



Decide with Confidence

Dun & Bradstreet's

# Business Optimism Index - Qatar

Q4 2008

## ■ Outlook for Q4 2008

- Sales and profits outlook strengthens further for the business units
- Emerging signs of cooling inflationary pressures in the economy
- More capital investment on its way
- Finance and construction sector continue in high growth path
- Sentiments in the manufacturing sector hit hard by rising input prices
- Let up in immediate hiring plans
- Subdued optimism in the Oil and Gas sector

## ■ Business Issues

- Business expansion top on investment agenda; finance and trade most bullish, construction hit by supply bottlenecks
- Worries about rising input prices persists; Import intensive sectors worst hit
- Additional expenditure on workforce has gone down in priority across sectors
- Construction sector constrained by supply bottlenecks; business expansion low in priority
- Skilled labor supply still the prime concern for banking and construction sector
- Internal financing is the chief source of credit for expansion, followed by banks
- Drop in oil prices is the key risk facing Oil and Gas sector

## ■ 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. 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 business activity in these countries.

A random sample (500 units) 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 the mining and oil & gas companies whereas the non hydrocarbon segment encapsulates in its purview the following sectors:

- Agriculture, manufacturing, water and electricity (94 units)
- Finance, insurance and business services (128 units)
- Trade, transport and hotels (140 units)
- Building, construction and real estate (110 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, Number of Employees.

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

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.

The D&B Business Optimism Index for Qatar is done in association with QFC and alkhaliiji.



Decide with Confidence

Dun & Bradstreet's

# Business Optimism Index - Qatar

## Sales and Profits expectations rise further in Q4 2008; Price outlook subdued

The Business Expectations Survey for the fourth quarter of 2008 was conducted in September 2008, amidst cooling off of oil prices, weakening economic growth in developed countries impacting the global demand conditions and strengthening of the US Dollar. Qatar has however continued on its high growth path and has also witnessed significant diversification in the non oil sector. The strong growth displayed by the Qatari economy at the macroeconomic level is very well reflected in the positive business sentiments at the micro level.

According to the BOI survey, the Qatari business community is expecting their sales volume and net profits to grow further in the fourth quarter of the year. 85% of the business units in the non hydrocarbon sector foresee an increase in sales, while 79% expect an increase in profits. Nearly half of the companies surveyed expect to invest further in expanding their business over the next quarter and another 27% have indicated that they plan to invest in machinery and infrastructure.

The economy however continues to face a high rate of inflation aided by supply bottlenecks. More than half of the business units surveyed expect to further increase the selling prices of their goods and services. 46% of the companies cite rising input prices to be their biggest factor impacting their operations in the coming quarter. An additional 22% of the companies feel that rising property prices and rent will impact their business operations. Results from the Optimism survey however reveals some signs of cooling off of price rises compared to the last quarter. The number of units forecasting a rise in their selling prices has gone down to 58% compared to 63% last quarter and a substantial 37% units are expecting no change in their selling prices over the next quarter.

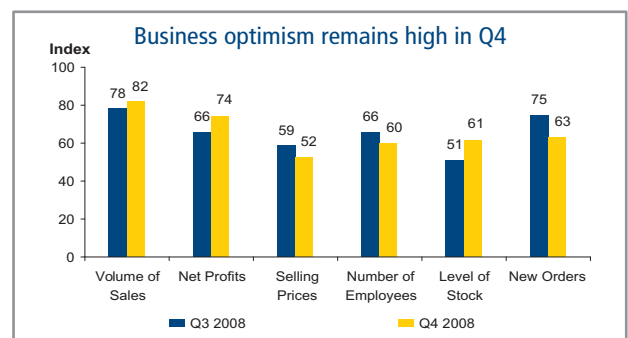
The banking and construction sectors continue on their high paced growth path. Both sectors have shown increased Optimism with respect to Net Profits and Volume of Sales for Q4 2008 as compared to Q3 2008. None of the business units in the construction sector expect to see a fall in their profit levels during Q4 2008, while 83% of the units expect an increase in Volume of Sales. The Optimism Index for the Net Profits parameter for the finance sector has surged from 71 in Q3 2008 to 82 in the Q4 2008.

Interestingly, the trade, transport and hotels sector has witnessed a revival of sentiments over the quarter. The sector is the most optimistic with respect to profits, inventory levels and number of employees. 84% of the business units in this sector expect an increase in profit levels compared to 64% last quarter. The sector's positive sentiments are also displayed by the rising number of businesses that expect to hire more employees next quarter: 66% in Q4 2008 compared to 58% last quarter.

