Dun & Bradstreet's
Business Optimism Index – Qatar
Sponsored by the Qatar Financial Centre

QFC
Qatar Financial Centre

Q3 2016

KEY HIGHLIGHTS

- Even though the composite Business Optimism Index (BOI) for the Hydrocarbon sector has moved out of the negative territory (-7 in Q2, 2016) to stand at 0 in Q3, 2016; low oil prices continue to weigh on its outlook.
- The Non-Hydrocarbon sector's composite BOI has inched up by a single point to 14 in Q3, 2016 from last quarter's low of 13, but lack of new projects; continued low oil prices and overall poor market conditions have kept a lid on the business outlook.
- With a composite BOI of 4, the Trade & Hospitality sector has displayed the weakest sentiments for Q3, 2016.
- Within the Trade & Hospitality sector, the hotels and restaurants segment has a stronger forecast than the trade segment for volumes, new orders and profits, but a weaker outlook for selling prices and hiring.
- Within the Finance, Insurance, Real Estate & Business Services sector, the finance and insurance segment is more optimistic than the real estate & business services sub-segment about volume of sales, new orders, selling prices and number of employees.
- The business environment outlook for both Hydrocarbon and Non-Hydrocarbon sectors has firmed up as a higher proportion of firms do not expect any obstacles in Q3, 2016 compared to the previous quarter.
- For the Hydrocarbon sector, the impact of falling oil prices is the key concern for operations, while competition is the main hurdle for the Non-Hydrocarbon sector.
- While investment plans have weakened for the Hydrocarbon sector, they have strengthened for the Non-Hydrocarbon sector.

GLOBAL ECONOMIC OUTLOOK

The global economy is still struggling to regain momentum after the financial crisis as many advanced countries continue to underperform and several emerging markets and developing economies are displaying less than potential growth. The outlook has been dented again, this time, by the increased uncertainty arising out of the British referendum to leave the European Union (Brexit), which has raised questions about the short-and long-term outlooks for Britain, the future of the Euro zone, and the future of globalisation and economic integration. As a result, in its World Economic Outlook update, the International Monetary Fund (IMF) has lowered the growth for the world economy to 3.1% from its April forecast of 3.2%, despite better than expected performance in the first quarter of 2016. According to the IMF, "This uncertainty is projected to take a toll on confidence and investment, including through its repercussions on financial conditions and market sentiment more generally". The negative impact is likely to be concentrated in the UK, Euro zone and Japan. In the UK and Europe, the main challenge will be the impact of Brexit on consumption and investment spending. For Japan, the key transmission channel for the impact of a global shock like Brexit is via the exchange rate. Due to the safe-haven appeal of the Yen, there is the risk that the currency could strengthen enough to hurt exports and the overall economy. However, in the US, the growth cycle remains on track, led by strong consumer spending, gains in construction activity, modest increase in government spending and robust employment figures for the month of June.

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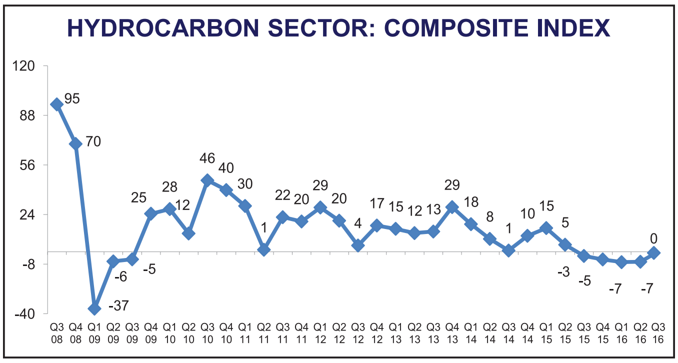
Downside risks in emerging market economies were strong in the first half this year as capital outflows increased and commodity prices dropped. Though a reversal in both of these factors has granted a much-needed reprieve to these economies, risks remain as slow growth raises concerns about their ability to service debt. Slow growth in China will continue to hamper the performance of emerging market economies in Asia.

Hydrocarbon Sector

The World Bank has raised its forecast for the price of crude for 2016 from US$ 41 per barrel in its April assessment to US$ 43 per barrel due to oil supply disruptions and resilient demand. The price of crude oil recovered from less than US$ 30 per barrel in mid-January to US$ 46 per barrel in May due to several factors including improving investor sentiment, a weaker US dollar, strong crude import demand from China, and supply disruptions in a number of oil exporting countries such as Nigeria, Libya and Canada. Additionally, the US EIA has estimated that US oil production in Q4, 2016 will be around 12% less than in the previous year. The continued volatility as well as low oil prices has impacted investment and drilling in the US despite the industry's efforts to reduce costs and improve efficiency. However, the World Bank also pointed out that while production from non-OPEC countries declined, OPEC production rose, as Iran hiked production after Western sanctions against it were lifted. Downside risks to the price forecast include more resilient non-OPEC supply and weaker global demand growth, while the main upside risk for oil prices is a coordinated supply restraint by major producers.

