



## **DED Business Survey, Q2 2011**

### **Executive Summary - Overall**

Economic Studies & Policy Division

July, 2011

### AT A GLANCE

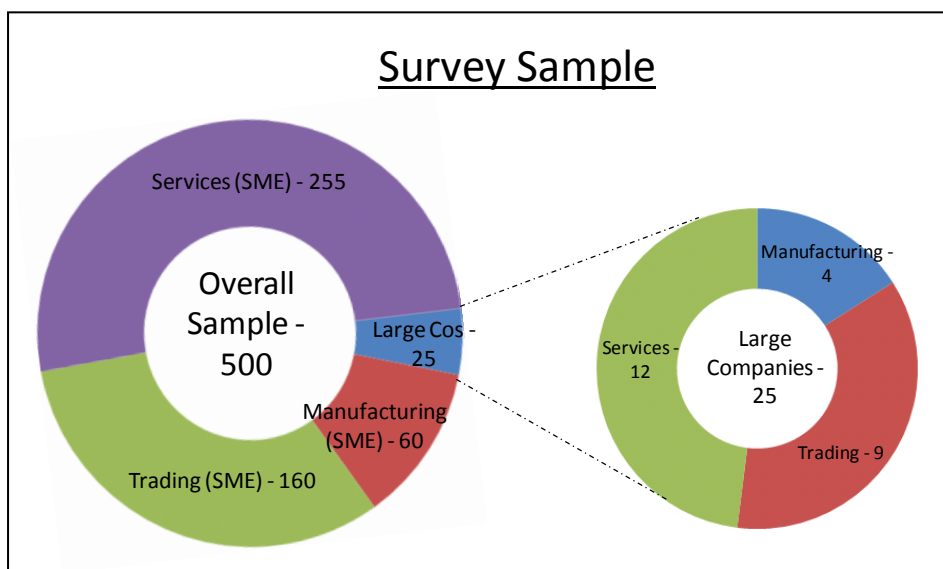
- Overall, firms established in Dubai reported stable performance in the second quarter of the year 2011 (April-June), as compared to the previous quarter (January-March) of this year, with key performance indicators: sales revenue, prices and volumes sold, remaining more or less at the same level in the two quarters. However, a large proportion of firms reported rising direct costs, resulting in a profit squeeze.
- Sector-wise, the survey shows that manufacturing and services performed relatively better than trading in terms of the same key indicators.
- Firms are optimistic about the next quarter (July – September, 2011), reporting expectations of rising sales revenue, primarily driven by an increase in expected sale volumes. Consequently, they are optimistic about their profits as compared to Q2.
- In the order of intensity, key challenges cited by businesses are: competition from international and local players, insufficient demand for products and services, lack of clarity & transparency in business regulations, and increasing government fees.
- The survey shows that firms are optimistic about their capital investment outlook: around 55% of them plan to upgrade their technology and 61% to expand capacity in the next 12 months.

The Department of Economic Development (DED) is a government organization in Dubai 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 in Dubai, DED has launched Dubai’s Quarterly Business Surveys with the key objective to prepare a snapshot of Dubai’s current economic activity and outlook and hopefully give an indication of the state and prospects of business in the Emirate.

This document presents a summary of the inaugural survey conducted in the 2<sup>nd</sup> Quarter of 2011. The document provides an overview of key findings of the survey conducted with 500 businesses in Dubai. In addition to the current situation and future expectations, it examines key challenges to growth and development of business in Dubai and summarizes the investment outlook over the coming twelve months.

## METHODOLOGY

The quarterly business survey for Q2, 2011 was conducted for a total of 500 companies across the Emirate of Dubai. The sample included a mix of small, medium and large enterprises and ensured representativeness of Manufacturing, Trading and Services sectors, in proportion of their respective contribution to the Dubai GDP.

