

DUBAI BUSINESS SURVEY

Q4 2013



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INTRODUCTION

The Department of Economic Development (DED) was established in March 1992, with the objective to organise, 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 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's)** 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 fourth quarter of 2013.

AT A GLANCE

- The composite Business Confidence Index for Dubai for Q4, 2013 stands at 144.3 points, signifying that the overall business outlook for Q1, 2014 is rising when compared with the same period last year (135.9) as well as in comparison with the last quarter i.e. Q3, 2013 (141.6)
- Overall outlook on sales continues to improve, with 97% businesses expecting either an increase or no change in sales volume in the next quarter (compared to 96% in the last quarter and 94% corresponding to the same period last year)
- The outlook for employment has posted a sharp increase; with 39% of businesses plan to increase their workforce in the next quarter compared to 26% last quarter and 27% in Q4 2012
- SMEs hold a lower optimism compared to large companies on selling prices and hiring
- Exporters are less optimistic compared to the overall business community on selling prices, but have similar outlook on other parameters
- 64% of the companies in the sample reported no hindrances to their business operations this quarter (versus 66% in Q3,2013), reflecting stable conditions with respect to doing business in Dubai
- 77% of the companies in the sample stated their intention to invest in capacity expansion during the first quarter of 2014; the corresponding proportion is 84% for large companies
- Businesses are also more optimistic with respect to investment in technology upgrade, when compared with the last quarter; as 66% of businesses have reported an intent to invest in technology upgrades in Q4 2013, vis-à-vis 60% businesses in the previous quarter.

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.

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 Q4, 2013 was conducted for a total of 502 companies across the Emirate of Dubai. The sample included a mix of small, medium, and large enterprises, while ensuring adequate representation from manufacturing, trading, and services in proportion to their respective contributions to Dubai's GDP.

In order to gauge 'business outlook' or expectations, the survey focuses on key indicators, such as sales, 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 Q4, 2013 survey has captured the perceptions of companies across 30-35 sub-sectors.

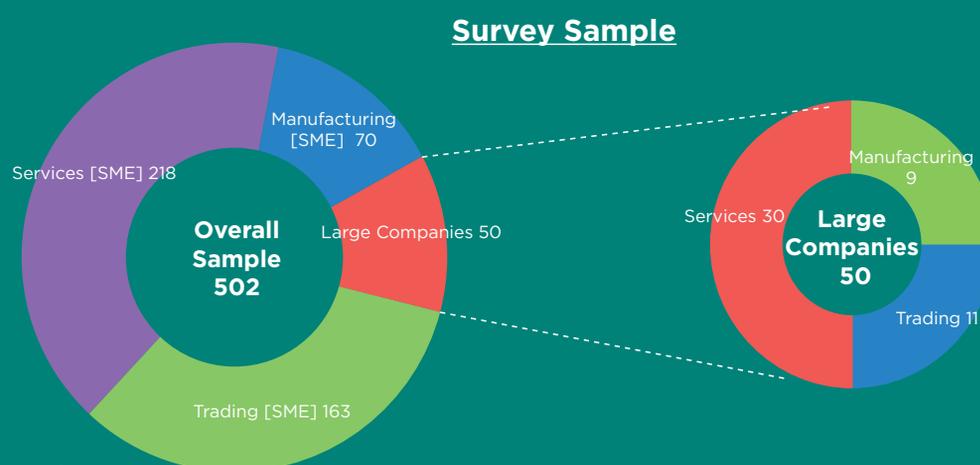


Figure 1

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. 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: **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

¹For 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 - Q4, 2013

GDP growth in Dubai is set to pick up in the current year to 4.9% as the emirate starts gearing up for hosting the Expo 2020 exhibition and the imminent prospect of an upgrade to the emerging market status will add dynamism to the economy that is already on an upward trajectory, spurred by huge non-oil sector investments, the buoyant trade and services sector, and the booming tourism industry. Dubai's economic growth is reflected in the Q4 2013 business survey, which depicts a strong business confidence index of 144.3. (A score of 100 indicates stable/neutral sentiments).

Quarter-on-quarter comparison shows that the current quarter composite index is 2.7 points higher than the index in the previous quarter due to business expectations of rising demand on account of anticipation of new contracts/projects and also due to the positive uptrend experienced during the winter season and the Dubai Shopping Festival. This period usually witnesses a large inflow of tourists and is also the peak season for exhibitions and promotions.

A year-on-year comparison reveals a significant increase of 8.4 points over the index value during the same period in 2012.

As observed in the previous two quarters, large companies are observed to be more confident than the SME community. This is reflected in the large companies' index score of 151 versus an index score of 134.3 for the SME segment. The higher confidence among large companies is due to their more optimistic outlook with respect to selling prices and hiring.

