



## SMEs Business Optimism Survey

Q4, 2018

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#### AT A GLANCE

- The Composite BCI has gained 8.2 points from 110.6 points in Q4, 2017 to 118.8 points in Q4, 2018 on a y-o-y basis, with respondents anticipating higher volumes, increased hiring and profits.
- The quarterly 7.8 point gain of the Composite BCI is backed by expectations of additional customers, seasonal rise in demand, new projects and overall optimism surrounding Expo 2020.
- Large companies maintain stronger projections for Q1, 2019 as compared to SMEs with Composite BCI scores of 131.2 and 118.8 points, respectively. The former is more optimistic than the latter about their outlook with respect to volumes, hiring, profits and new purchase orders. However, SMEs have displayed a marginally better forecast for selling prices.
- Dubai's SMEs expect the business situation to be stronger in Q1, 2019 than in the previous quarter. The proportion of firms that anticipate an improvement in the business environment stands at 58% for Q1, 2019 compared to 54% for Q4, 2018, while those expecting a stability has moderated from 37% to 35%.
- SMEs in the manufacturing sector are most optimistic about their business prospects for Q1, 2019 as compared to the trading and services SMEs.
- Key challenges faced by SMEs include competition, delay in payments/receivables and poor demand/market conditions.
- Technology upgradation and capacity expansion have tracked lower both on a quarterly and annual 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 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.

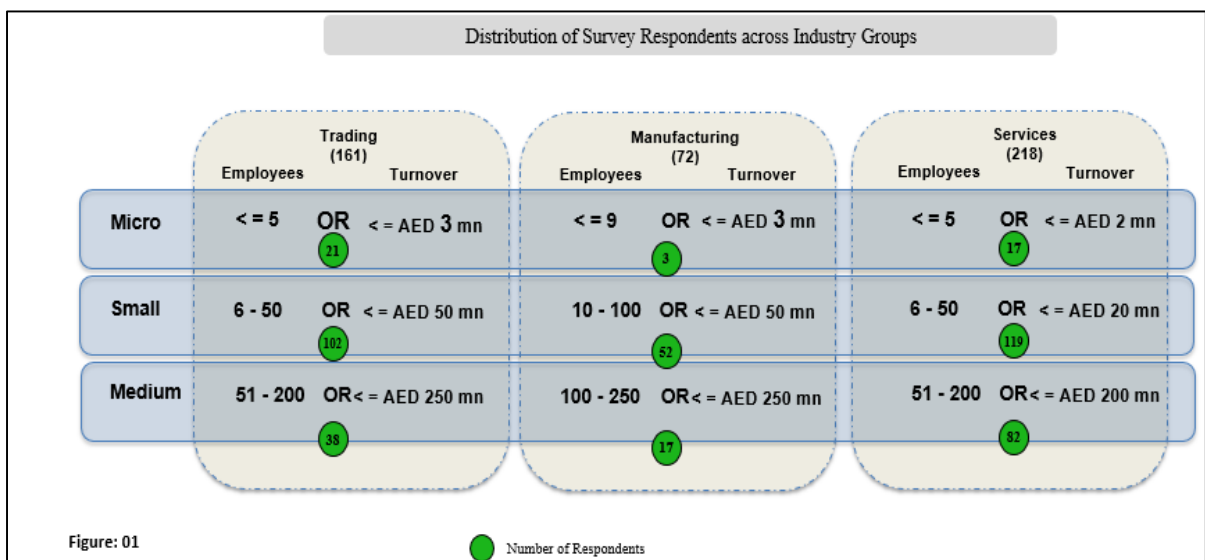
This document presents a summary of the survey conducted in the 4th quarter of 2018 (Q4, 2018).

In addition, the Survey elicits feedback from businesses on the challenges that may impact growth and development and assesses their investment outlook for the coming twelve months.

## METHODOLOGY

The quarterly business Survey for Q4, 2018 was conducted for 506 businesses in Dubai. The sample included a mix of small, medium and large enterprises and ensured adequate representation from manufacturing, trading and services sectors, in line with their respective contributions to Dubai’s GDP.

The Survey was administered to 451 Small & Medium Enterprises (SMEs) in Dubai.



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

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.