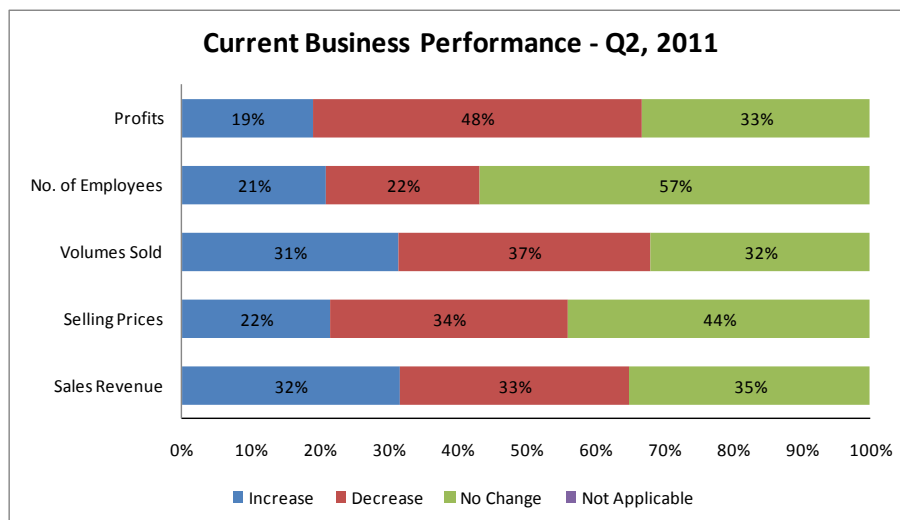


From the perspective of tapping ‘business outlook’ or expectations, the survey focused on key indicators, such as sales, *selling prices*, *volumes sold*, *profits* and *No. of employees*. Respondents were asked to indicate if they expect an ‘increase’, ‘decrease’ or ‘no change’ on these indicators. Additionally, the survey gathered feedback / observations on current business activity or performance, as well as on cost-related items (labor, raw material, cost of finance etc.).

*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 each year.*

## OVERALL BUSINESS PERFORMANCE - Q2, 2011

The results of the survey reveal relative stability across sectors between Q2 and Q1, in terms of key business performance indicators.



Current quarter results point indeed to stability in sales revenue. A breakdown into unit prices and volumes further reveals that both parameters remained largely stable. Performance varied across sectors, with Manufacturing and Services firms reporting a marginally better performance, with respect to Q1, compared to Trading entities.

Overall, companies maintained the same levels of capacity utilization and employment in Q2 as compared to Q1. Across sectors, the hiring performance of services has been comparatively better than for Manufacturing and Trading, with 24% of businesses in Services reporting an increase in their manpower against 18% for Trade and 16% for Manufacturing.

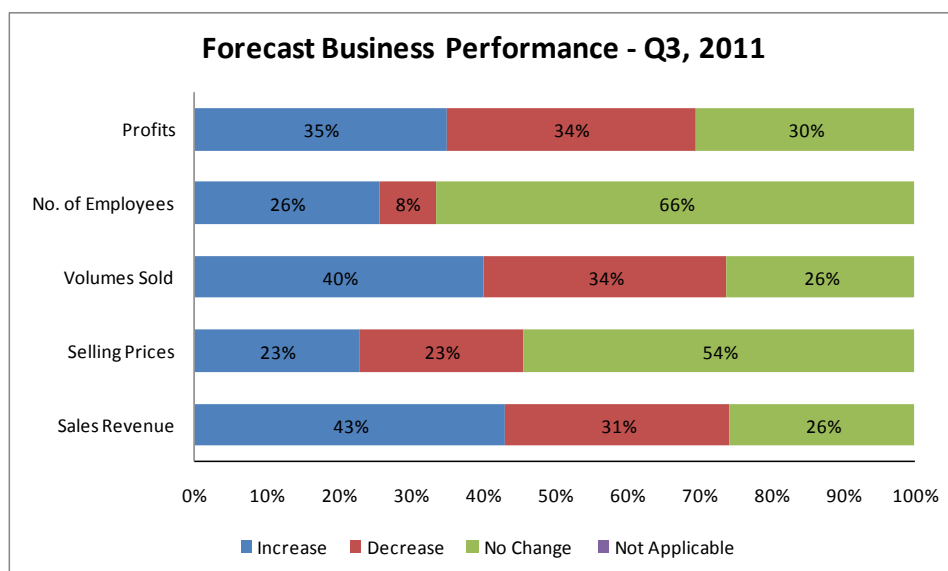
It is also apparent from the current quarter results that increasing costs of raw materials have had a significant downside impact on margins. As expected, this increase was more of a concern to manufacturing firms than to firms engaged in other activities, with 83% of them reporting a rise against 64% only for firms engaged in trade activities.

