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المشاريع الصغيرة والمتوسطة
DUBAI SME



إحدى مؤسسات دائرة التنمية الاقتصادية - حكومة دبي
An Agency of the Department of Economic Development - Government of Dubai

SMEs Business Optimism Survey

Q3, 2015

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The Introduction

AT A GLANCE

- Improvement in demand during the winter months has led to an increase in the SME Composite BCI from 111.6 points in Q2, 2015 to 118.3 points in Q3, 2015. However, this score is 11.1 points lower on a y-o-y basis.
- In a reversal of trend from last quarter, large companies are more optimistic compared to SMEs, with composite BCI scores of 129.2 and 118.3 points respectively. However, SMEs are modestly more optimistic about volumes, whereas large companies have a stronger forecast for revenues, selling prices, hiring and profits.
- SMEs expect the business situation to firm up during Q4, 2015 compared to Q3, 2015, with 50% of the companies expecting an improvement and 9% expecting deterioration in the business situation during Q4, 2015 versus a corresponding 43% and 16% respondents respectively in the previous quarter.
- Slow demand/market conditions and competition are the foremost concerns for Dubai's SMEs as indicated by 10% of the survey participants in each case.
- SMEs are less inclined towards investment in business expansion or undertaking technology upgrades: 65% expect to invest in business expansion in Q3, 2015 versus 77% in Q2, 2015 and 69% in Q3, 2014; while 60% hope to upgrade their technologies in Q3, 2015 against 71% in the previous quarter and 61% last year.

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 3rd Quarter of 2015. The survey was administered to 458 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 Q3, 2015 was conducted for 500 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:

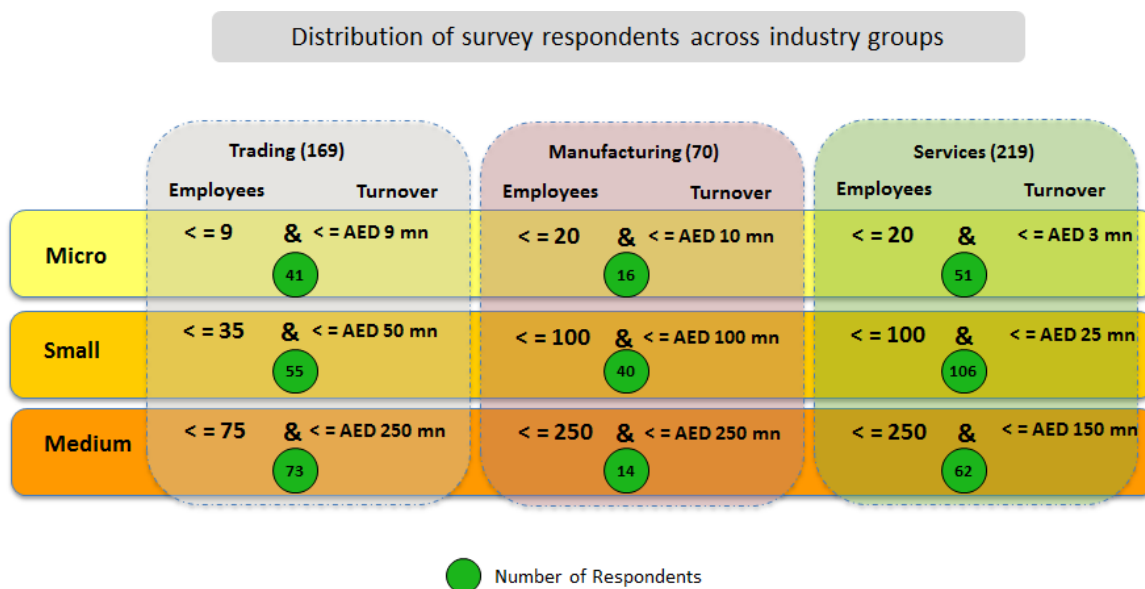


Figure 1

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 – Q3, 2015

Dubai's GDP grew 3.9% y-o-y in Q1, 2015, supported by increased trade, retail, logistics and aviation activities, and is expected to post a similar growth for the entire year aided by the lifting of sanctions on Iran and as the recovery in advanced economies picks up. The survey for Q3, 2015 shows that the SME Composite Business Confidence Index reached 118.3 points (A score of 100 indicates stable/neutral sentiments).

