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 Vice President and Prime Minister, 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. **Dubai SME**
2. **Dubai Exports**
3. **Dubai Investment Development Agency (Dubai FDI)**
4. **Dubai Competitiveness Office (DCO)**

In line with DED’s new mandate, the Economic Information Division conducts a quarterly Business survey, in coordination with DED Agencies (Dubai Exports & Dubai 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 third quarter of 2018.
AT A GLANCE

- A q-o-q comparison shows that the Composite BCI has gained 5.8 points from 112.7 points in Q2, 2018 to 118.5 points in Q3, 2018. However, on an annual basis, the Composite BCI is marginally lower by 2.9 points from 121.4 points in Q3, 2017 to 118.5 points in Q3, 2018.

- The survey shows that the business outlook for Q4, 2018 is stronger than that of the previous quarter with respect to all parameters.

- Expectations of higher volumes are strongest for the services sector.

- The Composite BCIs for SMEs and large companies is recorded at 111.0 points and 123.5 points, respectively.

- The survey also reveals that exporters are less bullish than the overall business community in Q4, 2018 with Composite BCI scores of 111.6 points and 118.5 points, respectively.

- 52% of the participants anticipate an improvement in Q4, 2018. In terms of business challenges, 43% of the respondents do not expect any negative factors to hinder their business operations.

- 64% of the firms hope to expand their capacity in Q3, 2018 versus 70% in Q2, 2018. 65% of the firms intend to invest in technology upgrade plans in Q3, 2018 compared to 62% in Q2, 2018.
The Department of Economic Development (DED) is a Dubai Government entity that has the mandate to help achieve the key strategic objectives of fostering ‘Sustainable Economic Development’ and strengthening the ‘Competitiveness of Dubai’.

In order to gauge the perceptions of the business community, DED conducts a quarterly business survey, to assess the level of current economic activity and the outlook of businesses for the next quarter.

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

**METHODOLOGY**

The quarterly business survey for Q3, 2018\(^1\) was conducted with a total sample of 505 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.

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 expect an ‘increase’, ‘decrease’ or ‘no change’ in these parameters. The Q3, 2018 survey has captured perceptions of companies across 30-35 sub-sectors.

\(^1\) 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.
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:

\[(\% \text{ of positive responses} - \% \text{ of negative responses}) + 100\]

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 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

\[ \text{Weighted Average } BCI = (\% \text{ Net Balance on Selling Prices} \times \text{Parameter Weight}) + (\% \text{ Net Balance on Volumes Sold} \times \text{Parameter Weight}) + (\% \text{ Net Balance on No. of employees} \times \text{Parameter Weight}) + (\% \text{ Net Balance on Profits} \times \text{Parameter Weight}) \]
Growth in the second quarter remained resilient amid firming oil prices, supportive fiscal policy and resilient tourism related activities. The forecast for Q4, 2018 is optimistic, with the Composite Business Confidence Index (BCI) at 118.5 points in Q3, 2018 (A score of 100 indicates stable/neutral sentiments).

A q-o-q comparison shows that the Composite BCI has gained 5.8 points from 112.7 points in Q2, 2018 to 118.5 points in Q3, 2018. However, on a yearly basis, the Composite BCI is marginally lower by 2.9 points from 121.4 points in Q3, 2017 to 118.5 points in Q3, 2018. The Composite BCI for SMEs and large companies is recorded at 111.0 points and 123.5 points, respectively.

Large companies continue to be more optimistic than SMEs with their business outlook, with Composite BCI scores of 123.5 points and 111.0 points, respectively. The former is more confident than the latter about their outlook with respect to selling prices, volumes, hiring and new purchases. SMEs have displayed a better forecast for profits, while both groups share similar views on sales revenues.
OVERALL BUSINESS OUTLOOK - Q4, 2018

The survey shows that the outlook for Q4, 2018 is optimistic as compared to the previous quarter for most parameters: revenues, selling prices, volumes, profits and new purchase orders. The uptick in sentiments is supported by expectations of a higher number of tourists, more customers and new projects. Historically, surveys in the past years have also shown similar seasonal improvement in projections, which are driven by an increase in tourist footfalls. However, the forecast for hiring has moderated over the quarter.