The cost of finance is not expected to change significantly from one quarter to another. Almost half of the respondents reported either stability or some decline between Q1 and Q2 while the remaining 50% were equally divided between an increase and no relevance of the issue for their business. The non relevance case involves small businesses which choose not to resort to external/bank finance or are shut out of such finance. More specifically, a relatively large proportion of Service firms - around 40% - have reported not using bank finance, against 10% and 11% for Manufacturing and Trading firms respectively.

The respondents' views on labor cost were almost equally divided between no change or some decline and an increase in Q2 relative to Q1. Reasons cited for the increase include primarily a) the impact of visa renewal costs due to a change in work visa duration from 3 to 2 years), b) salary increments to compensate for inflation, and c) retention measures to counter reverse migration trends of labor from South Asia returning back to their home countries due to rising pay there and therefore higher reservation salaries for staying in Dubai.

Thus, although sales remained more or less constant in Q2, the reported rise in direct cost seems to have resulted in pressure on profit margins. This pressure was felt more by companies in the Trading sector, 57% reporting a decline in profits, against 44% for Manufacturing and 42% for Services.

## OVERALL BUSINESS OUTLOOK - Q3, 2011



A look at overall business expectations for the coming quarter (Q3) shows positive trends, with 43% of firms optimistic about sales prospects. Another 26% think that their sales will remain stable. Services companies turn out to be the most optimistic about these prospects.

It is also interesting to notice that these optimistic forecasts are driven by the expectation of higher volumes while prices are expected to remain stable, which signals a rise in the level of real economic activity in Q3 compared to Q2. However, Trading companies are betting on rising selling prices in the coming quarter.

In line with these positive expectations, firms report to enhance their new purchase orders in Q3 as compared to Q1, with the proportion of those planning to increase these orders exceeding significantly the proportion of those planning to reduce them. These expectations are the strongest among manufacturing and trading firms.

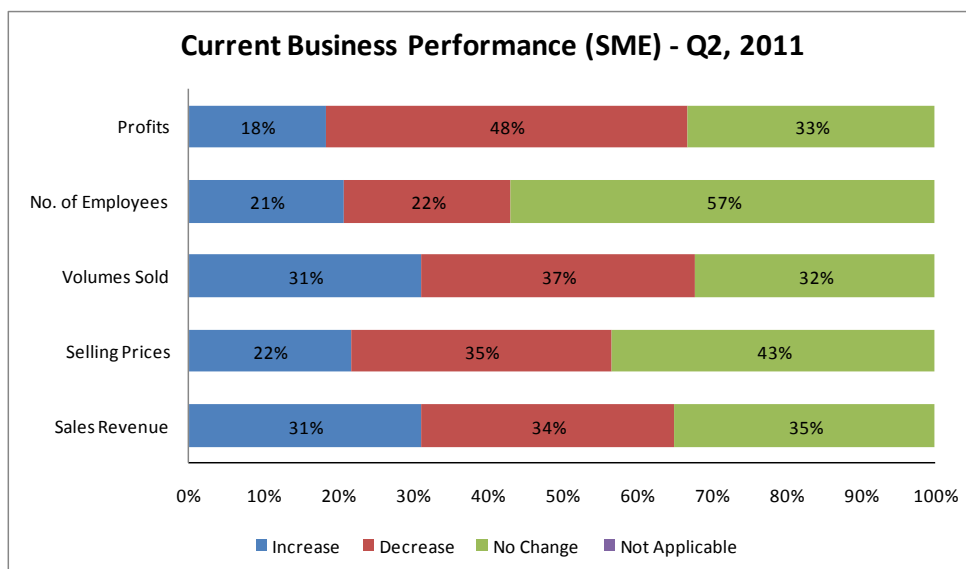
In terms of outlook for employment, Services and Manufacturing firms expect to increase their manpower in Q3 while Trading companies are leaning towards maintaining the same level of employment as in Q1. However, overall, firms are planning to increase their workforce, which is a positive development.

