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## **South African SMME Business Confidence Index Report: Fourth Quarter 2007**

Compiled by: Africagrowth Institute

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



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## **1. Introduction**

For the fourth time in a row, 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 has been decreasing on a quarter to quarter basis since January 2007. The sub-indices are divided into three strata by business sectors. These are (a) Industrial sector; (b) Trade sector and (c) Services sector. 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 last quarter of 2007) shows a further declining rate in business confidence from the third quarter of 2007.

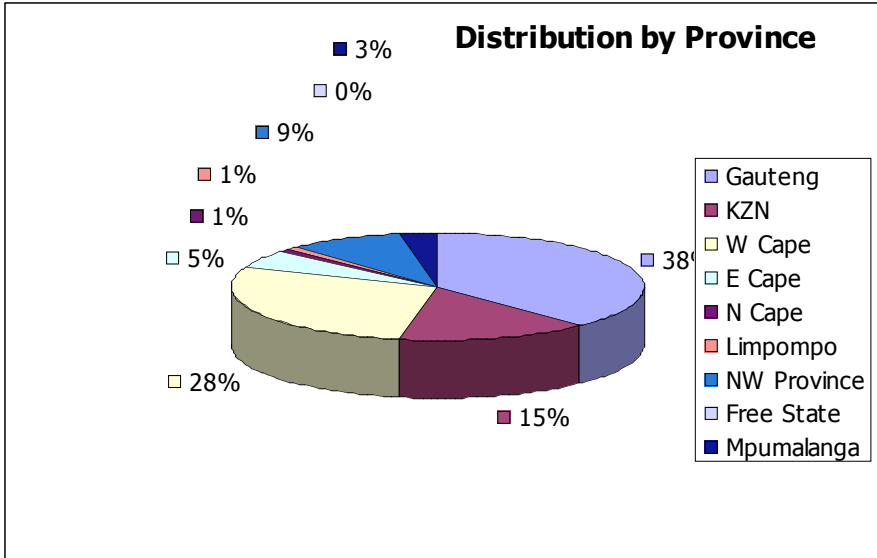
The indices are divided into three strata by business sectors. These are:

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

Presented below are the results from the last quarter survey of 2007.

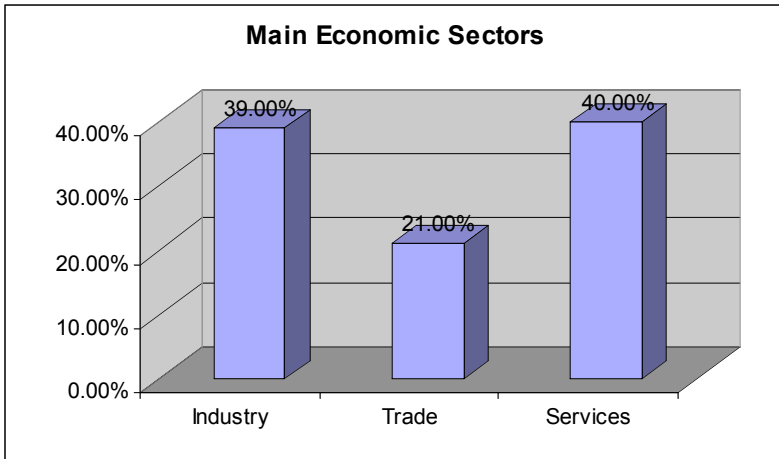
## **2. Background Information about sample**

A random sample of 1533 was taken for the study with 107 managers/owners from the sample responding. This represents about 7% of the random sample. The statistically accepted sample size is anything between 6-10% response rate from a selected sample. The geographical dispersion of the firms is shown in Figure 1 below.



