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1. Introduction

The SMME Business Confidence Index (BCI) is a quarterly survey, conducted by the Africagrowth Institute. It measures the opinions of SMME managers and owners all over South Africa about the current and future business prospects. The BCI has taken an upward plunge this quarter, the fourth quarter of 2008. The index is sponsored by the Industrial Development Corporation (IDC) and part funded by the WK Kellogg Foundation.

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

Presented below are the results from the fourth quarter survey of 2008.

2. Background Information about sample

Out of the 2000 randomly selected SMMEs, 122 responded. The provincial distribution of the SMMEs for this study is shown in Figure 1 below.

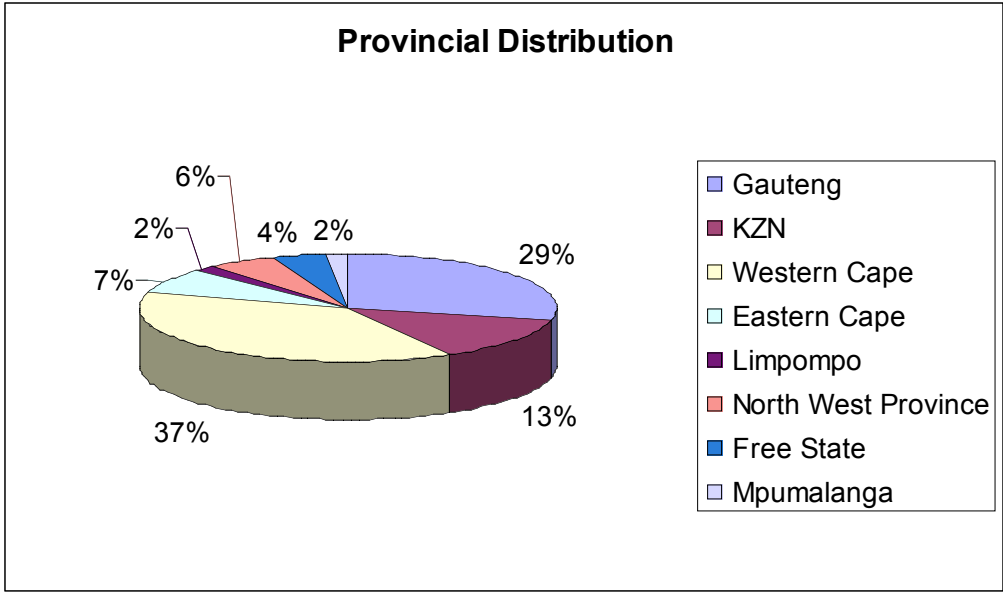


Figure 1. Distribution by Province

Like the previous surveys, response rate has always varied with the provinces. However, Gauteng, KwaZulu Natal and Western Cape provinces, which have the highest number of SMMEs in the country, have always had the highest response rate. In Table 2 below, the trade sector remains the least represented.

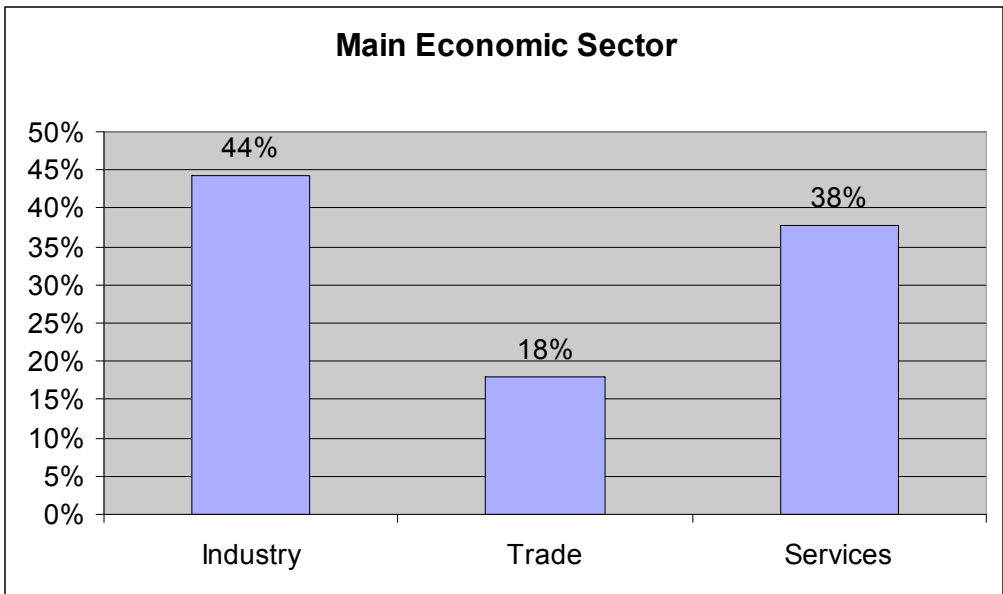


Figure 2. Distribution by Economic Sector

Sub-sector analysis in the broader Industrial sector (see Table 2) indicates that the manufacturing sub-sector continues to dominate with a representation of 72% followed by construction 22%, then Mining, Quarrying & Agriculture with 6%. In the trade sector response, the retail was more represented with 67% whereas the wholesale took the balance 33%. Finally, in the Services sector, Financial & Business sub-sector is dominating with the high of 56%, followed by Catering & accommodation, Community, Social & Personal with 20% and the Transport & Storage being least represented with 12%.