SME Business Confidence Index

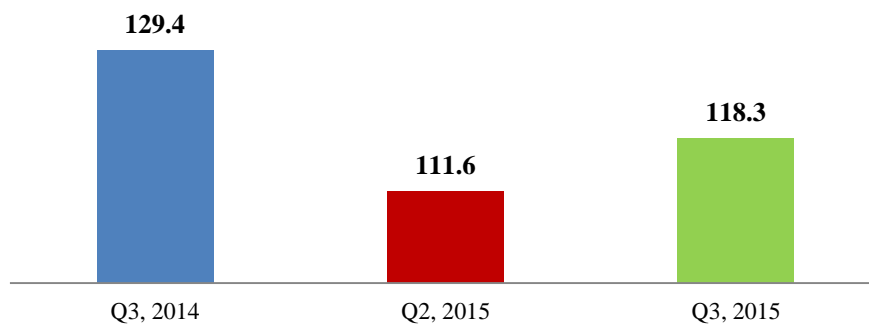


Figure 2

The SME Composite BCI has declined by 11.1 points y-o-y from 129.4 in Q3, 2014, due to a lowering of outlook for selling prices, volumes, hiring and profitability. The Composite BCI has however gained 6.7 points q-o-q, as a majority of respondents expect an improvement in demand and business situation during the fourth quarter.

Business Confidence Index - Q4, 2015

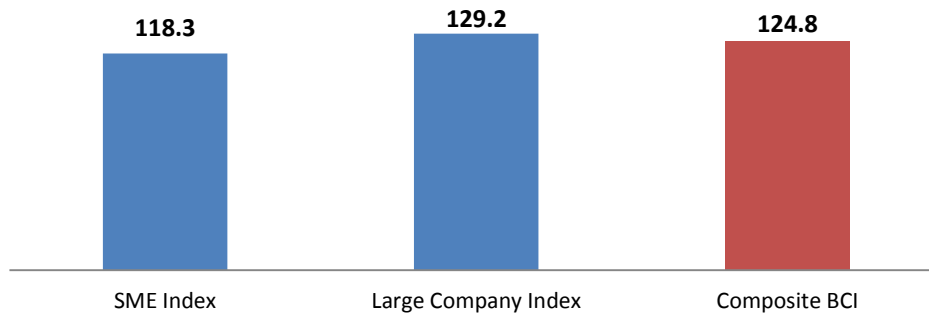


Figure 3

In a reversal of trend from last quarter, the current survey reveals that large companies are more optimistic compared to SMEs about the fourth quarter, with composite BCI scores of 129.2 and 118.3 points respectively. While large companies are more optimistic about their selling prices, number of employees and net profits, SMEs hold a stronger outlook with respect to volumes sold.

SME BUSINESS OUTLOOK – Q4, 2015

SMEs account for a dominant share in Dubai’s total business composition (95% of the total number of firms), 458 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.

Forecast Business Performance – Q4, 2015

Parameter	Q4, 2014				Q3, 2015				Q4, 2015			
	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance
Sales Revenue	67%	7%	26%	60%	48%	17%	35%	31%	58%	11%	31%	47%
Selling Prices	24%	4%	72%	20%	12%	9%	79%	3%	12%	7%	81%	5%
Volumes Sold	65%	7%	28%	58%	49%	20%	31%	29%	56%	9%	35%	47%
No. of Employees	26%	3%	71%	23%	20%	4%	76%	16%	20%	4%	76%	16%
Profits	62%	10%	28%	52%	48%	20%	32%	28%	50%	14%	36%	36%
New Purchase Orders	61%	8%	31%	53%	49%	19%	32%	30%	54%	9%	37%	45%

