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1. Introduction

This SMMEs quarterly index, constructed by the Africagrowth Institute, culminates from a survey that explores the opinions of SMME Managers and owners all over South Africa about the current and future business prospects. Evidence from the survey shows a further decline in Business Confidence from the first 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, 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 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 second quarter survey of 2008.

2. Background Information about sample

Out of a random sample of 1607 of the firms selected for this survey 158 responded. The sample was randomly drawn from various databases compiled by Africagrowth Institute. The provincial distribution of the SMMEs for this study is shown in Figure 1 below.

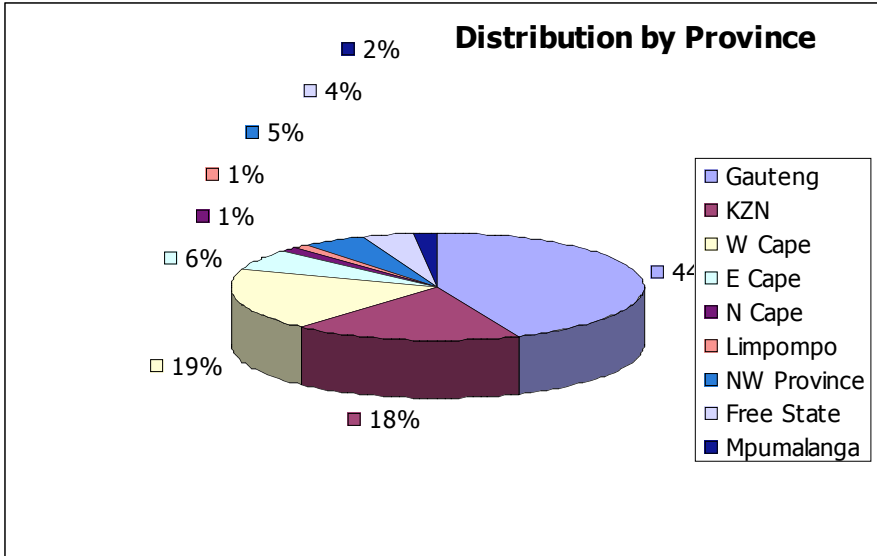


Figure 1. Distribution by Province

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 81% of the responses received.

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

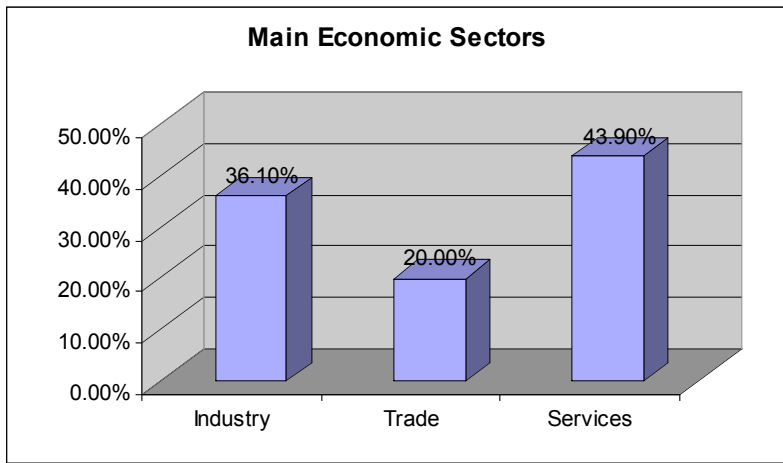


Figure 2. Distribution by Economic Sector

Sub-sector analysis in the broader Industrial sector indicates that the manufacturing sub-sector has the highest representation (84.1%) followed by construction (9.1%). In the trade sector response, the retail was more represented with 64.7% whereas the wholesale took the balance (35.3%). Finally, transport & storage, financial & business, catering & accommodation were the most represented with 35.6%, 28.9% and 26.7% respectively. Below is a summary of the sub-sector distribution.