Composite Business Confidence Index

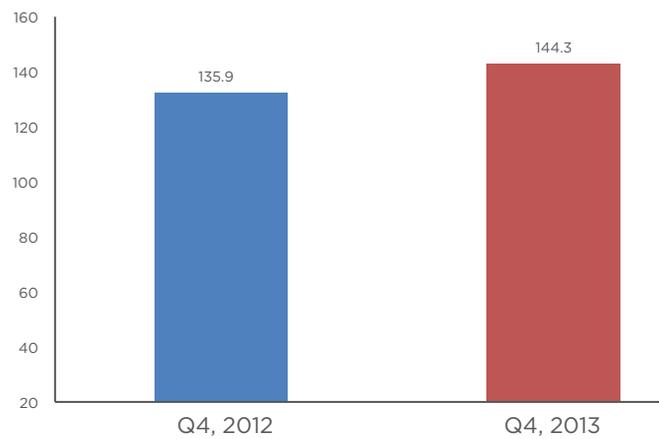


Figure 2

Business Confidence Index: Q4, 2013

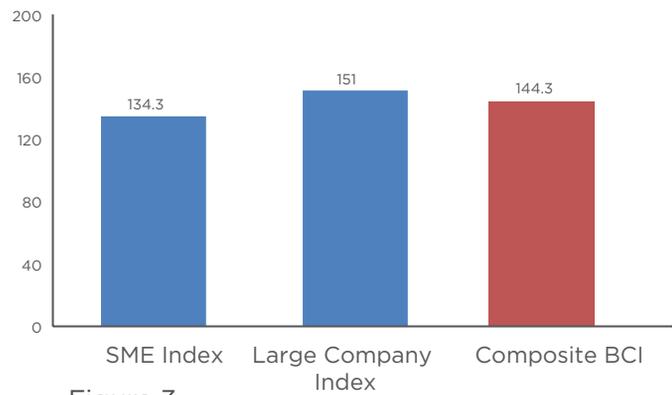


Figure 3

OVERALL BUSINESS OUTLOOK - Q1, 2014

Forecast Business Performance - Q1, 2014

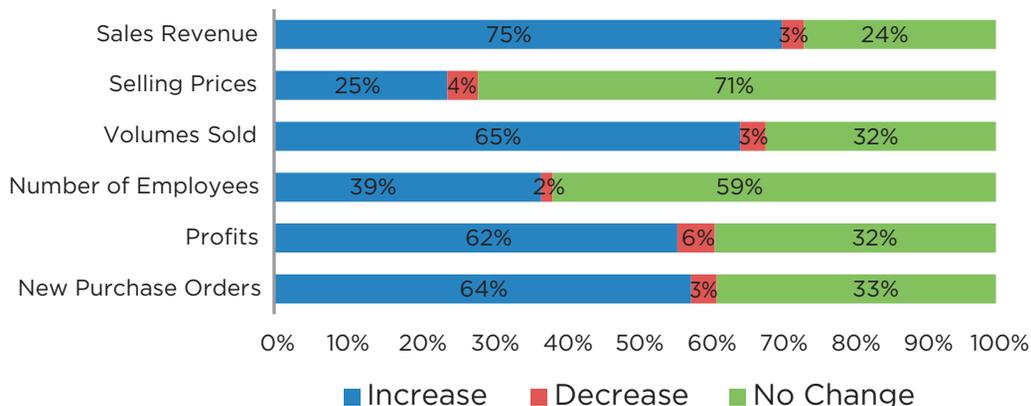


Figure 4

Businesses in Dubai hold a strong outlook for the first quarter of 2014; as the survey results shows that the composite BCI is higher than the index value in the previous quarter as well as the same quarter a year ago. Strong sales revenue expectations underscore this positive outlook, majority (97%) of the businesses are expecting either an improvement or stability in their sales revenue in Q1, 2014. The net balance for sales revenue expectations is up by 10% points to 70% for Q1, 2014 compared to 60% in both Q4 2013 and Q1 2013.

With selling prices expected to remain stable (71% respondents expect no change in selling prices) in the next quarter, an increase in sales revenues is expected to be primarily driven by an increase in real business activity (sales volume). Sales volume expectations are stronger when compared to the previous quarter and similar when compared to the same period in 2013, with a net balance of positive 62% for Q1 2014 versus 56% for last quarter and 59% in Q1 2013. 71% of the respondents expect selling prices to remain unchanged in Q1 2014; however, a quarter (25%) of the firms anticipate their selling prices to increase due to one or more of the following reasons: increasing raw material or operating costs, rising demand for products allowing companies to increase their selling price, or because service providers have the leverage to increase their prices during the high demand tourist season. The survey shows that the selling price outlook for Q1, 2014 is much stronger than for the same quarter a year ago (net balance of positive 21% this year versus positive 10% last year).

Sectoral Net Balances (Sales Volume) Quarterly Outlook

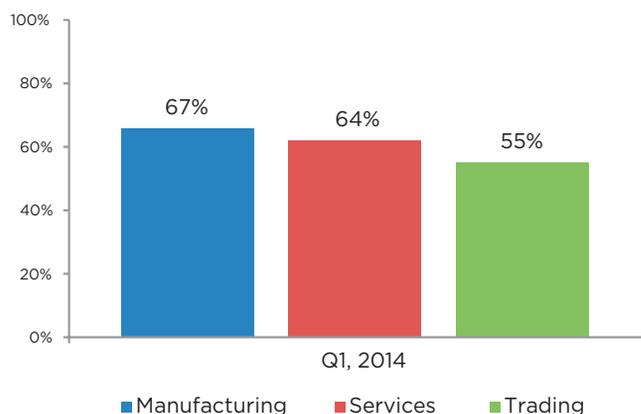


Figure 5

A comparison between the key sectors shows that the manufacturing and services sectors hold stronger expectations than the trading sector. Businesses in the manufacturing sector are more optimistic with respect to sales volume and new purchase orders, while service firms are more optimistic on selling prices, hiring and profits.

