حكومة دبي
GOVERNMENT OF DUBAI

دائرة التنمية الاقتصادية
DEPARTMENT OF ECONOMIC DEVELOPMENT

DUBAI BUSINESS SURVEY

Q1 2015

Economic Studies & Policies Division

INTRODUCTION

The Department of Economic Development (DED) was established in March 1992, with the objective to organize, regulate and boost trade and industry within the Emirate of Dubai.

In October 2008, HH Sheikh Mohammed bin Rashid Al Maktoum, UAE Prime Minister and Vice-President, and Ruler of Dubai, issued Decree no. 25 giving full responsibility to DED to plan and regulate the overall economic performance of Dubai, supervise its functions and support the economic development to ensure that the objectives of the Dubai Strategic Plan are achieved.

DED is still responsible for its traditional activities of business registration, licensing and commercial protection in Dubai. However with four new agencies offices now under the umbrella of DED, the mandate has been extended to include:

1. Mohammed Bin Rashid Establishment for Small & Medium Enterprises (SME)
2. Dubai Export Development Corporation (EDC)
3. Dubai Foundation for the Development of Investment (DFDI)
4. Dubai Competitiveness Office (DCO)

In line with DED's new mandate, the Economic Studies & Policies Division conducts a quarterly Business Survey, in coordination with **DED Agencies (EDC & SME)** and in collaboration with **Dun & Bradstreet South Asia Middle East Ltd.,** in order to provide a timely and objective assessment of business expectations and performance. This document summarizes the main findings of the survey for the first quarter of 2015.

AT A GLANCE

- The Composite Business Confidence Index (BCI) for Dubai for Q1, 2015 stands at 130.1 points, highlighting an overall weakening in the outlook when compared to the same period a year earlier (135.5 points) as well as with the last quarter's reading of 138.2 points.
- In line with the trend observed for the composite BCI, the survey reflects that the outlook for sales revenue has moderated in relation to the last quarter and when compared on a y-o-y basis; 53% firms expect an increase in sales revenue in Q2, 2015, compared to 65% and 63% in Q1, 2015 and Q2, 2014 respectively.
- With respect to hiring, there is q-o-q improvement, but expectations are similar when compared to the same period last year. 29% of the survey participants expect to increase their staff count during Q2, 2015 due to new projects and business expansion plans, compared to 22% during Q1, 2015 and 30% during Q2, 2014.
- Large firms are more confident than SMEs on all the related parameters in the survey. The composite BCI of large firms is at 135.0 points, compared to 122.7 points for SMEs.
- The composite BCI for exporters is 126.4 points versus 130.1 points for Dubai's overall business community.
- Participants have indicated a weakening of the overall business environment, with 52% expecting an improvement compared to 61% in the previous quarter.
- Investment plans for capacity expansion have firmed up when compared to the last quarter but are steady on a y-o-y basis. 74% firms indicated plans to invest in capacity expansion in Q1, 2015, compared to 70% in Q4, 2014 and 75% in Q1, 2014.
- The survey shows an uptick in plans to upgrade technology; 69% of the respondents intend to invest in technology upgrades in Q1, 2015, versus a corresponding 56% in Q4, 2014 and 61% in the same period 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 conducts a quarterly business survey, to gauge the level of current economic activity and the outlook of businesses for the next quarter.

In addition, the survey elicits feedback on challenges that may impact business growth and development and assesses the investment outlook for the coming twelve months.

METHODOLOGY

The quarterly business survey for Q1, 2015[1] was conducted with a total sample of 500 companies across the Emirate of Dubai. The sample included a mix of small, medium, and large enterprises and had adequate representation from the manufacturing, trading, and services sectors in proportion to their respective contributions to Dubai's GDP.

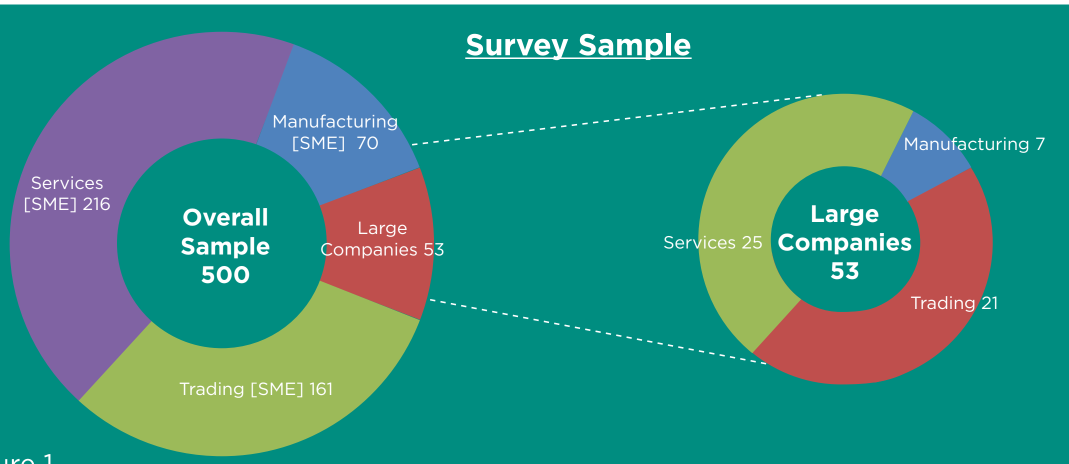


Figure 1

In order to gauge 'business outlook' or expectations, the quarterly survey focuses on key indicators, such *as sales revenue, selling prices, volumes sold, profits and number of employees.* Respondents are asked to indicate if they expected an 'increase', 'decrease' or 'no change' in these parameters. The Q1, 2015 survey has captured the perceptions of companies across 30-35 sub-sectors.

