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## **South African SMME Business Confidence Index Report: First Quarter 2008**

Compiled by: Africagrowth Institute

**Index is Funded by Industrial Development Corporation (IDC) &  
WK Kellogg Foundation**



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## **Table of contents**

1. Introduction.....	3
2. Background Information about sample .....	3
3. Survey Results.....	6
3.1 Business Limiting Factors.....	6
3.1 Business situation Last 3 Months .....	7
3.2 Business outlook for next 6 Months .....	11
4. Business Confidence Index Results .....	14
4.1 Sectorial Present outlook .....	14
4.1.1 Industrial Sector Present Outlook (Perception).....	14
4.1.2 Trade Sector Present Outlook (Perception).....	14
4.1.3 Services Sector Present Outlook (Perception).....	14
4.2. Sectorial Future Outlook.....	14
4.2.1. Industrial Sector Future Outlook (Perception) .....	14
4.2.2. Trade Sector Future Outlook (Perception).....	15
4.2.3. Services Sector Future Outlook (Perception).....	15
4.3 Overall Present Index.....	15
4.4. Overall Future Index.....	16
4.5. Overall Index Movement .....	16

## **Table of Figures**

Figure 1. Distribution by Province.....	4
Figure 2. Distribution by Economic Sector .....	4
Figure 3. Sub-Sector Distribution .....	5
Figure 4. Number of Employees.....	5
Figure 5. Annual Turnover .....	6
Figure 6. Business Limitations .....	7
Figure 7. Industry Business Situation for last 3 months.....	8
Figure 8. Trade Business Situation for last 3 months.....	9
Figure 9. Services Business Situation for last 3 months .....	10
Figure 10. Industry Sector Business Outlook .....	11
Figure 11. Trade Sector Business Outlook .....	12
Figure 12. Services Sector Business Outlook.....	13
Figure 13. Present Outlook .....	14
Figure 14. Future Outlook .....	15
Figure 15. Overall Present Outlook Change.....	15
Figure 16. Overall Future Outlook Change .....	16
Figure 17. SMME Business Confidence Index.....	16
Figure 18. SMME Business Confidence Growth.....	17

## **1. Introduction**

The business confidence of the South African SMME sector has declined. The index which is a survey of the opinions of SMME managers and owners throughout South Africa has been decreasing on a quarter to quarter basis since January 2007. The indices are divided into three strata: Industrial, Trade and Services sectors. The South African SMME Index is constructed by Africagrowth Institute. 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, and 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 expectations in the next six months after the survey. The index is then calculated as 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 overall index for this quarter (that is the first quarter of 2008) shows a further declining rate in business confidence from the last quarter of 2007.

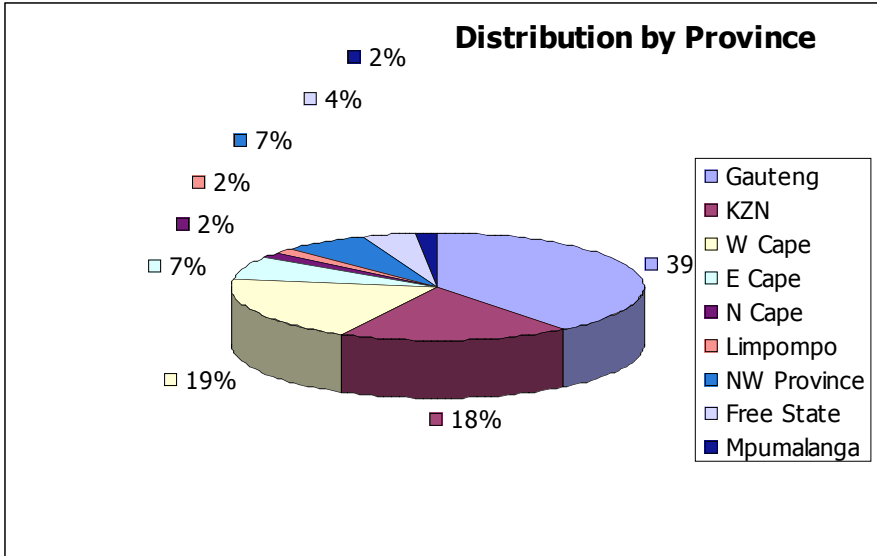
The indices are divided into three strata. These are:

- (a) Industrial sector
- (b) Trade sector
- (c) Services sector

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

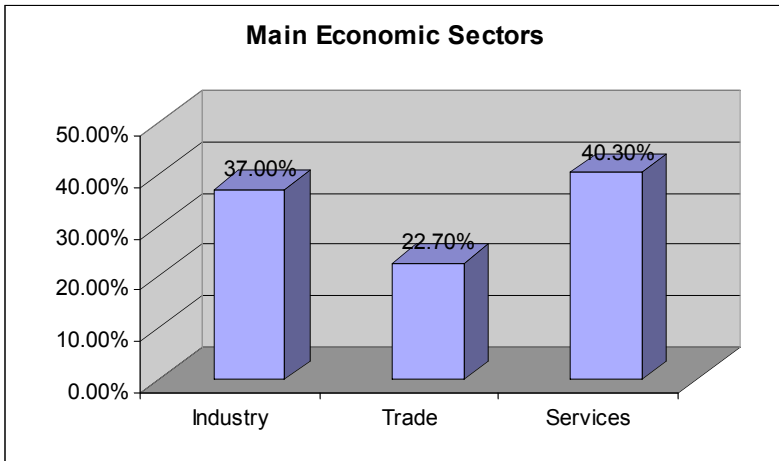
## **2. Background Information about sample**

A random sample of 1597 was taken for the study with 121 managers/owners from the sample responding. This represents about 7% of the sample. The geographical dispersion of the firms is shown in Figure 1 below.



**Figure 1. Distribution by Province**

The response rate has varied over time. However, Gauteng, KwaZulu Natal and Western Cape provinces, which have the highest SMMEs in the country, have always had the highest response rate. They represent about 76% of the sample used in the survey.

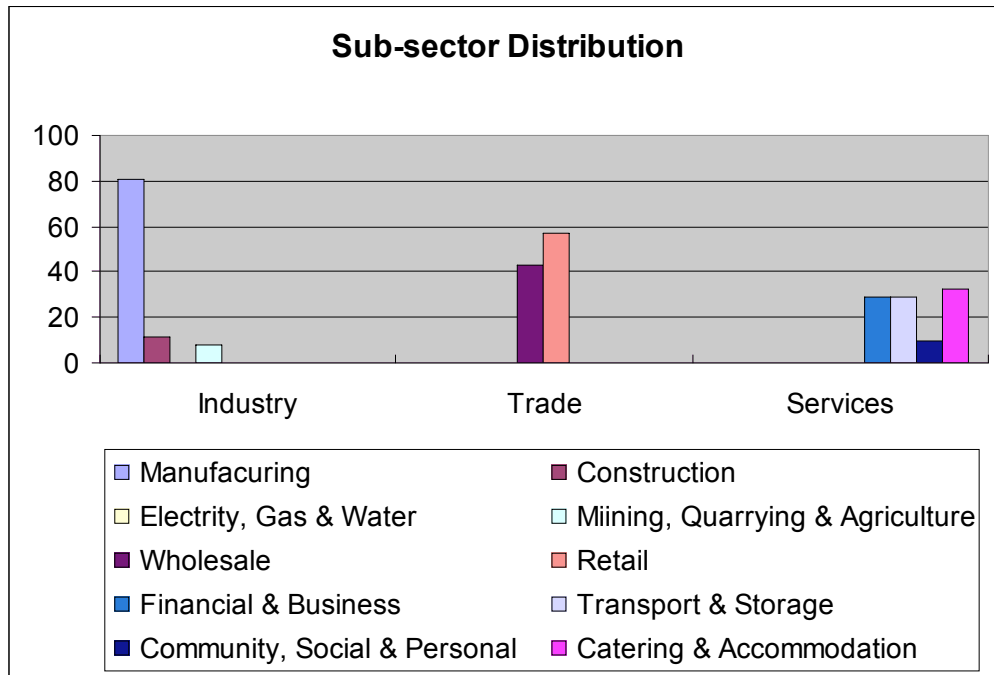


**Figure 2. Distribution by Economic Sector**

In terms of sector distribution, figure 2 shows that the industrial and the services sector is the most represented, followed by the industrial sector. Even though the trade sector has improved slightly from 21% to 22.70%, it still remains the least represented.

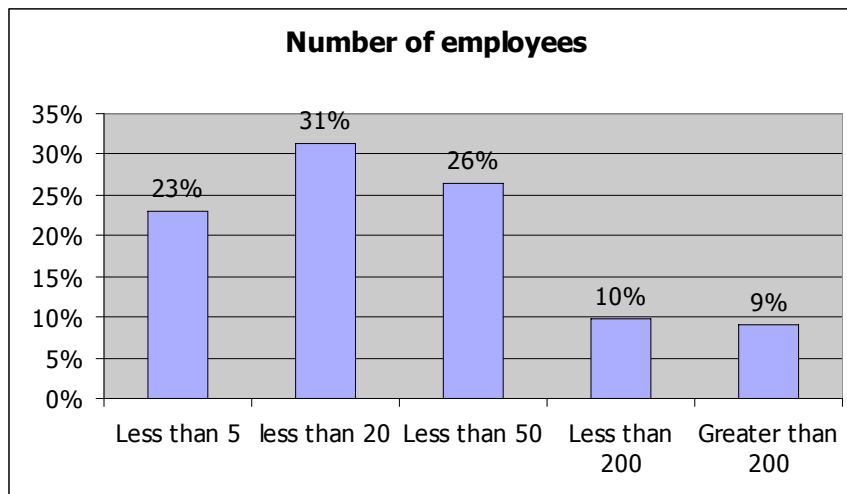
Sub-sector analysis in the broader Industrial sector indicates that the manufacturing sub-sector has the highest representation (80.6%) followed by construction (11.1%). In the trade sector response, the retail was more represented with 57.1% whereas the wholesale

took the balance (42.9%). Finally, financial & business, catering & accommodation was the most represented with 32.3% followed by the financial & business and transport & storage, both scoring 29% in the services sector (Figure 3).