Low oil prices have not only impacted the nominal GDP of the Hydrocarbon sector, but also the fiscal and external balances of Qatar. If crude prices remain at the current depressed levels for an extended period of time, the fiscal and external account deficits will become deeper, requiring greater funding efforts. According to the Ministry of Development Planning & Statistics, Hydrocarbon growth in Qatar in the current year and 2017 will be supported by the new gas field Barzan, which after some delays is now set to come on stream in the latter half of this year and reach full capacity in 2017. However, this short-term increment to Hydrocarbon growth is expected to taper down as crude oil production has remained stagnant or diminished. According to OPEC, Qatar's crude oil production was 625,000 bpd in April and 671,000 bpd in May compared to 675,000 bpd in Q1, 2016.



Low oil prices continue to weigh on the outlook of Qatar's Hydrocarbon sector, even though the composite BOI has moved out of the negative territory to stand at 0. The forecast for all parameters has improved on a quarterly basis. The BOI for volume of sales has increased to 15 in Q3, 2016 from -3 in Q2, 2016 with expectations of new projects and orders.

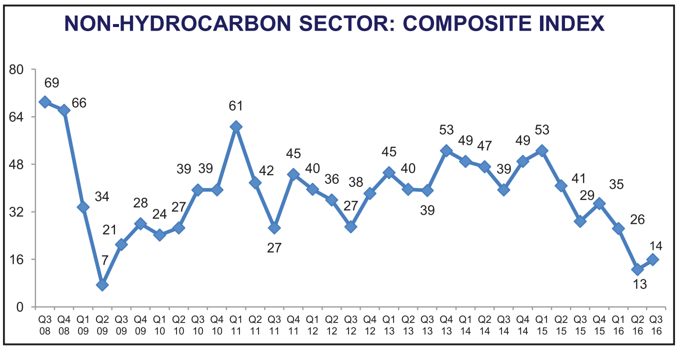
The outlook for the level of selling prices remains weak as 23% of the respondents expect a decline due to competition and low oil prices against 10% that are hopeful of an increase, leading to a BOI of -13 in Q3, 2016 in comparison to -16 in Q2, 2016. Prospects regarding profitability have also shown an upward trend, with 33% of the firms expecting an increase and another 44% indicating no change. The hiring forecast has strengthened with the BOI going up from 11 in Q2, 2016 to 15 in Q3, 2016 as firms need to hire more employees to fulfil new orders and projects.

Reflecting the uptick in the composite BOI, business environment expectations have firmed up as well; 35% of the firms do not anticipate any hurdles or negative factors to impact their businesses in Q3, 2016, while the corresponding proportion in Q2, 2016 was 30%. However, 28% of the companies anticipate problems in the form of low oil prices and 13% are concerned about the absence of new projects.

The forecast for investment in business expansion has weakened considerably; 15% of the respondents expect to undertake such investments in Q3, 2016 compared to 33% in Q2, 2016. 70% of the firms have indicated that they do not intend to invest in business expansion.

Non-Hydrocarbon Sector

Qatar's real GDP growth in 2016 will continue to be driven by the Non-Hydrocarbon sector. The Ministry of Development Planning & Statistics predicts a growth rate of 3.9% for the Qatari economy in 2016, with a 9.9% growth forecast for the construction sector, 7.9% for manufacturing and 6.7% for services. However, growth in the construction sector is expected to drift lower over the next two years as the focus will move to completing existing investments rather than starting new projects. Manufacturing will be boosted in 2016 by an increase in feedstock from Barzan, which will increase the production of refined products, fertilisers and petrochemicals. Growing demand for cement and metals from construction and infrastructure projects will boost growth in other manufacturing activities. The services sector is expected to continue to post solid growth as it will benefit from real estate development and infrastructure projects. The trade and hospitality sector will benefit from conference activities and growth in tourist arrivals. While the non-oil and gas sectors will continue to post solid expansion, its growth will begin to drift lower as project activity plateaus, population growth tapers and the government looks to improve the efficiency of public spending.



The Non-Hydrocarbon sector's composite BOI has inched up by a single point to 14 from last quarter's low of 13. A year-on-year (y-o-y) comparison shows a decrease of 15 points in the composite BOI. Lack of new projects, continued low oil prices and overall poor market conditions have kept a lid on the business outlook. The BOI for volume of sales has shown a steady outlook; the index has moved from 18 in Q2, 2016 to 17 in Q3, 2016, with 40% of the firms expecting an increase in volumes versus 23% who anticipate a decrease. The BOI for new orders has registered a modest improvement from 24 in Q2, 2016 to 27 in Q3, 2016. Selling prices are largely expected to remain stable as 73% of the respondents do not expect any change in the parameter; the BOI has moved from -4 in Q2, 2016 to -1 in Q3, 2016 as a result of 14% of the firms expecting a decrease and 13% anticipating an increase in their selling prices. The profitability forecast is marginally weaker compared to the last quarter with the BOI declining from 12 in Q2, 2016 to 9 in Q3, 2016. However, the hiring outlook is stronger with the BOI rising 7 points quarter-on-quarter (q-o-q) to 20.

The steady trend displayed by the composite BOI is reflected in the stable expectations for the business environment; 45% of respondents do not expect to be impacted by any negative factors in Q3, 2016 versus 43% of the respondents in the last quarter. The key factors that concern businesses are competition (14%), impact of low oil prices (12%) and delays in payments/receivables (12%).

