

Table of contents

1. INTRODUCTION3

2. BACKGROUND INFORMATION ABOUT SAMPLE3

3. SURVEY RESULTS6

 3.1 BUSINESS LIMITING FACTORS6

 3.2 BUSINESS SITUATION DURING THE LAST 3 MONTHS7

 3.3 BUSINESS OUTLOOK FOR NEXT 6 MONTHS10

4. BUSINESS CONFIDENCE INDEX RESULTS13

 4.1 SECTORIAL PRESENT OUTLOOK.....13

 4.1.1 Industrial Sector Present Outlook.....13

 4.1.2 Trade Sector Present Outlook.....12

 4.1.3 Services Sector Present Outlook.....12

 4.2. SECTORIAL FUTURE OUTLOOK.....14

 4.3 OVERALL PRESENT INDEX.....15

 4.4. OVERALL FUTURE INDEX.....15

 4.5. OVERALL INDEX MOVEMENT.....16

Table of Figure

Figure 1 Provincial Distribution 4

Figure 2: Distribution by Economic Sector..... 4

Figure 3: Sub-Sector Distribution 5

Figure 4: Number of Employees 5

Figure 5: Annual Turnover..... 6

Figure 6: Business Limitations..... 7

Figure 7: Industry Business Situation for last 3 months..... 8

Figure 8: Trade Business Situation for last 3 months..... 9

Figure 9: Services Business Situation for last 3 months..... 10

Figure 10: Industry Sector Business Outlook..... 11

Figure 11: Trade Sector Business Outlook Services 12

Figure 12: Services Sector Business Outlook..... 13

Figure 13: Present Outlook..... 14

Figure 14: Future Outlook 15

Figure 15: Overall Present Outlook Change..... 15

Figure 16: Overall Future Outlook Change 15

Figure 17: SMME Business Confidence Index..... 16

Figure 18: SMME Business Confidence Growth..... 17

1. Introduction

The SMME Business Confidence Index (BCI) report is based on a quarterly survey of the responses of SMME owners or managers in relation to factors that impact on their businesses. The survey is conducted by the Africagrowth Institute. It, specifically, measures the opinions of SMME managers and owners across South Africa about their current performances and future business prospects. This report provides useful information that serves to guide managers and decision makers in planning strategically and designing effective policies to mitigate constraining factors and improve on performance.

The index is constructed on the basis of responses to questions on policy factors ranging from employment levels, financial situation, new orders or contracts, volume of demand to selling price. The respondent firm (represented by the owner or a senior manager) then indicates whether these factors have gone up, down or remained the same in the last three months prior to the survey and also their perception for the next six months after the survey. The index is then a weighted average of responses based on the Diffusion Index method with firm size (number of employees) being the weight. The responses to this questionnaire are scored on a scale of 0 to 100, where 0 represents the lowest Business confidence rating and 100, the highest business confidence rating. The indices are divided into three strata. These are:

- (a) Industrial sector
- (b) Trade sector
- (c) Services sector

The overall BCI has, increased during the second quarter of 2011. Presented below are the results from the second quarter survey of 2011.

2. Background Information about sample

Out of 1857 randomly selected SMME managers and/or owners, 161 responded to questions posed in the survey. The provincial distribution of the SMMEs for this study is shown in Figure 1 below.

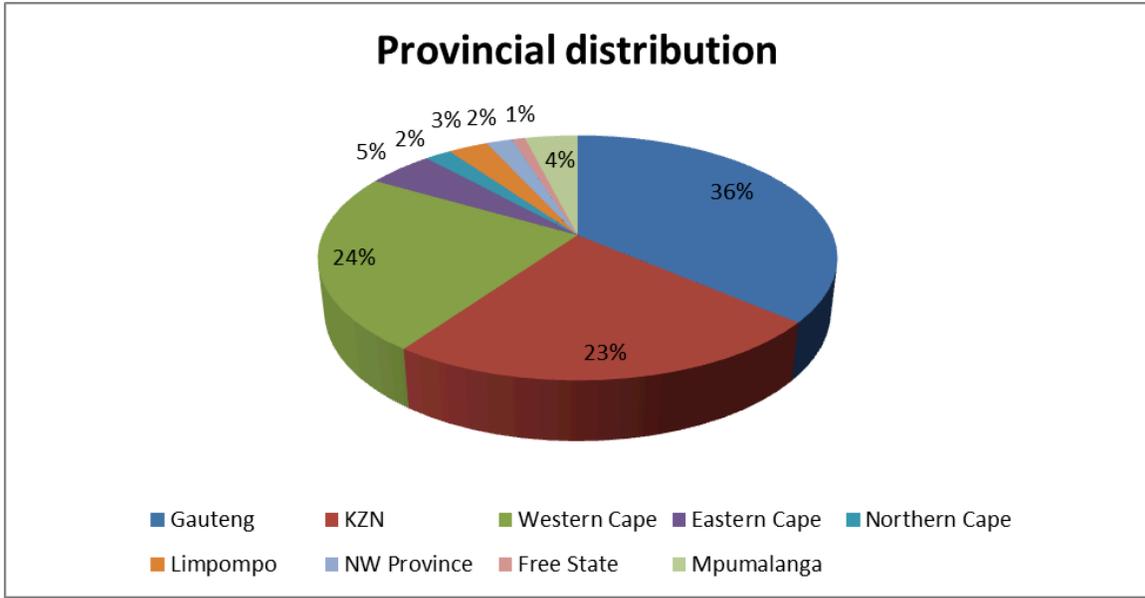


Figure 1 Provincial Distribution

From the Figure 1, Gauteng, Western Cape and the KZN provinces, which have the highest formal SMMEs in the country, had the highest response rate. The three provinces combined represent 83% of the responses received.

In terms of sector distribution, Figure 2 below shows that the industrial and services sectors were the most represented. The trade sector remains the least represented.