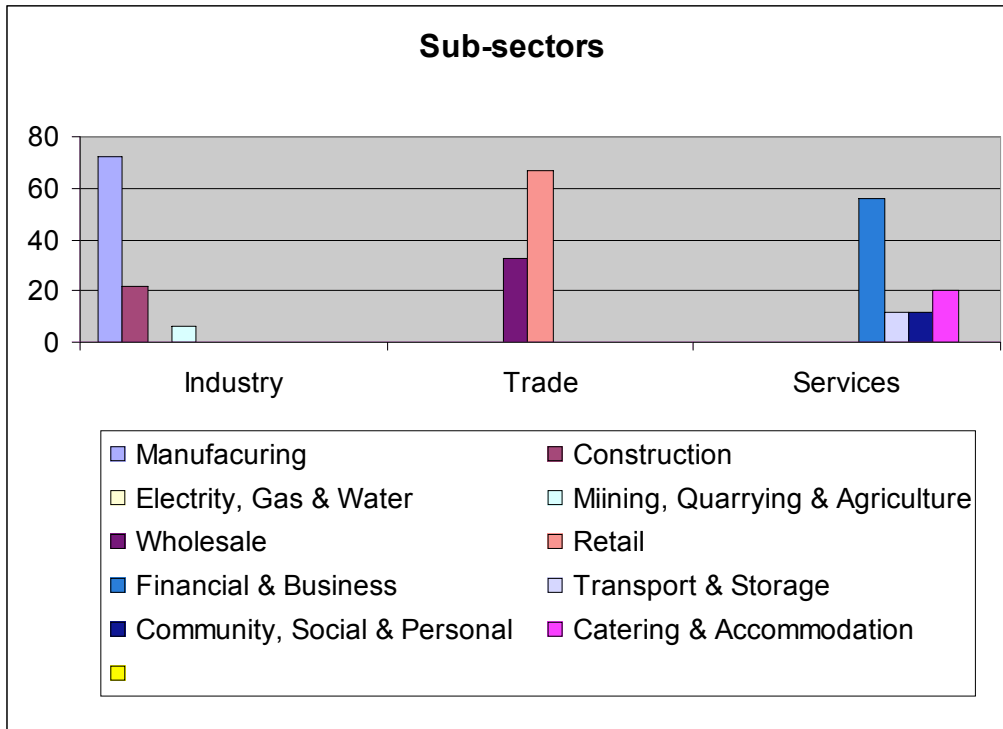


Figure 3. Sub-Sector Distribution

Figure 4 below shows a graphical representation of the number of people employed. It shows that the majority of the firms which responded (60%) have a staff strength of less than 20. A few have a strength of more than 200 employees which is only 5% of the respondents.

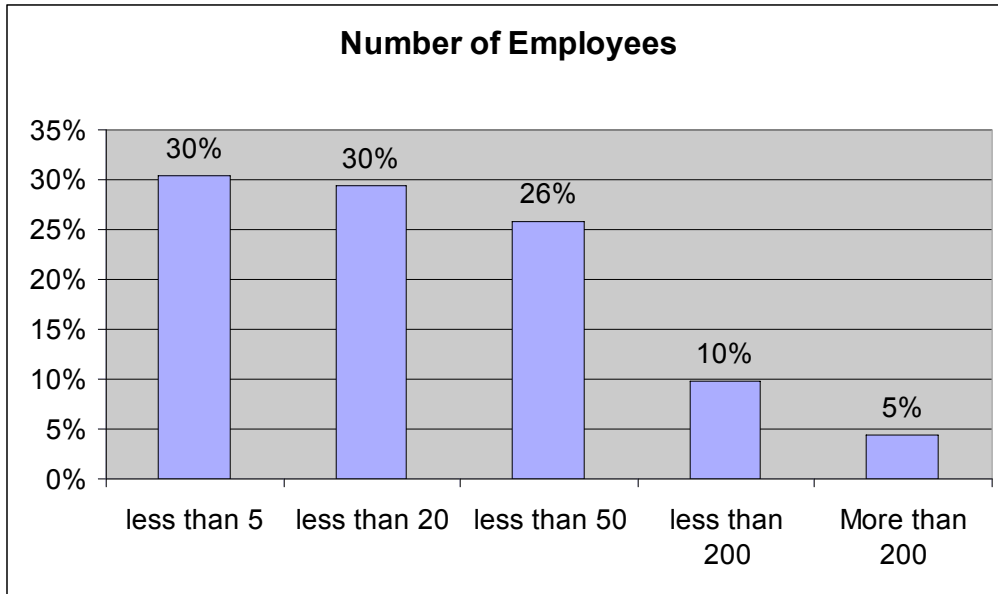


Figure 4. Number of Employees

Figure 5, which depicts the turnover distribution, shows that almost half of the respondents have a high turnover, 49% record an annual turnover of above four (4) million Rand.

