



SMEs Business Optimism Survey

Q4, 2016

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The Introduction

AT A GLANCE

- The Composite BCI has advanced y-o-y by 7.7 points, from 111.3 points in Q4, 2015 to 119.0 points in Q4, 2016, with anticipation of higher volumes, selling prices, profits and employee numbers in the first quarter of 2017. A quarterly comparison shows that the Composite BCI has gained 8.2 points, moving from 110.8 points in Q3, 2016 to 119.0 points in Q4, 2016, on expectation of higher demand.
- The Composite BCIs for SMEs and large companies stand at 119.0 and 122.3 points respectively. SMEs are slightly more optimistic than large companies with respect to revenues, volumes, employment and profits, while the latter are modestly more confident about their selling prices.
- Expectations regarding the business situation show that the proportion of firms anticipating an improvement has declined marginally from 49% for Q4, 2016 to 46% for Q1, 2017. The proportion of firms anticipating deterioration has also shown a q-o-q modest decline from 10% to 8%.
- 72% of the respondents do not expect any negative factors to hinder their business operations. For SMEs, the key impediments to business operations are competition, delay in payments/receivables and poor market conditions.
- Plans to upgrade technology and expand capacity have moderated both on a quarterly and annual basis. 62% of the respondents hope to invest in upgrading technology in Q4, 2016 versus 65% in Q3, 2016 and 64% in Q4, 2015. 57% of the firms intend to invest in capacity expansion in Q4, 2016 compared to 65% in Q3, 2016 and 67% in Q4, 2015.

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 4th Quarter of 2016. The survey was administered to 450 (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 Q4, 2016 was conducted for 501 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:

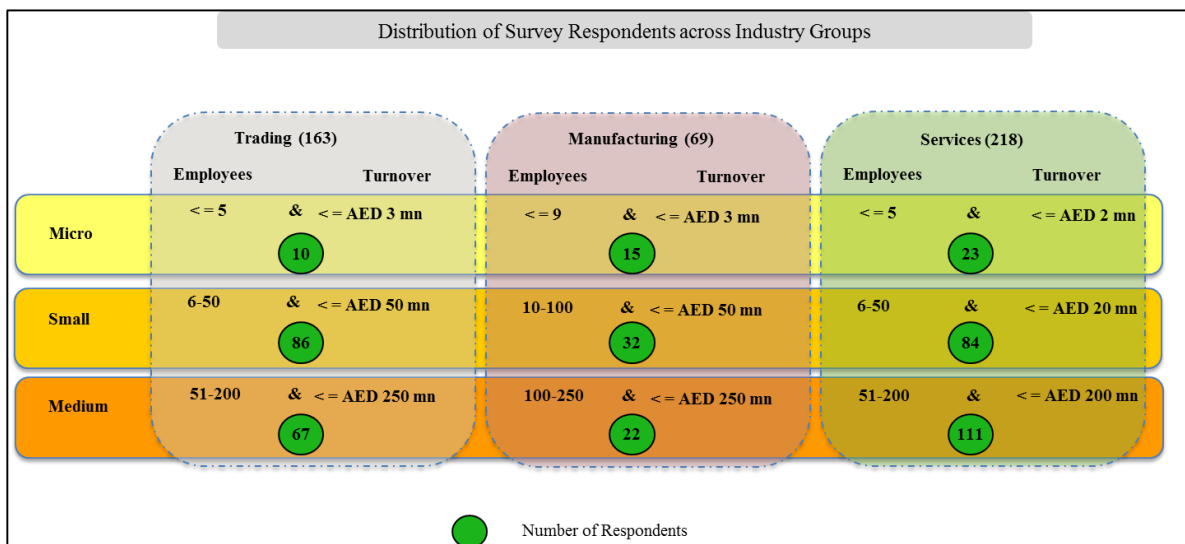


Figure: 01

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:

$(\% \text{ of positive responses} - \% \text{ of negative responses}) + 100$

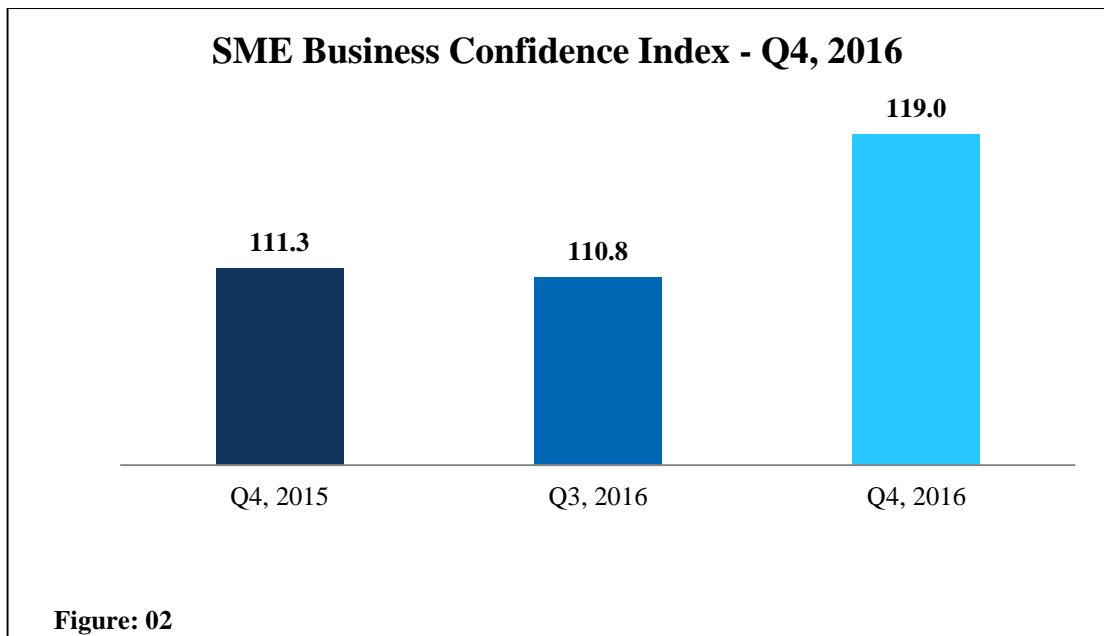
For calculating the SME Composite Business Confidence Index for Dubai, the resultant scores are multiplied with their corresponding parameter weights to arrive at a weighted average Index score. The SME composite index score is finally rebased so that Q2, 2011 = 100.

BCI scores are classified in the following three groups:

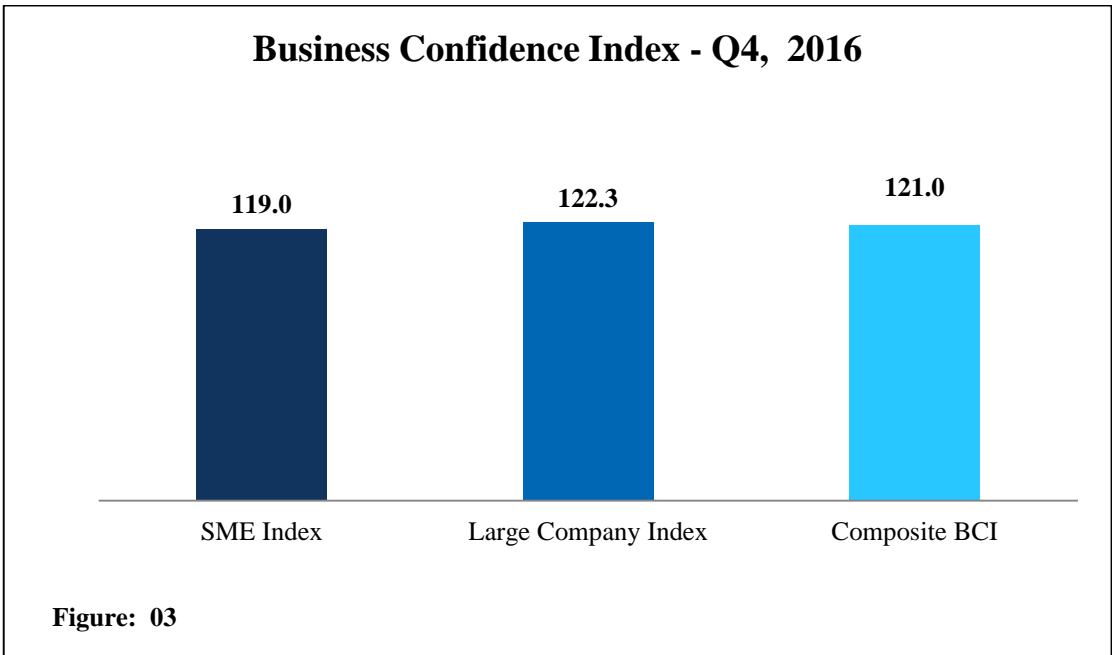
- ***BCI < 100, business expectations are negative***
- ***BCI = 100, business expectations are stable***
- ***BCI > 100, business expectations are positive***

SME BUSINESS CONFIDENCE INDEX – Q4, 2016

Dubai's AED 47.3 bn budget for 2017, targets boosting infrastructure spending in line with the objectives of the Strategic Plan 2021 so as to elevate the Emirate's status as a leading destination for work and tourism. The budget also aims to provide more than 3,500 new jobs, which, coupled with a recovery in oil prices and growing public and private sector activity boosted by Dubai's preparations for the Expo 2020, is expected to improve the economic outlook for the current year. The forecast for Q1, 2017 is strong, with the Composite Business Confidence Index (BCI) at 119.0 points in Q4, 2016 (A score of 100 indicates stable/neutral sentiments).



A y-o-y comparison shows that the Composite BCI has advanced by 7.7 points, increasing from 111.3 points in Q4, 2015 to 119.0 points in Q4, 2016, with respondents anticipating higher volumes, selling prices, profits and employee numbers in the first quarter of 2017. A quarterly comparison shows that the Composite BCI has gained 8.2 points, moving from 110.8 points in Q3, 2016 to 119.0 points in Q4, 2016, with firms hopeful of higher demand during the first quarter of 2017.



