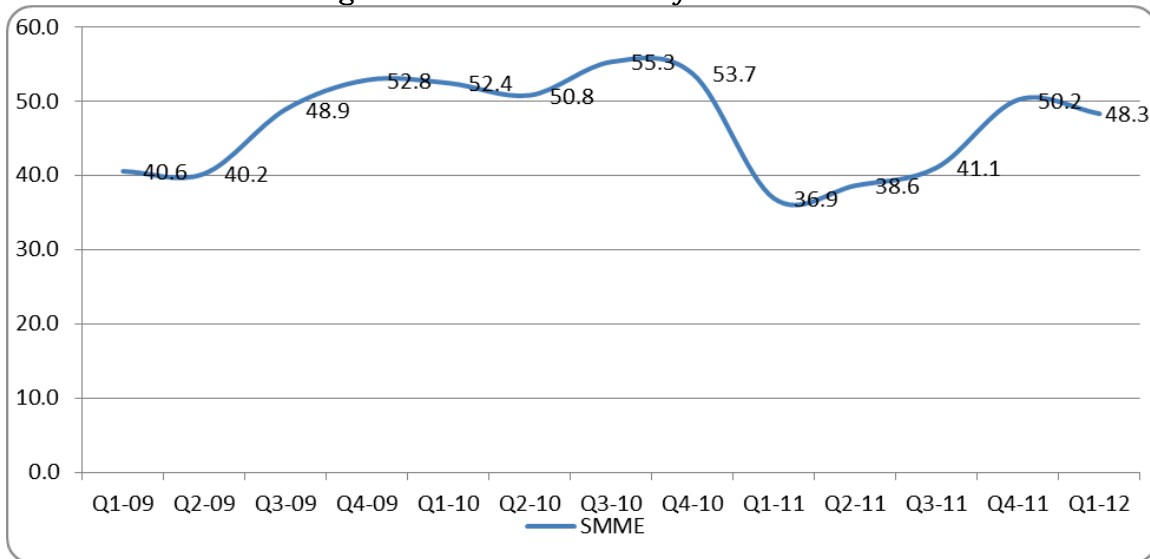


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Business Confidence in SMME sector declines

South Africa's SMME sector's confidence in the business environment has dropped during the first quarter of the year 2012. The overall business confidence index declined from 50.2% during the fourth quarter of 2011 to 48.3% in the first quarter of 2012. However, a cursory look at the trend, in comparison with the observation for the same quarter of last year, suggests that there is an improvement in business confidence. The overall business confidence increased from 36.9% in the first quarter of the year 2011 to 48.3% in the first quarter of 2012. This represents an increase of 30.89%. Figure 1 shows the overall trend of South African SMMEs Business Confidence Indices from the first quarter of 2009 until the first quarter of 2012.

Figure 1: Business Confidence Index



The quarter-to-quarter decline in the overall business confidence can be attributed to the fall in the confidence of the SMMEs in all three sectors of the economy. The worst performing sector was the industrial sector which saw a decline in overall average confidence from 45.6% in the fourth quarter of 2011 to 42.3% during the first quarter of 2012. This represents a decline of 7.3%. The business confidence in the services sector, decreased from 55.4% in the fourth quarter of 2011, to 53.9% in the first quarter of 2012, representing a decrease of 2.8%. The trade sector also witnessed a marginal decline in confidence from 49.5% in the fourth quarter of 2011 to 48.8% during the first quarter of 2012, representing a decrease of 1.5%. Most of the businesses surveyed cited a number of inhibiting factors impacting negatively on their businesses. These include high operating costs, high government taxes and stiff regulations, high employee costs, insufficient demand and the BEE policy.

According to the South African Reserve Bank, the domestic economy has been characterised by rising inflation and slowing growth due, in part, to the recent rise in the prices of fuel,

food and electricity. The effect of the rising inflation was the erosion of the purchasing power and subsequent reduced spending on goods and services by households during the first quarter of the year 2012. The weak global economic growth and increased risks of reduced commodity prices, in addition to anticipated rise in the price of crude oil, is likely to impact on South Africa's growth outlook going forward, at least in the short term. Unlike big business, small businesses tend to be more sensitive to these negative developments due to 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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