



SMEs Business Optimism Survey

Q3, 2018

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AT A GLANCE

- The SME Composite BCI has gained marginally q-o-q but is lower on a yearly basis from 113.8 points in Q3, 2017 to 109.9 points in Q2, 2018 and 111.0 points in Q3, 2018.
- The quarterly 1.1 point gain of the Composite BCI is backed by higher seasonal demand, encouraging market conditions, more number of customers and projects.
- Large companies continue to be more optimistic than SMEs with their business outlook, with Composite BCI scores of 123.5 points and 111.0 points, respectively. The former is more confident than the latter about their outlook with respect to selling prices, volumes, hiring and new purchases. SMEs have displayed a better forecast for profits, while both groups share similar views on sales revenues.
- Dubai's SMEs expect the business situation to be stronger in Q4, 2018 than in the previous quarter. The proportion of firms that anticipate an improvement in the business environment stands at 54% for Q4, 2018 compared to 44% for Q3, 2018. Additionally, 42% of the survey respondents do not anticipate any obstacles in their business operations during Q3, 2018.
- Key challenges faced by SMEs include competition and subdued demand/market conditions.
- Plans to expand capacity are less bullish over the quarter, while plans to upgrade technology are stronger on a quarterly 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 third quarter of 2018.

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 Q3, 2018 was conducted for 505 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.

The survey was administered to 438 Small & Medium Enterprises (SMEs) in Dubai.

A detailed break-up of SME respondents by sector is as follows:

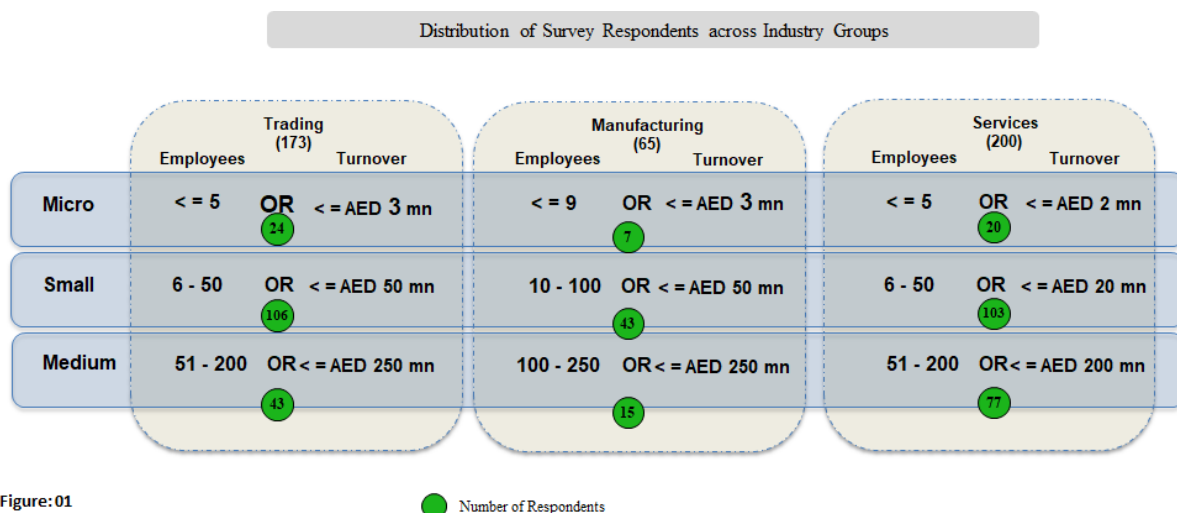


Figure:01

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

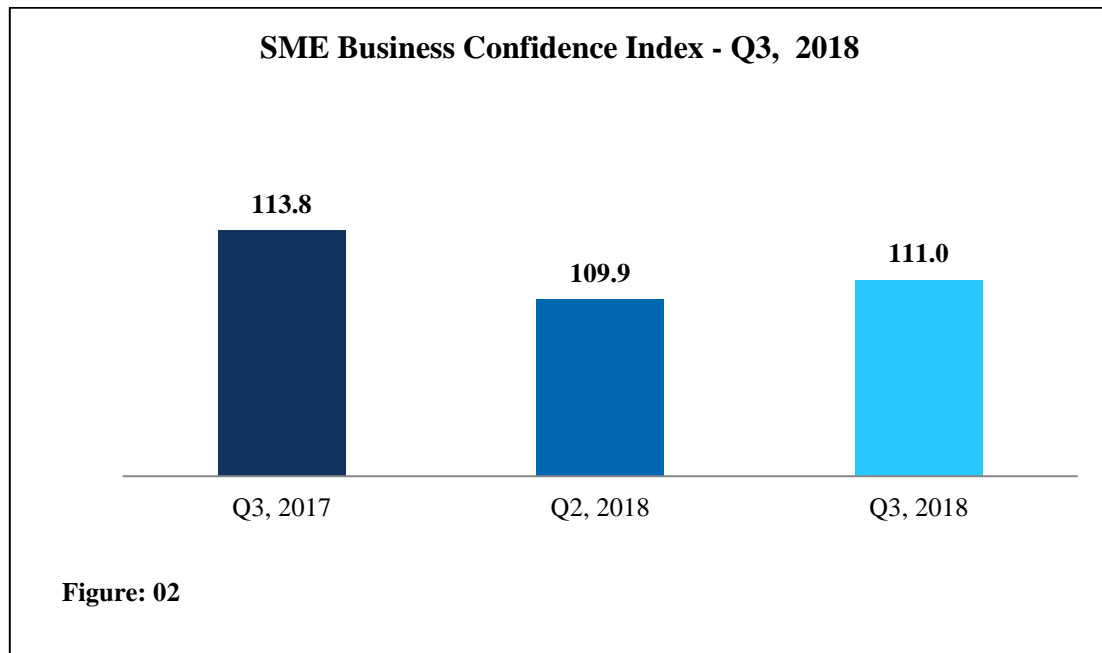
For calculating the SME Composite Business Confidence Index for Dubai, the resultant scores are multiplied with their corresponding parameter weights to arrive at a weighted average Index score. The SME composite index score is finally rebased so that Q2, 2011 = 100.