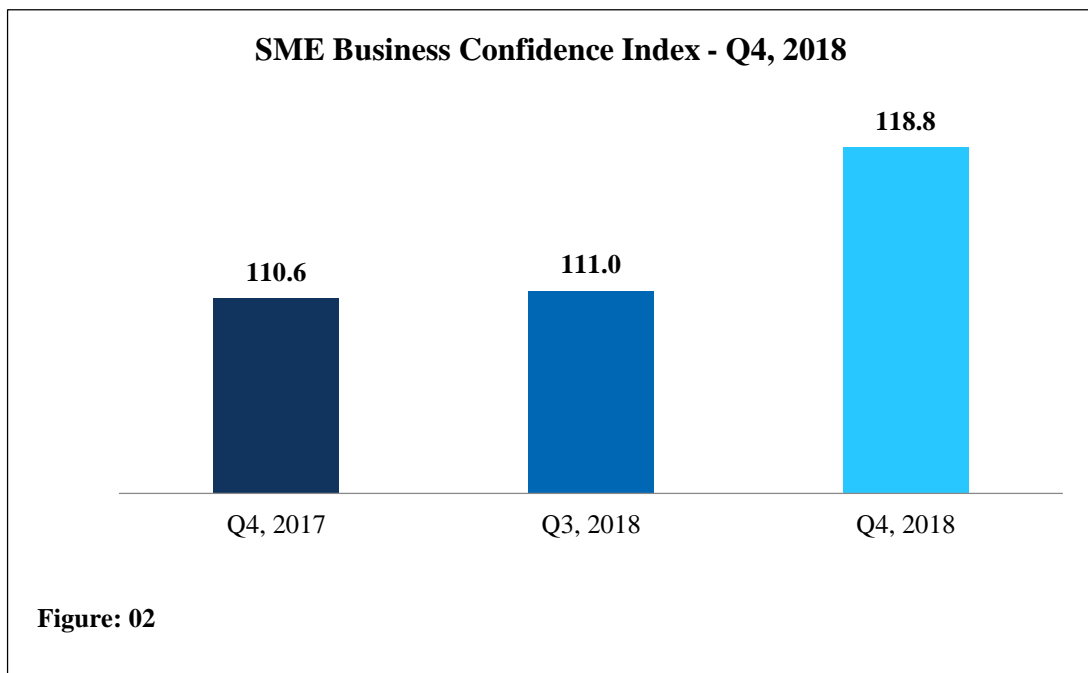
BCI scores are classified in the following three groups:

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

## SME BUSINESS CONFIDENCE INDEX – Q4, 2018

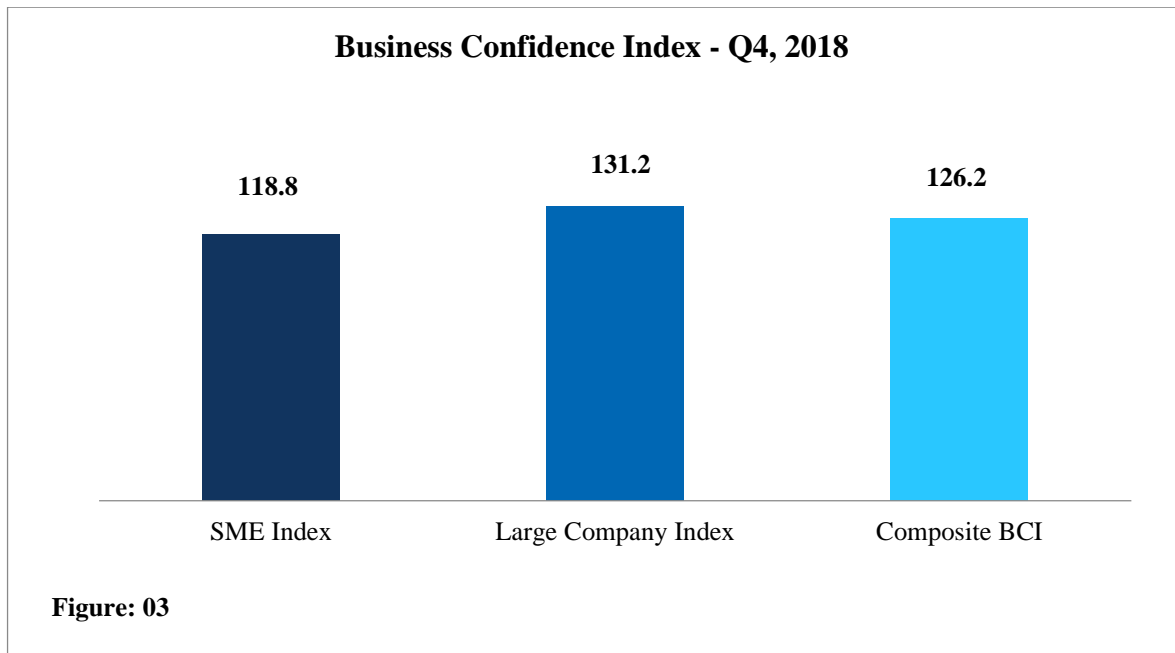
According to the Department of Finance (DoF), Dubai’s budget for 2019 targets for continuous development of infrastructure projects aligned to hosting of Expo 2020 and to meet the targets spelled out in the Dubai Plan 2021. The budget will create 2,498 new jobs, with an expected y-o-y increase of 1.2% in public revenues. The government has allocated 40% of the total expenditure towards infrastructure and transportation; 33% towards social development; 22% towards security, justice and safety and 5% has been allocated towards instilling a culture of excellence, innovation, creativity and scientific research.

SMEs have a stronger outlook for Q1, 2019 with the Composite Business Confidence Index (BCI) at 118.8 points (A score of 100 indicates stable/neutral sentiments).



The Composite BCI has gained 8.2 points from 110.6 points in Q4, 2017 to 118.8 points in Q4, 2018 on a y-o-y basis, with the respondents anticipating higher volumes, increased hiring and profits.

The Composite BCI has strengthened on a quarterly basis from 111.0 points in Q3, 2018 to 118.8 points in Q4, 2018 backed by expectations of additional customers, seasonal rise in demand, new projects and overall optimism surrounding Expo 2020.



Large companies maintain stronger projections for Q1, 2019 as compared to SMEs with Composite BCI scores of 131.2 and 118.8 points, respectively. The former is more optimistic than the latter about their outlook with respect to volumes, hiring, profits and new purchase orders. However, SMEs have displayed a marginally better forecast for selling prices.