The Composite BCIs for SMEs and large companies stand at 119.0 and 122.3 points respectively. SMEs are slightly more optimistic than large companies with respect to revenues, volumes, employment and profits, while the latter are modestly more confident about their selling prices.

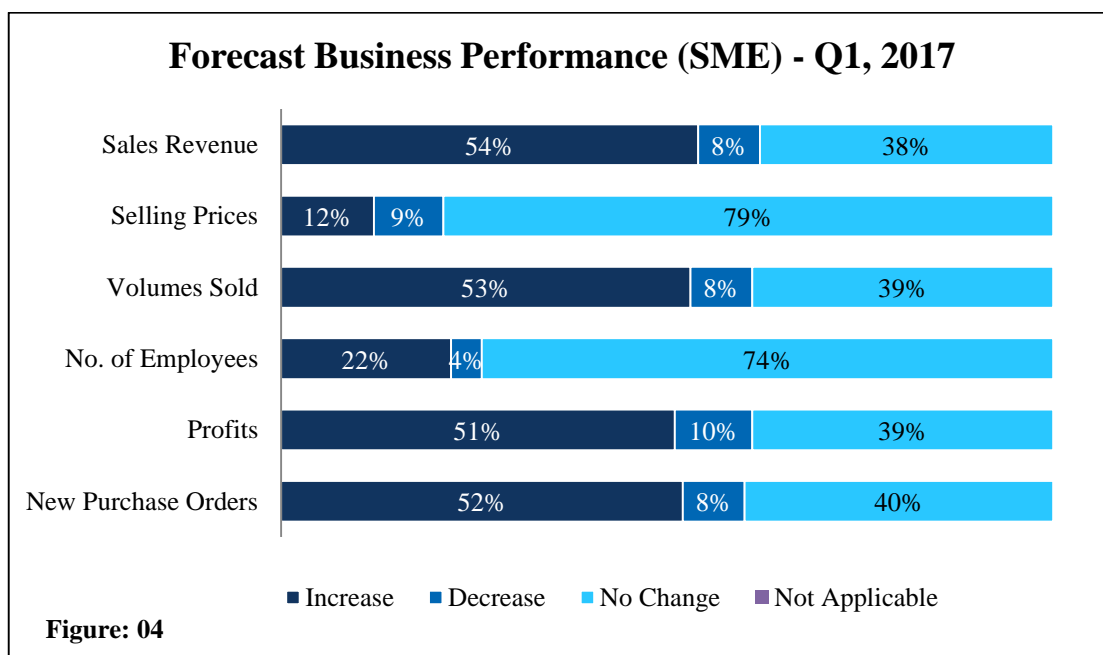
SME BUSINESS OUTLOOK – Q1, 2017

SMEs account for a dominant share in Dubai’s total business composition (90% of the total number of firms), 450 of the 501 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) – Q1, 2017

Parameter	Q1, 2016				Q4, 2016				Q1, 2017			
	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance
Sales Revenue	50%	15%	35%	35%	48%	13%	39%	35%	54%	8%	38%	46%
Selling Prices	14%	10%	76%	4%	10%	10%	80%	0%	12%	9%	79%	3%
Volumes Sold	48%	14%	38%	34%	47%	13%	40%	34%	53%	8%	39%	45%
No. of Employees	19%	7%	74%	12%	15%	6%	79%	9%	22%	4%	74%	18%
Profits	43%	19%	38%	24%	43%	14%	43%	29%	51%	10%	39%	41%
New Purchase Orders	48%	14%	38%	34%	45%	14%	41%	31%	52%	8%	40%	44%



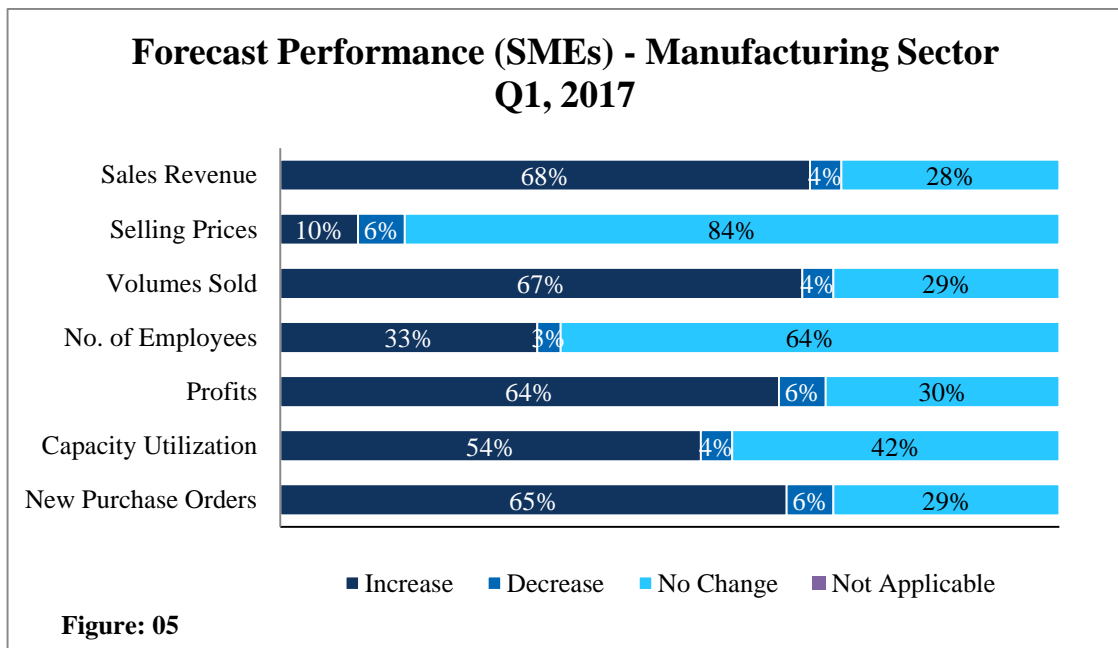
- The outlook for Q1, 2017 for revenues, volumes, hiring, net profits and new purchase orders has firmed up in comparison to the projections for Q4, 2016 and Q1, 2016.