Intent to invest in business expansion has also displayed a steady trend; 33% hope to undertake such investments in Q3, 2016 compared to 30% in the last quarter.

SME vs Large Company

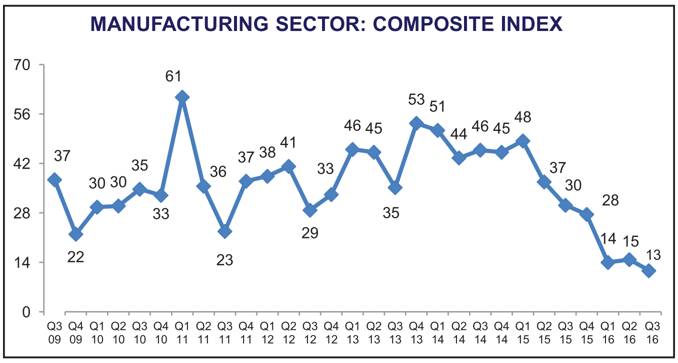
Small and Medium Enterprises (SMEs) have recorded a modestly stronger outlook than large companies with respect to all the parameters.

- The BOI for volume of sales for SMEs stands at 17 compared to 14 for large companies. The BOI for new orders for SMEs is at 28 versus 20 for large companies
- For the level of selling prices parameter, the BOI for SMEs is at -1 compared to -2 for large companies
- The BOI for net profits for SMEs is 2 points higher than the index value of 8 for large companies
- With respect to hiring, the BOI for SMEs and large companies stands at 21 and 18 respectively.

Business environment expectations for SMEs are much more bullish than those for large companies; 40% of the SMEs do not expect to get hampered by any negative factors in Q3, 2016, whereas the corresponding proportion for large companies is 22%. While competition is a key concern for SMEs, the impact of low oil prices will affect large firms in Q3, 2016.

Manufacturing Sector

The Manufacturing sector's outlook has touched an all-time low, weighed down by poor economic conditions, seasonal downturn in demand in the summer months and decrease in oil prices. The composite BOI has dropped to

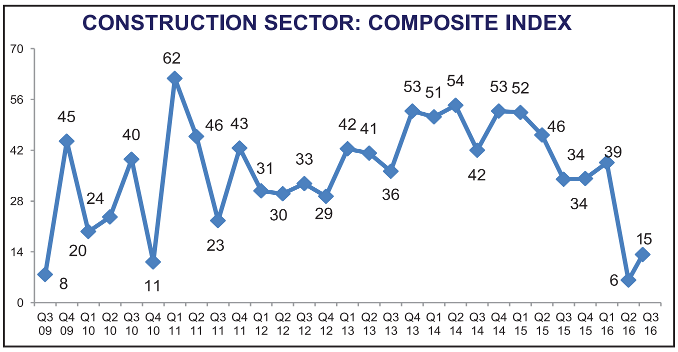


13 in Q3, 2016 from 15 in Q2, 2016 and 30 in Q3, 2015. Even though the demand, selling prices and profitability indices have deteriorated, the hiring outlook has improved. The BOI for volume of sales is down by 5 points quarter-on-quarter (q-o-q) to 17, while the BOI for new orders has declined by a single point to 29. 79% of the manufacturing firms anticipate stable selling prices, while 17% expect a decline due to competition, poor demand and decline in the price of raw materials. The forecast for profitability has weakened further; the BOI has declined to 5 in Q3, 2016 from 12 in Q2, 2016. Prospects for employment have brightened as firms need to ramp up their employee numbers to fulfil new orders and projects.

In contrast to the deterioration in composite BOI, the business environment for manufacturing firms seems to have improved. 47% of the respondents do not expect any hurdles in Q3, 2016 compared to a corresponding 41% in the last quarter. 14% are concerned about competition, 13% are worried about delays in payments/receivables and 11% forecast that the impact of oil prices will affect their businesses.

Business expansion plans in Q3, 2016 are similar to those in the previous quarter; 30% of the manufacturing firms intend to invest in such activities in Q3, 2016 compared to 31% in Q2, 2016.

Construction Sector

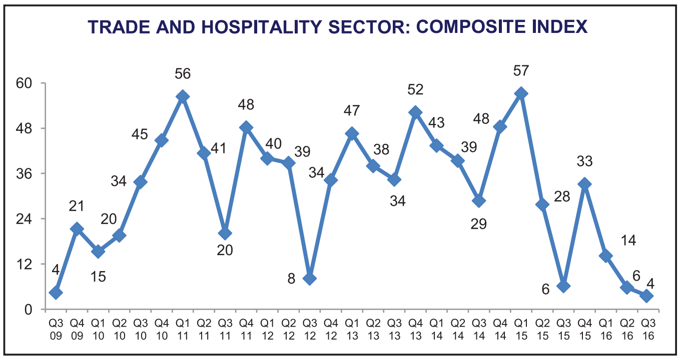


The Construction sector's outlook has rebounded from an all-time low, supported by expectations of new projects/orders. The composite BOI has improved by 9 points from 6 in Q2, 2016 to 15 in Q3, 2015, but remains much lower than the index score of 34 in Q3, 2015. All five parameters have registered improvements. On a q-o-q basis, the BOI for volume of sales has increased by 2 points to 12 and the BOI for new orders has surged by 13 points to 23. The outlook for selling prices has firmed up due to a rise in the cost of raw materials; the BOI has increased from -3 in Q2, 2016 to 14 in Q3, 2016. As a result, the prospects for profitability and hiring have also improved; the BOIs for net profits and hiring have increased by 7 points each q-o-q to 11 and 17 respectively.

