

Table of contents

1. Introduction.....	3
2. Background Information about sample	3
3. Survey Results.....	7
3.1 Business Limiting Factors.....	7
3.1 Business situation Last 3 Months	7
3.2 Business outlook for next 6 Months	10
4. Business Confidence Index Results	12
4.1 Sectorial Present outlook	12
4.1.1 Industrial Sector Present Outlook	12
4.1.3 Services Sector Present Outlook.....	12
4.2. Sectorial Future Outlook.....	13
4.2.1. Industrial Sector Future Outlook	13
4.2.2. Trade Sector Future Outlook	13
4.2.3. Services Sector Future Outlook	13
4.3 Overall Present Index.....	14
4.4. Overall Future Index.....	14
4.5. Overall Index Movement	14

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	10
Figure 11. Trade Sector Business Outlook	11
Figure 12. Services Sector Business Outlook.....	12
Figure 13. Present Outlook	13
Figure 14. Future Outlook	13
Figure 15. Overall Present Outlook Change.....	14
Figure 16. Overall Future Outlook Change	14
Figure 17. SMME Business Confidence Index.....	15
Figure 18. SMME Business Confidence Growth.....	15

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 started an upward plunge in this quarter, the third 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 third quarter survey of 2008.

2. Background Information about sample

Out of the 1700 randomly selected SMMEs, 122 responded. The provincial distribution of the SMMEs for this study is shown in Figure 1 below.

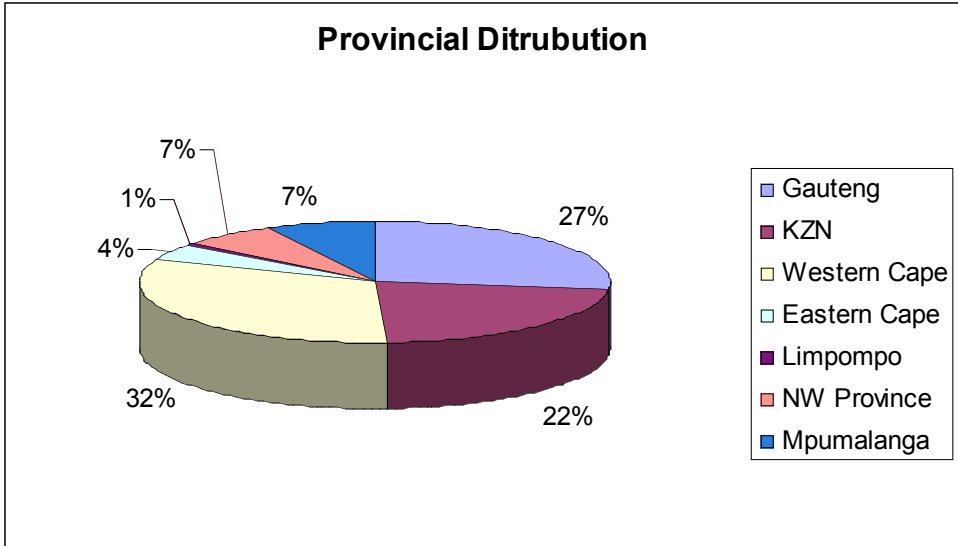


Figure 1. Distribution by Province

Like the previous surveys, response rate has always varied with the provinces. However, Gauteng, KwaZulu Natal and Western Cape provinces, which have the highest SMMEs in the country, have always had the highest response rate. Even though the response rate has slightly reduced, they still 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.

