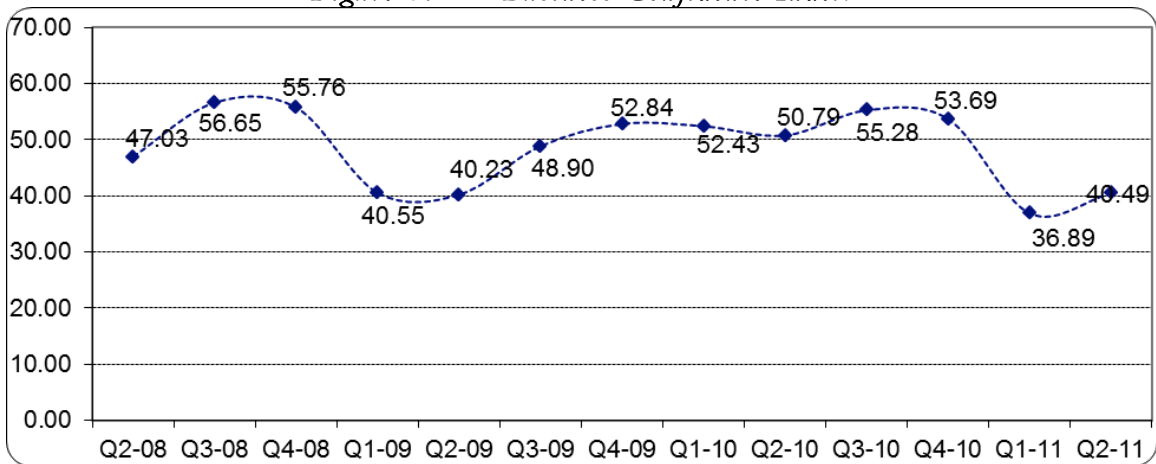


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Glimmer of hope for SMME Sector but bad news for the Services Sector

In spite of the current global financial challenges, South Africa's SMME sector recovered in the second quarter of the 2011, with an increase in the overall Business Confidence Index from 36.89% in the first quarter of the 2011, to 40.49% in the second quarter of the year. Figure 1 shows the overall trend of South African SMMEs Business Confidence Indices from the second quarter of 2008 until the second quarter of 2011. The trend in the overall Business Confidence Index (which averages all the three business sectors in the economy, namely: trade, industrial and services) is equivalent to an increase of 9.76%.

Figure 1: Business Confidence Index



The best performing sector during the period under review was the trade sector which increased in its overall average confidence by 8.61% from 34.21% during the first quarter of 2011 to 37.16% in the second quarter of 2011. This is probably related, in part, to the current commodity price boom. The industrial sector also saw a marginal increase in its overall confidence by 0.67% from 40.51% during the first quarter of 2011 to 40.78% in the second quarter of 2011. The overall confidence index in the services sector, however, declined by 18.24%, from 48.53% during the first quarter of 2011 to 39.68% in the second quarter of 2011. One of the main sub-components of the services sector is hospitality. Historically, hospitality related activities are seasonal and, therefore, this sub-sector tends to decline during winter period in the country.

Most businesses surveyed, including the services sector SMMEs, cited a number of factors that constrain their activities and impact negatively on their businesses. These include high government taxes and regulations, high operating costs, high employee costs, insufficient demand and the BEE policy.

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 South African Reserve Bank's Monetary Policy

Committee Statement for July 2011 also indicates that the total credit extended to the private sector by the banks grew by 5.5 per cent during the second quarter of 2011.

The rise in international price of oil threatens the inflation outlook across the world, but especially in developing countries. Consequently, production remains a challenge due to costly inputs whose prices are rising because of exchange rate depreciation, as well as continued high rise in the price of crude oil. These shocks pose a greater threat to the SMMEs in developing countries. The South African Reserve Bank has also been communicating to the market that the repurchase rate has reached its minimum level and that it is not planning to reduce rates further in 2011. The reason for keeping the repurchase rate at its present level is to control for any possible second round effect on inflation arising from increasing costs related to the high food and crude oil prices.

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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

Contact:

Professor Nicholas Biekpe

President: Africagrowth Institute

Tel: 021-914 6778

Email: nicholas@afriagrowth.com