



SMEs Business Optimism Survey

Q2, 2017

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The Introduction

AT A GLANCE

- SMEs in Dubai have lowered their forecast for Q3, 2017 in comparison to the previous quarter and the same quarter a year ago; with the composite BCI declining by 9.7 points from 117.0 points Q1, 2017 and by 3.7 points from 111.0 points in Q2, 2016 to 107.3 points in Q2, 2017, owing to competition, poor market conditions, lower demand during the summer months, and fewer customers/orders/projects.
- Large companies hold stronger business projections for Q3, 2017 compared to SMEs, with Composite BCIs at 112.9 and 107.3 points, respectively. Large companies are more confident than SMEs for selling prices and number of employees, while the latter are more upbeat about volumes and profits.
- SMEs anticipate moderation in the business situation in Q3, 2017. The proportion of firms that have forecast an improvement for Q3, 2017 stands at 40%, lower than the proportion of 44% in Q2, 2017. A higher proportion of firms (10%) anticipate deterioration in Q3, 2017 versus 8% in Q2, 2017.
- While 46% of SMEs have reported no hindrances to their business operations, the key challenges faced by the remaining firms are competition, poor market/demand conditions and increase in expenses.
- Plans to invest in capacity expansion are similar on a q-o-q basis (62% in Q2, 2017 versus 61% in Q1, 2017), but are lower than projections a year ago. Respondents are less bullish about their technology upgrade plans in Q2, 2017 vis-à-vis the previous quarter and a year ago. 63% of the firms intend to invest in upgrading technology in Q2, 2017 compared to 65% in Q1, 2017 and Q2, 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 2nd Quarter of 2017. The survey was administered to 437 (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 Q2, 2017 was conducted for 507 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:

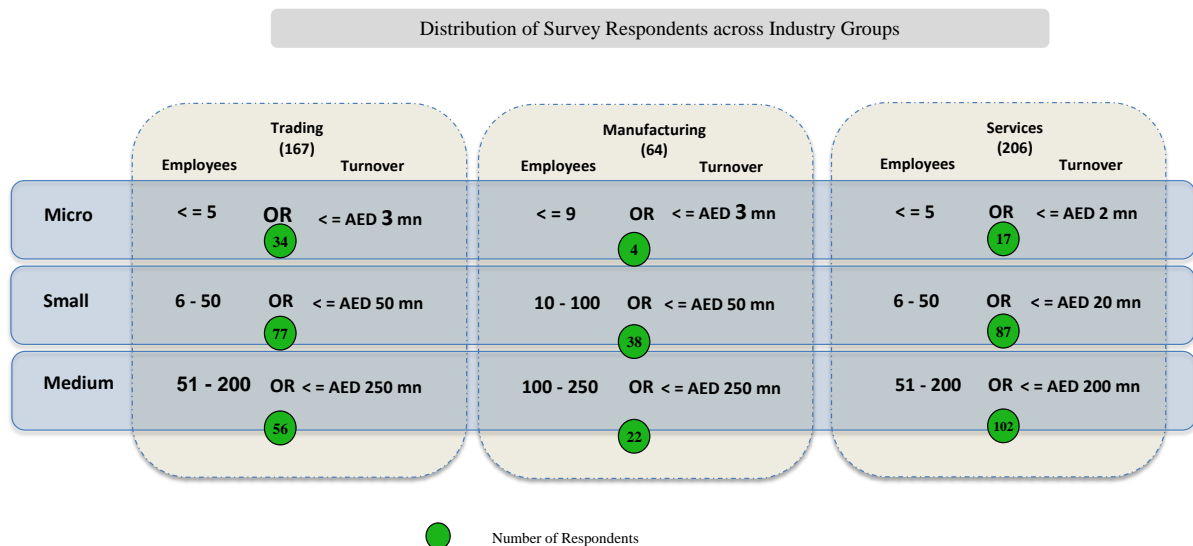


Figure: 01

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 – Q2, 2017

The IMF expects Dubai's GDP to grow at a 4% pace in 2017 compared to 2.6% in 2016, driven by local spending, including investment in preparation for the Expo 2020, and a pick-up in global trade. Dubai's projected growth is much stronger than the average of 2.3% predicted for the MENA region. According to DED, the Emirate's economy will also be aided by its diversification efforts and opening of new markets including Islamic finance and developing the renewable energy industry. According to the survey, SMEs' forecast is positive with the Composite Business Confidence Index (BCI) at 107.3 points in Q2, 2017 (A score of 100 indicates stable/neutral sentiments).