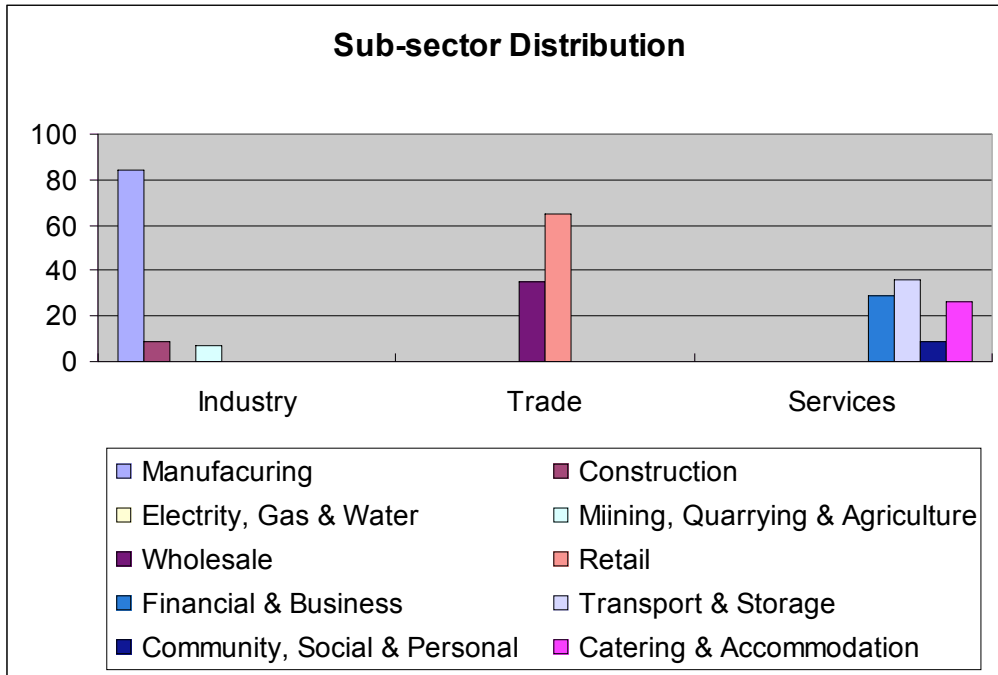


Figure 3. Sub-Sector Distribution

Figure 4 below shows a graphical representation of the number of people employed. It shows that majority of the firms (33%) have a staff strength of less than 20.

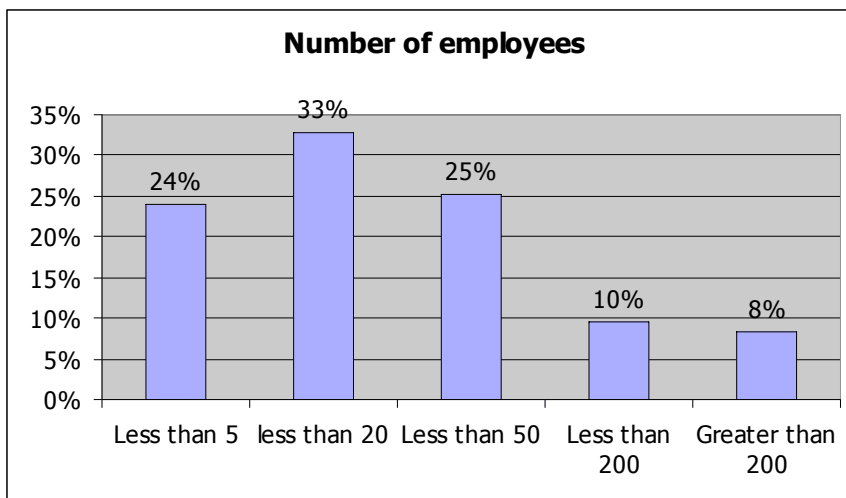


Figure 4. Number of Employees

Figure 5, which depicts the turnover distribution, shows that most of the firms (38.60%) record an annual turnover of above four (4) million Rand.

