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## **South African SMME Business Confidence Index Report: 3rd Quarter 2010**

Compiled by: Africagrowth Institute

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## **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, for the first time, inclined during the third quarter of 2010. Presented below are the results from the second quarter survey of 2010.

## **2. Background Information about sample**

Out of 1857 randomly selected SMME managers and/or owners, 175 responded to questions posed in the survey. The provincial distribution of the SMMEs for this study is shown in Figure 1 below.

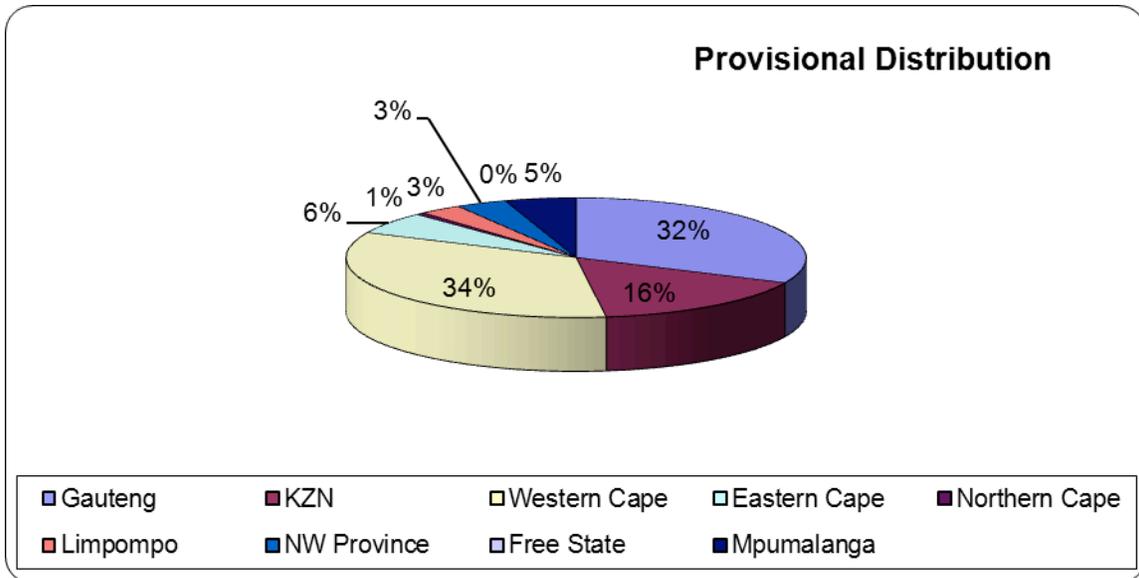


Figure 1 Provincial Distribution

From the Figure1, 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 82% of the responses received.

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

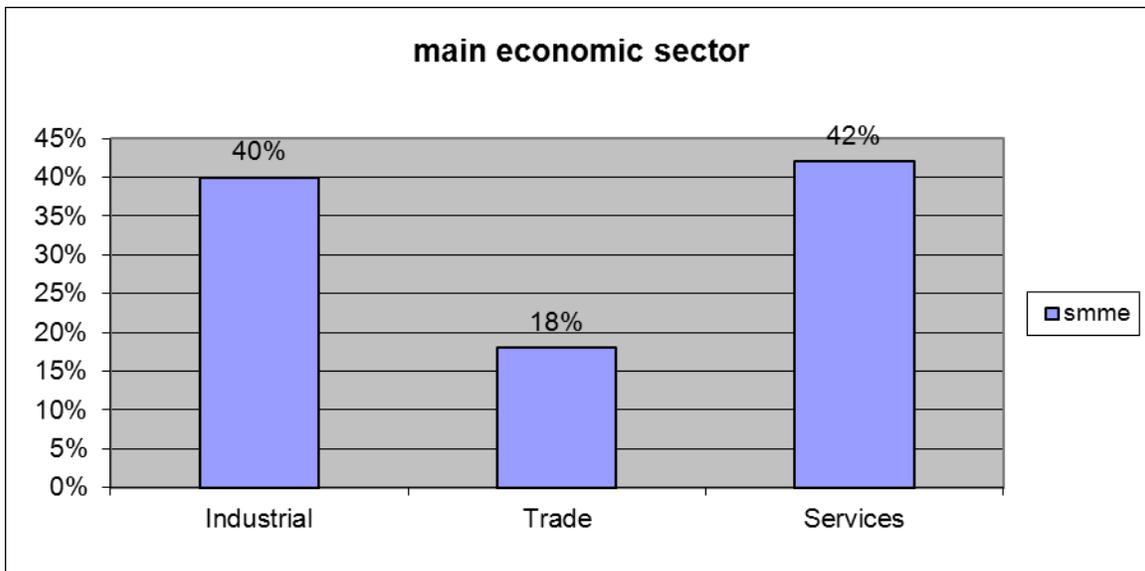


Figure 2: Distribution by Economic Sector

Sub-sector analysis in the broader industrial sector indicates that the manufacturing sub-sector dominates with 74% followed by 23% for Construction. In the trade sector, retailing dominates, representing 75% whereas the wholesale subsector follows with (25%). For the Services sector, Catering & Accommodation dominate with a representation of 59%,

followed by Financial and Business Services and Community, Social & Personal with a representation of 18%. Figure 3 displays a summary of the sub-sector distribution.