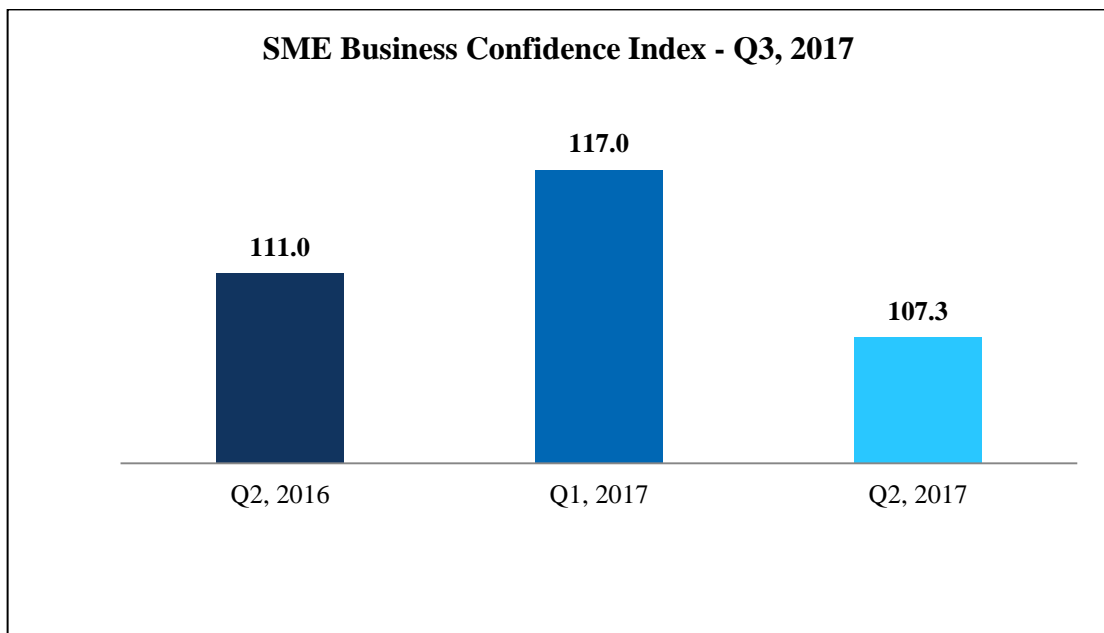
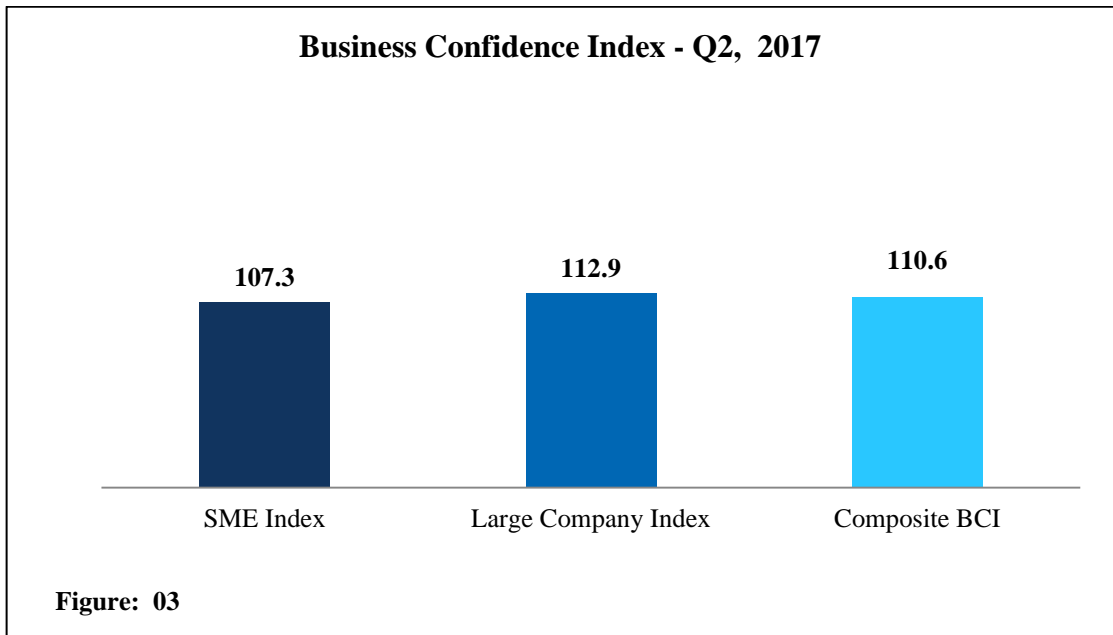


Figure: 02

Dubai's SMEs have lowered their forecast for Q3, 2017 in comparison to the previous quarter and the same quarter a year ago; with the composite BCI declining by 9.7 points from 117.0 points Q1, 2017 and by 3.7 points from 111.0 points in Q2, 2016 to 107.3 points in Q2, 2017. SMEs have cited various reasons for this weakening of sentiment including growing competition, poor market condition, lower demand during the summer months, fewer customers/orders/projects and issues related to government fees.



The survey also reveals that large companies hold stronger business projections for Q3, 2017 compared to SMEs, with Composite BCIs at 112.9 and 107.3 points, respectively. Large companies are more confident than SMEs for selling prices and number of employees, while the latter are more upbeat about volumes and profits.

