Decide with Confidence

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

Q3 2014

Key Highlights

- Optimism remains firm. The composite BOI for Qatar's Non-hydrocarbon sector for Q3, 2014 stands at 39, the same as for Q3, 2013. It is, however, lower by 8 points as compared to Q2, 2014. The decline in optimism is primarily attributed to the summer seasonal downturn and the expected slowdown in business activity during the holy month of Ramadan.
- The composite BOI for the Hydrocarbon sector has been steadily declining since Q4, 2013 and now stands at 1 due to lower optimism on all the constituent parameters of the index. This is in line with the projected contraction in GDP from the Hydrocarbon sector during 2014 (as per IMF forecasts, Qatar's real GDP from the Hydrocarbon sector is estimated to contract by 1% during 2014).
- In the Non-hydrocarbon sector, the index for the Finance, Real Estate and Business Services sector is sharply down, largely for seasonal reasons. But within it, finance and insurance firms continue to have a stronger outlook than the Real Estate and Business Services components. Overall, 61% of firms expect an increase in sales, 64% expect an increase in orders and 40% expect to invest in business expansion in Q3, 2014.
- The Manufacturing sector displays the strongest optimism for Q3 2014, backed by demand emerging from new projects as well as an overall strong economy and a rising population. At 46, the BOI is 11 points higher than in the same period of 2013.
- The Trade & Hospitality sector shows the weakest forecast for the third quarter. While the trading sub-sector continues to post a strong outlook, the Hospitality sub-sector has displayed a significant drop in optimism levels mainly due to the summer seasonal downturn and the expected slowdown during Ramadan.
- 44% of the firms in the Hydro-carbon sector and 51% of the Non-hydrocarbon sector firms indicated that they do not anticipate any hindrances to their business operations during Q3, 2014.
- Competition is the leading concern across all the businesses; government regulations are the second most adverse obstacle for the Non-hydrocarbon sector, while availability of skilled labor and delay in payments are key concerns for the Hydrocarbon sector.
- Qatari businesses have modestly scaled back their outlook for investment in business expansion; 24% of Hydrocarbon firms and 38% of Non-hydrocarbon firms plan to invest in business expansion in Q3 versus corresponding proportions of 31% and 41% firms in Q2.

Methodology

The D&B Business Optimism Index

The D&B Business Optimism Index is recognized 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 behavior 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 summarize optimism levels in each of these sub-sectors.

Global Outlook

In its half yearly report Global Economic Prospects, the World Bank has cut its growth forecast for the global economy in 2014 following a weak start to the year in both rich and poor countries. Bad weather in the US, tension in the Ukraine, the slowdown in China and political strife in countries, such as Turkey, will all delay an expected pick-up in activity. The bank expects the global economy to grow by 2.8% in 2014 compared with the 3.2% forecast in January.

Developing country expansion has been revised down from 5.3% to 4.8%, while expansion in high-income countries has been shaved from 2.2% to 1.9%. The report highlights the prospect of a third straight year of sub-5% growth in the developing world. However, after a sluggish start to 2014, the bank expects activity to accelerate during the rest of the year and for global growth to be 3.4% in 2015 and 3.5% in 2016. A stronger performance by the US and a gradual recovery in the Eurozone are expected to help developing countries by acting as markets for their exports.

However, the report points out that a number of factors that could hit the developing world – financial turmoil prompted by an end to the heavy doses of financial stimulus used by central banks over the past five years, the possibility of a hard landing in China, elevated geo-political risks in the Eastern Europe and Middle East regions and the vulnerability of some emerging market economies that combine high inflation and current account deficits, such as Brazil, South Africa and Turkey.

Hydrocarbon Sector

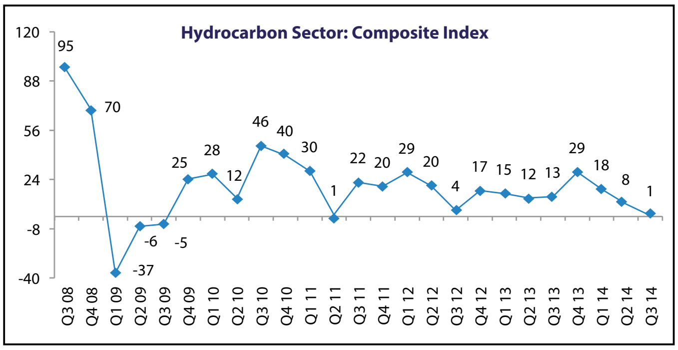
The IEA expects world oil demand in 2014 to average 92.76 million bpd, 960,000 bpd more than expected in May 2013. Global demand growth is expected to accelerate to 1.42 million bpd next year from 1.32 million bpd in 2014. The report contrasts with the IEA's previous medium-term update in May 2013, which had forecasted that US shale oil would help meet most of the world's new oil demand, leaving little room for OPEC to lift output without risking lower prices. In the latest report, the IEA indicated that OPEC will need to pump more oil than expected in the previous medium-term report, raising its forecast of demand for OPEC crude plus inventories by 900,000 bpd to 30.1 million bpd in 2014. Underlining the steady shift of oil demand growth to Asia, the IEA said China would overtake the US as the world's top crude oil importer as soon as this year.

The average monthly OPEC basket increased modestly in April by 12¢ to USD 104.27 per barrel, supported by firmer refining margins, ongoing supply outages, and the return of some refineries from maintenance. The average monthly OPEC basket increased further by USD 1.17 in May to stand at USD 105.44 per barrel and inched up further in June, amid firming sentiment in the crude oil market. Crude prices were supported by price speculation on account of lingering tensions in the Crimean peninsula between Ukraine and Russia, the ongoing geopolitical tensions in Iraq and Libya, and strong market indicators in the US, which are seen to drive demand in the US. According to OPEC, the ongoing rise in crude supply should be adequate to satisfy the growth in oil demand in the second half of 2014, resulting in a well-balanced market.