BUSINESS CONFIDENCE INDEX CALCULATIONS

The 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, 'resulting scores' are calculated using the net balance method: **(% of positive responses - % of negative responses)** + 100

For the Composite Business Confidence Index, the resulting scores are multiplied with their corresponding weights to arrive at a weighted average Index score[2]. This index is finally rebased so that Q2, 2011 = 100. Taking account of the economy's composition by firm size, the index is weighted by the relative contributions of SMEs and large businesses to Dubai's GDP. The final result is the following index calculation: **Overall Index = 60% * (Large enterprise Index) + 40% * (SME Index).**

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

When expressed with reference to the base quarter Q2,2011 the following interpretations hold (t and t-1 referring to two consecutive quarters):

- **BCI(t)< BCI(t-1):**

business expectations are declining
- **BCI(t) =BCI(t-1):**

business expectations are stable
- **BCI(t)> BCI(t-1):**

business expectations are rising

[1] For the purpose of the survey, each quarter is defined as follows: Q1 is the period between January and March, Q2 is the period between April and June, Q3 is the period between July and September, and Q4 is the period between October and December of each year.

[2] Weighted Average BCI = [(Net Balance on Selling Prices) x (Parameter Weight)] + [(Net Balance on Volumes Sold) x (Parameter Weight)] + [(Net Balance on No. of employees) x (Parameter Weight)] + [(Net Balance on Profits) x (Parameter Weight)]

BUSINESS CONFIDENCE INDEX – Q1, 2015

The International Monetary Fund (IMF) has trimmed UAE's 2015 growth forecast to 3.5%, due to the instability of global oil prices. However, despite the decline of oil prices, the economy is expected to continue to grow as the subdued oil sector growth will be offset by high non-oil sector growth, due to the Emirates' strategic plan to diversify its economy. Meanwhile, Dubai's economy is projected to grow by 4.5% this year. The D&B survey reveals that the overall Composite Business Confidence Index in Q1, 2015 stands at 130.1 points (A score of 100 indicates stable/neutral sentiments).

Composite Business Confidence Index

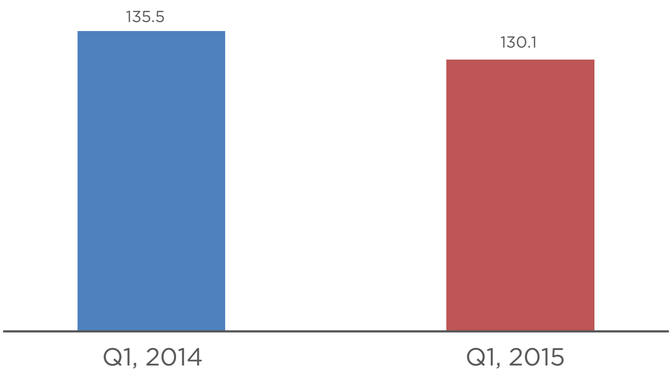


Figure 2

The Composite BCI is 5.4 points lower on a yearly basis from 135.5 points in Q1, 2014, due to a sharp decline in the large firms' outlook, which contribute a 60% weight to the overall composite BCI. In comparison to the previous quarter, the Composite BCI has moderated 8.1 points from the last quarter's score of 138.2 points, owing to increasing competition, slowdown in business activity, and drying up of new project opportunities.

Business Confidence Index: Q1, 2015

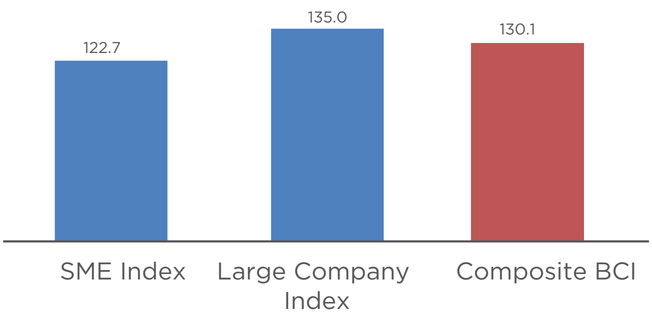


Figure 3

Continuing last quarter's trend, large firms have a stronger outlook compared to small and medium firms, as highlighted by their index scores of 135.0 points and 122.7 points respectively. Large companies are more optimistic than SMEs on all the parameters recorded in the survey.

OVERALL BUSINESS OUTLOOK – Q2, 2015

The present survey shows a moderation in the outlook in sales revenue for Q2, 2015, when compared to the last quarter and the same quarter a year ago. 53% of the survey participants expect higher revenues during Q2, 2015, compared to 65% during Q1, 2015 and 63% for Q2, 2014. The net balance stands at positive 45% for Q2, 2015 versus 61% for Q1, 2015 and 55% for Q2, 2014.

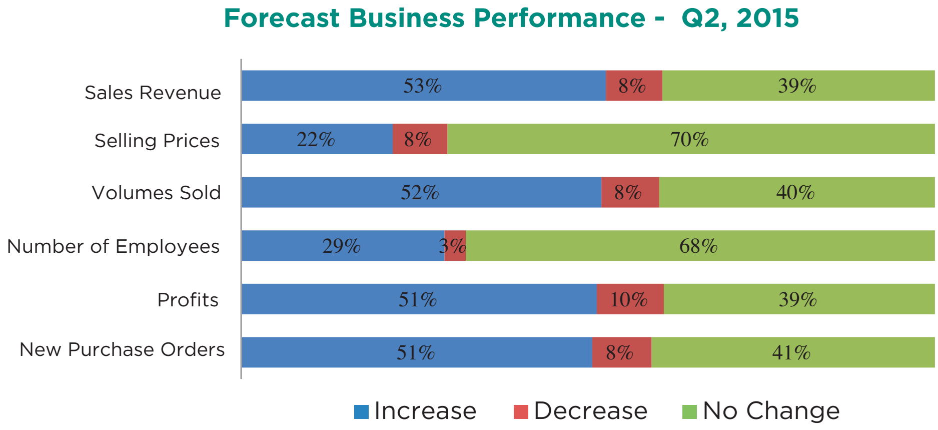


Figure 4

Selling prices are largely expected to remain stable, with 70% of the respondents expecting "no change" in relation to this parameter. 8% respondents expect a decline due to stiff market competition and the overall slowdown in business activity. The net balance for selling prices stands at positive 14% for Q2, 2015, compared to positive 13% for both Q1, 2015 and Q2, 2014.