Manufacturing Sector:

Firms in the manufacturing sector have displayed much higher optimism levels for Q1 2014 compared to the same quarter a year ago, with the net balances for sales volume increasing from positive 55% in Q1 2013 to 67% in Q1 2014. Quarter-on-quarter comparison also shows a rise in the manufacturing sector's outlook, with the net balances increasing from positive 59% in Q4 2013 to positive 67% in Q1 2014. This is due to the seasonal uptake in demand and upbeat expectations about getting new projects/ purchase orders.

Quarterly Net Balances (Sales Volume) Manufacturing Sector

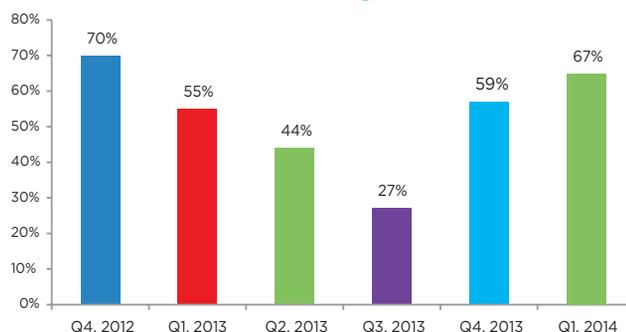


Figure 6

Among the manufacturing firms, those engaged in the manufacture of chemicals, cement, glass, metals and food & beverages reflect a higher optimism compared to other sub-sectors. A majority of the businesses anticipating an increase in volumes are expecting to get new contracts /purchase orders during the coming quarter. 71% of the manufacturing sector firms foresee an increase in their volumes, while 25% expect no change and the remaining 4% anticipate a decline.

Services Sector:

Service sector firms have a higher optimism compared to the previous quarter and similar confidence levels when compared to the same quarter a year ago for volumes sold (positive net balance of 64% for Q1, 2014 versus 61% for Q1, 2013 and 58% for Q4 2013). Companies across all service sub-sectors have indicated high optimism with regards to sales volumes as only a minimal 3% anticipate any decrease in volumes. Expectations are highest for companies engaged in architecture and real estate (anticipation of new projects) and restaurants & hotels (increase in customers as numbers of tourists are expected to increase in the next couple of months i.e. January - March).

Hotels and restaurants are very optimistic on their business performance in the next quarter as the tourist inflow typically

increases during the winter season. Around 85% of the respondents in the sector expect an increase in volumes; while the remaining do not anticipate any change. Strong expectations are highlighted by the fact that none of the respondents in this sub-sector expect a decline in volumes in Q1 2014.

The optimism and confidence of companies in the architecture and construction sectors has been boosted by Dubai's successful bid for hosting the Expo 2020 due to which companies are expecting new projects & contracts. Driven by increased demand from all major sectors during this period, 63% of the transportation service providers are also expecting an increase in their contract volumes in the coming quarter.

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

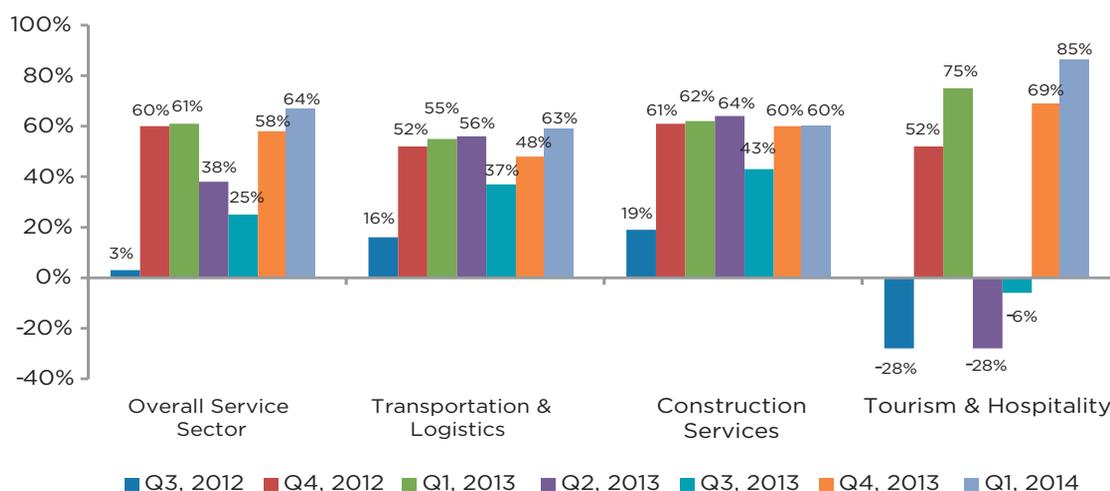


Figure 7

Trading Sector:

Trading sector outlook is stronger for Q1 2014 than the previous quarter but has moderated compared to a year ago (positive net balance of 55% for Q1 2014 versus 51% in Q4 2013 and 61% in Q1 2013). 59% of the firms expect an increase in volumes, while 4% anticipate a decline.