Table 1

Forecast Business Performance (SME) - Q4, 2015

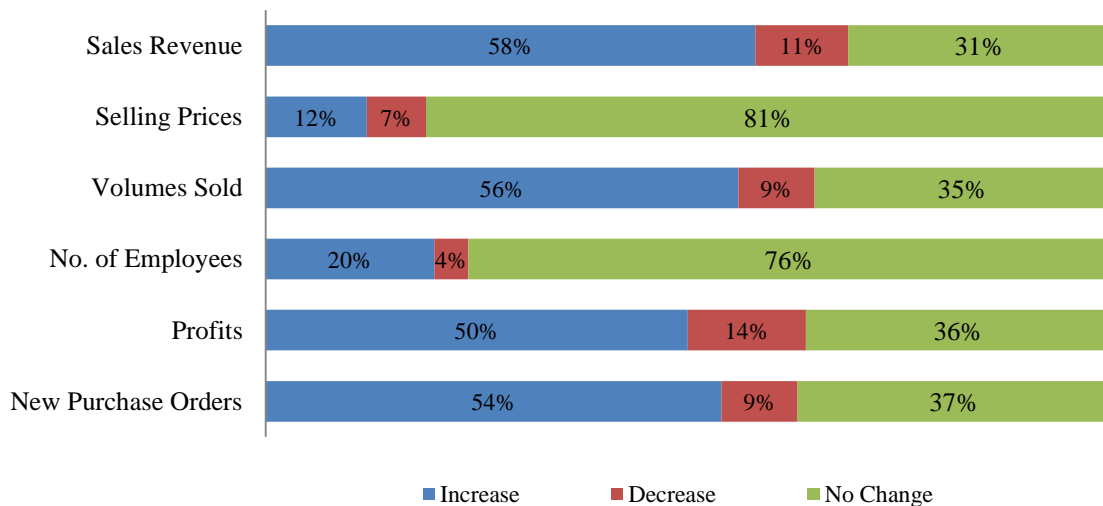


Figure 4

- The forecast for sales revenues has firmed up on a quarterly basis, but has weakened compared to the forecast a year ago. Large companies are more optimistic than SMEs

with respect to sales revenue (net balance of 67% for large companies compared to 47% for SMEs).

- The forecast for volume of sales has strengthened q-o-q, backed by expectations of better market conditions and new projects, higher demand and the seasonal increase in customers on account of the tourist season. The increase in demand is most prominent for the services sector, which receives a boost during the winter months as the tourist footfall rises. The survey shows that 56% of the companies anticipate an increase in their volumes during Q4, 2015, while 9% expect a decline. For large companies, the corresponding proportions are 50% and 7% respectively.
- The forecast for net profits for Q4, 2015 is also firmer compared to the previous quarter, but weaker when compared to last year. The prospects for higher profits are based on better business conditions, new projects, higher selling prices and improved demand. SMEs are not as optimistic as large companies about their profits with respective net balances of 36% and 45%.
- A large proportion (81%) of SMEs has indicated that they do not foresee any change in their selling prices during Q4, 2015, while 12% of the businesses are hopeful of higher selling prices due to expectations of improved demand. However, growing competition and weaker business prospects has led 7% of the respondents to forecast lower selling prices during Q4, 2015.
- Hiring expectations are at par with the previous quarter (16%), but weaker when compared to last year (23%).
- 56% of manufacturing and services SMEs hope to raise their capacity utilization rates during Q4, 2015. The corresponding proportion for large companies is 36%.
- The outlook for new purchase orders reflects expectations for volumes; it has strengthened q-o-q, but has weakened y-o-y.
- SMEs expect the business situation to firm up during Q4, 2015 compared to Q3, 2015, with 50% of the companies expecting an improvement versus 43% respondents in the previous quarter. For the previous quarter, 16% of the participants had expected some deterioration in the business environment; this proportion has declined to 9% for Q4, 2015.