**Figure 1. Distribution by Province**

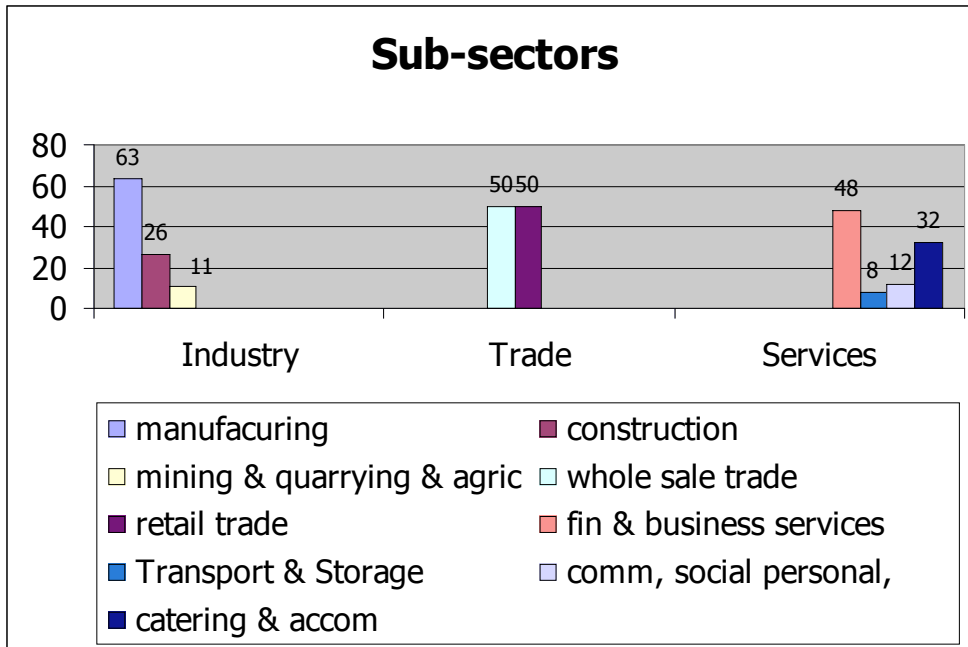
The response rate has been variable over time. However, Gauteng, KwaZulu Natal and Western Cape provinces, which have the highest SMMEs in the country, represent about 81% of the sample used in the survey.



**Figure 2. Distribution by Economic Sector**

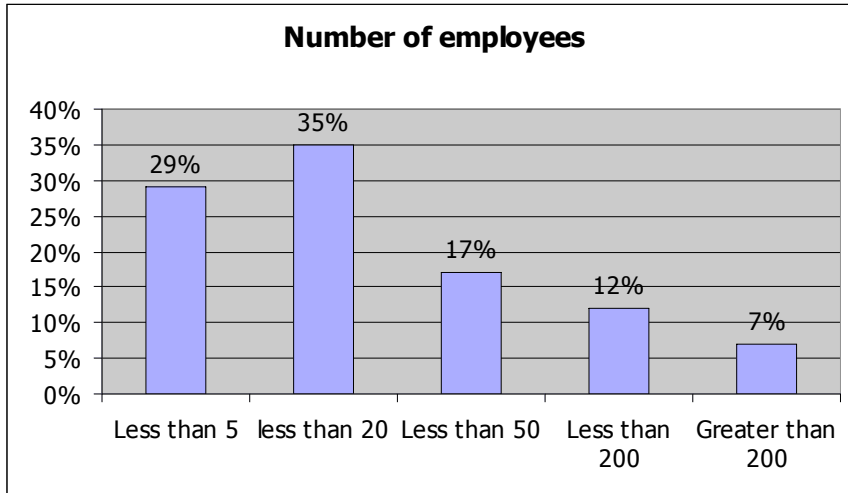
In terms of sector distribution, figure 2 shows that the industrial and the services sectors are dominant. Even though there has been an improvement from 17% to 21% in the trade sector, it still remains the least represented.

Sub-sector analysis in the broader Industrial sector indicates that the manufacturing sub-sector has the highest representation (63%) followed by construction (26%). In the trade sector response, both wholesale and retail were equally represented. Finally, financial & business, catering & accommodation were the most represented with 40% and 32% respectively, in the services sector (Figure 3).



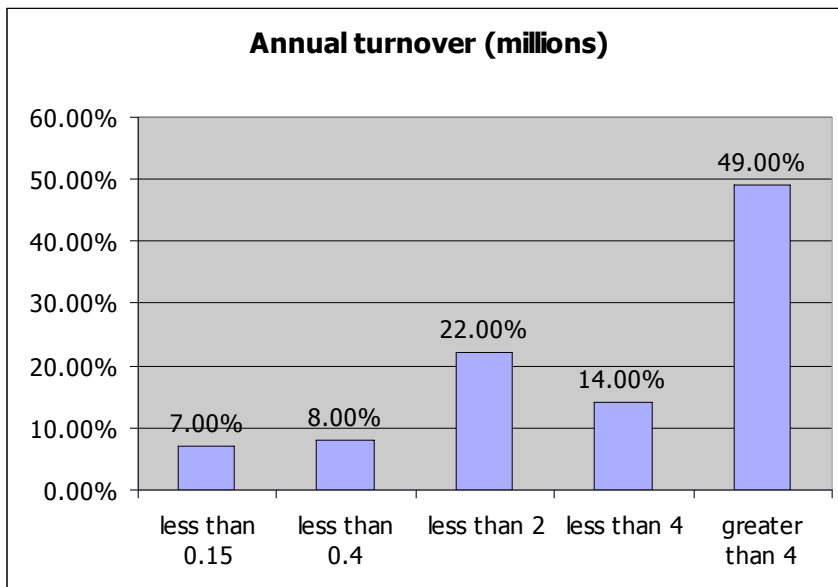
**Figure 3. Sub-Sector Distribution**

Figure 4 below shows a graphical representation of the number of people employed. It shows that majority of the firms (35%) 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 (49%) 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