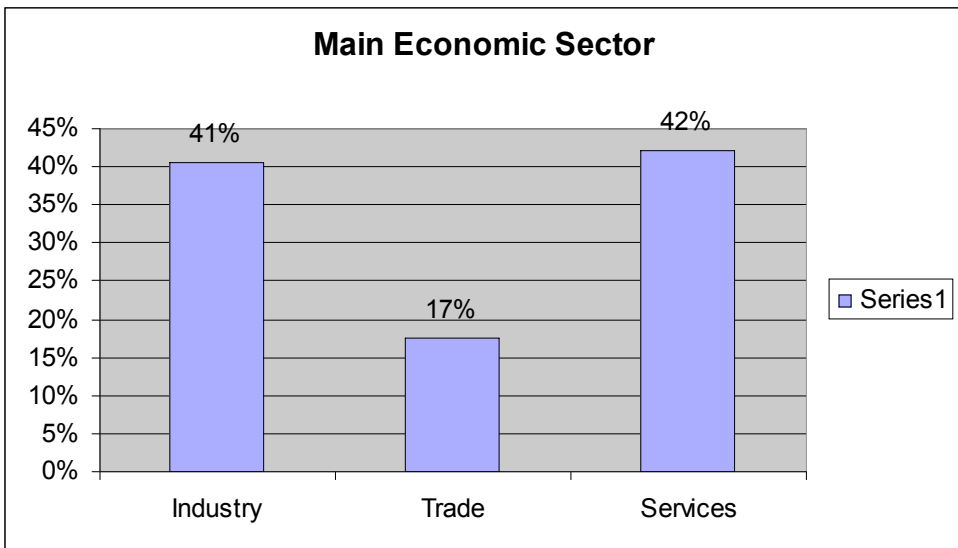


Figure 2. Distribution by Economic Sector

Sub-sector analysis in the broader Industrial sector indicates that the manufacturing sub-sector continues to dominate with a representation of 82% followed by construction (9%). In the trade sector response, the retail was more represented with 57% whereas the wholesale took the balance (43%). Finally, transport & storage, catering & accommodation and financial & business were the most represented with 5%, 47% and 26% respectively. Below is a summary of the sub-sector distribution.

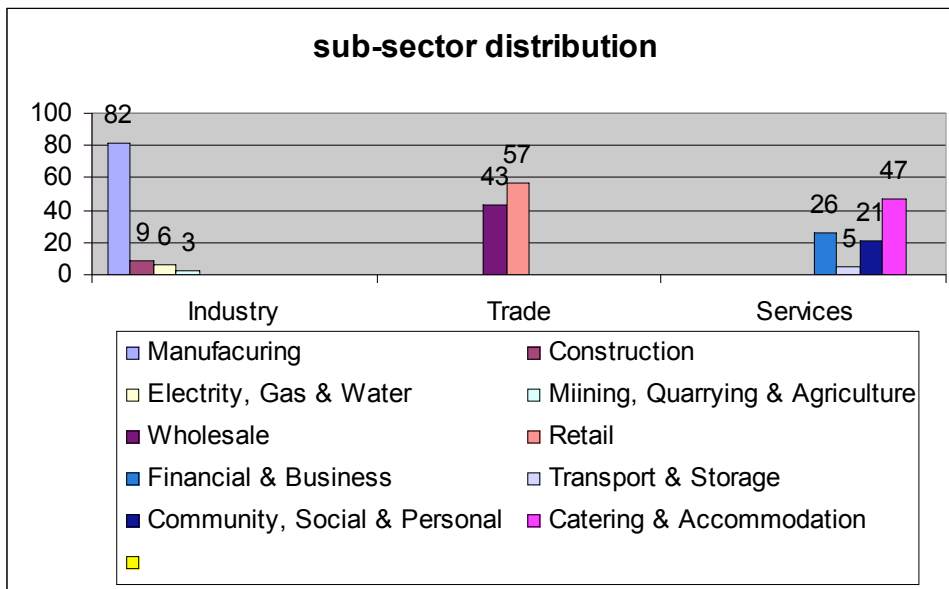


Figure 3. Sub-Sector Distribution

Figure 4 below shows a graphical representation of the number of people employed. It shows that majority of the firms who responded (69%) have a staff strength of less than 20.

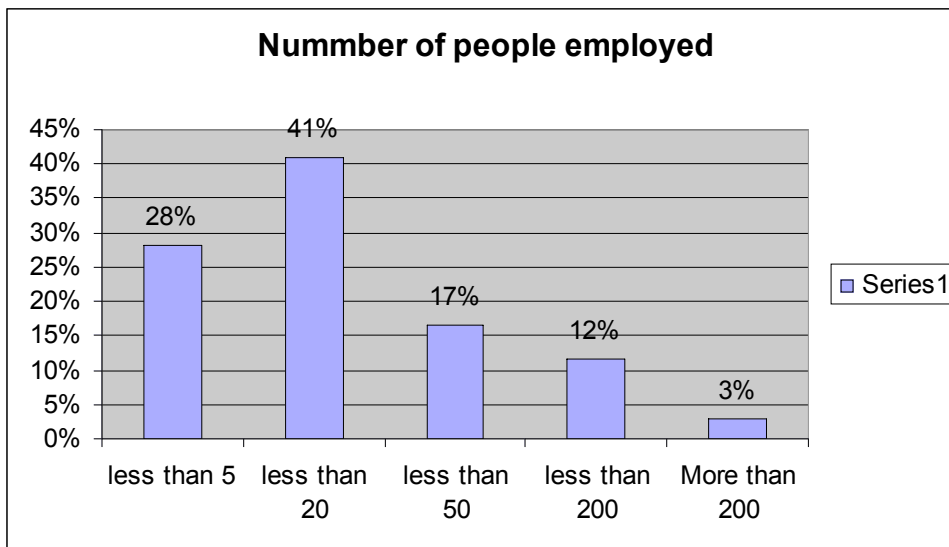


Figure 4. Number of Employees

Figure 5, which depicts the turnover distribution, shows that most of the firms (39%) record an annual turnover of above four (4) million Rand.

