SMEs Business Optimism Survey

Q3 - 2014

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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 the Dubai’s Quarterly Business Survey, which provides a snapshot of Dubai’s current economic activity and the outlook for the quarter ahead.
This document presents a summary of the survey conducted in the 3rd Quarter of 2014 and highlights the future expectations of SME businesses in Dubai. The survey was administered to 449 SME businesses in Dubai. In addition, the survey addresses challenges that may impact business growth and development and assesses the investment outlook for the coming twelve months.

**METHODOLOGY**

The quarterly business survey for Q3, 2014 was conducted for a total of 502 companies across the Emirate of 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 GDP.

<table>
<thead>
<tr>
<th>Distribution of survey respondents across industry groups</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Trading (161)</strong></td>
</tr>
<tr>
<td>Employees</td>
</tr>
<tr>
<td>Micro</td>
</tr>
<tr>
<td>Small</td>
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<tr>
<td>Medium</td>
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<tr>
<td><strong>Manufacturing (70)</strong></td>
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<tr>
<td>Employees</td>
</tr>
<tr>
<td>≤ 20 &amp; ≤ AED 10 mn</td>
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<tr>
<td>≤ 100 &amp; ≤ AED 100 mn</td>
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<tr>
<td>≤ 250 &amp; ≤ AED 250 mn</td>
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<tr>
<td><strong>Services (218)</strong></td>
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<tr>
<td>Employees</td>
</tr>
<tr>
<td>≤ 20 &amp; ≤ AED 3 mn</td>
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<tr>
<td>≤ 100 &amp; ≤ AED 25 mn</td>
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<td>≤ 250 &amp; ≤ AED 150 mn</td>
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From the perspective of tapping ‘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.

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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.
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

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
Economic growth in Dubai has been strong, supported by the robustness of key services sectors such as tourism, logistics, hospitality as well as a rebounding real estate industry. The Q1, 2014 GDP growth was recorded at 4.2%, with a corresponding 5.2% growth in transport, storage and communications, a 5.1% in real estate and business services and a 4.1% growth in retail and wholesale trade. The overall buoyancy in the economy is reflected in the SME composite business confidence index for Q3, 2014. At 129.4 points, the composite index shows a growing SME sector (A score of 100 indicates stable/neutral sentiments).

The composite BCI for Q3, 2014 is 2.2 points higher than the corresponding value for the index a year ago (Q3, 2013). As expected, the index has shown a marked jump when compared q-o-q. The composite index has recorded an increase of 13.9 points over the value in Q2, 2014. Business sentiments are seen to moderate during the summer quarter (Q2), but typically bounce back during the winter months. Survey respondents anticipate new projects especially in the construction sector coupled with an overall buildup in demand during the fourth quarter.
The current BOI survey shows that large firms reflect a much higher level of optimism for the coming quarter compared to SMEs. The composite BOI for large firms is 148.0 points versus 129.4 points for SMEs. Large firms are more confident in relation to sales volumes, hiring and profits, while expectations regarding selling prices are similar amongst the two groups.
SME BUSINESS OUTLOOK – Q4, 2014

SMEs account for a dominant share in Dubai’s total business composition (95% of the total number of firms), 449 of the 502 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 shows that the forecast of SMEs has firmed up compared to the same quarter a year ago and the previous quarter. The composite BCI stands at 129.4 points in Q3, 2014 against 127.2 points in Q3, 2013 and 115.5 points in Q2, 2014. The outlook for the fourth quarter shows that SMEs are less optimistic than large companies.

Optimism with respect to volumes sold has advanced, both on a y-o-y and q-o-q basis. 65% of the respondents anticipate higher volumes during Q4, 2014 compared to 58% in Q4, 2013 and 46% in Q3, 2014. Firms have based their confident outlook on expectations of an increase in demand and new projects in the pipeline. SMEs have indicated a weaker outlook compared to large companies with respect to sales volumes, with net balances of 58% and 79%, respectively.
The current survey shows that firms in the services sector are most confident with respect to volumes for the fourth quarter with 67% of them expecting an increase compared to 64% of manufacturing firms and 61% of trading firms that are forecasting an increase. The survey also shows that the services sector is most optimistic about sales revenues, selling prices, employment and net profits, while the manufacturing sector holds the strongest outlook for new purchase orders.