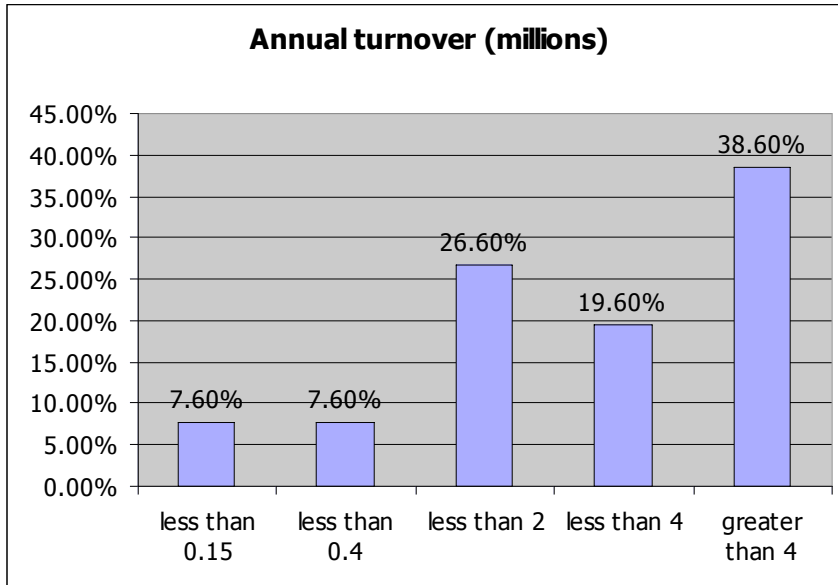


Figure 5. Annual Turnover

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. Similar to the previous report, most business managers representing 12.06% and 10.88% of SMMEs sampled cited operating & capital costs and employee costs respectively, as major limiting factors to their operations. Figure 6 shows the response distribution.

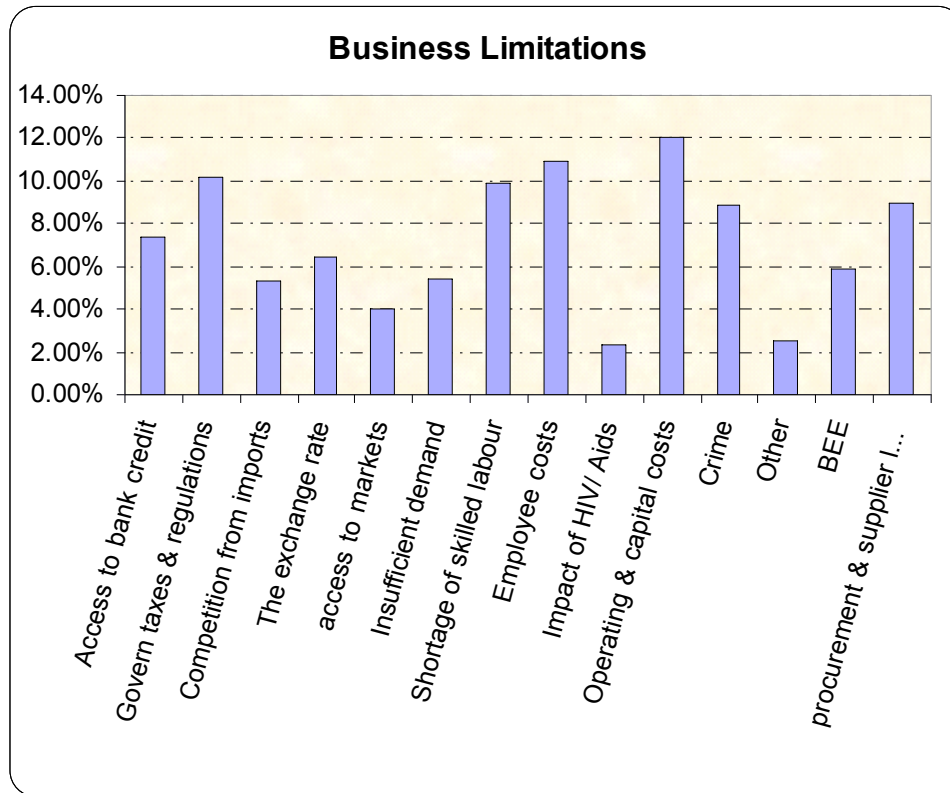


Figure 6. Business Limitations

3.1 Business situation Last 3 Months

This section provides results of the survey questions pertaining to the BCI attributes which form 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 28% of SMME owners indicated that their employment levels have gone down whilst majority of them (67%) were of the view that it had remained the same and 5% were able to employ more.
- ❖ **Financial situation:** In the industrial sector 31% of SMME owners showed that this had gone down while 60% were of the view that it remained unchanged and 9% indicated an improvement.
- ❖ **New orders or contracts:** here, the results were quite the same as that of the previous quarter. 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 19% of SMME owners indicated a downward trend, 34% indicated no change and 47% witnessed an increase.
- ❖