Respondents are also optimistic about their future profits as 35% expect rising profits and another 30% forecast stability in comparison with Q2. Firms engaged in services are more upbeat about future profits than those operating in manufacturing and trade, with 42% of them expecting increases in profits against 31% for manufacturing and only 25% for trading.

The overall assessment is that firms expect better business performance indicators and improved economic activity in the third quarter compared to the second quarter of the year 2011.

## DUBAI SME PERFORMANCE - Q2, 2011

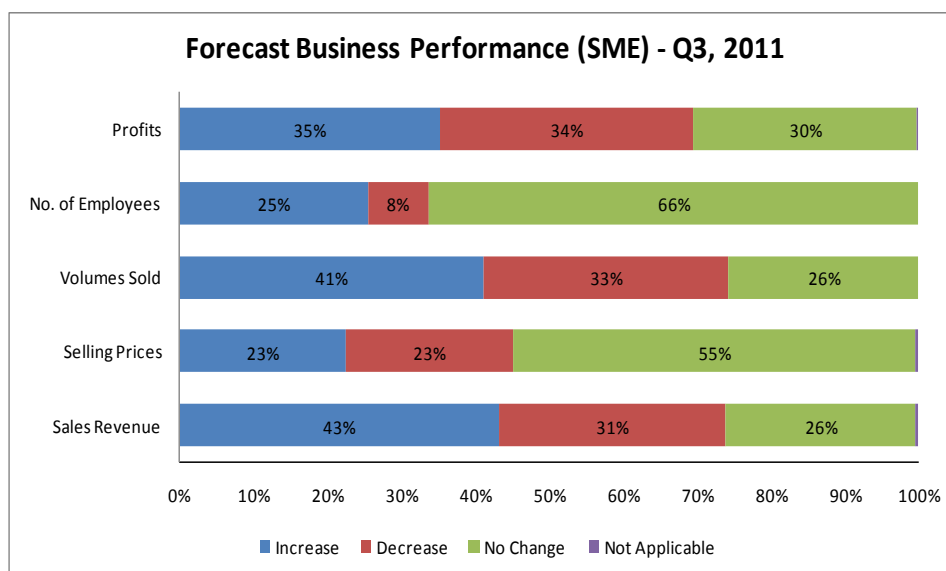
The survey captures and reflects Dubai SMEs assessment of the situation in Q2 and their expectations for Q3. In line with their numerical importance in Dubai's economy, 475 SME respondents were interviewed as part of the survey, including micro, small and medium enterprises as per Dubai SME definition.



The current quarter performance of the SME sector largely replicates the performance of the overall Dubai business community. The key findings are summarized as follows:

- Current quarter results (Q1) point to strong stability in SMEs performance in terms of both volumes sold and prices.
- Reported information on new purchase orders also reveals stability between Q1 and Q2. In line with the overall trends, SMEs have maintained the same levels of capacity utilization and employment as in Q1. The overall assessment is that SMEs kept the same level of economic activity in the second quarter as in the first quarter of this year. However, one has to be cautious in drawing strong conclusions from these findings as comparisons are more meaningful when the same quarters of different successive years are compared instead of successive quarters of the same year.