BCI scores are classified in the following three groups:

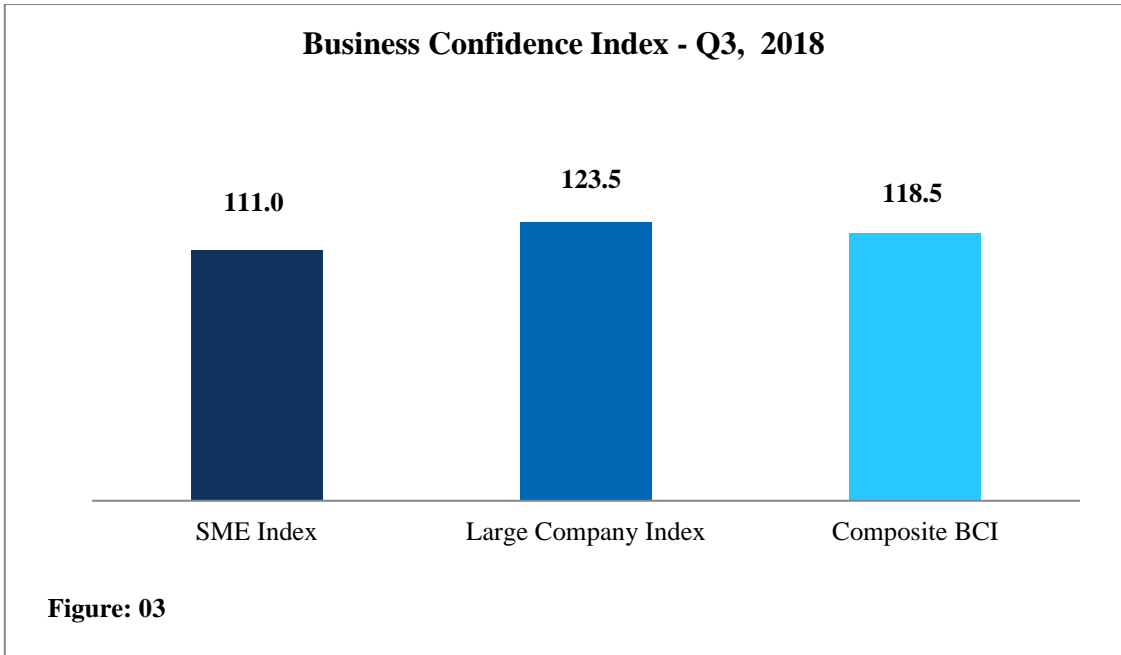
- ***BCI < 100, business expectations are negative***
- ***BCI = 100, business expectations are stable***
- ***BCI > 100, business expectations are positive***

SME BUSINESS CONFIDENCE INDEX - Q3, 2018

According to the UAE's Central Bank, the country's non-oil economy expanded 3.6% y-o-y in the second quarter. Growth in the second quarter remained resilient amid firming oil prices, supportive fiscal policy and resilient tourism related activities. Dubai's SMEs have a steady outlook for Q3, 2018 with the Composite Business Confidence Index (BCI) at 111.0 points (a score of 100 indicates stable/neutral sentiments).



The Composite BCI has strengthened on a quarterly basis from 109.9 points in Q2, 2018 to 111.0 points in Q3, 2018 backed by higher seasonal demand, encouraging market conditions, more number of customers and projects. However, a comparison of the Composite BCI on an annual basis indicates a 2.8 point decline.



Large companies continue to be more optimistic than SMEs with their business outlook, with Composite BCI scores of 123.5 points and 111.0 points, respectively. The former is more confident than the latter about their outlook with respect to selling prices, volumes, hiring and new purchases. SMEs have displayed a better forecast for profits, while both groups share similar views on sales revenues.

SME BUSINESS OUTLOOK – Q4, 2018

SMEs account for a dominant share in Dubai’s total business composition, 438 of the 505 firms that were interviewed as part of the survey were SMEs. These included micro, small, and medium enterprises as per Dubai’s SME definition.