## SME BUSINESS OUTLOOK – Q1, 2019

SMEs account for a dominant share in Dubai’s total business composition. 451 of the 506 firms that were interviewed as part of the survey are SMEs. These include micro, small, and medium enterprises as per Dubai’s SME definition.

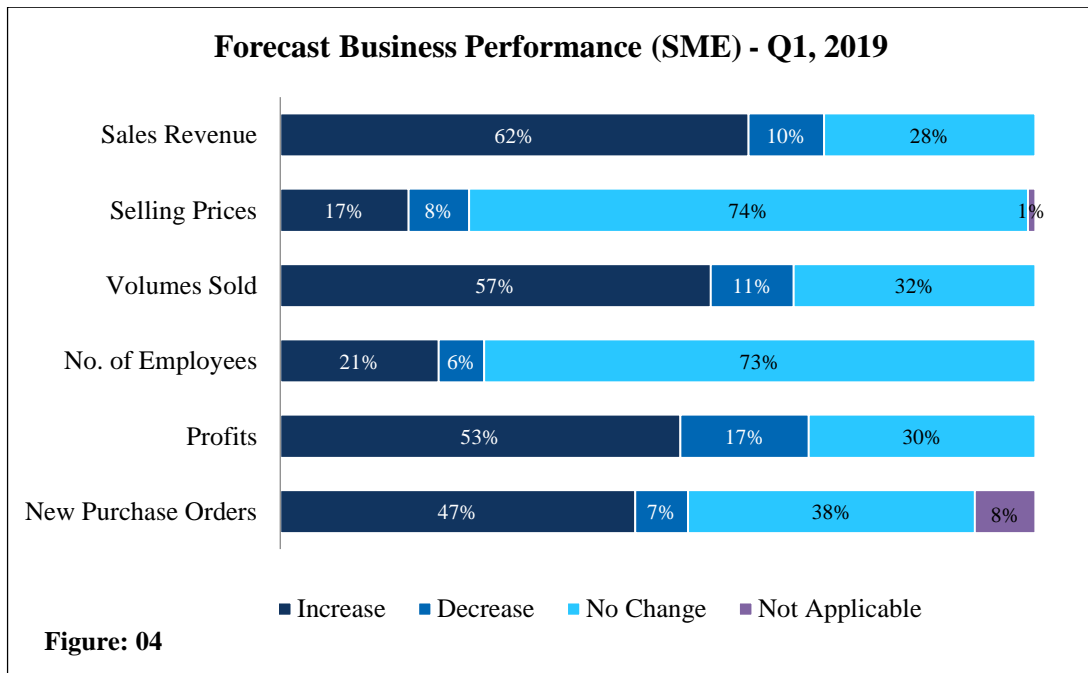
Table: 01

### Forecast Business Performance (SMEs) – Q1, 2019

Parameter	Q1, 2018				Q4, 2018				Q1, 2019			
	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance
Sales Revenue	47%	22%	31%	25%	55%	13%	32%	42%	62%	10%	28%	52%
Selling Prices	37%	7%	56%	30%	19%	11%	70%	8%	17%	8%	74%	9%
Volumes Sold	39%	18%	43%	21%	45%	13%	42%	32%	57%	11%	32%	46%
No. of Employees	21%	9%	70%	12%	15%	10%	75%	5%	21%	6%	73%	15%
Profits	32%	24%	44%	8%	43%	15%	42%	28%	53%	17%	30%	36%
New Purchase Orders	39%	16%	44%	23%	43%	12%	44%	31%	47%	7%	38%	40%

*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 Q1, 2019 than they were for Q4, 2018, backed by higher seasonal demand.
- Large companies are more optimistic than SMEs about their outlook with respect to volumes, hiring, profits and new purchase orders. However, SMEs have displayed a marginally better forecast for selling prices as compared to large companies.
- The outlook for volumes has displayed a y-o-y and q-o-q improvement, with the net balance increasing from 21% in Q1, 2018 and 32% in Q4, 2018 to 46% for Q1, 2019. 57% of the respondents anticipate an increase in volumes in Q1, 2019, supported by expectations of a rise in demand, additional customers and new projects aligned to Expo 2020. On the other hand, 11% of the respondents forecast a decline in volumes due to competition and slowing market conditions.
- The manufacturing sector holds the strongest outlook for all parameters evaluated in the survey. Trading setor holds the weakest forecast for revenues, selling prices, volumes, hiring, net profits and new purchase orders.
- 44% each of the manufacturing and services firms forecast an increase in their capacity utilization during Q1, 2019.
- A stronger forecast for revenue and volumes has resulted in a more optimistic outlook for net profits.



- The new purchases forecast is more bullish for Q1, 2019 compared to the previous quarters, driven by predictions of higher demand and respondents' hopes of obtaining new projects.
- The outlook for hiring is more optimistic as compared to the previous quarters, with the respondents anticipating an increase in headcount backed by an increase in business activity.
- The forecast for selling prices moderated in Q4, 2018 as compared to the same period in the preceding year. For Q1, 2019, 74% of the respondents expect a stability in prices, while 17% expect rise in their selling prices in order to maintain profits amid predictions of higher demand. Additionally, 8% of the respondents anticipate a decline in selling prices to attract new/existing customers due to competition.