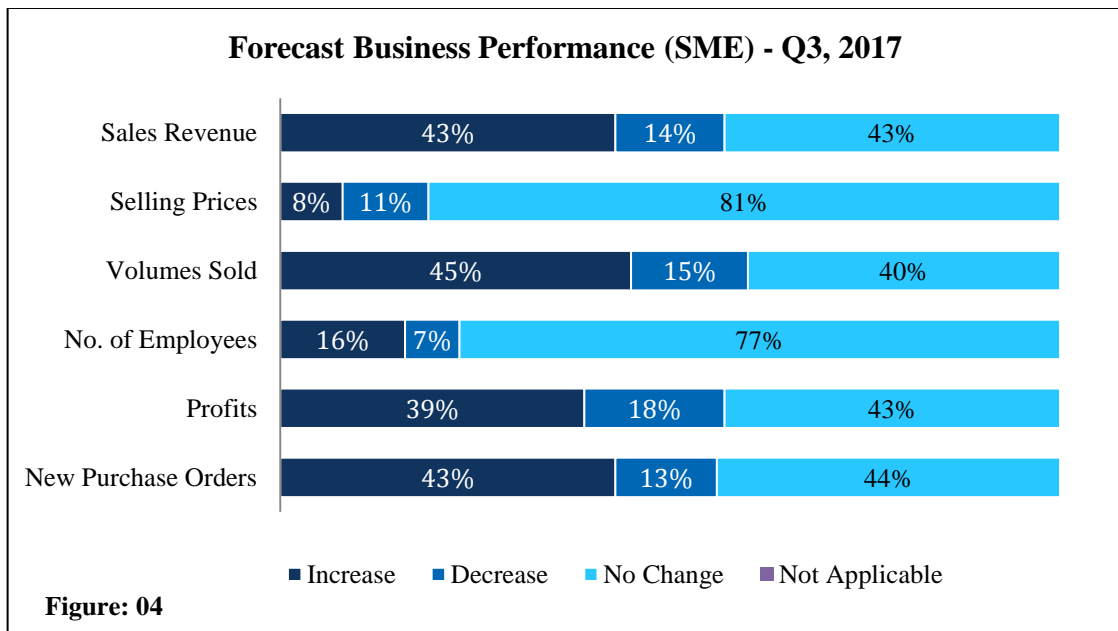
SME BUSINESS OUTLOOK – Q3, 2017

SMEs account for a dominant share in Dubai’s total business composition, 437 of the 507 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) – 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	47%	17%	36%	30%	54%	10%	36%	44%	43%	14%	43%	29%
Selling Prices	13%	7%	80%	6%	12%	9%	79%	3%	8%	11%	81%	-3%
Volumes Sold	47%	16%	37%	31%	49%	9%	42%	40%	45%	15%	40%	30%
No. of Employees	17%	5%	78%	12%	24%	3%	73%	21%	16%	7%	77%	9%
Profits	42%	18%	40%	24%	47%	12%	41%	35%	39%	18%	43%	21%
New Purchase Orders	46%	17%	37%	29%	52%	9%	39%	43%	43%	13%	44%	30%



- The forecast for Q3, 2017 is weaker than that for Q2, 2017 for all parameters. Key reasons cited by respondents for this softer forecast include slow demand during the summer months due to fewer customers, fewer projects/orders and growing competition.

- SMEs are more optimistic than large companies with respect to volumes and net profits, but are less confident about hiring and selling prices.
- On a quarterly basis, the forecast for volume of sales has weakened, with the net balance decreasing from 40% for Q2, 2017 to 30% for Q3, 2017. However, 45% of the respondents anticipate an increase in their volumes during Q3, 2017 as they hope to get new projects/orders or expect the market condition to improve. The net balance for volumes for large firms stands at 28%.
- The manufacturing sector holds the firmest forecast for volumes for Q3, 2017, followed by the services sector, while traders continue to be the least optimistic.
- Most (81%) SMEs anticipate that their selling prices will remain unchanged during Q3, 2017. 8% of the respondents expect to increase their prices owing to higher expenses or rise in the cost of raw materials or because of higher demand for their products.
- SMEs forecast for net profits has weakened q-o-q in line with the weakening sentiments with respect to sales volumes.
- The outlook for hiring has also weakened q-o-q and y-o-y as SMEs are not as confident about their volumes and profits.
- 48% of manufacturers and 43% of services firms forecast an increase in their capacity utilization rates during Q3, 2017.
- SMEs anticipate moderation in the business situation in Q3, 2017. The proportion of firms that have forecast an improvement for Q3, 2017 stands at 40%, lower than the proportion of 44% in Q2, 2017. A higher proportion of firms (10%) anticipate deterioration in Q3, 2017 versus 8% in Q2, 2017, while the number of businesses anticipating stability has firmed up from 48% in Q2, 2017 to 50% in Q3, 2017.

