



SMEs Business Optimism Survey

Q1, 2016

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The Introduction

AT A GLANCE

- The composite BCI has declined on a y-o-y basis from 122.7 points in Q1, 2015 to 109.6 points in Q1, 2016 due to subdued market conditions. On a q-o-q basis, the index has edged lower, moving from 111.3 points in Q4, 2015 to 109.6 points in Q1, 2016.
- As in the last quarter, large companies have displayed a stronger forecast than SMEs for the second quarter of 2016, with composite BCI scores of 121.0 and 109.6 points respectively. Large companies have displayed a stronger outlook for all parameters constituting the index.
- SMEs expect the business situation to largely remain stable as indicated by 48% of them; 37% anticipate an improvement (versus 45% in the previous quarter), but 15% expect deterioration.
- For SMEs, the leading obstacles are competition, and slow demand/market conditions.
- Compared to the last quarter of 2015, fewer businesses are inclined towards capacity expansion and investment in technology upgrades. In Q4, 2015, 67% of the companies had expressed their intention to invest in expansion of capacity versus 60% in Q1, 2016. With respect to upgrading technology, 64% had said in Q4, 2015 that they would undertake such investments compared to 57% in Q1, 2016.

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 1st Quarter of 2016. The survey was administered to 437 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 Q1, 2016 was conducted for 437 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:

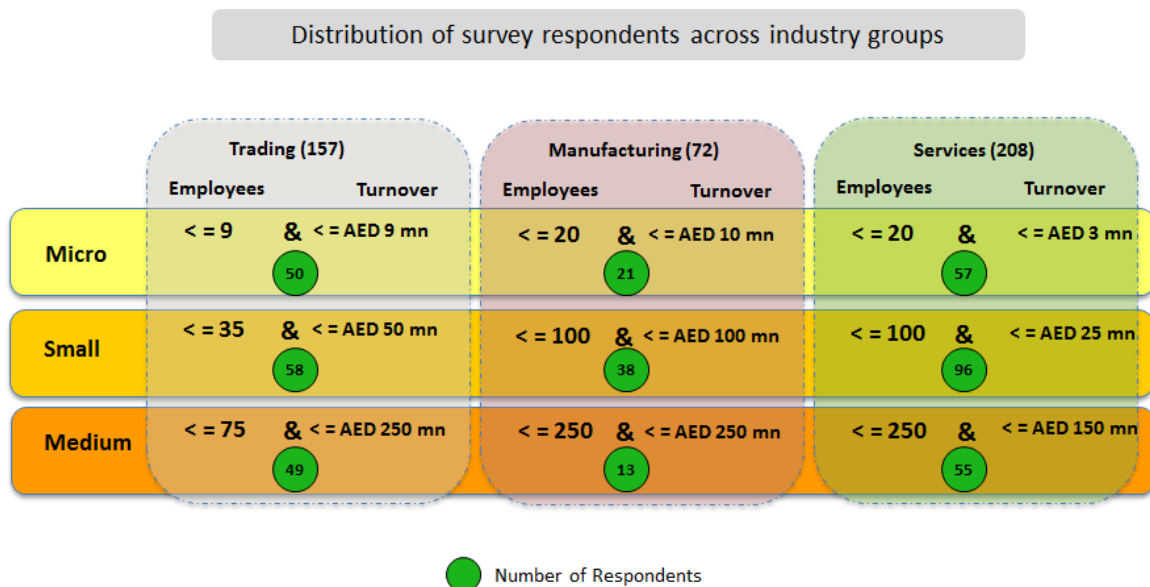


Figure: 01

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:
(% 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 – Q1, 2016

The manufacturing, services, transport, and construction sectors in Dubai recorded strong economic activity during 2015, helping the Emirate to offset the negative impact of lower oil prices. Dubai is expected to record a GDP growth of around 4% during 2015, according to the Department of Economic Development. For Q1, 2016, the SME Composite Business Confidence Index stands at 109.6 points (A score of 100 indicates stable/neutral sentiments).

