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## **South African SMME Business Confidence Index Report: 1st Quarter 2010**

Compiled by: Africagrowth Institute

**Index is Funded by WK Kellogg Foundation**

April 2010

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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 can serve to guide SMMEs and SMME support agencies in planning strategically and designing effective policies to mitigate constraining factors and improve on performance.

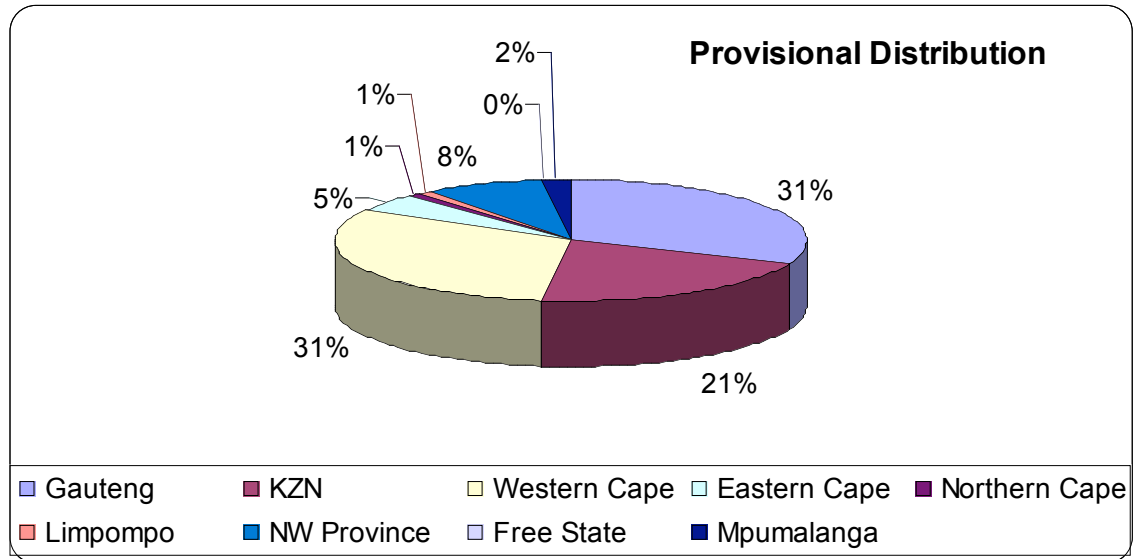
The index is constructed on the basis of responses to questions on policy factors ranging from employment levels, financial situation, new orders or contracts, volume of demand to selling price. The respondent firm (represented by the owner or a senior manager) then indicates whether these factors have 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 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, marginally, declined in the first quarter of 2010. Business confidence in the services sector is remarkably positive. However, the trade and industrial sectors have registered declines in confidence in line with the sustained strength of the rand and widening national trade gap with the consequence that export-led SMMEs battle to stay afloat as a result of growing cost of doing business abroad.

## 2. Background Information about sample

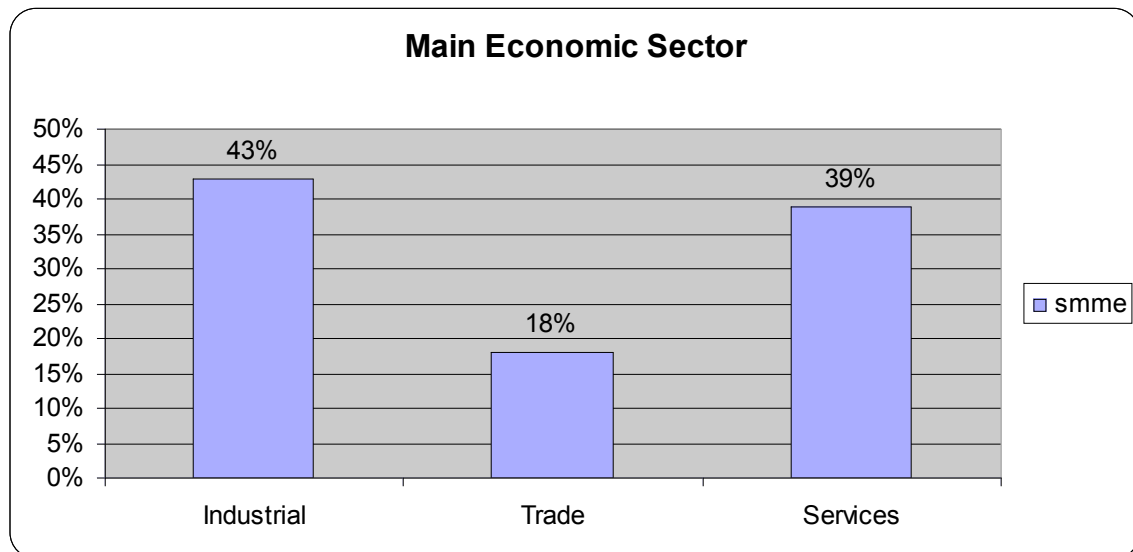
Out of 1200 randomly selected SMMEs, 131 (representing more than 10%) responded to questions posed in a survey. The provincial distribution of the SMMEs for this study is shown in Figure 1 below.