The sentiments in the manufacturing units however have been significantly hit by the cost pressures as 52% of the companies in this sector cite rising input prices and an additional 17% have cited rising property prices to impact business operations next quarter. As a result, there is a drop in the number of units expecting an increase in profits from 83% in Q3 2008 to 74% in the coming quarter.

The recent fall in global oil prices has led to subdued, though still fairly high, Optimism levels in the hydrocarbon sector of the economy. The hydrocarbon companies are most optimistic on the Net Profits parameter, with 82% of the units expecting to see an increase in profits as compared to 100% in the last quarter. The hydrocarbon sector has also witnessed a significant drop in Optimism for Number of Employees, Level of Selling Prices and Cost of Extraction. Availability of skilled labor continues to be a concern for the oil & gas sector; and expenditure on machinery and exploration are the key items for investment over the next quarter.

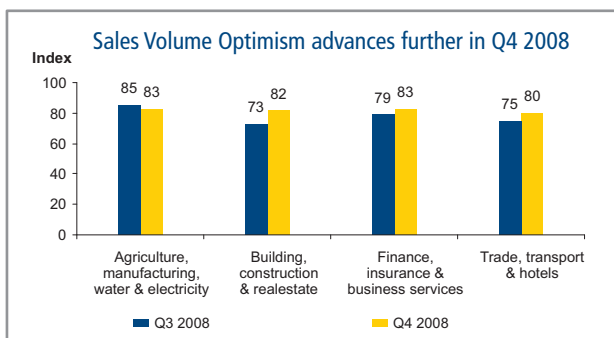
Overall expectations as well as individual sectors' expectations for Q4 2008 with respect to each of the parameters and issues influencing businesses in the next quarter are discussed in the following sections.



## Mixed signals in business sentiments

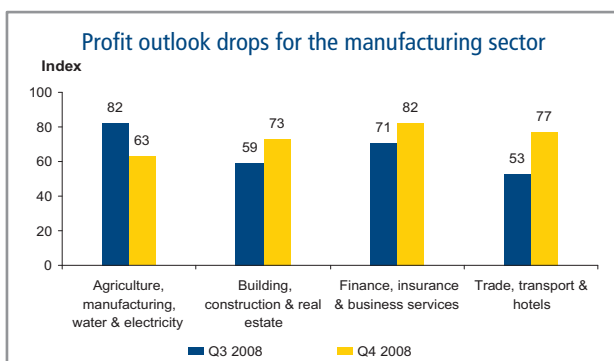
### ■ Sales Volume optimism continues to be high

85% of all business units in the non hydrocarbon sector expect an increase in sales, while only 3% predict a fall and 11% expect no change in the next quarter. The Optimism Index for Volume of Sales stands at 82 for Q4 2008, posting a 4 points increase over the index for Q3 2008. The trade, transport and hotels sector has a very bullish outlook, with 88% of the business units expecting an increase in sales compared to 81% last quarter, as is the construction sector with 83% units expecting an increase this quarter compared to 75% last quarter. However the Volume of Sales index for the fourth quarter in the basic goods sector witnessed a marginal decline to 83 as against 85 in the last quarter.



### ■ Profit outlook picks up for services sector

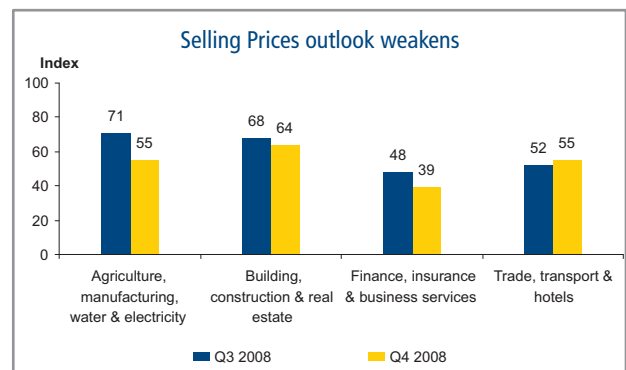
The profit outlook of the business units has strengthened further for the fourth quarter despite persistent concerns of rising input prices. The Optimism Index for Net Profits stands at 74 for Q4 2008, registering an increase of 8 points as compared to the index



of 66 for Q3 2008. The Optimism survey reveals that the number of business units expecting an increase in profits have gone up from 74% to 79% and those expecting a decline have fallen from 8% to 5%. The finance & insurance sector is most upbeat with respect to profits as 84% of the business units in the sector hope to see a rise in profits and only 2% expect a fall. Rising cost of production however seems to have hit the profit outlook for the manufacturing units the most. Number of manufacturing firms expecting a decrease in their profits in the next quarter has risen to 11% as compared to 1.5% for Q3, while those expecting an increase have reduced from 83% in Q3 to 74% in Q4.