Optimism with respect to volumes sold has weakened significantly both on a q-o-q and y-o-y basis, with 52% of the respondents forecasting an increase during Q2, 2015 vis-à-vis 65% in Q1, 2015 and 63% in the same period last year. Low demand especially during the summer season, competition and lack of new projects were cited as reasons for the overall weakness in this parameter. The net balance for Q2, 2015 stands at positive 44%, versus 60% in the previous quarter and 56% in Q2, 2014.

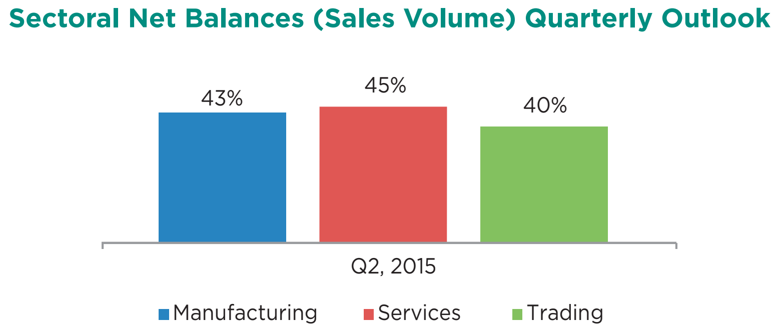


Figure 5

A comparison of the outlook of key economic sectors reveal that the services sector is most optimistic about sales revenue, selling prices, volumes sold, net profits and new purchase orders, while the manufacturing sector holds the strongest outlook with respect to hiring.

Sector-wise Outlook for Sales Volume

Manufacturing Sector:

The present survey shows that the prospect for manufacturing firms has weakened considerably when compared with the previous quarter and with the same period a year ago; the net balance for sales volume has declined from positive 65% in Q1, 2015 and Q2, 2014 to positive 43% in Q2, 2015. A lower optimism for sales volume is due to the seasonal downtrend in business.

Quarterly Net Balances (Sales Volume) - Manufacturing Sector

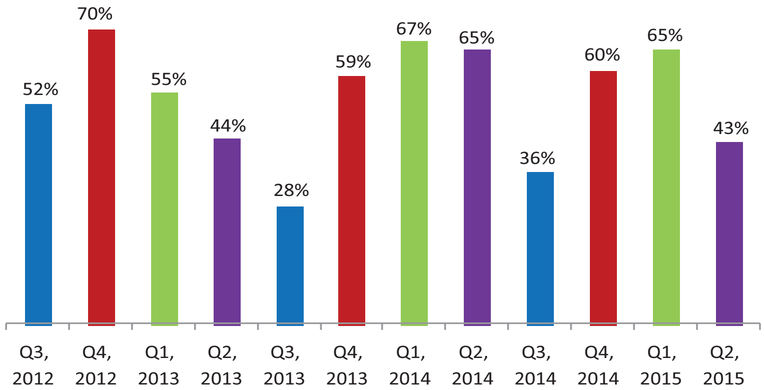


Figure 6

Within the manufacturing sector, firms engaged in metal fabrication and furniture are more optimistic than those belonging to other sub-sectors. 47% firms expect to sell higher volumes during Q2, 2015, compared to a corresponding 70% during Q1, 2015 and 69% during Q2, 2014. A modest 4% expect a decline due to a decrease in demand during the summer season.

Services Sector:

The services sector has displayed the strongest sales outlook for Q2, 2015, as compared to the manufacturing and trading sectors. However, it is observed to have moderated when compared on a q-o-q and y-o-y basis. The net balance for the sales volume outlook is 45% for Q2, 2015, in comparison to a corresponding reading of 61% for Q1, 2015 and 56% for Q2, 2014. Within the services sector, 64% companies in the construction segment are optimistic with respect to volume of sales in the second quarter, with only a marginal 3% expecting a decline due to lack of demand and increasing market competition.

Net Balances on Sales Volume for Key Service Sectors, Quarterly Outlook

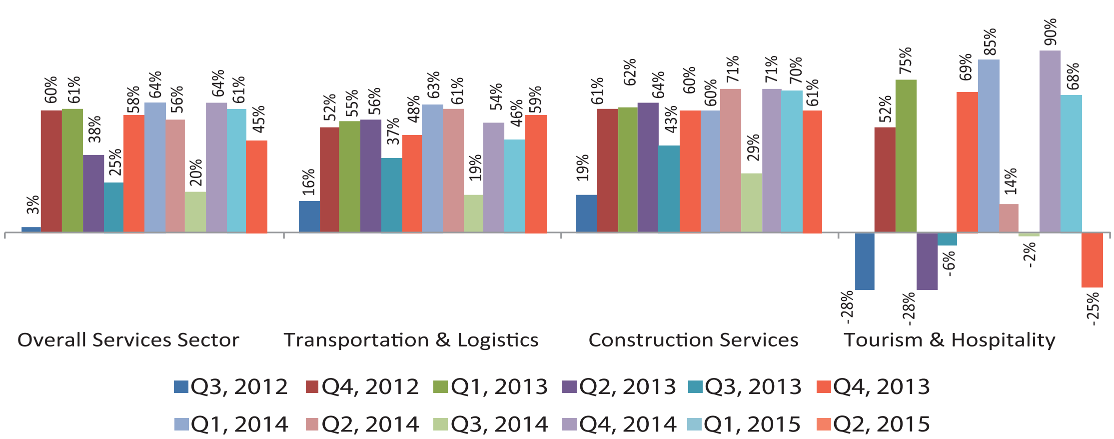


Figure 7

Car rentals and travel firms, a sub-segment of the tourism sector, have highlighted stronger optimism, with 60% expecting an increase in sales volume and the remaining 40% foreseeing no change. On the other hand, hotels & restaurants are not as optimistic on a relative basis as the other sectors, owing to the lack of demand associated with the onset of the summer season.