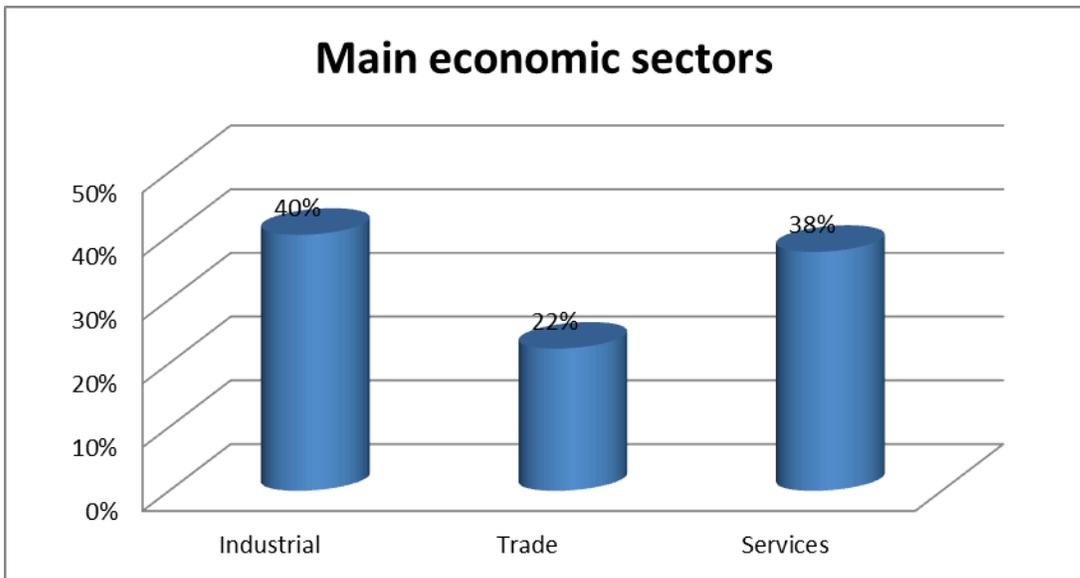


Figure 2: Distribution by Economic Sector

Sub-sector analysis in the broader industrial sector indicates that the manufacturing sub-sector dominates with 72% followed by 21.3% for Construction. In the trade sector, retailing dominates, representing 87% whereas the wholesale subsector follows with (13%). For the Services sector, Financial and Business Services dominate with a representation of 31.7%,

followed by Catering and Accommodation and Transport and Storage with a representation of 28.6% and 23.8% respectively. Figure 3 displays a summary of the sub-sector distribution.

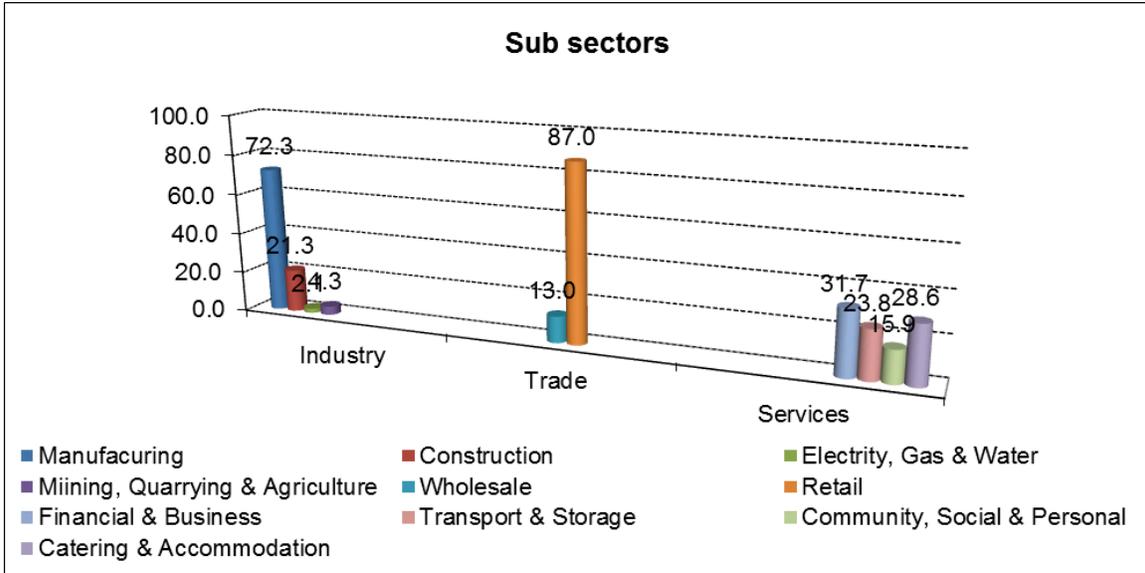


Figure 3: Sub-Sector Distribution

Figure 4 below shows a graphical representation of the number of people employed. It shows that majority of the firms which responded (32%) have staff strength of less than 20.

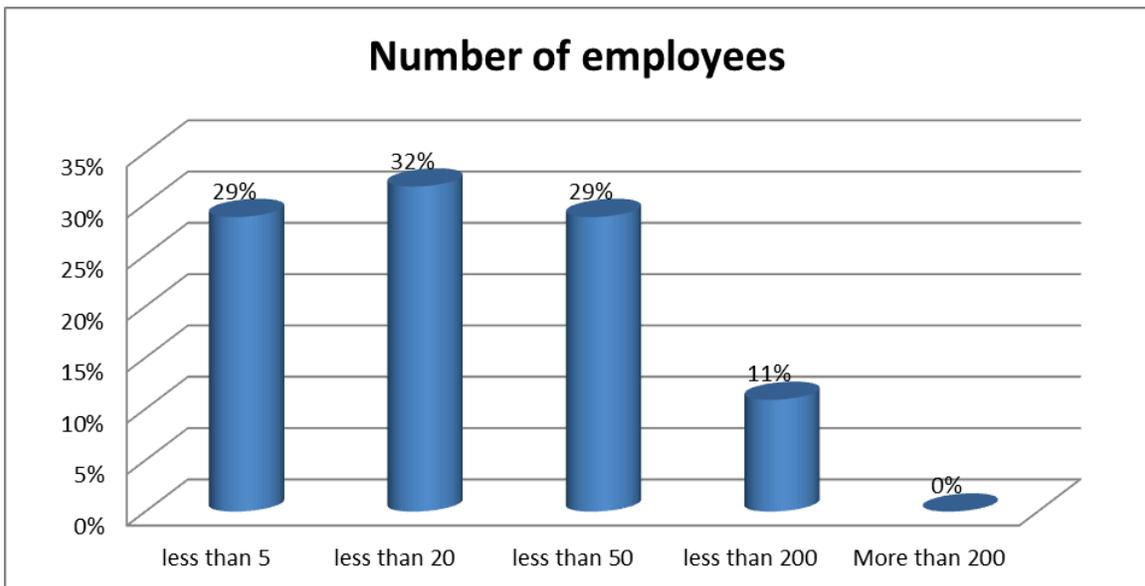


Figure 4: Number of Employees

Figure 5, which depicts the turnover distribution, shows that most of the firms (40%) record an annual turnover of above four (4) million Rand. This represents a decrease as compared to the 43.8% turnover figure recorded for the first quarter of 2011.