**Manufacturing Sector:**

The survey reveals that respondents in the manufacturing sector have a higher optimism level when compared on a y-o-y basis, with the net balance for sales volume at 61% for Q4, 2014 versus 56% in Q4, 2013. Sentiments have strengthened considerably when compared to the previous quarter as shown by a rise in net balance from 37% for Q3, 2014 to 61% for Q4, 2014. 64% of manufacturing firms anticipate higher sales volumes during the fourth quarter based on expectations of an increase in demand and new projects in the pipeline.

Within the manufacturing sector, the most optimistic sub-sectors being cement, chemicals, furniture, metals and food & beverages. A marginal 3% of the respondents are forecasting a decline as contracts will be finished.

**Services Sector:**

Although the outlook for the overall services sector has improved modestly in comparison to the level a year ago, sentiments have shown a marked increase when compared with the previous quarter (positive net balance of 62% for Q4, 2014 versus 57% for Q4, 2013 and 22% for Q3, 2014). Within the services sector, hotels & restaurants are most optimistic about the fourth quarter with 95% of them anticipating higher volumes and none expecting a decline. Other hospitality sub-segments such as car rentals and travel firms have also reported buoyant optimism with 50% of them expecting an increase and 50% foreseeing no change.
Construction, architecture & real estate firms have forecast a strong outlook with 74% of the respondents expecting an increase in volumes, compared to 3% that are expecting a decline.

Consistent with the overall advance in business sentiments, 57% of the companies in the transportation segment anticipate stronger volumes during Q4, 2014, while 7% expect a decline.

**Trading Sector:**

The trading sector has displayed a modestly stronger outlook compared to the same quarter a year ago and on a q-o-q basis (net balance for sales volumes at 50%, 46% and 40% for Q4, 2014, Q4, 2013 and Q3, 2014, respectively). The current survey shows that 61% of the respondents in the trading sector are expecting a rise in their volumes, while 11% predict a fall, due to slow demand during the winter season as their businesses are geared for summer months.

Key sub-sectors hopeful of an increase in demand over the next quarter include:

- 33% of electronics traders are confident about the fourth quarter due to improving demand on the back of new projects, seasonal uptick and diversification of products.
- 77% of the traders in the food & beverages sub-sector anticipate a rise in volumes during Q4, 2014 mainly due to the festival season, rise in number of tourists, new projects and customers.
- 54% of the auto traders are predicting higher volumes during Q4, 2014 on the back of new orders and seasonal increase in demand.
- 75% of the traders in the building & construction sub-sector anticipate an increase in sales volumes during Q4, 2014 due to new orders, clients and projects.
73% of the computer traders hope to sell higher volumes during Q4, 2014 driven by better market conditions and new customers.

Factoring in the rising costs of raw materials and rental costs as well as an anticipation of higher demand due to strengthening business and economic conditions during the fourth quarter, 24% of the respondents expect higher selling prices during Q4, 2014. A modest 4% of the firms anticipate lower prices due to stiff competition. The remaining 72% have indicated stability in relation to the parameter. The net balance for selling prices at 20% for Q4, 2014 is higher than the 17% recorded in Q4, 2013 and 12% in Q3, 2014. Services SMEs (net balance of positive 29%) are much more optimistic than manufacturing (net balance of 17%) and trading SMEs (net balance of 7%) with respect to their selling prices.

The strong outlook for the fourth quarter, which is based on expectations of an increase in demand and new projects in the pipeline, is also reflected in the firmer expectations for new purchase orders. 61% of the survey participants are predicting a rise in new purchase orders during Q4, 2014 compared to 55% in Q4, 2013 and 43% in Q3, 2014. The net balance has improved from 45% in Q4, 2013 and 28% in Q3, 2014 to 53% for Q4, 2014. Continuing the trend from the previous quarter, manufacturing firms continue to show highest optimism on new purchase orders with a positive net balance of 64% against 58% for services and 43% for trading SMEs. Large companies are much more confident about procurement levels during Q4, 2014 with a net balance of 66% compared to 53% for SMEs.