Among the transportation firms, 63% anticipate an increase in volumes during Q2, 2015 driven by an increase in the number of customers and new projects, while a marginal 4% expect a decrease due to a slowdown in demand.

Trading Sector:

In line with the sentiments of the overall economy, expectations in terms of sales volume in the trading sector have moderated vis-à-vis the last quarter as well as with respect to the same period a year ago (the net balance reading for the sales volume outlook of 40% for Q2, 2015 has moderated when compared to a corresponding figure of 55% for Q1, 2015 and 54% for Q2, 2014). The survey shows that 49% of the trading firms anticipate an increase in their volumes, while 9% expect a decline, due to low demand during the summer months and the impact of increasing competition.

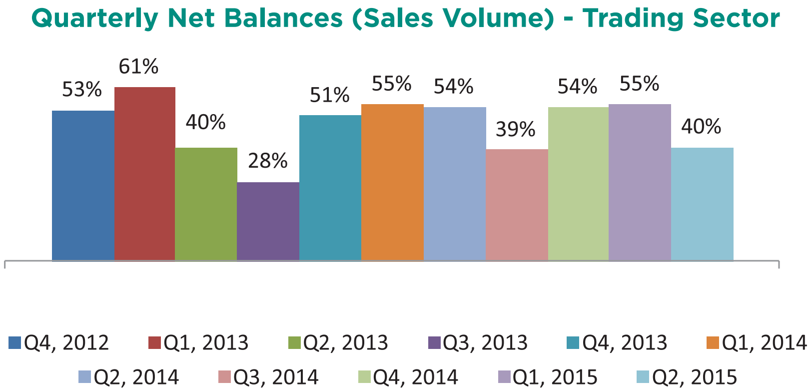


Figure 8

The primary segments that are optimistic of higher demand over the next quarter include the following:

- 64% of the traders in the building & construction segment anticipate an increase in sales volume during Q2, 2015, backed by higher market demand.
- 64% of electronics traders are upbeat about the second quarter of 2015 due to higher demand from new and existing customers and growing business, while none of the firms in the segment expect a decline in volumes.
- 60% of the auto traders are expecting to sell higher volumes in Q2, 2015, based on the anticipation of acquiring new customers.
- 56% of the food & beverage traders anticipate a rise in volumes during Q2, 2015 driven by an increase in new orders and higher market demand.

With respect to net profits, 51% of the survey respondents expect an increase during Q2, 2015, attributed to growth in market demand coupled with their own internal business expansion plans. This is however seen to have moderated when compared on a q-o-q and y-o-y basis (63% businesses anticipated an increase in profitability in Q1, 2015 and 54% expected an increase in net profits in Q2, 2014). The net balances for Q2, 2015, Q1, 2015 and Q2, 2014 stand at 41%, 57% and 44% respectively.

The employment outlook has improved on a q-o-q basis but has moderated on a y-o-y basis. 29% of the survey participants expect to increase their staff headcount during Q2, 2015 to cater to new projects and business expansion plans, compared to a corresponding 22% in Q1, 2015 and 30% in Q2, 2014. 68% businesses expect stability in their employee numbers, while the remaining 3% anticipate a reduction in headcount numbers.

The survey reflects moderation in the overall business outlook for the second quarter, with 52% of the firms expecting an improvement in business conditions, compared to a corresponding 61% proportion of respondents in the previous quarter.

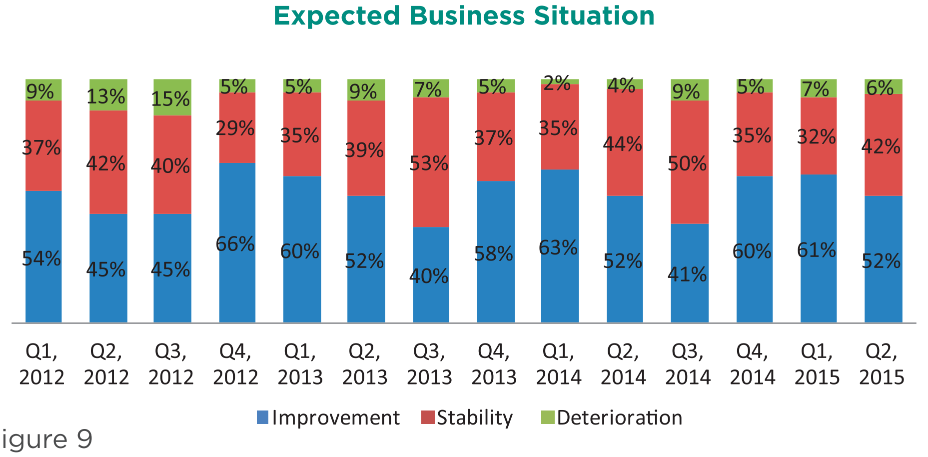


Figure 9

Despite the moderation in the composite BCI, around 45% of the survey respondents indicated that they perceive no obstacles impacting their business operations, as compared to a corresponding 38% last quarter. Competition and rising costs of rentals/leasing continue to be the topmost concerns impacting business operations in Q1, 2015, as highlighted by 23% and 7% of the respondents respectively.

DUBAI SME OUTLOOK – Q2, 2015

SMEs account for a dominant share of Dubai's total business composition (95% of the total number of firms). 447 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. The current survey highlights that SMEs are less optimistic compared to the previous quarter as well as with respect to the comparable quarter a year ago. The composite BCI for SMEs stands at 122.7 points in Q1, 2015 compared to 128.5 points in Q4, 2014 and 126.4 points in Q1, 2014.