Manufacturing SMEs

Table: 02
Forecast Business Performance (Manufacturing 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	67%	7%	26%	60%	64%	8%	28%	56%	64%	11%	25%	53%
Selling Prices	14%	3%	83%	11%	21%	5%	74%	16%	8%	11%	81%	-3%
Volumes Sold	68%	7%	25%	61%	56%	10%	34%	46%	56%	9%	35%	47%
No. of Employees	25%	0%	75%	25%	32%	3%	65%	29%	27%	5%	68%	22%
Profits	58%	9%	33%	49%	58%	10%	32%	48%	52%	13%	35%	39%
New Purchase Orders	65%	7%	28%	58%	66%	8%	26%	58%	56%	6%	38%	50%

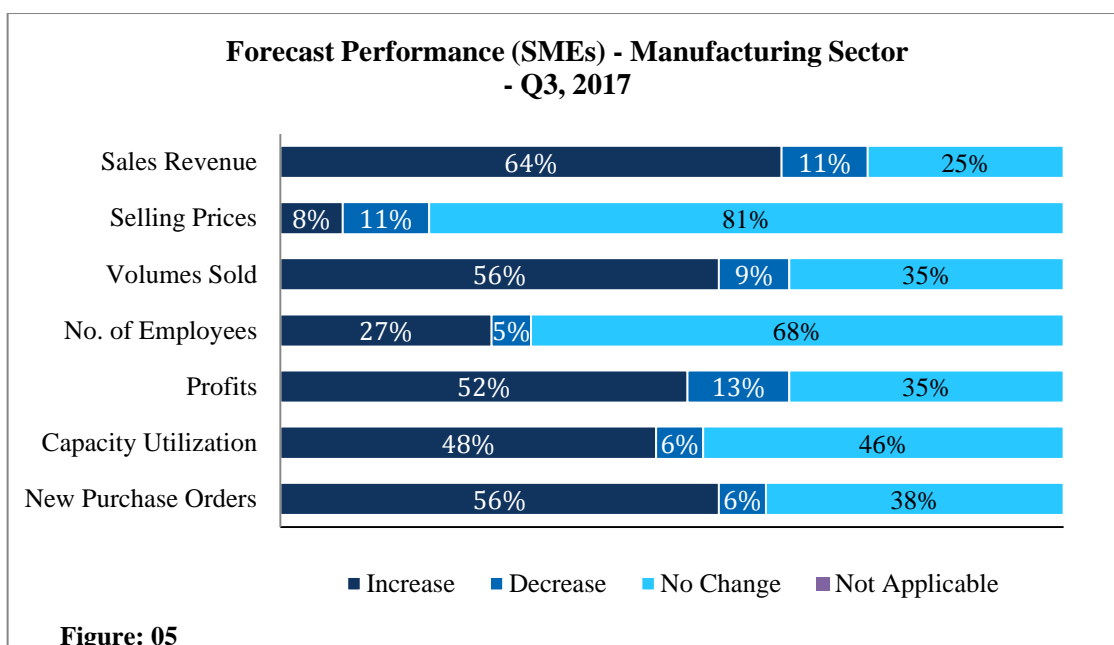


Figure: 05

- The manufacturing sector's forecast for volumes for Q3, 2017 has shown a moderation compared to the outlook for Q3, 2016, but is on par with the outlook for Q2, 2017. 56% of the manufacturing firms hope to sell higher volumes in Q3, 2017, similar to the 56% in Q2, 2017, as they hope to get new projects and orders. 35% of the respondents expect stability in their volumes, while 9% anticipate a decline.

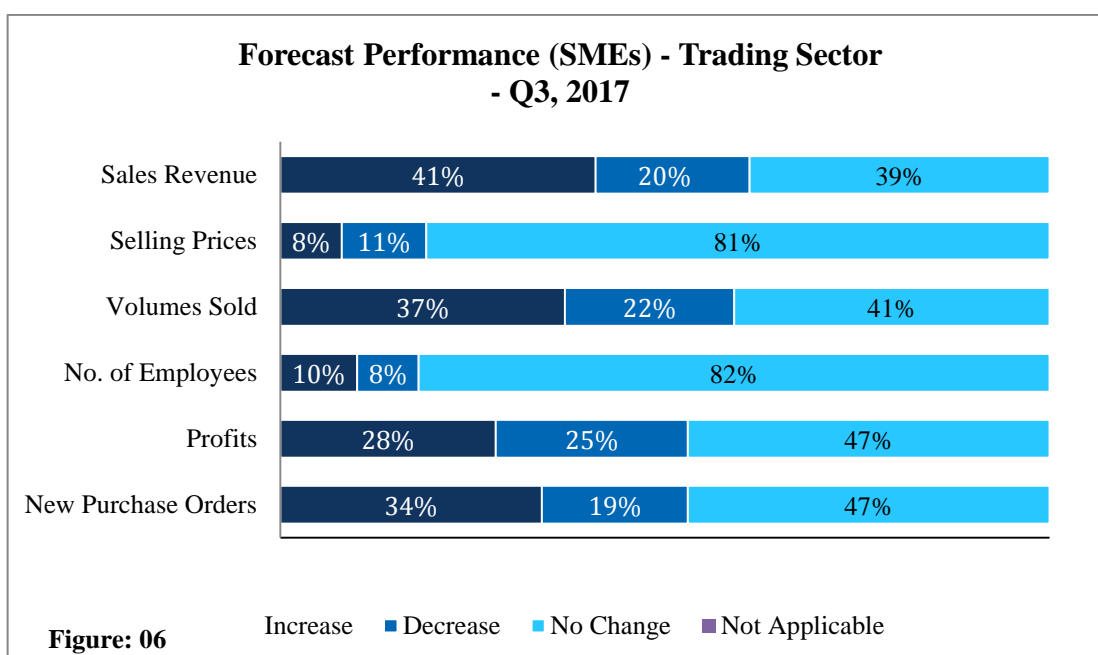
- Glass, furniture and aluminium manufacturers are most optimistic about their volumes during Q3, 2017, while plastic manufacturing firms show lower confidence levels.