The IMF projects that Qatar's real GDP from the Hydrocarbon sector will contract by 1% during 2014 but will return to positive territory in 2015, with a growth of 0.9%. While LNG production will remain steady at 76.3 million tons during 2014, crude oil production will decline from 726,900 bpd in 2013 to 653,300 bpd in 2014. Qatar accounts for about one-third of global LNG trade and has become the key supplier for Japan, South Korea, India, and the UK. The tight LNG market and supply disruptions among other oil producers have kept Hydrocarbon prices high.

LNG prices in Qatar's main export markets in Asia have so far remained largely unaffected by the rapid growth in US unconventional gas and oil production. While a further expansion of LNG production is possible, Qatar will maintain a moratorium on development of new Hydrocarbon projects until at least 2015 to give itself time to assess its production performance and carry out a comprehensive study of its North Field.

The business optimism survey for the third quarter of 2014 shows a declining trend in the Hydrocarbon sector outlook. The composite BOI has been steadily declining since Q4, 2013, and now stands at 1, which is 7 points lower than the level in Q2, 2014. All three parameters constituting the composite index have declined, in line with the projected contraction in GDP from the Hydrocarbon sector for 2014 (as per IMF forecasts, Qatar's real GDP from the Hydrocarbon sector is estimated to contract by 1% during 2014). The sales outlook tracked sideways, with the BOI at 27 in Q3 compared to 26 in Q2. Almost half (49%) of the survey participants in the oil and gas segment do not anticipate any change in sales volumes (due to stability in the market coupled with the effect of long-term contracts), while 39% expect an increase (due to expectations of new projects from the government as well as the private sector) and the remaining 12% foresee a decline (as some projects have been put on hold, mainly by Qatar Petroleum).



The Selling Prices index has slipped into negative territory with a reading of -2 due to a higher percentage of respondents (12%) planning to reduce prices compared to those planning an increase (10%). Plans to reduce prices are mainly driven by stiff competition in the market. However, a significant majority of firms (78%) do not plan to change their selling prices since they are either bound by long-term contracts or would like to stay competitive in order to get new contracts.

The index for Net Profits has slipped by 13 points to stand at -8, with 37% of the respondents expecting a decline in Q3 due to escalating raw materials and labor costs as well as the impact of fewer orders. With respect to hiring, 71% of the participants expect stability, while 22% plan to hire more employees and the remaining 7% plan to reduce their staff numbers.

Mirroring the decline in the composite BOI, respondents also expect a moderation in their business environment. The survey shows that 44% of the participants do not anticipate any obstacles to their operations during Q3, compared to 60% in the previous quarter. The key challenge remains competition; 14% have indicated that it will be the main hindrance during Q3. Availability of skilled labor and delay in payments/receivables are concerns for 7% of the respondents, each.

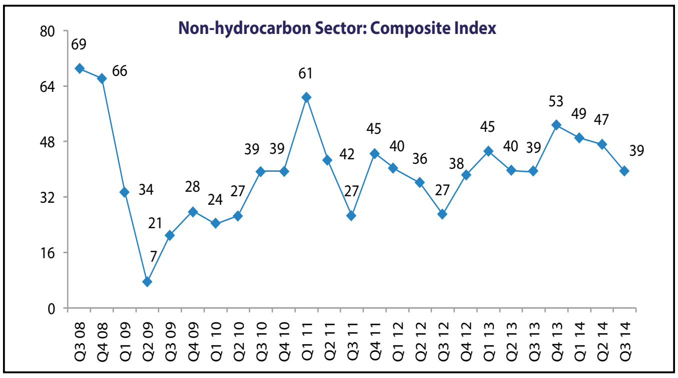
Plans to invest in business expansion have also softened, 24% of the companies have plans to incur such investments in Q3 compared to 31% in Q2. 63% indicated that they will not undertake business expansion in Q3.

Non-hydrocarbon Sector

Qatar's projected GDP growth of 5.9% in 2014 will be driven by a 10.7% rise in the Non-hydrocarbon sector GDP, according to the latest IMF estimates. Having successfully completed a strategy to develop natural gas resources, the authorities have embarked on a large public investment program to advance economic diversification and prepare for the 2022 FIFA World Cup. Diversification is being supported through budget-financed investment projects worth an estimated USD 160 billion between 2014 and 2021, supplemented by another USD 50 billion of projects from public enterprises. The largest projects are mainly in the transport and real estate sectors.

Rapid economic growth, especially in the Non-hydrocarbon sector, is helping to build an increasingly skilled workforce in Qatar. The implementation of major projects is estimated to have created more than 100,000 jobs in 2013 alone. This led to an inflow of a large number of expatriates to Qatar, leading to rapid population growth. The rapid expansion of the population is in turn driving growth across a range of sectors, such as finance, hotels and restaurants, trade and transport.

Qatar's Non-hydrocarbon sector composite BOI for Q3, 2014 has slipped by 8 points on a q-o-q basis to stand at 39, which is the same level as observed in Q3, 2013. The decline in expectations for Q3 compared to the previous quarter is due to a scale-back in sentiments with respect to sales, new orders, profitability and hiring. This decline in optimism is primarily attributed to the downturn during the summer season and the expected slowdown in business activity during the holy month of Ramadan.



The survey shows that despite the softening in overall outlook, demand expectations continue to be robust. 63% of the respondents foresee higher sales volumes in Q3 owing to a strong domestic economy, demand from new projects especially from government investment in infrastructure as well as the effect of a rising population of potential consumers. Conversely, 14% anticipate lower volumes owing to competition and slower business due to the summer season.