### ■ Emerging signs of stabilising prices

Results from the Optimism survey point towards some degree of stabilization in selling prices as the number of units forecasting a rise in their selling prices has gone down to 58% compared to 63% last quarter. A substantial 37% of units are expecting no change in their selling prices over the next quarter. The Optimism Index for Selling Prices stands at 53 for Q4 2008, a drop of 6 points from the index in Q3 2008. The price rise in the real estate sector might see a slight correction; the number of respondents expecting an



increase in selling prices has dropped from 71% to 64% and those expecting no change have increased from 28% to 36% over the quarter. Rise in prices of manufacturing goods might also witness a cooling off as the index for the sector has dropped from 71 to 55. Any substantial impact on the inflationary pressures however might take a couple of quarters to be evident.



Decide with Confidence

# Dun & Bradstreet's Business Optimism Index - Qatar

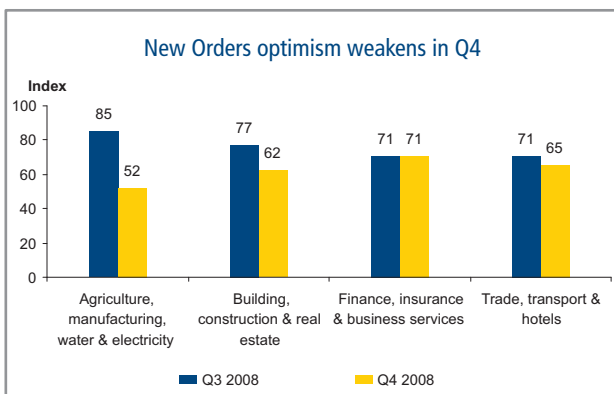
## Let up in immediate hiring plans

The Optimism Index for Number of Employees stands at 60 for Q4 2008, a drop of 6 points as compared to the index in Q3 2008. Though only a marginal 2% of the respondents expect any decrease in their manpower count, a substantial 36% expect no change from last quarter. Manufacturing units have the weakest sentiment regarding hiring more workers, with the index at 44 and a substan-



50% expecting no addition in their employee count. The percentage of respondents expecting an increase in their number of employees in the construction and financial services still remain high at 66% and 64% respectively though there is a drop of 13% for each as compared to the previous quarter. Trade, transport and hotels sector is the most bullish with 66% of the units expecting to increase labor count over the next quarter.

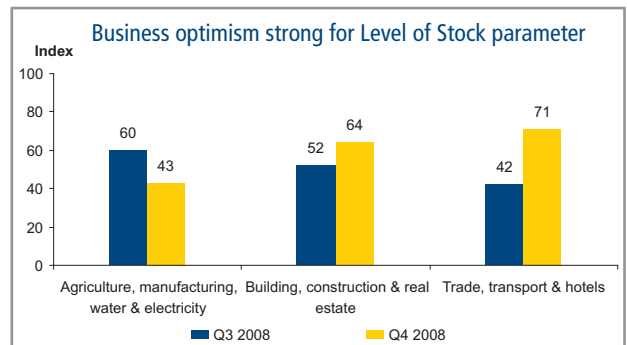
## Subdued optimism for new orders



Despite an increase in the outlook for sales, outlook for new orders seems to be subdued for the next quarter. The Optimism Index for New Orders stands at 63, a fall of 12 points from the third quarter. Though a sizable 69% business units surveyed in the non hydrocarbon sector expect an increase in new orders in the next quarter, it has reduced considerably from last quarter's figure of 81%. The finance and insurance sector is the most bullish about getting new orders with 73% of the companies expecting an increase; followed by the trade, transport and hotels sector with 71% units expecting an increase in new orders. The basic sector is the least optimistic, witnessing a 32 point fall in the Optimism Index.