## Manufacturing SMEs

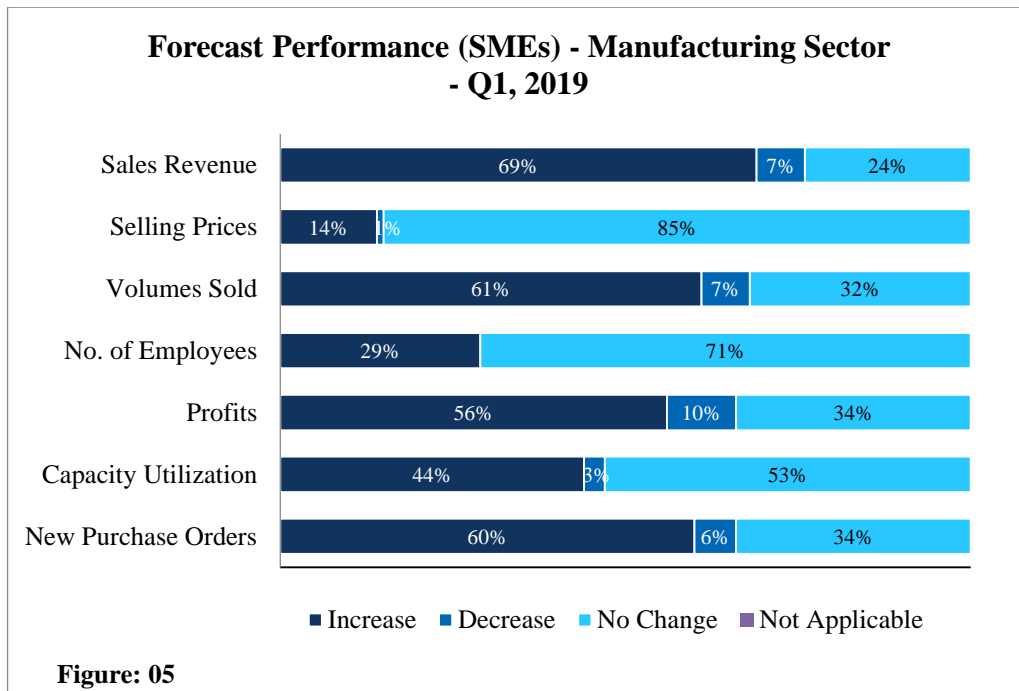
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### Forecast Business Performance (Manufacturing SMEs) – Q1, 2019

Parameter	Q1, 2018				Q4, 2018				Q1, 2019			
	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance
Sales Revenue	42%	24%	34%	18%	57%	14%	29%	43%	69%	7%	24%	62%
Selling Prices	34%	10%	56%	24%	17%	9%	74%	8%	14%	1%	85%	13%
Volumes Sold	32%	17%	51%	15%	43%	15%	42%	28%	61%	7%	32%	54%
No. of Employees	20%	13%	67%	7%	12%	9%	79%	3%	29%	0%	71%	29%
Profits	25%	32%	43%	-7%	42%	14%	44%	28%	56%	10%	34%	46%
New Purchase Orders	35%	14%	51%	21%	43%	12%	45%	31%	60%	6%	34%	54%

*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 manufacturing sector is the most optimistic about business prospects for Q1, 2019 as compared to the trading and services sector.
- Respondents in the manufacturing sector are more optimistic about their volumes for Q1, 2019 than they were for the previous quarter and in the same quarter a year ago. 61% of the respondents expect an increase in volumes, driven by expectations of better market conditions and new projects/clients/orders/contracts. 32% of the respondents expect that volumes will remain steady in Q1, 2019.
- The outlook for selling prices has improved over the quarter. However, it has moderated as compared to the period in the preceding year. 14% of the firms plan to increase the prices of their products in the coming quarter, while 85% intend to keep it stable.
- The new purchase orders forecast is more bullish for Q1, 2019 compared to the previous quarters, with the respondents anticipating an increase in business activity.
- The proportion of manufacturing firms anticipating improvement in business situation has increased from 49% for Q4, 2018 to 64% for Q1, 2019. However, the proportion expecting a stable outlook has declined from 45% to 32% and the share of firms expecting deterioration in business situation has declined from 6% for Q4, 2018 to 4% for Q1, 2019.
- Manufacturing sub-segments most optimistic about their volumes for Q1, 2019 are furniture, plastics and metals, with a net balance of 66%, 50 and 45% respectively.