There is a decline of 11 points in the index for New Orders (53 in Q3 compared to 64 in Q2). This decline is mainly due to the summer season, but overall sentiments remain quite buoyant, with 63% of the participants expecting an improvement in their order book status. Profitability outlook has moderated in line with the retreat in demand outlook; the index stands at 35 in Q3 compared to 50 in Q2. Hiring optimism has similarly witnessed a slide with the index for Number of Employees decreasing by 7 points to 41. The Selling Prices outlook has marginally strengthened; the index is up by 3 points from 16 in Q2 to 19 in Q3 due to an increase in cost of raw materials and overall inflation in the market.

Expectations for the business environment are quite stable; 51% of the firms have said that they do not expect to face any obstacles to their operations during Q3 compared to 49% in Q2. Competition remains the key challenge that firms will face in the third quarter as indicated by 15% of the respondents. Issues related to government regulations are a concern for 10% of the participants in the Non-hydrocarbon sector.

In line with overall business sentiment, respondents have modestly scaled back their outlook for investment in business expansion; 38% have indicated their intentions to invest in Q3 versus 41% in Q2. 49% of the respondents indicated that they are not planning to invest in Q3 (compared to 40% in Q2), while 13% are unsure about their investment plans.

SME v/s Large Company

The survey for Q3, 2014 shows that demand expectations for both groups are quite similar. For sales volume, the index for SMEs stands at 49 versus 51 for large companies.

However, large companies are more confident about selling prices and profitability, while SMEs hold a stronger outlook with respect to number of employees.

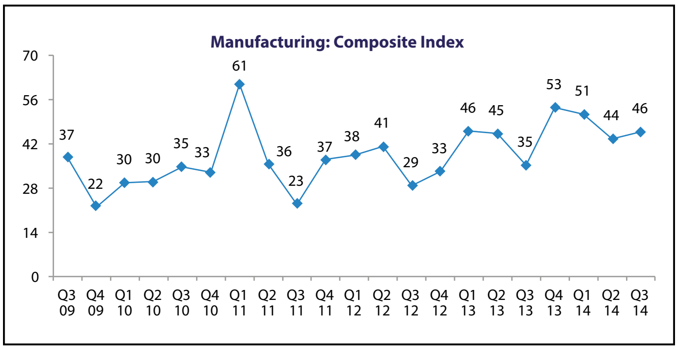
- The index on selling prices stands at 28 for large companies and 17 for SMEs. In addition, the index for net profits for large companies is higher at 41 compared to 35 for SMEs.
- Looking at employment, 45% of SMEs plan to increase their employee strength in Q3, 2014 versus 39% large companies, with index readings of 42 and 35 recorded for SMEs and large companies respectively.

SMEs are also more optimistic about the business environment; 53% indicated that they do not anticipate any hindrances to their operations in Q3, while for large companies the corresponding number is 45%.

Manufacturing Sector

The JPMorgan Global Manufacturing PMI for May signaled a further expansion of the global manufacturing sector, taking the current sequence of growth to one-and-a-half years. The PMI rose to 52.2 in May from April's 51.9. In general, manufacturing activity worldwide continues to expand modestly, but at varying paces across a number of nations. The US, the UK and the Czech Republic registered the steepest rates of output growth during May. The US saw its pace of expansion accelerate to a 39-month high, while growth rates in the UK and Czech Republic stayed close to recent peaks.

The rate of increase in the Euro area output remained solid in May, despite easing to a six-month low, as all of the member nations covered by the survey reported higher output. In Asia, production declined in China, Japan and South Korea, but expanded in India, Taiwan, Indonesia and Vietnam. Brazil and Russia both registered lower output.



The outlook for Qatar's Manufacturing sector has modestly strengthened over the previous quarter. At 46, the composite BOI is 2 points higher than the index in Q2, bolstered by higher optimism on selling prices and hiring. Demand expectations have tracked sideways and continue to be bullish. 70% of manufacturing firms expect higher sales during Q3, backed by higher demand emerging from new projects, an overall strong economy as well as a rising population. The Volume of Sales index has moderated by 2 points on a q-o-q basis to stand at 57. The index for New Orders remains at 59 (same score as in the previous quarter), with 69% of participants expecting to get more orders. The Selling Prices parameter has firmed up from 12 in Q2 to 18 in Q3, due to inflation in the market caused by rising cost of raw materials, fuel and labor. However, a majority (70%) of the firms expect stability in their selling prices.

The index for Net Profits is at 43 in Q3 compared to 47 in Q2; with 63% of the respondents anticipating higher profits and 20% expecting lower profits owing to competition and an increase in costs. Participants are however much more optimistic about their hiring plans; the BOI has rebounded to 52 in Q3 from 41 in Q2. The Level of Stock parameter has also risen on a q-o-q basis from 34 in Q2 to 49 in Q3.

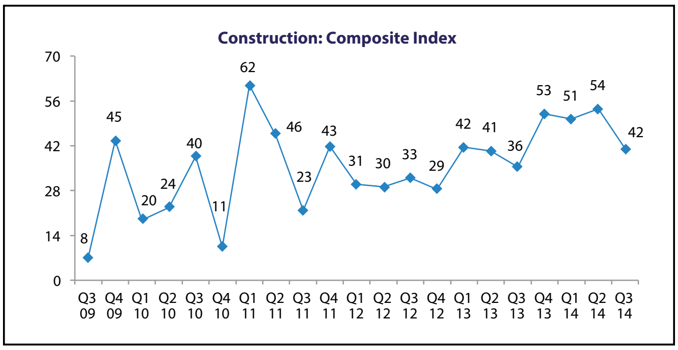
There is a retreat in optimism for the Manufacturing sector with respect to the overall business environment. 46% of the companies do not expect to face any hurdle to their operations during Q3 compared to 53% in the previous quarter. The leading challenge for manufacturing firms is competition; 16% of them cited it as a concern. The second most adverse obstacle is delays in payments/receivable as mentioned by 9% of the respondents. Another 8% each have indicated cost of raw materials and government regulations as key concerns.