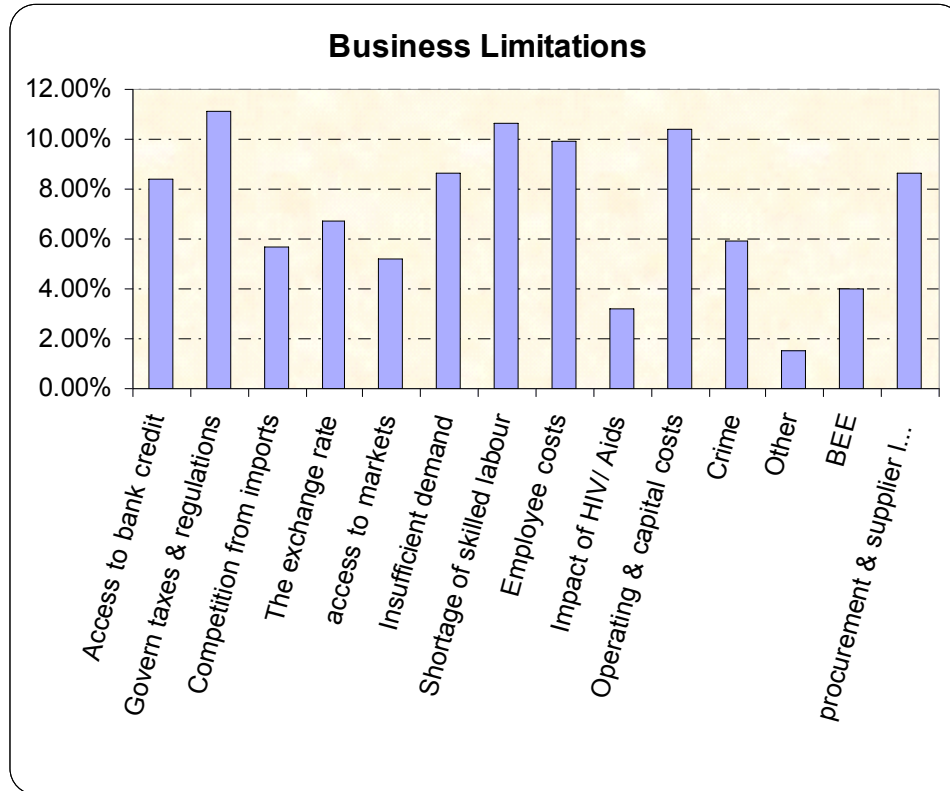


Figure 6. Business Limitations

Most business managers representing 11.14% of SMME in South Africa cited government taxes and regulations as the major limitation to their operations. Contrary to the results of the previous quarter, shortage of skilled labour constitutes the second major challenge to businesses with 10.64%. In addition 10.40% of SMME's indicated operating and capital costs as a limiting factor whilst another 9.90% considered employee costs as limiting factors.