## Trading SMEs

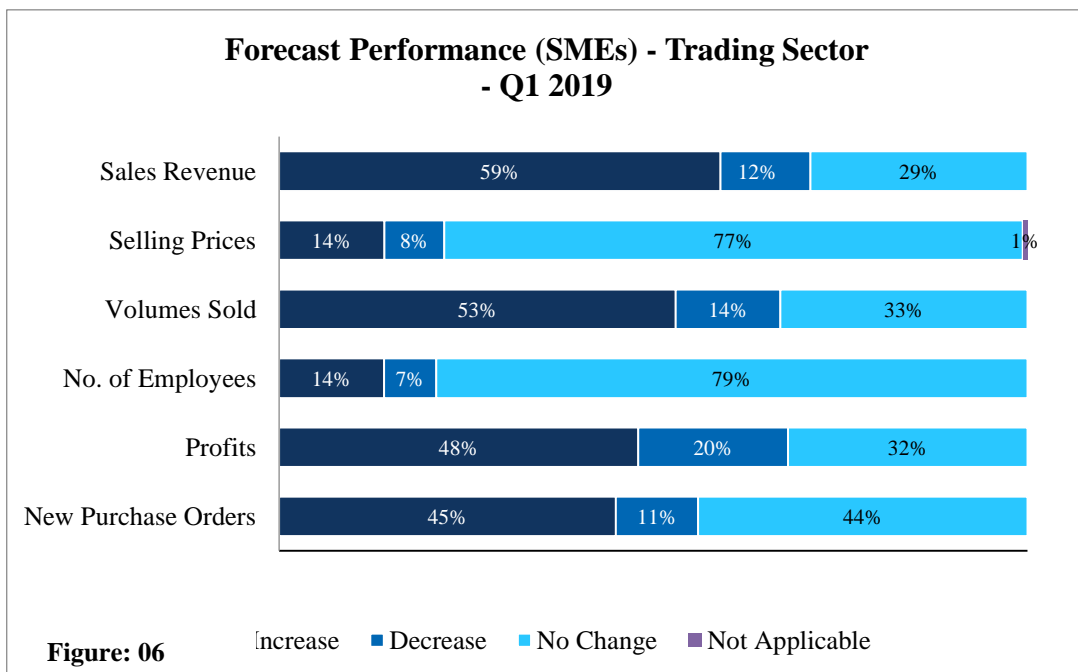
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### Forecast Business Performance (Trading SMEs) – Q1, 2019

Parameter	Q1, 2018				Q4, 2018				Q1, 2019			
	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance
Sales Revenue	40%	29%	31%	11%	51%	14%	35%	37%	59%	12%	29%	47%
Selling Prices	43%	7%	50%	36%	9%	13%	78%	-4%	14%	8%	77%	6%
Volumes Sold	32%	27%	41%	5%	43%	17%	40%	26%	53%	14%	33%	39%
No. of Employees	15%	13%	72%	2%	7%	12%	81%	-5%	14%	7%	79%	7%
Profits	25%	29%	46%	-4%	35%	19%	46%	16%	48%	20%	32%	28%
New Purchase Orders	32%	26%	42%	6%	41%	16%	42%	25%	45%	11%	44%	34%

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 Q1, 2019 is higher in comparison to the outlook for Q4, 2018 and for Q1, 2018. 53% of the respondents anticipate an increase in volumes in Q1, 2019, supported by expectations of a rise in seasonal demand. On the other hand, 14% of the respondents forecast a decline in volumes due to unfavourable business conditions.
- Respondents are more optimistic about their revenues, hiring, profits and new purchase orders for Q1, 2019 as compared to the same period a year earlier, backed by higher seasonal demand. On a q-o-q basis, expectations have improved for all the parameters.
- The proportion of trading firms anticipating an improvement in the business situation has remained unchanged at 52% for Q1, 2019 as compared to the outlook for Q4, 2018; however, the proportion expecting a stable outlook has improved from 38% to 40%. The share of firms expecting deterioration in business situation has declined from 10% for Q4, 2018 to 8% for Q1, 2019.
- Key sectors optimistic of higher demand about their volumes during Q1, 2019 are electronics and food & beverages traders.

## Services SMEs

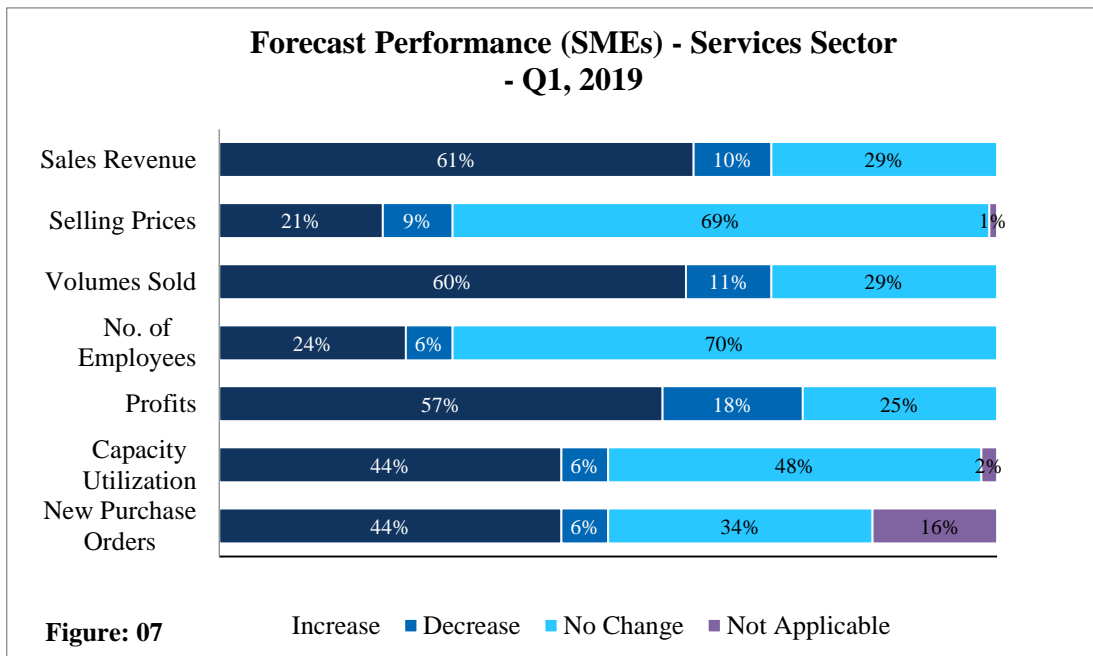
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### Forecast Business Performance (Services SMEs) – Q1, 2019