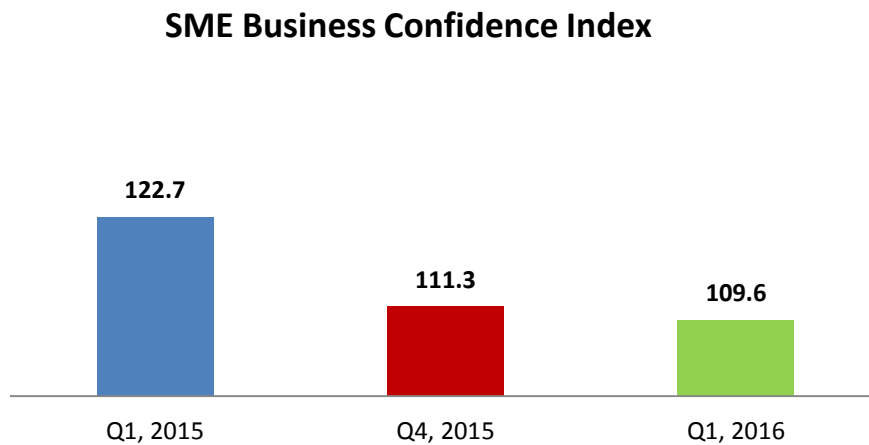


Figure: 02

The Composite BCI has declined modestly q-o-q, moving from 111.3 points in Q4, 2015 to 109.6 points in Q1, 2016, as a large proportion of the respondents expect the existing market situation to prevail in the second quarter as well. On an annual basis, the Composite BCI has declined by 13.1 points, with a pullback in sentiment due to low oil prices, lack of new projects and overall poor market conditions.

Business Confidence Index- Q1, 2016

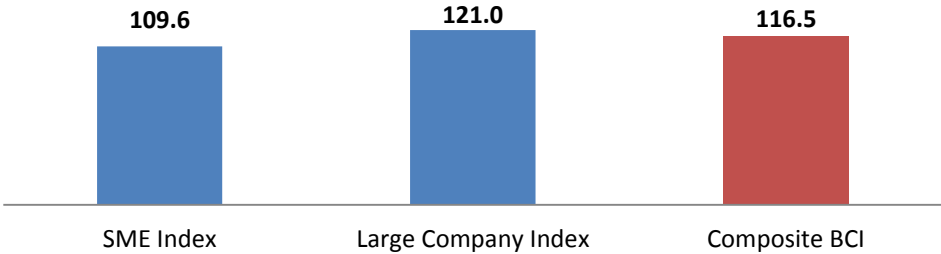


Figure : 03

The survey also shows that large companies remain more confident compared to SMEs, with composite BCI scores of 121.0 and 109.6 points respectively. Large companies have displayed a stronger outlook for all parameters constituting the index - selling prices, volume of sales, net profits and number of employees.

SME BUSINESS OUTLOOK – Q2, 2016

SMEs account for a dominant share in Dubai’s total business composition (95% of the total number of firms), 437 of the 500 firms that were interviewed as part of the survey were SMEs. These included micro, small, and medium enterprises as per Dubai’s SME definition.

Parameter	Q2, 2015				Q1, 2016				Q2, 2016			
	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance
Sales Revenue	52%	8%	40%	44%	50%	15%	35%	35%	47%	14%	39%	33%
Selling Prices	21%	8%	71%	13%	14%	10%	76%	4%	11%	11%	78%	0%
Volumes Sold	51%	9%	40%	42%	48%	14%	38%	34%	44%	14%	42%	30%
No. of Employees	29%	3%	68%	26%	19%	7%	74%	12%	18%	6%	76%	12%
Profits	51%	10%	39%	41%	43%	19%	38%	24%	41%	16%	43%	25%
New Purchase Orders	50%	8%	42%	42%	48%	14%	38%	34%	37%	11%	52%	26%