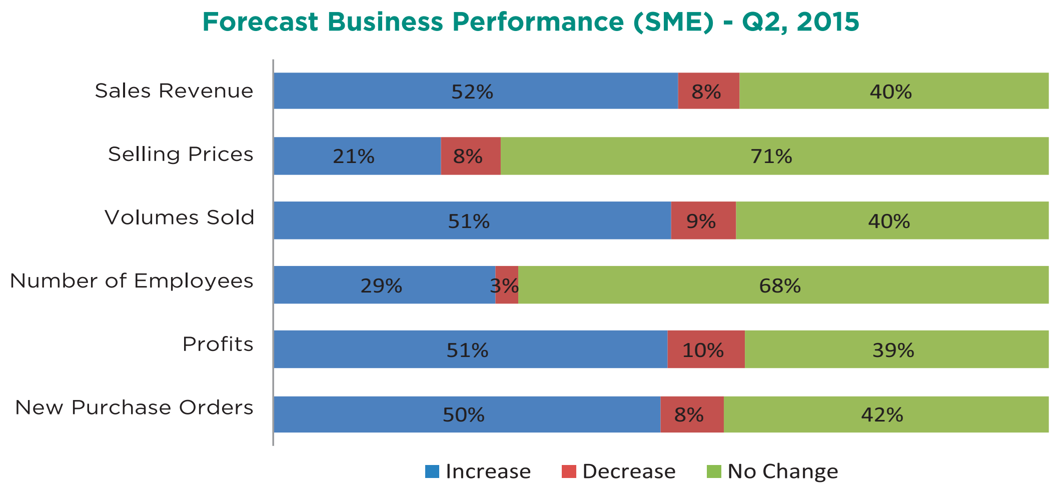


Figure 10

Key outlook indicators are summarized below.

- The SME community's outlook towards sales revenue for Q2, 2015 have weakened both on a q-o-q and y-o-y basis. 52% anticipate a rise in sales revenue in Q2, 2015, compared to a corresponding 64% in the previous quarter and 62% in Q2, 2014. The net balance for sales revenue stands at 44% for Q2, 2015, against 59% for Q1, 2015 and 54% for Q2, 2014.

- SMEs reflect lower optimism with respect to sales volume when compared to the previous quarter and the same period a year ago. 51% respondents expect a rise in their sales volume during Q2, 2015, while the corresponding proportion of respondents stood at 64% and 63% in Q1, 2015 and Q2, 2014 respectively. For Q2, 2015, the net balance for sales volume stands at 42%, against 59% for Q1, 2015 and 56% for Q2, 2014.
- SMEs have a relatively weaker outlook compared to large firms on sales volume, as indicated by net balances of 42% and 49%, respectively.
- Service SMEs are the most optimistic in terms of sales volume as 55% anticipate an increase during Q2, 2015, compared to a corresponding 47% respondents in the manufacturing sector and 48% in the trading sector.
- In terms of hiring, SMEs have exhibited optimism on a q-o-q basis and are seen to have held expectations firm, when compared on a y-o-y basis. 29% SMEs intend to increase their manpower count in Q2, 2015, compared to a corresponding 22% during Q1, 2015 and 29% in Q2, 2014. However, a majority (68% respondents) expect to keep their headcount intact.
- Expectations in terms of new purchase orders have moderated versus last quarter as well as on a y-o-y comparison basis. 50% SMEs foresee an increase in purchase orders for Q2, 2015 compared to 62% for both Q1, 2015 and Q2, 2014.
- 46% and 55% of manufacturing and services sector SME participants respectively, anticipate an increase in their capacity utilization rates during Q2, 2015. This is compared to a corresponding 32% of large firms who displayed expectations of enhancing capacity utilization during Q2, 2015.
- In line with the trend observed for sales volume, the expectations with respect to net profits for Q2, 2015 is comparatively weaker on a q-o-q and y-o-y basis. 51% SMEs anticipate an increase in Q2, 2015 mainly on the back of higher sales from local and foreign markets, acquisition of new clients and projects. The corresponding proportion for Q1, 2015 and Q2, 2014 stood at 63% and 54%, respectively. A comparison between sectors show that the services sector is the most upbeat as 54% foresee an increase in profits compared to 46% and 48% of manufacturing and trading firms respectively.
- Large companies are more optimistic than SMEs about net profits, with a net balance of 49% versus 41% for SMEs.

IN FOCUS: SELF-INSPECTOR

What is the definition/concept?

The “Self-Inspector” concept is based on an initiative by DED that aims to enable employees of the Retail Sector in Dubai to build solid background knowledge of all the regulatory procedures and violations in relation to commercial licenses and permits. This will serve as a safeguard against any potential violations (and penalties) by the companies and will induce trust in the business sector. This will reflect an honorable image of the Retail Sector in the Emirate of Dubai.

Benefits & Powers:

- Free membership
- To limit fines
- No expiry date
- Official certification for the entity and the inspector
- Entity will be listed in an official list
- Inspectors will have access to high-quality training courses
- Enhance consumer’s trust
- Members can use the campaign logo
- Savings to businesses by avoiding fines

Responsibilities of Participating Businesses:

- Assign a high level contact person and communication channels in case of any violation of regulatory laws
- Commitment to display the inspection leaflets in all outlets belonging to their business
- Notify the Commercial Compliance and Consumer Protection Department when the existing self-inspector leaves and trains an alternate inspector

Responsibilities of the Self-Inspector:

- Ensure that businesses are abiding by all the regulatory laws related to the Commercial Compliance and Consumer Protection Department
- To contact the Commercial Compliance and Consumer Protection Department for any enquiries about the laws
- Ensure that the business group always has a valid business license in terms of business activities, permits, expiry, location
- Ensure that the Self-Inspector Identification Card is always worn

GENERAL INSPECTION

Beginning

Regular visits to participating establishments

Inspection Visit Result

Non-compliant Establishment

Compliant Establishment

Type of Violation

Major Violation

1. Fine on the outlet
2. Final warning to Self-Inspector
3. Removal of the company's name from the verified list
4. Summon the company's management due to repeated violations

Medium Violation

1. Fine on the outlet
2. Warning to Self-Inspector
3. Notification to the company's management
4. Summon the company's management due to repeated violations

Minor Violation

1. Fine on the outlet
2. Warning to Self-Inspector
3. Notification of the company's management

INSPECTION OF COMPLIANT BUSINESSES

Inspection visits to Malls/Commercial Groups will be conducted once every 6 months (2 times per calendar year for each outlet in every mall/commercial group) by scheduling the visits beforehand based on the business management's most convenient time