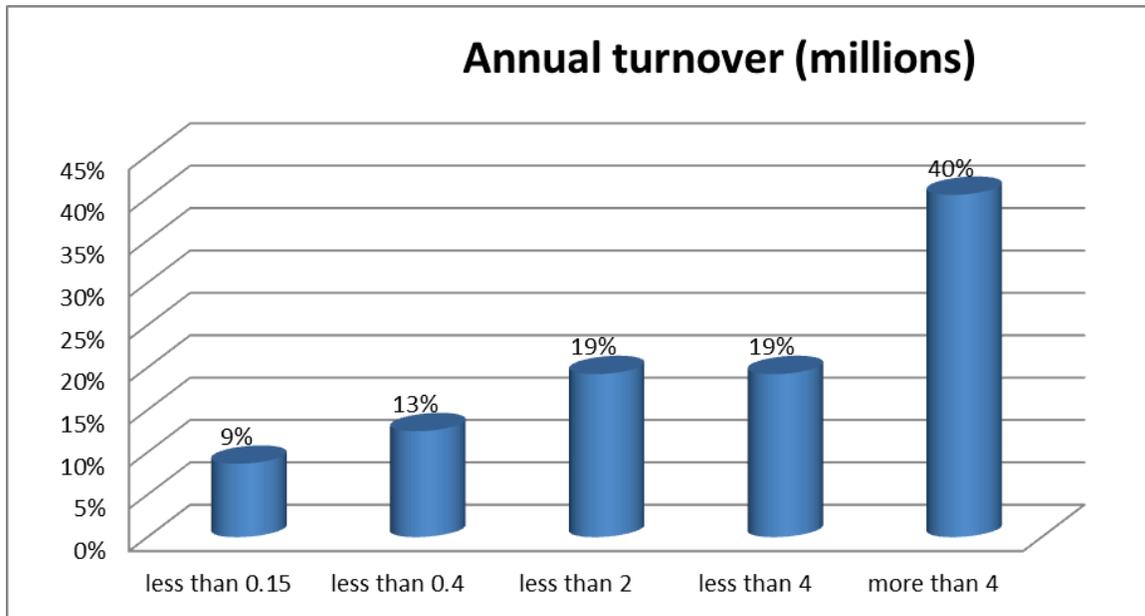


Figure 5: Annual Turnover

3. Survey Results

3.1 Business Limiting Factors

Firms were asked to indicate the five most important factors they consider as having adverse effects on their businesses. Most of the SMME business managers sampled cited the BEE policy, high operating costs, Government taxes & regulations, Employee costs and Insufficient demand respectively as major limiting factors to their operations. Figure 6 shows the response distribution.

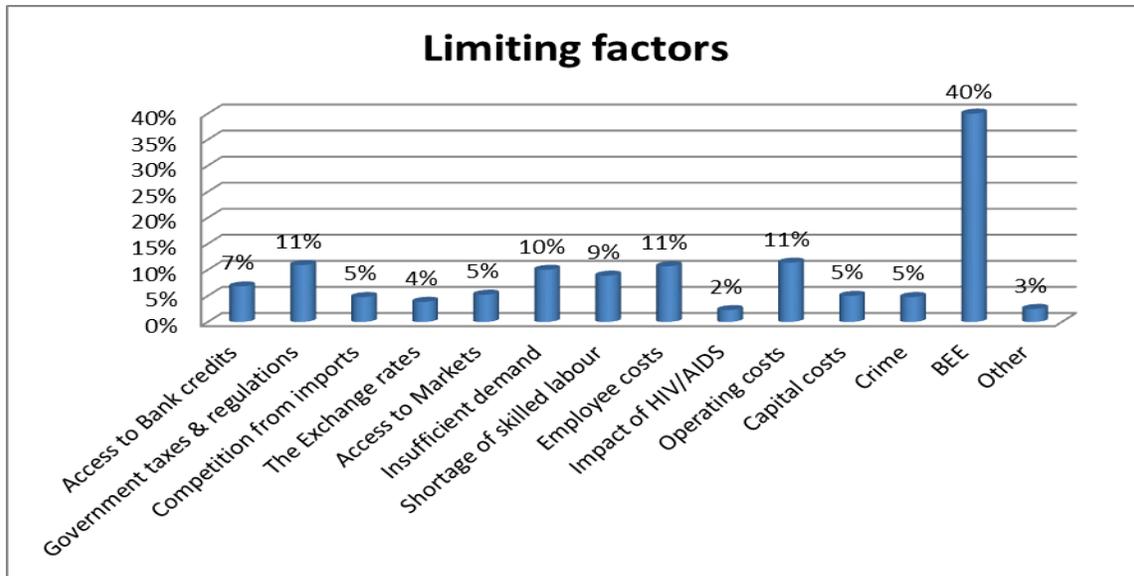


Figure 6: Business Limitations

3.2 Business Situation during the Last 3 Months

This section provides results of the survey questions pertaining to the BCI attributes which form components of the index: Number of people employed, financial situation, new orders or contracts and selling price. Figures 7, 8 and 9 show responses on attributes with respect to business situation in the last 3 months for the Industrial, Trade and Services sectors are shown as figures 7, 8 and 9 respectively.

Industrial Sector:

- ❖ **Number of people employed:** In the industrial sector, 28% of SMME owners indicated that their employment levels have gone down whilst majority of them 54% were of the view that it had remained the same with only 18% indicating they have been able to employ more people.
- ❖ **Financial situation:** The financial situation for the industrial sector during the second quarter of 2011 appears to have deteriorated. Of the total surveyed, 54% of the SMME owners indicated that their financial situation has worsened compared to the 50% recorded last quarter, with 24% indicating no change in their financial situation for the second quarter of 2011, and 22% indicating an improvement in their financial situation over the second quarter of 2011.
- ❖ **New orders or contracts:** 52% of SMME owners were of the opinion that new orders had gone down whereas 22% were of the view that orders have remained the same whilst 26% of them indicated that they had gone up.
- ❖ **Selling price:** In the case of selling price, 26% of SMME owners indicated a downward trend, 56% indicated no change and 18% witnessed an increase.