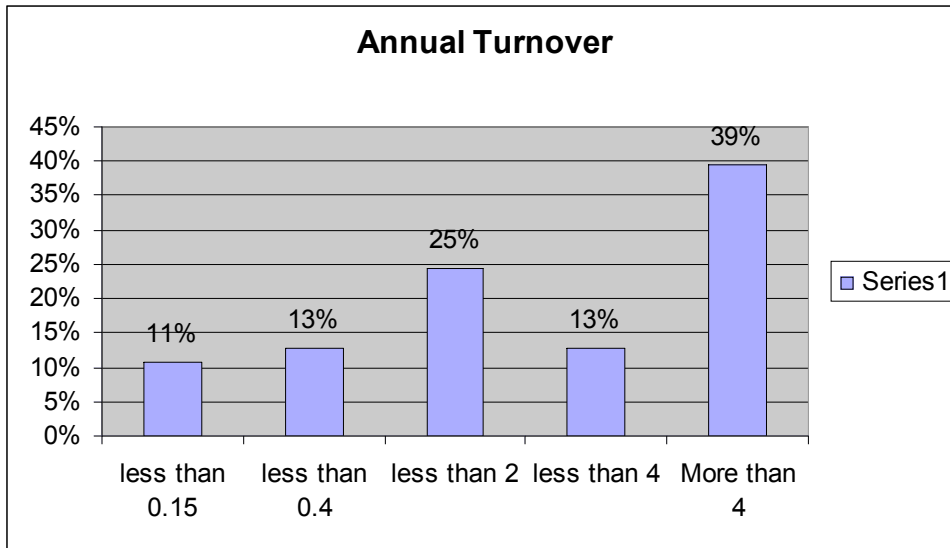


Figure 5. Annual Turnover

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. Unlike the previous report, most business managers representing 12.37% and 12% of SMMEs sampled cited operating costs & Government taxes & regulations, as major limiting factors to their operations. Figure 6 shows the response distribution.

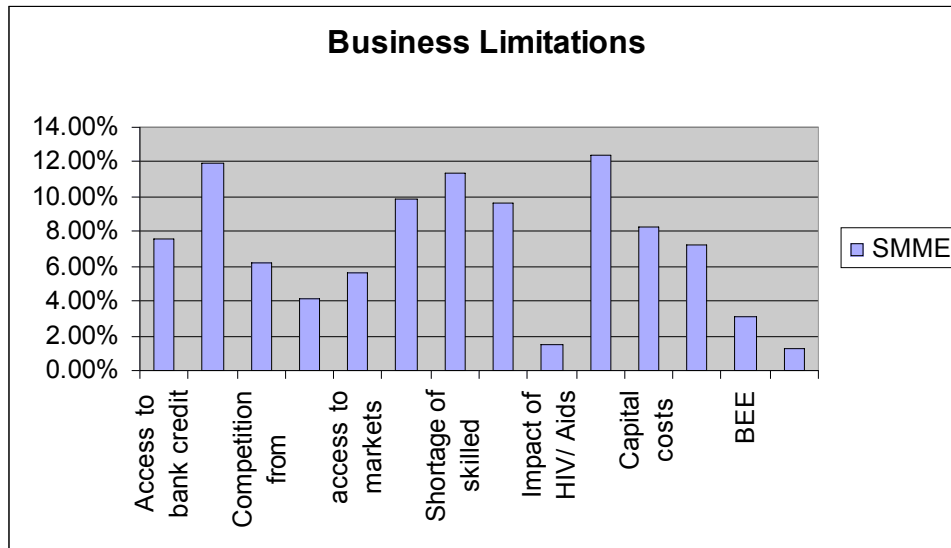


Figure 6. Business Limitations

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 39% 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 16% were able to employ more.

- ❖ **Financial situation:** In the industrial sector 49% of SMME owners showed that this had gone down while 31% were of the view that it remained unchanged and 20% indicated an improvement.
- ❖ **New orders or contracts:** In the industrial sector 40% of SMME owners were of the opinion that new orders had gone down whereas 37% were of the view that it remained the same whilst 23% of them indicated that it had gone up.
- ❖ **Selling price:** In the industrial sector 19% of SMME owners indicated a downward trend, 28% indicated no change and 53% witnessed an increase.