- SMEs are slightly more optimistic than large companies with respect to revenues, volumes, employment and profits, while the latter are modestly more confident about their selling prices.
- With respect to volume of sales, SMEs registered a net balance of 45% compared to 43% for large companies.
- The manufacturing sector is most confident about its business prospects for the following parameters: revenues, volumes, profits, employment and new purchase orders. The services segment is most optimistic about its selling prices, while the trading segment has displayed the weakest sentiments with respect to all the parameters.
- The outlook for selling prices is tilted towards stability as 79% of the respondents do not expect any change in the parameter due to contract fixed prices, competition and in order to maintain stability in their businesses.
- The profitability forecast is in line with the projections for volumes and revenues.
- The hiring outlook has improved to cater to rising volumes and new projects.
- 54% of manufacturing SMEs and 51% of services firms anticipate a rise in their capacity utilization rates during Q1, 2017.
- Expectations regarding the business situation show that the proportion of firms anticipating an improvement has declined marginally from 49% for Q4, 2016 to 46% for Q1, 2017. The proportion of firms anticipating deterioration has also shown a q-o-q modest decline from 10% to 8%, while the number of businesses expecting stability has increased from 41% to 46%.

Manufacturing SMEs

Table: 02
Forecast Business Performance (Manufacturing) – Q1, 2017

Parameter	Q1, 2016				Q4, 2016				Q1, 2017			
	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance
Sales Revenue	44%	23%	33%	21%	57%	7%	36%	50%	68%	4%	28%	64%
Selling Prices	10%	13%	77%	-3%	13%	6%	81%	7%	10%	6%	84%	4%
Volumes Sold	41%	26%	33%	15%	63%	10%	27%	53%	67%	4%	29%	63%
No. of Employees	21%	11%	68%	10%	19%	1%	80%	18%	33%	3%	64%	30%
Profits	37%	24%	39%	13%	54%	10%	36%	44%	64%	6%	30%	58%
New Purchase Orders	43%	24%	33%	19%	63%	10%	27%	53%	65%	6%	29%	59%



- The forecast for Q1, 2017 for the manufacturing sector has shown some improvement over the previous quarter's predictions, but has improved significantly from a year ago. Expectations of new orders/projects/customers and new business friendly policies & development of infrastructure facilities by the government has led 67% of the manufacturing firms to forecast higher volumes for Q1, 2017. 4% of the respondents have predicted a decline in their volumes due to the current market crisis and low demand.

- Within the manufacturing sector, the sub-sectors most confident of an increase in volumes are glass, furniture, metals and cement.