The business environment forecast has shown a significant improvement; 33% of the firms do not expect any negative factors to impact their business operations in Q3, 2016, while the corresponding proportion in Q2, 2016 was 23%. However, 19% of the firms are concerned about rising competition, 15% about the impact of low oil prices and 12% about the delays in payments/receivables.

31% of the respondents intend to invest in business expansion in Q3, 2016 compared to 25% in the previous quarter.

Trade and Hospitality Sector

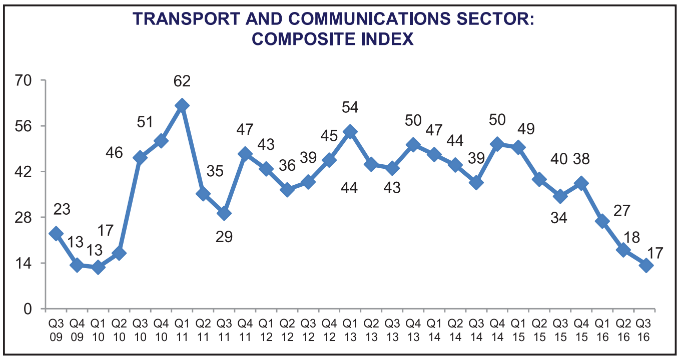


Stiff competition, summer vacations and poor market conditions have weakened the Trade & Hospitality sector's outlook to its lowest level. The composite BOI has dropped to 4 in Q3, 2016 from 6 in Q3, 2015 and Q2, 2016. The hotels and restaurants segment has a stronger forecast than the trade segment for volumes, new orders and profits, but a weaker outlook for selling prices and hiring. For the overall sector, the BOI for volume of sales has declined by 6 points on a quarterly basis to -1 in Q3, 2016. Over the same period, the BOI for new orders has lost 2 points to stand at 20. The forecast for level of selling prices is tilted towards stability, with 74% of the firms expecting the parameter to remain unchanged. In line with the forecast for weaker demand and prices, the profitability forecast has also softened; the BOI has declined from 1 in Q2, 2016 to -6 in Q3, 2016. The hiring outlook remains steady with the BOI moving from 13 to 14.

The forecast for the business environment has weakened. 39% of the firms expect no obstacles to their business operations in Q3, 2016 compared to 45% in Q2, 2016. The leading concern for this sector remains competition as indicated by 20% of the firms. Another 14% are concerned about the impact of low oil prices and 13% expect to get impacted by delays in payments/receivables.

33% of the respondents plan to invest in business expansion in Q3, 2016; the corresponding proportion was lower at 26% in Q2, 2016.

Transport and Communications Sector

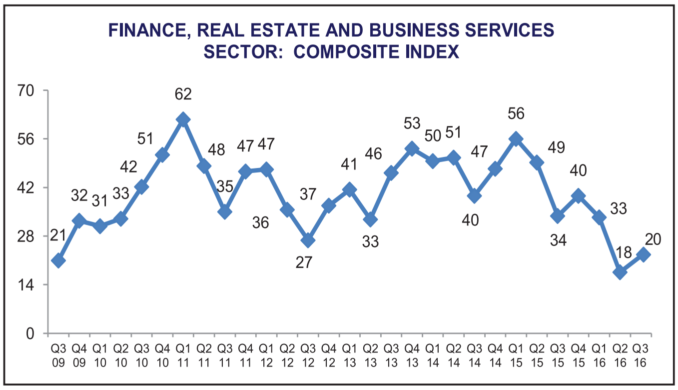


The Transport & Communications sector in Qatar remains impacted by poor and unpredictable market conditions, weak demand and competition. The composite BOI has edged lower from 18 in Q2, 2016 to 17 in Q3, 2016 due to a weaker outlook for volumes, selling prices and net profits. The BOI for volume of sales has decreased from 29 in Q2, 2016 to 26 in Q3, 2016, while the BOI for new orders has increased modestly from 29 to 31 over the same period. The level of selling prices BOI has deteriorated from 0 to -8 mainly due to competition and poor demand. Consequently, the prospects for net profits have been impacted; the BOI has declined from 22 to 12. The hiring parameter has firmed up, supported by expectations of new orders/projects.

The business environment outlook for the transport sector has also softened, with 51% of the firms indicating no negative factors in Q3, 2016 against 58% in the previous quarter. 25% of the firms expect to get impacted by delays in payments/receivables, 8% by lower oil prices and 6% by competition.

Investment plans have however strengthened; 49% intend to undertake investments in business expansion in Q3, 2016 versus 35% last quarter.