#### 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.

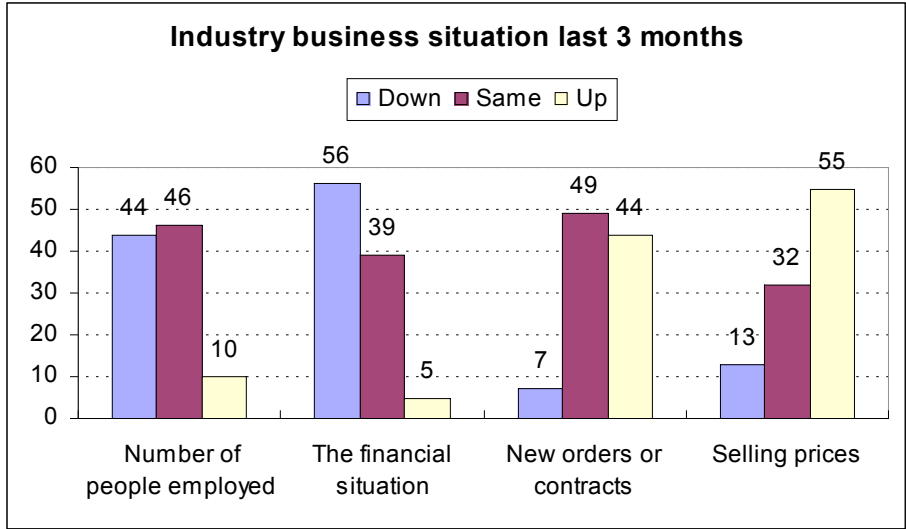


Figure 7. Industry Business Situation for last 3 months

**Industry**

- ❖ **Number of people employed:** In the industrial sector 44% of SMME owners indicated that their employment levels have gone down whilst 46% were of the view that it had remained the same and 10% were able to employ more.
- ❖ **Financial situation:** In the industrial sector 56% of SMME owners showed that this had gone down while 39% were of the view that it remained unchanged and 5% indicated an improvement.
- ❖ **New orders or contracts:** In the industrial sector 7% of SMME owners were of the opinion that new orders went down whereas 49% were of the view that it remained the same and 44% indicated that it had gone up.
- ❖ **Selling price:** In the industrial sector 13% of SMME owners indicated a downward trend, 32% indicated no change and 55% witnessed an increase.

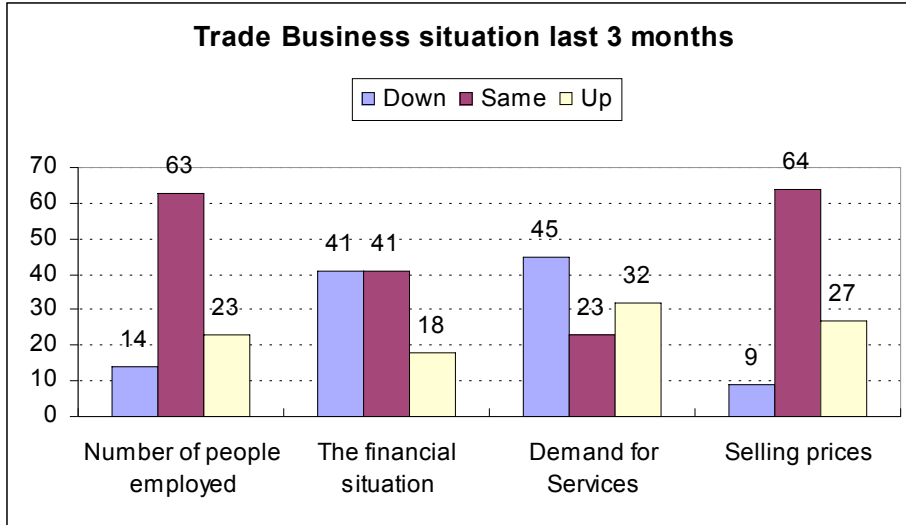


Figure 8. Trade Business Situation for last 3 months

### Trade

- ❖ **Number of people employed:** In the trade sector 14% of SMME owners indicated that employment had gone down whilst 63% were of the view that it had remained the same and 23% were able to employ more.
- ❖ **Financial situation:** In the trade sector 41% of SMME owners showed that the financial situation had gone down whilst about the same percentage, 41% were of the view that it remained unchanged and 18% indicated an improvement.
- ❖ **Demand for Services:** In the trade sector 45% of SMME owners were of the opinion that the demand for services went down whilst 23% were of the view that it remained the same and 32% in terms of numbers in their staff strength.
- ❖ **Selling price:** In the trade sector 9% of SMME owners indicated a downward trend, 64% indicated no change and 27% witnessed an increase.