The outlook regarding investment in business expansion has improved in the Manufacturing sector, with 41% firms planning to invest in expansion in Q3 compared to 36% in the previous quarter.

Construction Sector

As the global economy continues to recover, the Construction industry looks to be poised for a positive growth year, with significant growth taking place in emerging markets like Asia, Latin America, the Middle East, Africa and Eastern Europe. There is an overall long-term trend for increased demand in the global emerging markets, fueled by increased demand from a rising middle class and the desire for a better quality and standard of living. However, many analysts are of the opinion that the explosive growth in China, Indonesia and the Pacific Rim has cooled down. The Middle East is witnessing a second construction boom, driven by renewed confidence and plentiful liquidity, thanks to sustained high oil prices. This boom is led by public sector-driven megaprojects, as well as a raft of private sector real estate developments.

The survey shows that construction firms reflect a higher optimism on a y-o-y basis; however they have a lower level of optimism in comparison to the previous quarter. The composite BOI for Q3, 2014 stands at 42, 6 points higher than the score for Q3, 2013 but 12 points lower than the



Q2, 2014 index. A q-o-q decline in the index is attributed to lower scores on all of the five constituent parameters. The index for Volume of Sales is down by 6 points to 53, with 63% of the firms anticipating an increase in sales, while 10% expect a lower demand due to slowdown in business activity during Ramadan and the summer season. Consequently, the New Orders parameter has also shed 9 points to stand at 57.

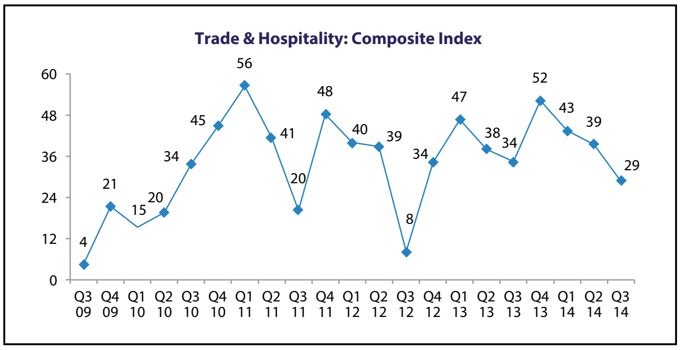
The index for Selling Prices has slipped by 7 points on a q-o-q basis to 27; 61% expect stability in their price levels compared to 33% that are anticipating an increase and 6% that foresee a decline. The profitability outlook has also suffered a decline with 21% of the firms expecting a reduction in their margins due to rising cost of raw materials, competition, and a seasonal slowdown in demand. In line with the moderation in profitability outlook, hiring optimism has also weakened; the index for Number of Employees has gone down by 17 points to stand at 44.

Despite a retreat in the composite BOI, optimism with respect to the business environment has improved. 56% of the firms do not foresee any negative factors impacting their business operations during Q3, compared to 48% in the previous quarter. 15% of the respondents expect to be impacted by stiff competition in the market, while 8% are concerned about issues related to government regulations and 7% have cited delays in payments/receivables as a key hindrance for Q3.

Business expansion plans have moderated; 40% will incur such investments during Q3 compared to 49% in the previous quarter.

Trade & Hospitality Sector

According to the 2014 Global Retail Development Index, in developing markets from South America to Southeast Asia to southern Africa, international retailers and their regional rivals are expanding, buoyed by a more upbeat economy and growing retail environments. The Middle East is a dynamic retail region, characterized by a growing and young population, strong GDP growth, increasing consumer confidence and spending, local and expatriate wealth and a thriving luxury tourism industry. With Qatar scheduled to host the 2022 FIFA World Cup and Dubai recently winning the Expo 2020 bid, the region's retail as well as the overall Trade & Hospitality sectors are expected to grow strongly.



The survey for Q3, 2014 shows a softening of business sentiments for Qatar's Trade and Hospitality sector. The composite BOI has declined by 10 points to 29 on a q-o-q basis (39 in Q2, 2014) and by 5 points on a y-o-y basis (34 in Q3, 2013). A lower optimism is attributed to a significant drop in outlook on all parameters for the Hospitality sector mainly due to the summer seasonal downturn and slowdown of business activity during Ramadan. In contrast, the Trading sub-sector continues to post a strong outlook.

The index for Volume of Sales is down by 3 points to 41 for the overall sector, weighed down by the sharp decline in the outlook of the Hospitality sub-segment (index on sales volume is 7 for Q3, 2014 vis-à-vis 20 for Q2, 2014) since the Trade segment has shown an uptick in sentiment for the sales parameter (61 for Q3, 2014 vis-à-vis 57 for Q2, 2014). The New Orders index has slipped by 25 points to 37 in Q3; again a large part of the decline is attributed to the Hospitality sector.

The index for Selling Prices has declined from 16 in Q2 to 6 in Q3, owing to stiff competition, slow business during the summer and offering of discounts by businesses to attract customers (especially by the Hospitality firms). However, a majority (62%) of businesses do not expect any change in selling prices in the next quarter.