*Figure 1 Provincial Distribution*

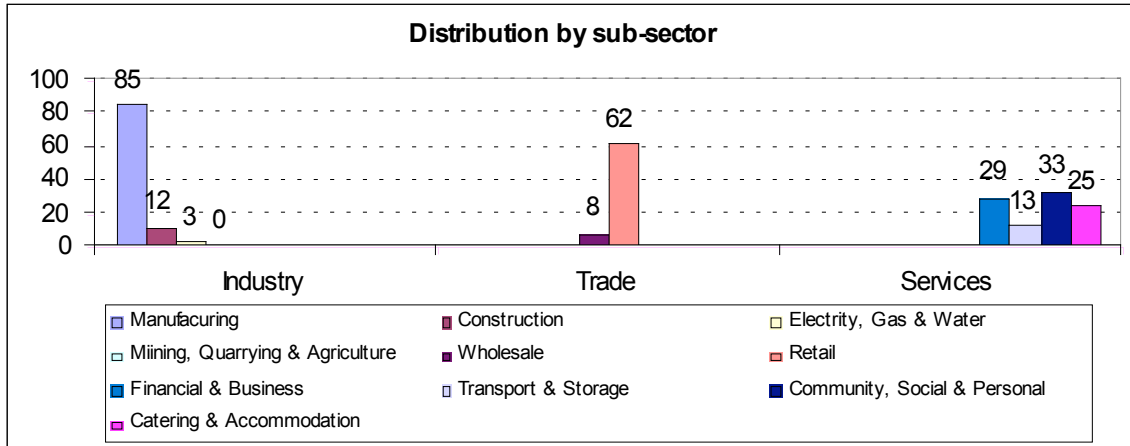
From the graph (figure1) it is clear that Gauteng, Western Cape and the KZN provinces, which have the highest SMMEs in the country, had the highest response rate. The three provinces combined represent 83% of the responses received.

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



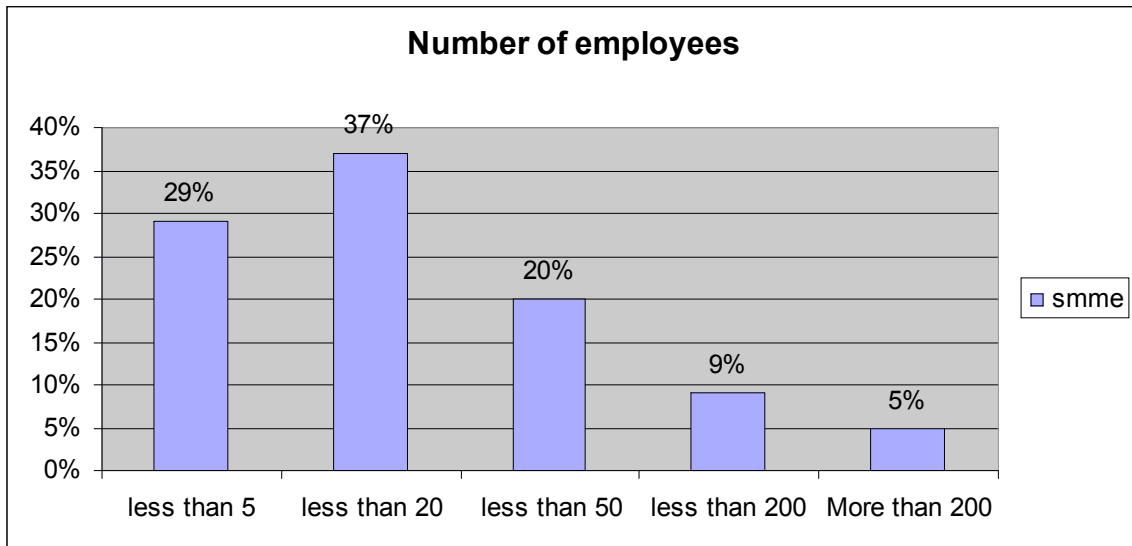
*Figure 2: Distribution by Economic Sector*

Sub-sector analysis in the broader industrial sector indicates that the manufacturing sub-sector continues to dominate with a representation of about 85%. This is followed by the construction sub-sector (12%). In the trade sector, retailing dominates, representing 62% whereas the wholesale subsector represents 8%. For the Services sector, Community, Social and Personal Services dominate with a representation of 33%, followed by Financial and Business Services with a representation of 29%. 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 who responded (37%) have a staff strength of less than 20.



*Figure 4: Number of Employees*

Figure 5, which depicts the turnover distribution, shows that most of the firms (47%) record an annual turnover of above four (4) million Rand. This represents a decrease as compared to the 52% turnover figure recorded for the fourth quarter of 2009.

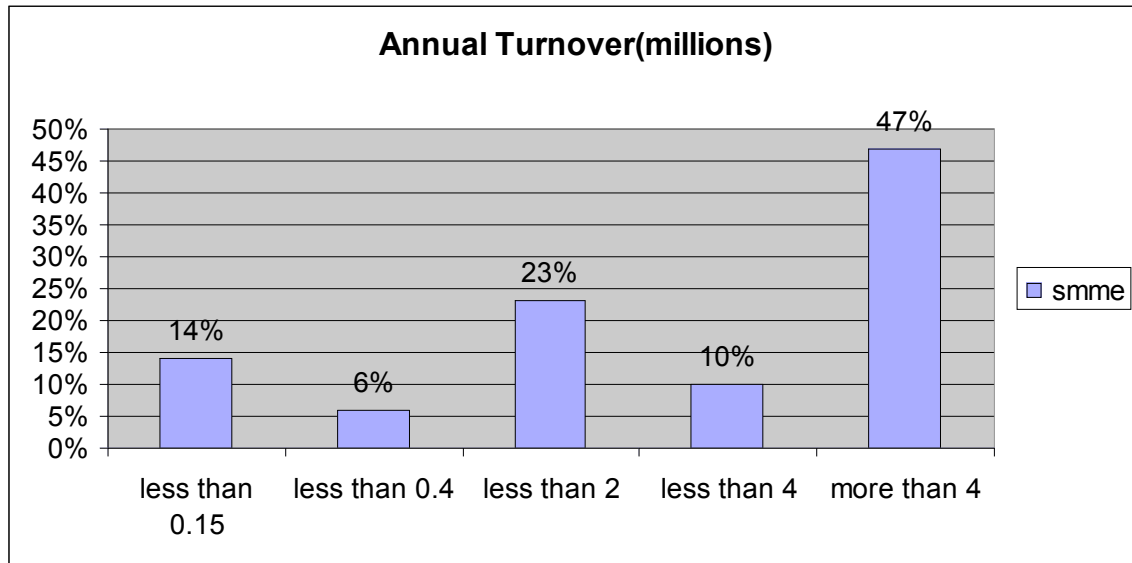


Figure 5: Annual Turnover

### 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, access to bank credits, Government taxes & regulations, Insufficient demand and Employee costs as major limiting factors to their operations. Figure 6 shows the response distribution.