Manufacturing SMEs

Forecast Business Performance (Manufacturing SMEs) – Q4, 2015

Parameter	Q4, 2014				Q3, 2015				Q4, 2015			
	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance
Sales Revenue	69%	4%	27%	65%	60%	16%	24%	44%	54%	14%	32%	40%
Selling Prices	20%	3%	77%	17%	16%	7%	77%	9%	13%	7%	80%	6%
Volumes Sold	64%	3%	33%	61%	61%	17%	22%	44%	54%	14%	32%	40%
No. of Employees	24%	3%	73%	21%	19%	1%	80%	18%	24%	6%	70%	18%
Profits	63%	7%	30%	56%	59%	17%	24%	42%	51%	17%	32%	34%
New Purchase Orders	67%	3%	30%	64%	60%	19%	21%	41%	54%	13%	33%	41%

Table 2

Forecast Performance (SMEs) - Manufacturing Sector - Q4, 2015

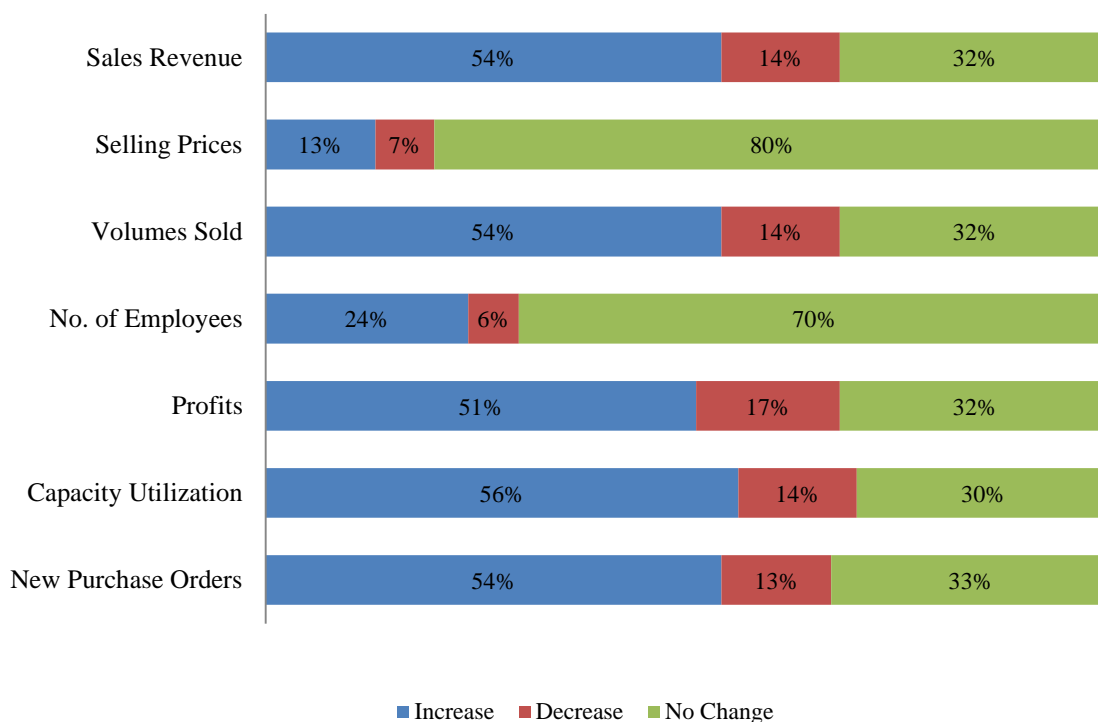


Figure 5

- Manufacturing SMEs have the weakest forecast for volume of sales, with 54% of the firms foreseeing a rise and 14% expecting a decrease as projects wind down and also due to competition, slower market conditions and lack of new orders. The net balance for volume of sales for the manufacturing sector stands at 40% compared to 45% for the trading sector and 51% for the services sector.
- Manufacturers in the fields of paper & printing, and aluminium & glass are more optimistic compared to the other sub-segments.