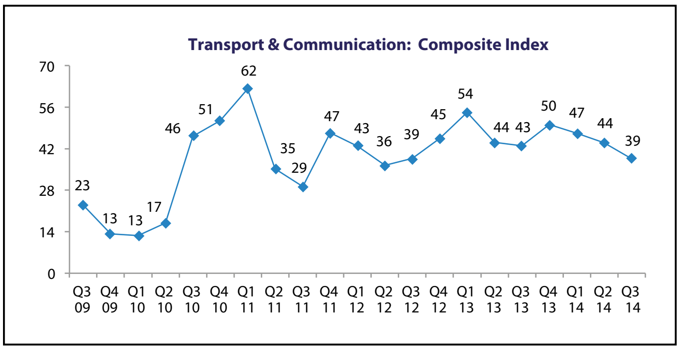
Weaker expectations for demand and prices have resulted in a lower outlook for profitability; the index for net profits stands at 31 for Q3 compared to 40 for Q2. As a result, the hiring optimism has also moderated; the index has lost 6 points to stand at 29 in Q3.

Inspite of lower optimism on all the constituent parameters of the BOI, the Trade and Hospitality sector's outlook towards the business environment has improved. 60% of the participants have said that they do not expect any hindrances to their operations during Q3 compared to 47% in Q2. Competition and government regulations have been indicated as the top concerns, with 11% of the firms in each case citing them as obstacles for Q3. 8% of the companies have said that the slowdown during the summer will hinder business operations during Q3. The survey also shows that investment plans for the Trade and Hospitality sector have improved; 38% plan investments in Q3 versus 33% in Q2.

Transport & Communications Sector

Globally, the logistics sector is expected to pick up in the coming months as global trade picks up, though not quickly. The growth in the logistics sector is closely linked to economic growth across the world.

- Even though economic growth has returned to the Eurozone in 2014, it is expected to remain constrained due to the recent financial crisis and remedial austerity measures.
- Growth in the BRICS countries is expected to continue but more slowly than in previous forecasts. It will, however, be faster than the projected growth in the advanced economies.
- Moreover, China is expected to remain one of the main catalysts for changes in the economic landscape and the key player in Asia's logistics activity.
- Strengthening continues in the Latin America region, and analysts predict further growth in emerging African markets.



At 39, the composite BOI for the Transport & Communications sector is modestly lower by 4 points compared to the index value in the previous quarter. Participants from this sector have indicated lower optimism levels for demand, profitability and hiring in relation to the previous quarter. The BOI for Volume of Sales has shed 18 points to stand at 41 in Q3, owing to a slowdown in business activity during the holy month of Ramadan and the summer season. The index for New Orders is weaker by 8 points to stand at 53, with 65% of the firms expecting an increase in the parameter, 23% expecting no change and 12% anticipating a decline.

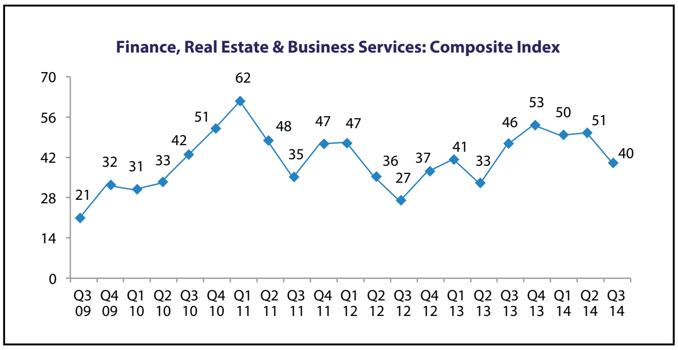
The outlook for Selling Prices has strengthened significantly, with the index gaining 23 points over the Q2 value to stand at 28 in Q3. 33% of the firms foresee a rise in prices driven by the rising cost of fuel and overall inflation in the market. The sharp drop in the demand forecast has led to a moderation in the profitability outlook; the index for Net Profits has declined from 49 for Q2 to 40 for Q3. Consequently, hiring expectations have also softened in comparison to the previous quarter; the index for Number of Employees stands at 31 for Q3, compared to 46 for Q2.

Expectations with respect to the business environment have been modestly dented. 48% of respondents do not expect any obstacles to their operations during Q3 compared to 55% indicating no hindrances in Q2. Issues related to government regulations are the most important concern for firms in this sector (as indicated by 14% of the firms). Competition is the second most important hurdle that companies expect to face in Q3 (cited by 12% of the respondents).

Optimism regarding investment in business activity has slipped considerably; 30% of respondents plan to invest in expansionary activities in Q3 compared to 46% in Q2.

Finance, Real Estate & Business Services Sector

A moderate but sustained expansion of the global economy, particularly in developed nations, is expected to continue to support financial markets. Central banks are likely to maintain a comparatively relaxed monetary stance in order to increase the supply of bank credit worldwide. As a result, riskier asset classes should derive continuing support from stable economic conditions and generous supplies of liquidity. However, the economic performance of a number of major emerging markets is showing weakness, partly due to the gradual erosion of their competitive edge and partly because a number of necessary domestic reforms have yet to be put into effect. However, with reviving demand from developed markets, it can only be a matter of time before this situation also improves again.



The composite BOI for the Finance, Real Estate & Business Services sector for Q3, 2014 stands at 40; 11 points lower in comparison to the score for Q2, 2014 and 6 points lower than the score for Q3, 2013. The survey shows that finance & insurance firms continue to maintain a stronger outlook than the real estate & business services firms on volumes, new orders and profits, while the latter remain more optimistic about selling prices and hiring.

For the overall sector, even though demand expectations have moderated (due to the slowdown during Ramadan and summer season) compared to Q2, participants continue to maintain a buoyant outlook. The BOI for Volume of Sales stands 19 points lower at 48, with 61% of the firms expecting an increase, 13% forecasting a decline and the remaining 26% foreseeing no change. The New Orders index has retreated 9 points to 57, despite 64% of the companies anticipating that they will get new orders during Q3.