Finance, Real Estate and Business Services Sector



The Finance, Real Estate & Business Services sector's outlook remains subdued due to a decline in consumer confidence, slowdown in economic growth and lower oil prices. The composite BOI has gained 2 points over the index value of 18 in Q2, 2016 to stand at 20 in Q3, 2016. The finance and insurance segment is more optimistic than the real estate & business services sub-segment about volume of sales, new orders, selling prices and number of employees, but the latter is more confident about net profits.

The BOI for volume of sales has increased from 22 in Q2, 2016 to 25 in Q3, 2016, while the BOI for new orders has gained a single point over the same period to stand at 32. The selling prices and net profits outlook has tracked sideways, with the BOI for the former moving from 1 in Q2, 2016 to 2 in Q3, 2016 and the BOI for the latter moving from 21 to 20. The hiring forecast has firmed up; the BOI has strengthened from 13 in Q2, 2016 to 20 in Q3, 2016.

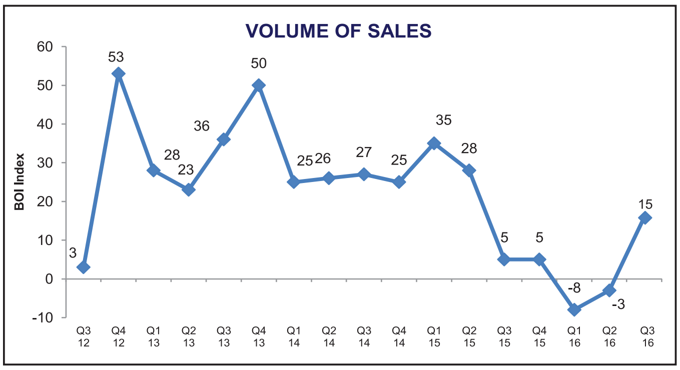
56% of the respondents in this sector do not expect any hindrances to their operations during Q3, 2016, which is similar to the 55% observed last quarter. 13% of the firms have indicated that they are concerned about the impact of low oil prices, while 10% expect to get impacted by rising competition. Business expansion plans show a modest decline as 30% expect to invest in such activities this quarter compared to 34% in Q2, 2016.

Appendix

Hydrocarbon Sector

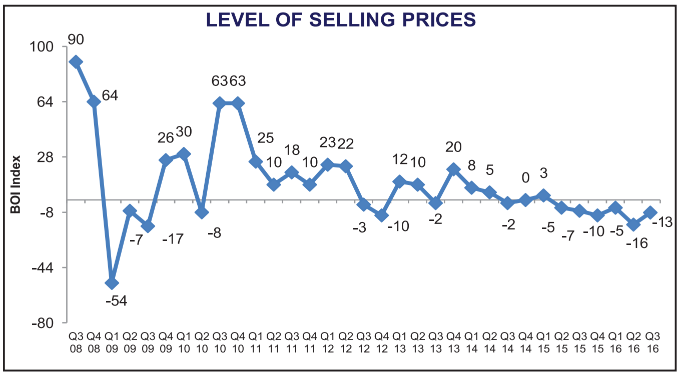
Volume of Sales

The BOI for the volume of sales parameter of the Hydrocarbon sector has strengthened, moving from the negative territory into the positive zone; the indicator is higher at 15 in Q3, 2016 from -3 in the previous quarter. While 45% of the respondents cited stability in this parameter, 35% anticipate an increase in sales on the back of new projects/clients and expansionary activities.



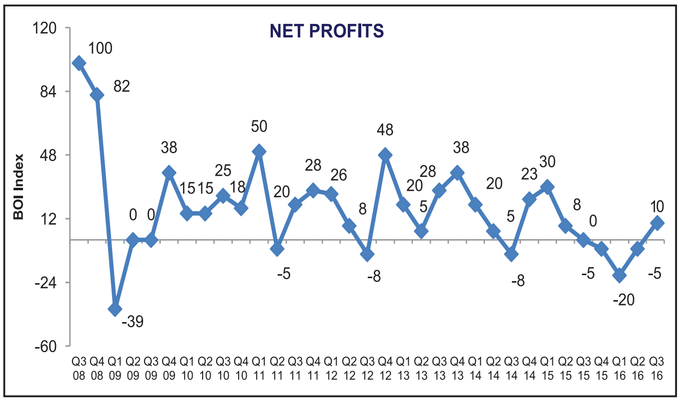
Level of Selling Prices

Although the BOI for the level of selling prices indicator is in the negative zone, it has inched up to -13 in Q3, 2016 from -16 in the previous quarter. Two out of three respondents (67%) expect prices to remain stable, while 23% foresee a decrease due to competition, poor market conditions and lower oil prices.



