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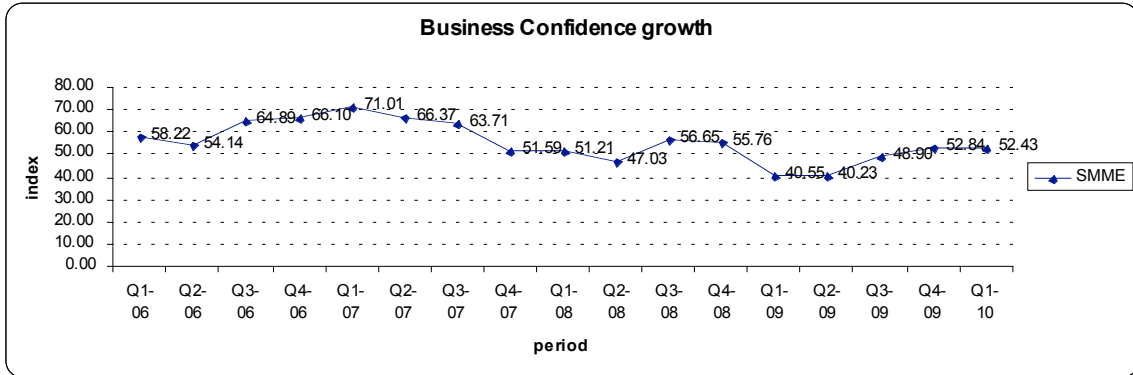
SMMEs Business Confidence back in the red

Business Confidence among owners and managers of South African SMMEs is back in the red for the first quarter of 2010 after a sustained growth in confidence since the second quarter of 2009. This is really a major setback for the SMME sector. “The marginal decline in confidence was, however, expected as the rand continues to strengthen since the last quarter of 2010. It is, therefore, not surprising that the Reserve Bank had to reduce interest rate during the recent Monetary Policy Committee meeting” says Professor Biekpe, President of Africagrowth Institute. SMMEs surveyed by the Africagrowth Institute for this study revealed that business owners and managers are generally becoming increasingly optimistic about their future growth prospects. “The fact that we have experienced a dip in business confidence this quarter, after two conservative increases goes to show that we are no nearer to knowing when the recession will be completely over in this country” says Professor Biekpe

There is, however some good news. In this quarter, the confidence levels in the service sector has significantly increased. The confidence index for the sector increased from 46.98% during the fourth quarter of 2009 to 53.05% in the first quarter of 2010, representing an increase of 12.94%, however it was not good news for the industrial and trade sectors. In the industrial sector, the confidence index for the first quarter of 2010 decreased from 45.66% in the fourth quarter of 2009 to 45.17% in the first quarter of 2010, representing a decrease of 1.08%. The confidence index of the trade sector registered a deep decline from 50.24% in the fourth quarter of 2009 to 34.94% in the first quarter of 2010, representing a decline of 30.46%. The decline in confidence of the trade sector is probably as a result of the strong rand which negatively impacts on South African exports.

“The expectation is that the services sector is very likely to witness significant growth in confidence in the second quarter as a result of the fast approaching Soccer World Cup” says the professor. The overall Business Confidence Index (which averages all the three business sectors in the economy) shows a decline from 52.84% during the fourth quarter of 2009 to 52.43% in the first quarter of 2010 representing a marginal decline of 0.78%. Most of the 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.

The graph below shows the overall trend of South African SMMEs Business Confidence Indices from 2006 until the first quarter of 2010. Unlike big business, small businesses tend to exhibit unusually large swings in business confidence which is a reflection of their vulnerability.



The South African SMME Index is constructed by Africagrowth Institute. The index is funded by the WK Kellogg Foundation¹

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