The outlook for Selling Prices has firmed up, with the BOI gaining 4 points to stand at 14. A majority (70%) of the firms in this segment expect stability in selling price levels, while 22% are forecasting a rise due to escalating raw material, spare part costs and fuel prices (relevant for business services) as well as overall inflation in the market.

Lower demand expectations have led to a retreat in the profitability outlook; the BOI for Net Profits has dropped from 58 for Q2 to 36 for Q3. As a result, hiring optimism has also weakened as indicated by an index value of 43 for Q3, compared to 52 recorded for Q2.

There is a marginal decline in the number of firms indicating that they will not face any obstacles to their operations, from 48% in Q2 to 45% in Q3. The leading hindrances to business operations as cited by the remaining respondents in this sector are: competition (17%), government regulations and policies (9%) and delay in payments/receivables (5%).

The investment outlook amongst finance, real estate and business services firms remains steady; 40% of these firms (against 41% firms in Q2) plan to invest in business expansion in Q3.

Appendix

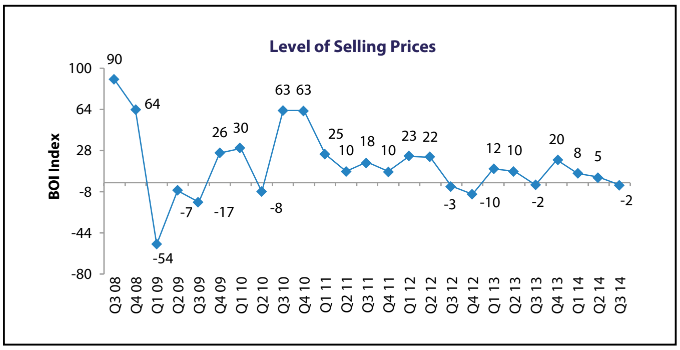
Hydrocarbon Sector

Volume of Sales

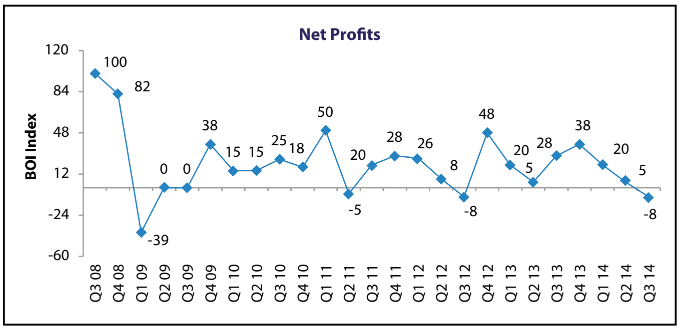
The BOI for the Volume of Sales parameter for the Hydrocarbon sector has inched up to 27 in Q3 from 26 in the previous quarter. Almost half (49%) of the respondents do not foresee any change in sales volumes due to stable market conditions and long-term contracts. Another 39% expect an increase backed by new and ongoing projects from the private and government sectors.

Level of Selling Prices

The BOI for the Level of Selling Prices continues to tread lower and stands at the same level seen on a y-o-y basis at -2. Despite this, a majority (78%) of the respondents expect stability in selling prices. 12% of firms plan to reduce their pricing levels due to market competition, another 10% plan to increase their prices.

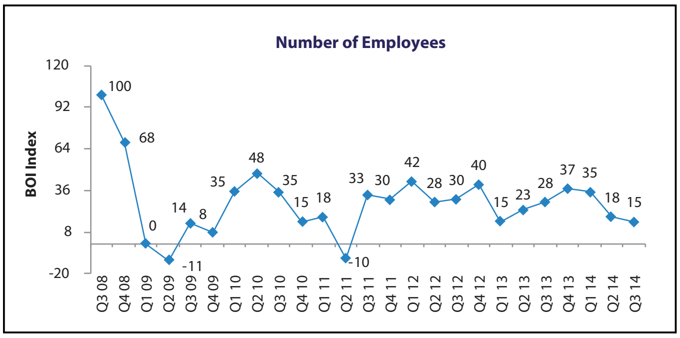


Net Profits



Profitability expectations have declined with the BOI slipping to -8 in Q3 from 5 in the previous quarter. 37% of the respondents have quoted lower profit levels due to lower orders and higher overheads; 34% expect no change in their profits while 29% foresee an increase due to new projects.

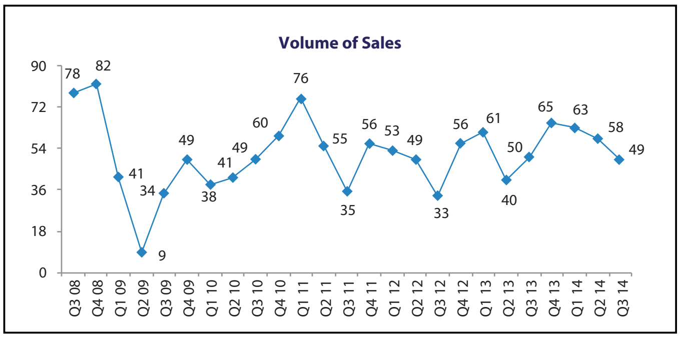
Number of Employees



The BOI for the Number of Employees parameter has tracked sideways to 15 in Q3. A majority 71% expect to keep their headcounts at the same level as they are sufficiently staffed, and 22% will increase employee numbers on expectations of new projects and higher orders.