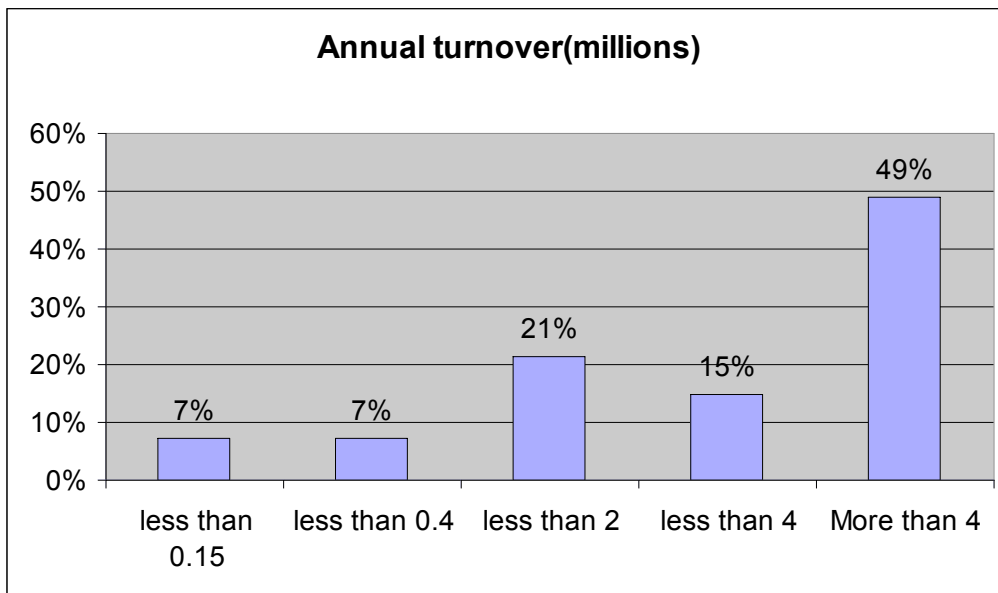


Figure 5. Annual Turnover

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 business managers representing 13.65% and 9.81% of SMMEs sampled cited operating costs & Government taxes & regulations respectively, as major limiting factors to their operations. Figure 6 shows the response distribution.

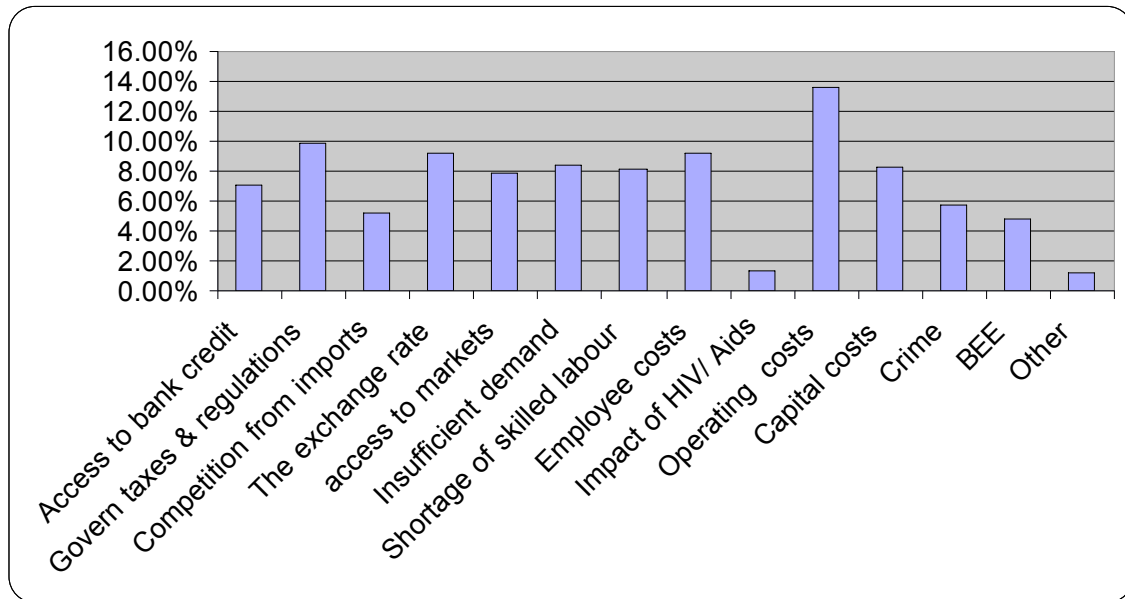


Figure 6. Business Limitations

3.1 Business situation Last 3 Months

This section provides results of the survey questions pertaining to the BCI attributes which form certain 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 respectively.

Industry

- ❖ **Number of people employed:** In the industrial sector 33% of SMME owners indicated that their employment levels have gone down whilst majority of them 45% were of the view that it had remained the same and 22% were able to employ more.
- ❖ **Financial situation:** In the industrial sector 50% of SMME owners showed that this had gone down while 32% were of the view that it remained unchanged and

18% indicated an improvement, this maybe the results of the unstable economy over the last 3 months as 50% indicate a downfall.

- ❖ ***New orders or contracts:*** In the industrial sector 38% of SMME owners were of the opinion that new orders had gone down whereas 36% were of the view that it remained the same whilst 26% of them indicated that it had gone up.
- ❖ ***Selling price:*** In the industrial sector 17% of SMME owners indicated a downward trend, 39% indicated no change and 44% witnessed an increase.