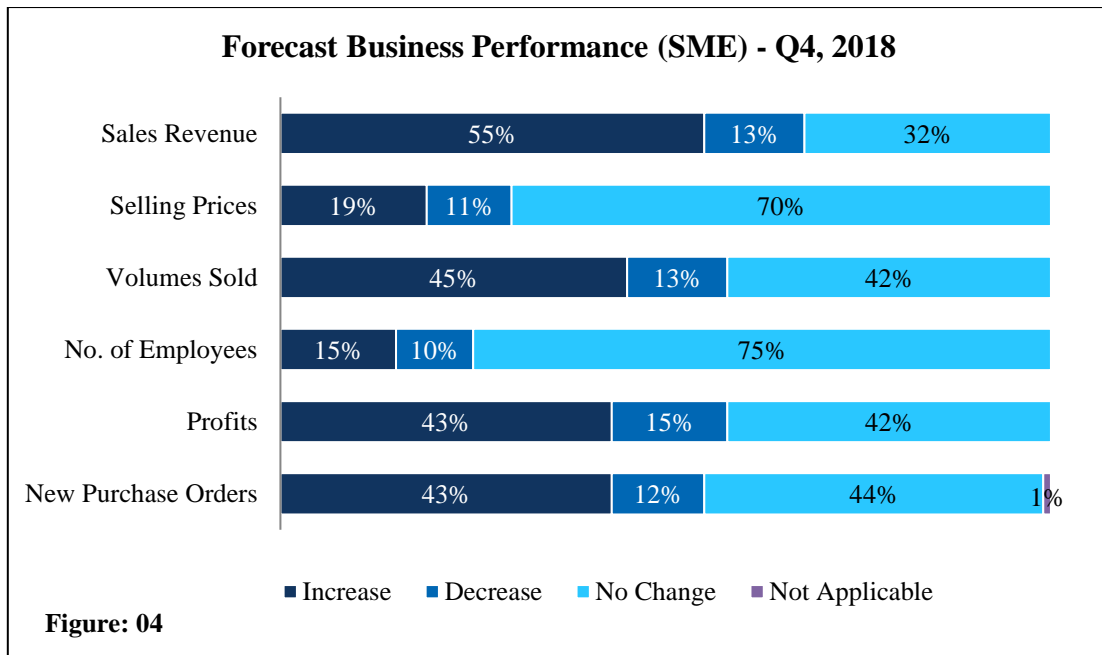
Table: 01

Forecast Business Performance (SMEs) – Q4, 2018

Parameter	Q4, 2017				Q3, 2018				Q4, 2018			
	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance
Sales Revenue	56%	12%	32%	44%	50%	16%	34%	34%	55%	13%	32%	42%
Selling Prices	17%	11%	72%	6%	16%	9%	75%	7%	19%	11%	70%	8%
Volumes Sold	49%	13%	38%	36%	44%	15%	41%	29%	45%	13%	42%	32%
No. of Employees	21%	6%	73%	15%	18%	6%	76%	12%	15%	10%	75%	5%
Profits	46%	18%	36%	28%	40%	20%	40%	20%	43%	15%	42%	28%
New Purchase Orders	47%	12%	39%	35%	41%	12%	42%	29%	43%	12%	44%	31%

*Note: Increase % + Decrease % + % No Change = 100%

In an event it does not add up to 100%, the balance percentage is the Not Applicable figure.



- A quarterly comparison shows that SMEs are more upbeat about most parameters for Q4, 2018 as compared to the previous quarter helped by higher seasonal demand. On a y-o-y basis, expectations have steadied for most parameters.
- Large companies are more confident than the SMEs about their outlook in Q4, 2018 for selling prices, volumes, hiring and new purchases. SMEs have displayed a stronger forecast for profits.
- The seasonal rise in demand has resulted in a stronger outlook for volumes; the net balance has increased from 29% for Q3, 2018 to 32% for Q4, 2018. 45% of the respondents anticipate higher volumes during Q4, 2018, bolstered by expectations of higher demand, more customers and new projects. 42% of the businesses expect no change in the parameter, while 13% anticipate a decline due to intense competition, and weak market conditions. The net balance for large firms is 41%.
- The services sector is most optimistic regarding its outlook for volumes for Q4, 2018, followed by the manufacturing sector.
- The selling prices forecast is also more bullish for Q4, 2018 compared to the previous quarter, driven by predictions of higher demand, expectations of getting new projects and conducive business conditions.
- A stronger forecast (q-o-q) for selling prices and volumes has resulted in a more confident outlook for net profits.
- Hiring expectations have, however, slipped both on an annual and quarterly basis.

- 38% of manufacturing SMEs and 42% of services firms forecast an increase in their capacity utilization rates during Q4, 2018.
- The latest survey shows that Dubai's SMEs expect the business situation to be stronger in Q4, 2018 than in the previous quarter. The proportion of firms that anticipate an improvement in the business environment stands at 54% for Q4, 2018 compared to 44% for Q3, 2018. Additionally, the share of businesses expecting deterioration has declined from 10% for Q3, 2018 to 9% for Q4, 2018.