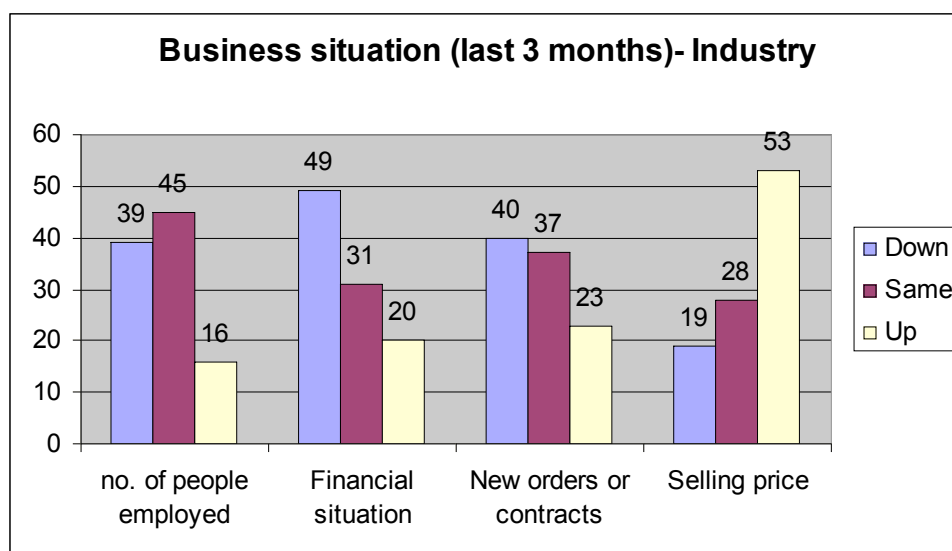


Figure 7. Industry Business Situation for last 3 months

Trade

- ❖ **Number of people employed:** In the trade sector 19% of SMME owners indicated that employment had gone down whilst 62% were of the view that it had remained the same and 19% were able to employ more.
- ❖ **Financial situation:** In the trade sector 57% of SMME owners showed that the financial situation had gone down whilst majority (29%) were of the view that it remained unchanged and 14% indicated an improvement.
- ❖ **Volume of demand:** In the trade sector 48% of SMME owners were of the opinion that the volume of demand went down whilst 14% were of the view that it remained the same and 38% indicated that it had gone up.
- ❖ **Stock levels:** In the trade sector 42% of SMME owners indicated a downward trend, 32% indicated no change and 26% witnessed an increase.

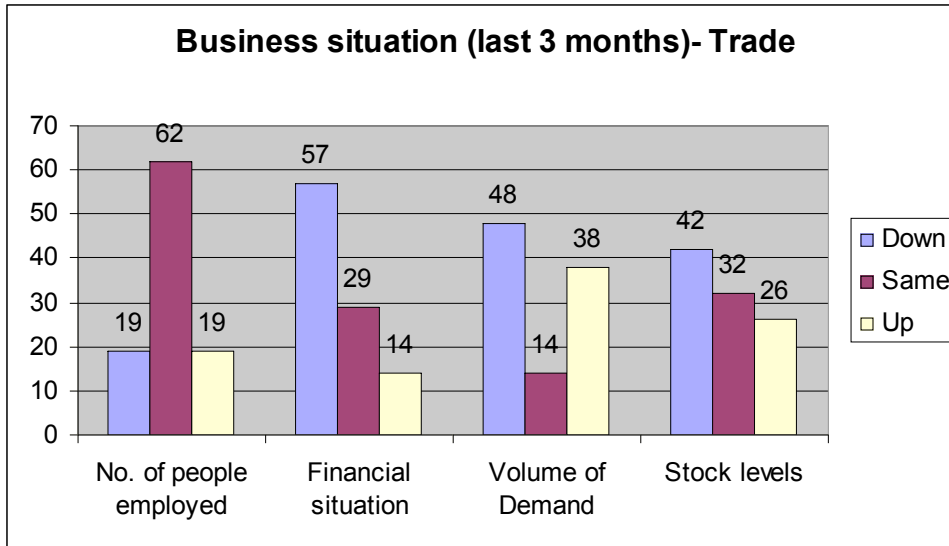


Figure 8. Trade Business Situation for last 3 months

Services

- ❖ **Number of people employed:** In this sector 15% of SMME owners indicated that employment had gone down whilst an overwhelming majority (75%) were of the view that it had remained the same and 10% were able to employ more.
- ❖ **Financial situation:** In this sector 42% of SMME owners indicated that this had gone down whilst 29% were of the view that it remained unchanged and 29% indicated an improvement.
- ❖ **Volume of demand:** In this sector 35% 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 30% of them indicated that it had gone up.
- ❖ **Stock levels:** In this sector 17% of SMME owners indicated a downward trend, 62% showed no change in stock levels and 21% witnessed an upward movement.