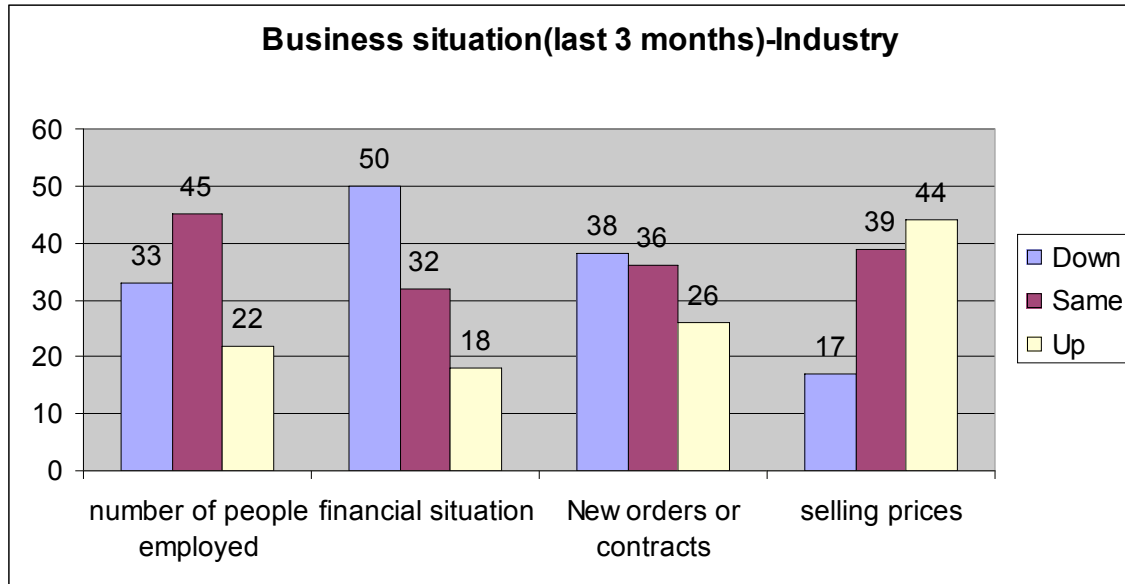


Figure 7. Industry Business Situation for last 3 months

Trade

- ❖ ***Number of people employed:*** In the trade sector 23% of SMME owners indicated that employment had gone down whilst 59% were of the view that it had remained the same and 18% were able to employ more.
- ❖ ***Financial situation:*** In the trade sector 41% of SMME owners showed that the financial situation had gone down 50% were of the view that it remained unchanged and 9% indicated an improvement.
- ❖ ***Volume of demand:*** In the trade sector 36% 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 32% indicated that it had gone up.
- ❖ ***Stock levels:*** In the trade sector 18% of SMME owners indicated a downward trend, 50% indicated no change and 32% witnessed an increase.

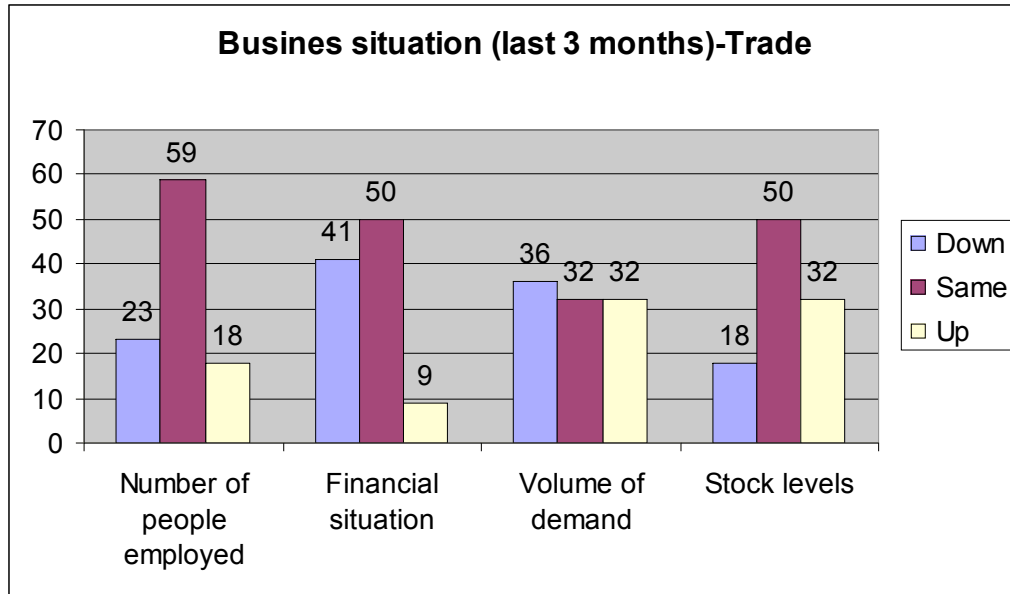


Figure 8. Trade Business Situation for last 3 months

Services

- ❖ **Number of people employed:** In this sector 17% of SMME owners indicated that employment had gone down whilst 50% were of the view that it had remained the same and 33% were able to employ more, which indicate more job opportunities were created.
- ❖ **Financial situation:** In this sector 48% of SMME owners indicated that this had gone down whilst 28% were of the view that it remained unchanged and 24% indicated an improvement.
- ❖ **Demand for services:** In this sector 37% of SMME owners were of the view that demand for services had gone down whilst 26% were of the view that it remained the same and 37% of them indicated that it had gone up.
- ❖ **Selling prices:** In this sector 11% of SMME owners indicated a downward trend, 64% showed no change in stock levels and 25% witnessed an upward movement.

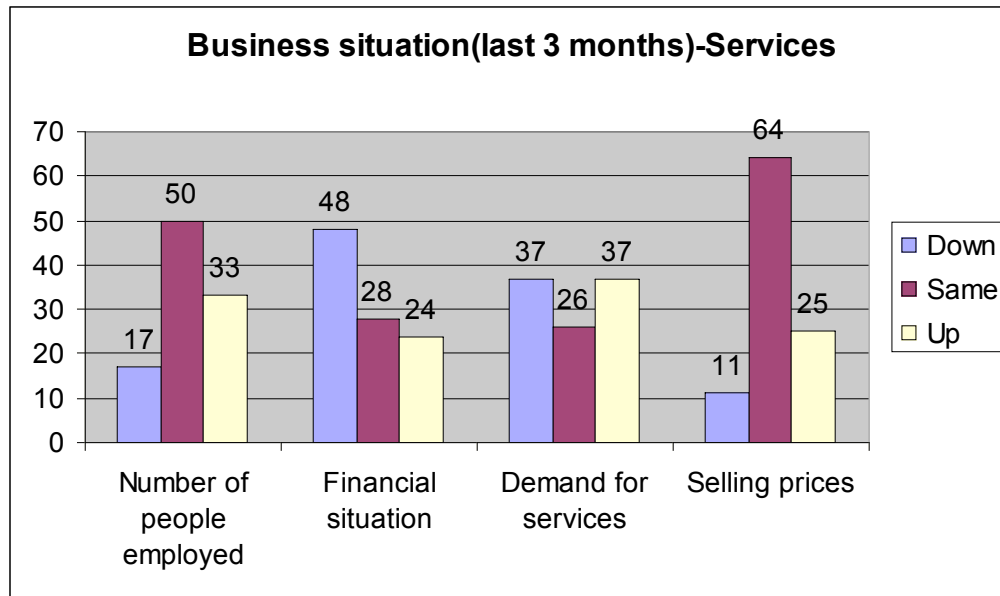


Figure 9. Services Business Situation for last 3 months

3.2 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, what the SMMEs expect for the future in their businesses. Figures 10, 11 and 12 show responses on attributes with respect to business outlook within the next 6 months for the Industrial, Trade and Services sectors respectively.