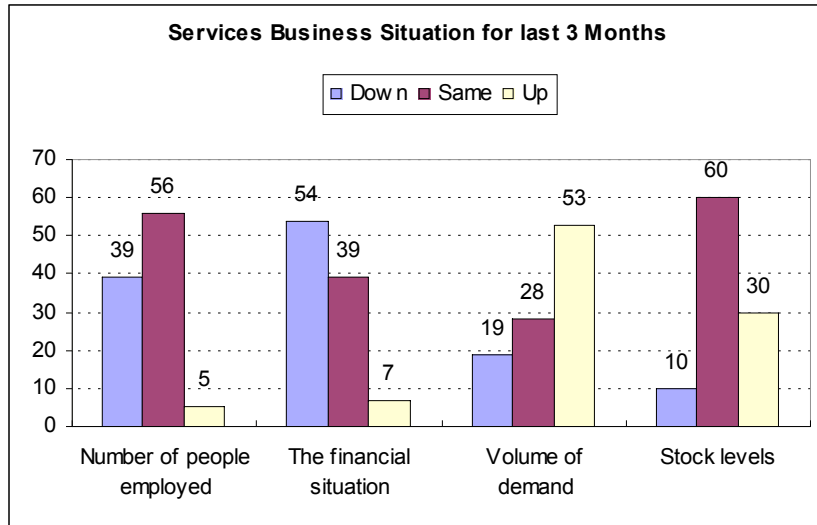


Figure 9. Services Business Situation for last 3 months

### Services

- ❖ **Number of people employed:** In this sector 39% of SMME owners indicated that employment had gone down whilst 56% were of the view that it had remained the same and 5% were able to employ more.
- ❖ **Financial situation:** In this sector 54% of SMME owners indicated that this had gone down whilst 39% were of the view that it remained unchanged and 7% indicated an improvement.
- ❖ **Volume of demand:** In this sector 19% of SMME owners were of the view that volume of demand had gone down whilst 28% were of the view that it remained the same and 53% of them indicated that it had gone up.
- ❖ **Stock levels:** In this sector 10% of SMME owners indicated a downward trend, 60% showed no change in stock levels and 30% 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.

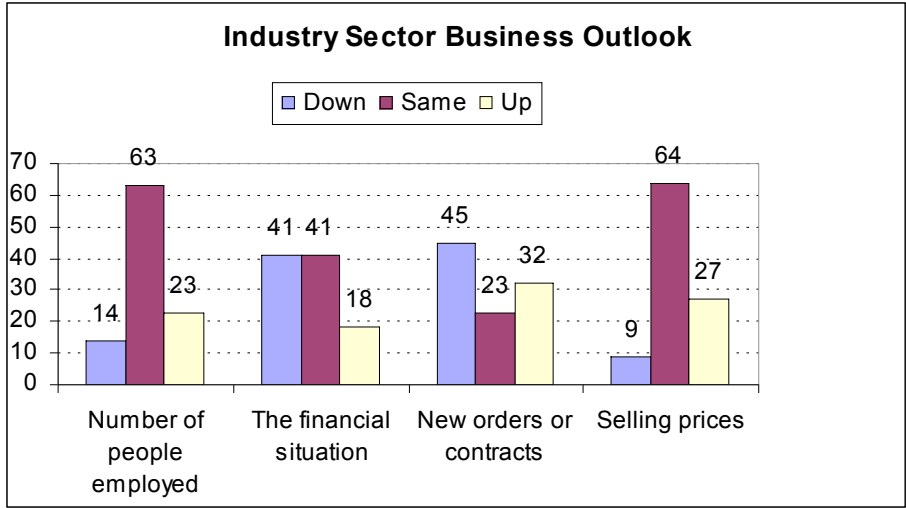


Figure 10. Industry Sector Business Outlook

**Industry**

- ❖ **Number of people employed:** In this sector, 14% of SMME owners indicated that employment will go down whilst 63% were of the view that it will remain the same and 23% will be able to employ more.
- ❖ **Financial situation:** In this sector, 41% 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 18% indicated an improvement.
- ❖ **New orders or contracts:** In this sector, 45% of SMME owners indicated that new orders will go down whilst 23% were of the view that it will remain the same and 32% of them indicated that it will go up.
- ❖ **Selling price:** In this sector, 9% of SMME owners indicated a downward trend, 64% did not think there will be a change and 27% were of the view that selling price will go up.