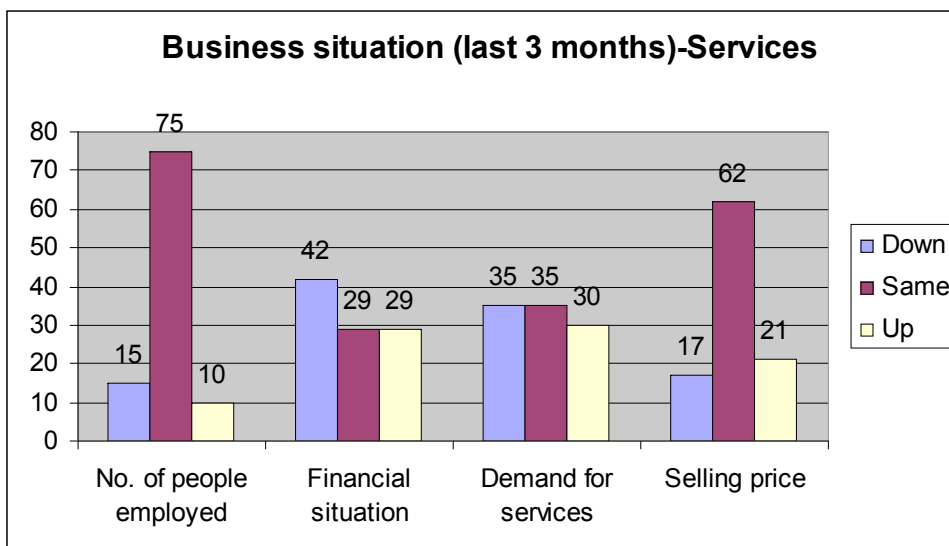


Figure 9. Services Business Situation for last 3 months

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 53% were of the view that it will remain the same and 30% will be able to employ more.
- ❖ **Financial situation:** In this sector 25% of SMME owners indicated that this will go down whilst , 43% were of the view that it will remain unchanged and 32% indicated an improvement.
- ❖ **New orders or contracts:** In this sector, 19% of SMME owners indicated that new orders will go down whilst 30% were also of the view that it will remain the same and 51% of them indicated that it will go up.
- ❖ **Selling price:** In this sector, 15% of SMME owners indicated a downward trend, 44% did not think there will be a change and 41% were of the view that selling prices will go up.

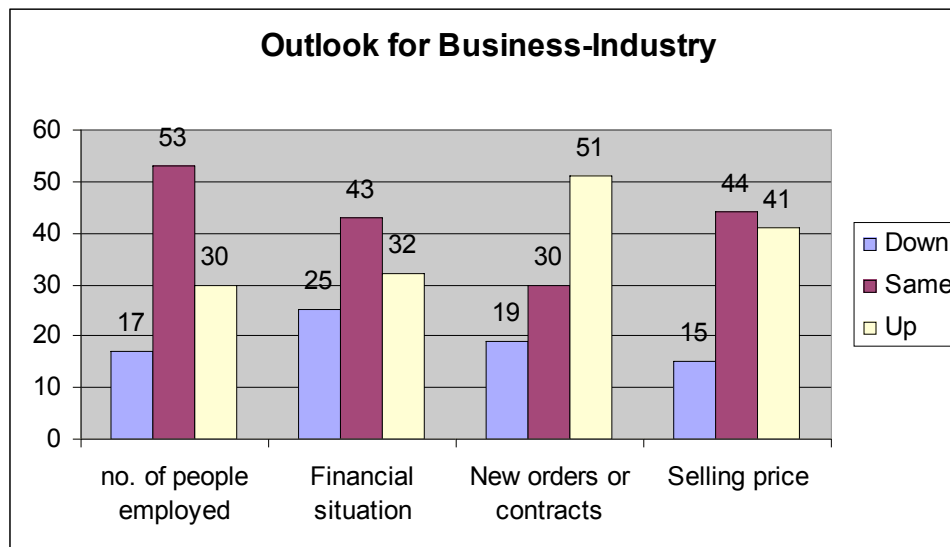


Figure 10. Industry Sector Business Outlook

Trade

- ❖ **Number of people employed:** In the trade sector, 14% of SMME owners indicated that employment will go down. However 71% were of the view that it will remain the same and 15% will be able to employ more.
- ❖ **Financial situation:** In the trade sector, 29% of SMME owners indicated that this will go down whilst about the same percentage, 33% were of the view that it will remain unchanged and 38% indicated an improvement.
- ❖ **Volume of demand:** In the trade sector, 19% 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 38% of them indicated an upward trend.
- ❖ **Selling price:** In the trade sector, 5% of SMME owners indicated a downward trend in future, 60% indicated there will be no change and 35% indicated an increase.