## Level of Stock outlook surges

The Optimism Index for Level of Stock stands at 61 for Q4 2008, gaining 10 points over the index in the third quarter possibly to back the increased sales expectation for the quarter. 66% of the businesses in the non hydrocarbon sector expect an increase in the level of stocks in Q4 as compared to 60% in the last quarter while



the number of those expecting a decrease has gone down from 9% to 5%. The trade, transport and hotels sector seems to be most bullish with a 29 point jump in the Optimism Index over the previous quarter followed by the construction sector with a 11 point jump. The basic sector's Optimism Index is at 43, down 17 points as compared to the third quarter. 54% of the manufacturing units however are still expecting a rise in their inventories. The finance, insurance & business services sector is excluded from the analysis as the units in this sector are assumed not to hold any physical business inventory.

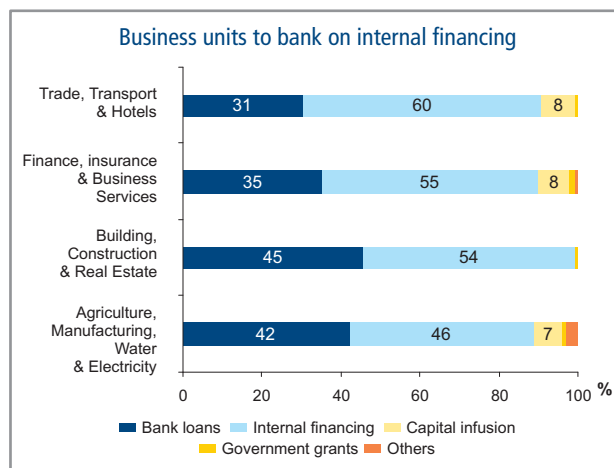
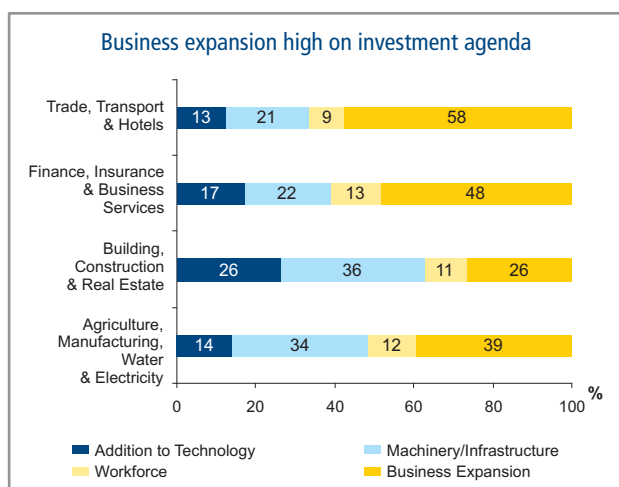
## Business expansion gets priority for investment

Significant dynamism in the non oil sector of the economy following government's economic diversification policies and institutional reforms is evident in the Optimism survey for the fourth quarter. Expectations of continued increase in demand for goods and services have kept the sentiments high particularly in the services sector of the economy.

The strong macro economic growth displayed by the Qatari economy is reflected at the micro level with a high percentage of business units planning investment expenditure on expansion activities, with soaring expectations of increased sales volume in the next quarter. 44% of all companies surveyed in the non hydrocarbon sector have cited spending on business expansion to be their chief investment outlay for the next quarter. Though business expansion is still on the top of the agenda, the number of units has gone down to 44% compared to 49% last quarter. Trade, transport & hotels and the finance sectors seem to be the most bullish about their business expansion plans. The construction sector seems to be constrained by supply bottlenecks with only 26% of the units planning any business expansion in this quarter compared to 53% in the last quarter. Combined with fewer business expansion plans, investment on workforce expansion has also gone down to 11% this quarter compared to 19% last quarter. Across the sectors, expenditure on workforce has gone down in priority; in fact it is the lowest priority for all sectors, despite the fact that 30% of all business units feel that availability of skilled labor will influence business operations next quarter and 62% of all non hydrocarbon companies surveyed plan to hire more workers. Investment on technology and machinery, which is crucial for the continued growth of an economy, is getting its due share of importance with 27% of all respondents citing it as their top investment priority, compared to 23% last quarter. The building and construction sector is most bullish on this front with 62% of the units planning to invest on technology and machinery. On the other hand only 34% of companies in the trade, transport and hotels sector have listed investment in technology and machinery to be their top priority.