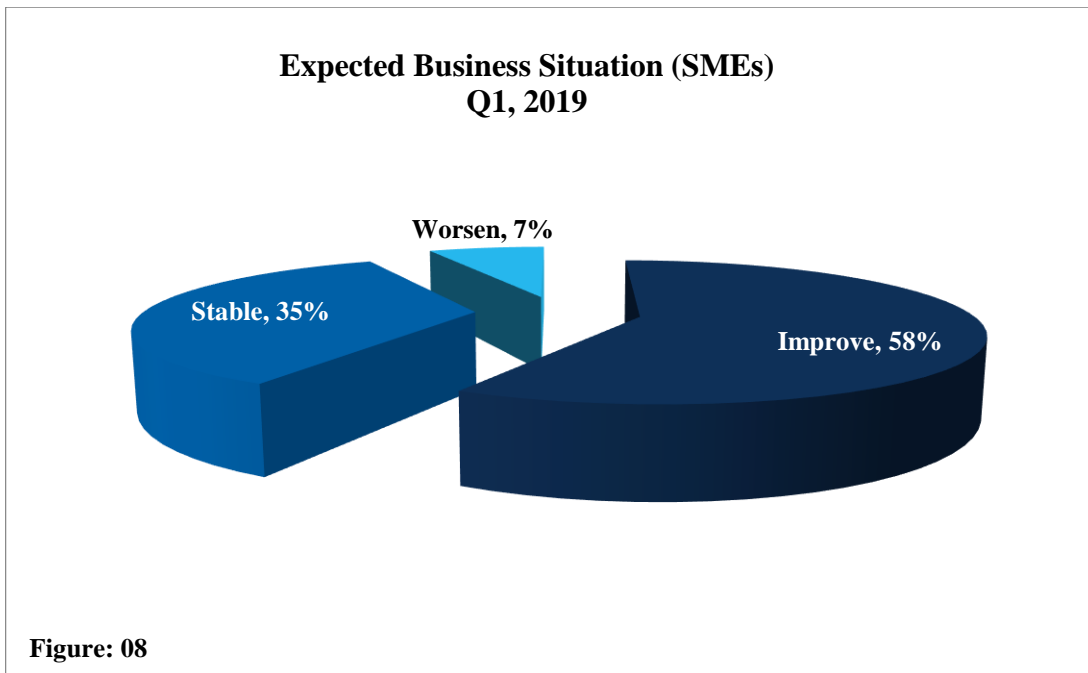
Parameter	Q1, 2018				Q4, 2018				Q1, 2019			
	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance
Sales Revenue	53%	16%	31%	37%	58%	12%	30%	46%	61%	10%	29%	51%
Selling Prices	33%	7%	60%	26%	29%	10%	61%	19%	21%	9%	69%	12%
Volumes Sold	46%	11%	43%	35%	47%	8%	45%	39%	60%	11%	29%	49%
No. of Employees	26%	5%	69%	21%	23%	8%	69%	15%	24%	6%	70%	18%
Profits	40%	18%	42%	22%	50%	11%	39%	39%	57%	18%	25%	39%
New Purchase Orders	47%	9%	42%	38%	45%	8%	45%	37%	44%	6%	34%	38%

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

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



- Respondents in the services sector are more confident about their volumes for Q1, 2019 than they were for the previous quarter and in the same quarter a year ago. 60% of the respondents expect an increase in volumes, driven by expectations of better market conditions and new projects/clients/contracts. However, 29% expect their volumes to remain steady in Q1, 2019 and 11% foresee a decline in volumes due to slowing market conditions and competition.
- The outlook for selling prices has displayed a y-o-y and q-o-q decrease with the net balance decreasing from 26% in Q1, 2018 and 19% in Q4, 2018 to 12% for Q1, 2019. 9% of the respondent plan to reduce their selling prices to attract new customers in light of competition. However, 21% are planning to increase their selling prices, backed by expectations of an increase in tourist footfalls and to reduce operational expenses. Majority of the respondents (69%) expect stability in prices in order to attract new/existing customers due to competition and slowing business conditions.
- Firms in the services sector have reported a better performance with respect to new purchase orders, hiring and revenues on a quarterly basis.
- The proportion of services SMEs anticipating an improvement in the business situation has increased from 57% for Q4, 2018 to 61% for Q1, 2019, while the proportion expecting a stable outlook has declined from 34% to 32%. The share of firms expecting deterioration in business situation has declined from 9% for Q4, 2018 to 7% for Q1, 2019.
- Within the services sector, the Tourism & hospitality segment (which includes services related to travel, car rentals and hotels & restaurants) is most bullish about volumes during Q1, 2019, with a net balance of 92%. Transport & storage firms, with a net balance of 54% are also optimistic about their volumes for Q1, 2019. Among Construction, architecture & real estate firms, 55% are hopeful of an increase in volumes, while 15% expect a decrease, resulting in a net balance of 40%. In the transportation segment, 59% of the respondents expect higher volumes during Q1, 2019, while 5% foresee a decrease due to lack of demand.