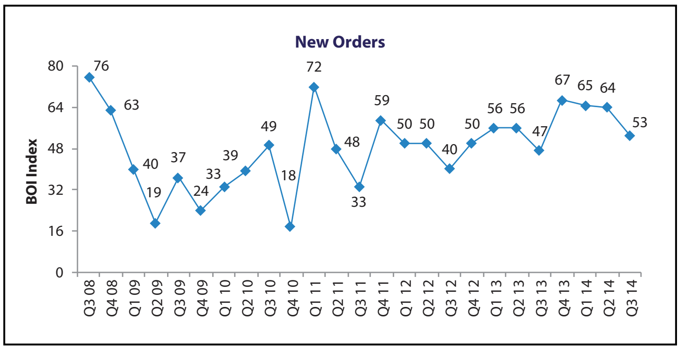
Non-hydrocarbon Sector

Volume of Sales



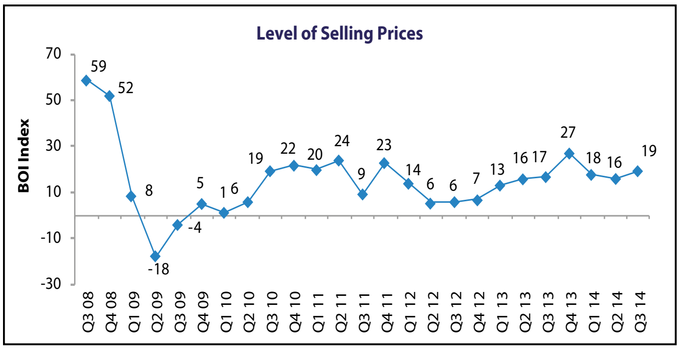
The BOI for the Volume of Sales parameter continues to track lower with the index at 49 in Q3 versus 58 in the previous quarter. A substantial (63%) of the respondents expect sales volumes to increase on expectation of new projects both from the private and government sectors, especially in the infrastructure sector due to the Dubai Expo 2020 and the 2022 FIFA World Cup, combined with the positive effects of a booming Qatari economy and higher demand from a growing pool of potential customers, attributed to a rapidly rising working population in the country. On the other hand, 23% of the businesses expect sales volumes to remain intact while another 14% foresee a decrease.

New Orders



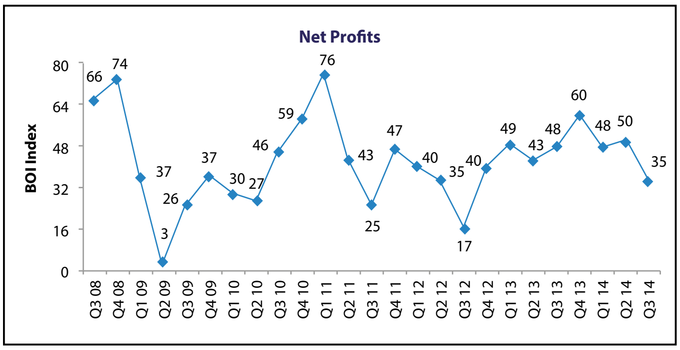
The BOI for the New Orders parameter has declined this quarter to 53 from 64 in Q2, a seasonal trend due to the summer season. Overall, 63% of the Non-hydrocarbon sector respondents expect an increase in their order book status due to increased investments from the public and private sectors, especially in construction and infrastructure projects. This is coupled with expectations of new customer acquisitions as well as the effects of positive market conditions. 27% of the respondents do not anticipate any change, while another 10% anticipate a decline, in their new orders.

Level of Selling Prices



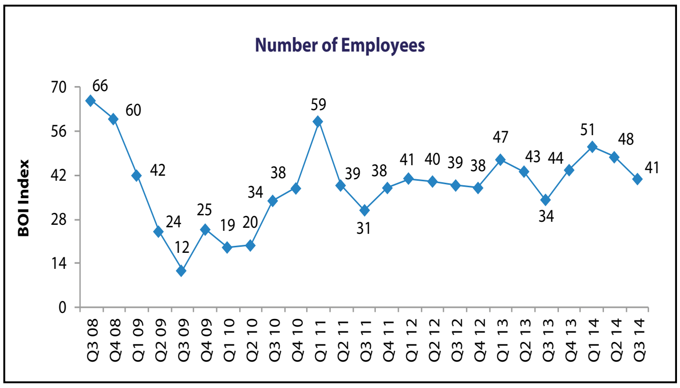
The BOI for the Level of Selling Prices has inched up to 19 compared to the previous quarter. 65% of the respondents have highlighted that they will keep prices stable due to the competitive market conditions. 27% foresee an increase in pricing levels to factor in rising overheads and overall inflation in the economy.

Net Profits



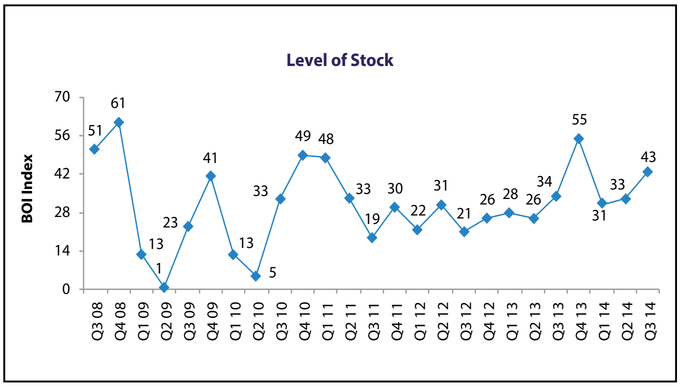
The BOI for the Net Profits parameter shrugged off last quarter's uptrend and settled at 35 in Q3. Despite this movement, 56% of the respondents expect an increase in their profitability levels on the back of new customers and projects, a booming economy and conducive business conditions. 23% anticipate stability in profits and the remaining 21% foresee a decline on this parameter.