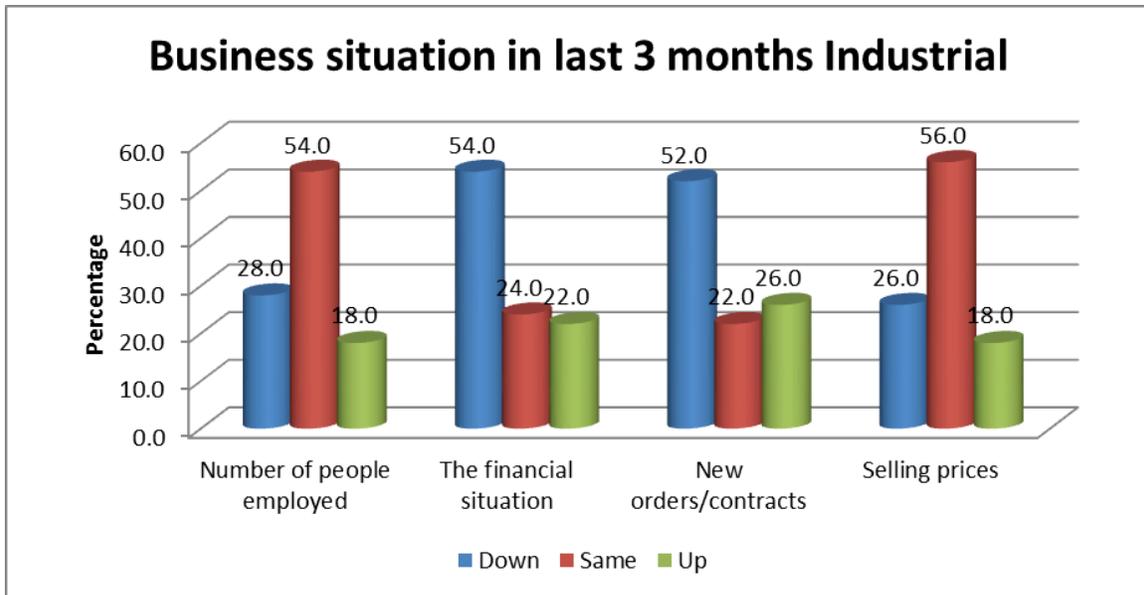


Figure 7: Industry Business Situation for last 3 months

Trade Sector:

- ❖ **Number of people employed:** In the trade sector, 37.5% of SMME owners indicated that employment had gone down whilst 50% were of the view that it had remained the same and 12.5% indicated an increase.
- ❖ **Financial situation:** The financial situation of the SMMEs in the trade sector seems to have improved over the second quarter of the year 2011. 45.8% of SMME owners showed that the financial situation had gone down whilst 41.7% were of the view that it remained unchanged and an estimated 12.5% indicated an improvement.
- ❖ **Volume of demand:** In this quarter, 50% of SMME owners were of the opinion that the volume of demand went down whilst 33.3% were of the view that it remained the same and 16.7% indicated that it had gone up.
- ❖ **Stock levels:** In the case of stock levels, 37.5% of SMME owners indicated a downward trend, 45.8% indicated no change and 16.7% witnessed an increase.

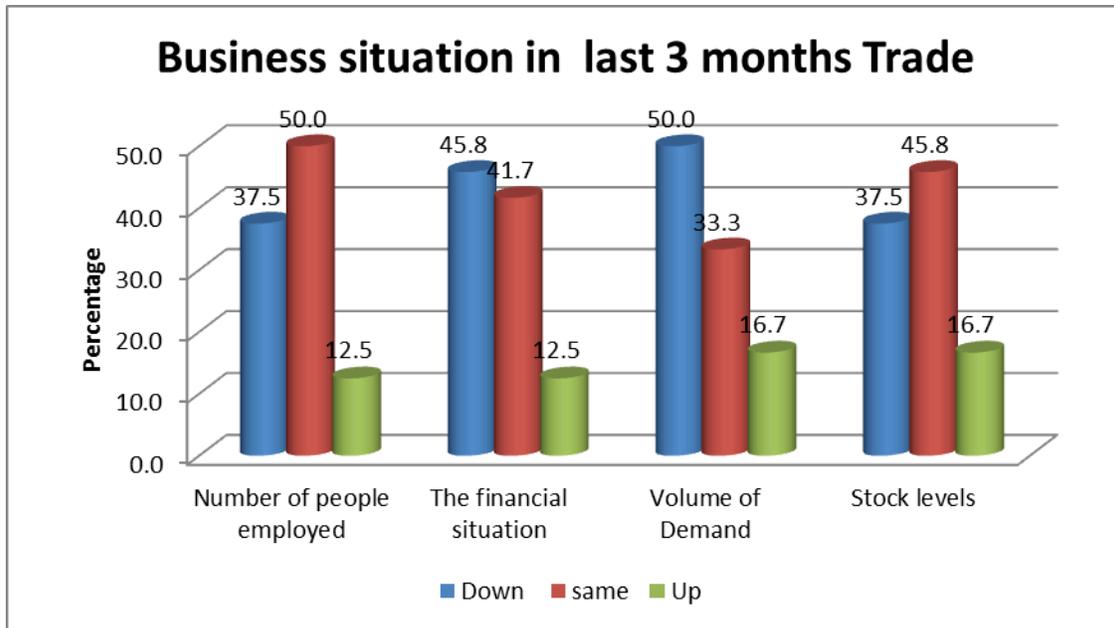


Figure 8: Trade Business Situation for last 3 months

Services Sector:

- ❖ **Number of people employed:** 31.1% of SMME owners indicated that number of people employed had gone down whilst an overwhelming majority 55.6% were of the view that it had remained the same and 13.3% were able to employ more.
- ❖ **Financial situation:** 55.6% of SMME owners indicated that this had gone down whilst 28.9% were of the view that it remained unchanged and 15.6% indicated an improvement.
- ❖ **Demand for services:** 53.3% of SMME owners were of the view that volume of demand had gone down whilst 26.7% were of the view that it remained the same and 20% of them indicated that it had gone up.
- ❖ **Selling prices:** In this sector, 35.6% of SMME owners indicated a downward trend, 53.3% showed no change in selling prices and 11.1% witnessed an upward movement.