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

- 75% of the traders in the building & construction sub-sector anticipate an

increase in sales volumes on the back of expectations of new projects boosted by Dubai's successful bid on hosting Expo 2020

- 65% of the auto traders foresee an increase in sales in Q1 due to expansion in new exports markets, new projects/orders expected due to the Expo 2020 and peak seasonal demand during Q1
- 56% of the traders in the food & beverages sub-sector expect higher volumes in Q1 due to expectations of increase in exports or higher seasonal demand during the first quarter
- 56% of electronics traders are upbeat about the first quarter as they expect more demand boosted by the DSF

Quarterly Net Balances (Sales Volume) - Trading Sector

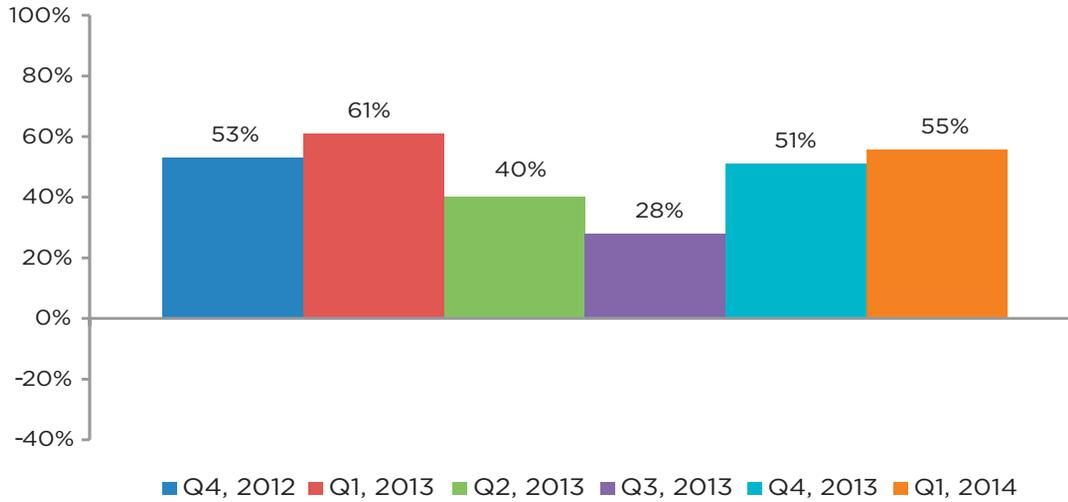


Figure 8

With respect to volumes sold, 65% of the respondents forecast an increase during Q1, 2014 compared to 61% in Q4, 2013. Consistent with the positive expectations on sales, 64% businesses are also planning to increase their new purchase orders in the next quarter, based on positive expectations of new project wins / increase in demand for products and services. 33% of the businesses have reported that they are currently hold adequate stocks level of purchase orders from the previous quarter.

Profitability expectations are also in line with the overall sales expectations, with 62% businesses expecting an increase in net profits based on their anticipation of strong demand with better margins.

On hiring, the y-o-y as well as the q-o-q outlook has improved for Q1, 2014, with 39% of the businesses expecting to increase their employee count compared to 27% in

Q1, 2013 and 26% in Q4 2013. Service and manufacturing firms are more optimistic with respect to hiring compared to trading companies. A minimal 2% of businesses plan to reduce their employee count in the next quarter.

The overall business outlook for Q1, 2014 has improved with 63% respondents reporting an improvement in business conditions versus 58% in Q4 2013. A minimal 2% respondents anticipate worsening of the business situation in Dubai in Q1 2014, down from 5% in the previous quarter.

Additionally, large companies are slightly more optimistic than SMEs, with 66% of the former hopeful of an improvement in Q1, 2014, against 62% of the SMEs. While 3% of SMEs expect deterioration in the business situation, none of the large companies anticipate deterioration.