Large companies continue to be more optimistic than SMEs with their business outlook. 69% of the large companies expect an improvement in the coming quarter as compared to 58% of SMEs. However, in terms of a stable outlook, 35% of SMEs anticipate a stability as compared to 25% of large companies. While 7% of SMEs expect deterioration in the business situation during Q1, 2019, the corresponding proportion for large companies is at 6%.

## DUBAI SME OUTPUT – Q4, 2018

Although the main purpose of the survey is to gauge business expectations for future activity, it also captures actual changes in business performance from one quarter to another, as elicited from the feedback given by responding firms.

Table: 05

### Overall 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	24%	37%	39%	-13%	16%	41%	43%	-25%	22%	38%	40%	-16%
Selling Prices	11%	18%	71%	-7%	8%	28%	64%	-20%	10%	27%	63%	-17%
Volumes Sold	23%	34%	43%	-11%	15%	42%	43%	-27%	25%	38%	37%	-13%
No. of Employees	13%	18%	69%	-5%	11%	17%	72%	-6%	14%	16%	70%	-2%
Profits	17%	43%	40%	-26%	12%	49%	39%	-37%	18%	48%	34%	-30%
New Purchase Orders	25%	29%	45%	-4%	15%	34%	51%	-19%	25%	21%	46%	4%

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 Q4, 2018, 25% of the respondents indicated an increase in their volumes, while 38% reported a decrease, resulting in a net balance of negative 13%. Firms that reported a decrease in volumes cited several reasons including lack of demand, competition, delay in payments/receivables and fewer projects.
- A majority (63%) of the respondents reported stability in their selling prices in Q4, 2018, while 27% had to reduce their prices mainly due to lack of demand, competition and unstable market conditions.
- 70% of the respondents reported that size of their labour force remained unchanged, while 14% reported an increase to meet business requirements. 16% of the respondents reported a reduction in the number of employees in order to reduce costs and maintain profits due to lack of demand/projects.

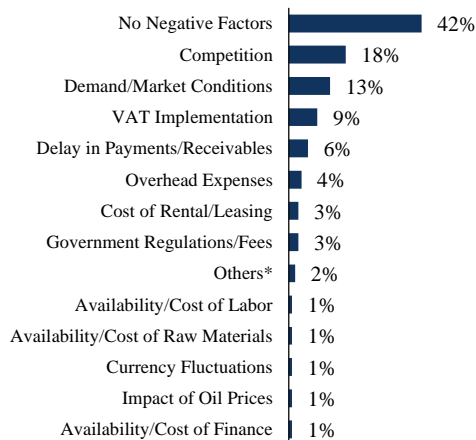


- With respect to net profits, firms reported a weaker performance on an annual basis but an improvement over the previous quarter.
- SMEs reported a better performance with respect to new purchase orders both on a quarterly and annual basis.
- Labour costs remained unchanged for 68% of the firms, while it increased for 27% and declined for 5% of the firms.
- The input cost increased for 23% of the firms, while 40% reported no change in the parameter.
- Capacity utilization rate improved for service providers on a quarterly and annual basis. For manufacturing firms, the rate improved on a quarterly basis but was weak on an annual basis.
- 35% of the firms reported that they availed bank finance during Q4, 2018. Among these firms, 17% reported an increase in cost of finance, while 43% reported that such costs remained unchanged and 3% reported a decline in cost of finance.
- 15% of the firms are planning to avail bank finance in the coming quarter.
- The proportion of firms viewing their current business situation as 'Good' rose marginally from 20% in Q3, 2018 to 22% in Q4, 2018. However, the proportion viewing their business situation as 'Average' rose from 56% to 61%, and the firms citing a 'Poor' situation decreased from 24% to 17% in the reviewed period.
- Rental costs increased for 10% of the respondents, while the costs were stable for 69% and declined for 8% of the respondents.
- Large companies performed better than SMEs for all the parameters – revenues, selling prices, volumes, hiring, profits and new purchase orders.

## KEY SME CHALLENGES IN DUBAI

The survey highlights key challenges perceived by businesses at the end of Q4, 2018 that may impact near term business growth and development. 12% of the survey respondents do not face any hurdles in their business operations in Q4, 2018 compared to 42% in the previous quarter.

**Key SME Business Challenges - Q3, 2018**



**Figure: 09**

**Key SME Business Challenges - Q4, 2018**



**Figure: 10**

*\*Others include challenges surrounding availability of market information, government policies of other countries and supplier concerns.*

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

**Competition:** Among 46% of the firms that consider competition as one of their major challenges, 65% stated that the competition intensity has increased over the quarter.

**Delay in Payments/Receivables:** 34% of the firms faced this challenge in their business operations in Q4, 2018. Among these, 75% of the respondents reported an increase in the intensity of the challenge over the quarter.

**Demand/Market Conditions:** Among 27% of the firms which consider demand/market conditions as a business challenge, 44% reported an increase in the intensity of the challenge over the quarter.