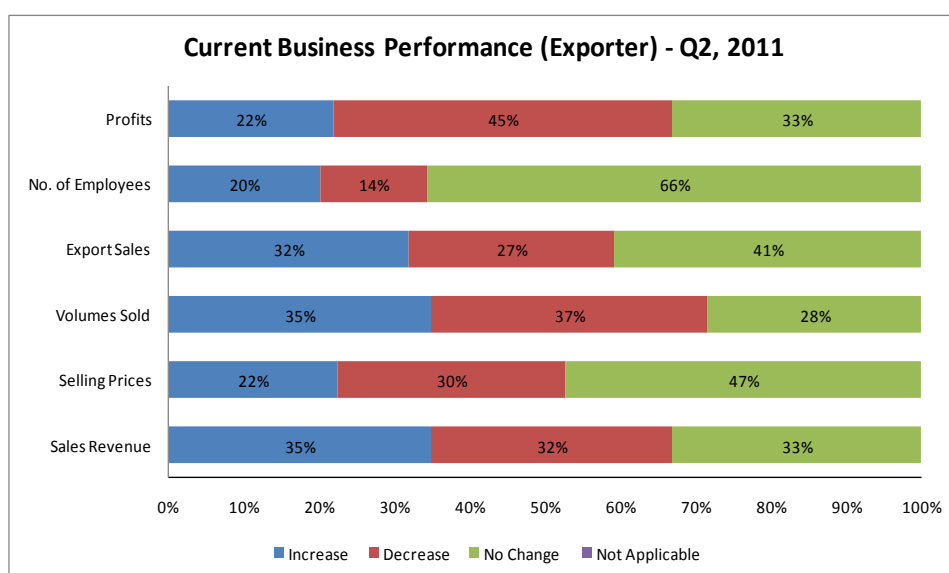
## DUBAI SME OUTLOOK - Q3, 2011



- SMEs survey results point to expectations of higher sales in Q3 compared to Q2, with about 43% of the respondents holding an optimistic view about their sales and real economic activity in Q3. Business sentiments regarding the short term prospects for economic activity are corroborated by expectations of higher levels of employment and capacity utilization.
- As a result of this optimism, SMEs plan to increase their purchase orders and the majority of them expect their profits either to rise (35% of them) or to remain stable (30%) in Q3 as compared to Q2,

## DUBAI EXPORTERS' PERFORMANCE - Q2, 2011

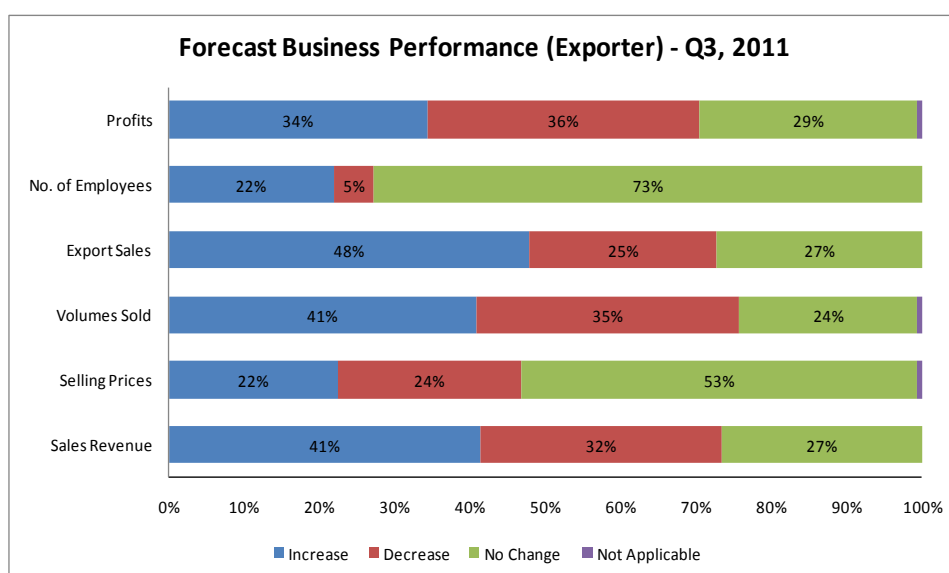
The survey additionally captures business sentiments and outlook of companies partially or totally engaged in exports -169 respondents - which are representative of export-oriented Manufacturing, Trading & Services.