Trading SMEs

Forecast Business Performance (Trading SMEs) – Q4, 2015

Parameter	Q4, 2014				Q3, 2015				Q4, 2015			
	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance
Sales Revenue	62%	12%	26%	50%	43%	23%	34%	20%	55%	13%	32%	42%
Selling Prices	16%	9%	75%	7%	9%	11%	80%	-2%	7%	9%	84%	-2%
Volumes Sold	61%	11%	28%	50%	45%	28%	27%	17%	56%	11%	33%	45%
No. of Employees	22%	6%	72%	16%	14%	5%	81%	9%	14%	4%	82%	10%
Profits	57%	17%	26%	40%	44%	28%	28%	16%	46%	15%	39%	31%
New Purchase Orders	57%	14%	29%	43%	45%	25%	30%	20%	54%	10%	36%	44%

Table 3

Forecast Performance (SMEs) - Trading Sector - Q4, 2015

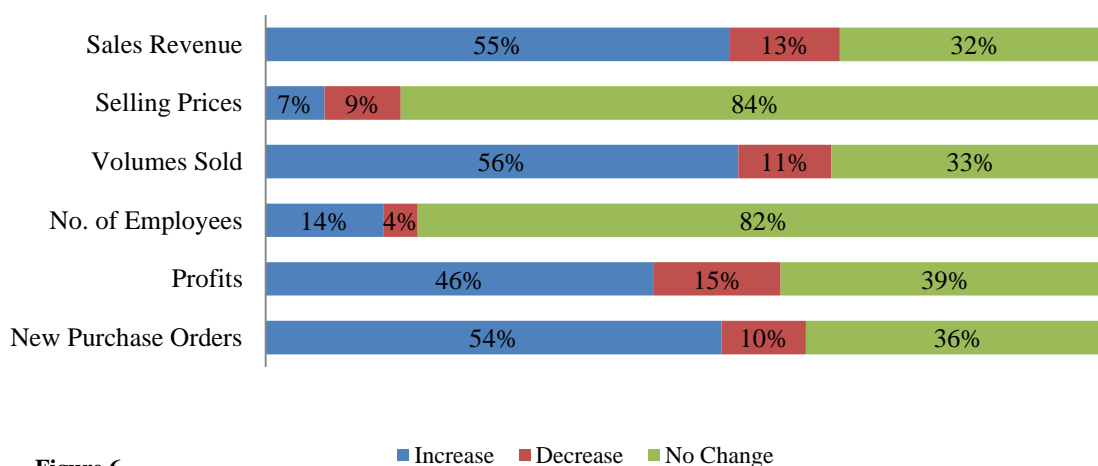


Figure 6

- The trading sector’s outlook for volumes has strengthened when compared with the previous quarter but has weakened in comparison to last year. The quarterly advance in sentiments can be attributed to the end of vacations, expectations of new orders and higher demand during the fourth quarter (winter season).
- Key sectors optimistic of higher demand over the next quarter include electronics traders (expectations of new orders and customers); computer traders (with the end of the holiday season, they expect new orders and higher demand); auto traders and those in the food & beverages segment.

Services SMEs

Forecast Business Performance (Services SMEs) – Q4, 2015

Parameter	Q4, 2014				Q3, 2015				Q4, 2015			
	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance
Sales Revenue	71%	5%	24%	66%	48%	14%	38%	34%	61%	8%	31%	53%
Selling Prices	31%	2%	67%	29%	12%	8%	80%	4%	16%	6%	78%	10%
Volumes Sold	67%	5%	28%	62%	48%	15%	37%	33%	57%	6%	37%	51%
No. of Employees	29%	1%	70%	28%	24%	4%	72%	20%	24%	4%	72%	20%
Profits	65%	6%	29%	59%	47%	16%	37%	31%	53%	13%	34%	40%
New Purchase Orders	63%	5%	32%	58%	48%	14%	38%	34%	54%	6%	40%	48%