The seasonal rise in demand has resulted in a stronger outlook for volumes; the net balance has increased from 29% for Q3, 2018 to 34% for Q4, 2018. 46% of the respondents anticipate higher volumes during Q4, 2018 amid expectations of higher demand, more customers and new projects. 42% of the survey participants expect no change in the parameter, while 12% anticipate a decline due to competition.

The services sector is most optimistic regarding its outlook for volumes for Q4, 2018, followed by the manufacturing sector.

The selling prices forecast is also more bullish for Q4, 2018 compared to the previous quarter, driven by predictions of higher demand and respondents’ hopes of securing new projects.

A stronger forecast (q-o-q) for selling prices and volumes has resulted in a more confident outlook for net profits.

Hiring expectations have weakened both on an annual and quarterly basis.
The manufacturing sector’s forecast for volumes for Q4, 2018 has moderated over the quarter and over the same period a year ago. 45% of the manufacturing firms hope to sell higher volumes in Q4, 2018 backed by higher demand from new purchase orders.

Manufacturing sub-segments most optimistic about their volumes for Q4, 2018 are furniture, processed food and glass manufacturers.
SERVICES SECTOR

The forecast for volumes of the services sector has moderated on a q-o-q and y-o-y basis possibly due to lack of demand and stiff market competition.

Figure: 06

Net Balances on Sales Volume for Key Service Sectors, Quarterly Outlook – Q4, 2018

Within the services sector, tourism and hospitality firms are upbeat about their volumes in Q4, 2018.

TRADING SECTOR

The trading sector’s forecast for volumes for Q4, 2018 is the weakest when compared to the manufacturing and services sectors. However, expectations have strengthened over the quarter and the year.
Key sectors optimistic of higher demand over the next quarter include the following:

- Traders of electronics are more optimistic about their volumes in Q4, 2018 with 67% of the participants in this segment hoping to sell higher volumes in Q4, 2018.
- Traders of construction products are the least optimistic; 29% of these traders expect lower volumes due to slowing business conditions and competition.

**EXPECTED BUSINESS SITUATION**

Expectations regarding business situation highlight that a higher proportion of respondents (52%) anticipate an improvement in Q4, 2018 versus 45% in Q3, 2018. The proportion expecting a deteriorating business situation has declined to 9% in Q4, 2018 versus 10% in the previous quarter.

43% of the survey participants do not anticipate any obstacles in their business operations in Q3, 2018. Competition and slowing demand/market conditions are key concerns impacting businesses in Dubai.
IN FOCUS

Service Name
- Instant License

Service Description
- Issuing the commercial license through only one-step without the need for the Company’s memorandum of association and the site’s lease contract for the first year only. The site will be transferred and the Company’s memorandum of association will be attached upon renewal of the license.

Legal Form
- All legal types

Activities
- All activities licensed by DED
- In case of general trading activity, applying through the eservices and choosing LLC are mandatory.

Placess and Hours of Service Availability
- Service Centers (7:30 - 18:30)
- Happiness Lounges (7:30 - 14:30)
- Smart Lounge (24 hours)
- E-Services

Terms and Conditions
- There are no documents required for online application.
- Using other application channels requires the following:
  * All partners or one of them shall visit the outsourcing center to apply for the service.
  * Provide copies of the passports for all the license parties (partners and managers)
  * Provide a copy of residence visa and NOC issued by the sponsor for foreign parties.
  * Provide a copy of the visit visa to foreign parties.

Providing the service through E-Services
- Personal attendance to create a new account in (Dubai ID) for parties who do not have a previous account. The applicant shall show his/her original ID.
- Visit the eservices portal.
- Choose Instant License.
- Login to Dubai ID.

The Fees
- Only one payment voucher is issued, including the fees of initial approval, reservation of trade name and issuance of the license and the Markets Fees of AED 5,000 shall be fixed.