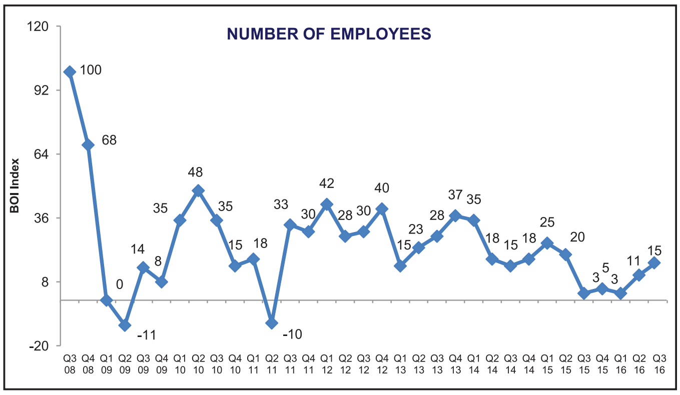
Net Profits

Buoyed by a higher score for the volume of sales parameter and a slight uptick in prices, the BOI for the profitability parameter has gained 15 points to 10 in the current quarter from -5 in Q2, 2016. 33% of the participants anticipate an increase in this parameter versus 23% who expect a decline.



Number of Employees

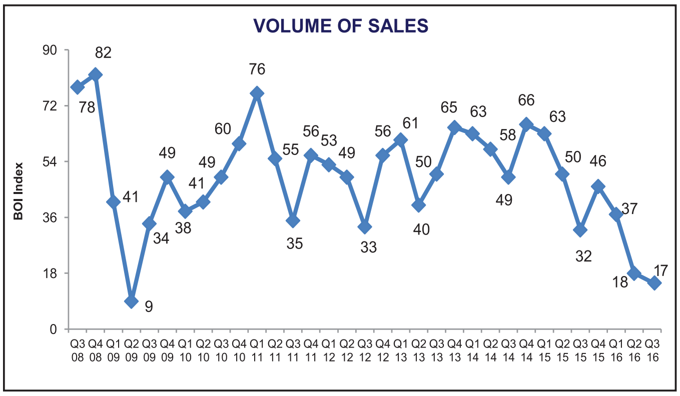
The hiring BOI has witnessed a slight rise to 15 in Q3, 2016 compared to 11 in the previous quarter. A near majority (49%) cited stability, while 33% expect to increase their headcount due to upcoming projects and orders.



Non-Hydrocarbon Sector

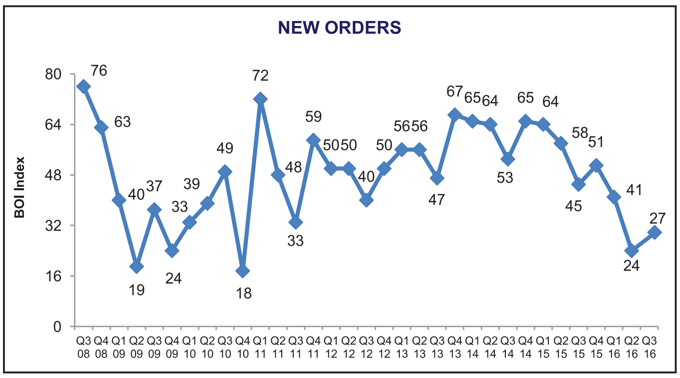
Volume of Sales

The BOI for the volume of sales parameter of the Non-Hydrocarbon sector has tracked sideways to 17 in Q3, 2016 from 18 in the previous quarter. Two out of five respondents (40%) expect volumes to increase on the back of new projects/customers, and higher demand especially after the festive season, while 37% cited stability in this parameter.



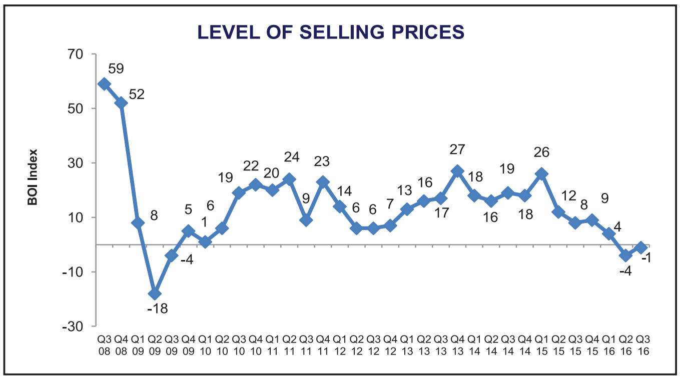
New Orders

Higher demand, new projects and attractive promotional offers to customers have backed the increase in the BOI for new orders which has gained 3 points to 27 in Q3, 2016. 41% of the respondents anticipate an increase in this parameter, while 45% highlighted stability.



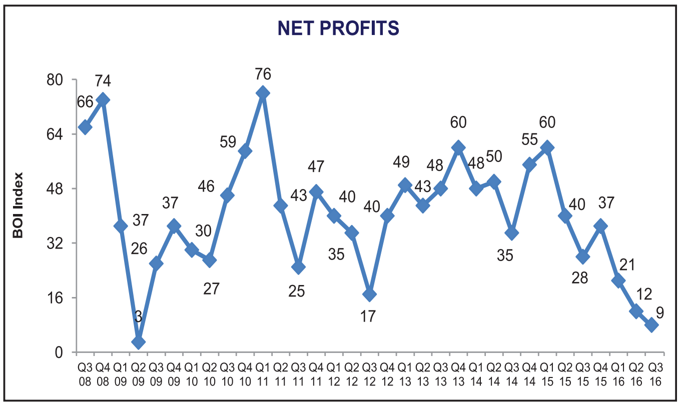
Level of Selling Prices

The BOI for the pricing parameter has improved to -1 in the current quarter from -4 in Q2, 2016. Nearly three fourths (73%) of the participants cited stability, while 13% expect prices to increase due to higher demand for their products, competition, rising supplier prices and other expenses.



