

## PRESS RELEASE 2 APRIL 2009

### **Business Confidence among South African SMMEs tumbles!!**

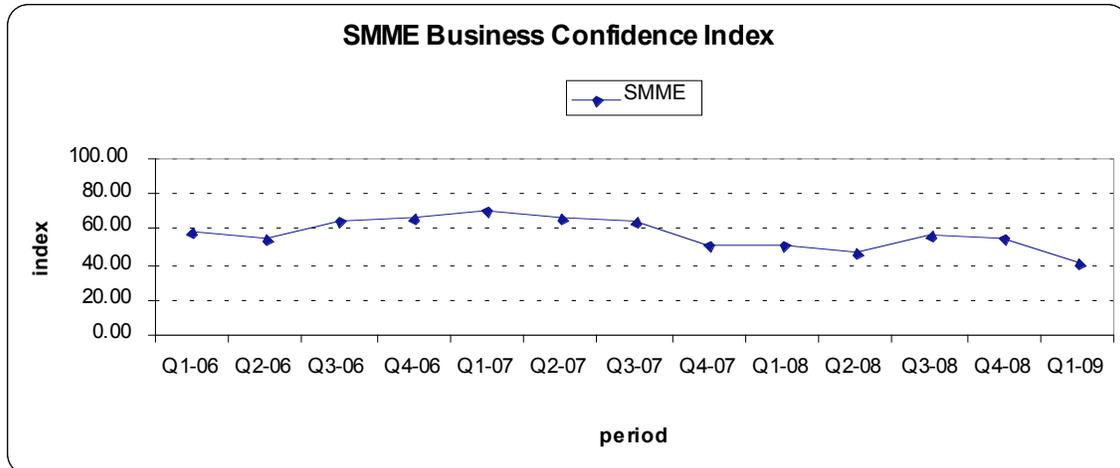
As expected, business confidence in the South African SMME sector has taken a nose-dive during the first quarter of 2009 and prospects for the future are very bleak. No doubt, the Global financial crisis is the key reason why the sector is struggling to survive. The markets for the products and services of the sector are fast drying up unless the government can provide a kind of financial stimulus to urgently support the sector through the crisis. SMMEs are the backbone of the South Africa's economy and the largest employer. At the moment, global demand for the products and services of SMMEs is in low demand.

The confidence levels in all the three main sectors, that is, the industrial, trade and services sectors, have decreased significantly. The confidence index for the trade sector decreased from 48.73% in the last quarter of 2008 to 26.78% in the first quarter of 2009, representing a decrease of 45.04%. In the industrial sector, the confidence index for the first quarter of 2009 decreased to 36.87% from 51.08% in the last quarter of 2008, a decrease of 27.81% whereas that of the services sector decreased to 42.92% from 55.11% in the last quarter of 2008 and this represents a decrease of 22.11%. This is extremely worrying for the wider economy as the sector's labour force continues to shrink.

On the wider economic front, there is every likelihood that the balance of payment can only get worst if business confidence continues in its steep downward trend. The recent interest rate decrease by the Reserve Bank and the expectation that there will be another decrease in the immediate future will help calm nerves in the sector a little bit. It is widely acknowledged by most SMMEs owners and managers that current tax burden in the SMME sector is too high and for the sector to survive the current global meltdown, the government might need to consider reducing the corporate tax burden in order to stimulate investment in the sector and help create jobs. To prevent massive redundancies, in the coming months, the sector will need financial immediate stimulus in the form of tax reduction.

The picture for future outlook is also not very encouraging. The confidence index for future outlook in the Industrial sector decreased from 54.62% in the last quarter of 2008 to 44.09% in the first quarter of 2009, representing a decrease of 19.28%. The confidence index for future outlook in the trade sector has decreased from 59.69% in the last quarter of 2008 to 43.07% in the first quarter of 2009, a decrease of 27.84%. The index for the services sector also declined from 65.32% in the last quarter of 2008 to 49.54% in the first quarter of 2009, representing a decrease of 24.16%.

The overall Business Confidence Index (which averages all the three business sectors in the country) shows a significant decrease. The overall index decreased from 55.76% in the last quarter of 2008 to 40.55% in the first quarter of 2009, a decrease of 27.28% in business confidence. It is expected that the overall index will decrease in the second quarter of 2009 due to recession. The graph below shows the overall trend of South African SMMEs Business Confidence Indices from 2006 until the first quarter of 2009.



*The South African SMME Index is constructed by Africagrowth Institute. The index is sponsored by the Industrial Development Corporation and part funded by the WK Kellogg Foundation<sup>1</sup>*

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