Trading SMEs

Table: 03

Forecast Business Performance (Trading 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	45%	12%	43%	33%	46%	11%	43%	35%	41%	20%	39%	21%
Selling Prices	7%	4%	89%	3%	8%	5%	87%	3%	8%	11%	81%	-3%
Volumes Sold	47%	12%	41%	35%	45%	11%	44%	34%	37%	22%	41%	15%
No. of Employees	12%	2%	86%	10%	15%	5%	80%	10%	10%	8%	82%	2%
Profits	42%	14%	44%	28%	44%	12%	44%	32%	28%	25%	47%	3%
New Purchase Orders	45%	13%	42%	32%	44%	12%	44%	32%	34%	19%	47%	15%



- Sentiments with reference to sales volumes in the trading sector have moderated both on a y-o-y and q-o-q basis. 37% of the traders anticipate a rise in volumes during Q3, 2017, versus 45% in Q2, 2017 and 47% for Q3, 2016. Among the three main sectors, trading firms hold the weakest outlook for all parameters in the survey.

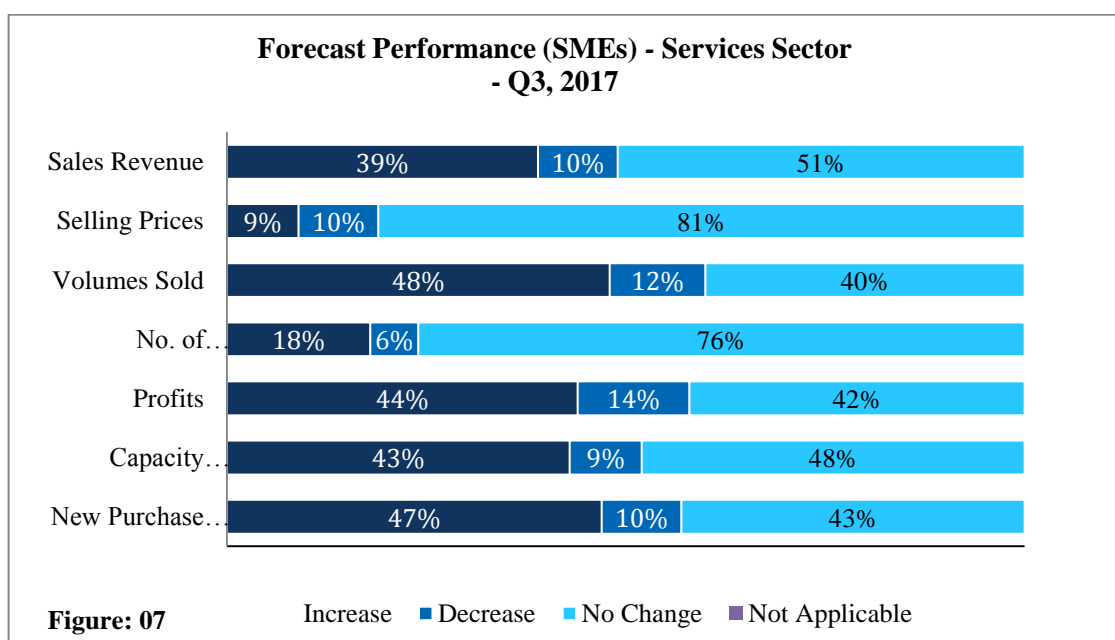
- Key sectors optimistic of higher demand over the next quarter include the following:
Electronics and auto traders are most optimistic about their volumes during Q3, 2017.