- Similarly to inward-looking firms, the activity of exporting firms exhibits steadiness in Q2 as compared to Q1. 41% of these firms reported no change in export sales and 32% recorded increases in these sales. Other key features of export business performance in Q2 are: Quasi-stability of employment and capacity utilization which is in line with the stability of sales. More than 60% of respondents reported the same workforce in Q2 as in Q1 and 42% kept the same rate of capacity utilization between the two quarters. A sizable proportion of exporters - about 50% - reported increases in the costs of raw materials and labor which seem to have resulted in a negative effect on their margins. The bottom line performance of the exporting sector is marginally better than the overall economy of Dubai.

## DUBAI EXPORTERS' OUTLOOK - Q3, 2011

The expectations for Q3 point to improvements in key indicators such as sales revenues and volumes sold, particularly for exports as opposed to domestic sales. 48% of exporting firms expect their export revenues to increase while another third expect them to be stable in comparison to Q1. Other key outlook indicators are summarized below

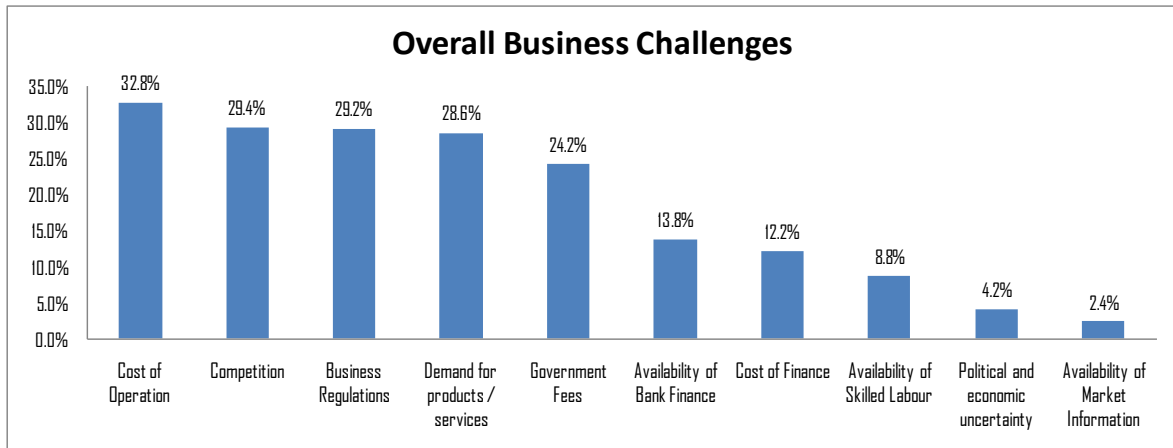


- Export revenues are expected to increase across sectors, with Manufacturing firms being the most upbeat (62% of them), followed by Services firms (55%).
- Other indicators such as workforce, capacity utilization and new purchase orders point in the same direction as expected sales. 22% of exporters plan to hire more workers while more than 73% expect to keep the same workforce. Likewise, about 32% of them plan to utilize their capacity more intensively while another 43% intend to maintain the same level of utilization.
- Survey results also reveal that a majority of the export-oriented companies are planning to venture into new export markets, with 60% of them indicating that they are considering entering new markets.