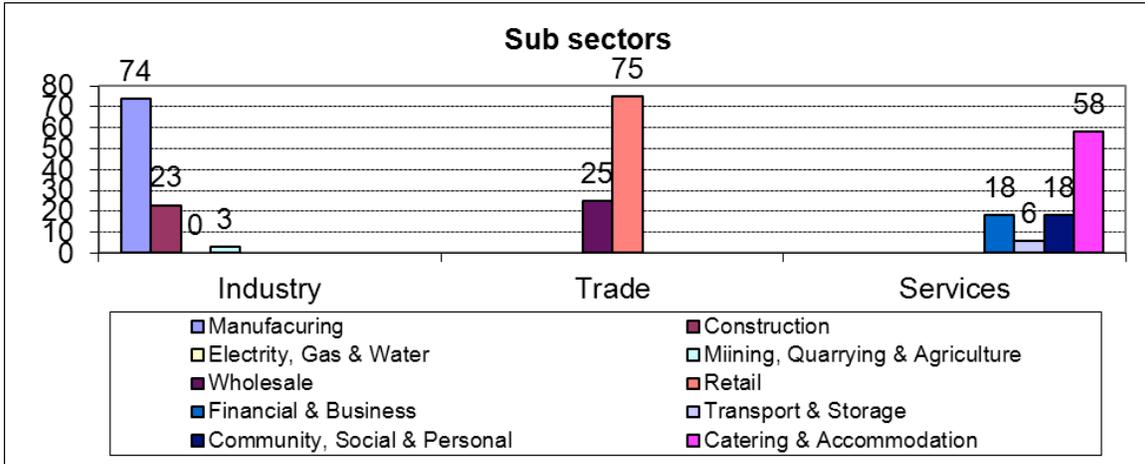


Figure 3: Sub-Sector Distribution

Figure 4 below shows a graphical representation of the number of people employed. It shows that majority of the firms which responded (35%) have staff strength of less than 20.

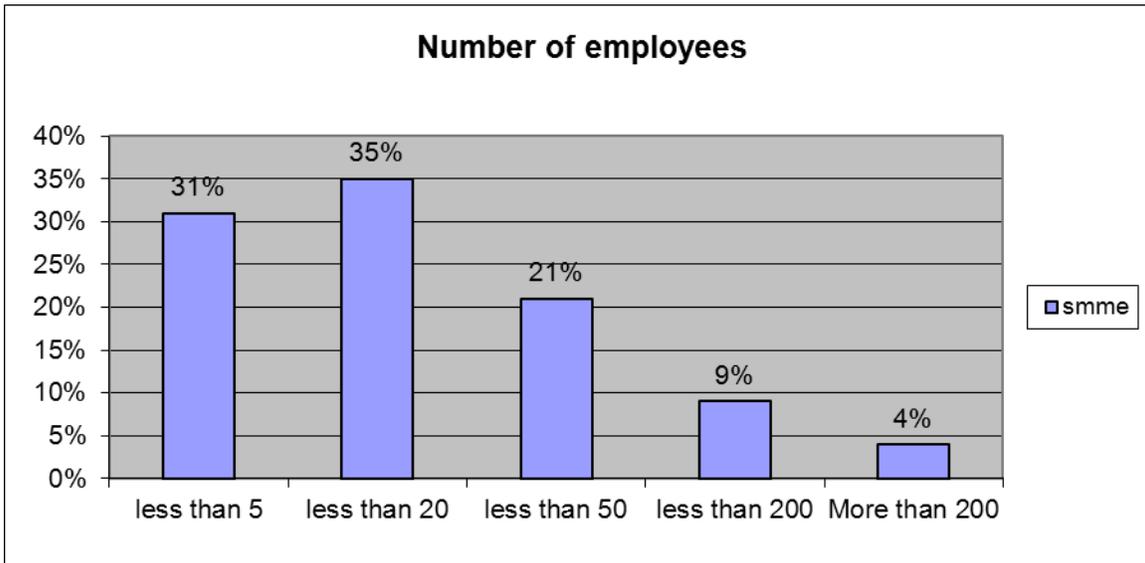


Figure 4: Number of Employees

Figure 5, which depicts the turnover distribution, shows that most of the firms (37%) record an annual turnover of above four (4) million Rand. This represents a decrease as compared to the 38% turnover figure recorded for the second quarter of 2010.