**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 (31%) 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 (39.70%) record an annual turnover of above four (4) million Rand.

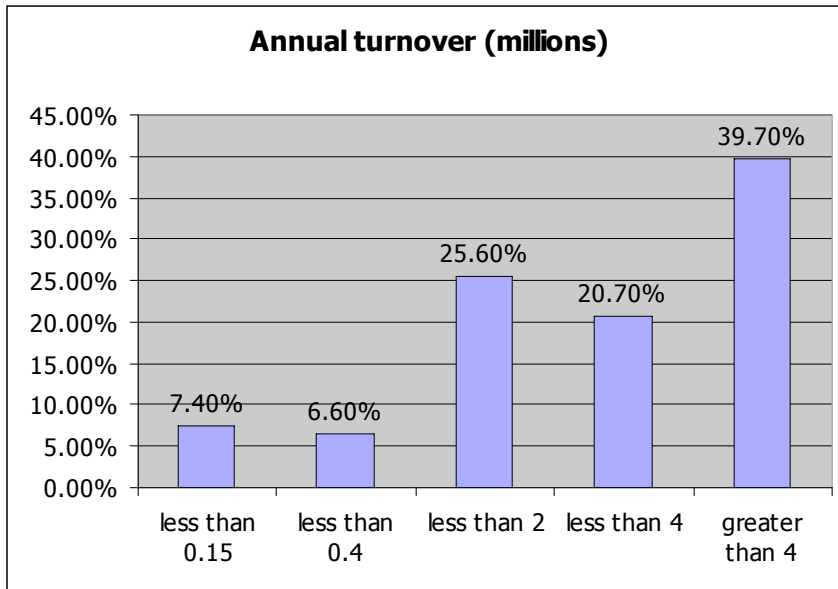
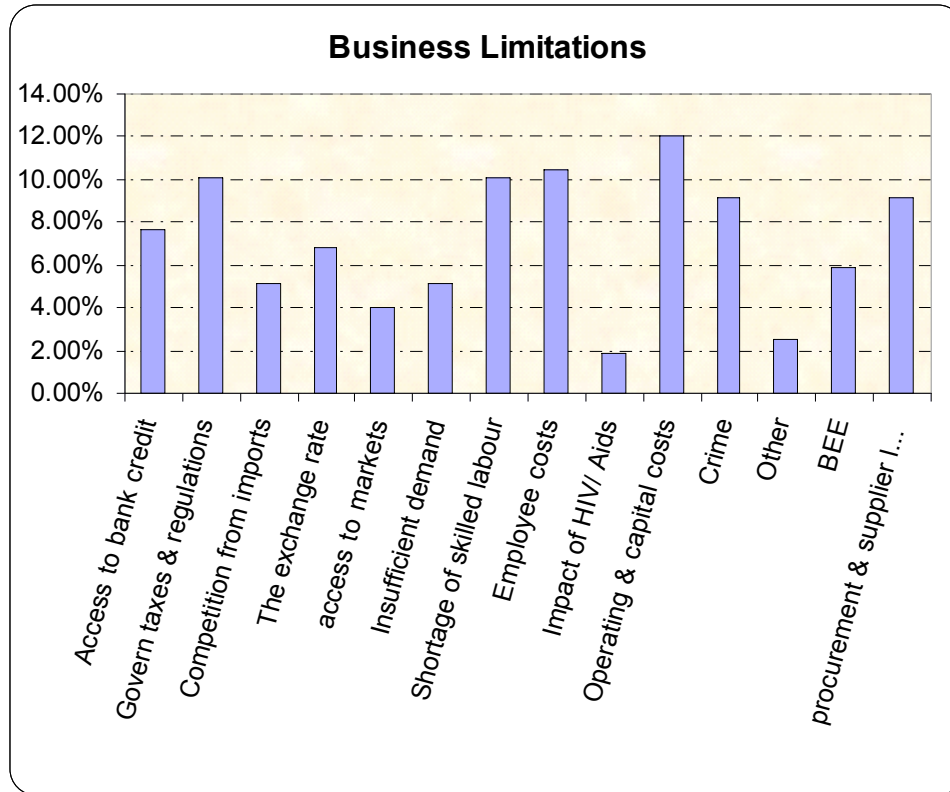


Figure 5. Annual Turnover

### 3. Survey Results

#### 3.1 Business Limiting Factors

Firms were asked to indicate the five most important factors they consider as having negative impact on their businesses. Figure 6 shows the response distribution



**Figure 6. Business Limitations**

Most business managers representing 12% of SMME in South Africa cited operating and capital costs as the major limitation to their operations. Contrary to the results of the previous quarter, employee costs constitute the second major challenge to businesses with 10.48%.