Table: 01

Forecast Business Performance (SME) - Q2, 2016

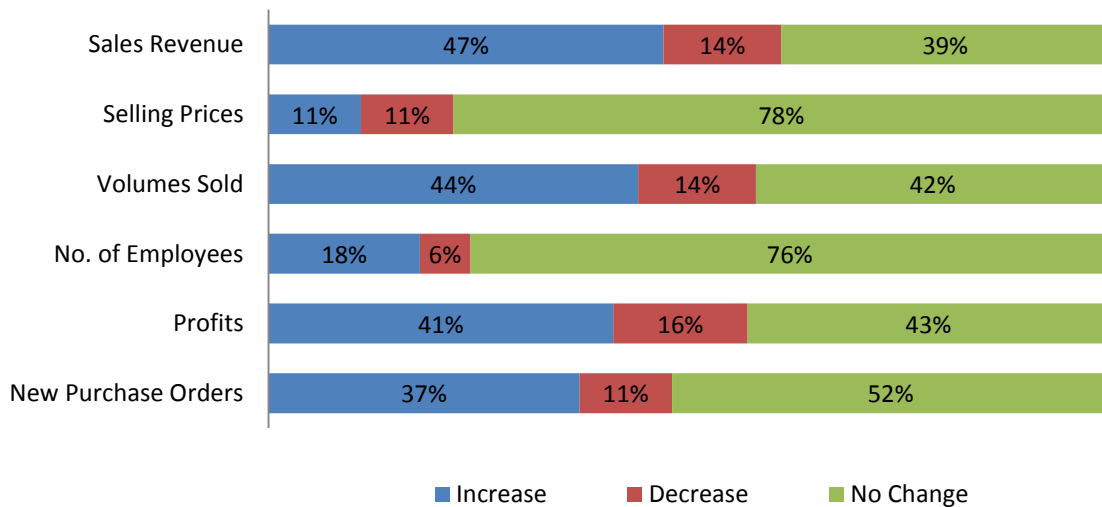


Figure: 04

- Optimism levels for revenues, selling prices and volumes have weakened both on a quarterly as well as annual basis.
- Large companies remain more optimistic than SMEs with respect to their volume of sales, as indicated by a net balance of 37% for the former compared to 30% for the latter.
- With respect to volume of sales, 44% of the companies anticipate an increase and 14% forecast a decrease, resulting in a net balance of 30% for Q2, 2016. This is lower than the net balance of 34% for Q1, 2016 and 42% for Q2, 2015. While the manufacturing sector is more optimistic about volumes for the second quarter, the services sector has displayed a sharp drop in sentiments, which is consistent with the decline in economic activity for the services segment during the summer months.
- Businesses have indicated a subdued forecast for selling prices (net balance of 0% for Q2, 2016), which is consistent with the low rate of inflation recorded in Dubai (monthly inflation rate of 0.22% in February 2016). Respondents have attributed this to rising competition and poor demand conditions.
- The hiring forecast for Q2, 2016 is on par with the previous quarter, although it is significantly weaker compared to last year.
- 43% of manufacturing firms and 34% of services firms expect to increase their capacity utilization rates during Q2, 2016.
- The outlook for new purchase orders and profits is consistent with the weaker forecast for volumes.
- Respondents expect the business situation to largely remain stable as indicated by 48% of them; 37% anticipate an improvement (versus 45% in the previous quarter), but 15% expect deterioration.

Manufacturing SMEs

Parameter	Q2, 2015				Q1, 2016				Q2, 2016			
	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance
Sales Revenue	46%	6%	48%	40%	44%	23%	33%	21%	46%	18%	36%	28%
Selling Prices	19%	6%	75%	13%	10%	13%	77%	-3%	7%	19%	74%	-12%
Volumes Sold	47%	4%	49%	43%	41%	26%	33%	15%	46%	18%	36%	28%
No. of Employees	36%	0%	64%	36%	21%	11%	68%	10%	19%	10%	71%	9%
Profits	46%	7%	47%	39%	37%	24%	39%	13%	44%	18%	38%	26%
New Purchase Orders	47%	4%	49%	43%	43%	24%	33%	19%	44%	17%	39%	27%