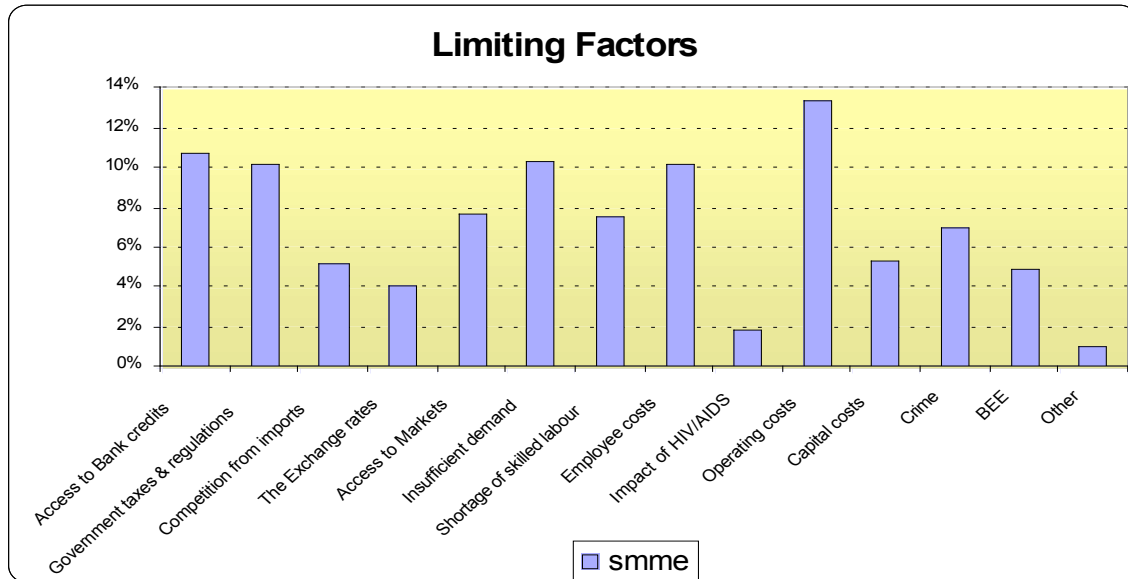


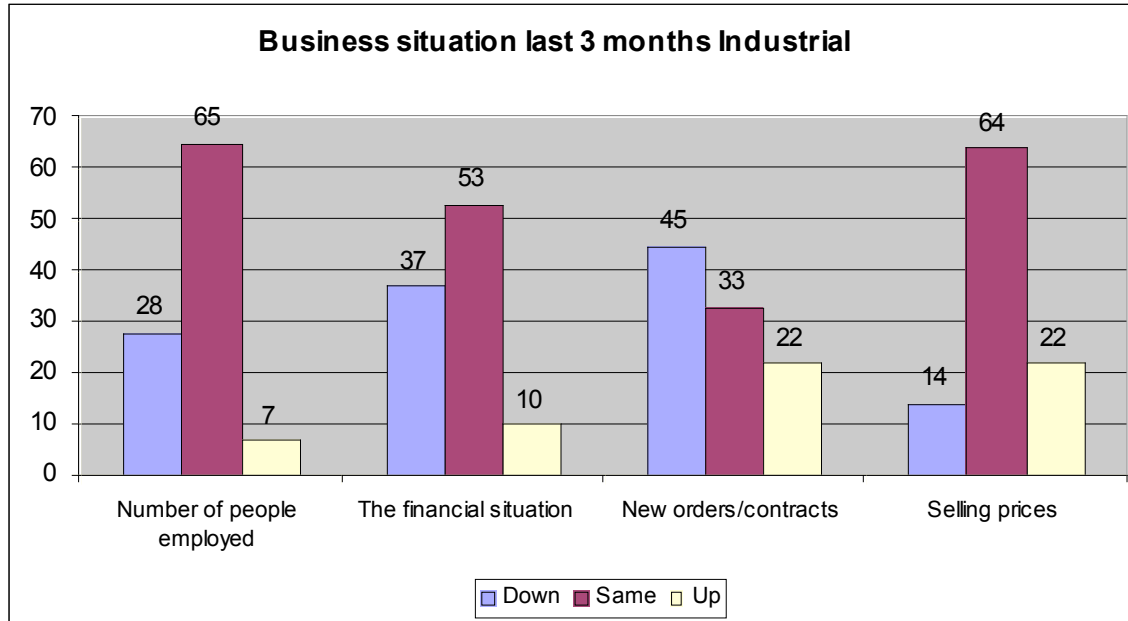
Figure 6: Business Limitations

### 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.

#### Industry

- ❖ **Number of people employed:** In the industrial sector 28% of SMME owners indicated that their employment levels have gone down whilst majority of them 65% were of the view that it had remained the same with only 7% indicating they have been able to employ more people.
- ❖ **Financial situation:** The financial situation for the industrial sector SMMEs during the first quarter of 2010 appears to have improved slightly as compared to the fourth quarter of 2009. Of the total surveyed, 37% of the SMME owners indicated that their financial situation has worsened, with 53% indicating no change in their financial situation for the first quarter of 2010, and 10% indicating an improvement in their financial situation over the first quarter of 2010.
- ❖ **New orders or contracts:** 45% of SMME owners were of the opinion that new orders had gone down whereas 33% were of the view that it remained the same whilst 22% of them indicated that it had gone up.
- ❖ **Selling price:** In the case of selling price, 14% of SMME owners indicated a downward trend, 64% indicated no change and 22% witnessed an increase.