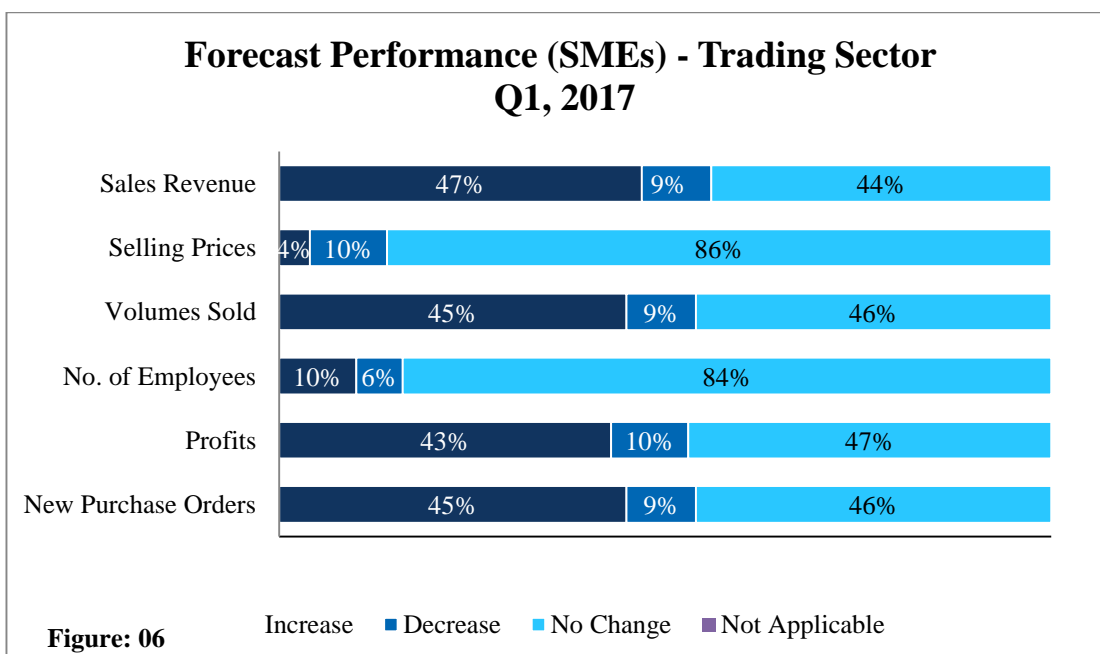
Trading SMEs

Table: 03

Forecast Business Performance (Trading) – Q1, 2017

Parameter	Q1, 2016				Q4, 2016				Q1, 2017			
	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance
Sales Revenue	54%	15%	31%	39%	49%	10%	41%	39%	47%	9%	44%	38%
Selling Prices	10%	11%	79%	-1%	5%	10%	85%	-5%	4%	10%	86%	-6%
Volumes Sold	53%	15%	32%	38%	48%	10%	42%	38%	45%	9%	46%	36%
No. of Employees	15%	10%	75%	5%	9%	6%	85%	3%	10%	6%	84%	4%
Profits	44%	20%	36%	24%	44%	12%	44%	32%	43%	10%	47%	33%
New Purchase Orders	50%	14%	36%	36%	46%	11%	43%	35%	45%	9%	46%	36%

Table: 03



- The outlook of the trading sector for Q1, 2017 has moderated slightly compared to the forecast for Q4, 2016 and Q1, 2016. 45% of traders anticipate an increase in volume during Q1, 2017 versus 48% for Q4, 2016 and 53% for Q1, 2016. Also, the trading sector's projections are least favorable among the key sectors.

- Key sectors optimistic of higher demand over the next quarter include the following: electronics, computers, food & beverage and auto traders are positive about their volumes during Q1, 2017.

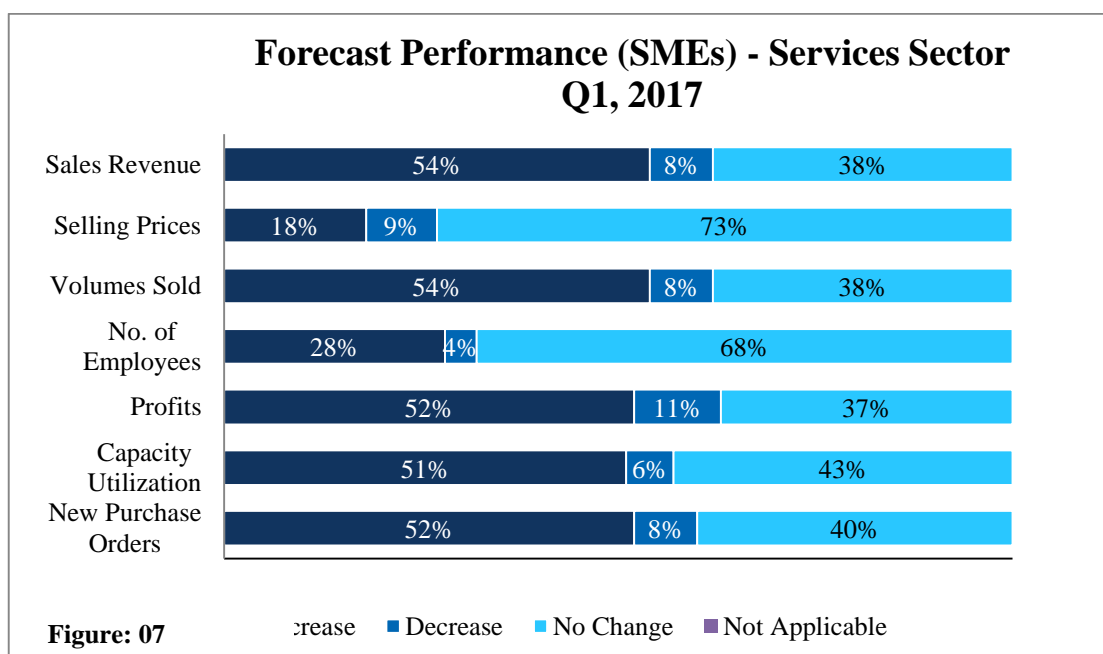
Services SMEs

Table: 04

Forecast Business Performance (Services) – Q1, 2017

Parameter	Q1, 2016				Q4, 2016				Q1, 2017			
	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance
Sales Revenue	49%	13%	38%	36%	44%	16%	40%	28%	54%	8%	38%	46%
Selling Prices	18%	8%	74%	10%	13%	11%	76%	2%	18%	9%	73%	9%
Volumes Sold	47%	10%	43%	37%	41%	16%	43%	25%	54%	8%	38%	46%
No. of Employees	22%	3%	75%	19%	18%	8%	74%	10%	28%	4%	68%	24%
Profits	44%	16%	40%	28%	38%	17%	45%	21%	52%	11%	37%	41%
New Purchase Orders	47%	10%	43%	37%	39%	17%	44%	22%	52%	8%	40%	44%