The hiring outlook has moved sideways on a y-o-y basis, but has improved when compared to the last quarter. 26% of the respondents expect to hire more employees during Q4, 2014, which is the same proportion recorded in Q4, 2013, but higher than the 23% in Q3, 2014. Service sector employers are most optimistic about increasing employment during the fourth quarter based on new contracts, projects and orders, planned expansion and to complete existing projects. Additionally, large companies are now more optimistic than SMEs on hiring, with positive net balances of 32% and 23% respectively.
66% of manufacturing firms and 65% of services sector participants hope to increase their capacity utilization rates during Q4, 2014. Among large firms, 51% of the respondents anticipate a rise in utilization levels.

With respect to net profits, SMEs hope to do better vis-à-vis a year ago as well as the previous quarter. 62% of the respondents are forecasting an increase in profits during Q4, 2014 (owing to higher sales expectations, new projects and contracts) against 56% in Q4, 2013 and 46% in Q3, 2014. Large companies are more confident about fourth quarter profit expectations in comparison to their small and medium counterparts, with a net balance of 66% for large companies versus 52% for SMEs.
Dubai’s SMEs expect a stronger outlook in terms of business situation, with 59% of the respondents expecting an improvement in business & economic conditions, compared to 41% in the previous quarter and 57% in Q4, 2013. A marginal 5% anticipate some deterioration in the overall business environment.

At 64%, a slightly higher proportion of large companies expect the business situation to improve during the fourth quarter against 59% for SMEs. However, 8% of the large companies have said that they expect deterioration compared to 5% of SMEs that foresee a decline in the business situation.
IN FOCUS:

Smart e-Services
(Business Registration and Licensing)

The Dubai Government, within the context of its continuous endeavor to promote business and economic development provides distinguished services and the most updated information to investors and customers. The Department of Economic Development in Dubai is the gateway for business registration and licensing services in the emirate. Accordingly, the Business Registration and Licensing (BRL) Sector in DED provides a range of services including the issuance, renewal, amendment and cancellation of all types of trade licenses, as well as related transactions. The Sector also took the initiation to introduce DED e-Services to businessmen, investors and customers and assist them adapt to using such services.

1. How to register business online?

- To create a personal account through the use of MYID portal https://myid.dubai.gov.ae/Default.aspx. This single sign-on allows to access many of Dubai Government e-Services with one user account, through smart phones or the internet using a single ID.

- To benefit from a range of e-Services related to business registration and licensing in Dubai on DED website www.dubaided.gov.ae only through the username you create on MYID portal.

2. List of DED e-Services:

 a) Using the following services on DED website without creating a personal account:

<table>
<thead>
<tr>
<th>#</th>
<th>Application</th>
<th>Description</th>
<th>Fees (AED)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>View general information and details about business registration and licensing.</td>
<td>Find out more about all types of economic activities, commercial and industrial trade licenses, etc., legal forms, fees, required</td>
<td>Free of charge</td>
</tr>
</tbody>
</table>
documents and document clearing centers

<table>
<thead>
<tr>
<th></th>
<th>Application</th>
<th>Description</th>
<th>Fee (AED)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>Trade Name Availability Inquiry</td>
<td>When you decide to engage in a business activity, you need to find a suitable trade name as per the applicable terms and conditions.</td>
<td>Free of charge</td>
</tr>
<tr>
<td>3</td>
<td>Transaction Application Status Inquiry</td>
<td>In case you have made a transaction for any given procedure, you may find out its status, i.e. whether it has been completed or it requires further documents to be provided.</td>
<td>Free of charge</td>
</tr>
<tr>
<td>4</td>
<td>Cost Estimate of Issuing a License</td>
<td>Obtaining an approximate cost estimate for issuing a new license for budget planning.</td>
<td>Free of charge</td>
</tr>
<tr>
<td>5</td>
<td>Business Activities Inquiry</td>
<td>This service enables you to view activities which you may engage in</td>
<td>Free of charge</td>
</tr>
<tr>
<td>6</td>
<td>License Details Inquiry</td>
<td>Find out everything about any license such as address, telephone no., etc.</td>
<td>Free of charge</td>
</tr>
<tr>
<td>7</td>
<td>Discounts, Offers and Promotional Campaigns Inquiry</td>
<td>View the available information about discounts, offers and promotional campaigns</td>
<td>Free of charge</td>
</tr>
<tr>
<td>8</td>
<td>Fill in Registration and Licensing Application Form</td>
<td>To submit your license application manually at any DED branch, please complete this electronic application form.</td>
<td>Free of charge</td>
</tr>
</tbody>
</table>