Business expansion and investment plans evident in the Optimism survey call for a deeper insight into the various sources of credit to finance business operations. 55% of the companies surveyed depend on their internal source of financing across the sectors. 60% of the trade, transport & hotels sector businesses, 55% in the finance sector, 54% in the building sector and 46% in the manufacturing sector have cited internal financing to be their most important source of finance. Bank loans are the second most impor-

tant source of finance for 38% of the companies in the non hydrocarbon sector. 45% of construction and manufacturing units plan to get bank loans for financing purposes in the upcoming quarter. For a budget surplus economy, government grants almost do not figure in the list of finance sources for business, with only 1% of the respondents citing it as their chief source of finance. 6% of the companies have listed capital infusion as the chief source of



tant source of finance for 38% of the companies in the non hydrocarbon sector. 45% of construction and manufacturing units plan to get bank loans for financing purposes in the upcoming quarter. For a budget surplus economy, government grants almost do not figure in the list of finance sources for business, with only 1% of the respondents citing it as their chief source of finance. 6% of the companies have listed capital infusion as the chief source of

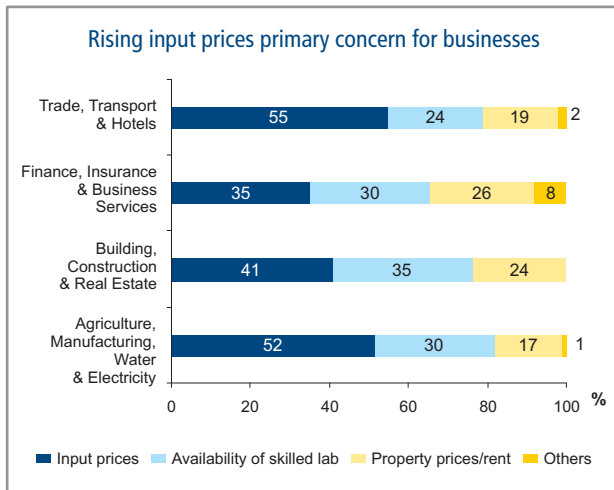


Decide with Confidence

# Dun & Bradstreet's Business Optimism Index - Qatar

finance, referring to the introduction of fresh capital in the form of cash by a proprietor/partner or the tapping of primary market by a public company.

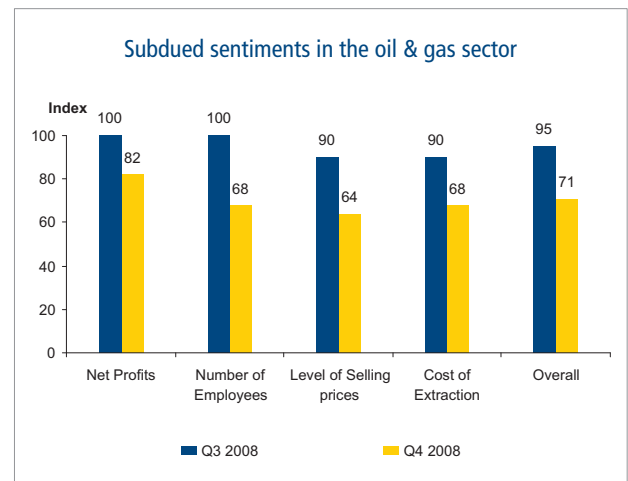
Rising input prices continue to be the biggest business concern for the economy. 46% of all businesses still quote price of raw materials to be the biggest factor influencing their business operations during the next quarter. The import intensive sectors viz; trade, transport & hotels sector and the manufacturing sector are the worst hit. Rising input prices is the biggest concern for 55% of the units in trade, transport and hotels sector and 52% of the manufacturing units. The banking and construction sectors' worry of inadequate availability of skilled labor follows the list of business concerns with 30% of all business units quoting it as their prime concern. In spite of government efforts to address this issue by signing pacts with various South East Asian countries to import semi-skilled and skilled labor it remains a big business issue particularly for the finance and construction sectors. High real estate prices and property rentals also persist to be a concern for 22% of the companies.