Manufacturing SMEs

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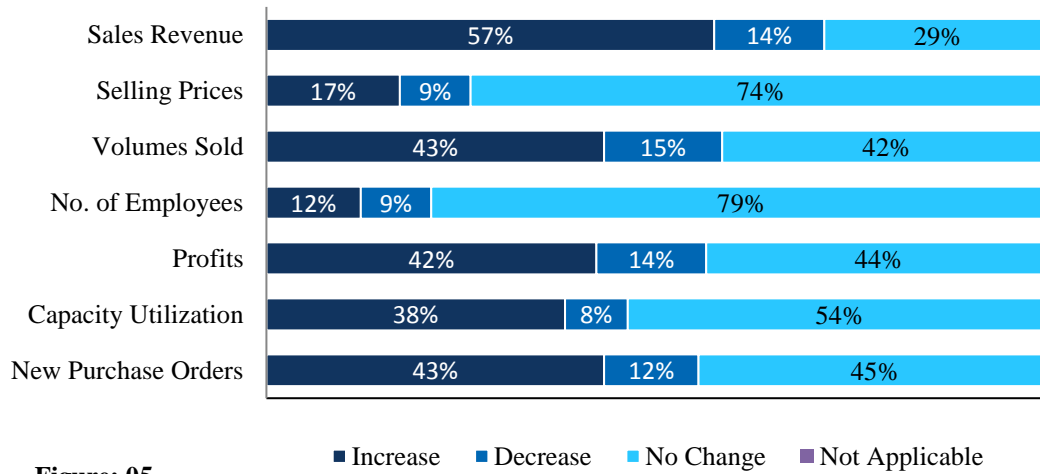
Forecast Business Performance (Manufacturing SMEs) - Q4, 2018

Parameter	Q4, 2017				Q3, 2018				Q4, 2018			
	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance
Sales Revenue	54%	15%	31%	39%	55%	8%	37%	47%	57%	14%	29%	43%
Selling Prices	7%	9%	84%	-2%	9%	8%	83%	1%	17%	9%	74%	8%
Volumes Sold	52%	13%	35%	39%	54%	9%	37%	45%	43%	15%	42%	28%
No. of Employees	27%	6%	67%	21%	26%	5%	69%	21%	12%	9%	79%	3%
Profits	45%	19%	36%	26%	49%	14%	37%	35%	42%	14%	44%	28%
New Purchase Orders	51%	13%	36%	38%	49%	8%	43%	41%	43%	12%	45%	31%

*Note: Increase % + Decrease % + % No Change = 100%

In an event it does not add up to 100%, the balance percentage is the Not Applicable figure.

**Forecast Performance (SMEs) - Manufacturing Sector
- Q4, 2018**



- Respondents in the manufacturing sector are less confident about their volumes for Q4, 2018 than they were for the previous quarter or for Q4, 2017. However, 43% of all manufacturers expect an increase in their volumes during Q4, 2018, driven by expectations of better market conditions and new projects/clients/orders/contracts.
- Manufacturing sub-segments most optimistic about their volumes for Q4, 2018 are furniture, processed foods and glass.

Trading SMEs

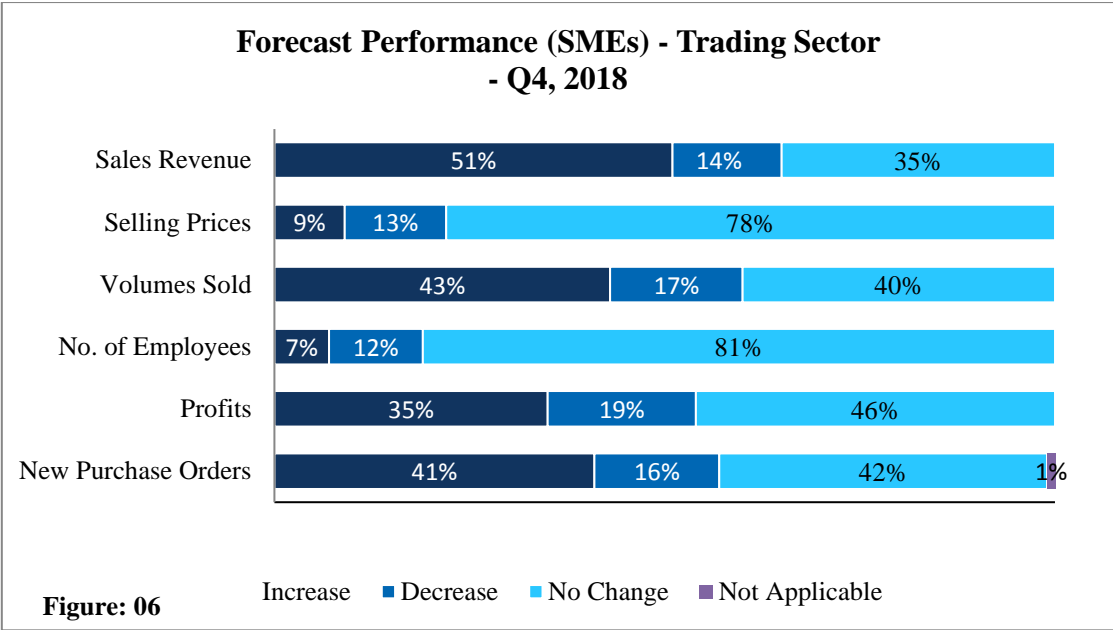
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Forecast Business Performance (Trading SMEs) – Q4, 2018