The Procedures
Select legal form.
- Select business activity.
- Add the partners according to the legal form, and identify the following points:
  * Partners’ share in the Capital.
  * Distribution of profits and losses between the partners.
- Reservation of the trade name through the following ways:
  * Reservation of a new trade name
  * Use an automatically generated trade name, which consists of the trade name reservation number.
- Add the value of the Capital in the commercial register data of the Company and the rest of the fields will be filled automatically.
- An option will be shown to issue an electronic memorandum of association within the available electronic service, and the customer may choose this option or just skip it.
- A payment voucher shall be issued.
- Pay the fees.
DUBAI SME OUTLOOK – Q4, 2018

SMEs account for a dominant share in Dubai’s total business composition. 438 of the 505 firms that were interviewed as part of the survey are SMEs. These include micro, small, and medium enterprises as per Dubai’s SME definition. The Composite BCI for SMEs gained over the quarter to 111.0 points in Q3, 2018 from 109.9 points in the previous quarter, but is lower than the index value of 113.8 points in Q3, 2017.

Forecast Business Performance (SMEs) – Q4, 2018

Table: 02

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Q4, 2017</th>
<th>Q3, 2018</th>
<th>Q4, 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Increase</td>
<td>Decrease</td>
<td>No Change</td>
</tr>
<tr>
<td>Sales Revenue</td>
<td>56%</td>
<td>12%</td>
<td>32%</td>
</tr>
<tr>
<td>Selling Prices</td>
<td>17%</td>
<td>11%</td>
<td>72%</td>
</tr>
<tr>
<td>Volumes Sold</td>
<td>49%</td>
<td>13%</td>
<td>38%</td>
</tr>
<tr>
<td>No. of Employees</td>
<td>21%</td>
<td>6%</td>
<td>73%</td>
</tr>
<tr>
<td>Profits</td>
<td>46%</td>
<td>18%</td>
<td>36%</td>
</tr>
<tr>
<td>New Purchase Orders</td>
<td>47%</td>
<td>12%</td>
<td>39%</td>
</tr>
</tbody>
</table>

Note: Increase % + Decrease % + % No Change = 100%
Note: In an event it does not add up to 100%, the balance percentage is the Not Applicable figure.

Key outlook indicators for the next quarter are summarized below.

- A quarterly comparison shows that SMEs are more upbeat about most parameters for Q4, 2018 than they were for Q3, 2018, underlined by higher seasonal demand.
- A higher proportion of respondents intend on increasing their selling prices in Q4, 2018 based on predictions of higher demand and hopes of getting new projects.
- Large companies continue to be more optimistic than the SMEs with respect to business outlook, with Composite BCI scores of 123.5 points and 113.0 points, respectively.
- Services SMEs hold the strongest outlook for all parameters in the survey. Traders hold the weakest forecast for revenues, selling prices, volumes, hiring, net profits and new purchase orders.
- 38% of manufacturing SMEs and 42% of services firms forecast an increase their capacity utilization rates during Q4, 2018.
DUBAI EXPORTERS’ OUTLOOK - Q4, 2018

The survey included 127 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 business outlook of exporters has slipped marginally over the quarter and over the year. The Composite BCI for exporters has registered a score of 111.6 points in Q3, 2018 versus 117.0 points in Q2, 2018 and 111.8 points in Q3, 2017.

Forecast Business Performance (Exporters) – Q4, 2018

Table: 03

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Q4, 2017</th>
<th>Q3, 2018</th>
<th>Q4, 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales Revenue</td>
<td>53%</td>
<td>14%</td>
<td>33%</td>
</tr>
<tr>
<td>Selling Prices</td>
<td>14%</td>
<td>15%</td>
<td>71%</td>
</tr>
<tr>
<td>Volumes Sold</td>
<td>50%</td>
<td>15%</td>
<td>35%</td>
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<tr>
<td>No. of Employees</td>
<td>19%</td>
<td>7%</td>
<td>74%</td>
</tr>
<tr>
<td>Profits</td>
<td>46%</td>
<td>20%</td>
<td>34%</td>
</tr>
<tr>
<td>New Purchase Orders</td>
<td>50%</td>
<td>13%</td>
<td>37%</td>
</tr>
<tr>
<td>Export Sales</td>
<td>45%</td>
<td>11%</td>
<td>44%</td>
</tr>
</tbody>
</table>

Note: Increase % + Decrease % + % No Change = 100%
Note: In an event it does not add up to 100%, the balance percentage is the Not Applicable figure.