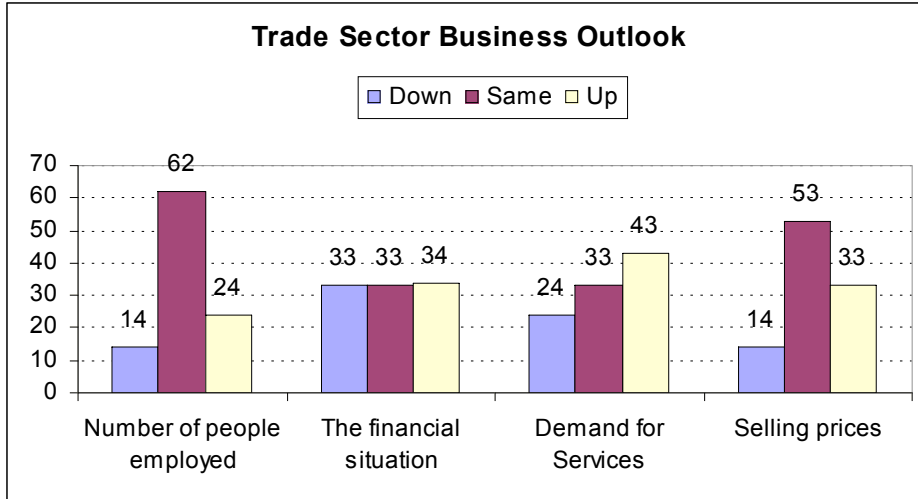


Figure 11. Trade Sector Business Outlook

### Trade

- ❖ **Number of people employed:** In the trade sector, 14% of SMME owners indicated that employment will go down. However 62% were of the view that it will remain the same and 24% will be able to employ more.
- ❖ **Financial situation:** In the trade sector, 33% of SMME owners indicated that this will go down whilst about the same percentage, 33% were also of the view that it will remain unchanged and 34% indicated an improvement.
- ❖ **Demand for Services:** In the trade sector, 24% of SMME owners were of the opinion that the demand of services will go down whilst 33% were of the view that it will remain the same and 43% of them indicated an upward trend.
- ❖ **Selling price:** In the trade sector, 14% of SMME owners indicated a downward trend in future, 53% indicated there will be no change and 33% indicated an increase.

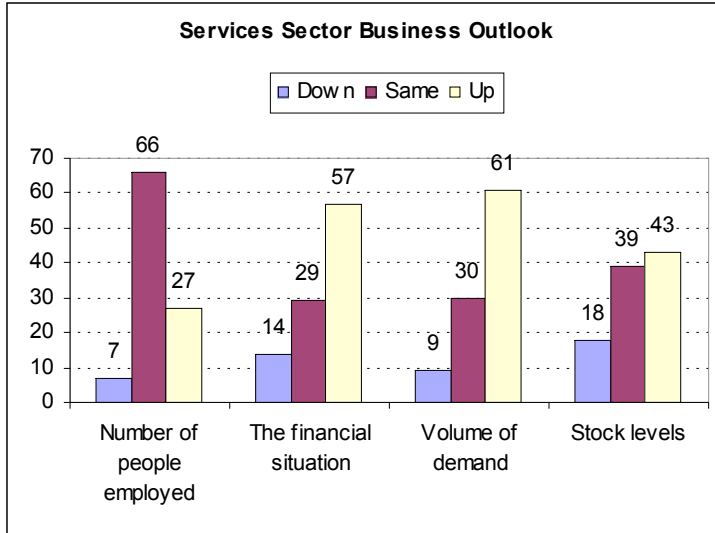


Figure 12. Services Sector Business Outlook

### Services

- ❖ **Number of people employed:** In this sector, 7% of SMME owners indicated that employment will go down whilst 66% were of the view that it will remain the same and 27% will be able to employ more.
- ❖ **Financial situation:** In this sector, 14% of SMME owners indicated that this will go down whilst 29% were of the view that it will remain unchanged and 57% indicated there will be improvement.
- ❖ **Volume of demand:** In this sector 9% of SMME owners indicated that the volume of demand will go down whilst 30% were of the view that it will remain the same and 61% of them predicted a possible increase.
- ❖ **Selling price:** In this sector, 18% of SMME owners indicated there will be a downward trend, 39% do not think there will be a change and 43% 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 increase in business confidence. The business confidence level for present outlook for the Industrial Sector increased from 52.78% in the 3<sup>rd</sup> quarter of 2007 to 52.84% in the last quarter of 2007 representing a marginal increase of 0.11%.

#### 4.1.2 Trade Sector Present Outlook

The trade sector recorded a decrease in business confidence from 58.06% in the 3<sup>rd</sup> quarter of 2007 to 54.53% in the last quarter of 2007 representing a decrease of 6.08%.

#### 4.1.3 Services Sector Present Outlook

The services sector also witnessed a decline in confidence level from 52.96% in the 3<sup>rd</sup> quarter of 2007 to 46.90% in last quarter of 2007 representing a decrease of 11.44%.

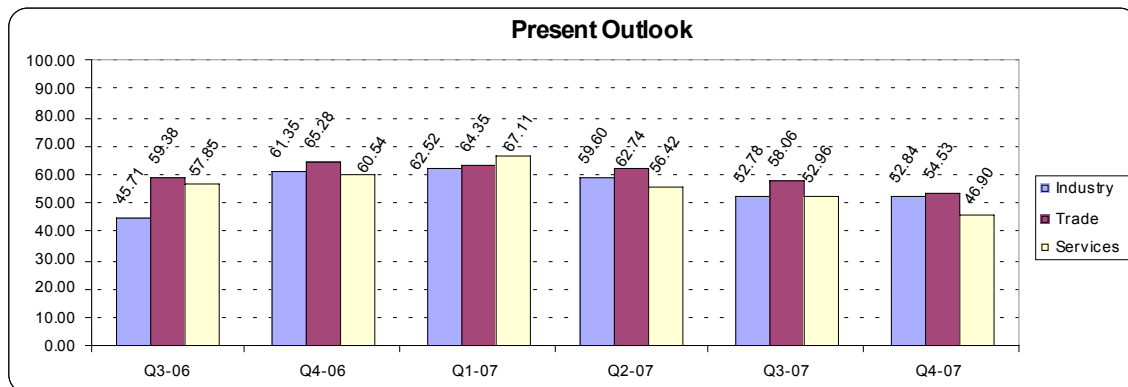


Figure 13. Present Outlook

### 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 declined from 76.19% in the 3<sup>rd</sup> quarter of 2007 to 46.17% in the last quarter representing a possible drop of 40.07%.