Expected Business Situation

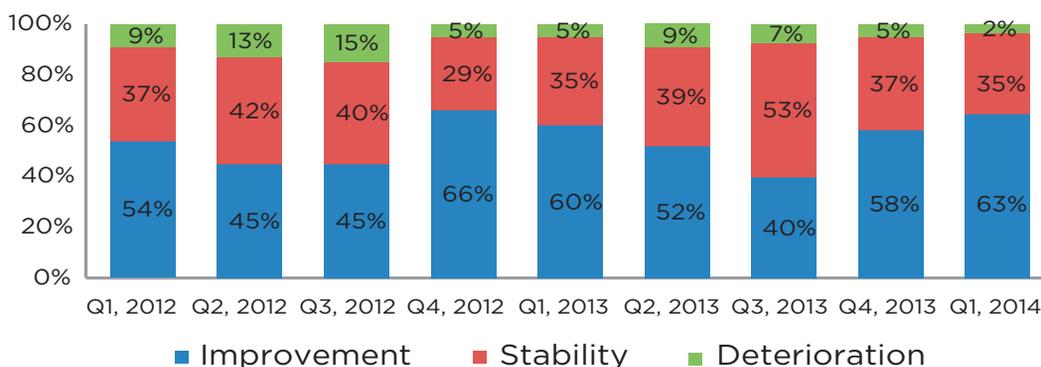


Figure 9

DUBAI SME OUTLOOK - Q1, 2014

Forecast Business Performance (SME) - Q1, 2014

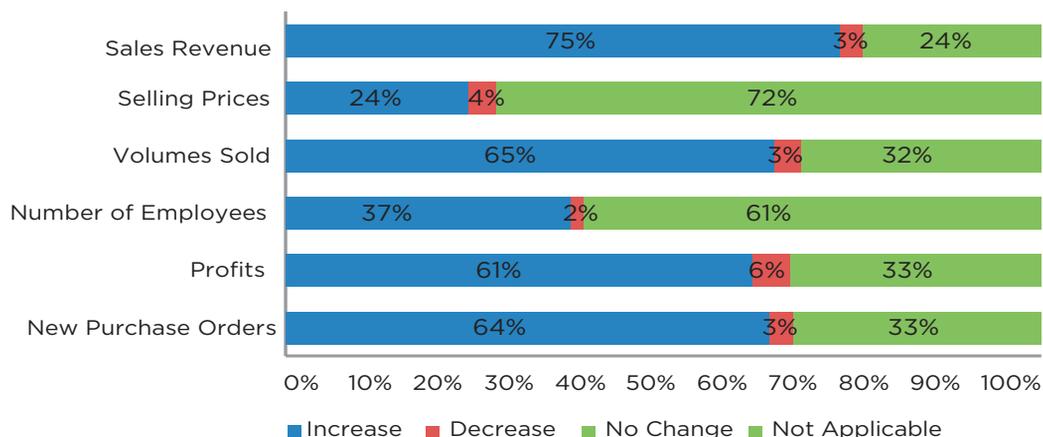


Figure 10

SMEs account for a dominant share in Dubai's total business composition (95% of the total number of firms), 452 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. SMEs display a strong outlook for Q1 2014; however they are less optimistic than large companies on selling prices and hiring.

Key outlook indicators are summarized below.

- SMEs reflect the overall business outlook with the survey showing positive and rising optimism for the upcoming quarter, as 73% of the respondents anticipate an increase and 24% cite no change in sales revenues for Q1, 2014.
- The survey shows similarity in net balances for volumes sold and growth in business activity when expectations are compared y-o-y; positive 59% in Q1, 2013 versus positive 62% in Q1, 2014. Q-o-q comparison shows an improvement from positive 53% in Q4 2013 to 62% in Q1 2014.
- The two segments, SMEs and large companies show similar expectations for sales revenues in Q1 2014, a positive net balance equal to 70% for SMEs against 72% for large companies.
- A comparison across key sectors shows that manufacturing and services SMEs remain more confident about sales volumes, with 71% and 66% of them respectively expecting an improvement in Q1, 2014, versus 60% in the trading sector.
- SMEs are more optimistic with respect to hiring in Q1 2014 compared to the same quarter a year ago with 37% of the businesses expecting to increase their employee count in Q1 2014 against 26% in Q1, 2013.
- Consistent with the strength in outlook for sales, optimism for new purchase orders are also robust, with 64% of SMEs anticipating an increase and another 33% foreseeing no change in Q1, 2014.
- With respect to capacity utilization, SMEs and large companies hold comparable optimism levels, (net balance of positive 59% for SMEs versus a net balance of positive 60% for large companies).
- Profitability expectations are reflective of overall sales expectations as 61% of the SMEs expect an increase in profits for Q1, 2014, with service (positive net balance of 58%) and manufacturing (positive net balance of 56%) firms showing a stronger outlook compared to trading firms (positive net balance of 52%). Y-o-y comparison shows similarity in profitability outlook for SMEs, with a net balance of positive 55% for Q1, 2014 versus positive 52% for Q1, 2013. The outlook has improved q-o-q, with the net balance rising from 49% in Q4 2013 to 55% in Q1 2014.
- Finally, the survey shows that SMEs and large companies hold similar confidence levels about Q1, 2014 profits, with a net positive balance of 55% for SMEs against 58% for large companies.

The Law:

His Highness Sheikh Mohammed bin Rashid Al Maktoum, UAE Vice President and Prime Minister (may Allah protect him) in his capacity as Ruler of Dubai recently issued a law establishing «Dubai Foundation for the development of investment» as a public institution enjoying legal personality and legal capacity attributed to the Department of Economic Development in Dubai.

Aims:

The Foundation aims to strengthen Dubai's position as a center of global economic attracting investment, and create the appropriate investment climate for the establishment of investment projects, and the consolidation of confidence in the investment environment, and the promotion of projects and opportunities in the emirate.

Terms of Reference:

- To formulate the general policy and the strategic plan for investment and attract and develop investment projects in the long term in line with the emirate's economic development plan.
- Coordination with the government agencies concerned with the investment sector and the organization of economic activities on the proposed preferential advantages that enhance the implementation of programs and initiatives to promote investment, and consider requests from investors to get those advantages.
- Review and analyze the investment climate, and identify investment opportunities, and impediments to growth, as well as consideration of any obstacles and to seek appropriate solutions in coordination with the concerned authorities.

Functions:

- Proposal of economic sectors that need to attract investment projects, and in line with the emirate's strategic plan.
- Building a database include existing projects in Dubai, and the provision of information and statistics necessary for those wishing to invest,
- Provide services to investors to facilitate the completion of all transactions and simplify the procedures for their projects, as well as monitoring and evaluating the performance of the investment sector in Dubai, in coordination with the concerned authorities.

DUBAI EXPORTERS' OUTLOOK - Q1, 2014

Forecast Business Performance (Exporters) - Q1, 2014

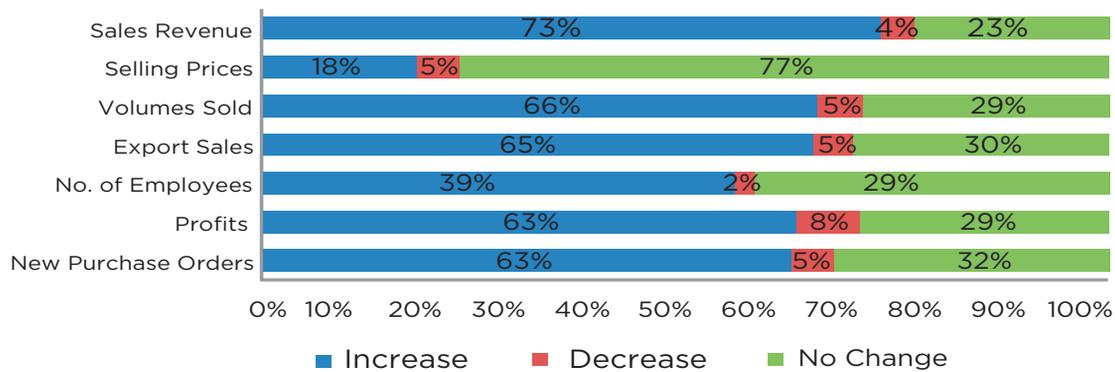


Figure 11

The survey included 131 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. For the fourth quarter, exporters are less optimistic (134.1) compared to the overall business community (144.3), primarily on account of lower optimism on selling prices.