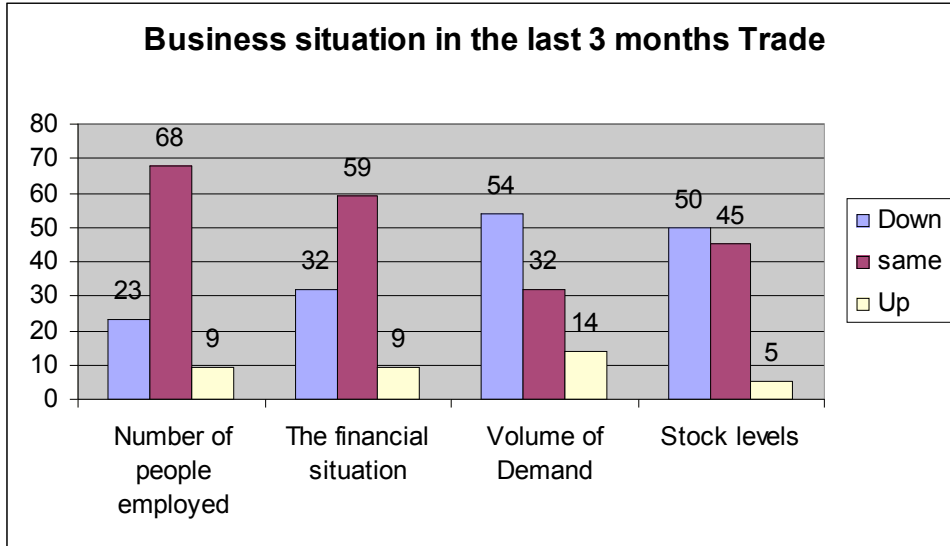


*Figure 7: Industry Business Situation for last 3 months*

## Trade

- ❖ **Number of people employed:** In the trade sector, 23% of SMME owners indicated that employment had gone down whilst 68% were of the view that it had remained the same and 9% were able to employ more.
- ❖ **Financial situation:** The financial situation of the SMMEs in the trade sector seems to have worsened over the first quarter of 2010. 32% of SMME owners showed that the financial situation had gone down whilst 59% were of the view that it remained unchanged and only 9% indicated an improvement.
- ❖ **Volume of demand:** The percentage of SMMEs interviewed indicated an improvement in the volume of demand also declined during the first quarter of 2010. 54% of SMME owners were of the opinion that the volume of demand went down whilst 32% were of the view that it remained the same and 14% indicated that it had gone up.
- ❖ **Stock levels:** In the case of stock levels, 50% of SMME owners indicated a downward trend, 45% indicated no change and 5% witnessed an increase.





*Figure 8: Trade Business Situation for last 3 months*

### Services

- ❖ **Number of people employed:** 25% of SMME owners indicated that employment had gone down whilst an overwhelming majority 48% were of the view that it had remained the same and 27% were able to employ more.
- ❖ **Financial situation:** 37% of SMME owners indicated that this had gone down whilst 38% were of the view that it remained unchanged and 25% indicated an improvement.
- ❖ **Demand for services:** 33% of SMME owners were of the view that volume of demand had gone down whilst 35% were of the view that it remained the same and 32% of them indicated that it had gone up.
- ❖ **Selling prices:** In this sector 15% of SMME owners indicated a downward trend, 69% showed no change in stock levels and 16% witnessed an upward movement.

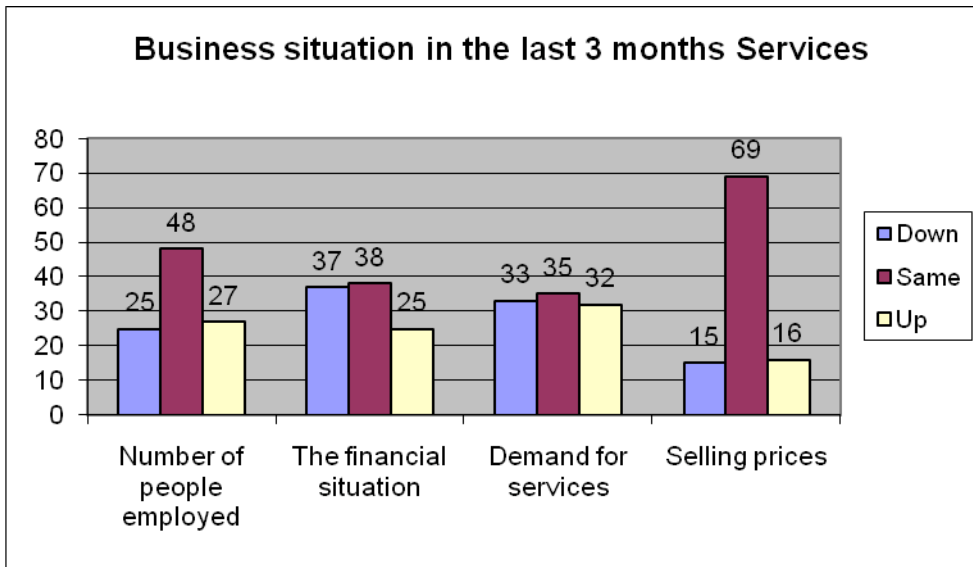


Figure 9: Services Business Situation for last 3 months

### 3.3 Business outlook for next 6 Months

This section provides results of the survey questions on the future outlook of BCI 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.

