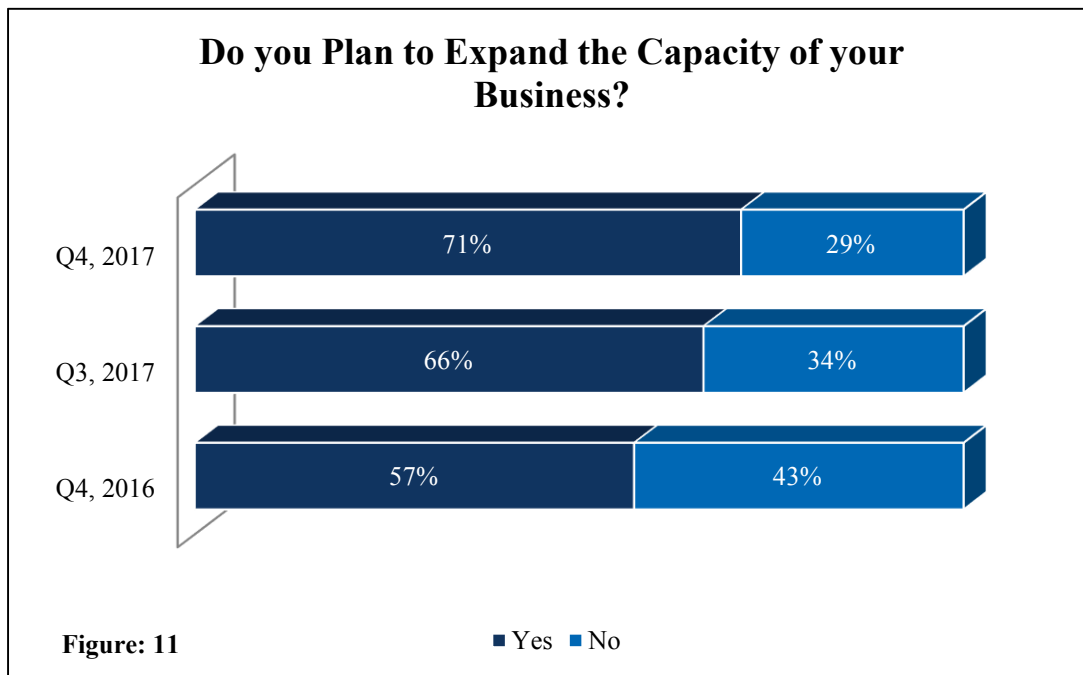
The remaining concerns were relatively less important and each impacted 4% or fewer of the participants.



The important challenges reported by large companies were competition, VAT implementation and poor market/demand conditions.

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 a quarterly basis and on an annual basis (57% intended to expand capacity at the end of Q4, 2016 and 66% in Q3, 2017 versus 71% in Q4, 2017). Plans to upgrade technology have also strengthened both on a quarterly and annual basis; the proportion of respondents intending to upgrade technology has increased from 62% for Q4, 2016 and 68% for Q3, 2017 to 70% for Q4, 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. 75% of services versus 70% of manufacturing and 66% of traders have capacity expansion plans. 76% of services versus 69% of manufacturing and 62% of traders expect to implement technology upgrades.
- SMEs are more confident than large firms about investment in business expansion and technology upgrades.