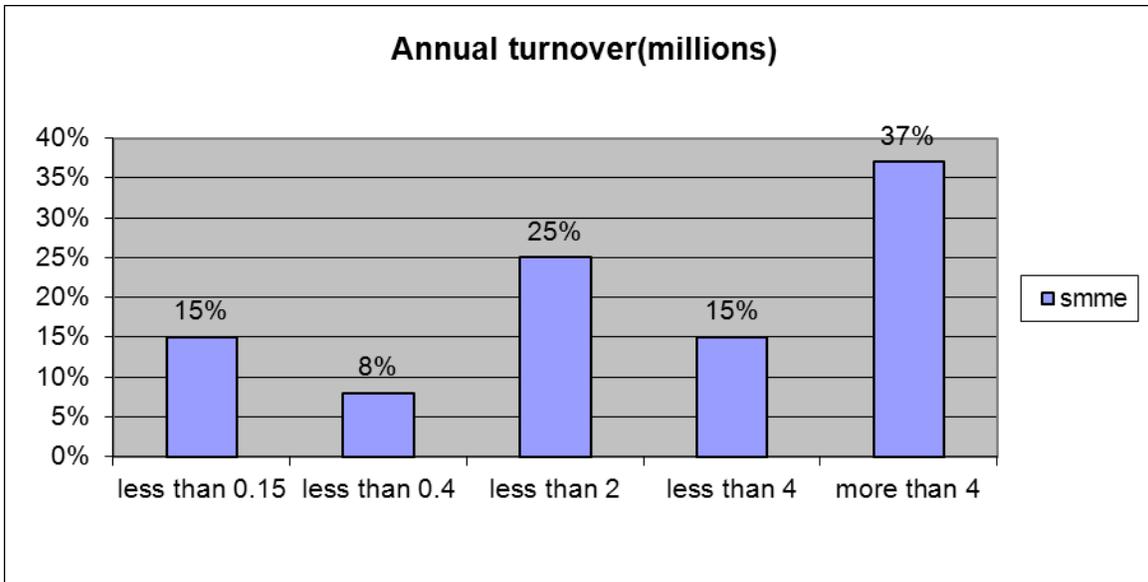


Figure 5: Annual Turnover

### 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 high operating costs, BEE, Government taxes & regulations, Insufficient demand and Employee costs respectively as major limiting factors to their operations. Figure 6 shows the response distribution.

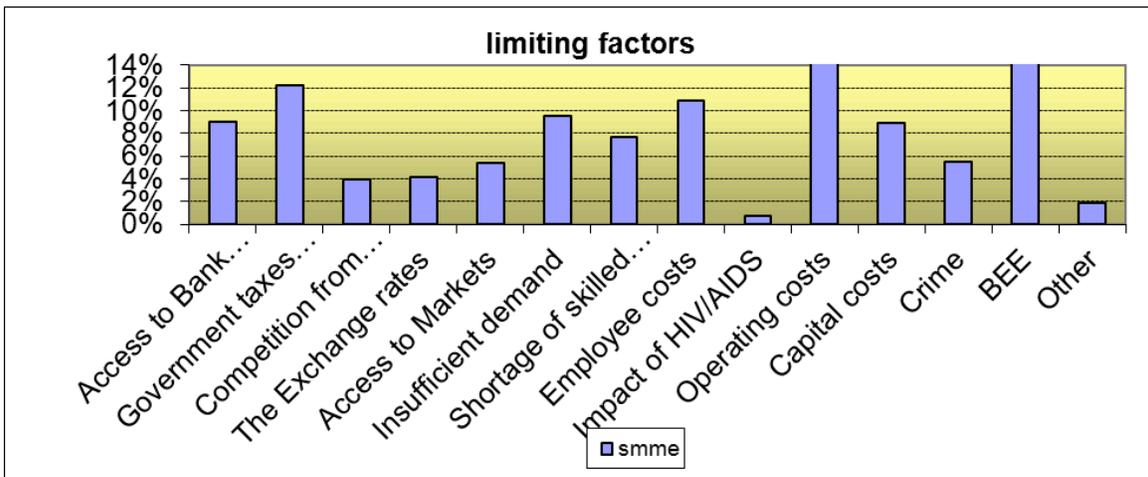


Figure 6: Business Limitations

### 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, 24% of SMME owners indicated that their employment levels have gone down whilst majority of them 64% were of the view that it had remained the same with only 14% indicating they have been able to employ more people.
- ❖ **Financial situation:** The financial situation for the industrial sector during the third quarter of 2010 appears to be worsening. Of the total surveyed, 50% of the SMME owners indicated that their financial situation has worsened, with 34% indicating no change in their financial situation for the third quarter of 2010, and 16% indicating an improvement in their financial situation over the third quarter of 2010.
- ❖ **New orders or contracts:** 47% of SMME owners were of the opinion that new orders had gone down whereas 27% 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, 24% of SMME owners indicated a downward trend, 56% indicated no change and 20% witnessed an increase.