### **3.1 Business situation Last 3 Months**

This section provides results of the survey questions pertaining 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 respectively.

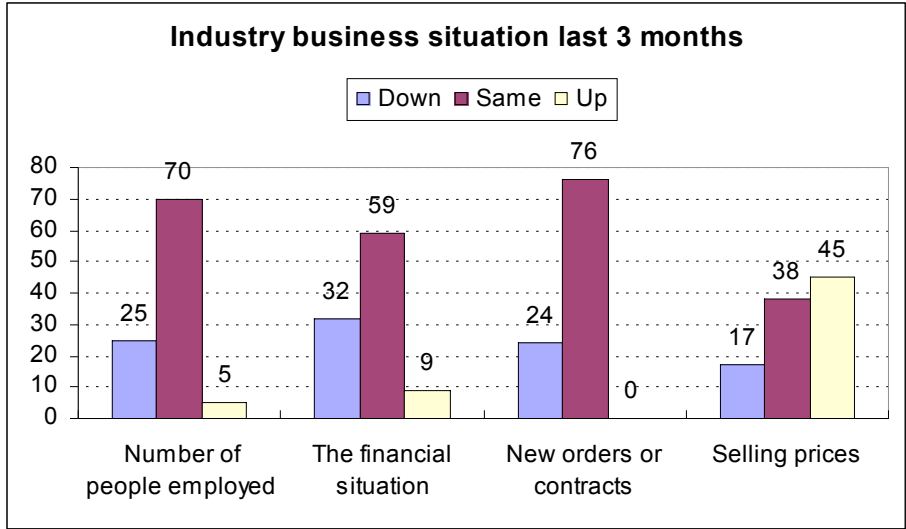


Figure 7. Industry Business Situation for last 3 months

**Industry**

- ❖ **Number of people employed:** In the industrial sector 25% of SMME owners indicated that their employment levels have gone down whilst majority of them (70%) were of the view that it had remained the same and 5% were able to employ more.
- ❖ **Financial situation:** In the industrial sector 32% of SMME owners showed that this had gone down while 59% were of the view that it remained unchanged and 9% indicated an improvement.
- ❖ **New orders or contracts:** In the industrial sector 24% of SMME owners were of the opinion that new orders had gone down whereas 76% were of the view that it remained the same whilst none of them indicated that it had gone up.
- ❖ **Selling price:** In the industrial sector 17% of SMME owners indicated a downward trend, 38% indicated no change and 45% witnessed an increase.

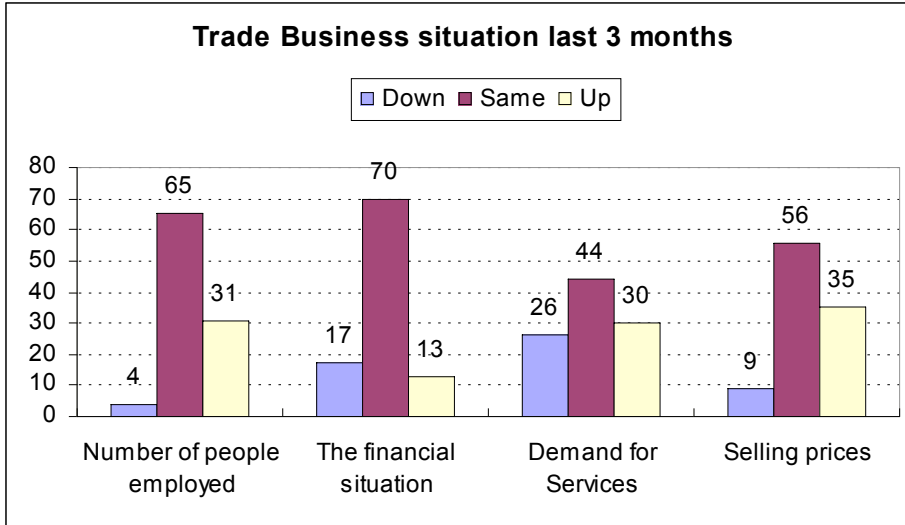


Figure 8. Trade Business Situation for last 3 months

### Trade

- ❖ **Number of people employed:** In the trade sector 4% of SMME owners indicated that employment had gone down whilst 65% were of the view that it had remained the same and 31% were able to employ more.
- ❖ **Financial situation:** In the trade sector 17% of SMME owners showed that the financial situation had gone down whilst majority (70%) were of the view that it remained unchanged and 13% indicated an improvement.
- ❖ **Demand for Services:** In the trade sector 26% of SMME owners were of the opinion that the demand for services went down whilst 44% were of the view that it remained the same and 30% indicated that it had gone up.
- ❖ **Selling price:** In the trade sector 9% of SMME owners indicated a downward trend, 56% indicated no change and 35% witnessed an increase.

