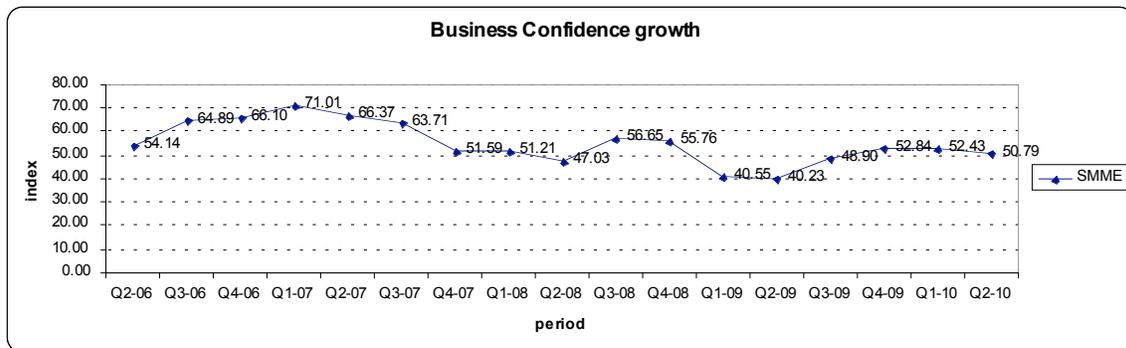


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### SMMEs struggling despite World Cup's feel good factor

Business Confidence among owners and managers of South Africa's SMMEs remains fragile and continues on its downward trend. The current downward trend follows after another dip in business confidence during the first quarter of 2010. This is a major setback for the SMME sector because both the third and fourth quarters of 2009 registered successive increases in business confidence. Business confidence was expected to gradually increase throughout 2010 after a sustained growth in confidence since the second quarter of 2009 says Professor Nicholas Biekpe, President of Africagrowth Institute .

The graph below shows the overall trend of South African SMMEs Business Confidence Indices from 2006 until the second quarter of 2010. The overall Business Confidence Index (which averages all the three business sectors in the economy) shows a decline from 52.43% during the first quarter of 2010 to 50.79% in the second quarter of 2010 representing a decline of 3.13%.



There is, however, some good news- the confidence level for the trade sector increased significantly from 34.94% during the first quarter of 2010 to 41.33% in the second quarter of 2010, representing an increase of 18.29%. This is to be expected as the country witnessed a significant increase in imports in the form of sportswear and other World Cup related goods- explains Professor Biekpe, President of Africagrowth Institute. The situation for the industrial and services sectors is very grim. In the industrial sector, the confidence index decreased from 45.17%, in the first quarter of 2010, to 41.17% in the second quarter, representing a decrease of 8.85%. The index for the services sector declined from 53.055%, in the first quarter of 2010, to 48.74% in the second quarter, representing a decline of 8.13%. The decline in business confidence in the services sector is very worrying as this sector is supposed to be one of the main beneficiaries of the 2010 Fifa World Cup. Also the current strength of the rand is not helping the services sector, especially the hospitality industry, as overseas visitors find it very expensive says Prof Biekpe.

Most businesses surveyed cited a number of inhibiting factors impacting negatively on their businesses. These include strong rand, high operating costs, high government taxes and regulations, limited access to bank credit, insufficient demand and high employee costs. Unlike big business, small businesses tend to exhibit unusually large swings in business confidence which is a reflection of their vulnerability.

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*The South African SMME Index is constructed by Africagrowth Institute. The Founding Sponsors for the Index are the Industrial Development Corporation (IDC) and WK Kellogg Foundation*

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