Services SMEs

Table: 04

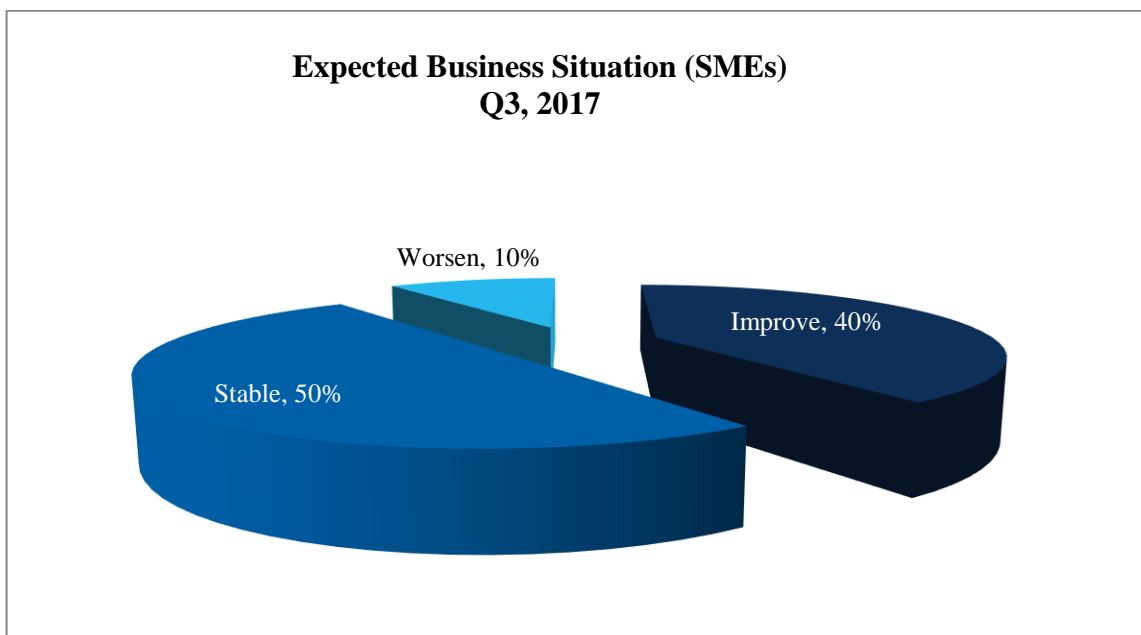
Forecast Business Performance (Services SMEs) – Q3, 2017

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	42%	23%	35%	19%	56%	9%	35%	47%	39%	10%	51%	29%
Selling Prices	16%	10%	74%	6%	12%	13%	75%	-1%	9%	10%	81%	-1%
Volumes Sold	40%	23%	37%	17%	51%	8%	41%	43%	48%	12%	40%	36%
No. of Employees	18%	8%	74%	10%	28%	2%	70%	26%	18%	6%	76%	12%
Profits	37%	24%	39%	13%	46%	12%	42%	34%	44%	14%	42%	30%
New Purchase Orders	40%	23%	37%	17%	54%	7%	39%	47%	47%	10%	43%	37%



- According to the survey, the forecast for volumes is weaker on a quarterly basis, but has firmed up on a y-o-y basis. The annual improvement in forecast is possibly due to respondents' expectations of getting new orders/tenders/projects/contracts.

- Within the services sector, the construction sector is most optimistic about its volumes during Q3, 2017 (net balance of 52%). On the other hand, hotels & restaurants are least optimistic with a net balance of 10%, as this segment is most impacted by the fewer tourist arrivals. Among construction, architecture & real estate firms, 50% expect an increase in volumes during Q3, 2017 as these respondents expect to get more projects or new orders during the third quarter, while 4% anticipate a decline, resulting in a net balance of 46%. In the transportation segment, 49% of the firms hope to see higher volumes during Q3, 2017, while an 8% anticipate a decrease.



40% of SMEs expect an improvement in the business situation during Q3, 2017; the corresponding proportion is lower for large companies at 31%.

DUBAI SME OUTPUT – Q2, 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) – Q2, 2017