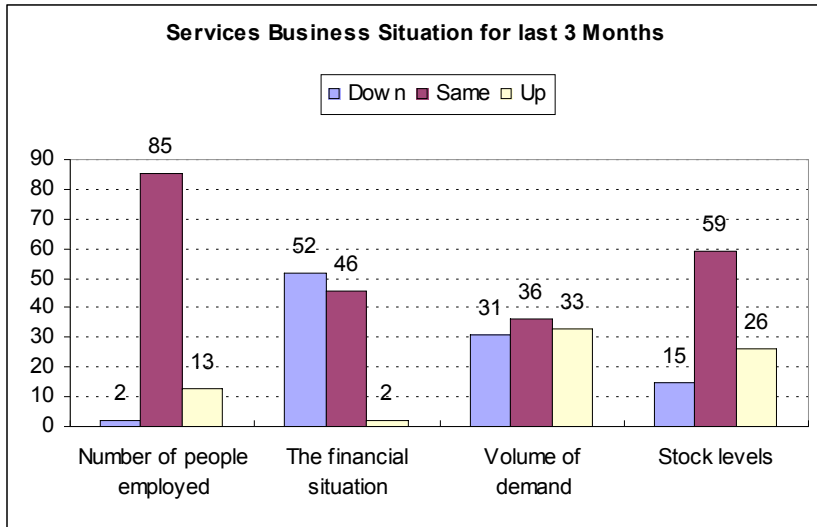


Figure 9. Services Business Situation for last 3 months

### Services

- ❖ **Number of people employed:** In this sector 2% of SMME owners indicated that employment had gone down whilst an overwhelming majority (85%) were of the view that it had remained the same and 13% were able to employ more.
- ❖ **Financial situation:** In this sector 52% of SMME owners indicated that this had gone down whilst 46% were of the view that it remained unchanged and 2% indicated an improvement.
- ❖ **Volume of demand:** In this sector 31% of SMME owners were of the view that volume of demand had gone down whilst 36% were of the view that it remained the same and 33% of them indicated that it had gone up.
- ❖ **Stock levels:** In this sector 15% of SMME owners indicated a downward trend, 59% showed no change in stock levels and 26% witnessed an upward movement.

### 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. Figures 10, 11 and 12 show responses on attributes with respect to business outlook of the next 6 months for the Industrial, Trade and Services sector respectively.

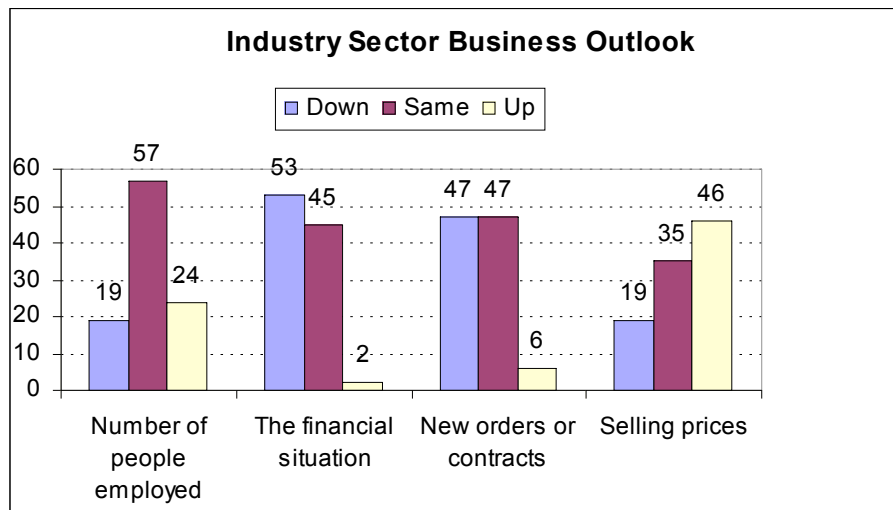


Figure 10. Industry Sector Business Outlook

#### Industry

- ❖ **Number of people employed:** In this sector, 19% of SMME owners indicated that employment will go down whilst 57% were of the view that it will remain the same and 24% will be able to employ more.
- ❖ **Financial situation:** In this sector, 53% of SMME owners indicated that this will go down whilst about the same percentage, 45% were also of the view that it will remain unchanged and 2% indicated an improvement.
- ❖ **New orders or contracts:** In this sector, 47% of SMME owners indicated that new orders will go down whilst 47% were also of the view that it will remain the same and 6% of them indicated that it will go up.
- ❖ **Selling price:** In this sector, 19% of SMME owners indicated a downward trend, 35% did not think there will be a change and 46% were of the view that selling price will go up.