Industry

- ❖ **Number of people employed:** In this sector, 30% of SMME owners indicated that employment will go down whilst 48% were of the view that it will remain the same and 22% will be able to employ more.
- ❖ **Financial situation:** In this sector 37% of SMME owners indicated that this will go down whilst about the same percentage, 35% were also of the view that it will remain unchanged and 28% indicated an improvement.
- ❖ **New orders or contracts:** In this sector, 37% of SMME owners indicated that new orders will go down whilst 26% were also of the view that it will remain the same and 37% of them indicated that it will go up.
- ❖ **Selling price:** In this sector, 17% of SMME owners indicated a downward trend, 48% did not think there will be any changes and 35% were of the view that selling prices will go up, which is bound to happen as the rate are growing very high.

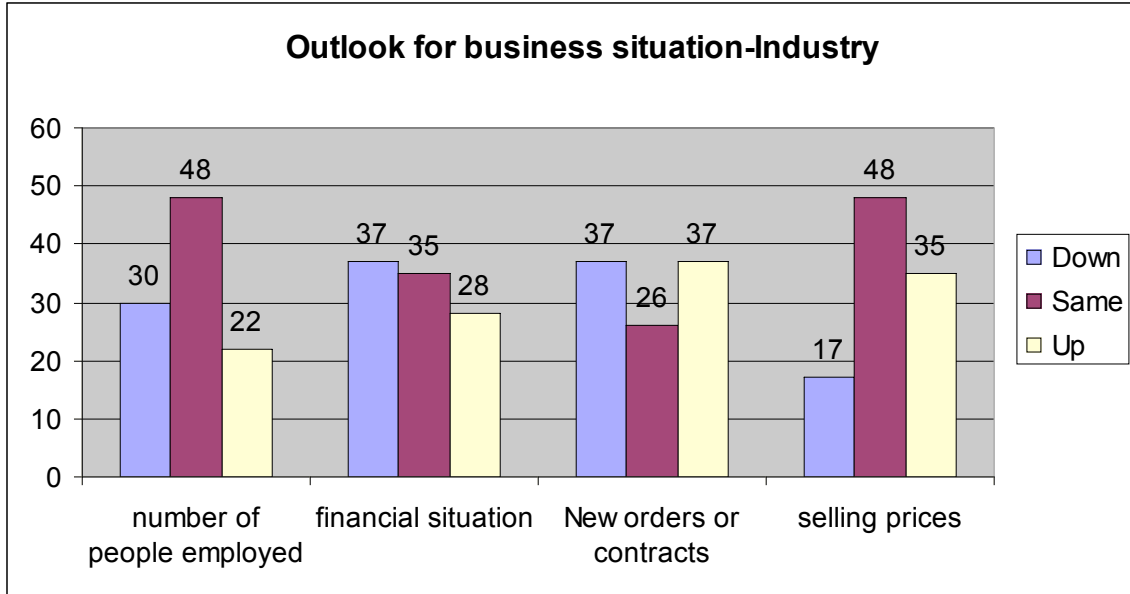


Figure 10. Industry Sector Business Outlook

Trade

- ❖ **Number of people employed:** In the trade sector, 18% of SMME owners indicated that employment will go down. However 73% were of the view that it will remain the same and 9% will be able to employ more.
- ❖ **Financial situation:** In the trade sector, 23% of SMME owners indicated that this will go down whilst, 36% were of the view that it will remain unchanged and 41% expected an improvement.
- ❖ **Volume of demand:** In the trade sector, we got the same response as the financial situation which shows as the demand becoming very slow the businesses won't be making any money so the financial situation is depending on the volume of demand. 23% of SMME owners were of the opinion that the demand of services will go down whilst 36% were also of the view that it will remain the same and 41% of them indicated an upward trend.
- ❖ **Selling price:** In the trade sector, 18% of SMME owners indicated a downward trend in future, 41% indicated there will be no change and 41% indicated an increase.