Table 4

Expected Business Situation (SMEs) - Q4, 2015

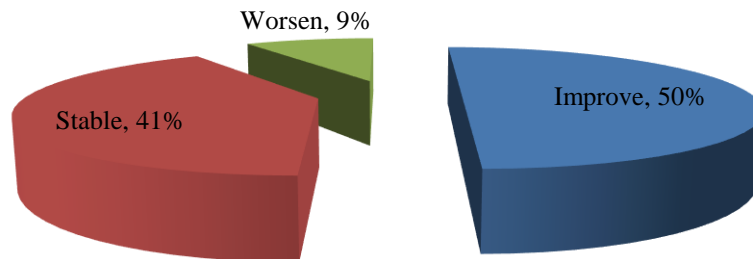


Figure 8

While 50% of SMEs expect the business situation to improve in Q4, 2015, for large companies the corresponding proportion is higher at 55%.

DUBAI SME OUTPUT – Q3, 2015

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.

Overall Performance – Q3, 2015

Parameter	Q3, 2014				Q2, 2015				Q3, 2015			
	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance
Sales Revenue	40%	22%	38%	18%	27%	29%	44%	-2%	21%	37%	42%	-16%
Selling Prices	18%	14%	68%	4%	12%	22%	66%	-10%	11%	21%	68%	-10%
Volumes Sold	39%	19%	42%	20%	30%	31%	39%	-1%	22%	35%	43%	-13%
No. of Employees	21%	6%	73%	15%	17%	10%	73%	7%	18%	11%	71%	7%
Profits	38%	29%	33%	9%	28%	35%	37%	-7%	16%	41%	43%	-25%
New Purchase Orders	39%	17%	44%	22%	30%	30%	40%	0%	23%	34%	43%	-11%

Table 5

- The current survey shows that economic activity declined in Q3, 2015, with a lower proportion (22%) of firms indicating an increase in volumes compared to those (35%) citing a decline. Key reasons cited for the decline in volumes were: summer season, fewer customers, competition, poor market conditions, higher costs of production, decline in the number of projects, issues related to acquiring visas for employees and problems in exports markets such as Iran.
- Large companies on the other hand showed a positive performance with respect to volumes sold with a net balance of 5%.
- 68% of the respondents said that their selling prices did not change in Q3, 2015; however, 21% witnessed a decline due to competition, poor market conditions in the domestic and exports markets and slow demand.
- While the net balance for sales revenues for SMEs stood at negative 16%, it was negative 2% for large companies.
- Employment numbers were at the same level as last quarter. Additionally, hiring was strongest in the services sector and weakest in the manufacturing sector. Large firms

recorded a much stronger performance with respect to hiring in the third quarter with a net balance of 16%.

- Procurement levels were in accordance with the lower economic activity, registering a decline with respect to both Q2, 2015 and Q3, 2014. The performance with respect to new purchase orders was stronger for services firms, reflecting comparatively stronger economic activity.
- Capacity utilization rates declined in the manufacturing and services sectors, both on a q-o-q and y-o-y basis.
- 41% of the respondents cited an increase in the cost for labor during Q3, 2015 due to higher salaries, increments and compensation for higher costs of rents and living. These costs had a similar impact across all three sectors. Among large firms the proportion was 38%.
- 16% of the participants cited an increase in the cost of raw materials in Q3, 2015 versus 25% in Q2, 2015. Manufacturing SMEs were most impacted by the rising cost of raw materials as cited by 26% of them, compared to 12% for traders and 15% for services. 21% of large companies reported a rise in the cost of raw materials.
- 56% of the all SMEs indicated an increase in rentals in Q3, 2015, similar to the 54% in the previous quarter. Trading SMEs were most impacted by rising rentals. Among large companies, 48% of the respondents reported an appreciation in such costs.
- With respect to profits, the performance in Q3, 2015 was much weaker when compared to the previous quarter and last year due to poor markets condition, rising expenses and decrease in selling prices. Large companies fared better with respect to profits, with a net balance of negative 10% compared to negative 25% for SMEs.