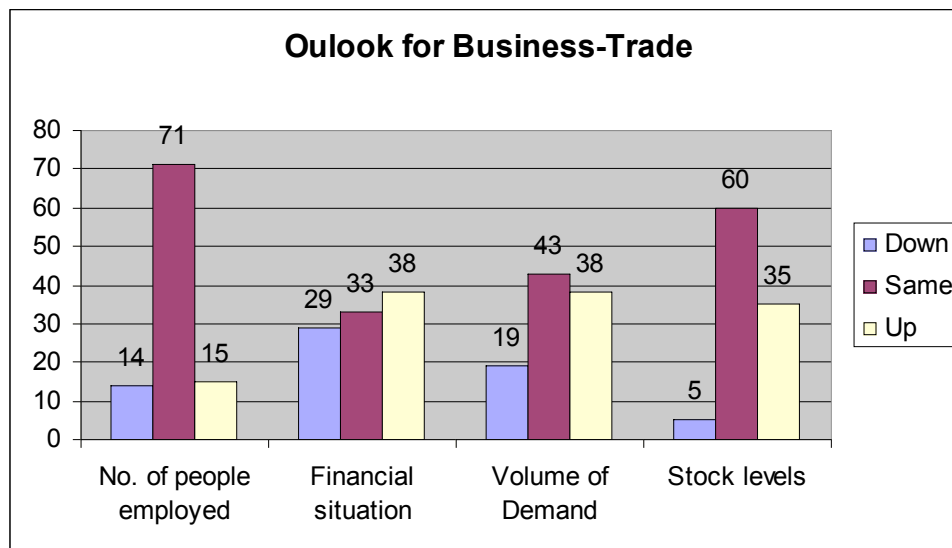


Figure 11. Trade Sector Business Outlook

Services

- ❖ **Number of people employed:** In this sector, 2% of SMME owners indicated that employment will go down whilst 56% were of the view that it will remain the same and 42% will be able to employ more.
- ❖ **Financial situation:** In this sector, 15% of SMME owners indicated that this will go down whilst 23% were of the view that it will remain unchanged and 62% indicated there will be improvement.
- ❖ **Demand for services:** In this sector 11% of SMME owners indicated that the volume of demand will go down whilst 33% were of the view that it will remain the same and 56% of them predicted a possible increase.

- ❖ **Selling price:** In this sector, 2% of SMME owners indicated there will be a downward trend, 64% do not think there will be a change and 34% think selling price will go up.

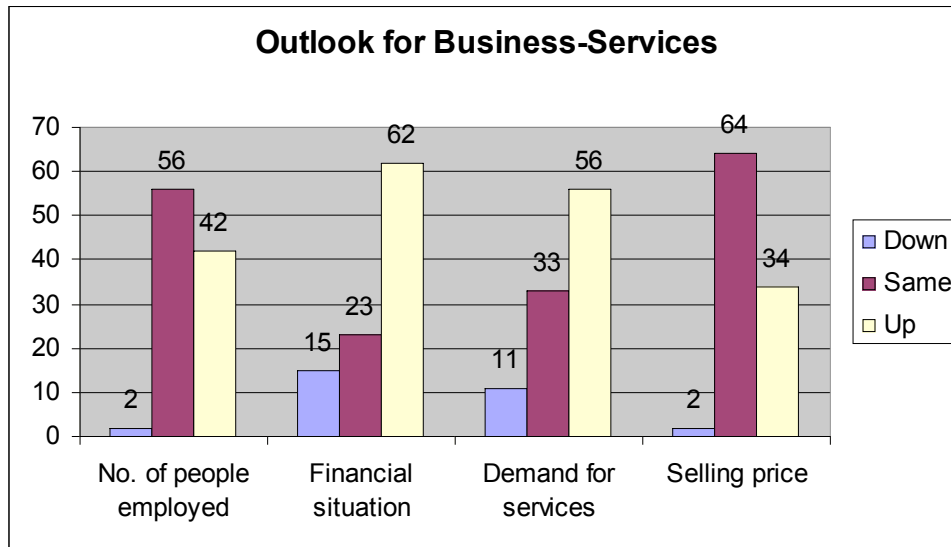


Figure 12. Services Sector Business Outlook

4. Business Confidence Index Results

4.1 Sectorial Present outlook

4.1.1 Industrial Sector Present Outlook

The industrial sector revealed an increase in business confidence. The Business Confidence within the industrial sector has increased from 47.21% in the second quarter of 2008 to 50.02% in the third quarter of 2008. This represents a margin of 5.95%.

4.1.2 Trade Sector Present Outlook

The trade sector has recorded a decrease in business confidence from 47.18% in the second quarter of 2008 to 42.20% in the third quarter of 2008, representing a decrease of 10.56%.

4.1.3 Services Sector Present Outlook

Like the industry sector, the services sector has also witnessed an increase in confidence level from 36.53% in second quarter of 2008 to 50.03% in the third quarter of 2008, representing a massive increase of 36.96%.

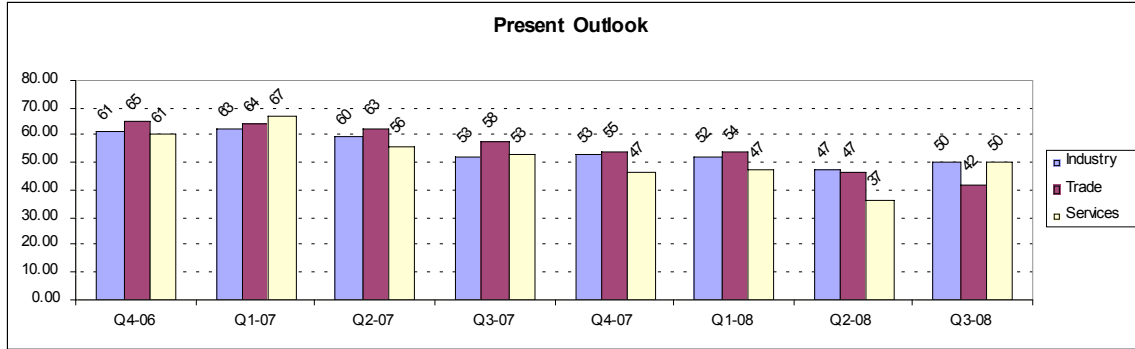


Figure 13. Present Outlook

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 46.50% in the second quarter of 2008 to 62.39% in the third quarter of 2008, representing an increase of 34.17%.