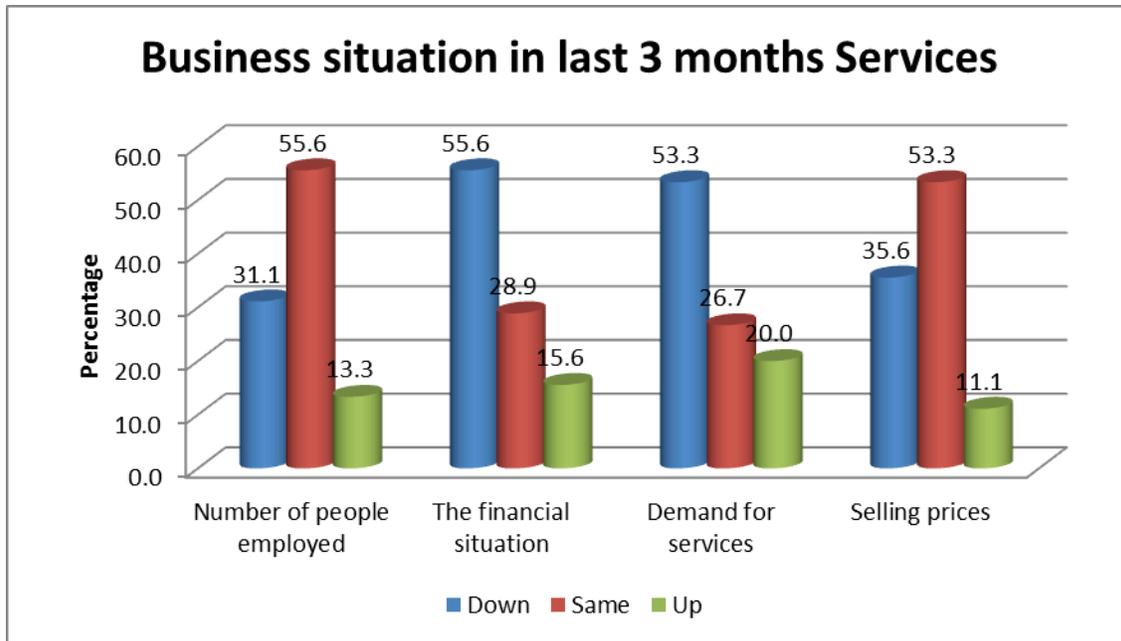


Figure 9: Services Business Situation for last 3 months

3.3 Business outlook for next 6 Months

This section provides results of the survey questions on the future outlook of Business Confidence Index attributes - Number of people employed; Financial situation, New orders or contracts and Selling price. Responses on attributes with respect to business outlook within the next 6 months for the Industrial, Trade and Services sectors are shown as figures 10, 11 and 12 respectively.

Industrial Sector:

- ❖ **Number of people employed:** A lesser proportion of the SMMEs interviewed were optimistic about their ability to employ more people for the coming six months. 18% of SMME owners indicated that employment will go down whilst 54% were of the view that it will remain the same and 28% will be able to employ more;
- ❖ **Financial situation:** 22% of SMME owners indicated that this will go down whilst, 48% were of the view that it will remain unchanged and 30% indicated an improvement;
- ❖ **New orders or contracts:** 26% of SMME owners indicated that new orders will go down whilst 32% were of the view that it will remain the same and 42% of them indicated that it will go up;
- ❖ **Selling price:** 18% indicated a downward trend, 56% did not think there will be a change and 26% were of the view that selling prices will go up.

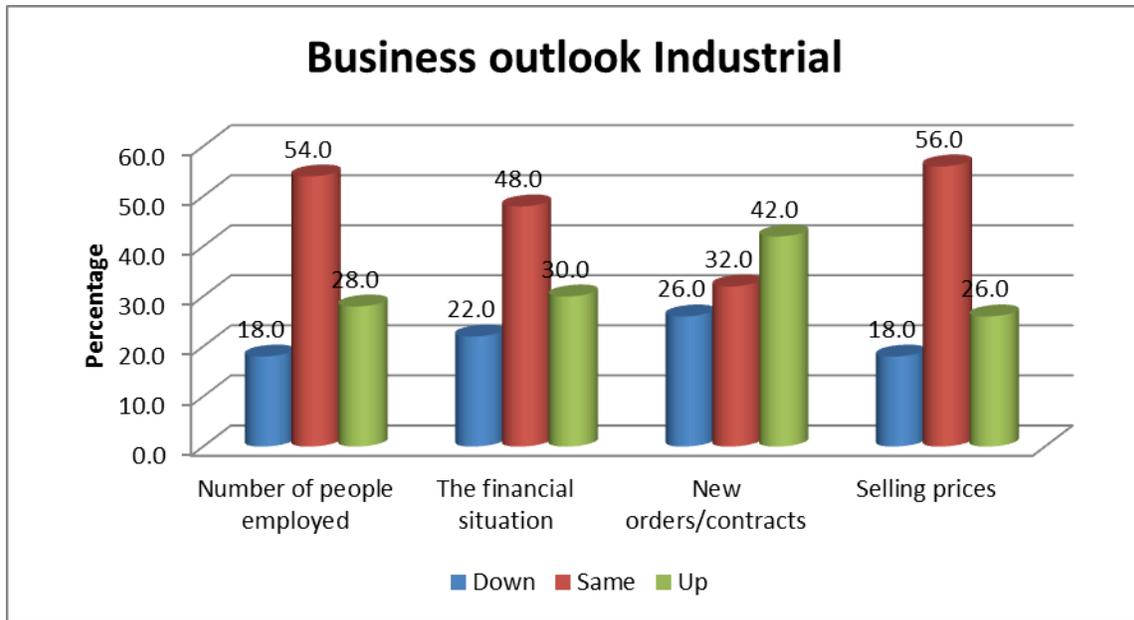


Figure 10: Industry Sector Business Outlook

Trade Sector

- ❖ *Number of people employed:* 12.5% of SMME owners indicated that employment will go down. However 75% were of the view that it will remain the same and 12.5% will be able to employ more;
- ❖ *Financial situation:* 20.8% of SMME owners indicated that this will go down whilst about the same percentage, 37.5% were of the view that it will remain unchanged and 41.7% indicated an improvement.
- ❖ *Volume of demand:* 320.8 of SMME owners were of the opinion that the demand of services will go down whilst 50% were also of the view that it will remain the same and 29.2% of them indicated an upward trend.
- ❖ *Stock levels:* 16.7% of SMME owners indicated a downward trend in future, 62.5% indicated there will be no change and 20.8% indicated an increase.