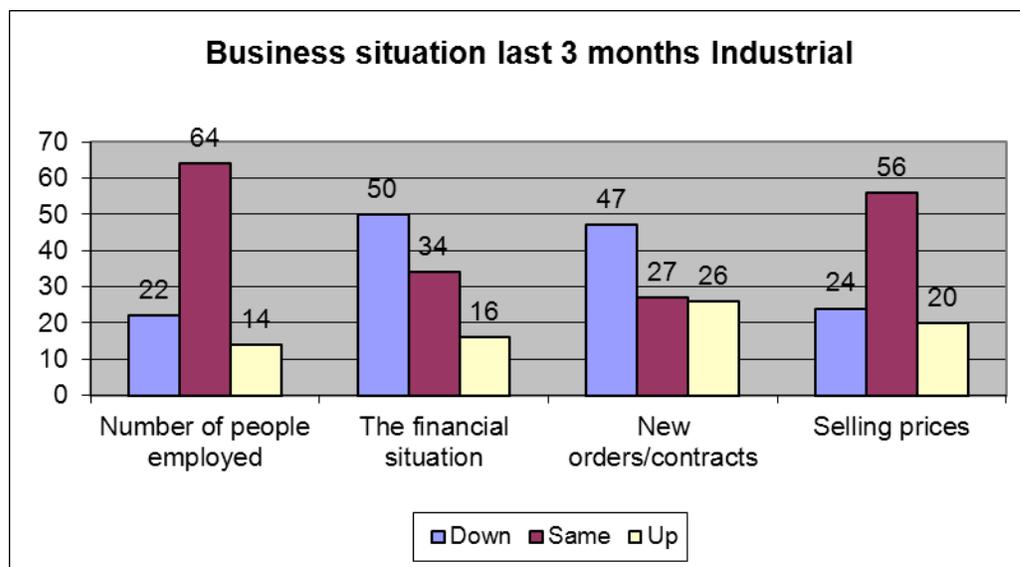


Figure 7: Industry Business Situation for last 3 months

### Trade Sector:

- ❖ **Number of people employed:** In the trade sector, 44% of SMME owners indicated that employment had gone down whilst 41% were of the view that it had remained the same and 15% were able to employ more.
- ❖ **Financial situation:** The financial situation of the SMMEs in the trade sector seems to have worsened over the first three quarters of 2010. 47% of SMME owners showed that the financial situation had gone down whilst 22% were of the view that it remained unchanged and only 31% indicated an improvement.
- ❖ **Volume of demand:** In this quarter, 47% of SMME owners were of the opinion that the volume of demand went down whilst 22% were of the view that it remained the same and 31% indicated that it had gone up.
- ❖ **Stock levels:** In the case of stock levels, 36% of SMME owners indicated a downward trend, 45% indicated no change and 19% witnessed an increase.

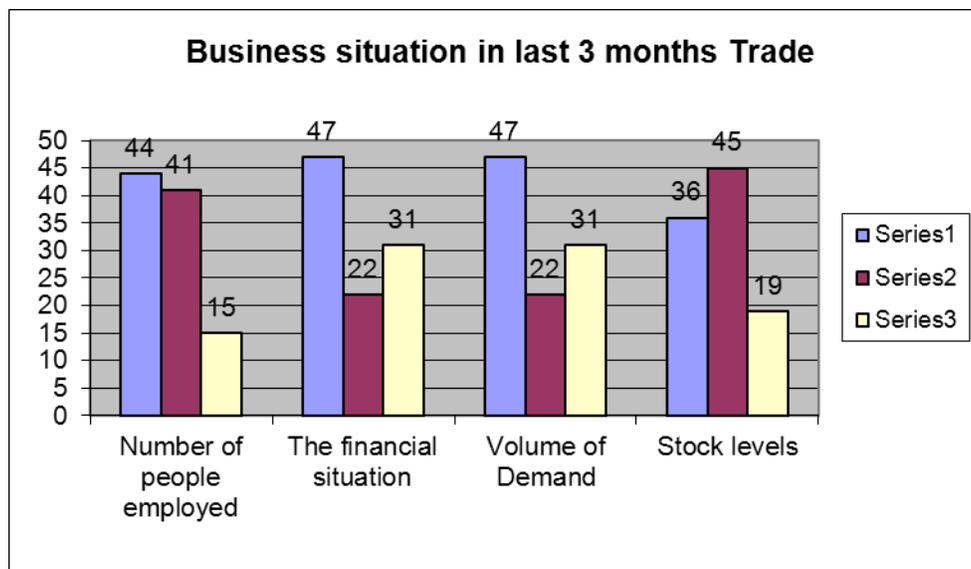


Figure 8: Trade Business Situation for last 3 months

### Services Sector:

- ❖ **Number of people employed:** 20% of SMME owners indicated that number of people employed had gone down whilst an overwhelming majority 67% were of the view that it had remained the same and 13% were able to employ more.
- ❖ **Financial situation:** 51% of SMME owners indicated that this had gone down whilst 32% were of the view that it remained unchanged and 17% indicated an improvement.
- ❖ **Demand for services:** 54% of SMME owners were of the view that volume of demand had gone down whilst 30% were of the view that it remained the same and 16% of them indicated that it had gone up.
- ❖ **Selling prices:** In this sector, 17% of SMME owners indicated a downward trend, 73% showed no change in stock levels and 10% witnessed an upward movement.