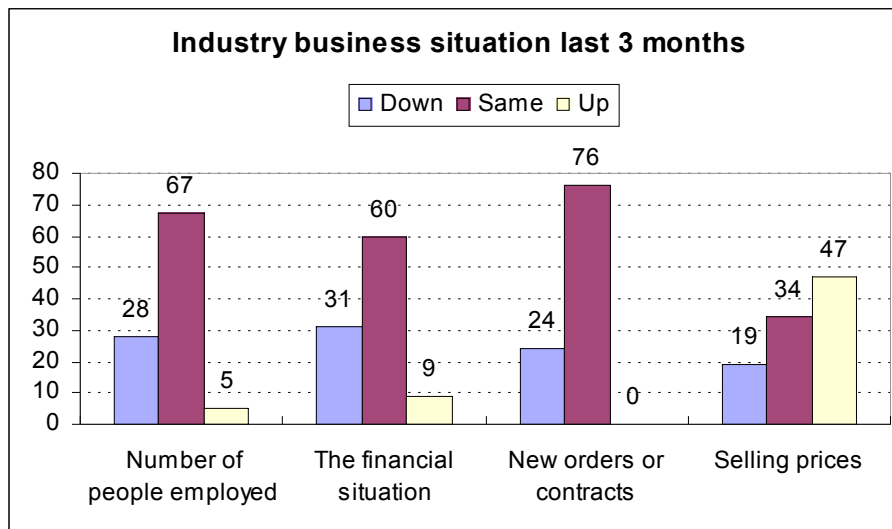


Figure 7. Industry Business Situation for last 3 months

Trade

- ❖ **Number of people employed:** In the trade sector 5% of SMME owners indicated that employment had gone down whilst 64% were of the view that it had remained the same and 31% were able to employ more.
- ❖ **Financial situation:** In the trade sector 15% of SMME owners showed that the financial situation had gone down whilst majority (69%) were of the view that it remained unchanged and 16% indicated an improvement.
- ❖ **Volume of demand:** In the trade sector 31% of SMME owners were of the opinion that the volume of demand went down whilst 42% were of the view that it remained the same and 27% indicated that it had gone up.
- ❖ **Stock levels:** In the trade sector 12% of SMME owners indicated a downward trend, 57% indicated no change and 31% witnessed an increase.

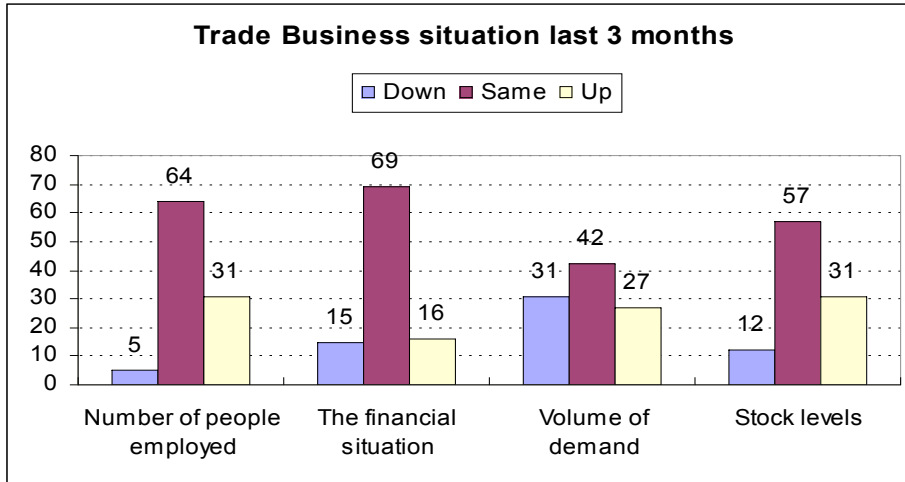


Figure 8. Trade Business Situation for last 3 months

Services

- ❖ **Number of people employed:** In this sector 3% 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 12% were able to employ more.
- ❖ **Financial situation:** In this sector 50% of SMME owners indicated that this had gone down whilst 47% were of the view that it remained unchanged and 3% indicated an improvement.
- ❖ **Volume of demand:** In this sector 30% of SMME owners were of the view that volume of demand had gone down whilst 32% were of the view that it remained the same and 38% of them indicated that it had gone up.
- ❖ **Stock levels:** In this sector 17% of SMME owners indicated a downward trend, 57% showed no change in stock levels and 26% witnessed an upward movement.