Beginning

Prepare a list of all the businesses that were compliant on 2 or more visits

Contact the business or its higher management to schedule an inspection visit

Inspection Result

Compliant

Non-compliant

Repeated Violations

1. Fine the company
2. Remove the company's name from the official compliance list
3. Temporarily suspend the Self-Inspector's permit

Second Time

1. Warn the Inspector
2. Send a report to the company's management.
3. Request an official meeting with the company's management and the Inspector with a final warning to remove the company's name from the verified list

First Time

1. Direct the Inspector
2. Send a report to the company's management

DUBAI EXPORTERS' OUTLOOK – Q2, 2015

The survey included 106 export-oriented manufacturing, trading, and services firms in Dubai. For the purpose of this report, an exporter is defined as an entity with exports accounting for 20% or more of its consolidated sales. The Exporters' Composite Business Confidence Index in Q1, 2015 (126.4 points) is lower both when compared to the last quarter (134.7 points in Q4, 2014) and the same quarter a year ago (134.2 points in Q1, 2014).

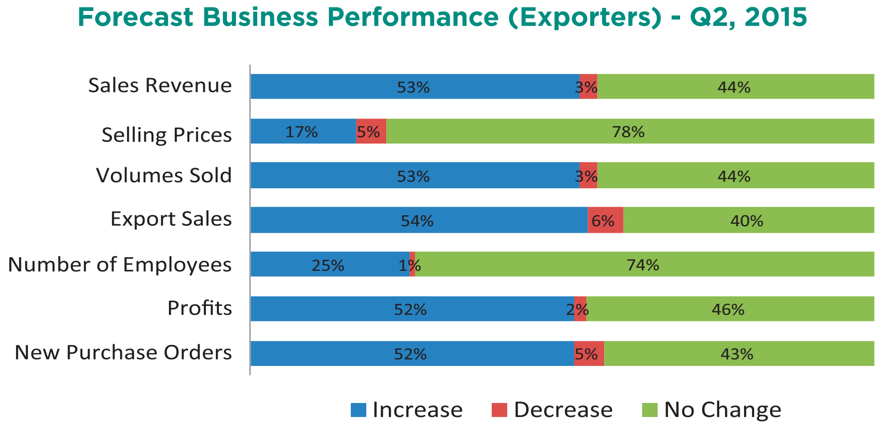


Figure 11

The current survey highlights that exporters hold a similar outlook as domestic-market oriented firms with respect to sales revenue as 53% in each category foresee an increase during Q2, 2015.

Other key outlook indicators for the next quarter are summarized below.

- Prospects for export sales have weakened on a quarterly and yearly basis; 54% exporters cited an increase in Q2, 2015, compared to 68% in the previous quarter and 67% in the comparable quarter a year ago.
- With respect to export sales, service exporters are much more optimistic compared to manufacturing and trading exporters: 64%, 46% and 53%, respectively in each sector anticipate an increase during Q2, 2015.
- Driven by expectations of more orders and new customers, exporters report a higher anticipation of sales in Q2, 2015.
- Around 44% of exporting businesses have cited market diversification plans in Q2, 2015 as compared to 28% in the previous quarter. The key markets earmarked for diversification include Africa, GCC and Europe.
- On a q-o-q basis, the employment outlook has firmed up, but shows moderation on a q-o-q comparison basis. 25% exporters expect to up their staff count during Q2, 2015 as against 21% during Q1, 2015 and 31% in Q2, 2014.
- Exporters are less optimistic with respect to new purchase orders. 52% of exporters expect an increase in procurement during Q2, 2015 as against 70% in the previous quarter and 68% a year ago. Services exporters continue to have the strongest optimism as compared to manufacturing and trading export firms, as indicated by their respective net balances of 60%, 42% and 44%.
- Expectations with respect to profitability have moderated when compared to the last quarter and on a yearly basis. 52% of the exporters are expecting an increase in their net profits during Q2, 2015, compared to 72% in Q1, 2015 and 58% in Q2, 2014. Services exporters are the most optimistic as 64% expect a rise in profits in Q2, 2015, as compared to 38% manufacturing and 53% trading export firms.

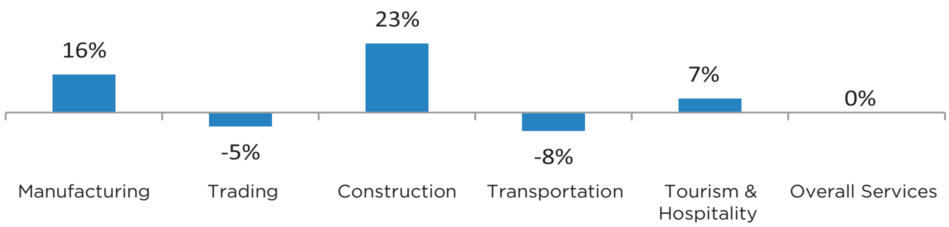
OVERALL BUSINESS PERFORMANCE – Q1, 2015

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

The current survey revealed a decline in the proportion of respondents citing an increase in sales volume in Q1, 2015; 29% of all respondents reported an increase, while 28% cited a decrease (net balance of 1%), due to stiff competition, lack of new project opportunities and a drop in market demand. This is a decline when compared to the 35% and 27% proportion of respondents, who reported an increase and decrease respectively in Q4, 2014 volumes (net balance of 8%). The performance was also weaker when compared to the same quarter a year ago (net balance of 19%). Business performance was strong in the manufacturing sector, as reflected from a recorded net balance of positive 16%, compared to 0% for services firms and negative 5% for traders.

Within the services sector, the net balances for sales volume are: 23% for construction, architecture & real estate, 7% for tourism & hospitality, and negative 8% for transportation.