4.2.2. Trade Sector Future Outlook

The confidence index for future outlook in this sector has also increase slightly from 56.06% in the second quarter of 2008 to 59.41% in the third quarter of 2008, an increase of 5.98%.

4.2.3. Services Sector Future Outlook

The services sector outlook for future business activity also increased. The confidence index for future outlook increased from 48.73% in the second quarter of 2008 to 75.85% in the third quarter of 2008 (Figure 14), representing a massive increase of 55.65%.

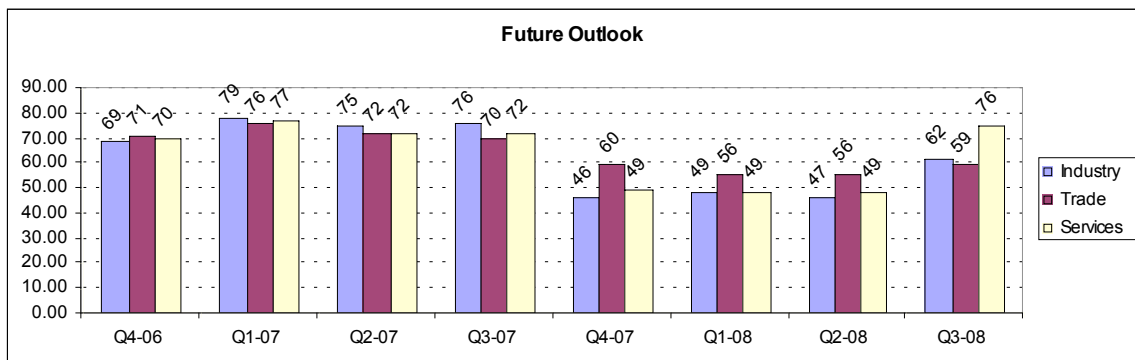


Figure 14. Future Outlook

4.3 Overall Present Index.

The business confidence index for present outlook in the third quarter of 2008 grows from 43.64% to 47.42%. This represents a decrease of 8.66%.

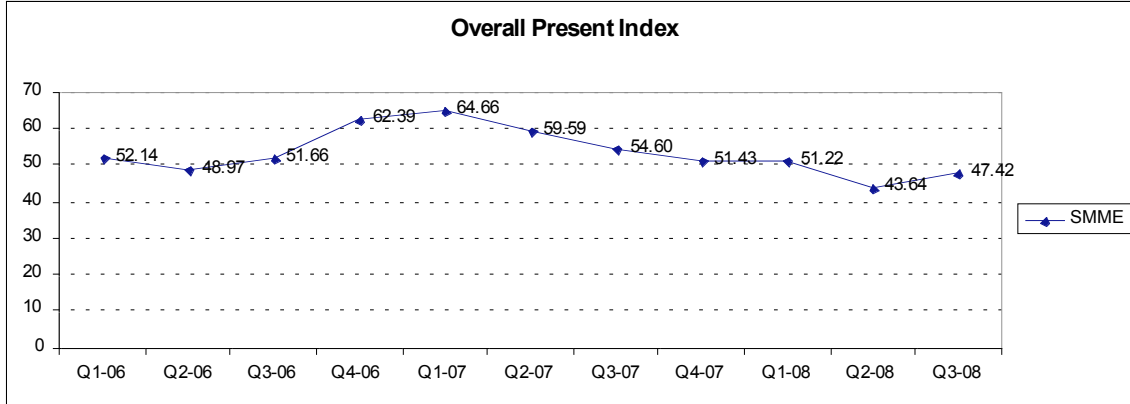


Figure 15. Overall Present Outlook Change

4.4. Overall Future Index.

The future outlook in the second quarter of the 2008 survey results (Figure 16) also shows an upward trend in business activities. The overall future outlook index increased from 50.43% in the second quarter of 2008 to 65.88% in the third quarter of 2008, an increase of 30.64%.