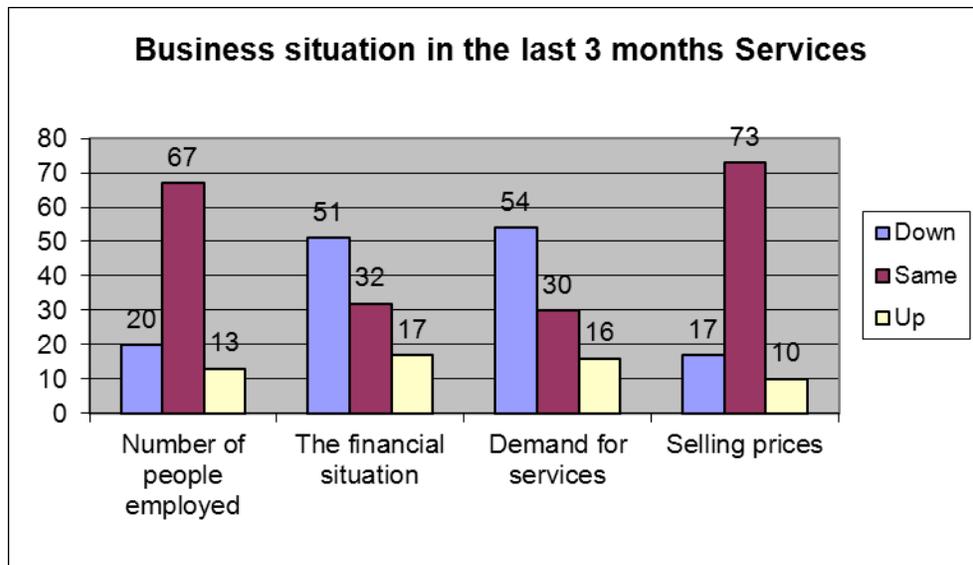


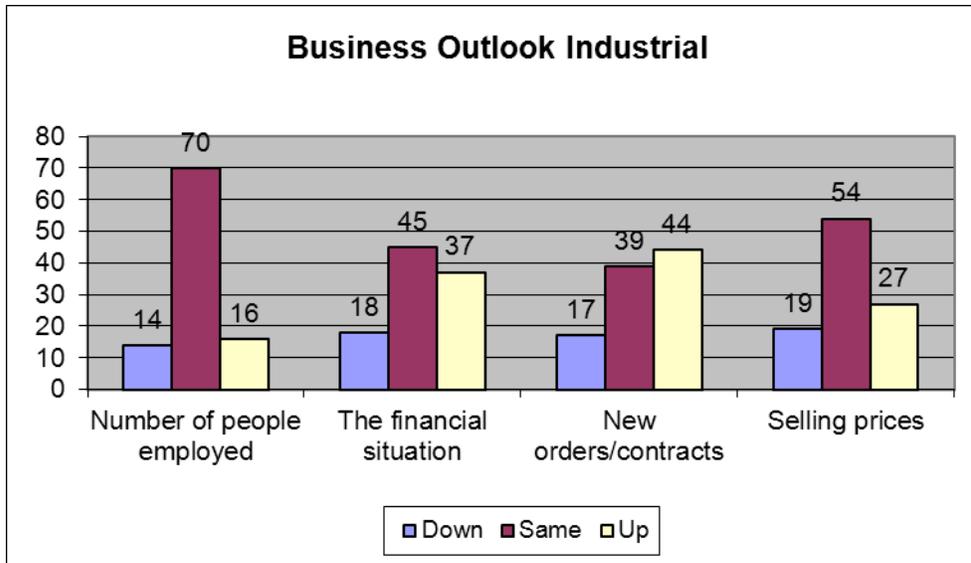
Figure 9: Services Business Situation for last 3 months

### 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:

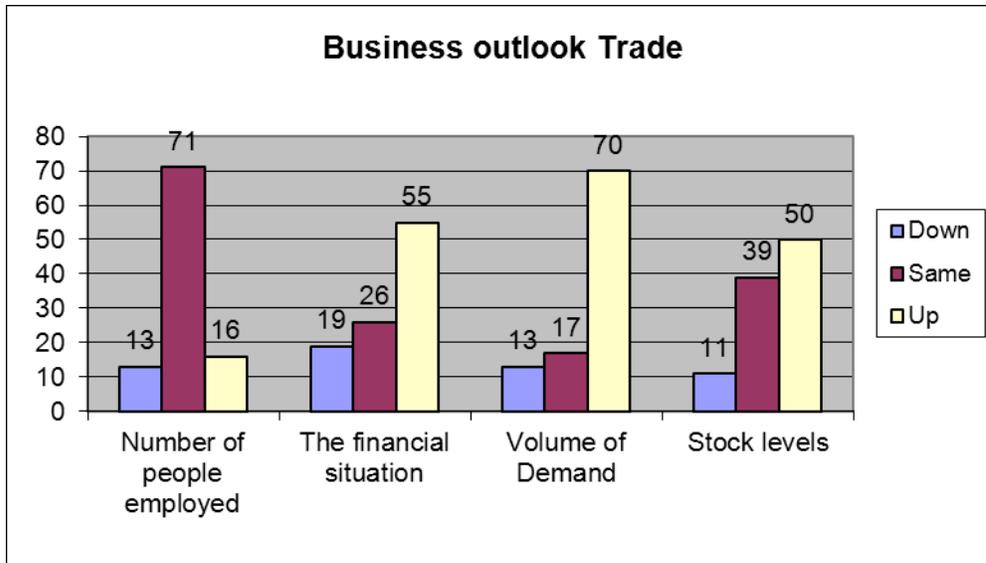
- ❖ **Number of people employed:** A greater proportion of the SMMEs interviewed were optimistic about their ability to employ more people for the coming six months. 14% of SMME owners indicated that employment will go down whilst 70% were of the view that it will remain the same and 16% will be able to employ more;
- ❖ **Financial situation:** 18% of SMME owners indicated that this will go down whilst, 45% were of the view that it will remain unchanged and 37% indicated an improvement;
- ❖ **New orders or contracts:** 17% of SMME owners indicated that new orders will go down whilst 39% were of the view that it will remain the same and 44% of them indicated that it will go up;
- ❖ **Selling price:** 19% indicated a downward trend, 54% did not think there will be a change and 27% were of the view that selling prices will go up.