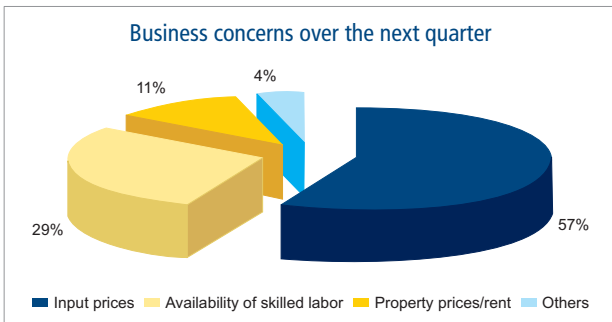
## Positive sentiments in the oil and gas sector; subdued compared to the last quarter

Over the last quarter international crude oil prices have slid from an average of over US\$ 125 per barrel in the first week of June to under US\$ 110 per barrel in the first week of September, subduing the business sentiments in the hydrocarbon sector in Qatar for the fourth quarter of 2008 compared to the last quarter. Overall sentiments in the sector however still remain hugely positive.

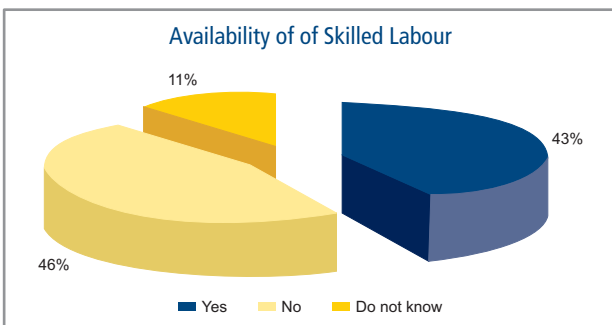
For Q4 2008, the composite index for the hydrocarbon sector stands at 71; a drop of 24 points from the index in Q3 2008. 82% of all business units expect an increase in net profits, with none of the companies forecasting a decline, while the remaining 18% do not expect any change. Stabilizing oil prices globally is mirrored in the expectations of increase in selling price of the sector which has gone down from 90% last quarter to 68% for Q4. A substantial 28% of the respondents expect no change in their selling price over next quarter and 4% expect a decline. Additional hiring outlook for the sector also seems to be subdued with only 75% of the companies expecting to hire more workers as compared to 100% in the last quarter.



Business concerns for the economy seem to be common across the oil & gas and the non hydrocarbon sectors. 57% of the business units have quoted rising prices of raw materials as the biggest factor influencing their operations next quarter. Rising property prices and rents have also been cited by companies as a worry for the next quarter. Availability of skilled labor is another major concern

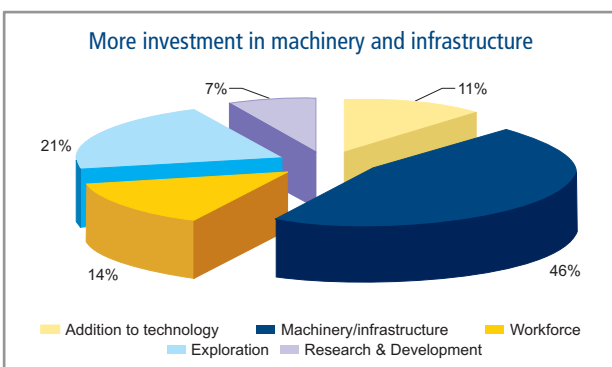


facing hydrocarbon sector businesses in Qatar. 75% of the respondents in this sector plan to increase staff count during the next qu-



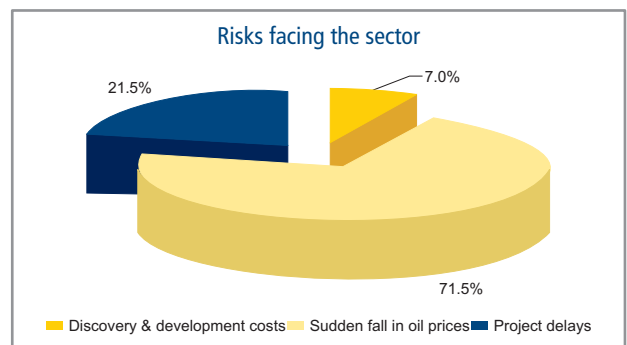
arter, but 29% have cited availability of skilled labor to be a concern over the next quarter. 46% of the respondents feel that the oil & gas industry did not have sufficient supply of skilled labor.