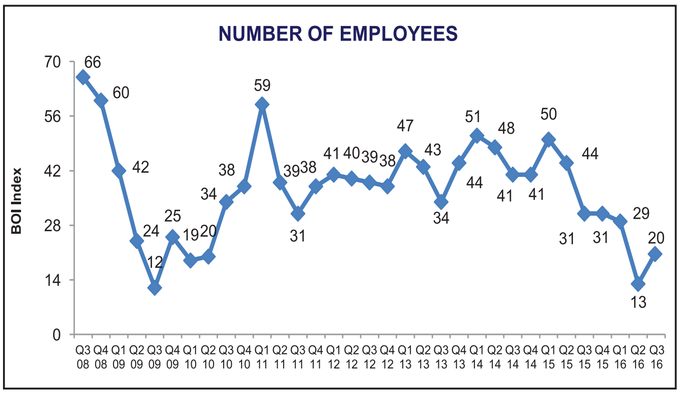
Net Profits

Bucking the overall trend, the BOI for the net profits parameter has slipped to 9 in Q3, 2016, a 3 point drop from the previous quarter's level. 39% foresee stability in their profit levels and 26% expect profits to decrease due to poor market conditions, increasing expenses, lower volumes and prices.



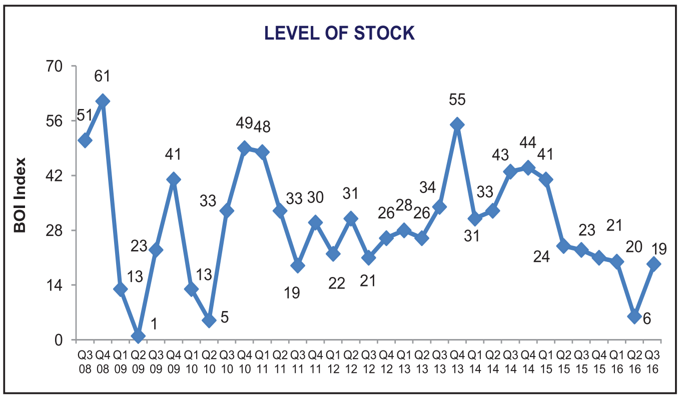
Number of Employees

The BOI for the number of employees has reversed last quarter's descend and gained 7 points to 20 in Q3, 2016. A significant 64% of the participants will keep their employee count intact compared to 28% anticipating to increase in manpower numbers; expansionary activities, new projects and contracts in the pipeline and higher demand were cited as reasons for the expected uptick in headcount.



Level of Stock

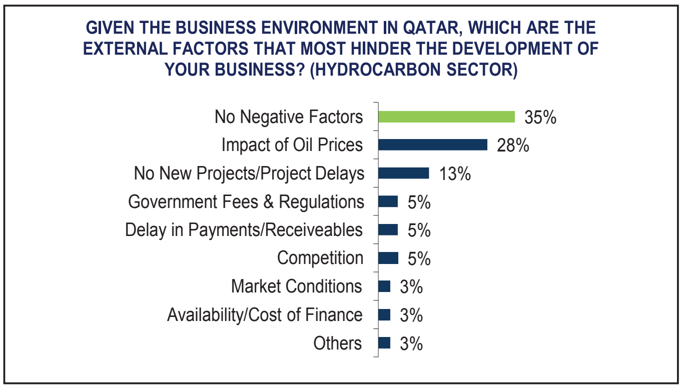
The BOI for the level of stock parameter has strengthened to 19 in Q3, 2016 from 6 in the previous quarter. A majority 61% foresee stability in stock levels in the current quarter, while 29% will up this level on increasing sales and higher demand of project requirements.



BUSINESS CHALLENGES

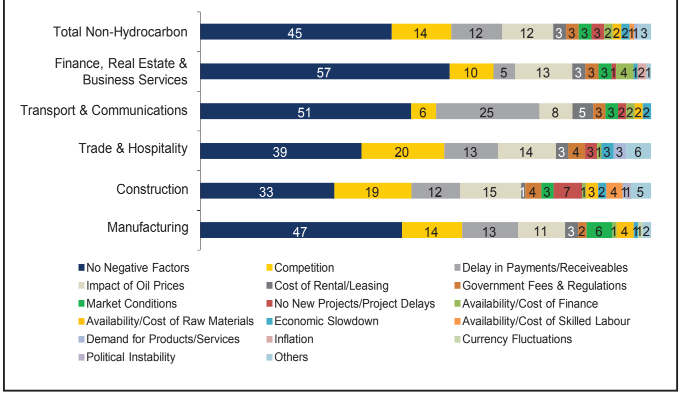
Hydrocarbon Sector

Sentiments in the Hydrocarbon sector have improved as 35% of the respondents cited no negative factors that will impact operations in Q3, 2016 (30% in Q2, 2016). The impact of oil prices continues to be the topmost concern faced by 28% compared to 33% in the previous quarter. Lack of projects and project delays (13%), coupled with government fees and regulations, delays in payments/receivables and competition (5% in each case) are the other challenges to impact participants in this sector in the current quarter.