Number of Employees



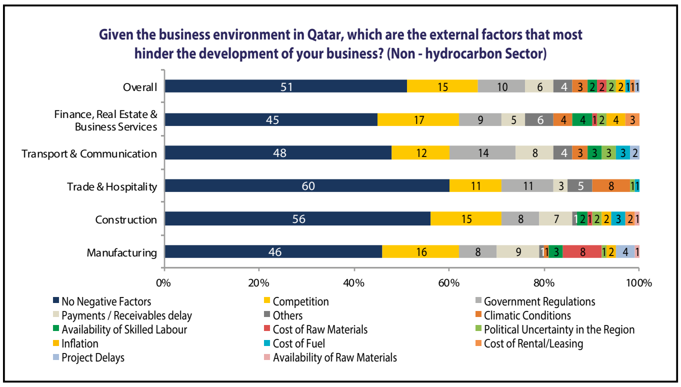
Hiring trends this quarter have moderated with the BOI for the Number of Employees parameter lower by 7 points to 41, while it has gained on a y-o-y basis. Despite the quarterly decline, 53% of the respondents cited stability in employee count, as they are sufficiently staffed, while 44% plan on increasing their numbers on the back of more projects and expansion plans.

Level of Stock

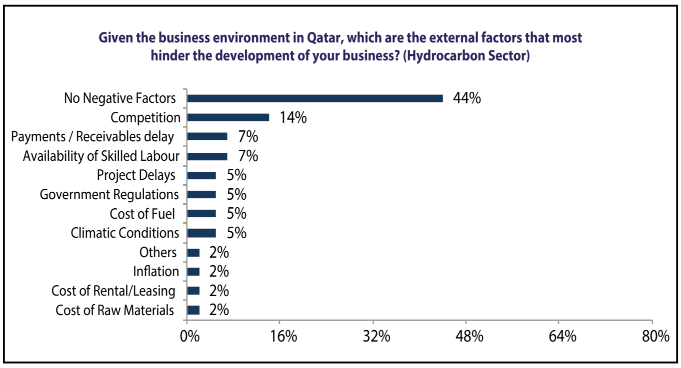


The BOI for the Level of Stock parameter has gained both on a quarterly and yearly basis by 10 and 9 points respectively. A majority of the respondents (95%) will either increase or keep their stock levels intact and the remaining 5% are expected to reduce inventory levels due to lower demand and sufficient stock.

Business Challenges

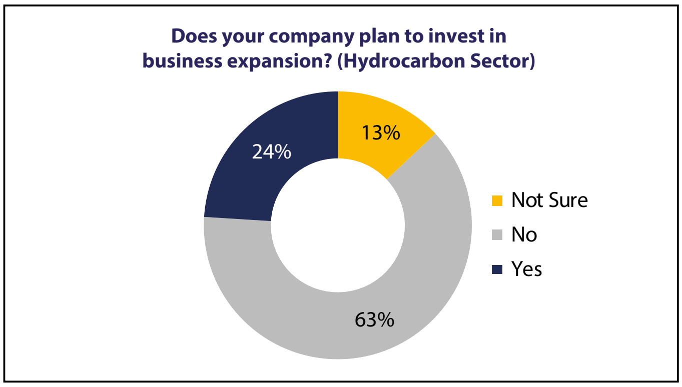


Overall, 51% of the respondents indicated that they do not anticipate any negative factors affecting business operations in Q3. Competition, cited by 15% of the respondents, continues to be one of the top three challenges affecting operations (as seen in the previous quarter when 16% had cited this as a concern). The other key challenges include: government regulations (cited by 10%) and delays in payments/receivables (cited by 6%).

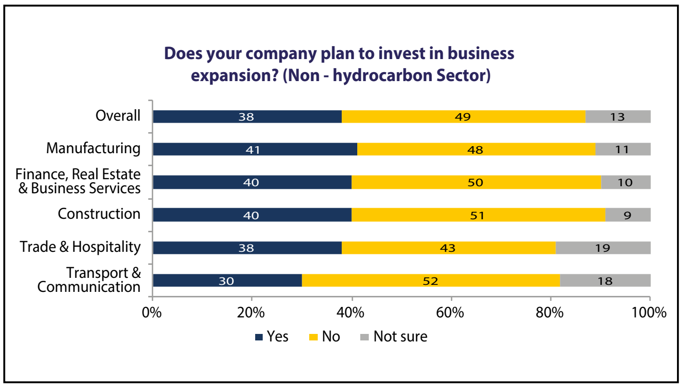


Compared to the last quarter, Qatar's Hydrocarbon sector respondents are less optimistic this quarter as 44% have reported no negative factors affecting operations compared to 60% in Q2. The intensity of competition as a challenge has reduced as 14% respondents in this quarter have cited this as a challenge (vis-à-vis 18% in Q2). Other concerns for businesses include: delays in payment receivables and availability of skilled labour (7% each), project delays, government regulations, cost of fuel and seasonal slowdown (5% each) and inflation, costs of rental/leasing and raw materials (2% each).

Investment plans



Business sentiments of the Hydrocarbon sector in terms of the investment outlook have moderated with 24% of the respondents planning to undertake expansionary activities in Q3 compared to 31% planning to invest in Q2.



In terms of Non-hydrocarbon sector, 38% respondents plan to expand business in Q3 compared to 41% that were planning to expand in Q2. The Manufacturing sector is the most optimistic with 41% planning on growing operations this quarter. On the other hand, the Transport & Communication sector is the least optimistic, with 30% planning to invest in expansionary activities this quarter.

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