#### 4.2.2. Trade Sector Future Outlook

The confidence index for future outlook in this sector continues to decline from 69.80% in the 3<sup>rd</sup> quarter of 2007 to 59.66% in the last quarter of 2007, a decrease of 14.07%.

#### 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 72.49% in the 3<sup>rd</sup> quarter of 2007 to 49.41% in the last quarter of 2007 (Figure 14), representing a decrease of 31.85%.

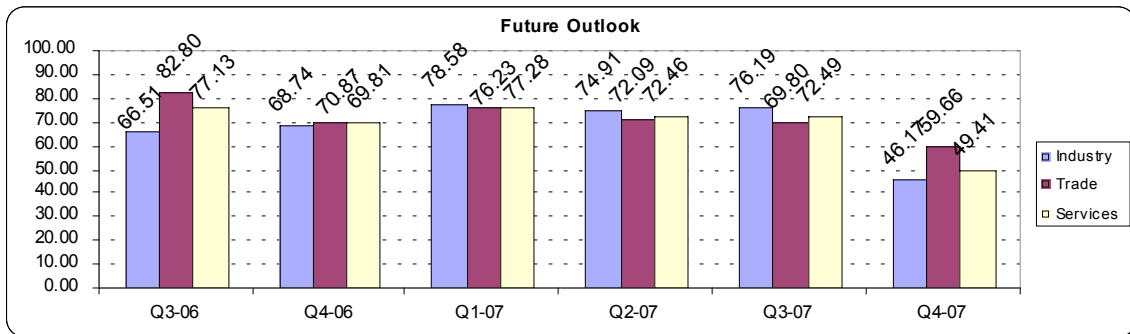


Figure 14. Future Outlook

#### 4.3 Overall Present Index.

The business confidence index for present outlook in the last quarter of 2007 dropped from 54.60% to 51.43%. This represents a decrease of 5.32%.

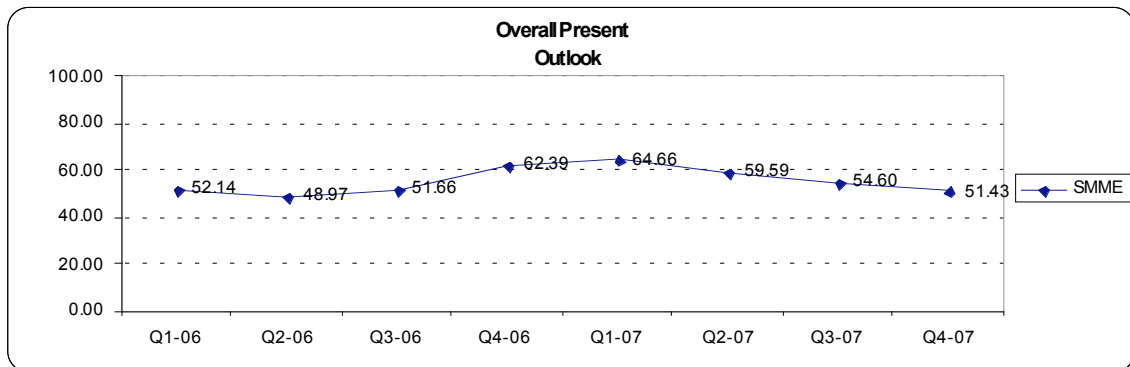


Figure 15. Overall Present Outlook Change

#### 4.4. Overall Future Index.

The future outlook in the last quarter of the 2007 survey results (Figure 16) also shows a sharp declining trend in business activities. The overall future outlook index decreased from 72.83% in the 3<sup>rd</sup> quarter of 2007 to 51.75%, a decrease of 28.81%.