*Figure 10: Industry Sector Business Outlook*

### Trade Sector

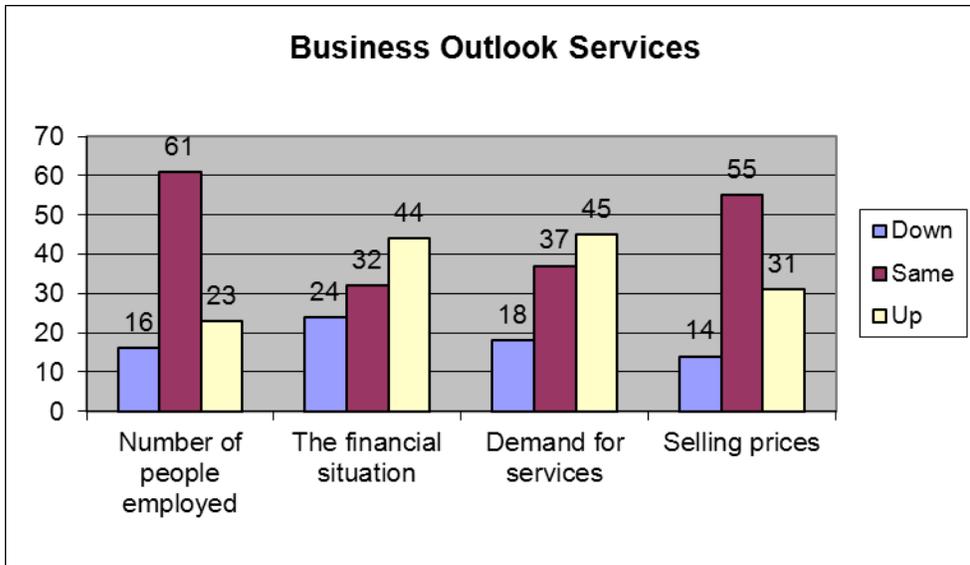
- ❖ *Number of people employed:* 13% of SMME owners indicated that employment will go down. However 71% were of the view that it will remain the same and 16% will be able to employ more;
- ❖ *Financial situation:* 19% of SMME owners indicated that this will go down whilst about the same percentage, 26% were of the view that it will remain unchanged and 55% indicated an improvement.
- ❖ *Volume of demand:* 13% of SMME owners were of the opinion that the demand of services will go down whilst 17% were also of the view that it will remain the same and 70% of them indicated an upward trend.
- ❖ *Selling price:* 11% of SMME owners indicated a downward trend in future, 39% indicated there will be no change and 50% indicated an increase.



*Figure 11: Trade Sector Business Outlook Services*

### Services Sector

- ❖ **Number of people employed:** 16% of SMME owners indicated that employment will go down whilst 61% were of the view that it will remain the same and 23% will be able to employ more.
- ❖ **Financial situation:** 24% of SMME owners indicated that this will go down whilst 32% were of the view that it will remain unchanged and 44% indicated there will be improvement.
- ❖ **Demand for services:** In this sector 18% of SMME owners indicated that the volume of demand will go down whilst 37% were of the view that it will remain the same and 45% of them predicted a possible increase.
- ❖ **Selling price:** 14% of SMME owners indicated there will be a downward trend, 55% do not think there will be a change and 31% 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 41.17% during the second quarter of 2010 to 46.79% in the third quarter of 2010. This represents an increase of 13.66%.

#### 4.1.2 Trade Sector Present Outlook

The trade sector also recorded growth in confidence level. Confidence level increased from 41.33% in the second quarter of 2010 to 45.95% in the third quarter of 2010. This represents an increase of 11.18%.

#### 4.1.3 Services Sector Present Outlook

The service sector is the only sector that recorded a decrease in business confidence from 48.33% during the second quarter of 2010 to 39.72% in the third quarter of 2010. This represents a decline of 17.82%.

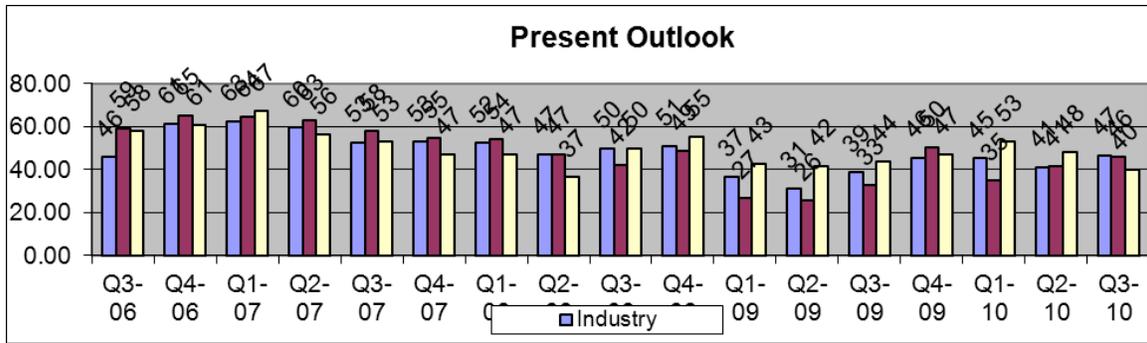


Figure 13: Present Outlook

## 4.2. Sector Future Outlook

### 4.2.1. Industrial Sector Future Outlook

The business confidence level for future outlook (Figure 14) under this sector moved from 54.57% in the second quarter of 2010 to 64.09% in the third quarter of 2010. This represents an increase of 17.43%.

### 4.2.2. Trade Sector Future Outlook

The confidence index for future outlook in this sector has increased from 57.29% in the second quarter of 2010 to 68.30% in the third quarter of 2010. This represents an increase of 19.22%.

### 4.2.3. Services Sector Future Outlook

The confidence index for future outlook increased from 61.64% during the second quarter of 2010 to 66.84% in the third quarter of 2010 (see Figure 14). This represents an increase of 8.44%.