The survey reveals that exporters and domestic market-oriented firms are equally optimistic on business performance, with 73% of both groups expecting an increase in revenues in the first quarter of 2014.

Other key outlook indicators are summarized below.

- Manufacturing sector exporters continue to be more confident about export sales in the next quarter than service and trading firms. Key segments within each sector foreseeing a rise include chemicals, food & beverage, metals and plastics for manufacturing, auto, building and construction and electronics for trading and transport for services.
- For a majority of exporting businesses, growth of sales is forecast on the back

of high demand in local as well as global markets, expansion into export markets and cyclical uptrend during the first quarter of the year.

- For the coming quarter 49% of exporters have reported export diversification plans, compared to 54% in the last quarter, with a focus on African, GCC and Asia-Pacific markets.
- On the hiring front, there is a sharp increase in outlook, as 39% of exporters are planning to increase their workforce in the upcoming quarter, compared to 23% in Q1, 2013.
- Consistent with the positive outlook for export sales, procurement levels are also expected to increase, with 63% of the exporters anticipating a rise in their new purchase orders. Manufacturing exporters are found to be most optimistic about new purchase orders with 74% expecting an increase compared to 67% of service and 56% of trading firms.
- Reflecting the overall upbeat sentiments, exporters' outlook on profit is also strong: 63% predict an increase while another 29% do not expect a change for Q1, 2014. Service sector exporters are most confident followed by manufacturing and trading sector exporters.

OVERALL BUSINESS PERFORMANCE - Q4, 2013

Net Balance on Sales Volume for key Sectors, Quarterly Output - Q4 2013

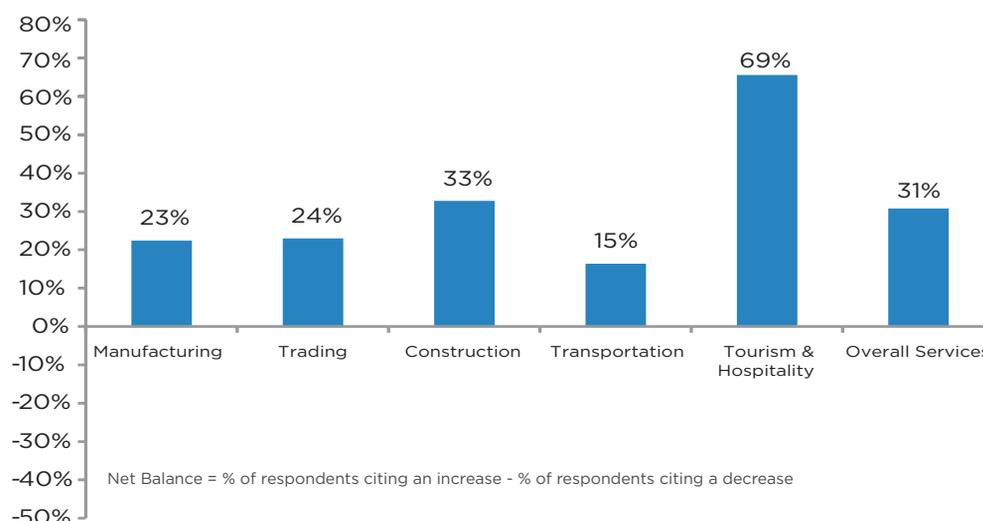


Figure 12

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 qualitatively by responding firms.

There was an improvement in business activity in Q4, 2013 compared to the previous quarter as a larger number of firms reported an increase rather than a decrease in sales volumes (net balance of positive 27%, which is much higher than the 6% reported in Q4, 2012). All three key sectors reported an expansion with respect to volumes sold in Q4, with a net balance of positive 23% in manufacturing (compared to positive 16% in Q4, 2012), positive 24% in trading (compared to negative 14% in Q4, 2012), 33% for construction, 15% in transportation, 69% in tourism & hospitality and positive 31% in the overall services sector (versus 20% in Q4 2012).

- In the manufacturing sector, the sub-sectors that showed positive activity were cement, food and beverage, glass & ceramics, furniture, metals and plastics. However, firms dealing in garments and machine & equipment manufacturing faced a slowdown in activity, possibly due to reduced consumer demand.
- The positive performance of the trading sector in Q4 was due to an increase in activity in the following sub-sectors:

garments (rising demand from existing customers and a booming Dubai market), general traders, food & beverage (rising demand), auto (new projects and improvement in demand), building & construction (favorable market conditions), computer (demand for new technology), industrial equipment and pharmacies.

- The promising performance of services in Q4 was led by an increase in activity in the following sub-sectors: construction (more projects), real estate (recovery in the real estate rental and buying market), tourism & hospitality and transport (new markets, higher exports).