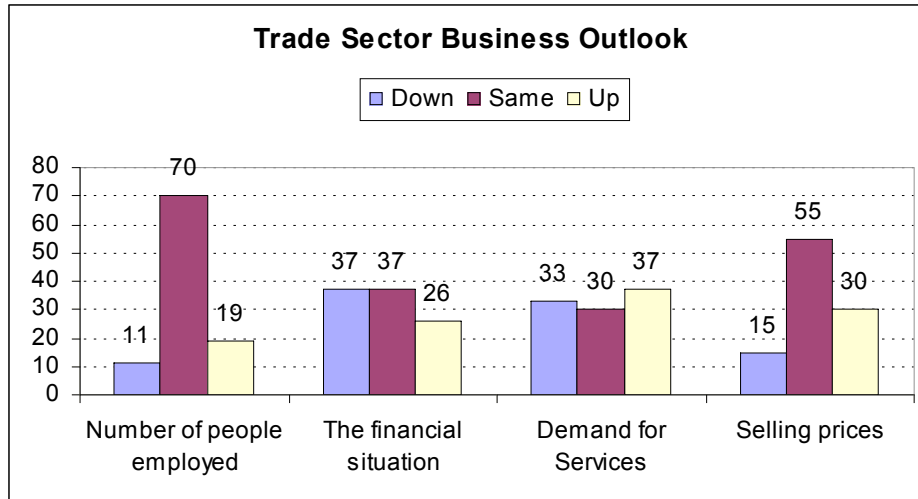


Figure 11. Trade Sector Business Outlook

### Trade

- ❖ **Number of people employed:** In the trade sector, 11% of SMME owners indicated that employment will go down. However 70% were of the view that it will remain the same and 19% will be able to employ more.
- ❖ **Financial situation:** In the trade sector, 37% of SMME owners indicated that this will go down whilst about the same percentage, 37% were also of the view that it will remain unchanged and 26% indicated an improvement.
- ❖ **Demand for Services:** In the trade sector, 33% of SMME owners were of the opinion that the demand of services will go down whilst 30% were of the view that it will remain the same and 37% of them indicated an upward trend.
- ❖ **Selling price:** In the trade sector, 15% of SMME owners indicated a downward trend in future, 55% indicated there will be no change and 30% indicated an increase.

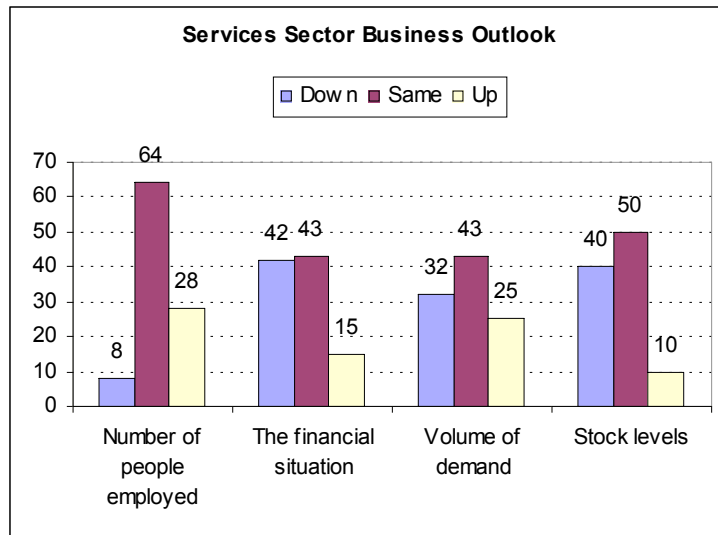


Figure 12. Services Sector Business Outlook

### Services

- ❖ **Number of people employed:** In this sector, 8% of SMME owners indicated that employment will go down whilst 64% were of the view that it will remain the same and 28% will be able to employ more.
- ❖ **Financial situation:** In this sector, 42% of SMME owners indicated that this will go down whilst 43% were of the view that it will remain unchanged and 15% indicated there will be improvement.
- ❖ **Volume of demand:** In this sector 32% of SMME owners indicated that the volume of demand will go down whilst 43% were of the view that it will remain the same and 25% of them predicted a possible increase.
- ❖ **Selling price:** In this sector, 40% of SMME owners indicated there will be a downward trend, 50% do not think there will be a change and 10% think selling price will go up.

## 4. Business Confidence Index Results

### 4.1 Sectorial Present outlook

#### 4.1.1 Industrial Sector Present Outlook

The industrial sector revealed a slight decrease in business confidence. The business confidence level for present outlook for the Industrial Sector decreased from 52.84% in the last quarter of 2007 to 52.40% in the first quarter of 2008 representing a marginal decrease of 0.83%.

#### 4.1.2 Trade Sector Present Outlook

The trade sector also recorded a decrease in business confidence from 54.53% in the last quarter of 2007 to 54.01% in the first quarter of 2008 representing a decrease of 0.95%.

#### 4.1.3 Services Sector Present Outlook

The services sector has however witnessed a slight improvement in confidence level from 46.90% in the last quarter of 2007 to 47.25% in first quarter of 2008 representing an increase of 0.75%.