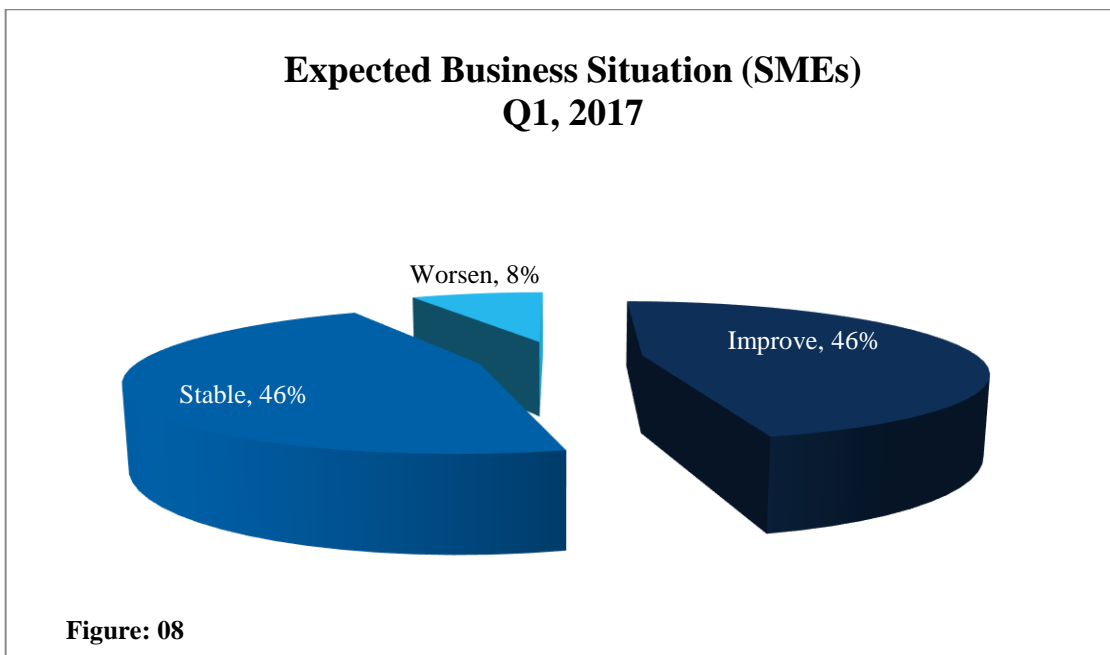
Table: 04



- The services sector has displayed a stronger forecast for Q1, 2017 in comparison to the projections for Q1, 2016 and Q4, 2016. The quarterly improvement is backed by the

seasonal increase in demand during the first quarter as it is the peak tourist season and also due to the anticipation of new projects and customers.

- Within the services sector, the construction segment is very optimistic of higher volumes during Q1, 2017 with a net balance of 75% based on confidence of getting new projects/orders. None of the respondents in construction anticipates a decline in volumes. 63% of firms in the hotels & restaurants sub-segment have forecast a rise in volumes during Q1, 2017 in anticipation of tourists that come to attend the various events in the Emirate and the Dubai festival. All travel firms in the survey expect a rise in their volumes during Q1, 2017. In the transportation segment, sentiments favour stability with 48% of the respondents expecting no change in their volumes. 39% of the firms expect an increase and the remaining 13% forecast a decrease.



While 46% of SMEs anticipate an improvement in the business situation in Q1, 2017, the corresponding proportion is higher for large companies at 55%.

DUBAI SME OUTPUT – Q4, 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.

Table: 05

Overall Business Performance (SMEs) – Q4, 2016

Parameter	Q4, 2015				Q3, 2016				Q4, 2016			
	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance
Sales Revenue	17%	40%	43%	-23%	18%	28%	54%	-10%	25%	29%	46%	-4%
Selling Prices	8%	27%	65%	-19%	7%	21%	72%	-14%	8%	17%	75%	-9%
Volumes Sold	16%	40%	44%	-24%	18%	27%	55%	-9%	24%	29%	47%	-5%
No. of Employees	12%	14%	74%	-2%	12%	12%	76%	0%	12%	13%	75%	-1%
Profits	13%	49%	38%	-36%	15%	30%	55%	-15%	23%	30%	47%	-7%
New Purchase Orders	17%	36%	47%	-19%	17%	26%	57%	-9%	25%	29%	46%	-4%