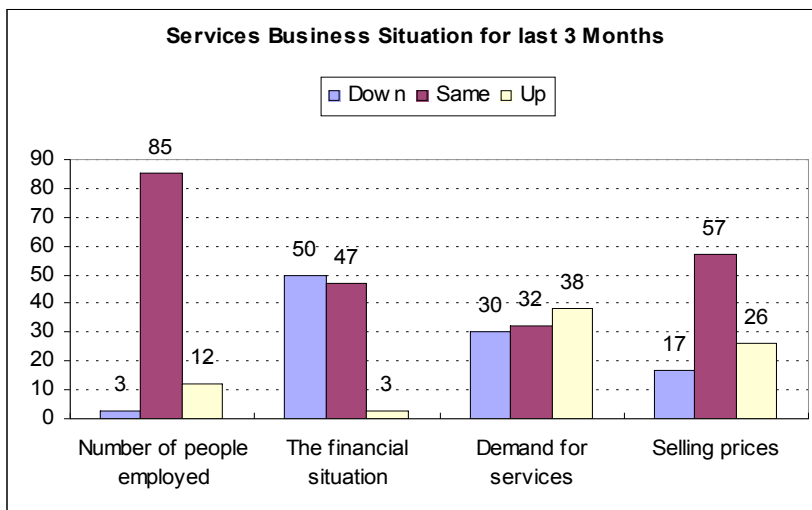


Figure 9. Services Business Situation for last 3 months

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. 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, 17% of SMME owners indicated that employment will go down whilst 59% were of the view that it will remain the same and 24% will be able to employ more.
- ❖ **Financial situation:** In this sector, 51% of SMME owners indicated that this will go down whilst about the same percentage, 47% 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 46% were also of the view that it will remain the same and 7% of them indicated that it will go up.
- ❖ **Selling price:** In this sector, 19% of SMME owners indicated a downward trend, 36% did not think there will be a change and 45% were of the view that selling prices will go up.

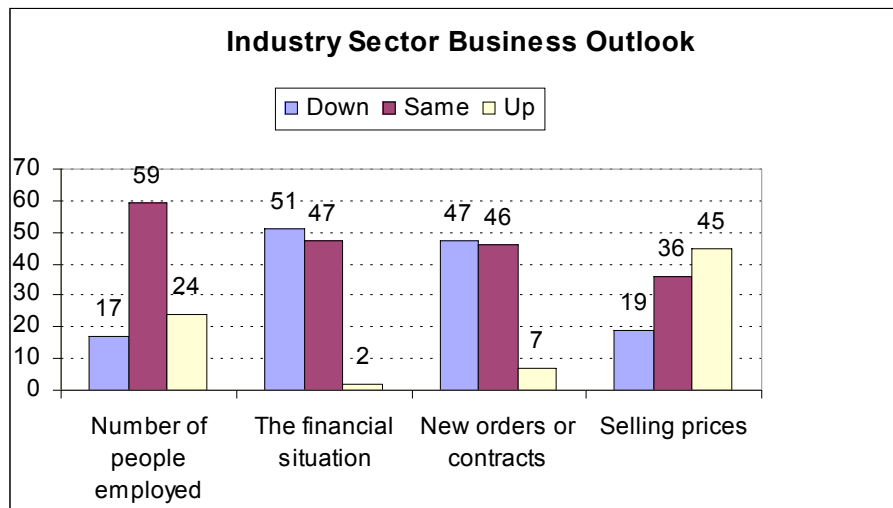


Figure 10. Industry Sector Business Outlook

Trade

- ❖ **Number of people employed:** In the trade sector, 9% of SMME owners indicated that employment will go down. However 72% were of the view that it will remain the same and 19% will be able to employ more.

- ❖ **Financial situation:** In the trade sector, 34% of SMME owners indicated that this will go down whilst about the same percentage, 41% were also of the view that it will remain unchanged and 25% indicated an improvement.
- ❖ **Demand for Services:** In the trade sector, 31% of SMME owners were of the opinion that the demand of services will go down whilst 31% were also of the view that it will remain the same and 38% of them indicated an upward trend.
- ❖ **Selling price:** In the trade sector, 12% of SMME owners indicated a downward trend in future, 63% indicated there will be no change and 25% indicated an increase.

