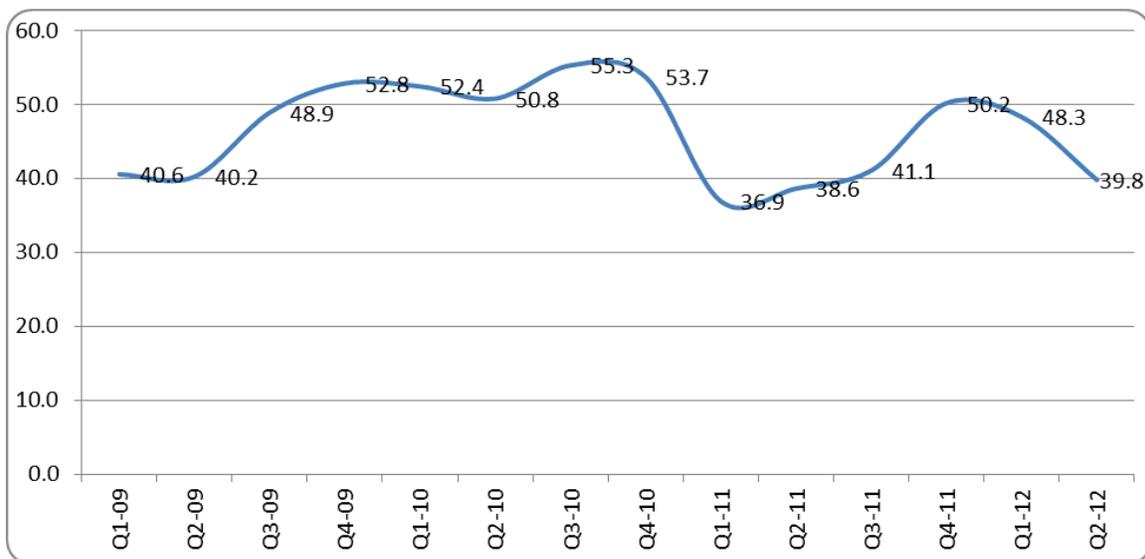


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Business Confidence in SMME sector continues to decline amidst Euro crisis

Business confidence of the South African SMME sector has dropped during the second quarter of the year 2012. This is in contrast to the gains made in the last two quarters of 2011. The overall business confidence index declined from 48.3% during the first quarter of 2012 to 39.8% in the second quarter of 2012 representing a 17.6% decrease. However, the level of confidence of the South African SMME sector still remains higher than it was during the first quarter of 2011, the period with the biggest slump in the level of confidence. Figure 1 shows the overall trend of South African SMMEs Business Confidence Indices from the first quarter of 2009 until the second quarter of 2012.

Figure 1: Business Confidence Index



The declining trend can be attributed to the decline in the confidence of the SMMEs in all three sectors of the economy. The main reason is to do with the current global and, in particular Euro crisis. The worst performing sector was the services sector which declined in overall average confidence from 53.9% in the first quarter of 2012 to 37.8% in the second quarter of 2012. This represents a significant decline of 29.8%. The business confidence in the industrial sector decreased from 42.3% in the first quarter of 2012 to 36.4% during the second quarter of 2012, representing a decrease of 13.9%. The trade sector also witnessed a decline in confidence from 48.8% in the first quarter of 2012 to 45.2% in the second quarter of 2012, representing a decrease of 7.4%.

Most of the businesses surveyed cited a number of inhibiting factors impacting negatively on their businesses. These include high employee costs, high operating costs, insufficient demand, high government taxes and regulations and limited access to bank credit.

According to the South African Reserve Bank, the domestic economy has been characterised by slowed growth in production, decline in growth of household consumption expenditures

mainly due to the decline in rate of increase in disposable income and a rise in the rate of currency depreciation. The decline in growth of household spending on goods and services and currency depreciation tend to impact negatively on businesses. In addition, weak demand from Asia and the Euro zone is impacting negatively on South Africa's growth and growth outlook, at least in the short to medium terms. Unlike big business, small businesses tend to be more sensitive to these negative developments due to their vulnerability.

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The South African SMME Index is constructed by Africagrowth Institute. The Founding Sponsors for the Index are the Industrial Development Corporation (IDC) and WK Kellogg Foundation

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