- Almost a quarter (24%) of the respondents registered an increase in volumes during Q4, 2016, while 29% experienced declines, resulting in a net balance of -5%. Factors that contributed to the decline in volumes included slowdown in business conditions in international and domestic markets, low oil prices, political instability in the region, government policies, stronger Dollar and competition.
- Large companies displayed better performance with respect to revenues, volumes and new purchase orders, while SMEs did better on hiring. Performance for selling prices and profitability was similar.
- Selling prices remained stable for 75% of the firms, while 17% recorded a decline due to competition, economic crisis and fewer tourists/customers.
- A majority of the firms (75%) kept the size of their labor force intact in Q4, 2017, while 12% hired new staff for their business.
- Performance with respect to purchase orders was in line with that for volumes.
- Manufacturing and services SMEs reported an increase in capacity utilization rates both q-o-q and y-o-y.
- Labor costs increased for 35% of the firms due to a hike in wages & salaries and rise in the cost of accommodation.

- The cost of raw materials increased for 12% of the respondents, while 66% reported stability in these costs. Among large companies, 14% reported an increase in such costs.
- Rental costs increased for 41% of the SMEs and 37% of large companies.

KEY SME CHALLENGES IN DUBAI

The survey also addressed key challenges perceived by businesses at the end of Q4, 2016 that may impact near term business growth and development. A majority (72%) of the SMEs reported that they do not anticipate any negative factors that might impact their business operations; the corresponding proportion in the previous quarter was 69%.