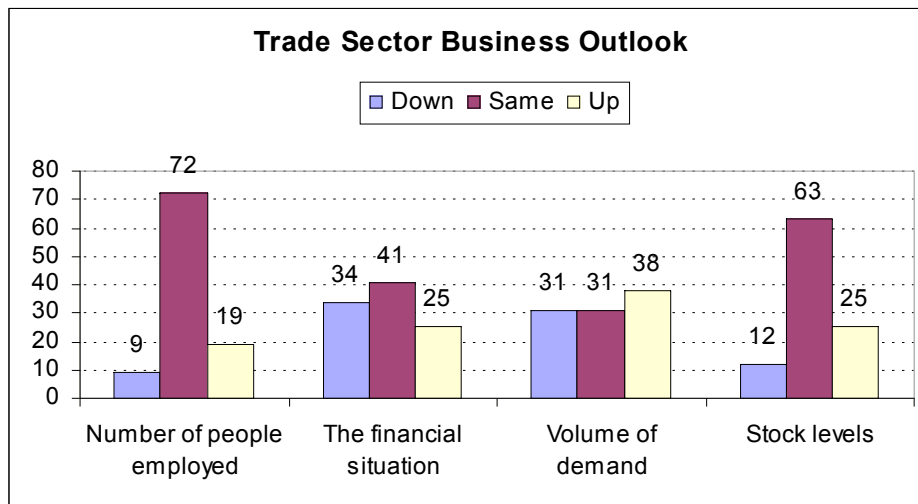


Figure 11. Trade Sector Business Outlook

Services

- ❖ **Number of people employed:** In this sector, 6% of SMME owners indicated that employment will go down whilst 69% were of the view that it will remain the same and 25% will be able to employ more.
- ❖ **Financial situation:** In this sector, 40% of SMME owners indicated that this will go down whilst 48% were of the view that it will remain unchanged and 12% indicated there will be improvement.
- ❖ **Volume of demand:** In this sector 28% of SMME owners indicated that the volume of demand will go down whilst 46% were of the view that it will remain the same and 26% of them predicted a possible increase.
- ❖ **Selling price:** In this sector, 40% of SMME owners indicated there will be a downward trend, 52% do not think there will be a change and 8% think selling price will go up.

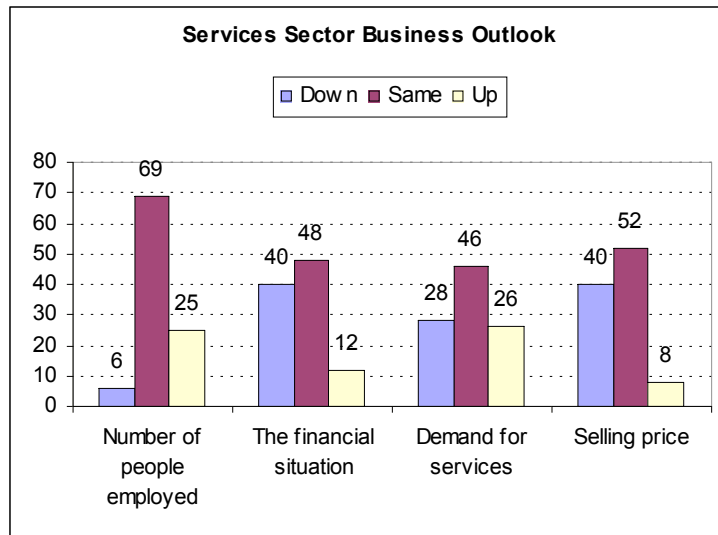


Figure 12. Services Sector Business Outlook

4. Business Confidence Index Results

4.1 Sectorial Present outlook

4.1.1 Industrial Sector Present Outlook

The industrial sector revealed a decrease in business confidence. The business confidence level for present outlook for the Industrial Sector decreased from 52.40% in the first quarter of 2008 to 47.21% in the second quarter of 2008, representing a decrease of 9.9%.

4.1.2 Trade Sector Present Outlook

The trade sector also recorded a decrease in business confidence from 54.01% in the first quarter of 2008 to 47.18% in the second quarter of 2008, representing a decrease of 12.65%.

4.1.3 Services Sector Present Outlook

Contrary to the previous report, the services sector has witnessed the most decrease in confidence level from 47.25% in the first quarter of 2008 to 36.53% in second quarter of 2008, representing a massive decrease of 22.69%.