KEY SME CHALLENGES IN DUBAI

The survey also addressed key challenges perceived by businesses at the end of Q3, 2015 that may impact near term business growth and development. A higher proportion of participants indicated in Q3, 2015 (48%) that did not expect any hindrances to their business operation compared to the percentage in Q2, 2015 (45%).

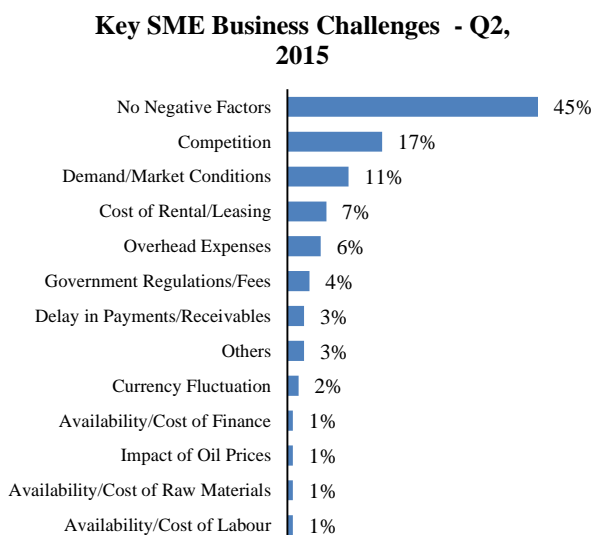


Figure 9

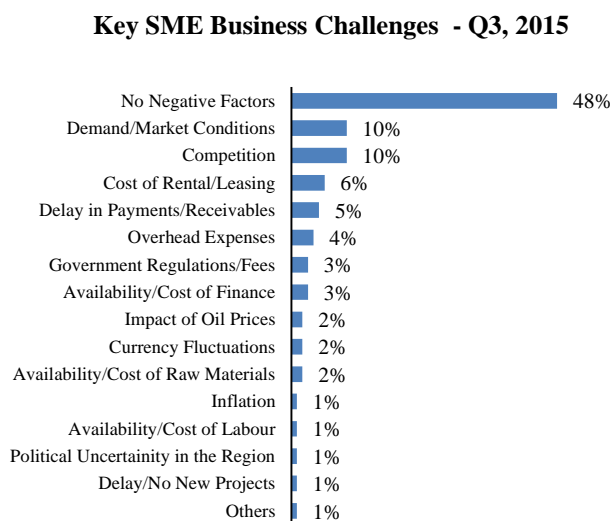


Figure 10

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

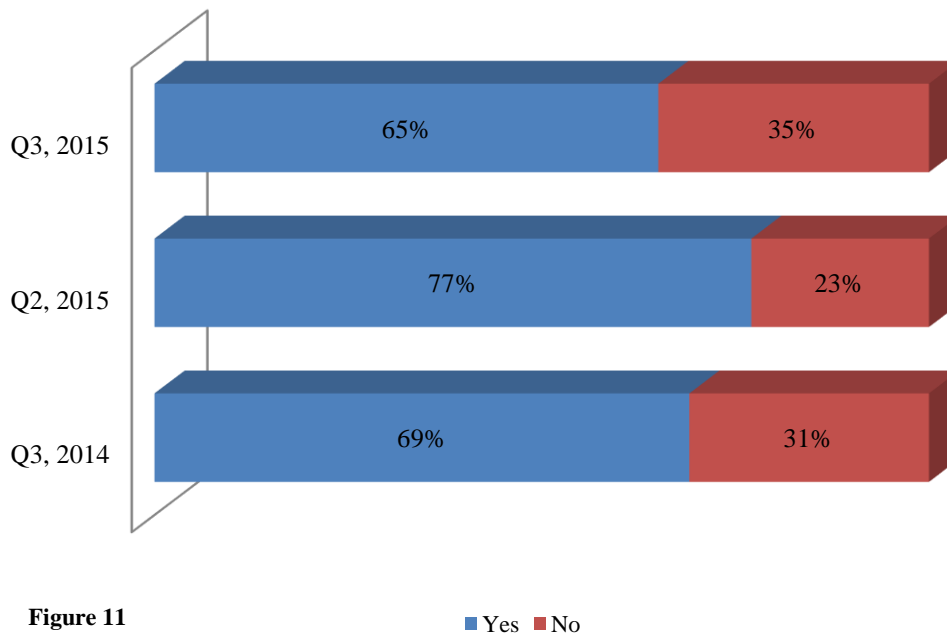
1. Demand/market conditions: Sluggish demand is one of the leading business challenges for Dubai's firms as indicated by 10% of the respondents. 26% of them expect that the severity of this challenge will increase, while 67% do not anticipate any change in severity of the obstacle.
2. Competition: 10% of the respondents expect to face stiff competition; however this proportion has reduced from 17% in Q2, 2015. Also, 42% expect that competition will intensify.
3. High cost of rental/leasing: High cost of rental/leasing has been cited as an impediment by 6% of the firms, of which 25% anticipate that the impact of such costs will increase.
4. Delays in payments/receivables: Such delays will be an obstacle for 5% of the survey respondents.