Table: 02

Forecast Performance (SMEs) - Manufacturing Sector - Q2, 2016

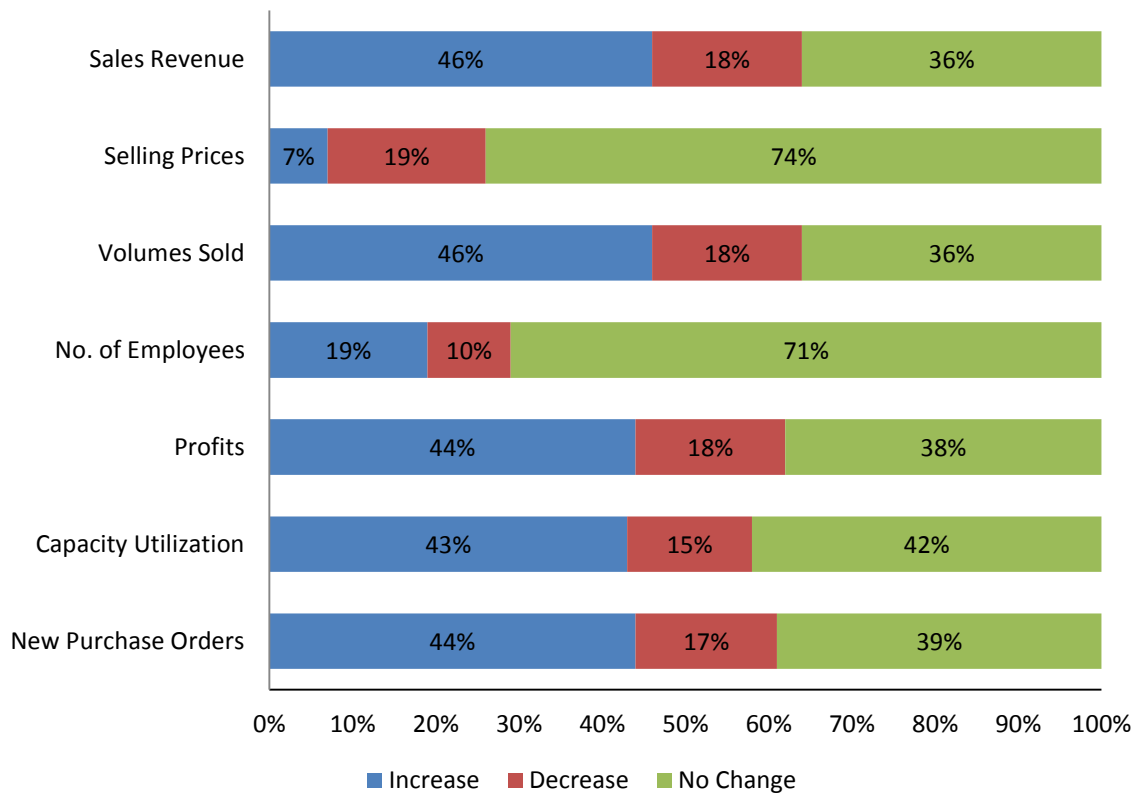


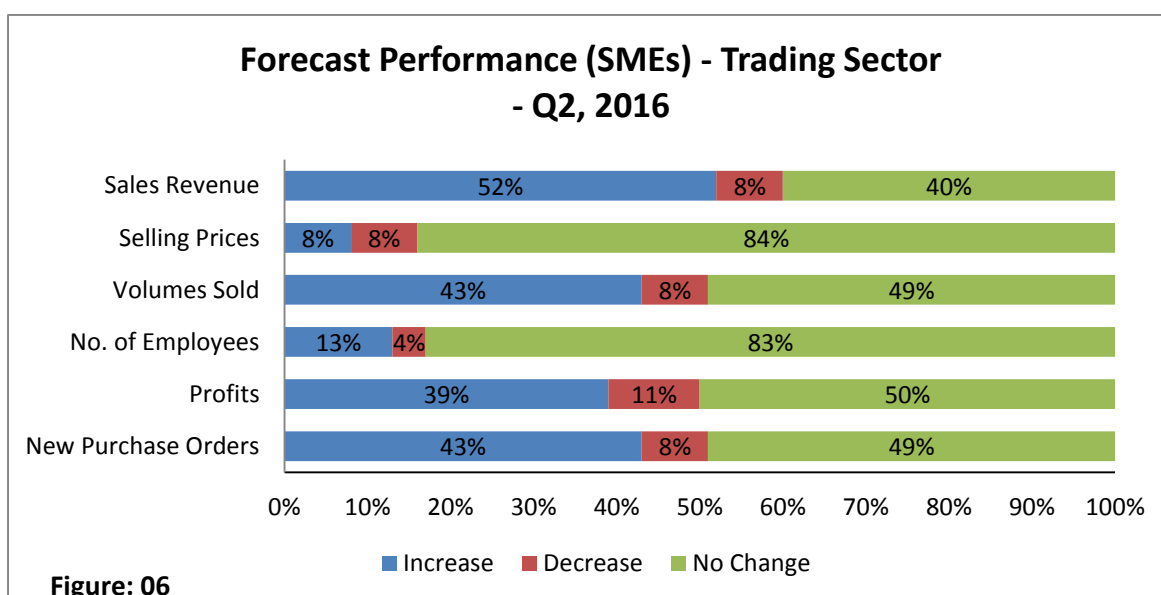
Figure: 05

- Within the manufacturing sector, 46% of the firms anticipate an increase in volumes based on expectations of new orders, a favorable business environment, product diversification and other innovative strategies. However, 18% of the respondents expect a decrease, resulting in a net balance of 28%. While the outlook for volumes has weakened on an annual basis, it has become bullish compared to the previous quarter.
- Manufacturers in the fields of metals, furniture and plastics have indicated a stronger outlook in comparison to other sub-sectors.

