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## **Surprise Increase in South African SMME's Business Confidence Index Despite the Global Financial Crisis**

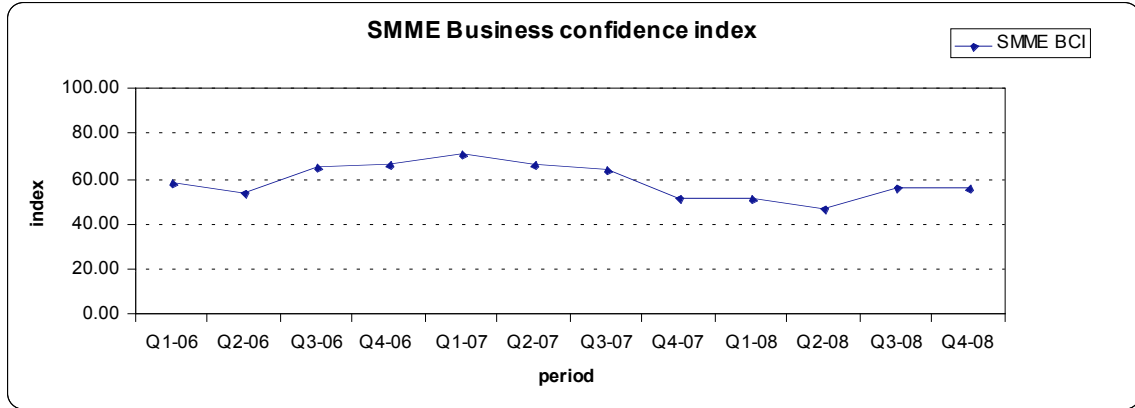
There has been an increase in the South African SMME Business Confidence Index for the last quarter of 2008 despite the severe global financial crisis. The confidence levels in all the three areas viz. the industrial, trade and services sectors have significantly increased. The confidence index for the trade sector increased from 42.20% in the third quarter of 2008 to 48.73% in the fourth quarter of 2008, representing an increase of 15.47%. In the industrial sector, the confidence index for the fourth quarter of 2008 increased to 51.08% from 50.02% in the third quarter of 2008, an increase of 2.12% whereas that of the services sector increased to 55.11% from 50.03% in the third quarter of 2008 and this represents an increase of 10.15%.

The increase in business confidence in the SMME sector is not surprising as demand for services, industrial orders and trade activities tend to increase leading up to Christmas and New Year. The increase in business confidence is also currently fueled by the sharp drop in price of petroleum products which has resulted in the recent decrease of interest rate by the South African Reserve Bank. It is expected that inflation (in particular food inflation) will continue to decline in the short to medium term and this will continue to impact positively in the SMME sector.

The picture for future outlook, however, is not very encouraging. The confidence index for future outlook in the Industrial sector decreased from 62.39% in the third quarter of 2008 to 54.62% in the fourth quarter of 2008, representing a decrease of 12.45%. The confidence index for future outlook in the trade sector has marginally increased from 59.41% in the third quarter of 2008 to 59.69% in the third quarter of 2008, an increase of 0.47%. The index for the services sector also declined from 75.85% in the third quarter of 2008 to 65.32% in the fourth quarter of 2008, representing a decrease of 13.88%. This trend is also expected as consumer spending and business activities tend to decrease after Christmas resulting in decrease in services, industrial orders and other trade activities.

The overall Business Confidence Index (which averages all the three business sectors in the country) shows a significant increase. The overall index increased from 47.42% in the third quarter of 2008 to 51.64% in the fourth quarter of 2008, an increase of 8.90% in business confidence. It is expected that the overall index will decrease in the first quarter of 2009.

The graph below shows the overall trend of South African SMMEs Business Confidence Indices from 2006 until the fourth quarter of 2008.



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*Prof Nicholas Biekpe  
 President: Africagrowth Research &  
 Professor of Development Finance and Econometrics  
 University of Stellenbosch  
[nbiekpe@usb.sun.ac.za](mailto:nbiekpe@usb.sun.ac.za)  
 Research Assistance By:  
 Yoliswa Gumbi*