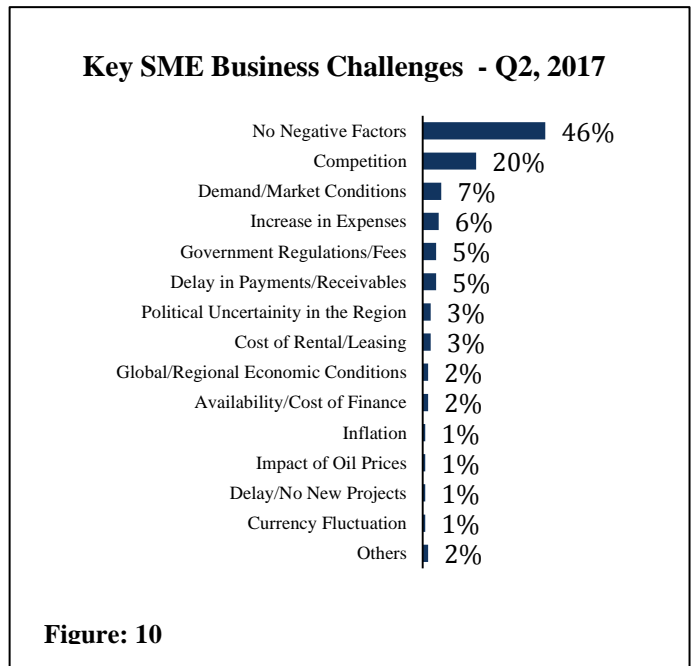
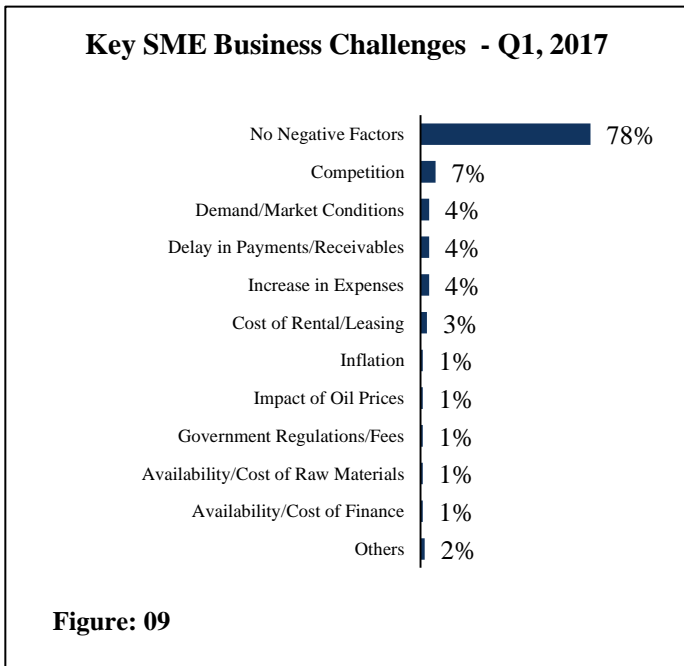
Parameter	Q2, 2016				Q1, 2017				Q2, 2017			
	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance
Sales Revenue	20%	28%	52%	-8%	19%	30%	51%	-11%	17%	41%	42%	-24%
Selling Prices	9%	22%	69%	-13%	10%	20%	70%	-10%	10%	24%	66%	-14%
Volumes Sold	21%	27%	52%	-6%	20%	29%	51%	-9%	20%	38%	42%	-18%
No. of Employees	12%	10%	78%	2%	11%	13%	76%	-2%	15%	19%	66%	-4%
Profits	18%	30%	52%	-12%	17%	36%	47%	-19%	17%	45%	38%	-28%
New Purchase Orders	20%	27%	53%	-7%	21%	27%	52%	-6%	19%	33%	48%	-14%

- For the sales volumes parameter, SMEs' achievement in Q2, 2017 was weaker than that in Q1, 2017 and in Q2, 2016. The net balance for volumes sold in Q2, 2017 was negative 18%, resulting from 20% of respondents reporting an increase in their volumes and 38% registering a decline. The decrease in volumes was a result of slow market conditions, fewer customers due to the summer/holiday season, lack of new projects and competition.
- Large companies reported better economic performance than SMEs with respect to all parameters in the survey: revenues, selling prices, volumes, hiring, profits and new purchase orders.
- A majority (66%) of the SMEs reported that their selling prices were steady in Q2, 2017, while 24% had to lower their prices mainly due to competition.
- 66% of the respondents kept their employee numbers unchanged in Q2, 2017, while 15% had to increase it to address business requirements, and 19% had to trim employee numbers.
- Performance with respect to net profits in Q2, 2017 weakened both with respect to the previous quarter and the same quarter a year ago.

- Capacity utilization rated declined for manufacturing firms both on a quarterly and annual basis. For service providers, capacity utilization rates declined on a q-o-q basis but were at par when compared on an annual basis.
- 37% of the firms experienced an increase in the cost of labour due to a rise in the cost of living and hikes in wages & salaries, but it remained unchanged for 59% of the firms.
- 21% of the respondents were impacted by the rising cost of raw materials, while 46% reported no change in the parameter. Among large companies, 26% reported an increase in such costs.
- Rental costs increased for 29% of the SMEs and 27% of the large firms.

KEY SME CHALLENGES IN DUBAI

The survey also addressed key challenges perceived by businesses at the end of Q2, 2017 that may impact near term business growth and development. 46% of the SMEs indicated that no challenges to their business operations in Q2, 2017 compared to 78% in Q1, 2017.