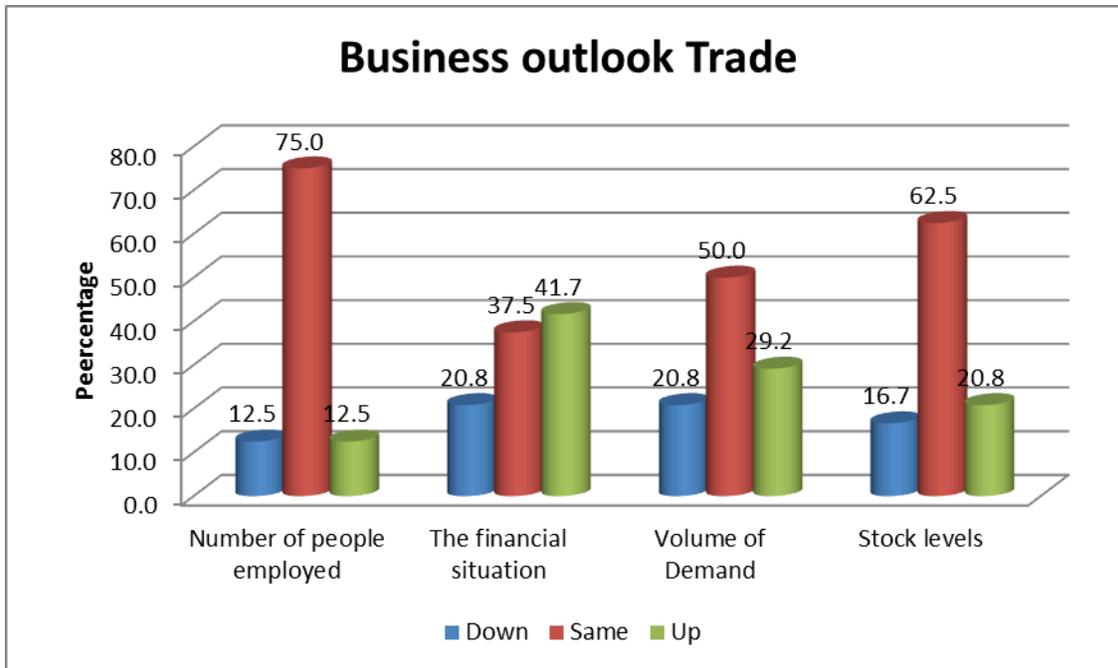


Figure 11: Trade Sector Business Outlook Services

Services Sector

- ❖ *Number of people employed:* 11.4% of SMME owners indicated that employment will go down whilst 63.6% were of the view that it will remain the same and 25% will be able to employ more.
- ❖ *Financial situation:* 20% of SMME owners indicated that this will go down whilst 37.8% were of the view that it will remain unchanged and 42.2% indicated there will be improvement.
- ❖ *Demand for services:* In this sector 17.8% of SMME owners indicated that the volume of demand will go down whilst 42.2% were of the view that it will remain the same and 40% of them predicted a possible increase.
- ❖ *Selling price:* 13.3% of SMME owners indicated there will be a downward trend, 66.7% do not think there will be a change and 20% think selling price will go up.

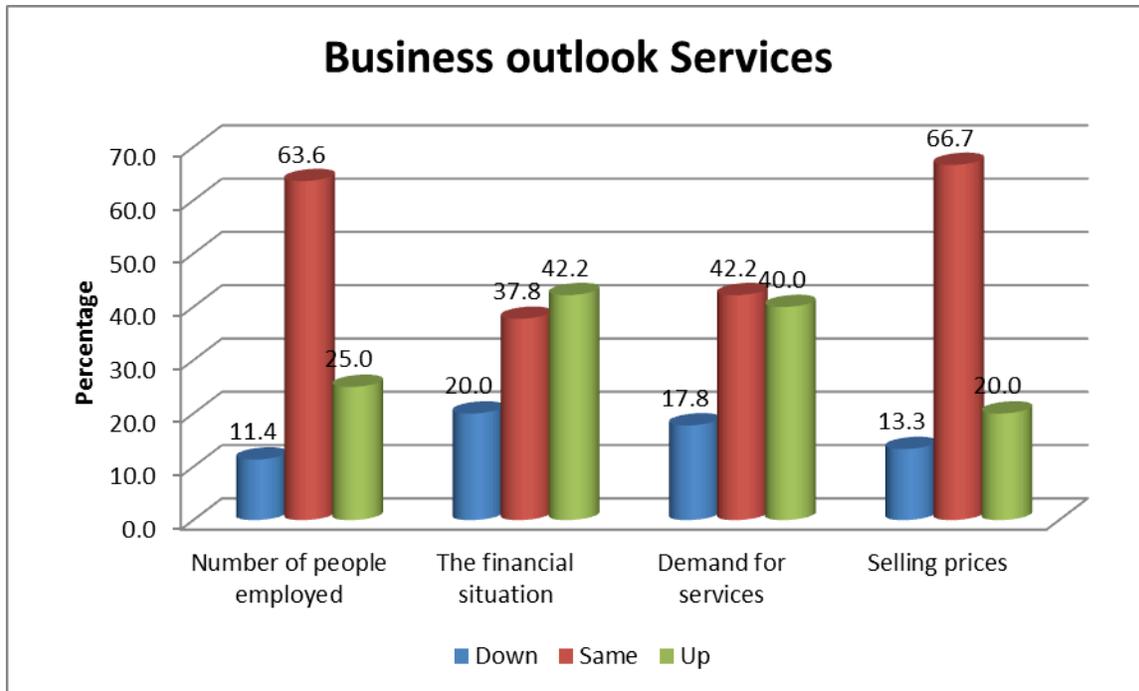


Figure 12: Services Sector Business Outlook

4. Business Confidence Index Results

4.1 Sector Present outlook

4.1.1 Industrial Sector Present Outlook

The Business Confidence within the industrial sector increased from 38.24% during the first quarter of 2011 to 46.41% in the second quarter of 2011. This represents an increase of 21.36%.

4.1.2 Trade Sector Present Outlook

The trade sector also recorded an increase in confidence level. Confidence level increased from 26.18% in the first quarter of 2011 to 40.14% in the second quarter of 2011. This represents an increase of 53.32%.

4.1.3 Services Sector Present Outlook

The service sector also recorded an increase in business confidence from 36.9% during the first quarter of 2011 to 47.8% in the second quarter of 2011. This represents an increase of 29.6%.

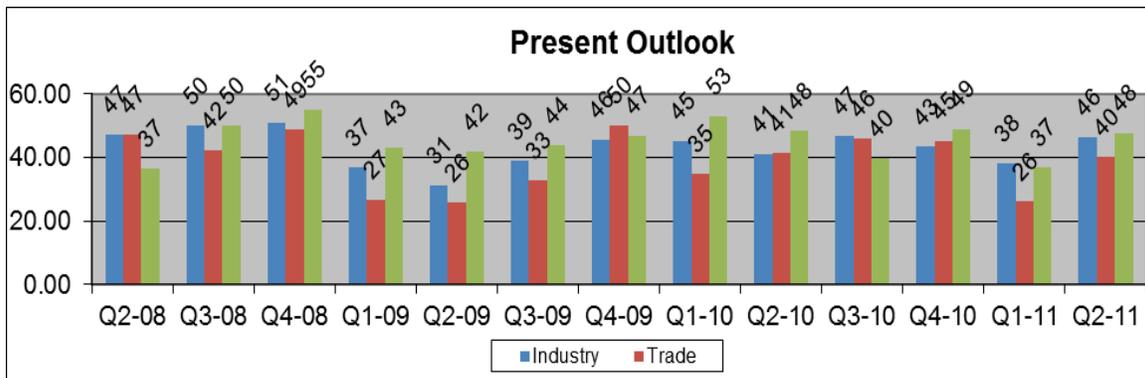


Figure 13: Present Outlook

4.2. Sector Future Outlook

4.2.1. Industrial Sector Future Outlook

The business confidence level for future outlook (Figure 14) under this sector fell from 42.78% in the first quarter of 2011 to 35.15% in the second quarter of 2011. This represents a decrease of 17.82%.