#### Industry

- ❖ **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. 21% of SMME owners indicated that employment will go down whilst 56% were of the view that it will remain the same and 23% will be able to employ more;
- ❖ **Financial situation:** In a similar situation, the proportion of SMMEs in the industrial sector that is optimistic that their financial situation will improve in the next six months increased in the first quarter of 2010. 25% of SMME owners indicated that this will go down whilst, 44% were of the view that it will remain unchanged and 31% indicated an improvement;
- ❖ **New orders or contracts:** There was virtually no change with the perceptions of SMME owners in industry concerning new orders or contracts for the next six months. 19% of SMME owners indicated that new orders will go down whilst 44% were also of the view that it will remain the same and 37% of them indicated that it will go up;
- ❖ **Selling price:** There was also greater optimism among SMME owners about selling prices. 7% indicated a downward trend, 71% did not think there will be a change and 22% were of the view that selling prices will go up.

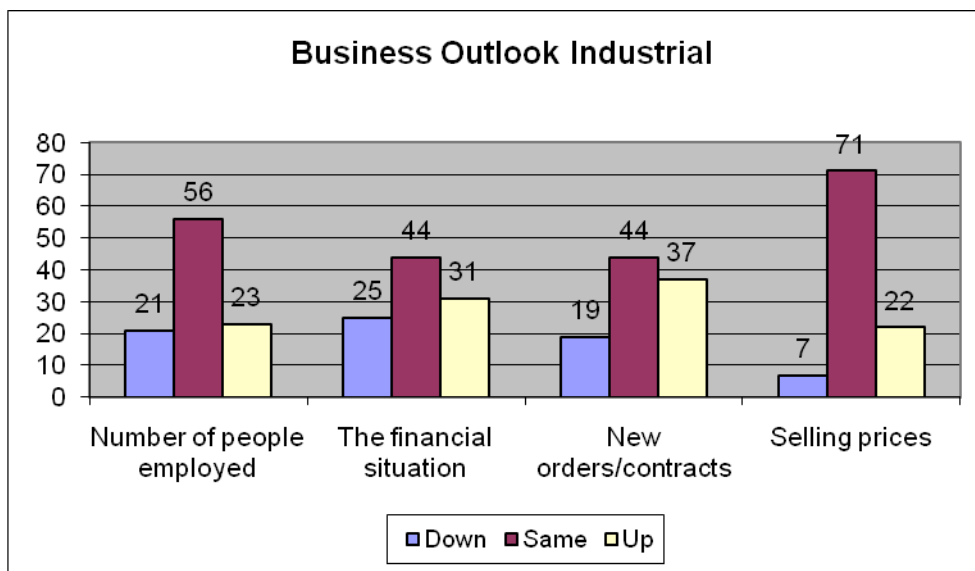


Figure 10: Industry Sector Business Outlook

## Trade

- ❖ **Number of people employed:** 5% of SMME owners indicated that employment will go down. However 81% were of the view that it will remain the same and 14% will be able to employ more;
- ❖ **Financial situation:** 19% of SMME owners indicated that this will go down whilst 52% were of the view that it will remain unchanged and 29% indicated an improvement.
- ❖ **Volume of demand:** 24% of SMME owners were of the opinion that the demand of services will go down whilst 43% were also of the view that it will remain the same and 33% of them indicated an upward trend.
- ❖ **Selling price:** 33% of SMME owners indicated a downward trend in future prospects, 43% indicated there will be no change and 24% indicated an increase.

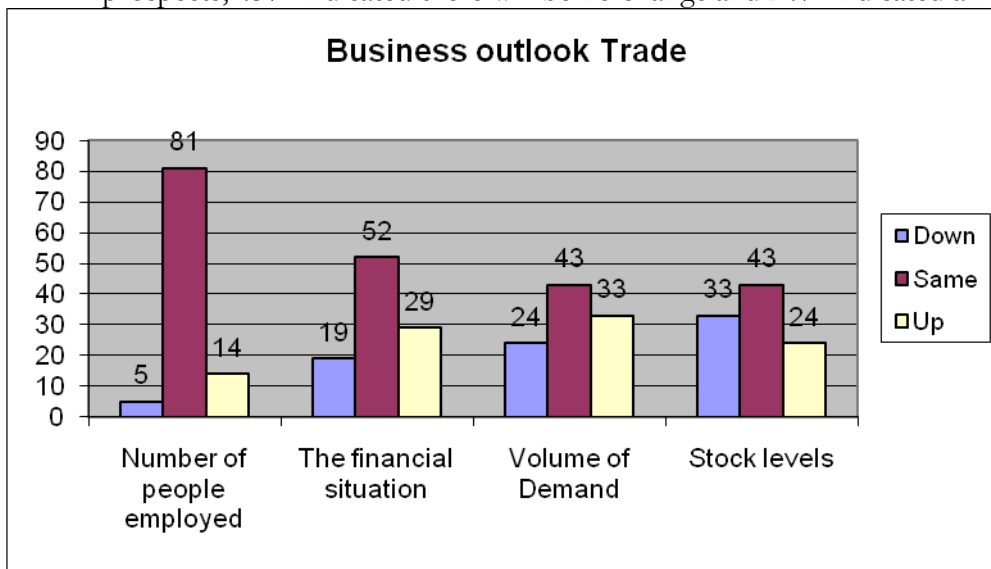
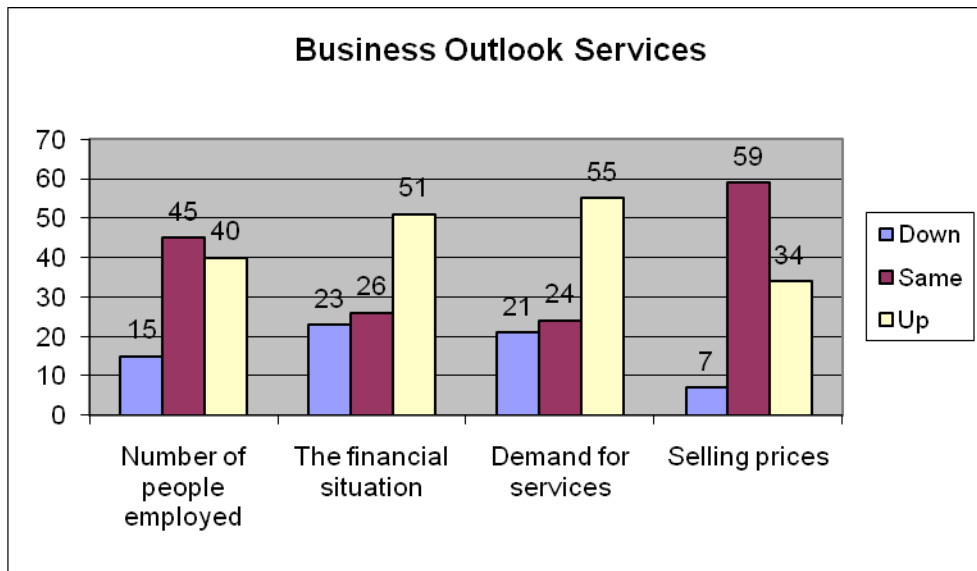