Net Balance on Sales Volume for Key Sectors, Quarterly Output - Q1 2015



Net Balance = % of respondents citing an increase - % of respondents citing a decrease

Figure 12

- In particular, food & beverage, metals and plastic manufacturing segments showed strong positive performance.
- Economic activity in the trading sector for Q1, 2015 was cited to be weak due to lack of new customers, low market demand, stiff competition and an overall slowdown in international markets.
- Within the services sector, robust performance was mainly restricted to the construction, transport and hotels & restaurants segments in Q1, 2015.

With reference to selling prices, 14% cited an increase in selling prices in Q1, 2015 and 19% respondents reported a decline in performance. However, a majority i.e. 67% responded stability in this parameter.
The survey revealed that 20% respondents increased employee count during Q1, 2015, against 16% in Q4, 2014 and 27% during Q1, 2014. A comparison of key sectors indicate that manufacturing firms have the strongest hiring figures, with 25% raising headcount, versus a corresponding 23% services and 15% trading firms.

Mirroring a decline in sales volume, procurement levels for Q1, 2015 have also weakened. The net balance for the parameter stood at 4% in Q1, 2015, lower than the 7% in the previous quarter and 26% in Q1, 2014. 34% manufacturing and 31% trading firms reported an increase in new purchase orders, compared to 29% services firms.

Capacity utilization rates for the services sector have moderated as 30% cited an increase in Q1, 2015 compared to 34% last quarter and 35% in Q1, 2014. There is a decline in the capacity utilization rates within the manufacturing sector; 27% reported an increase during Q1, 2015 compared to 34% in Q4, 2014 and 31% in Q1, 2014.

The unit cost of labor increased for 54% of the survey participants, due to higher rents and salaries; while another 45% respondents indicated stability. From a sector perspective, a higher percentage of manufacturing firms highlighted an increase in such costs (61%) compared to trading (49%) and services firms (56%).

Most (73%) of the survey respondents indicated stability in the cost of raw materials during Q1, 2015. This proportion stands at the same level as last quarter and slightly lower than the corresponding 76% in Q1, 2014. 62% of the respondents cited rental increases in Q1, 2015 compared to 47% in Q4, 2014 and 74% during Q1, 2014.

Around 34% of the participants availed bank finance out of which 19% reported an increase in the cost of finance during Q1, 2015, and 72% reported stability.

Additionally, 27% revealed an increase in their net profits during Q1, 2015 compared to 34% during Q4, 2014 and 27% in Q1, 2014.

SMEs PERFORMANCE – Q1, 2015

Since SMEs comprise 95% of the surveyed sample, their performance during Q1, 2015 mirrors that of the overall business community in Dubai. The net balance for the sales volume parameter during Q1, 2015 stood at negative 4%, with a sizeable 44% of the SMEs expecting stability in volumes. This figure is lower than the net balance of 5% and 18% recorded during Q4, 2014 and Q1, 2014, respectively.

The key findings related to SME performance include:

- Profitability declined, as indicated by a net balance of negative 11% in Q1, 2015, lower than the 2% and 1% net balances recorded during Q4, 2014 and Q1, 2014, respectively.
- When compared to the previous quarter, hiring amongst SMEs shows an improvement (net balance of 9% in Q1, 2015 compared to 6% in Q4, 2014). However, on a yearly basis, the net balance for Q1, 2015 is lower, as compared to 20% during Q1, 2014. Hiring is stronger amongst manufacturing companies (net balance of 14%), followed by the trading segment (10%) and services sector (7%).
- 63% SME businesses have reported an increase in rentals in Q1, 2015, while none of the respondents have cited a decline. 47% SMEs reported an increase in rentals during Q4, 2014, while the comparable proportion stood at 74% in Q1, 2014. During Q1, 2015, 54% SMEs reported an increase in the per unit labor cost compared to a corresponding 40% in Q4, 2014 and 51% in Q1, 2014.
- With respect to performance on volume of sales, net profits and hiring, large companies fared far better than SMEs. 57% of the large companies reported an increase in volumes compared to 26% SMEs. Profits have registered an increase as reported by 51% of the large firms, when compared to only 24% SMEs. In terms of hiring, large companies reported a 40% increase in manpower, while the corresponding figure stood at 18% for SMEs.

EXPORTERS’ PERFORMANCE – Q1, 2015

- The survey reveals that export-oriented firms had a stronger performance in terms of sales revenue compared to domestic market-oriented firms; 39% exporters and 25% domestic firms reported an increase during Q1, 2015. Mirroring this, 39% exporters and 26% of domestic market-oriented firms also reported an increase in sales volume in Q1, 2015.
- Exporters in the manufacturing segment had the strongest performance in terms of volumes sold and hiring during Q1, 2015, while services exporters reported the strongest performance with respect to profits.
- With respect to hiring, exporters were slightly less optimistic as 20% increased headcount compared to 21% of domestic market-oriented firms.
- 56% exporters reported an increase in per unit labor costs, while 55% cited an increase in rentals during Q1, 2015.
- The survey studied the reasons for non-exporters, not to consider exporting to international markets. As per feedback elicited, the principal reasons include:
    - Local markets continue to provide domestic firms with good opportunities, hence reducing the need to consider exports as a growth option.
    - Expansion in exports markets does not form part of the non-exporters overall strategy.
    - Certain firms consider the size of their operations being small and hence their export readiness to be low

KEY BUSINESS CHALLENGES IN DUBAI

The survey also addressed key challenges perceived by businesses at the end of Q1, 2015 that may impact business growth and development. As part of the survey, 45% participants indicated that they do not expect any hindrances to their business operations; the proportion stood at 38% in the previous quarter.