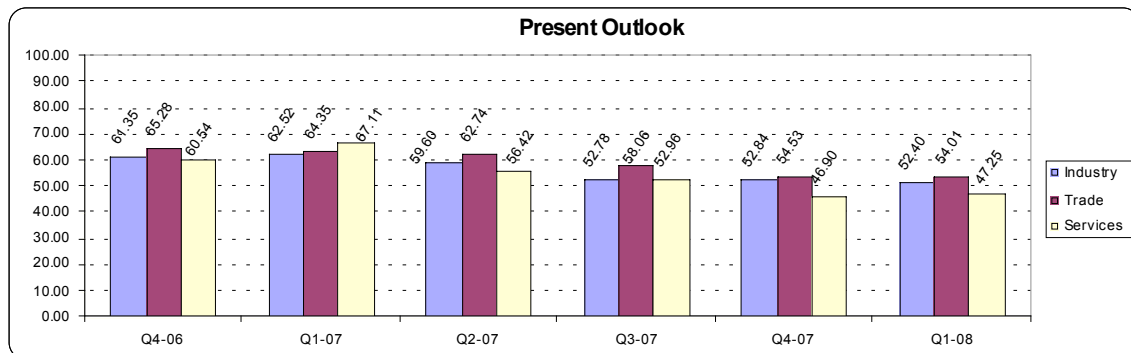


Figure 13. Present Outlook

### 4.2. Sectorial Future Outlook

#### 4.2.1. Industrial Sector Future Outlook

Unlike the previous quarter, the industrial sector expressed optimism about future business outlook. The business confidence level for future outlook (Figure 14) under this sector moved from 46.17% in the last quarter of 2007 to 49% in the first quarter of 2008, representing a possible hike of 6.13%.

#### 4.2.2. Trade Sector Future Outlook

The confidence index for future outlook in this sector continues to decline from 59.66% in the last quarter of 2007 to 55.77% in the first quarter of 2008, a decrease of 6.52%.

#### 4.2.3. Services Sector Future Outlook

The services sector outlook for future business activity also declined. The confidence index for future outlook decreased from 49.41 in the last quarter of 2007 to 48.84% in the first quarter of 2008 (Figure 14), representing a decrease of 1.15%.

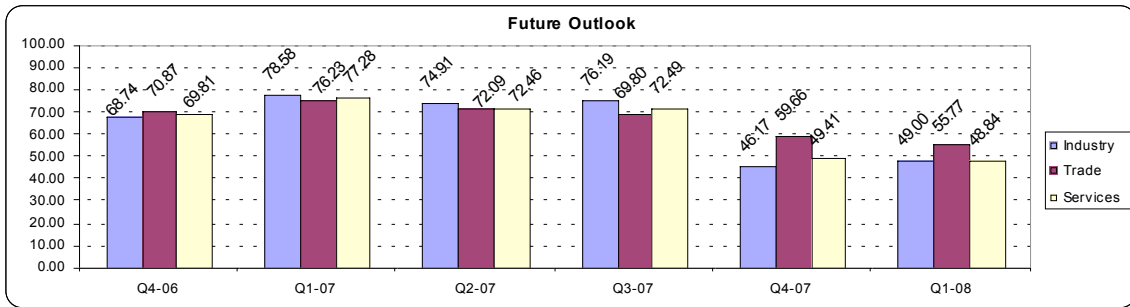


Figure 14. Future Outlook

#### 4.3 Overall Present Index.

The business confidence index for present outlook in the first quarter of 2008 dropped from 51.43% to 51.22. This represents a decrease of 0.41%.

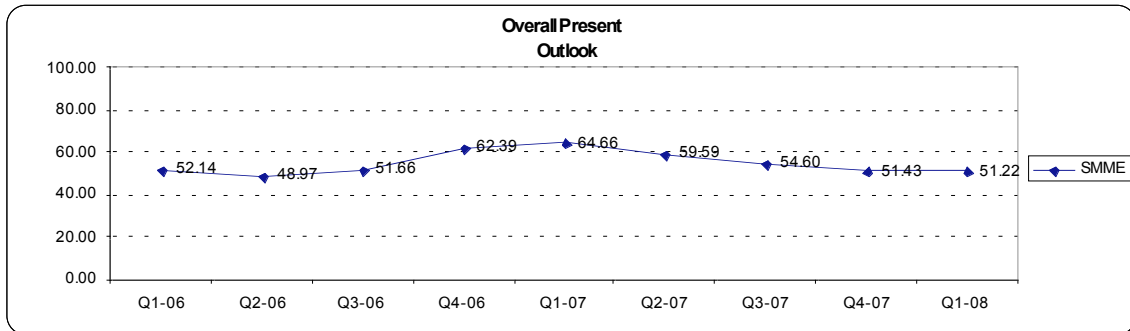


Figure 15. Overall Present Outlook Change

#### 4.4. Overall Future Index.

The future outlook in the first quarter of the 2008 survey results (Figure 16) also shows a slight declining trend in business activities. The overall future outlook index decreased from 51.75% in the last quarter of 2007 to 51.20%, a decrease of 1.06%.