Parameter	Q4, 2017				Q3, 2018				Q4, 2018			
	No Change	Net Balance	Increase	No Change	Net Balance	Increase	No Change	Net Balance	Increase	No Change	Net Balance	Increase
Sales Revenue	48%	18%	34%	30%	46%	23%	31%	23%	51%	14%	35%	37%
Selling Prices	12%	13%	75%	-1%	13%	10%	77%	3%	9%	13%	78%	-4%
Volumes Sold	41%	20%	39%	21%	40%	22%	38%	18%	43%	17%	40%	26%
No. of Employees	13%	7%	80%	6%	11%	10%	79%	1%	7%	12%	81%	-5%
Profits	40%	24%	36%	16%	38%	26%	36%	12%	35%	19%	46%	16%
New Purchase Orders	41%	20%	39%	21%	41%	18%	40%	23%	41%	16%	42%	25%

*Note: Increase % + Decrease % + % No Change = 100%

In an event it does not add up to 100%, the balance percentage is the Not Applicable figure.



- The trading sector’s forecast for volumes for Q4, 2018 is stronger in comparison to the outlook for Q3, 2017 and for Q4, 2017. While 43% of the traders hope to sell higher volumes during Q4, 2018, 20% expect a decline in the parameter. The survey shows that traders hold the weakest forecast for all parameters compared to manufacturing and services firms.
- Key sub-sectors optimistic of higher demand about their volumes during Q4, 2018 are electronics and food & beverages traders.

Services SMEs

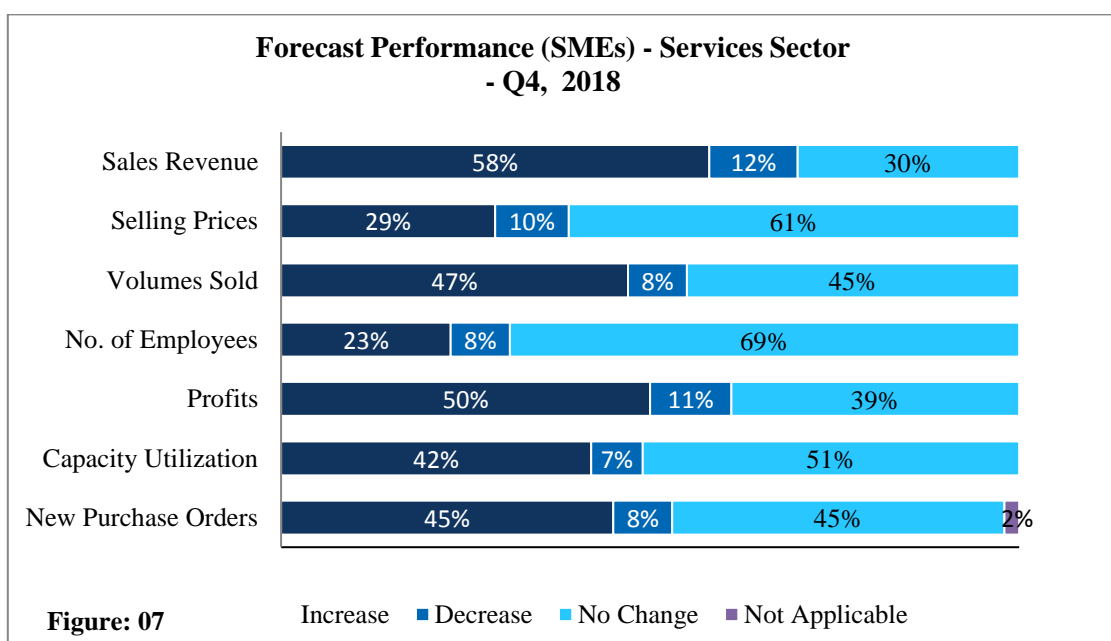
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Forecast Business Performance (Services SMEs) – Q4, 2018