**VAT Implementation:** 18% of the respondents consider this as a key business challenge.

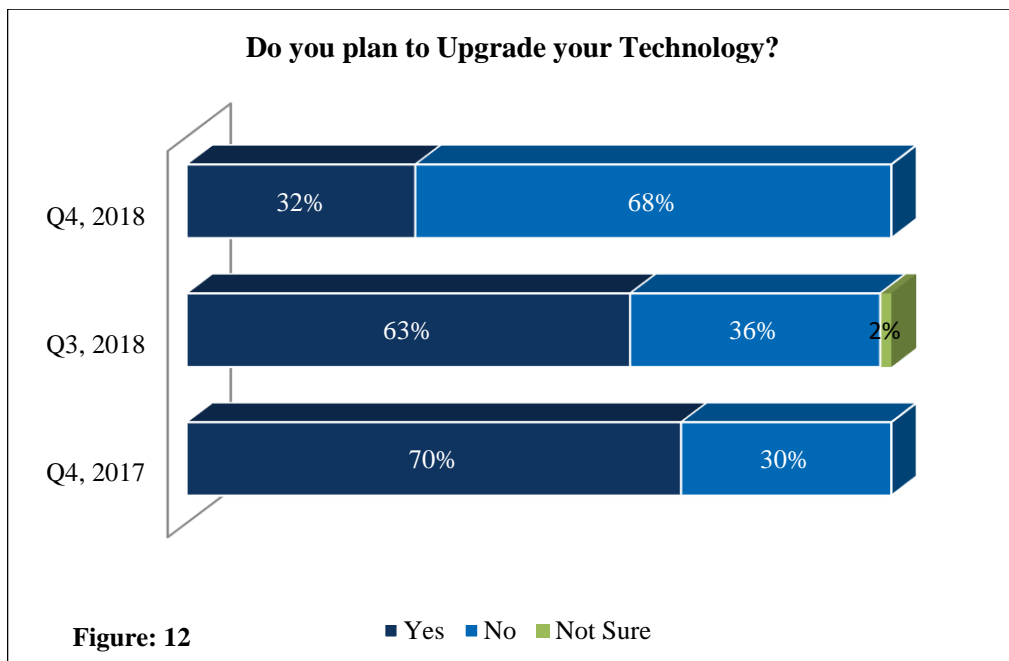
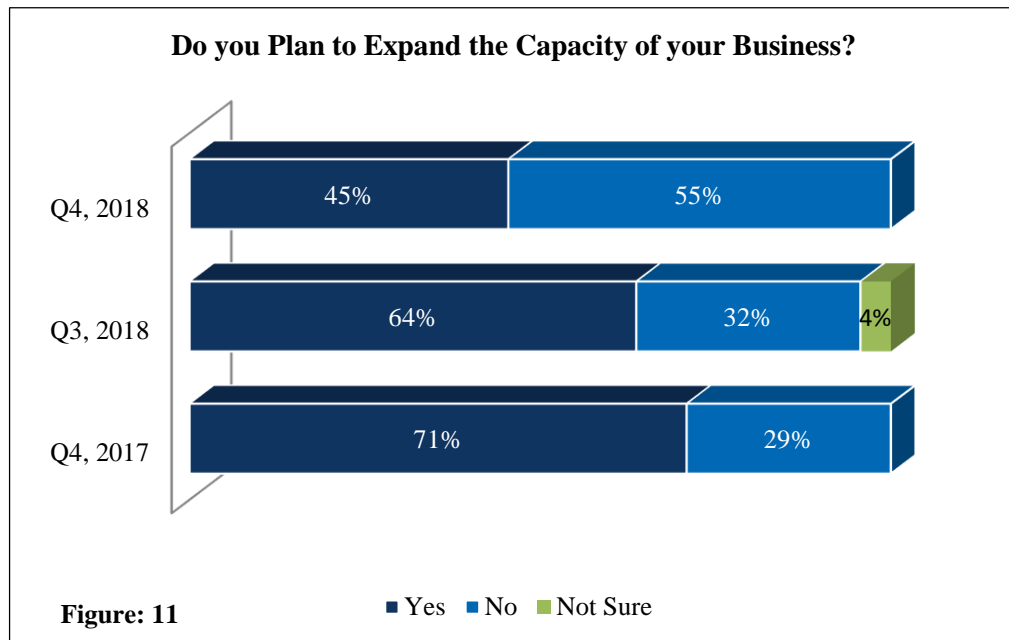
**Increase in Operational Expenses:** 14% of the respondents' operations were hampered by this factor.

The remaining concerns each affected 9% or fewer of the participants.

The important challenges reported by large companies were competition, delay in payments/receivables and VAT implementation.

## 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.



- Respondents continue to be less bullish about their plans to invest in capacity expansion on a q-o-q and y-o-y basis. 45% of the respondents intended to expand capacity at the end of Q4, 2018 as compared to 64% in Q3, 2018 and 71%

in Q4, 2017. Similarly, respondents are less optimistic about their technology upgrade plans in Q4, 2018 vis-à-vis the previous quarter and the same period in 2017. 32% of the firms intend to invest in technology upgradation in Q4, 2018 compared to 63% in Q3, 2018 and 70% in Q4, 2017.

- Key reasons cited by respondents for not considering expansion in business capacity include focus on achieving stability and profitability, over and above market expansion. Additionally, some businesses do not want to expand amid poor market conditions and lack of funds.
- Manufacturing sector SMEs are most optimistic about capacity expansion plans and technology upgrades. 53% of manufacturers have expansion plans, as compared to 45% of traders and 43% of services firms. 42% of manufacturers have plans to upgrade technology as compared to 34% of services firms and 26% of trading firms.
- Large companies are more optimistic than SMEs about capacity expansion plans and technology upgrades. 58% of the large companies expect to invest in expansion plans compared to 45% of SMEs. 44% of large companies are more bullish about technology upgrades as compared to 32% of SMEs.