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

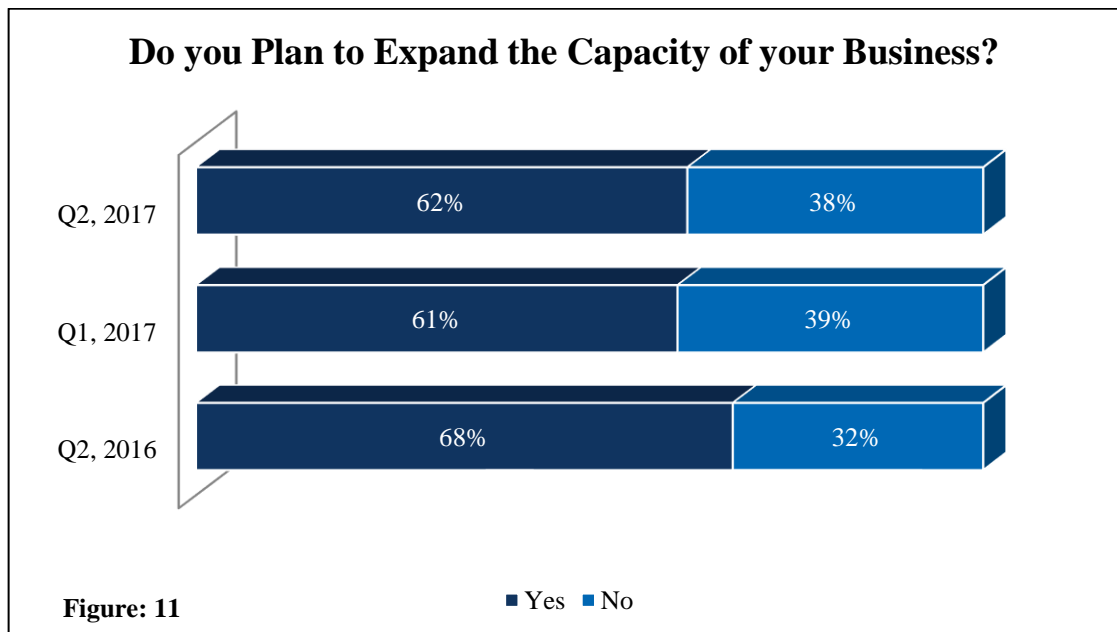
1. Competition: 20% of the SMEs have cited this as their most important challenge. Additionally, 64% of such firms feel that this challenge will intensify.
2. Demand/market conditions: 7% of the respondents have indicated this as a key hurdle in their business operations and 35% of these respondents expect this factor to intensify.
3. Increase in expenses: 6% of Dubai’s SMEs are concerned about rising expenses.

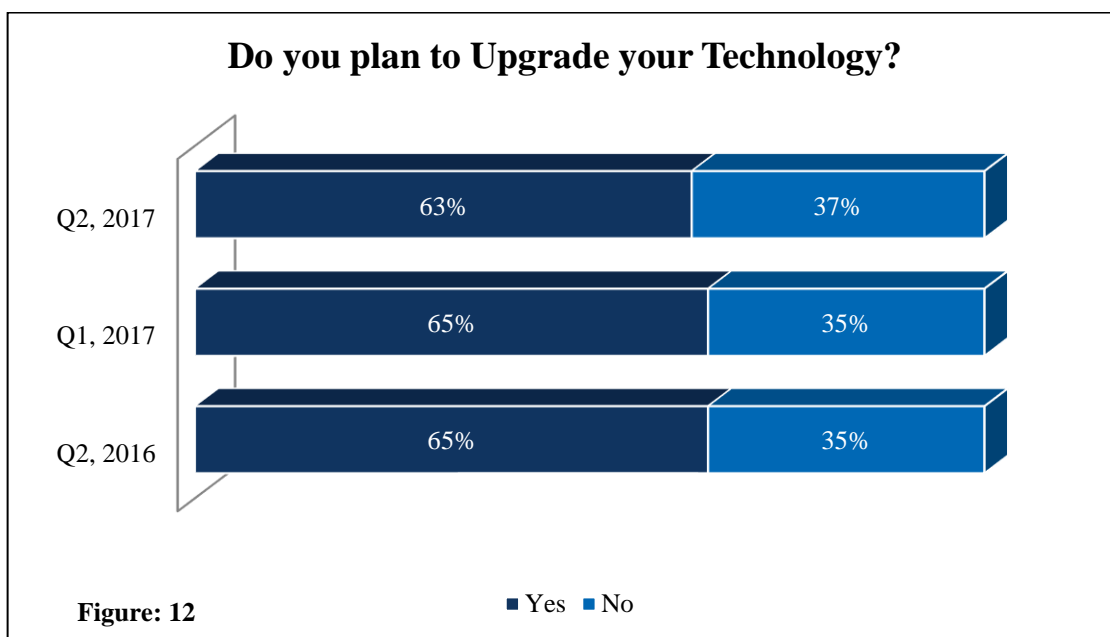
5% of the SMEs are impacted by government regulation/fees and another 5% by delays in payments/receivables. The remaining concerns were less important and each impacted 3% or fewer than 3% of the participants.

The important challenges report by large companies were competition, poor demand/market conditions and political uncertainty in the region.

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 invest in capacity expansion are at par on a q-o-q basis (62% in Q2, 2017 versus 61% in Q1, 2017), but are lower with projections a year ago (68% hoped to invest in expansion in Q2, 2016). Respondents are less bullish about their technology upgrade plans in Q2, 2017 vis-à-vis the previous quarter and a year ago. 63% of the firms intend to invest in upgrading technology in Q2, 2017 compared to 65% in Q1, 2017 and Q2, 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.
- Manufacturing SMEs most optimistic about capacity expansion plans and technology upgrades. 67% of manufacturers versus 61% of services and 62% of traders have capacity expansion plans. 67% of manufacturers versus 62% of services and 63% of traders expect to implement technology upgrades.
- While SMEs are more confident about capacity expansion plans, large firms are more bullish about investment in technology upgrades.