Selling prices remained largely stable in Q4, 2013 with 76% of the respondents reporting 'no change' against 9% who reported a decline due to low demand and competition.

Employment figures improved during Q4, 2013, with 27% of the businesses reporting an increase in their workforce during the quarter, higher than the 20% reporting an increase in Q4, 2012. However, a majority of the firms (68%) reported stability in their employee count for this quarter. Services and manufacturing firms experienced larger increases, 32% and 31% of firms respectively compared to 20% in the trading sector.

In line with the performance of the business community on sales volumes, new purchase orders also increased during Q4, 2013, as revealed in the positive net balance of 26%, higher than the positive 7% in Q4, 2012 and positive 21% in Q3 2013. All key sectors reported an improvement in new purchase orders during the fourth quarter, with manufacturing reporting a net positive balance of 24%, trading 24% and services 28%.

Capacity utilization rates increased for 35% of the businesses in Q4 2013 and remained stable for 55% of them. Year-on-year comparison reveals that fewer manufacturing firms increased their capacity utilization levels, with 37% firms reporting an increase in Q4, 2013 against 44% in Q4, 2012. In the service sector, 34% of businesses reported higher capacity utilization in Q4, 2013, against 43% in Q4, 2012.

The unit cost of labor/human resources increased for 41% of the firms during Q4 2013 on account of increase in employee

accommodation costs, revision of salaries and increments given; while these costs remained unchanged for 57% of the respondents.

An increase in the cost of raw materials was reported by 21% of the respondents in Q4 2013 against 35% in Q3, 2013. Rental costs increased for 54% of the respondents in Q4 2013 and remained stable for the remaining 46%.

With respect to cost of finance, 72% of the respondents were making use of bank finance out of which 86% reported no changes in the cost of finance while 11% reported an increase. The key reasons cited for not availing bank finance continued to be the perception of high interest rates and charges and challenges related to collateral and guarantees requested by banks.

The survey also revealed that 81% of the firms reported an increase or no change in their profit levels during Q4, 2013 compared to 51% in Q4 2012.

SMEs PERFORMANCE - Q4, 2013

SMEs performance in Q4, 2013 echoes the performance of the overall business community, as the former accounts for 95% of the surveyed sample. Business activity improved in Q4, 2013 compared to last year (a positive net balance of 25% for sales volumes versus positive 3% in Q4, 2012).

Key findings are as follows:

- 25% of the SME respondents reported an increase in the size of their workforce, while 70% reported no change. 54% of SMEs reported higher rental costs in Q4 2013 compared to 24% in Q4 2012 and 3% in Q3, 2013. Similarly, businesses observed rising

labor costs with 41% stating that there was an increase in labor costs compared to 33% in the previous quarter. SMEs performance on profits improved with 36% reporting an increase, versus 30% in Q3 2013.

- Large companies reported a much higher expansion in terms of sales volumes, with 56% of the former reporting an increase in Q4, 2013 against 38% for SMEs. As a result, large companies achieved better profitability with 48% reporting an increase (positive net balance of 30%) versus 36% of SMEs reporting an increase (positive net balance of 17%).

EXPORTERS' PERFORMANCE - Q4, 2013

- The survey reveals similar performance with respect to revenues for export-oriented and domestic market-oriented firms; 44% of the firms in each group reported an increase in the fourth quarter.
- A comparison across the key sectors reveals that manufacturing exporters performed better in terms of sales volumes and profits compared to trading and service exporters.
- With respect to employment, exporters reported stability, as 71% maintained the same levels in Q4, 2013, while 24% reported new hiring. 37% of manufacturing exporters reported new hiring in Q4, 2013, against 17% for trading and 30% for services. Furthermore, the percentage of exporters reporting rising costs of raw materials declined from 37% in Q3 2013 to 22% in Q4 2013.
- The current survey also revealed the following key reasons mentioned by domestic market-oriented firms for not exporting:
 - Current business focus is on local market only, with no export consideration
 - The local market continues to provide good opportunities and hence reduces the need to consider exports as a growth option
 - Expansion in export markets is not part of the overall strategy
 - Perceived monetary and regulatory hassles related to customs duty and export procedures