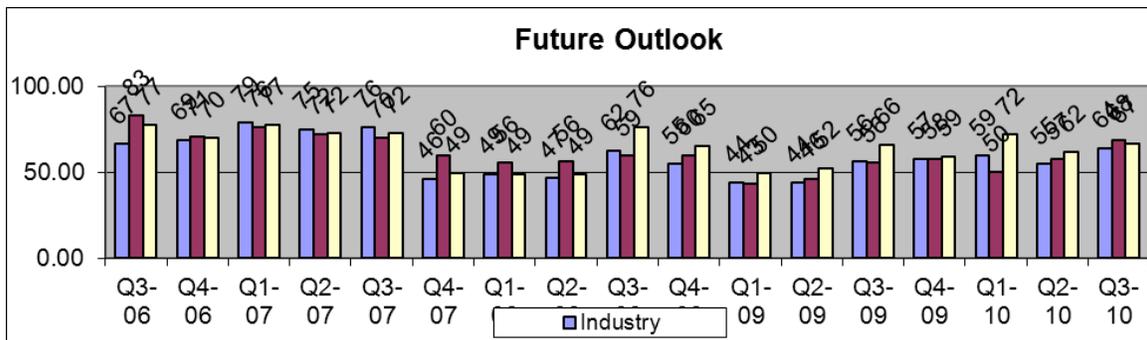


Figure 14: Future Outlook

### 4.3 Overall Present Index.

The overall business confidence index, for the present outlook in the second quarter of 2010 increased from 43.75% during the second quarter of 2010 to 44.15%. This represents an increase of 0.92%.

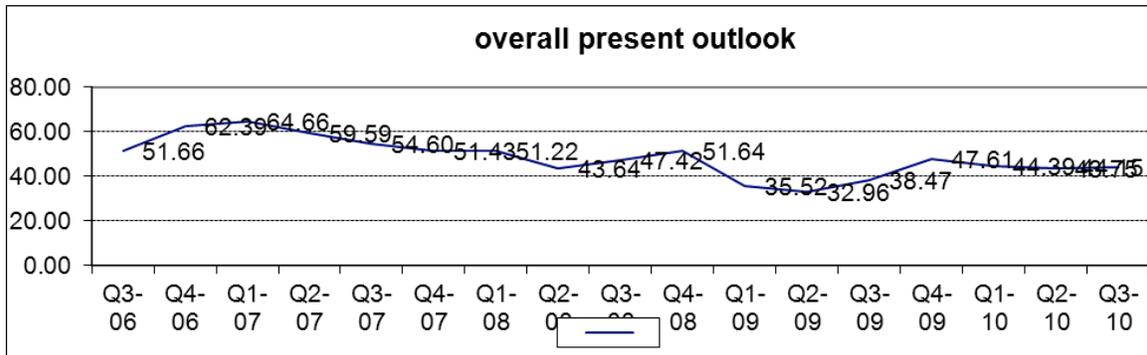


Figure 15: Overall Present Outlook Change

### 4.4 Overall Future Index.

The future outlook in the third quarter of the 2010 survey results increased from 57.83% in the second quarter of 2010 to 66.41% (see figure 16). This represents an increase of 14.83%.

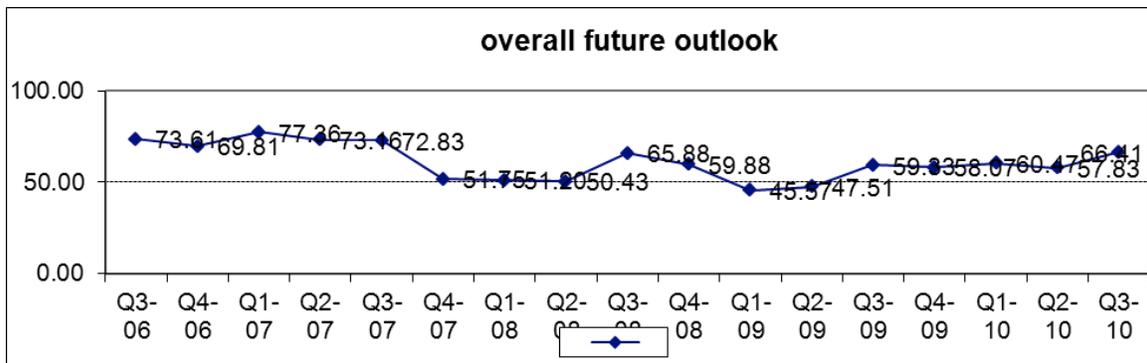


Figure 16: Overall Future Outlook Change

#### 4.5. Business confidence

The overall SMME Business Confidence Index (Figure 17) experienced an increase during the third quarter of 2010. The overall index increased from 50.79% in the second quarter of 2010 to 55.28% in the third quarter of 2010. This represents an increase of 8.84%.

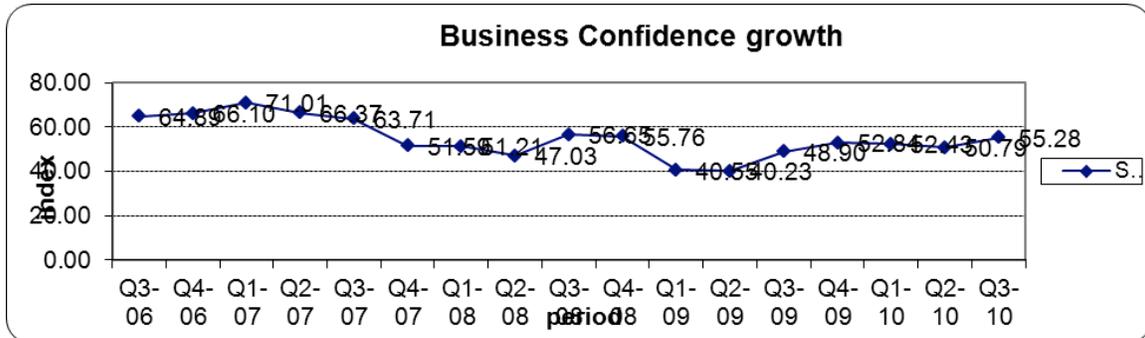


Figure 17: SMME Business Confidence Index

On quarterly (period-to-period) basis, the overall business confidence of the SMMEs increased over the last two quarters of 2009, but declined for the first two quarters of 2010. On the third quarter of 2010, there has been an increase in line with a similar third quarter increase in 2008. Figure 18 indicates that the general trend has been one of an unstable growth pattern in the business confidence level. On quarterly average basis, the observed trend remains virtually the same.