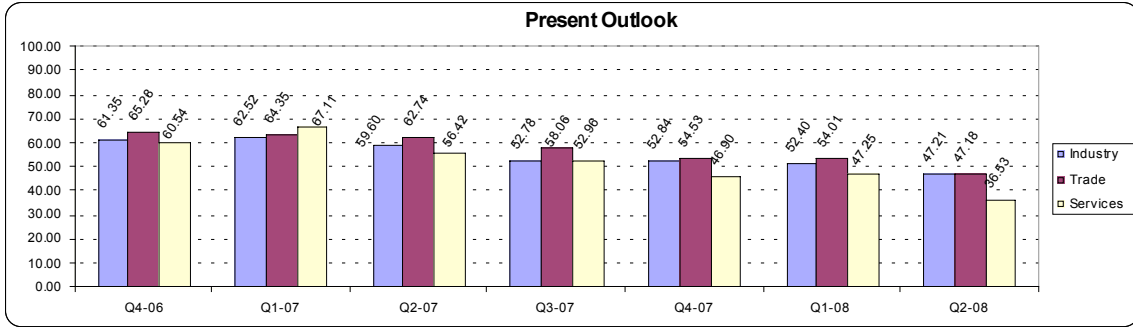


Figure 13. Present Outlook

4.2. Sectorial Future Outlook

4.2.1. Industrial Sector Future Outlook

Unlike the previous quarter, the industrial sector expressed pessimism about future business outlook. The business confidence level for future outlook (Figure 14) under this sector moved from 49% in the first quarter of 2008 to 46.50% in the second quarter of 2008, representing a possible decrease of 5.10%.

4.2.2. Trade Sector Future Outlook

The confidence index for future outlook in this sector has however experienced a slight improvement 55.77% in the first quarter of 2008 to 56.06 in the second quarter of 2008, a slight hike of 0.52%.

4.2.3. Services Sector Future Outlook

The services sector outlook for future business activity also declined slightly. The confidence index for future outlook decreased from 48.84% in the first quarter of 2008 to 48.73% in the second quarter of 2008 (Figure 14), representing a decrease of 1.15%.

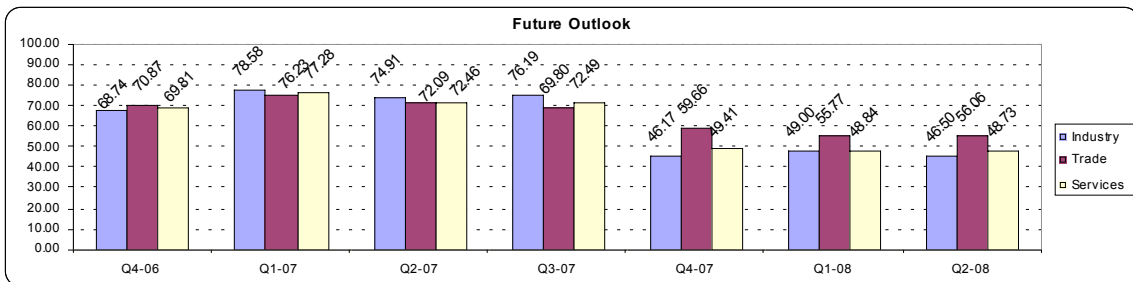


Figure 14. Future Outlook

4.3 Overall Present Index.

The business confidence index for present outlook in the second quarter of 2008 dropped from 51.22% to 43.64%. This represents a very significant decrease of 14.80%.

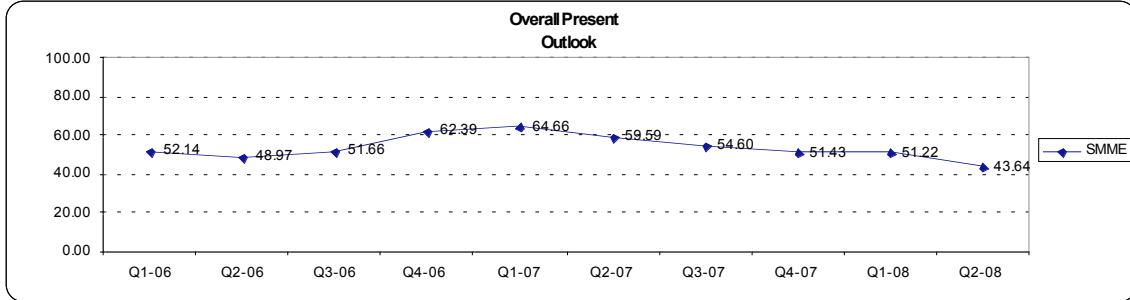


Figure 15. Overall Present Outlook Change

4.4. Overall Future Index.

The future outlook in the second quarter of the 2008 survey results (Figure 16) also shows a slight declining trend in business activities. The overall future outlook index decreased from 51.20% in the first quarter of 2008 to 50.43% in the second quarter of 2008, a decrease of 1.50%.