Key SME Business Challenges - Q3, 2016

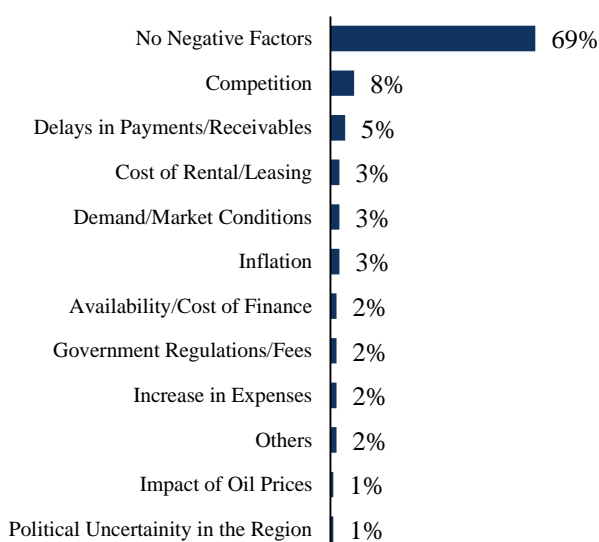


Figure: 09

Key SME Business Challenges - Q4, 2016

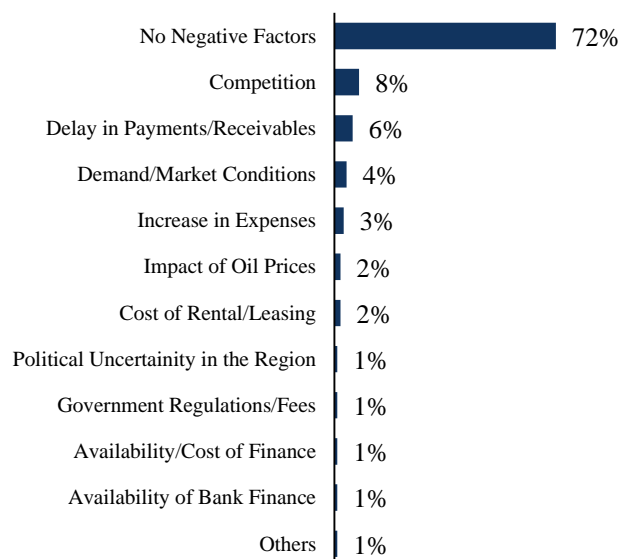


Figure: 10

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

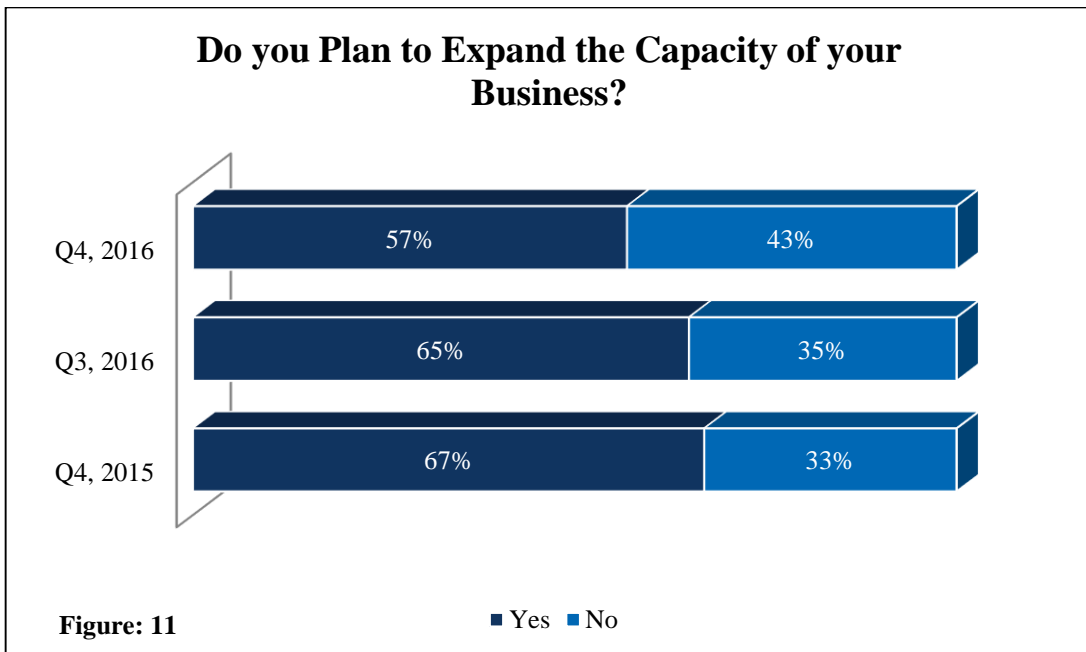
1. **Competition:** Dubai's SMEs continue to face the challenge of competition. 53% of the firms that expect to be impacted by this factor feel that competition will intensify.
2. **Delays in payments/receivables:** 6% of the participants have identified this to be an important challenge facing them, with 46% of them anticipating worsening of the factor.
3. **Demand/market conditions:** Poor market conditions are an important impediment to 4% of the firms.

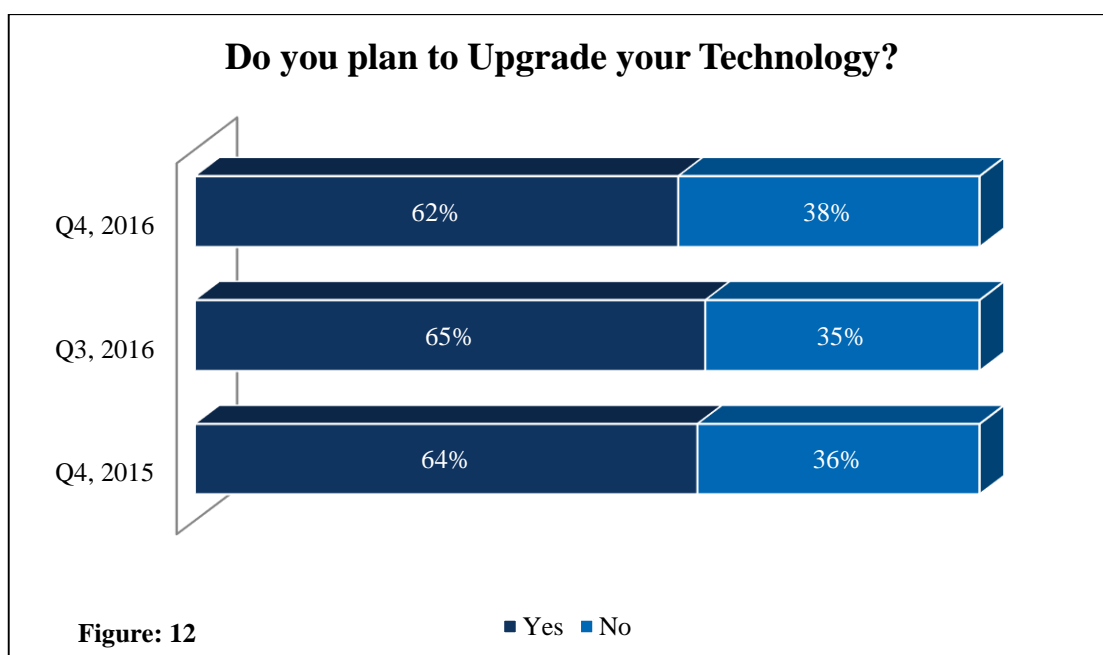
The remaining concerns were less important and each impacted 3% or fewer than 3% of the participants.

For key hurdles faced by large companies were competition, demand/market conditions and increase in expenses. The top hurdles for SMEs were competition, delays in payments and poor 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.





- Plans to upgrade technology and expand capacity have moderated both on a quarterly and annual basis. 62% of the respondents hope to invest in upgrading technology in Q4, 2016 versus 65% in Q3, 2016 and 64% in Q4, 2015. 57% of the firms intend to invest in capacity expansion in Q4, 2016 compared to 65% in Q3, 2016 and 67% in Q4, 2015.
- 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. Additionally, some businesses did not want to expand amid poor market conditions or lack of new projects.
- Service sector firms are most confident about capacity expansion plans and technology upgrades. 61% of services versus 58% of manufacturing and 51% of traders intend to invest in capacity expansion. For upgrading technology, 68% of services, 61% of manufacturing and 53% of traders hope to incur such costs.
- Large firms are more confident than SMEs regarding investment in business expansion, while technology upgrade plans are similar for the two groups.