Trading SMEs

Parameter	Q2, 2015				Q1, 2016				Q2, 2016			
	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance
Sales Revenue	50%	8%	42%	42%	54%	15%	31%	39%	52%	8%	40%	44%
Selling Prices	14%	7%	79%	7%	10%	11%	79%	-1%	8%	8%	84%	0%
Volumes Sold	48%	10%	42%	38%	53%	15%	32%	38%	43%	8%	49%	35%
No. of Employees	17%	3%	80%	14%	15%	10%	75%	5%	13%	4%	83%	9%
Profits	48%	10%	42%	38%	44%	20%	36%	24%	39%	11%	50%	28%
New Purchase Orders	47%	9%	44%	38%	50%	14%	36%	36%	43%	8%	49%	35%

Table: 03

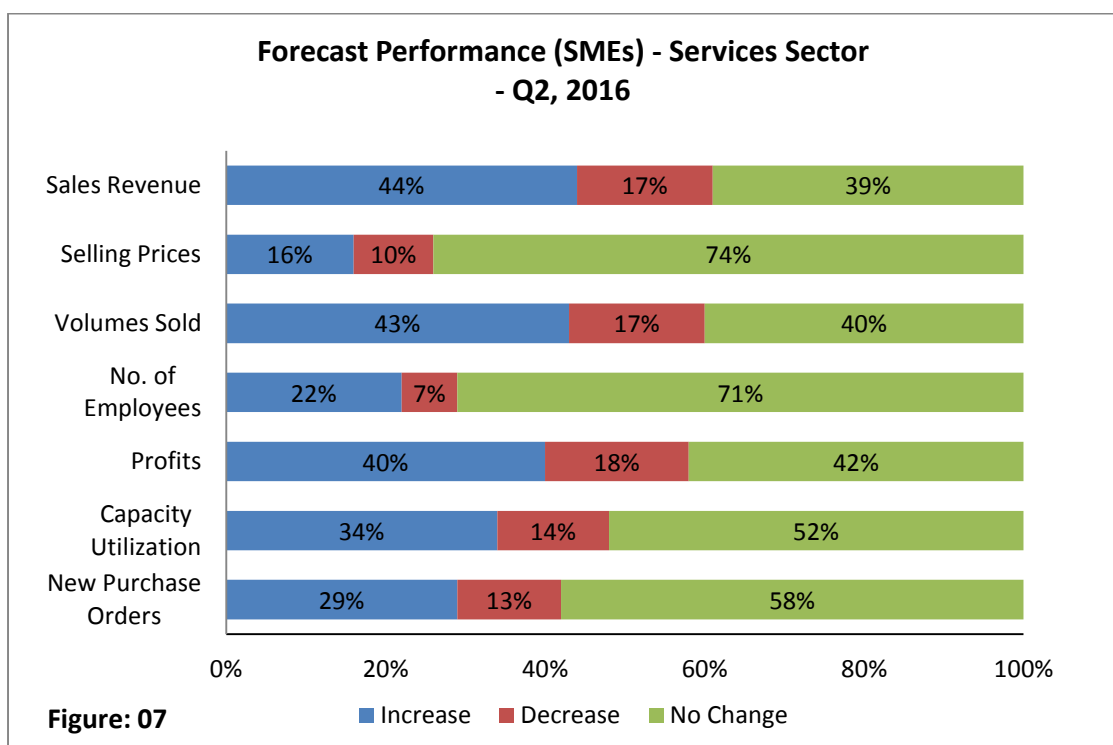


- Among the three main sectors, the trading sector is the most optimistic with respect to volumes. However, the sector has displayed a modest decline in sentiments for Q2, 2016 when compared with the previous quarter and Q2, 2015.
- Key sectors optimistic of higher demand over the next quarter include the following: auto traders hope to increase their sales volumes during Q2, 2016, supported by new orders, higher number of customers and seasonal increase in demand; electronics computers and food & beverage traders have also forecast an increase in volumes during Q2, 2016.