4.2.2. Trade Sector Future Outlook

Unlike the industrial and services sectors, the confidence index for future outlook in the trade sector has increased from 28.29% in the first quarter of 2011 to 34.18% in the second quarter of 2011. This represents an increase of 20.82%.

4.2.3. Services Sector Future Outlook

Similar to the industrial sector, the confidence index for future outlook in the services sector also decreased from 48.99% during the first quarter of 2011 to 31.59% in the second quarter of 2011 (see Figure 14). This represents a decrease of 35.52%.

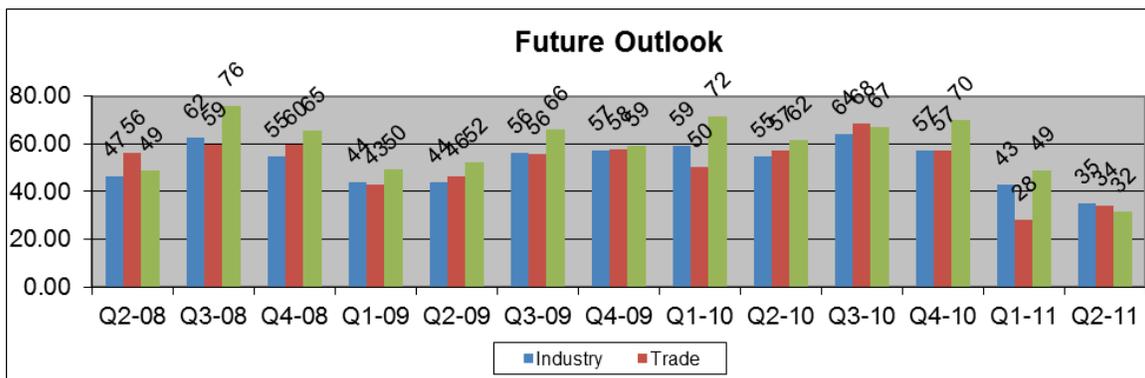


Figure 14: Future Outlook

4.3 Overall Present Index.

The overall business confidence index, for the present outlook increased from 33.76% during the first quarter of 2011 to 47.8% during the second quarter of 2011. This represents an increase of 41.58%.

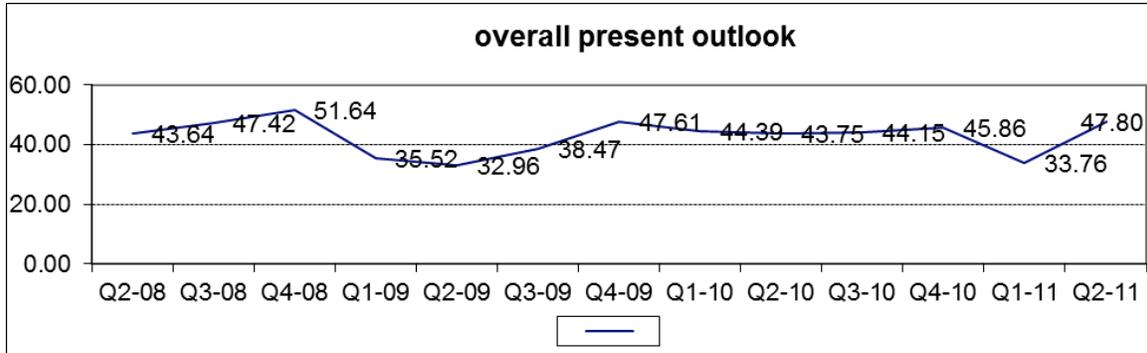


Figure 15: Overall Present Outlook Change

4.4 Overall Future Index.

The future outlook in the second quarter of the 2011 survey results decreased from 40.02% in the first quarter of 2011 to 33.18% (see figure 16). This represents a decrease of 17.08%.

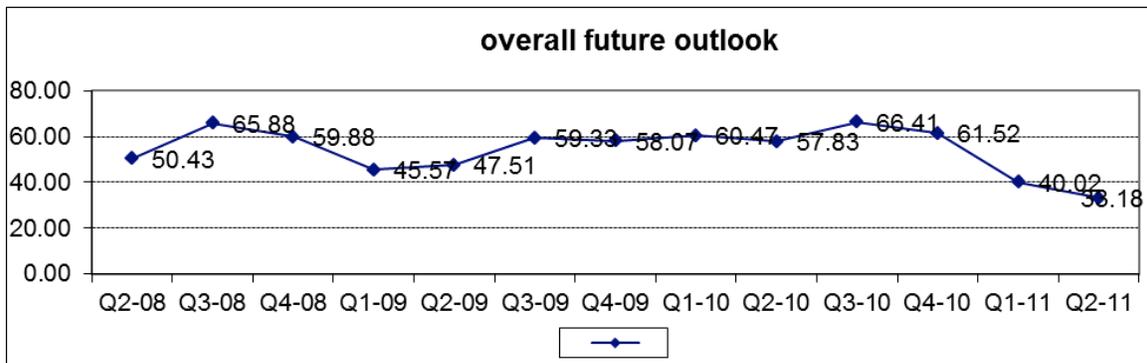


Figure 16: Overall Future Outlook Change

4.5. Business confidence

The overall SMME Business Confidence Index (Figure 17) experienced an increase during the second quarter of 2011. The overall index increased from 36.89% in the first quarter of 2011 to 40.49% in the second quarter of 2011. This represents an increase of 9.76%.

