

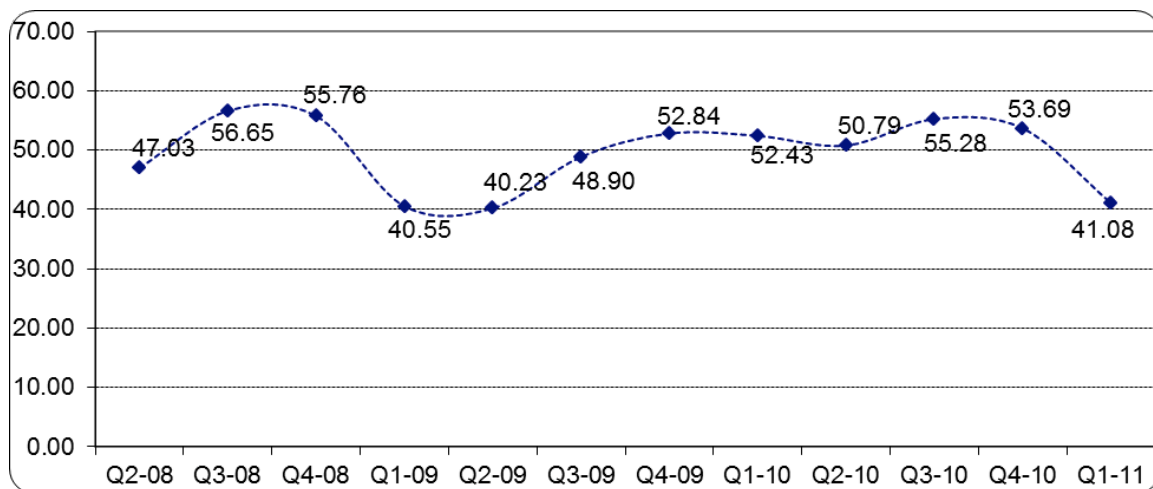
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Dimmer lights at the end of the tunnel for SMMEs

The SMME sector has recorded its second lowest quarterly business confidence since it was established in 2006. . The overall Business Confidence Index (which averages all the three business sectors in the economy, namely: trade, industrial and services) registered a decline from 53.69% during the last quarter of 2010 to 41.08% during the quarter under review. This is equivalent to a massive decline of 23.48%. These are very worrying times for the sector and it is now clear that the lights at the end of the tunnel for the sector are getting dimmer and dimmer says Professor Nicholas Biekpe, President of Africagrowth Institute.

Figure 1 shows the overall trend of South African SMMEs Business Confidence Indices from 2008 until the first quarter of 2011.

Figure 1: Business Confidence Index



The decline in the index was attributable to a declining trends observed in all three sectors of the economy. Industrial, trade and services sectors activities have significantly slowed down as a result of the current global financial crisis. Consumers around the world are cutting down on spending and, as a result, small businesses are losing clients in droves says Professor Biekpe. The worst performing sector during the period under review was the industrial sector which shrank by 11.8% from 43.36% during the fourth quarter of 2010 to 38.24% in the first quarter of 2011. The confidence index in the trade sector, decreased from 45.19%, in the fourth quarter of 2010, to 40.15% in the first quarter of 2011, representing a decrease of 11.18%. The services sector also witnessed a small decline in confidence from 49.05% in the fourth quarter of 2010 to 48.07% in the first quarter of 2011, representing a decline of 1.99%. Despite the worse than expected business outlook, the economic outlook for the services sector continues to show limited progress as a result of an increasing number of tourist visiting the country as a result of the political crisis in the Middle East.

Most businesses surveyed cited a number of inhibiting factors impacting negatively on their businesses. These include high government taxes and regulations, high operating costs, high employee costs, and insufficient demand. According to the South African Reserve Bank, the spot price of Brent crude oil has increased in the late February and end March to as high as US\$118 per barrel, and this saw a cumulative increase in domestic petrol prices over the first quarter of the year. The effect was soaring costs of inputs with adverse repercussions on production. The political mayhem that continues to mar the oil producing countries may worsen the outlook even further. 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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