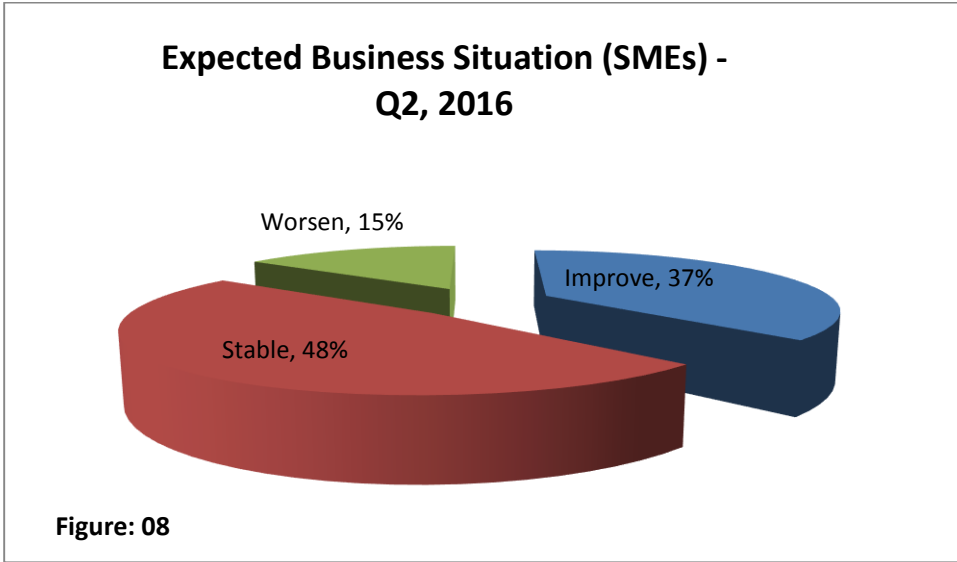
Services SMEs

Parameter	Q2, 2015				Q1, 2016				Q2, 2016			
	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance
Sales Revenue	56%	9%	35%	47%	49%	13%	38%	36%	44%	17%	39%	27%
Selling Prices	28%	9%	63%	19%	18%	8%	74%	10%	16%	10%	74%	6%
Volumes Sold	55%	9%	36%	46%	47%	10%	43%	37%	43%	17%	40%	26%
No. of Employees	35%	4%	61%	31%	22%	3%	75%	19%	22%	7%	71%	15%
Profits	54%	11%	35%	43%	44%	16%	40%	28%	40%	18%	42%	22%
New Purchase Orders	53%	8%	39%	45%	47%	10%	43%	37%	29%	13%	58%	16%

Table: 04



- The outlook of the services sector for Q2, 2016 has posted a decline in comparison to Q2, 2015 and Q1, 2016. The q-o-q decline can be attributed to a sharp fall in sentiments in the tourism & hospitality segment. The y-o-y drop in sentiments is due to a softer outlook in the transport & logistics segment. Among the three main sectors, services have posted the least optimistic outlook for volumes.
- Within the travel & hospitality sector, the hotels & restaurants sub-segment has displayed a steep decline in sentiments with 58% of the participants predicting a decline in volumes and just 11% hopeful of an increase, resulting in a net balance of negative 47%. In comparison, car rentals & travel companies however are more optimistic with a net balance of 34%. For the combined travel & hospitality segment, the net balance stands at negative 21%.



37% of SMEs and 50% of large companies expect the business situation to improve in Q2, 2016.

DUBAI SME OUTPUT – Q1, 2016

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.

Parameter	Q1, 2015				Q4, 2015				Q1, 2016			
	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance
Sales Revenue	26%	28%	46%	-2%	17%	40%	43%	-23%	16%	35%	49%	-19%
Selling Prices	13%	21%	66%	-8%	8%	27%	65%	-19%	9%	24%	67%	-15%
Volumes Sold	26%	30%	44%	-4%	16%	40%	44%	-24%	16%	36%	48%	-20%
No. of Employees	18%	9%	73%	9%	12%	14%	74%	-2%	10%	14%	76%	-4%
Profits	24%	35%	41%	-11%	13%	49%	38%	-36%	14%	38%	48%	-24%
New Purchase Orders	27%	29%	44%	-2%	17%	36%	47%	-19%	15%	27%	58%	-12%