Key Business Challenges- Q4, 2014

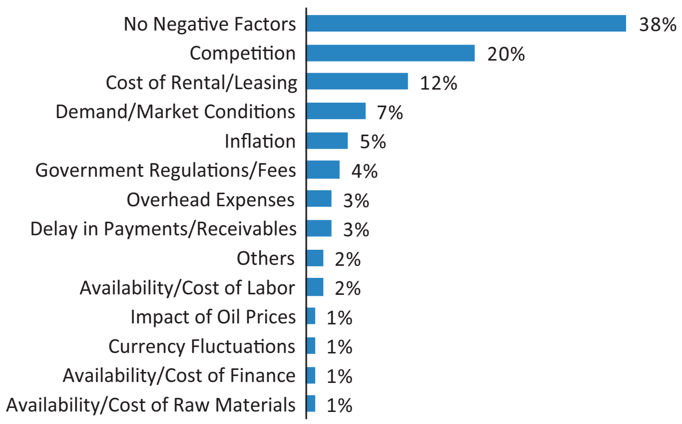


Figure 13

Key Business Challenges- Q1, 2015

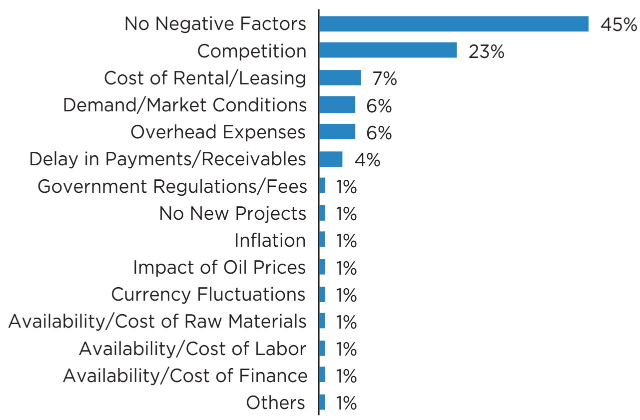


Figure 14

Competition, rising costs of rental/leasing and low demand continue to be the main challenges facing Dubai's businesses.

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

1. Competition (cited by 23% of the respondents): Businesses in Dubai are impacted by rising competition from regional and international players. This was reported as the key challenge by 23% of the respondents this quarter compared to 20% in the previous quarter. 75% of the respondents indicated that competition as a challenge will increase in intensity in the current quarter.
2. High cost of rental/leasing (cited by 7% of the respondents): High cost of rental/leasing is the next most adverse impediment that has affected respondents this quarter. 81% stated that this challenge will increase in severity this quarter.
3. Demand/market conditions (cited by 6% of the respondents): This challenge has been cited by 6% of Dubai's businesses and 58% have stated that this concern will increase in severity during Q1, 2015.
4. Overhead Expenses (cited by 6% of the respondents): High overhead expenses have been cited as a challenge by 6% of the survey participants.
5. Delay in Payments/Receivables (cited by 4% of the respondents): Issues related to late payments by clients has been cited as a concern by 4% of businesses in the current quarter.
6. Other concerns namely the plummeting of oil prices, currency fluctuations, availability & cost of raw materials and finance are largely equivalent in terms of severity and adverse impact (indicated as concerns by 1% each, of the respondent sample).

From the perspective of comparison across business sizes, competition is the topmost challenge for both SMEs and large companies. Besides competition, the pecking order of challenges impacting the SME segment mirrors the order of challenges impacting the overall economy i.e., rising costs of rental/leasing and low demand. For large companies, subservient to competition, other key concerns include high overhead expenses and low demand.

The exporter community is observed to be impacted primarily by competition and low market demand.

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?

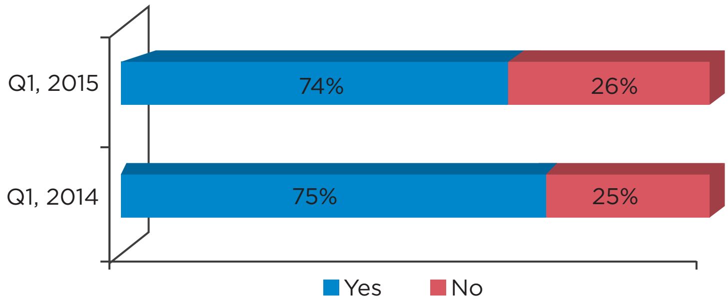


Figure 15

Do you plan to upgrade your technology?

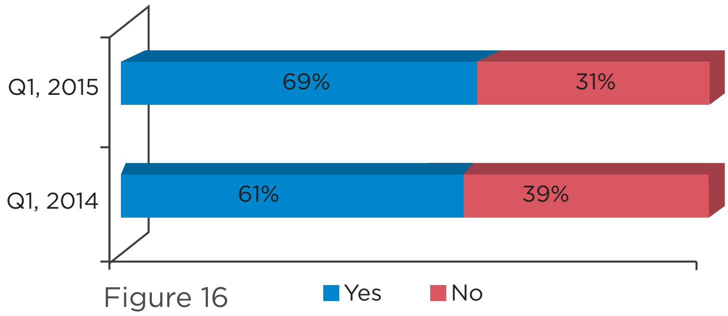


Figure 16

The current survey reveals that plans to invest in capacity expansion are steady when compared on a q-o-q basis and y-o-y basis. 74% participants have indicated plans to invest in capacity expansion in Q1, 2015 compared to a corresponding 70% in Q4, 2014 and 75% in Q1, 2014.

Plans to invest in technology upgrades have firmed up both on a q-o-q and y-o-y basis. 69% firms (highest in the series) cited such plans, as against 56% in the previous quarter and 61% in Q1, 2014.

Companies planning capacity expansion intend to commit capital investment for expansion of the current office premises and acquisition of fixed assets (such as factories, warehouses, machinery, and vehicles).

Key reasons for not expanding business capacity as cited by respondents include satisfaction with the current scale of their operations and/or to focus on achieving stability and profitability.
A sector based analysis reveals that the manufacturing sector is the most optimistic with respect to both capacity expansion (83% of manufacturing firms, 75% of trading firms and 70% of services firms) and technology upgrades (79% of manufacturing firms, 60% of trading firms and 73% of services firms).

Large firms continue to be more inclined towards both expansion plans and technology upgrades, as compared to SMEs.

While exporters have indicated optimism for plans on capacity expansion, domestic-market oriented firms are keen on technology upgrades.

DUBAI BUSINESS SURVEY

Q1 2015

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