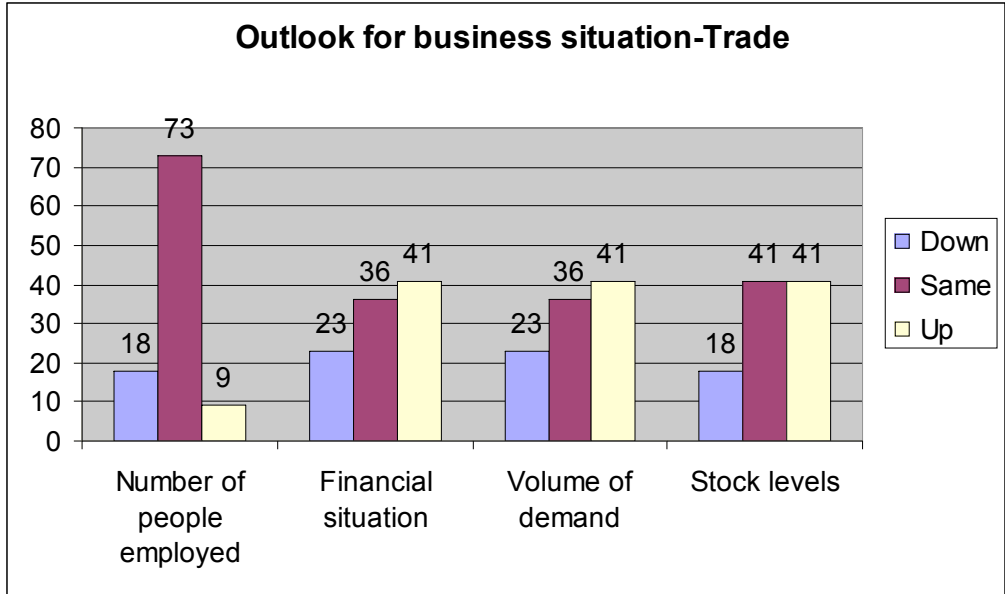


Figure 11. Trade Sector Business Outlook

Services

- ❖ **Number of people employed:** In this sector, 15% of SMME owners indicated that employment will go down whilst 46% were of the view that it will remain the same and 39% will be able to employ more.
- ❖ **Financial situation:** In this sector, 26% of SMME owners indicated that this will go down whilst 26% were of the view that it will remain unchanged and 48% indicated there will be improvement.
- ❖ **Demand for services:** In this sector 20% 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 43% of them predicted a possible increase with the holidays coming lots of events and schools opening so the services sector is highly busy,
- ❖ **Selling price:** In this sector, 11% of SMME owners indicated there will be a downward trend, 57% do not think there will be a change and 32% think selling price will go up.

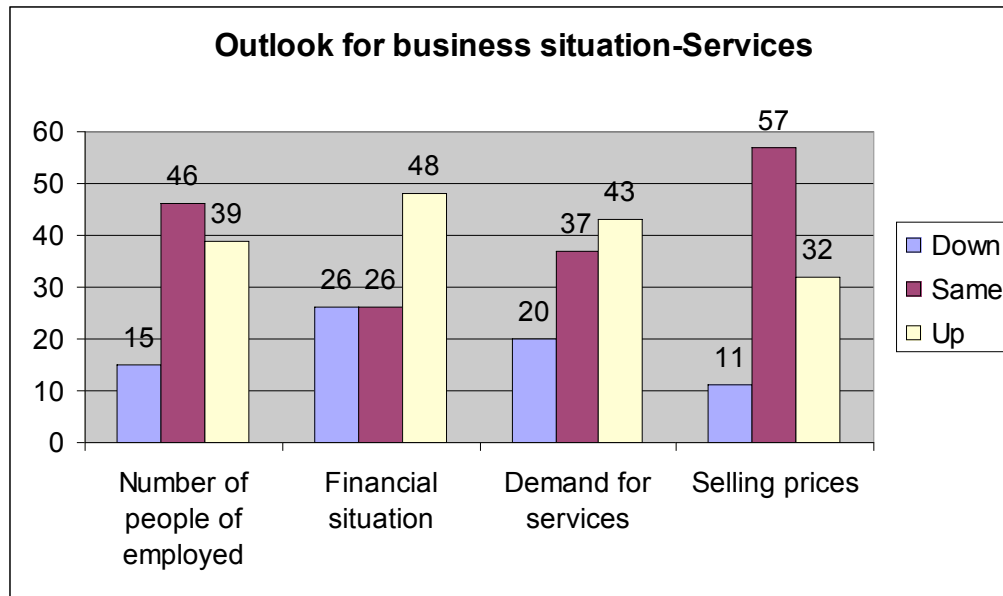


Figure 12. Services Sector Business Outlook

4. Business Confidence Index Results

4.1 Sectorial Present outlook

4.1.1 Industrial Sector Present Outlook

The industrial sector has revealed an increase in business confidence. The Business Confidence within the industrial sector has increase from 50.02% of the third quarter of 2008 to 51.08% in the fourth quarter of 2008. This represents an increase of 2.12%.

4.1.2 Trade Sector Present Outlook

The trade sector has also recorded an increase in business confidence from 42.20% in the third quarter of 2008 to 48.73% in the fourth quarter of 2008. This represents an increase of 15.47%.

4.1.3 Services Sector Present Outlook

Like the other above sectors, the index value of the services sector has also increase from 50.03% in third quarter of 2008 to 55.11% in the fourth quarter of 2008. This represents an increase of 10.15%.

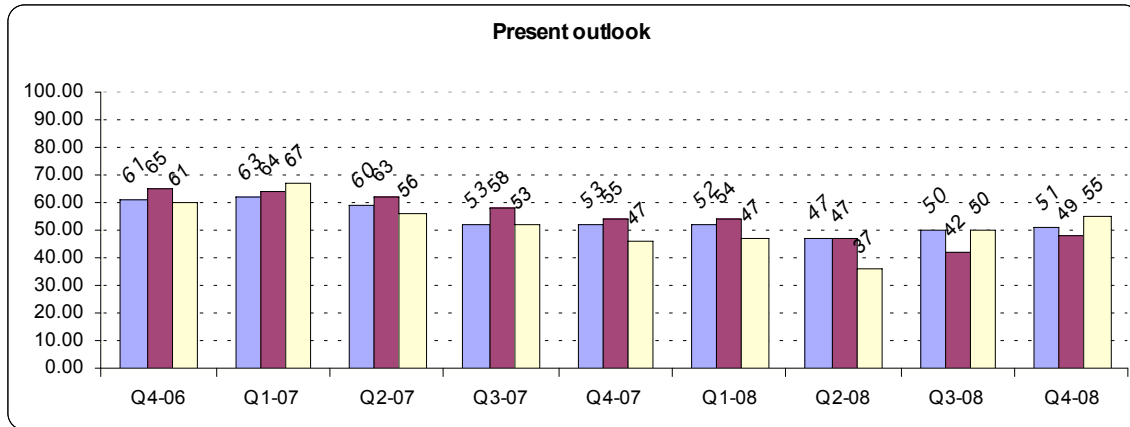


Figure 13. Present Outlook

4.2. Sectorial Future Outlook

4.2.1. Industrial Sector Future Outlook

The business confidence level for future outlook under this sector moved from 62.39% in the third quarter of 2008 to 54.62% in the fourth quarter of 2008. This represents a decrease of 12.45%.