**b) To use the following e-Services after creating a personal account on DED website**

<table>
<thead>
<tr>
<th></th>
<th>Application</th>
<th>Description</th>
<th>Fee (AED)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Send inquiries and comments</td>
<td>This service enables us to receive your inquiries and comments</td>
<td>Free of charge</td>
</tr>
<tr>
<td>2</td>
<td>Book an appointments online to visit any DED branch</td>
<td>Booking your appointment electronically will save your time and effort while visiting a DED branch</td>
<td>Free of charge</td>
</tr>
<tr>
<td>3</td>
<td>Statement of licenses</td>
<td>You can print out a list of your licenses at any time</td>
<td>Free of charge</td>
</tr>
<tr>
<td>4</td>
<td>Update account details</td>
<td>Update your account details regularly to ensure receiving our</td>
<td>Free of charge</td>
</tr>
<tr>
<td></td>
<td>services and news</td>
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<td>------------------------------------------------------------------</td>
</tr>
<tr>
<td>5</td>
<td>Change password</td>
<td>You can change your password any time</td>
<td>Free of charge</td>
</tr>
<tr>
<td>6</td>
<td>Stakeholder status enquiry</td>
<td>When you submit an application, you can view stakeholder status report, i.e. whether their transaction is completed or additional documents must be provided</td>
<td>Free of charge</td>
</tr>
<tr>
<td>7</td>
<td>Booking a trade name (Parent Company License)</td>
<td>To open a branch in the Emirate of Dubai, it is required to provide the license number of the parent company in Dubai</td>
<td>210</td>
</tr>
<tr>
<td>8</td>
<td>Booking Trade Name for Company Branch (Local; Foreign; GCC; Free Zone)</td>
<td>To open a branch in Dubai, a serial number for the establishment or the company should be created</td>
<td>210</td>
</tr>
<tr>
<td>9</td>
<td>Trade name renewal</td>
<td>You can renew the trade name previously booked within two months from the date of issue</td>
<td>210</td>
</tr>
<tr>
<td>10</td>
<td>Initial approval (Parent Company/ Branch License)</td>
<td>You can easily obtain an initial approval on providing the documents as shown on the screen</td>
<td>110</td>
</tr>
<tr>
<td>11</td>
<td>License renewal</td>
<td>You can easily renew your license online once you have provided the required documents</td>
<td>Per license type</td>
</tr>
<tr>
<td>12</td>
<td>Issue a new license</td>
<td>Once you submit all required documents you can complete the license issuance process, but this does not include payment of fees and printing the license.</td>
<td>Free of charge</td>
</tr>
<tr>
<td>13</td>
<td>Print your license</td>
<td>Anytime and anywhere, you can print your license for free</td>
<td>Free of charge</td>
</tr>
<tr>
<td>14</td>
<td>Update contact details</td>
<td>You can update your contact and license details any time. It is recommended to regularly update your contact details to help us communicate better with you</td>
<td>Free of charge</td>
</tr>
<tr>
<td>15</td>
<td>Violations report</td>
<td>You can easily view and print your license violations record</td>
<td>Free of charge</td>
</tr>
<tr>
<td>16</td>
<td>License by activity</td>
<td>You can print a statement on the number of licenses issued for a specific activity to conduct market research</td>
<td>first 20 pages AED 100 + AED 5 for an</td>
</tr>
</tbody>
</table>
### Terms and Conditions for Business Registration

| 17 | Terms and Conditions for Business Registration | To avail these e-Services, you must follow the directions and terms made available to you | Free of charge |

#### 3. Useful Information:

Customers can pay the fees for trade license applications through the following channels:

a) **Online Payment (with a credit card)**
   - DED Group Website (www.dubaided.gov.ae)
   - Smart Application (app) ‘Business in Dubai’

b) **Pay in Cash / Cheque**
   - Emirates Islamic Bank
   - Noor Islamic Bank
   - Commercial Bank of Dubai
   - Afaq Finance
   - Emirates Post (only by cash)

c) **Direct Debit Payment**
   - Abu Dhabi Islamic Bank
   - Commercial Bank of Dubai
   - Dubai Islamic Bank

d) **Second Generation e-Dirham Card**
SME PERFORMANCE – Q3, 2014

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 of SMEs from one quarter to another, as reported qualitatively by responding firms.