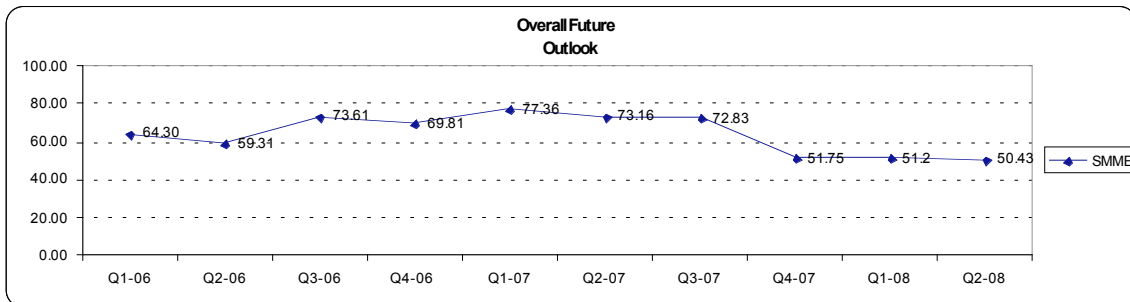


Figure 16. Overall Future Outlook Change

4.5. Overall Index Movement

The overall SMME Business Confidence Index (Figure 17) illustrated a descending trend in the second quarter of 2008. The overall index decreased from 51.21% in the first quarter of 2008 to 47.03% in the second quarter of 2008, a decrease of 8.16% in business confidence.

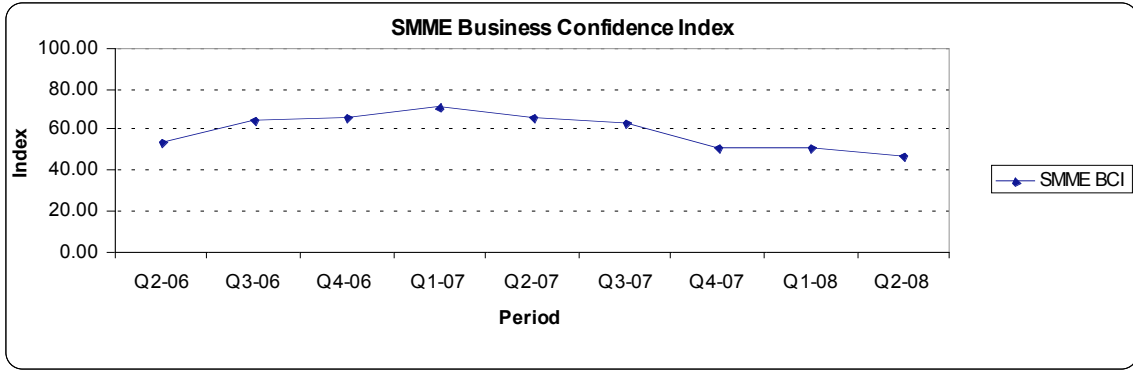


Figure 17. SMME Business Confidence Index

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 first quarter of 2007. It however took a downward trend in the second quarter of 2007 and continued in the first and second quarters of 2008. The year-on-year growth rates have been fluctuating since the beginning of the surveys in 2006 and are now on a downward trend between the first and second quarters of 2008.

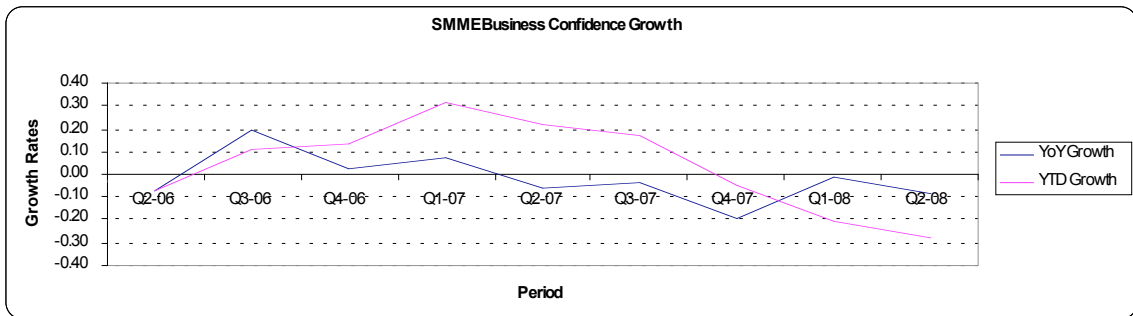


Figure 18. SMME Business Confidence Growth