4.2.2. Trade Sector Future Outlook

The confidence index for future outlook in this sector increased slightly from 59.41% in the third quarter of 2008 to 59.69% in the fourth quarter of 2008. This represents an increase of 0.47%.

4.2.3. Services Sector Future Outlook

The services sector outlook for future business activity has also experience a decrease. The confidence index for future outlook decreased from 75.85% in the third quarter of 2008 to 65.32% in the fourth quarter of 2008, representing a decrease of 13.88%.

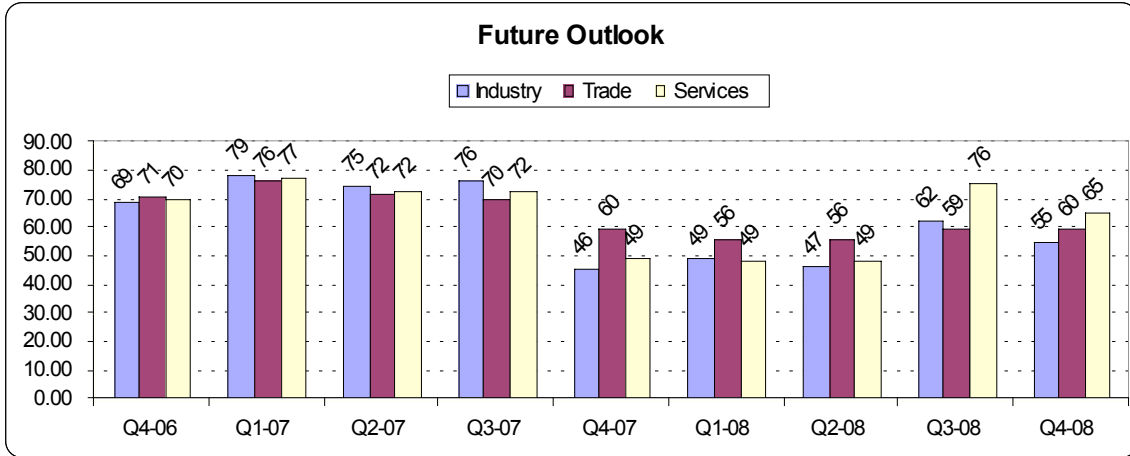


Figure 14. Future Outlook

4.3 Overall Present Index.

The business confidence index for present outlook in the fourth quarter of 2008 increased from 47.42% to 51.64%, an increase 8.9%.

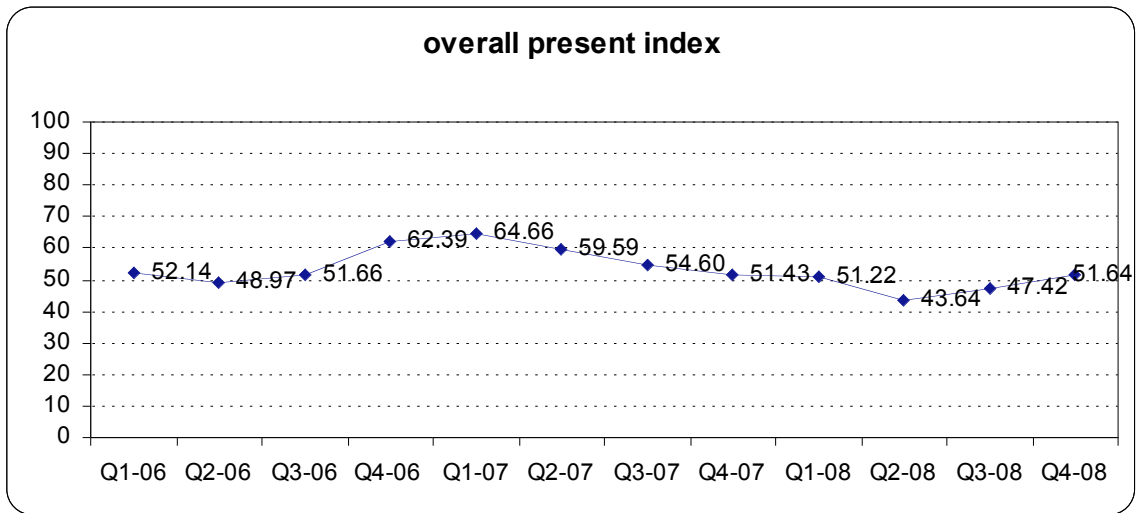


Figure 15. Overall Present Outlook Change

4.4. Overall Future Index.

The future outlook in the fourth quarter of the 2008 survey results shows a decrease in business activities. The overall future outlook index decreased from 65.88% in the third quarter of 2008 to 59.88% in the fourth quarter of 2008, a decrease of 9.11%.