Figure 11: Trade Sector Business Outlook Services

## Services

- ❖ **Number of people employed:** 15% of SMME owners indicated that employment will go down whilst 45% were of the view that it will remain the same and 40% will be able to employ more.
- ❖ **Financial situation:** 23% of SMME owners indicated that this will go down whilst 26% were of the view that it will remain unchanged and 51% indicated there will be improvement.
- ❖ **Demand for services:** In this sector 21% of SMME owners indicated that the volume of demand will go down whilst 24% were of the view that it will remain the same and 55% of them predicted a possible increase.
- ❖ **Selling price:** 7% of SMME owners indicated there will be a downward trend, 59% do not think there will be a change and 34% think selling price will go up.



*Figure 12: Services Sector Business Outlook*

## 4. Business Confidence Index Results

### 4.1 Sectorial Present outlook

#### 4.1.1 Industrial Sector Present Outlook

The industrial sector revealed a decline in business confidence. The Business Confidence within the industrial sector declined from 45.66% during the fourth quarter of 2009 to 45.17% in the first quarter of 2010. This represents a marginal decline of 1.08%.

#### 4.1.2 Trade Sector Present Outlook

The trade sector also recorded a decrease in business confidence from 50.24% during the fourth quarter of 2009 to 34.94% in the first quarter of 2010. This represents a decline of 30.46%.

#### 4.1.3 Services Sector Present Outlook

The services sector is the only sector that recorded remarkable growth in confidence level. Confidence level increased from 46.98% in the fourth quarter of 2009 to 53.055 in the first quarter of 2010. This represents an increase of 12.94%.

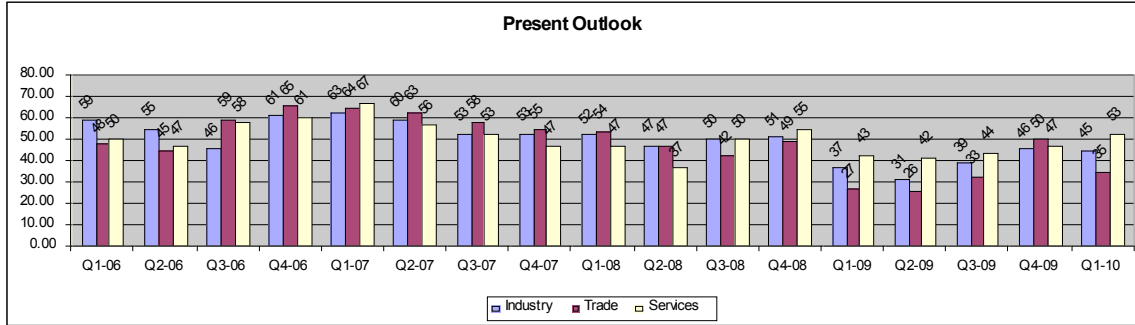


Figure 13: Present Outlook

## 4.2. Sectorial Future Outlook

### 4.2.1. Industrial Sector Future Outlook

The business confidence level for future outlook (Figure 14) under this sector moved from 57.41% in the fourth quarter of 2009 to 59.35% in the first quarter of 2010. This represents an increase of 3.38%.

### 4.2.2. Trade Sector Future Outlook

The confidence index for future outlook in this sector has decreased from 57.61% in the fourth quarter of 2009 to 50.40% in the first quarter of 2010. This represents a decrease of 12.52%. This is really very worrying considering that we are currently experiencing a widening trend in the national trade deficit and the decrease in confidence of this sector is probably a reflection of what is to come in the future.

### 4.2.3. Services Sector Future Outlook

The services sector outlook for future business activity increased. The confidence index for future outlook increased 59.20% during the fourth quarter of 2009 to 71.67% in the first quarter of 2010 (see Figure 14). This represents an increase of 21.07%.