Thus, the survey has revealed that a majority of exporters are optimistic about the prospects for increasing sales and economic activity in the third quarter as compared to the second quarter of 2011.

## KEY BUSINESS CHALLENGES IN DUBAI

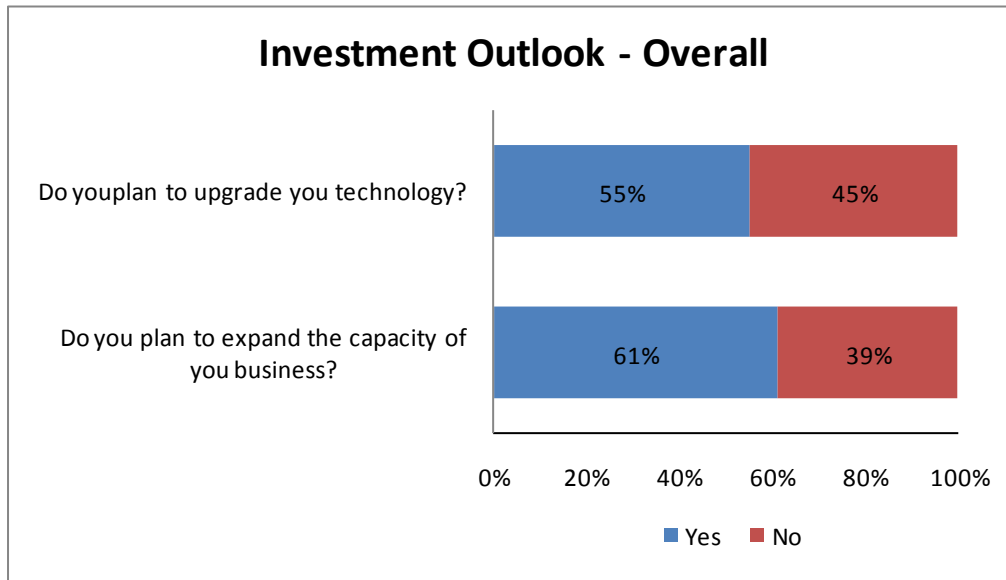
The survey has also addressed the key challenges faced by business as of the end of the second quarter of 2011.



The following are the major challenges impacting the general business environment in Dubai:

1. High cost of operations (*cited by 33% of respondents*) - The survey reveals that high cost of operations is the key challenge. For the purpose of the survey, this cost includes direct items (raw materials, labor) as well as indirect cost-items (rentals, leasing and utilities).
2. Increased competition from local and international players (*cited by 29% of respondents*) and low demand which is the protracted effect of the earlier slowdown in domestic and international demand (*cited by 28% of respondents*).
3. Lack of clarity & transparency of business regulations (*cited by 29% of respondents*):- lack of clarity of business licensing and registration procedures as well as inadequate transparency in the enforcement of commercial contracts to safeguard businesses against debtor dues and bad debts. Respondents have also cited increases in government fees, such as visa and licensing fees, to have had an adverse impact on their margins.

## INVESTMENT OUTLOOK



Over a twelve-month time frame, businesses are optimistic about their capital investment outlook. Around 55% plan to upgrade technology in the next 12 months and 61% plan to expand capacity.

- From a sectoral perspective, Service-oriented companies are the most optimistic about expanding their business capacities, while Manufacturing firms have their attention focused on investing in technology upgrading. In contrast, Trading companies seem to be comparatively less inclined towards upgrading their technology, perhaps because of the nature of their operations which tend to be relatively less technology intensive than an activity such as manufacturing.
- Both large firms and SMEs have a similar investment outlook with more than 50% of SMEs and large companies reporting plans to invest in capacity expansion and technology upgrading in the next twelve months.
- Generally, both exporting and non-exporting firms are keener, in the next twelve months on augmenting capacity than on upgrading technology.