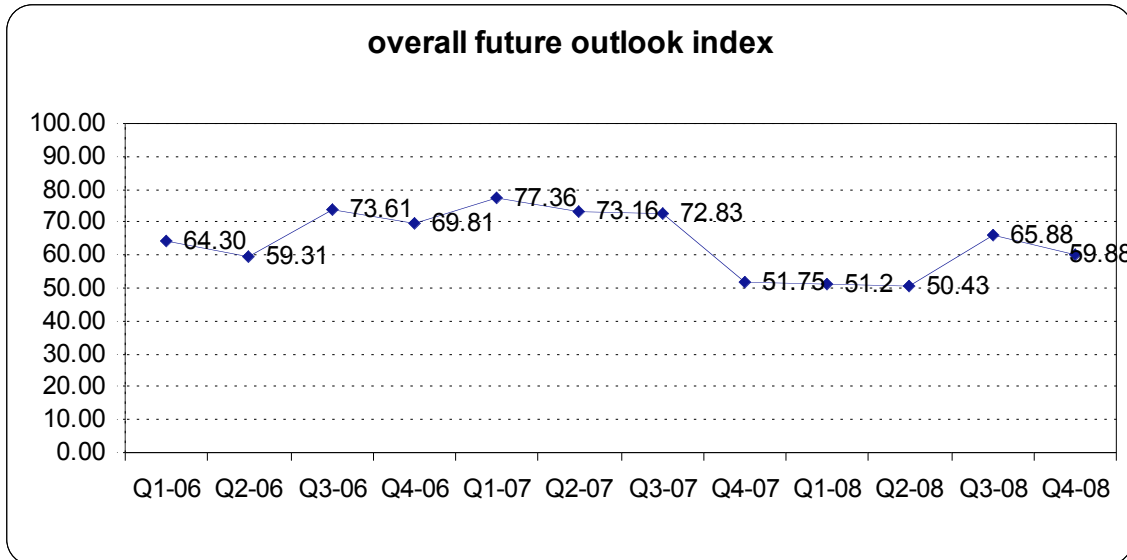


Figure 16. Overall Future Outlook Change

4.5. Overall Index Movement

The overall SMME Business Confidence Index illustrates a slight decrease in the fourth quarter of 2008. The overall index decreased from 56.65% in the third quarter of 2008 to 55.76% in the fourth quarter of 2008. A decrease of 1.57% in business confidence.

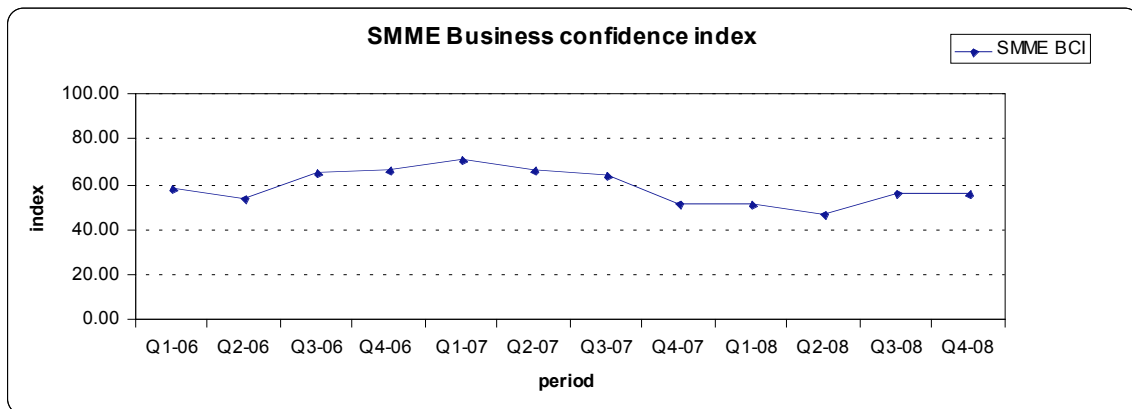


Figure 17. SMME Business Confidence Index

The year-to-date growth rate for business confidence since the beginning of the survey in 2006, shows a general increasing growth in business confidence up to the first quarter of 2007. It however took a downward trend in the second quarter of 2007 and continued into the first, and second quarters. The third quarter of 2008, however, registered an increase but registered another decrease during the fourth quarter of 2008. The year-on-year

growth rates have been fluctuating since the beginning of the survey in 2006 and are now on an downward trend after the pick it had on the third quarter of 2008.

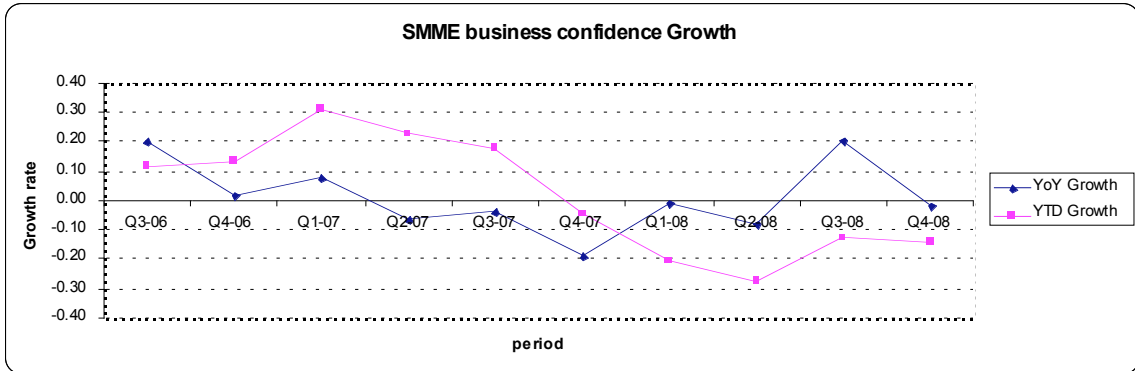


Figure 18. SMME Business Confidence Growth