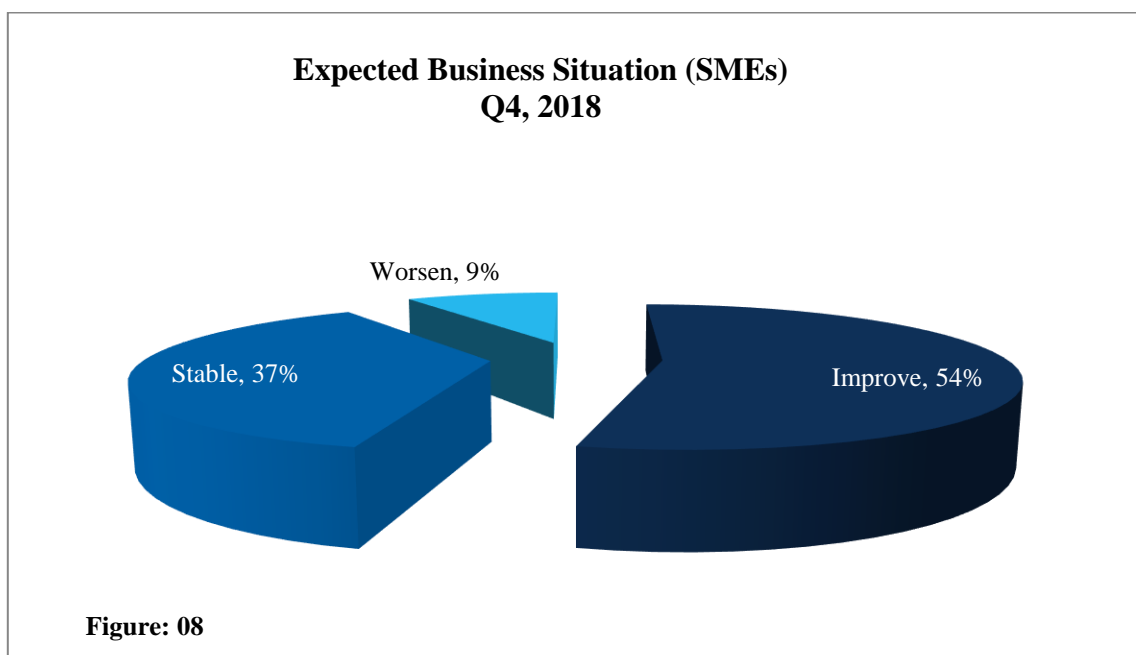
Parameter	Q3, 2017				Q2, 2018				Q3, 2018			
	No Change	Net Balance	Increase	No Change	Net Balance	Increase	No Change	Net Balance	Increase	No Change	Net Balance	Increase
Sales Revenue	62%	6%	32%	56%	51%	13%	36%	38%	58%	12%	30%	46%
Selling Prices	24%	10%	66%	14%	20%	9%	71%	11%	29%	10%	61%	19%
Volumes Sold	54%	7%	39%	47%	44%	12%	44%	32%	47%	8%	45%	39%
No. of Employees	25%	6%	69%	19%	21%	4%	75%	17%	23%	8%	69%	15%
Profits	51%	13%	36%	38%	38%	17%	45%	21%	50%	11%	39%	39%
New Purchase Orders	51%	6%	40%	45%	39%	9%	43%	30%	45%	8%	45%	37%

*Note: Increase % + Decrease % + % No Change = 100%

In an event it does not add up to 100%, the balance percentage is the Not Applicable figure.



- Firms in the services sector have displayed a stronger forecast for their volumes for Q4, 2018 when compared quarterly. This bullish outlook is based on expectations of higher demand and hopes of getting new customers/projects/contracts/orders.
- Within the services sector, hotels and restaurants are most bullish about their volumes during Q4, 2018, with a net balance of 69%. This optimism is due to expectations of higher number of tourists. Travel and car rentals, with a net balance of 50% are also optimistic about their volumes for Q4, 2018, supported by the high tourist season. Among construction, architecture & real estate firms, 41% are hopeful of an increase in volumes during Q4, 2018 with expectations of securing new projects/orders, while 4% expect a decrease, resulting in a net balance of 37%. In the transportation segment, 44% of the respondents expect higher volumes during Q4, 2018, while 12% project a decrease. The remaining (44%) foresee no change in the parameter.



54% of SMEs expect an improvement in the business situation in Q4, 2018; the corresponding proportion is higher for large companies at 43%.

DUBAI SME OUTPUT - Q3, 2018

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) - Q3, 2018

Parameter	Q3, 2017				Q2, 2018				Q3, 2018			
	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance
Sales Revenue	17%	42%	41%	-25%	19%	44%	37%	-25%	16%	41%	43%	-25%
Selling Prices	10%	25%	65%	-15%	11%	26%	63%	-15%	8%	28%	64%	-20%
Volumes Sold	19%	42%	39%	-23%	19%	45%	36%	-26%	15%	42%	43%	-27%
No. of Employees	12%	18%	70%	-6%	12%	16%	72%	-4%	11%	17%	72%	-6%
Profits	14%	48%	38%	-34%	13%	53%	34%	-40%	12%	49%	39%	-37%
New Purchase Orders	19%	36%	43%	-17%	17%	35%	44%	-18%	15%	34%	51%	-19%