Table: 05

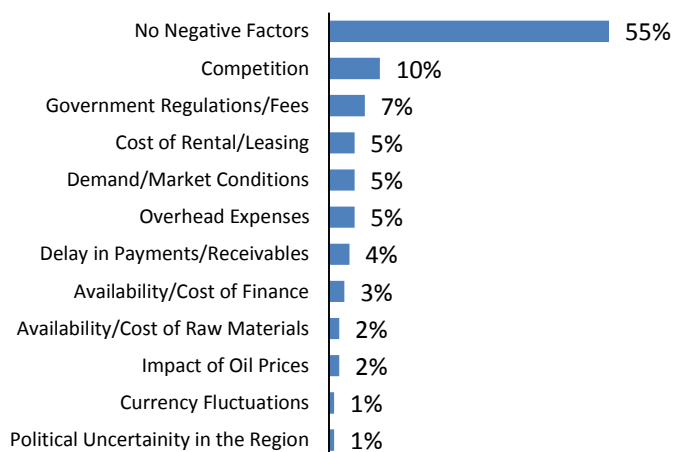
- 36% of the respondents have indicated that their volumes decreased in Q1, 2016 mainly due to lower oil prices, crisis in the market, poor demand and lack of new projects, competition, delays in payments and slowdown in global growth.
- The performance of SMEs was weaker than that of large companies, with respect to volumes, hiring and net profits.
- While 67% of the firms maintained their selling prices, 24% had to lower them in the face of competition and low demand.
- Employment remained stable for a majority (76%) of the firms, while 14% had to cut down their staff strength due to fewer projects.
- Lower procurement levels in Q1, 2016 reflect the reduced sales volumes.
- Both, manufacturing and services firms experienced a decline in their capacity utilization rates when compared q-o-q and y-o-y.
- The unit cost of labor increased for 39% of the survey participants due to an increase in wages, rise in the cost of living, high visa costs, increments given, higher government fees and higher rates of rental.

- Cost of raw materials remained unchanged for 70% of the firms, while 9% experienced an increase. Manufacturing SMEs were most impacted by the rising cost of raw materials as cited by 21% of them, compared to 3% for traders and 9% for services. 9% of large companies reported a rise in the cost of raw materials.
- Rental costs increased for 59% of the respondents during Q1, 2016. Trading SMEs were most impacted by rising rentals. Among large companies, 55% of the respondents reported an appreciation in such costs.

KEY SME CHALLENGES IN DUBAI

The survey also addressed key challenges perceived by businesses at the end of Q1, 2016 that may impact near term business growth and development. The survey shows that a large majority (84%) of the businesses do not expect any negative factors to hinder their business operations; the corresponding proportion in the previous quarter was 55%.

Key SME Business Challenges - Q4, 2015



Key SME Business Challenges - Q1, 2016

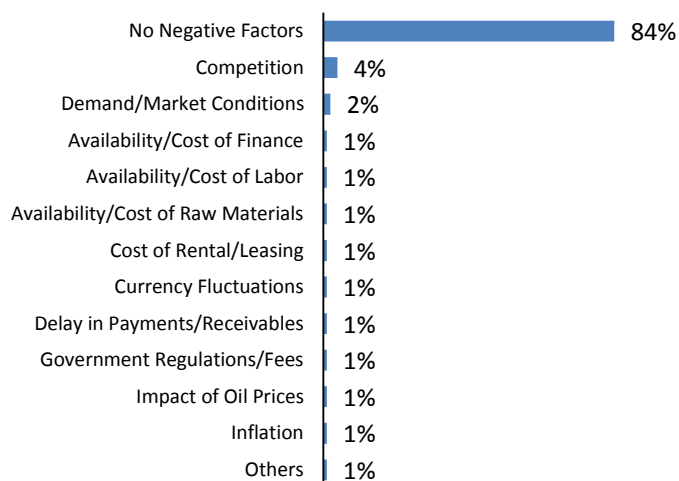


Figure: 09

Figure: 10

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

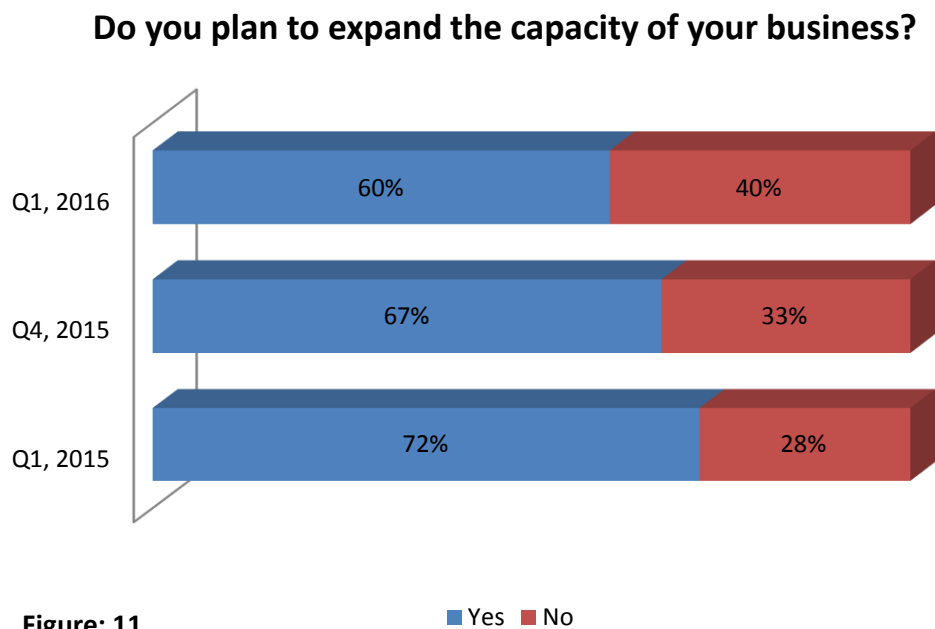
1. Competition: 4% of the respondents expect competition to impact their business operations. 41% of them expect that competition will intensify.
2. Demand/market conditions: Sluggish demand is an important business challenge for Dubai's SMEs as indicated by 2% of the respondents.