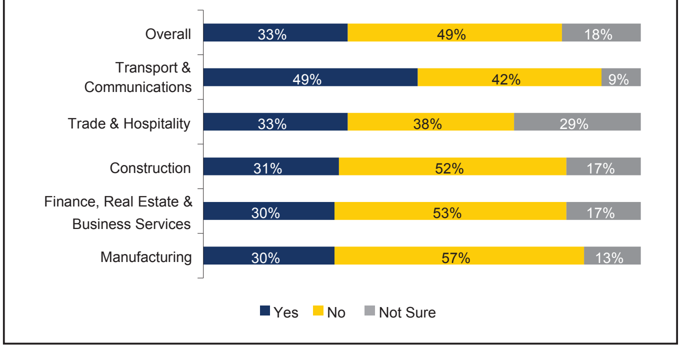


Non-Hydrocarbon Sector

In a reversal of last quarter's trend, Non-Hydrocarbon sector respondents are slightly upbeat about the business environment; 45% indicated no negative factors that will impact operations in Q3, 2016 versus 43% in the previous quarter. Competition is the key hindrance as highlighted by 14% of the survey participants, followed by delays in payments/receivables and the impact of oil prices (12% each).



GIVEN THE BUSINESS ENVIRONMENT IN QATAR, WHICH ARE THE EXTERNAL FACTORS THAT MOST HINDER THE DEVELOPMENT OF YOUR BUSINESS? (NON HYDROCARBON SECTOR (%))

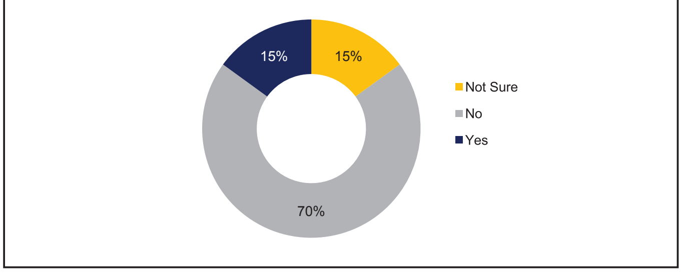


DOES YOUR COMPANY PLAN TO INVEST IN BUSINESS EXPANSION? (NON-HYDROCARBON SECTOR)

INVESTMENT PLANS

Hydrocarbon Sector

Firms in the Hydrocarbon sector are less optimistic with respect to capacity expansion plans in Q3, 2016. A substantial 70% of the firms will not undertake such expenditure (56% in Q2, 2016) compared to 15% who intend to invest in these activities.



DOES YOUR COMPANY PLAN TO INVEST IN BUSINESS EXPANSION? (HYDROCARBON SECTOR)

Non-Hydrocarbon Sector

Sentiments in the Non-Hydrocarbon sector in Q3, 2016 are marginally stronger as 33% intend to invest in expansionary activities (30% in Q2, 2016). Most 49% of the sector respondents will refrain from these plans in the current quarter. The Transport & Communications sector is the most optimistic in terms of investing in expansionary activities (49% in Q3, 2016).

Methodology

The D&B Business Optimism Index

The D&B Business Optimism Index is recognised as a product that measures the pulse of the business community and serves as a reliable benchmark for investors. The D&B Business Optimism Index is arrived at on the basis of a quarterly survey of business expectations. It is conducted in various countries that D&B operates in. Over time, the quarterly survey has emerged as a leading indicator of turning points in economic activity in these countries.

A random sample is selected from Dun & Bradstreet's commercial database for conducting this survey. This sample is divided into Hydrocarbon and Non-Hydrocarbon segments to eliminate the dominance of the former over the latter and understand their dynamics individually. The Hydrocarbon segment includes Qatar's mining, oil and gas companies whereas the Non-Hydrocarbon segment encapsulates in its purview the following sectors:

- Manufacturing (90 units)
- Construction (110 units)
- Trade & Hospitality (80 units)
- Transport & Communications (65 units)
- Finance, Real Estate & Business Services (115 units)

The sample is a microcosmic representation of Qatar's business community. The survey respondents are asked if they expect an increase, decrease or no change regarding the following parameters: Volume of Sales, Net Profits, Level of Selling Prices, New Orders received, Level of Stock, and Number of Employees.

The individual indices for each of the above parameters are then calculated by subtracting the percentage of respondents expecting decrease from those expecting increase.

Additional poll questions are asked relating to the current economic scenario and are aimed at gauging the business sentiments with regards to several key current issues.

For the purpose of the survey, 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.

Composite Business Optimism Index

The purpose of the Composite Business Optimism Index is to capture the aggregate weighted behaviour of all the six individual indices in the Non-Hydrocarbon sector. Beginning Q3, 2009, D&B has introduced composite indices for all sub-sectors in the Non-Hydrocarbon segment to allow one indicator to summarise optimism levels in each of these sub-sectors.

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