*Note: Increase % + Decrease % + % No Change = 100%

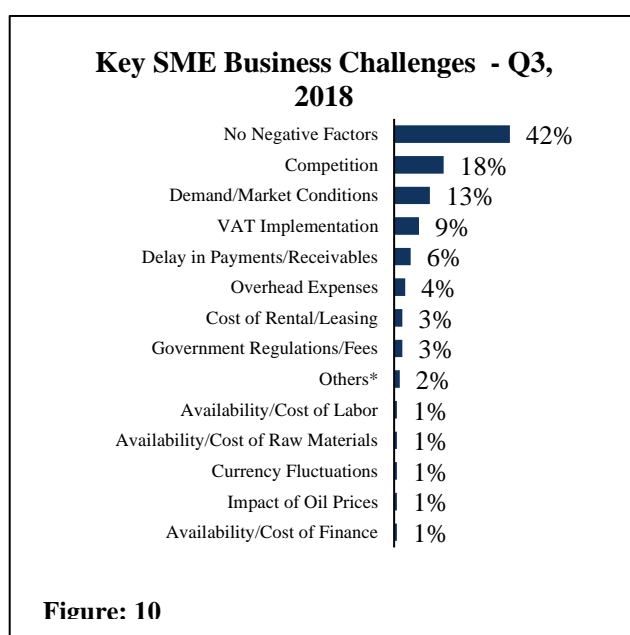
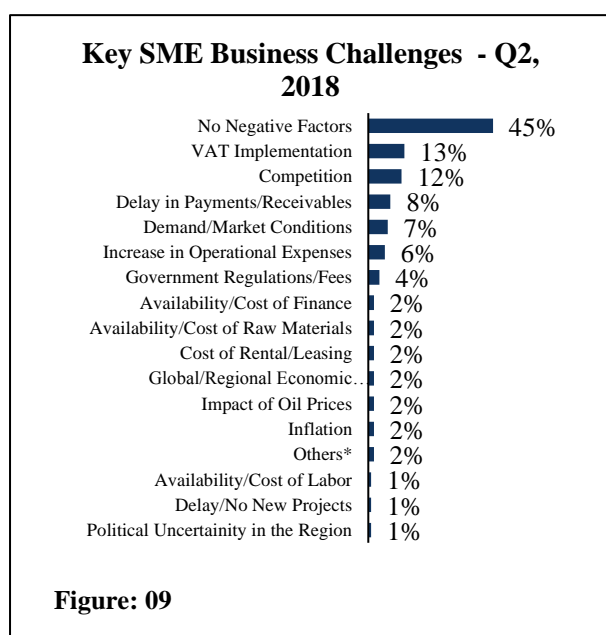
In an event it does not add up to 100%, the balance percentage is the Not Applicable figure.

- In Q3, 2018, 15% of the respondents indicated an increase in their volumes, while 42% reported a decrease, resulting in a net balance of negative 27%. Firms that experienced a decline in their volumes cited several reasons including competition, poor market conditions and fewer customers.
- Large companies performed stronger than SMEs for revenues, selling prices, volumes, hiring, net profits and purchase orders.
- A majority of the respondents (64%) reported stability in their selling prices in Q3, 2018, while 28% had to reduce their prices mainly due to competition, weak market conditions and fewer customers.
- 72% of the survey participants were able to maintain the size of their labor force, while 11% had to increase it to meet business requirements, and 17% had to reduce the number of employees.

- Firms reported a relatively better performance with respect to net profits on a quarterly basis.
- Capacity utilization rates improved for manufacturing firms on a quarterly basis. For service providers, capacity utilization rates weakened on a q-o-q basis.
- Labor costs increased for 29% of the firms, but it remained unchanged for 66% of the businesses.
- The rising cost of raw materials impacted 30% of the firms, while 47% reported no change in the parameter. Among large companies, 42% reported an increase in such costs.
- Rental costs increased for 19% of the SMEs and 15% of the large firms.

KEY SME CHALLENGES IN DUBAI

The survey also highlighted key challenges perceived by businesses at the end of Q3, 2018 that may impact near term business growth and development. 42% of the participants do not expect to face any hurdles in their business operations in Q3, 2018 versus 45% in the previous quarter.



*Others include supplier concerns, challenges surrounding government policies of other countries.