The current business survey shows that economic performance in Q3, 2014 was stronger than the corresponding quarter in 2013 and also Q2, 2014; 39% of the participants reported an increase in sales volumes for Q3, 2014, while 19% indicated a decrease (net balance of 20%), compared to 34% of firms that had reported a rise and 21% a drop during Q3, 2013 (net balance of 13%). Also, economic activity was stronger compared to Q2, 2014 (net balance of 10%). The manufacturing sector remains the strongest in terms of advancement in economic activity with a net balance of 39%, against 20% for services firms and 11% for trading firms. Within the services sector, the net balances for sales volumes are: 46% for construction, architecture & real estate; 20% for hotels & restaurants, and 0% for transportation.

A comparison between large companies and SMEs with respect to their business performance in Q3, 2014 shows that large companies had a much stronger performance with respect to volume of sales. 60% of the large companies reported an increase in volumes compared to 39% of SMEs.

- In the manufacturing sector, the sub-sectors that showed positive activity were cement, furniture, metals, chemical and food & beverage. Firms that reported a decrease in sales cited the following key reasons: competition, slow demand from export markets such as Libya, Egypt and Iraq, and lower demand during the holiday season.
- The positive performance of the trading sector in Q3, 2014 was due to an increase in activity in the following sub-sectors: construction (new orders), electronics (new projects and orders, booming market in Dubai and product diversification) and food & beverage (festival season, new customers and growing market).
• Within the services sector, the rise in economic activity during Q3, 2014 was driven by the following sub-sectors: real estate & construction (booming market, new orders and projects), and travel & hospitality (increase in the number of customers).

With respect to selling prices, 18% of the firms reported an increase during Q3, 2014 due to a growing market, rising raw materials cost, increasing rentals and an increase in prices of food. 14% of the participants reported a decline mainly due to rising competition, currency fluctuations, lower global demand and off-season during the summer months. However, a majority (68%) of the respondents indicated stability on the parameter.

With respect to hiring, 21% of the survey participants reported an increase in the number of employees, which is similar to the proportion observed a year ago (20%) but lower than in Q2, 2014 (25%). 34% of manufacturing firms indicated an increase in their staff count compared to 15% in the trading sector and 22% in the services sector. Large companies recorded a stronger third quarter in terms of hiring. 32% of large companies reported an increase in hiring, while the corresponding figures for SMEs was 21%.

Consistent with the increase in sales volume for Q3, 2014, procurement levels also advanced in the third quarter. 39% of the firms reported an increase in new purchase orders against 17% that had a decline in the parameter. The net balance for the parameter stood at 22% in Q3, 2014, higher than the 18% observed in Q3, 2013 and 13% in Q2, 2014. Manufacturing firms indicated the highest increase in new purchase orders, with 46% citing a rise compared to 39% of the trading firms and 36% of services firms. Large companies showed a much better performance on new purchase orders as reflected by the positive net balance of 44% in Q3, 2014.

Capacity utilization increased for both manufacturing and services firms in Q3, 2014. Among manufacturing firms, 41% reported an increase in utilization rates in Q3, 2014 compared to 29% in Q2, 2014 and 34% in Q3, 2013. Within the services sector, 29% of the
respondents have cited an increase in capacity utilization in Q3, 2014 versus 38% in Q3, 2013 and 26% in Q2, 2014.

40% of the SMEs experienced a rise in the unit cost of labor during the third quarter of 2014 (owing to a rise in rents and cost of living, cost of visas, increments to employees and an overall rise in the cost of hiring labor) while a minimal 1% reported a decrease. The remaining 59% indicated steady costs for labor. A higher percentage of trading firms faced an increase in the cost of labor (43%) compared to manufacturing (36%) and services firms (39%). In the case of large firms, 42% reported an increase in labor costs during Q3, 2014.

With respect to the cost of raw materials, 28% of the survey participants have reported an increase in Q3, 2014 compared to 38% in Q2, 2014 and 34% in Q3, 2013. This rise impacted manufacturing firms the most as in the previous quarters, with 40% indicating an increase in Q3, 2014 against 23% for services and 30% for trading firms. 23% of large companies were impacted by the rise in cost of raw materials during Q3, 2014.