Large companies have indicated their top three concerns as demand/market conditions, impact of oil prices and competition. For SMEs, the leading obstacles are demand/market conditions, competition and rising costs of rental/leasing.

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 expand the capacity of your business?



Do you plan to upgrade your technology?

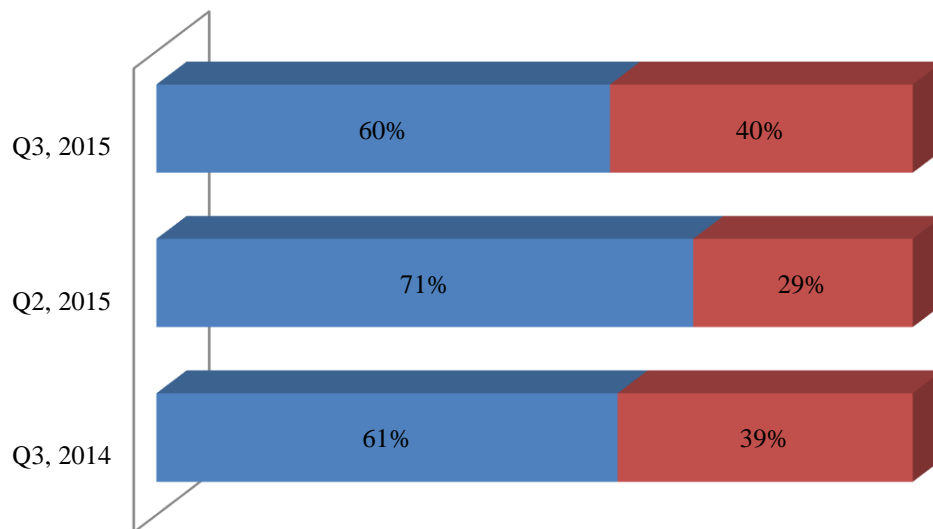


Figure 12

■ Yes ■ No

- Even though the composite BCI score for Q4, 2015 is higher than in the previous quarter and respondents expect an improvement in the business situation, they are less inclined towards investment in business expansion or undertaking technology upgrades. 65% expect to invest in business expansion in Q3, 2015 versus 77% in Q2, 2015 and 69% in Q3, 2014; while 60% hope to upgrade their technologies in Q3, 2015 against 71% in the previous quarter and 61% last year.
- 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.
- Comparison across the key sectors shows that manufacturing firms are more inclined with respect to capacity expansion (70% of manufacturing firms, 62% of trading firms and 66% of services firms), while the service sector is most inclined towards

technology upgrades (64% of manufacturing firms, 51% of trading firms and 66% of services firms).

- Large firms are more inclined towards technology upgrades, while SMEs hold a stronger outlook towards expansion plans.