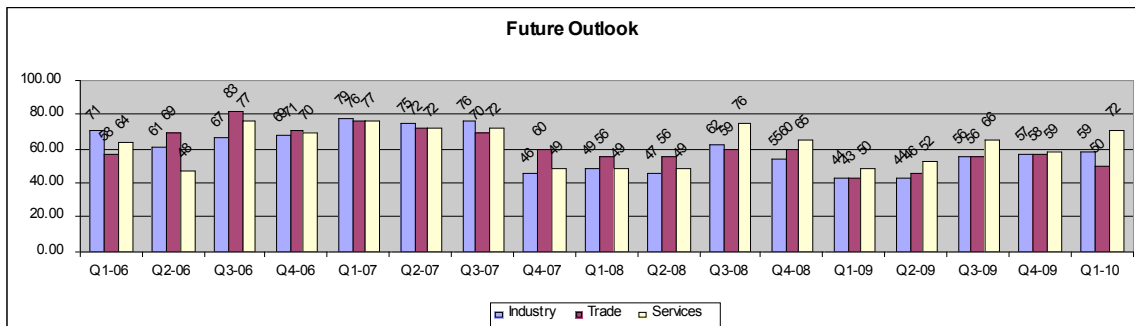


Figure 14: Future Outlook

### 4.3 Overall Present Index.

The overall business confidence index, for the present outlook in the first quarter of 2010 declined from 47.61% during the fourth quarter of 2009 to 44.39%. This represents a decline of 6.77%.

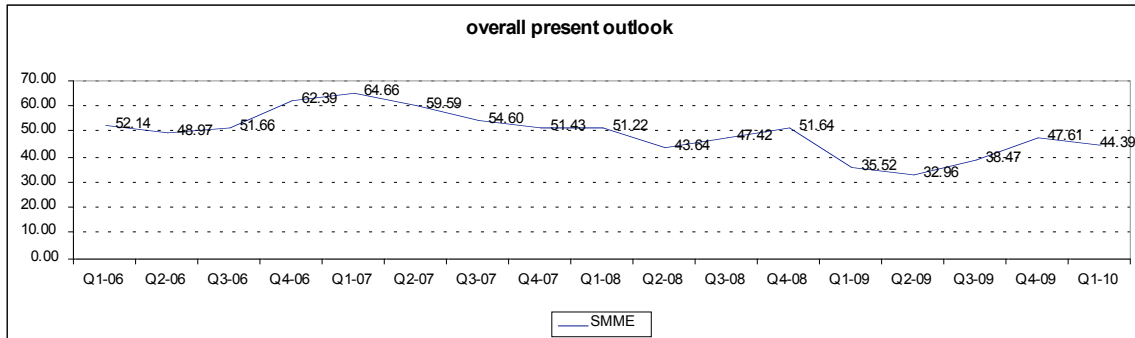


Figure 15: Overall Present Outlook Change

### 4.4 Overall Future Index.

The future outlook in the first quarter of the 2010 survey results increased from 58.07% in the fourth quarter of 2009 to 60.47% (see figure 16). This represents an increase of 4.13%.

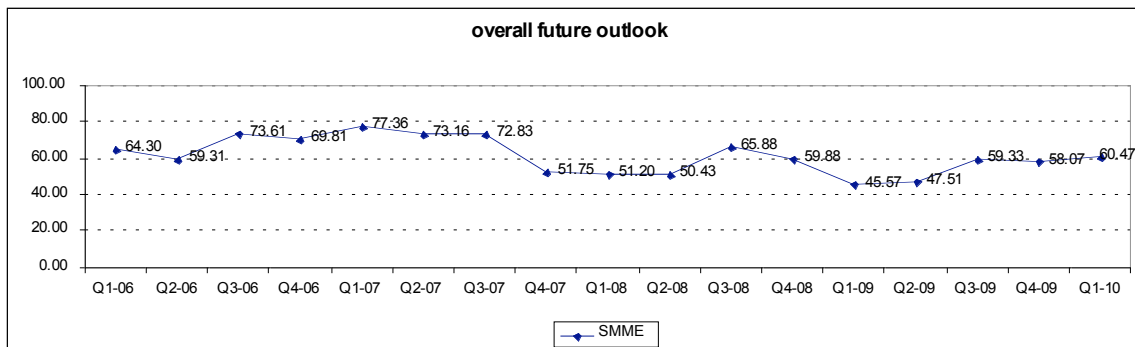


Figure 16: Overall Future Outlook Change

### 4.5. Overall Business Confidence

The overall SMME Business Confidence Index (Figure 17) has declined during the first quarter of 2010. The overall index marginally declined from 52.84% in the fourth quarter of 2009 to 52.43% in the first quarter of 2010. This represents a decline of 0.78%.

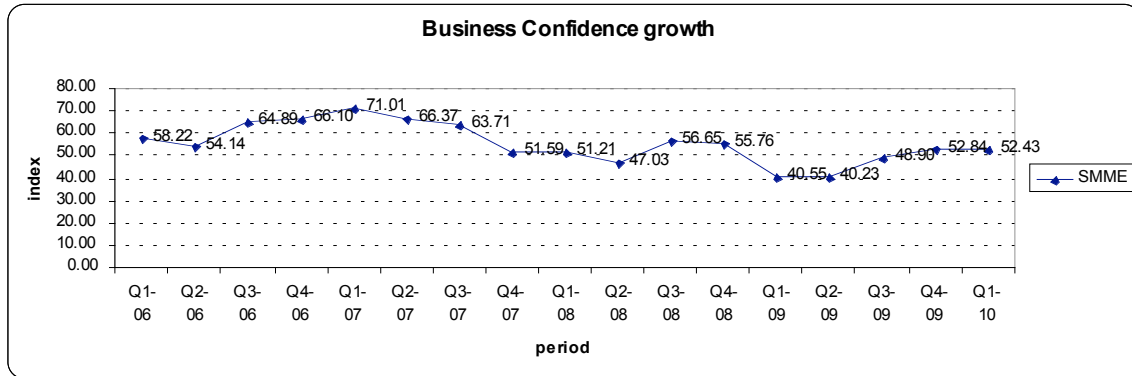


Figure 17: SMME Business Confidence Index

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 quarter of 2010. 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.