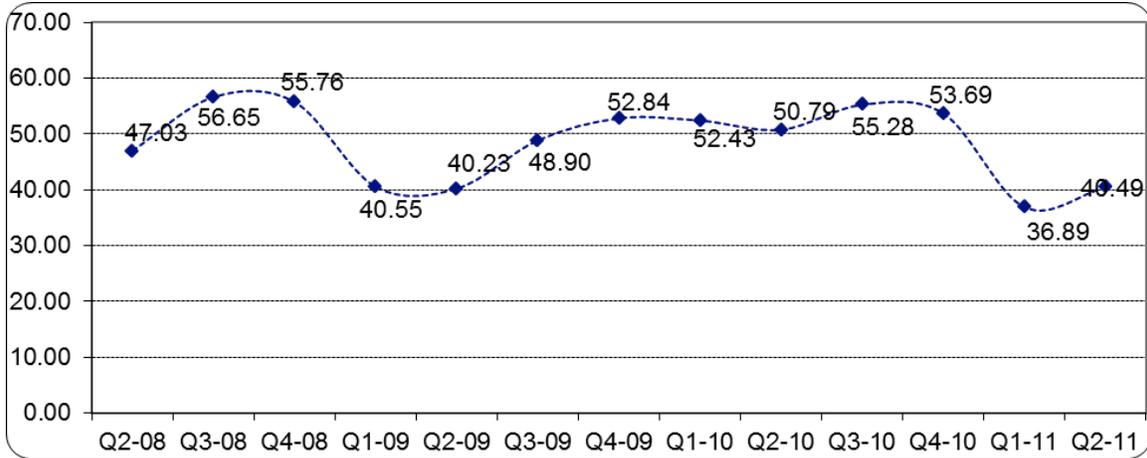


Figure 17: SMME Business Confidence Index

On quarterly (period-to-period) basis, the overall business confidence of the SMMEs increased during the second quarter of 2011. Figure 18 indicates that the general trend has been one of an unstable growth pattern in the business confidence level. On quarterly average quarterly basis however, the confidence level decreased over the period under observation.

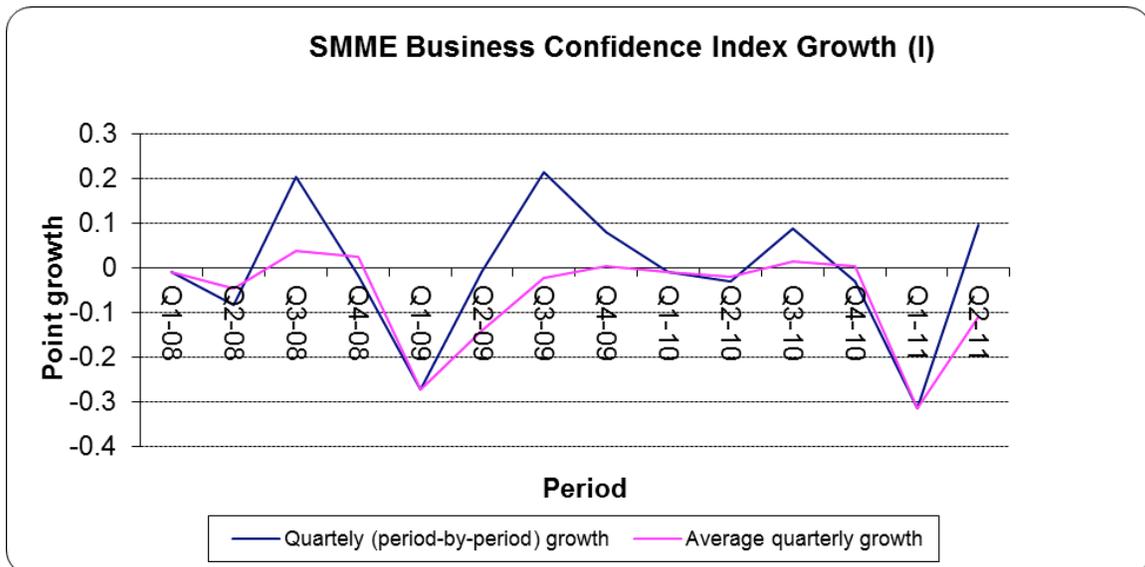


Figure 18: SMME Business Confidence Growth (I)

A similar growth trend is observed on a year-to-year basis (see figure 19).

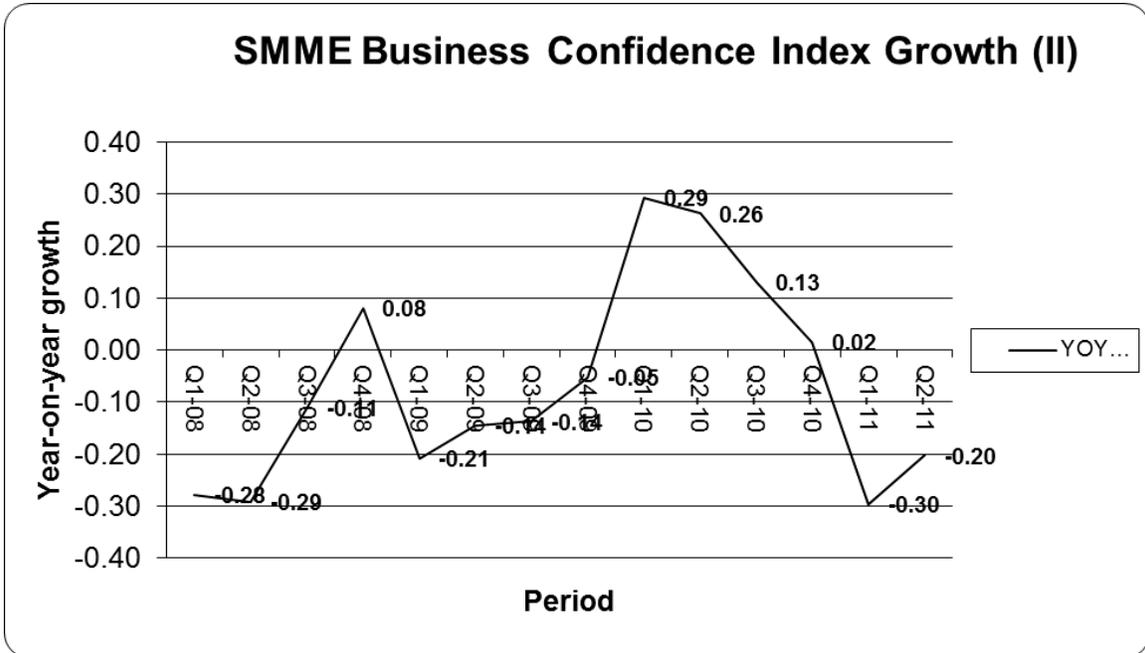


Figure 19: SMME Business Confidence Growth (II)

5. Conclusion

Findings from the survey indicate that the overall business confidence level of the SMMEs has increased during the second quarter of 2011. The performance in the overall business confidence index for the second quarter of 2011 could be attributed to the domestic economic recovery, driven mainly by an increase in household consumption expenditure. The increase in confidence index was recorded for the trade and industrial sector. The confidence index for the services sector however decreased over the same period. The decline in confidence for the services sector could be attributed to the seasonal nature of the hospitality related activities, which tend to decline during the winter period in the country. SMME operators in all three sectors of the economy were pessimistic about the future.

Among the constraining factors mentioned by the interviewed SMME managers and owners are the BEE policy, high employee costs, high operating costs, high government taxes and regulations, insufficient demand and limited access to bank credit.