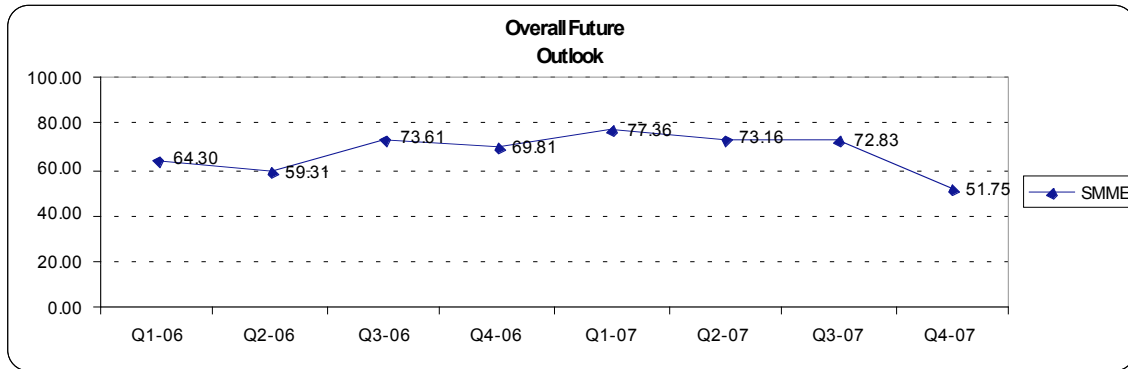


Figure 16. Overall Future Outlook Change

#### 4.5. Overall Index Movement

The overall SMME Business Confidence Index (Figure 17) illustrated a descending trend in the last quarter of 2007. The overall index decreased from 63.71% in the 3<sup>rd</sup> quarter of 2007 to 51.59% in the last quarter of 2007, a decrease of 18.26% in business confidence. It does appear that, SMMEs are not optimistic about future trends in business activity for the beginning of the year 2008.

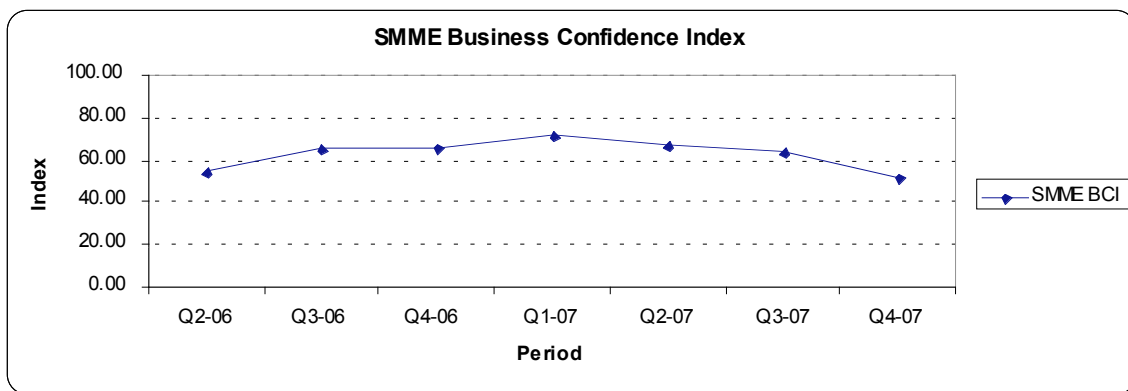


Figure 17. SMME Business Confidence Index

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 has however taken a sharp decline in the last quarter of 2007. 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 third and last quarters of 2007.

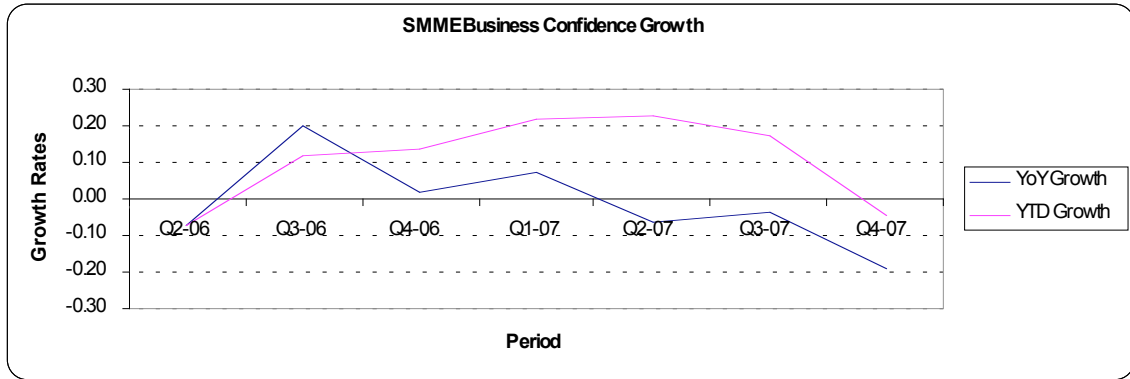


Figure 18. SMME Business Confidence Growth