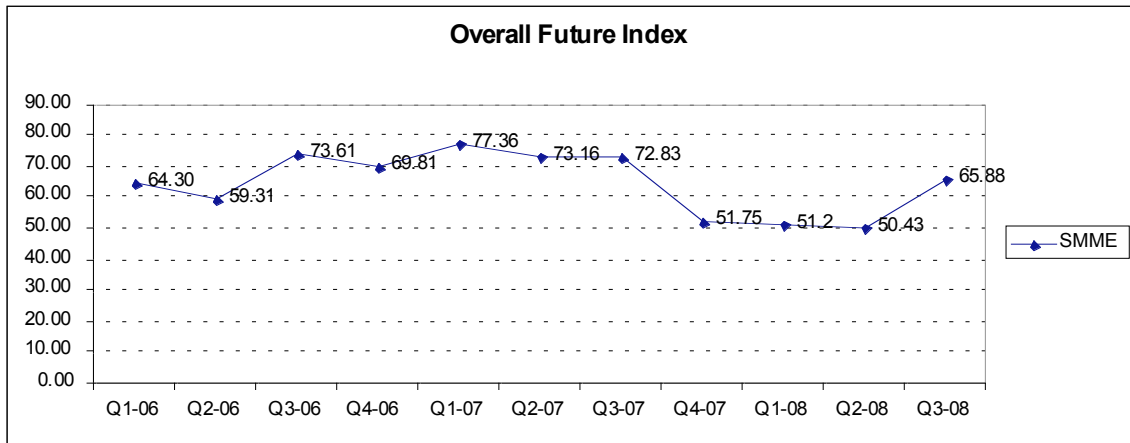


Figure 16. Overall Future Outlook Change

4.5. Overall Index Movement

The overall SMME Business Confidence Index (Figure 17) illustrates an ascending trend in the third quarter of 2008. The overall index increased from 47.03% in the second

quarter of 2008 to 56.65% in the third quarter of 2008, an increase of 20.46% in business confidence.

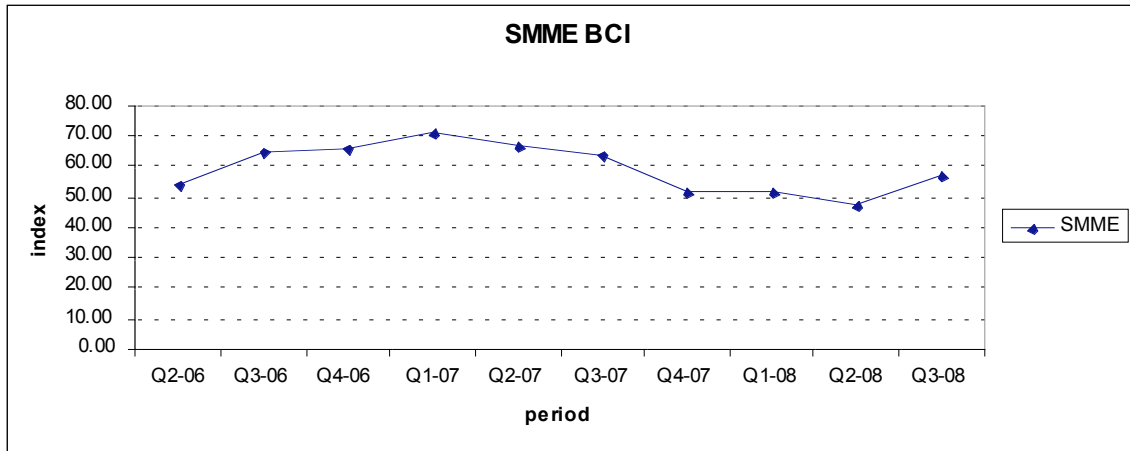


Figure 17. SMME Business Confidence Index

The year-to-date growth rate (Figure 18) for business confidence since the beginning of the 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, second & third quarters of 2008. The year-on-year growth rates have been fluctuating since the beginning of the survey in 2006 and are now on an upward trend between the second and third quarters of 2008.

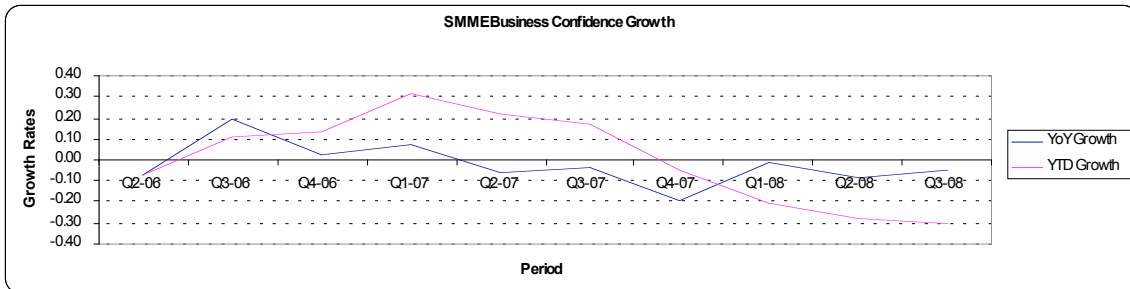


Figure 18. SMME Business Confidence Growth