The oil and gas sector is expected to invest the most in machinery and infrastructure in the forth coming quarter. 46% of the respon-



dents surveyed listed investment in machinery and infrastructure as their foremost investment outlay. 21% of respondents are likely to invest in exploration and 14% units plan to invest in additional workforce. 11% of the total hydrocarbon units surveyed expressed addition to technology as area of investment in the coming quarter. At 7%, respondents seeking investment in research and development ranked the lowest on the overall investment charts.

Almost three quarters of the respondents in the hydrocarbon sector feel that one of the major risks that the industry faces in a sudden drop in oil prices which would make it difficult to recoup costly



investments. However, despite a drop in global oil prices, they are still at very high levels and not likely to drop much further due to the strong growth in demand from Asia, Latin America and the Middle East, even though there is a slow down in demand from the OECD countries. Hydrocarbon companies also face risks in the form of project delays due to the unavailability of drilling rigs or experts.



Decide with Confidence

al khaliji  الخليجي



## ■ About Dun & Bradstreet (D&B):

Dun & Bradstreet (NYSE:DNB), the world's leading source of global business information, knowledge and insight, has been enabling companies to Decide with Confidence® for 165 years. D&B's global commercial database contains more than 131 million business records. The database is enhanced by D&B's proprietary DUNSRight® Quality Process, which transforms the enormous amount of data collected daily into decision-ready insight. Through the D&B Worldwide Network - an unrivaled alliance of D&B and leading business information providers around the world - customers gain access to the world's largest and highest quality global commercial business information database.

Customers use D&B Risk Management Solutions to mitigate risk, increase cash flow and drive increased profitability, D&B Sales & Marketing Solutions to analyse markets, locate prospects and

increase revenue from new and existing customers; D&B Export Marketing Solutions to gain significant insight into overseas markets and increase sales; D&B Financial Education Solutions to facilitate professional growth and excellence among their executives and D&B Economic Analysis Group to derive pragmatic and solution-oriented analyses of strategic economic and business developments, thereby aiding informed decision making.

D&B features on FORTUNE Magazine's Most Admired Companies Industry List, ranking first in the Financial Data Services category. D&B ranked first in the areas of employee talent, financial soundness, long-term investment, quality of management and use of corporate assets. D&B has achieved this distinction for the second consecutive year.

## ■ About our Partners:

### al khaliji

al khaliji was incorporated in Doha in January 2007 with an aim to become a regional GCC bank offering conventional and Islamic banking services. Since incorporation al khaliji completed its IPO and listing on the Doha Securities Market and raised QAR 7.2 bln of authorised capital, recruited 337 staff, successfully launched all four of its business lines (Corporate & Institutional Banking, Treasury & Debt Capital Markets, Premium / Business and Retail Banking). It also announced a commercial agreement to purchase the UAE assets of BLC (France) S.A. and opened an office in the Dubai International Financial Centre.

Since our incorporation in January last year, al khaliji has passed many key milestones on its journey towards delivering what we call "next generation banking" to our customers. Our fresh approach to banking informs everything we do, from communicating important financial information to our shareholders, listening to our customers and how we talk to and treat our fellow colleagues.

### Qatar Financial Centre Authority

The Qatar Financial Centre (QFC) is a financial and business centre established by the Government of Qatar and located in Doha. It has been designed to attract international financial services institutions and major multi-national corporations and to encourage participation in the growing market for financial services in Qatar and elsewhere in the region. The QFC will operate to international standards and provide a first class legal and business infrastructure for those operating within the QFC. The QFC was created by Qatar Law No.(7) and has been open for business since 1 May 2005.

#### QFC Authority

The QFC Authority is the commercial, administrative and legislative body responsible for driving the commercial strategy of the QFC and for developing relationships with the global corporate community and other key institutions both within and outside of Qatar.

#### Dun & Bradstreet South Asia Middle East

Ms Tatjana Marinko  
Director - Business Development  
Dubai International Financial Centre,  
PO Box 506511, Dubai, UAE.  
Tel: +971 4 3695700  
Email: marinkot@dnbsame.com

#### al khaliji

Florence Janin  
Senior Executive  
Asia Street 60, West Bay, PO Box 28000,  
Doha, Qatar  
Tel.: +974 494 0412  
Fax: +974 499 6020  
Email: fjanin@alkhaliji.com

#### Qatar Financial Centre Authority

Mr Steve Martin  
Head of Corporate Communication  
& Marketing Manager  
P O Box 23245, Doha Qatar.  
Tel: + 974 495 4466  
Email: s.martin@qfc.com.qa