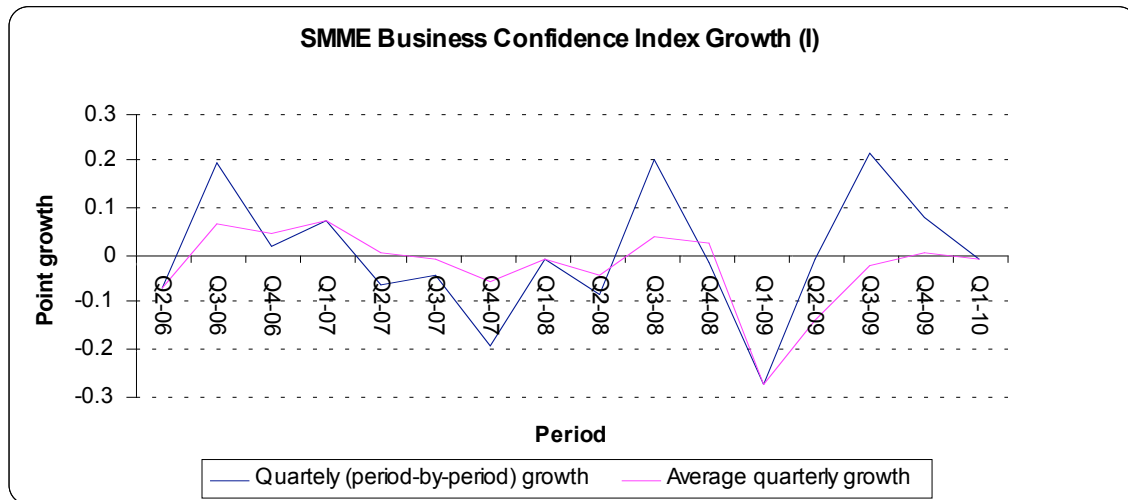


Figure 18: SMME Business Confidence Growth (I)

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

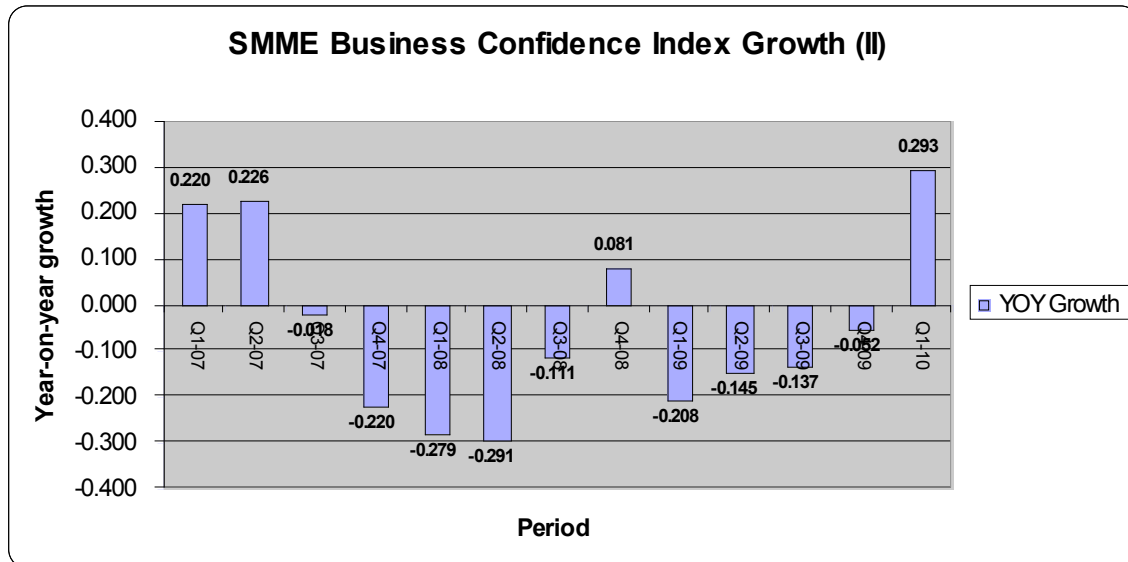


Figure 19: SMME Business Confidence Growth (II)

## 5. Conclusion

Findings from the survey indicate that the overall business confidence level of the SMMEs has declined slightly during the first quarter of 2010. Nevertheless, the services sector recorded a strong growth in the confidence index for SMMEs. For the industrial sector, the area in which the business situation has improved is the selling price and new contracts. In the trade sector, the area in which the business situation has improved the most is the volume of demand. In the case of the services sector, the area in which the business situation has improved the most is the demand for services.

Out of the three economic sectors, the Services Sector was the most optimistic followed by Industrial and Trade Sector does not seem to be optimistic about the future.

The marginal decline in confidence index could be attributed to the challenges faced by SMMEs which seem to constrain their activities and their performance. Among the constraining factors mentioned by the interviewed SMME managers and owners are the strong rand value, high operating costs, high government taxes and regulations, limited access to bank credit, insufficient demand and high employee costs.

Findings from the survey have implications for public policy. It is highly recommended that policies that help increase access to domestic credit and at low rates of interest be considered. It is also recommended that government taxes, in particular corporate and income taxes, be continuously looked into. Public policy should also focus on increasing access to and improving the availability of consumer credit as a way of boosting aggregate demand. A much more permanent solution to the problem of high employee costs will be to develop the human capital base of the country.