Key outlook indicators for the next quarter are summarized below.

- The survey for Q4, 2018 reveals that exporters are less bullish than the overall business community with Composite BCI scores of 111.6 points and 118.5 points, respectively. Domestic-market oriented firms hold stronger predictions than exporters for sales revenues, selling prices, volumes, net profits, hiring and new purchase orders.

- The outlook for export sales has firmed up on an annual basis but is marginally lower over the quarter.

- 33% of the exporters have indicated plans to export to new markets during Q4, 2018 versus a corresponding 40% in the last quarter. The leading markets for export continue to be GCC and Africa.

- The key challenges faced by Dubai’s exporters related to exporting their goods and services outside the UAE are competition (15%), exchange rate fluctuations (8%) and legal & regulatory issues (6%) of destination countries.
OVERALL BUSINESS PERFORMANCE Q3, 2018

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 elicited from the feedback given by responding firms.

### Overall Business Performance – Q3, 2018

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Q3, 2017</th>
<th>Q2, 2018</th>
<th>Q3, 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Increase</td>
<td>Decrease</td>
<td>No Change</td>
</tr>
<tr>
<td>Sales Revenue</td>
<td>18%</td>
<td>41%</td>
<td>41%</td>
</tr>
<tr>
<td>Selling Prices</td>
<td>9%</td>
<td>25%</td>
<td>66%</td>
</tr>
<tr>
<td>Volumes Sold</td>
<td>19%</td>
<td>41%</td>
<td>40%</td>
</tr>
<tr>
<td>No. of Employees</td>
<td>14%</td>
<td>17%</td>
<td>69%</td>
</tr>
<tr>
<td>Profits</td>
<td>15%</td>
<td>48%</td>
<td>37%</td>
</tr>
<tr>
<td>New Purchase Orders</td>
<td>21%</td>
<td>35%</td>
<td>42%</td>
</tr>
</tbody>
</table>

Note: Increase % + Decrease % + % No Change = 100%
Note: In an event it does not add up to 100%, the balance percentage is the Not Applicable figure.

- In Q3, 2018, 17% of the respondents indicated an increase in their volumes, while 40% reported a decrease, resulting in a net balance of negative 23%. Firms that experienced an increase in their volumes cited several reasons including conducive business conditions, higher demand from existing/new customers, and increased number of projects.

- A majority of the respondents (65%) reported stability in their selling prices in Q3, 2018, while 27% had to reduce their prices mainly due to competition.

- 71% of the respondents were able to maintain the size of their labor force, while 12% had to increase it to meet business requirements, and 17% had to reduce their number of employees.

- Firms reported a weaker performance with respect to net profits on an annual basis.

- Labor costs increased for 29% of the firms, but it remained unchanged for 66% of the firms.
- The rising cost of raw materials impacted 31% of the firms, while 47% reported no change in the parameter. Rental costs increased for 19% of the respondents.

- 33% of the firms reported that they availed bank finance during Q3, 2018. Of these, 31% reported an increase in the cost of finance, while 65% said that such costs remained unchanged.

In Q3, 2018, the economic performance of the manufacturing sector was stronger than that of the services and trading sectors. Within the services sector, only the construction sector reported a positive performance, while the remaining segments indicated weak figures (negative net balances).

Within the trading sector, none of the sub-segments reported a positive net balance for volumes.
15% of the SMEs reported an increase in their volumes compared to 42% that registered a decrease, resulting in a net balance of negative 27%.

- Selling prices and hiring remained unchanged for a majority of SMEs.