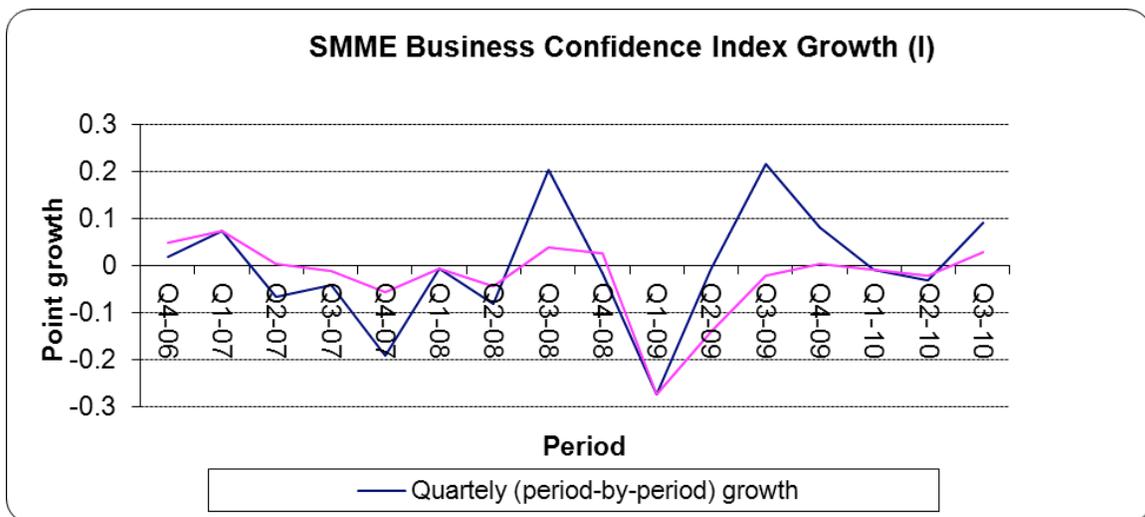


Figure 18: SMME Business Confidence Growth (I)

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

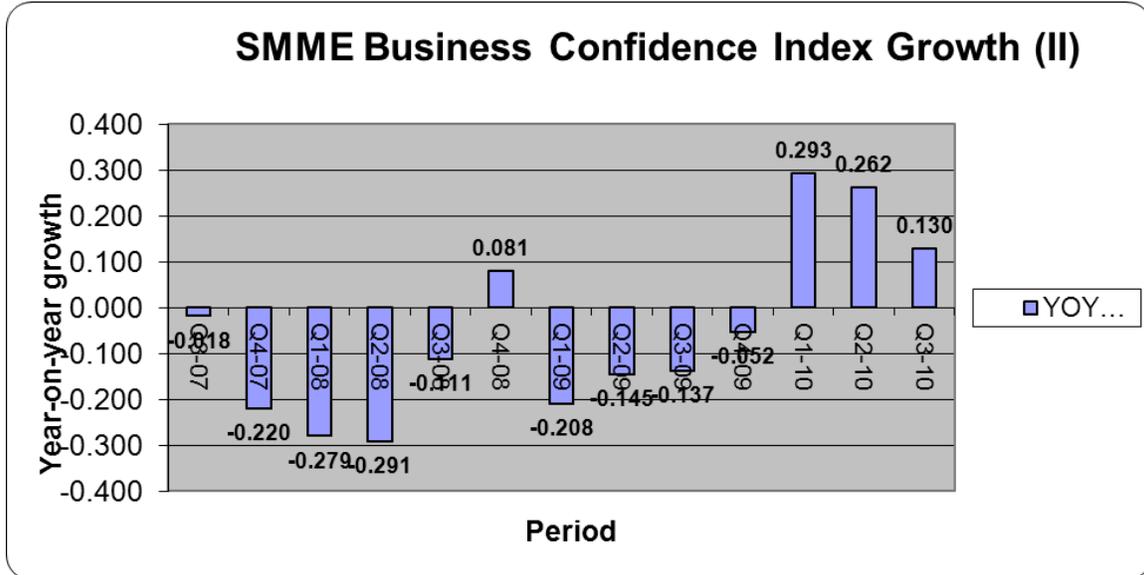


Figure 19: SMME Business Confidence Growth (II)

## 5. Conclusion

Findings from the survey indicate that the overall business confidence level of the SMMEs has increased during the third quarter of 2010. The services sector recorded a strong downturn in confidence index. However, managers/owners in this sector were very optimistic for the next quarter. This is because services sector always does well during the Christmas period. For the industrial sector, the sub-areas of improvement in confidence are the selling price and new contracts. In the services sector, the area of improvement is the volume of demand. In the case of the trade sector, it is the volume of demand.

The increase in confidence index could be attributed to the overall decline in impact of the global recession and a sense of feeling, among SMME owners, that the worst of downturn is over. Among the constraining factors mentioned by the interviewed SMME managers and owners are the high operating costs, high government taxes and regulations, limited access to bank credit, insufficient demand and high employee costs.