The remaining concerns were similar in importance and each impacted around 1% of the participants.

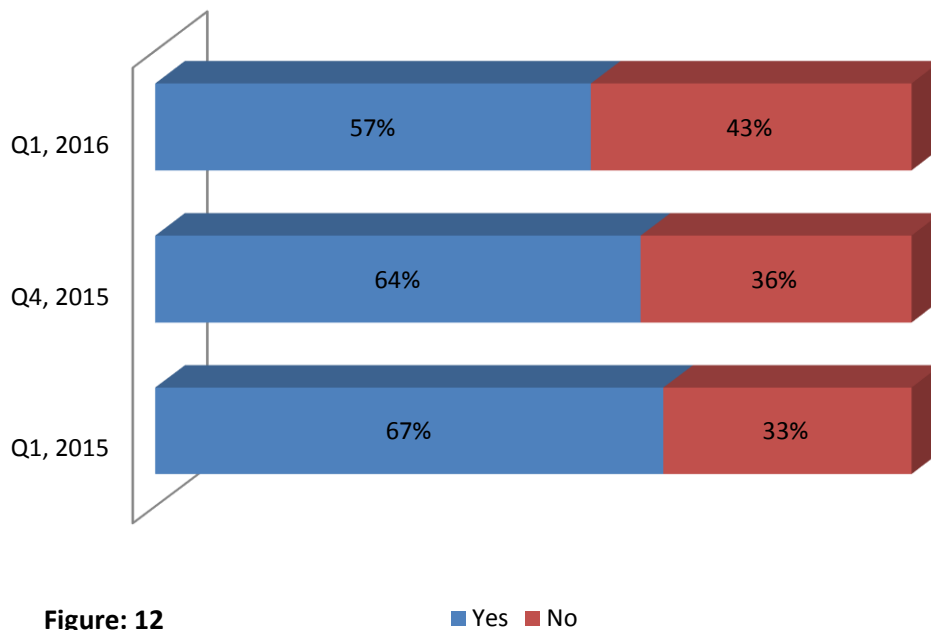
For large companies, the main hurdle was high costs of rental/leasing, followed by competition and government regulation/fees. For SMEs, the leading obstacles are competition, and slow demand/market conditions.

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.



Do you plan to upgrade your technology?



- Compared to the last quarter of 2015, fewer businesses are inclined towards capacity expansion and investment in technology upgrades. In Q4, 2015, 67% of the companies had expressed their intention to invest in expansion of capacity. The corresponding percentage for Q1, 2016 stands at 60%. With respect to upgrading technology, 64% had said in Q4, 2015 that they would undertake such investments compared to 57% in Q1, 2016.
- Companies planning capacity expansion are willing to undertake capital investment for expansion of their current office premises and acquisition of fixed assets (such as, factories, warehouses, machinery, and vehicles). Key reasons cited by respondents for not considering expanding business capacity include satisfaction amongst applicable respondents related to size and scale of their current operations and/or prioritization towards achieving stability and profitability, over and above market expansion.
- A comparison among sectors shows that the services and trading sectors are more optimistic towards capacity expansion (63% in services and trading versus 46% in manufacturing intend to invest in expansion), while the services segment is most

favorable towards technology upgrades (61% in services against 50% in manufacturing and 56% in trading plan to invest in upgrading technology).

- SMEs hold a stronger outlook than large firms with respect to investment in technology upgrades, whereas large firms more inclined towards capacity expansion.