KEY BUSINESS CHALLENGES IN DUBAI

Key Business Challenges- Q3, 2013

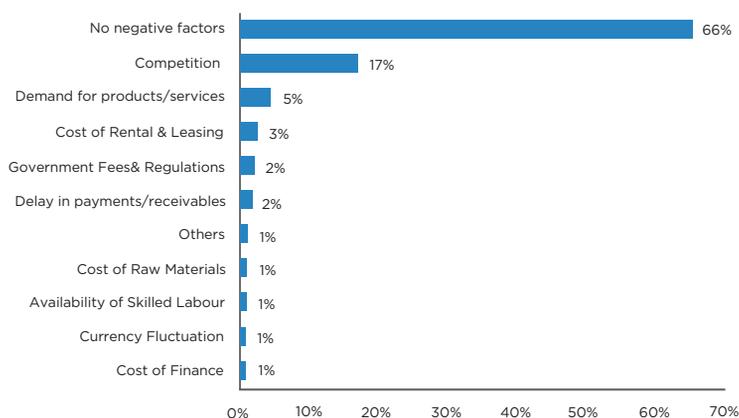


Figure 13

Key Business Challenges- Q4, 2013

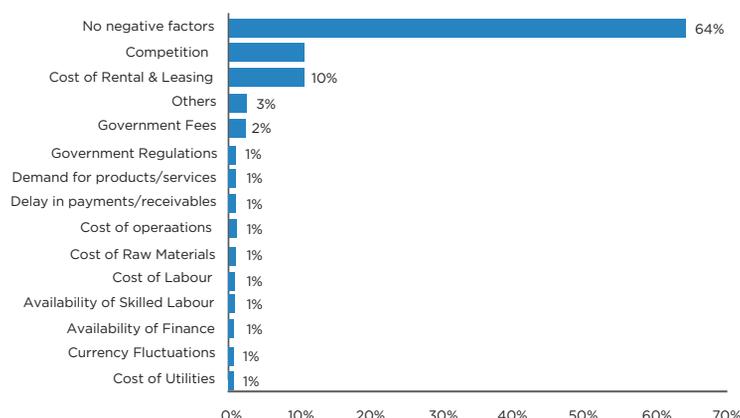


Figure 14

The survey also addressed key challenges perceived by businesses at the end of Q4, 2013 that may impact business growth and development. 64% of the companies in the sample reported no hindrances to their business operations this quarter, thus reaffirming the ease of doing business in Dubai.

A comparison with the last quarter reveals that the top challenge remains competition, while cost of rental/leasing has become more pronounced and is now the second most important challenge facing businesses in Dubai.

The following are the major challenges impacting businesses in Dubai:

1. Competition (cited by 11% of the respondents): Rising competition from local and international players is the leading challenge being faced by Dubai based businesses. In the previous quarter, 17% of the businesses reported competition as a leading challenge. Also, 59% 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 10% of the respondents): This was reported as a key challenge by businesses that have renewed their lease at higher rentals. Costs of rental and leasing increased for 78% of the respondents who cited it as a challenge
3. Government fees (cited by 2% of the respondents): This has been reported as the third most serious challenge in Q4, 2013. The main reasons cited are high costs of trade license renewal and visa fees, adversely impacting their business operations.
4. The remaining challenges are almost equal in severity, as reported by 1% of respondents in each case.

In terms of factors impacting businesses by firm size, the top three challenges for SMEs are competition, cost of rental/leasing and government regulations, while for large companies the leading challenges are cost of rental/leasing, competition and cost of labor.

As for exporters, the top challenges are the same as the overall economy.

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.

In line with the strong business optimism for the next quarter, businesses are also buoyant on investing to enhance capacity expansion and upgrade technology linked to their business operations. A significant number of the surveyed businesses (77%) intend to invest in capacity expansion in Q1, 2014 compared to 72% in the previous quarter.

A y-o-y comparison also reflects significant strengthening of expectations (77% in Q4, 2013 compared to 65% in Q4, 2012).

Similarly, plans to upgrade technology have also strengthened (66% of the businesses compared to the last quarter i.e. 60%). Y-o-y comparison also shows that plans to invest in technology up-grades have intensified (66% in Q4 2013 compared to 46% in Q4 2012).

Companies planning capacity expansion have reported new capital investments such as

expansion of the current office premises and the 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 are looking to achieve stability and profitability before adding to their capital expenditures.

A comparison across the three key sectors shows that all sectors have equally optimistic about investing in capacity expansion services

(78% in both manufacturing and trading and 77% in services). With respect to technology upgrade, manufacturing (75%) firms are more inclined compared to service (66%) firms and trading companies (62%).

From a business size perspective, large businesses are more inclined to upgrading technology as well as expanding their capacity. With regards to market orientation, export market-oriented businesses have slightly better expectations on capacity expansion than domestic market-oriented firms.

Do you plan to expand the capacity of your business?

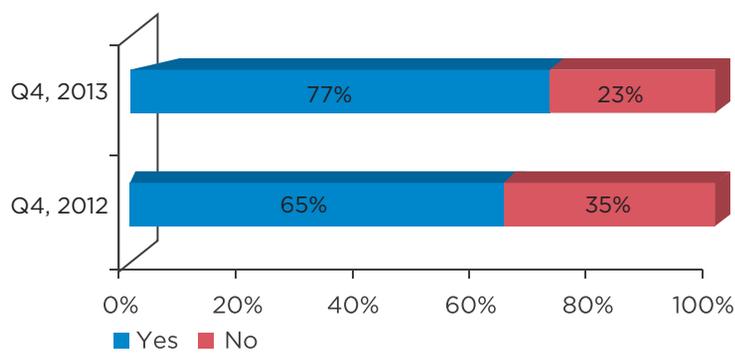


Figure 15

Do you plan to upgrade your technology?

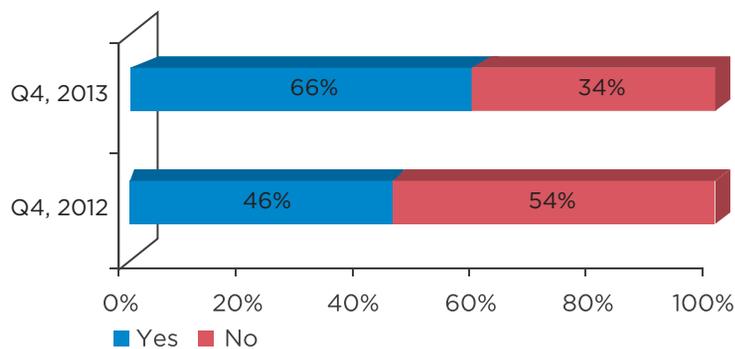


Figure 16

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