33% of the firms have said that rental costs increased during Q3, 2014 compared with 52% during Q2, 2014. Continuing the trend in the previous two quarters, the impact of rental costs increases was most for traders: 48% of trading firms reported an increase in rentals versus 27% of manufacturers and 25% of services firms. For large companies, the corresponding proportion was 43%.

With respect to cost of finance, 37% of the companies made use of bank finance out of which 19% faced an increase in these costs while 73% reported ‘no change’. Among the large companies, 58% availed of bank finance, of which 64% reported no change in costs, while 26% reported an increase.

SMEs performance with respect to net profits was also stronger both on a y-o-y and q-o-q basis, with a net balance of 9% in Q3, 2014 against 2% in Q3, 2013 and negative 6% in Q2, 2014. Profitability was strongest among manufacturing firms with a net balance of positive
15%, compared to negative 2% for trading firms and 13% for services. Among the large companies, 55% reported an increase in profits, while 21% reported a decline, resulting in a net balance of positive 34% (9% for SMEs).
KEY BUSINESS CHALLENGES IN DUBAI

The survey also addressed key challenges perceived by businesses at the end of Q3, 2014 that may impact business growth and development. Despite a forecast of stronger demand and improvement in business situation, 44% of the SMEs do not anticipate any obstacles to their businesses against 47% in Q2, 2014.

The survey shows that competition remains the key challenge facing Dubai’s small & medium enterprises, followed by rising cost of rental/leasing.

The following are found to be the major challenges impacting SMEs in Dubai:
1. Competition (cited by 17% of the respondents): Rising competition from local and international players remains the most important challenge being faced by Dubai-based businesses. In Q2, 2014, 21% of the SMEs reported competition as a leading concern. Moreover, 44% of the respondents that cited competition as a challenge stated that the severity of this challenge has increased in the current quarter.
2. High cost of rental/leasing (cited by 16% of the respondents): This was reported as the second most important challenge in the previous quarter also. Moreover, 44% of the
respondents that cited high cost of rental/leasing as a challenge stated that the severity of this challenge has increased in the current quarter.

3. Low demand (cited by 6% of the respondents): Dubai’s businesses have cited this as the third most important challenge for their business operations and 20% said that its severity increased during the third quarter.

4. Inflation (cited by 3% of the respondents): Inflationary pressures are a cause for concern for some participants in the survey.

5. Delays in payments/receivables (cited by 3% of the respondents): This is a concern for some businesses going into the last quarter of 2014.

6. The remaining challenges are almost equal in severity.

In terms of factors impacting businesses by firm size, the topmost challenges for SMEs and large companies are the same as the overall economy, i.e. competition and cost of rental/leasing.
INVESTMENT OUTLOOK

The survey also gauges the business community’s investment outlook with respect to capacity expansion and technology upgrade plans over the coming twelve-month horizon.

The current survey shows that investment plans for capacity expansion have moderated when compared to the previous quarter as well as the same quarter a year ago. 69% of the firms have indicated that they will invest in capacity expansion in Q3, 2014 compared to 71% in Q3, 2013 and 74% in Q2, 2014.

Plans to invest in technology upgrades have moderated compared to the last quarter but are stronger than the same period a year ago (61% in Q3, 2014 versus 65% in Q2, 2014 and 59% in Q3, 2013).
Companies planning capacity expansion have reported new capital investments for expansion of the current office premises and acquisition of new assets, (such as, factories, warehouses, machinery, and vehicles).

Businesses with no expansion plans have cited satisfaction with the current scale of their operations and / or a focus on achieving stability and profitability before adding to their capital expenditures, as the key reasons for no expansion plans on their part.

A comparison across the three key sectors shows that the manufacturing sector remains the most confident with respect to capacity expansion (83% in manufacturing, 72% in services and 58% in trading are planning for such investments). With respect to technology upgrade as well, manufacturing firms (70%) are more inclined compared to services firms (60%) and trading companies (60%).

From a business size perspective, large businesses are more inclined towards technology upgrades whereas SMEs are more optimistic about capacity expansion. With regards to market orientation, domestic market-oriented firms have slightly higher plans for capacity expansion, while exporters have stronger intentions for technology upgrades.