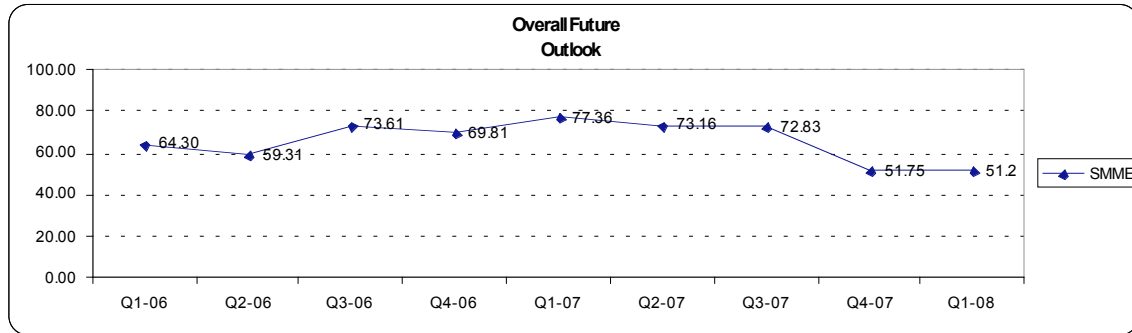


Figure 16. Overall Future Outlook Change

#### 4.5. Overall Index Movement

The overall SMME Business Confidence Index (Figure 17) illustrated a slight descending trend in the last quarter of 2007. The overall index decreased from 51.59% in the last quarter of 2007 to 51.21% in the first quarter of 2008, a decrease of 0.74% in business confidence.

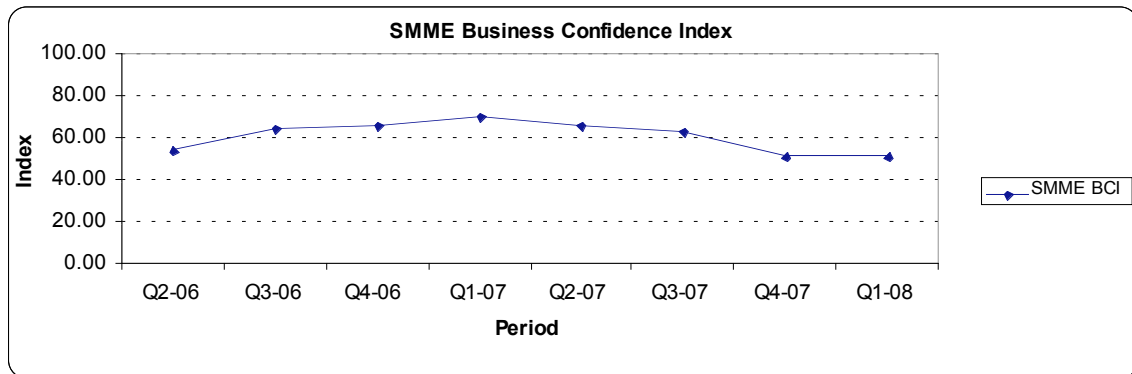


Figure 17. SMME Business Confidence Index

The year-to-date growth rate (Figure 18) for business confidence since the beginning of the surveys in 2006, shows a general increasing growth in business confidence up to the third quarter of 2007. It had however taken a downward trend in the last quarter of 2007 and continued in the first quarter of 2008. The year-on-year growth rates have been fluctuating since the beginning of the surveys in 2006 and are now on an upward trend between the last quarter of 2007 and the first quarter of 2008.

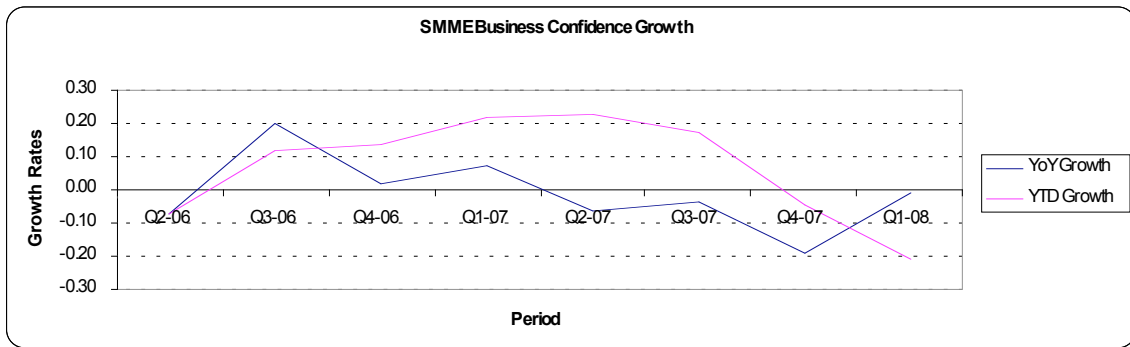


Figure 18. SMME Business Confidence Growth