- Large companies achieved stronger performance than SMEs for revenues, selling prices, volumes, hiring, net profits and purchase orders.
### EXPORTERS’ PERFORMANCE - Q3, 2018

**Overall Business Performance (Exporters) – Q3, 2018**

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Q3, 2017</th>
<th>Q2, 2018</th>
<th>Q3, 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Increase</td>
<td>Decrease</td>
<td>No Change</td>
</tr>
<tr>
<td>Sales Revenue</td>
<td>22%</td>
<td>35%</td>
<td>43%</td>
</tr>
<tr>
<td>Selling Prices</td>
<td>11%</td>
<td>23%</td>
<td>66%</td>
</tr>
<tr>
<td>Volumes Sold</td>
<td>26%</td>
<td>37%</td>
<td>37%</td>
</tr>
<tr>
<td>No. of Employees</td>
<td>9%</td>
<td>14%</td>
<td>77%</td>
</tr>
<tr>
<td>Profits</td>
<td>23%</td>
<td>43%</td>
<td>34%</td>
</tr>
<tr>
<td>New Purchase Orders</td>
<td>26%</td>
<td>35%</td>
<td>39%</td>
</tr>
<tr>
<td>Export Sales</td>
<td>23%</td>
<td>34%</td>
<td>43%</td>
</tr>
</tbody>
</table>

Note: Increase % + Decrease % + % No Change = 100%
Note: In an event it does not add up to 100%, the balance percentage is the Not Applicable figure.

- Domestic-market oriented firms reported better performance than exporting firms with respect to selling prices, volumes, hiring and new purchase orders, while the latter performed better in terms of profits.
- Both exporters and domestic-market oriented firms share similar trends with respect to sales revenues.
- While manufacturing exporters achieved a positive performance for volumes (net balance of 12%), traders recorded a net balance of negative 39%, while for services it was negative 36%.
The survey highlights key challenges perceived by businesses in Q3, 2018 that may affect near term business growth and development. 43% of the survey respondents did not expect to face any hurdles in their business operations in Q3, 2018 compared to 44% in the Q2, 2018.

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

1. **Competition**: 19% of the survey respondents expect to be impacted by competition; 63% of the firms foresee that this challenge will intensify.

2. **Demand/Market Conditions**: 12% of the respondents’ operations are hampered by this challenge.

3. **VAT Implementation**: Out of the 8% which consider this as a hindrance, 51% reported that this concern will increase.

4. **Delay in Payments/Receivables**: 7% of the firms face this obstacle in their business operations.

5. **Overhead Expenses**: 4% of the firms are concerned about this challenge.

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

Competition and slowing market/demand conditions are the top concerns affecting both large companies and SMEs. The exporting community also cited similar concerns.
The survey also gauges the business community’s investment outlook with respect to capacity expansion and technology upgrade plans over a twelve-month horizon.

Respondents continue to be less bullish about their plans to invest in capacity expansion on a q-o-q and y-o-y basis (64% in Q3, 2018 versus 70% in Q2, 2018 and 65% in Q3, 2017). However, respondents are optimistic about their technology upgrade plans in Q3, 2018 vis-à-vis the previous quarter. 65% of the firms intend to invest in upgrading technology in Q3, 2018 compared to 62% in Q2, 2018.

Key reasons cited by respondents for not considering expanding business capacity include satisfaction amongst applicable respondents related to size and scale of their current operations and/or prioritization towards achieving stability and profitability, as compared to market expansion. Additionally, some businesses do not want to expand amid poor market conditions or lack of new projects.

Manufacturing sector firms are most optimistic about capacity expansion plans. 66% of manufacturers versus 65% of services firms and 60% of traders have expansion plans. Services firms are more optimistic of their plans to upgrade technology in Q3, 2018 with 69% planning to undertake such an activity, versus 65% of manufacturing firms and 59% of trading firms.

SMEs are more hopeful than large companies about investment in business expansion. 64% of the SMEs will invest in expansion plans compared to 63% of large firms. On the other hand, 76% of large companies are more bullish about technology upgrades versus 63% of SMEs.

Exporters are more bullish of their intent to invest in capacity while both exporters and domestic-market oriented firms have similar views on technology upgrade plans (65% in each case).