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

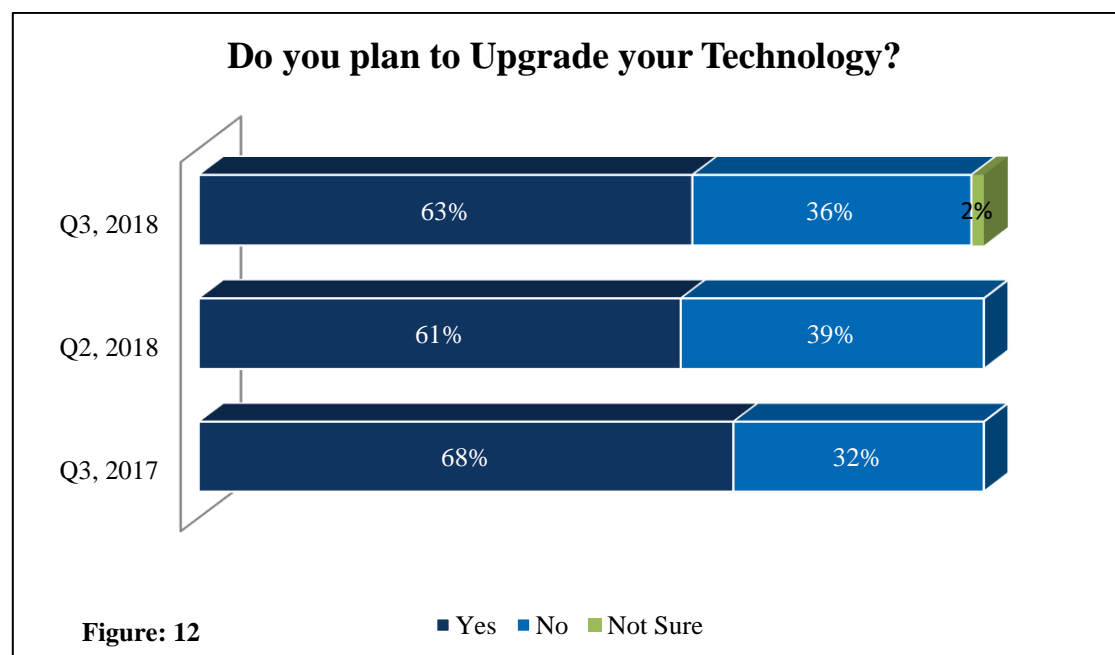
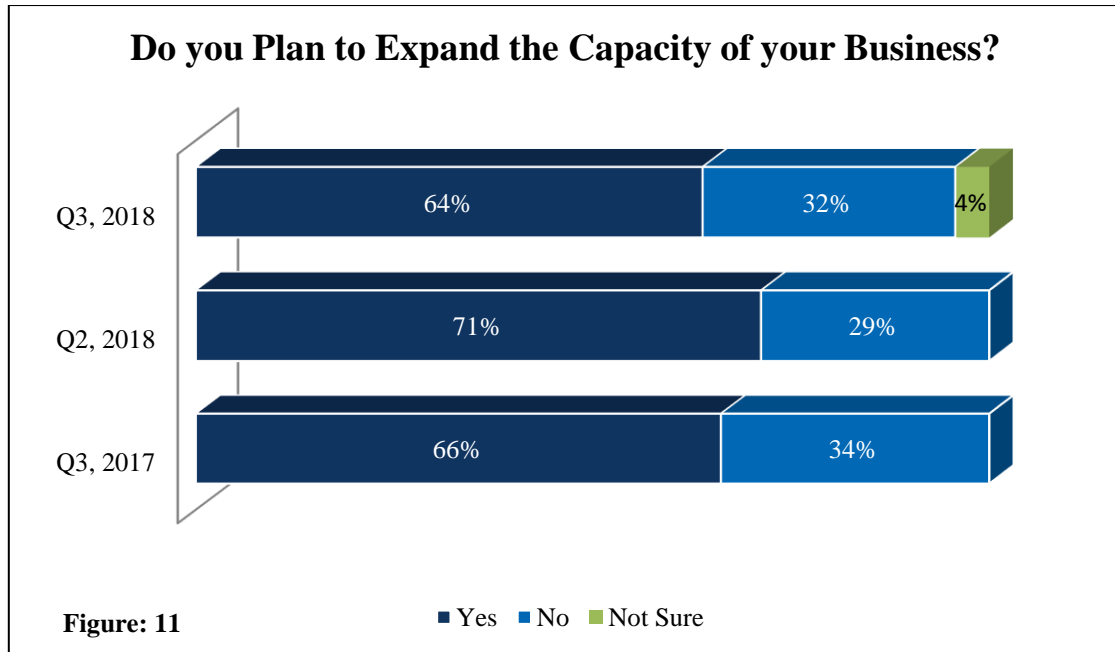
1. **Competition:** 18% of Dubai's SMEs face competition as an impediment to their business operations, with 60% of them anticipating worsening of the factor.
2. **Demand/Market Conditions:** This is an impediment to 13% of the firms.
3. **VAT Implementation:** This is an obstacle to 9% of the respondents.
4. **Delay in Payments/Receivables:** 6% of the firms face this as a challenge.
5. **Increase in Overhead Expenses:** 4% of the survey participants have identified this as a factor challenging them.

The remaining concerns impacted 3% or fewer of the participants.

The important challenges reported by large companies were competition, delay in payments/receivables and poor market/demand conditions.

INVESTMENT OUTLOOK

The survey also gauged 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 less bullish on a quarterly basis and annual basis. 64% intended to expand capacity at the end of Q3, 2018 versus 71% in Q2, 2018 and 66% in Q3, 2017. Plans to upgrade technology have strengthened on a quarterly but are weaker on

an annual basis; the proportion of respondents intending to upgrade technology has increased from 61% for Q2, 2018 to 63% for Q3, 2018 but is lower from 68% for Q3, 2017.

- Key reasons cited by respondents for not considering expanding business capacity include poor market conditions and no plans to expand business in the foreseeable future.
- Companies in the manufacturing sector are most optimistic about capacity expansion plans. 69% of manufacturers versus 66% of services firms and 60% of traders have capacity expansion plans. 67% of services versus 66% of manufacturing and 57% of traders expect to implement technology upgrades.
- SMEs are more confident than large firms about investment in business expansion while large firms are optimistic about plans to upgrade technology.