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1. Introduction

The SMME Business Confidence Index (BCI) report is based on a quarterly survey of the responses of SMME owners or managers in relation to factors that impact on their businesses. The survey is conducted by the Africagrowth Institute. It, specifically, measures the opinions of SMME managers and owners all over South Africa about the current and future business prospects. This report provides useful information that serves to guide managers and decision makers in planning strategically and designing effective policies to mitigate constraining factors and improve on performance.

The index is constructed on the basis of responses to questions on policy factors ranging from employment levels, financial situation, new orders or contracts, 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 perception for 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

The BCI has gone down in all sectors in the first quarter of 2009. Presented below are the results from the first quarter survey of 2009.

2. Background Information about sample

Out of the 1700 random selected SMMEs, 140 responded. The provincial distribution of the SMMEs for this study is shown in Figure 1 below.

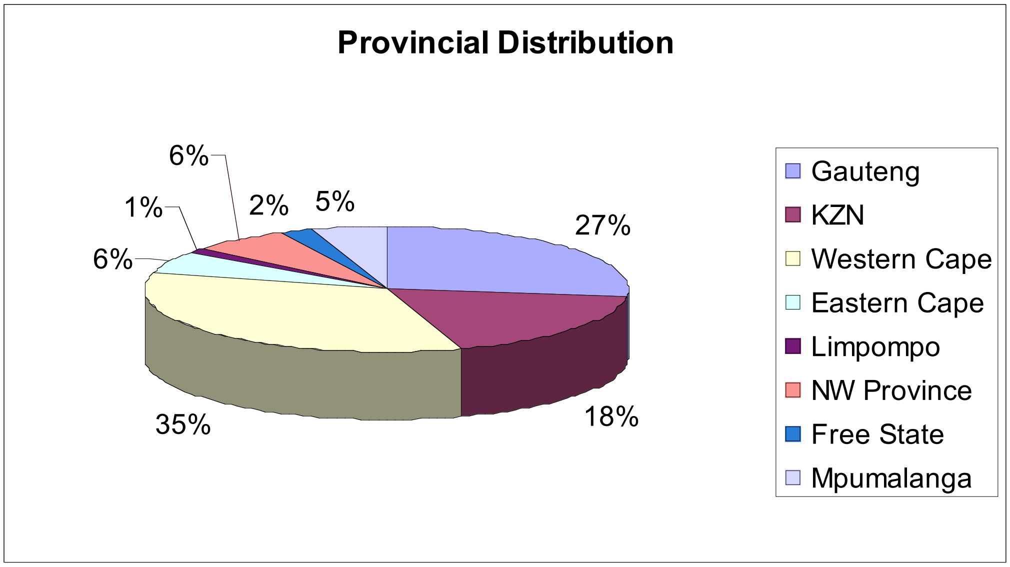

Figure 1 Provincial Distribution

From the graph (figure1) it is clear that Gauteng, KZN and Western Cape provinces, which have the highest SMMEs in the country, had the highest response rate. The three provinces combined represent 80% 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.

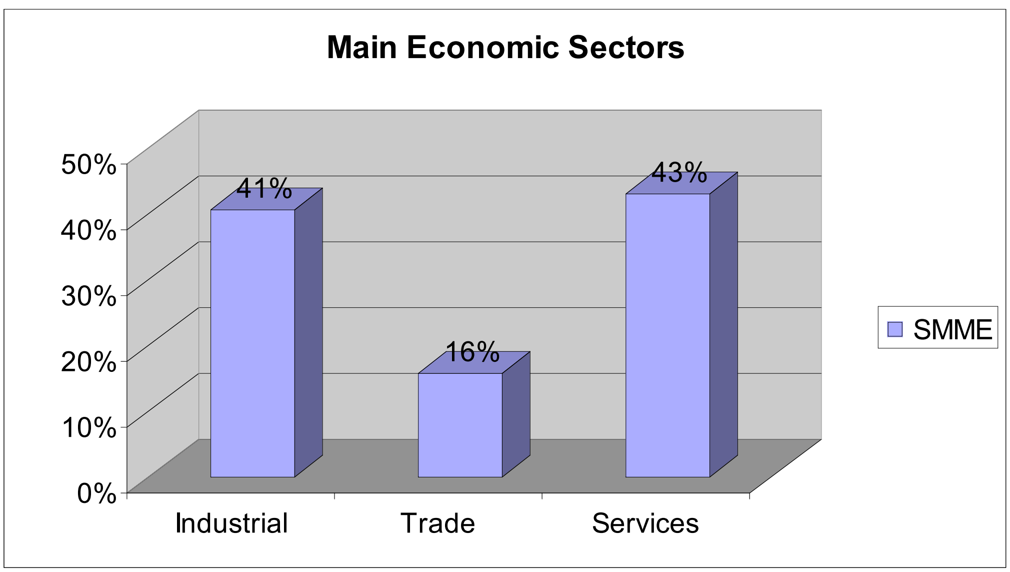

Figure 2: Distribution by Economic Sector

Sub-sector analysis in the broader Industrial sector indicates that the manufacturing sub-sector continues to dominate with a representation of 77% followed by construction (16%). In the trade sector response, the retail was more represented with 67% whereas the wholesale took the balance (33%). Finally, catering & accommodation was the most represented with 44%, followed by community, Social & Personal services, Financial & Business services and Transport & Storage representing 23%, 18% and 15% respectively. This reflects a rise in Financial & Business services as the most dominant sub-sector in the services sector. Figure 3 displays a summary of the sub-sector distribution.

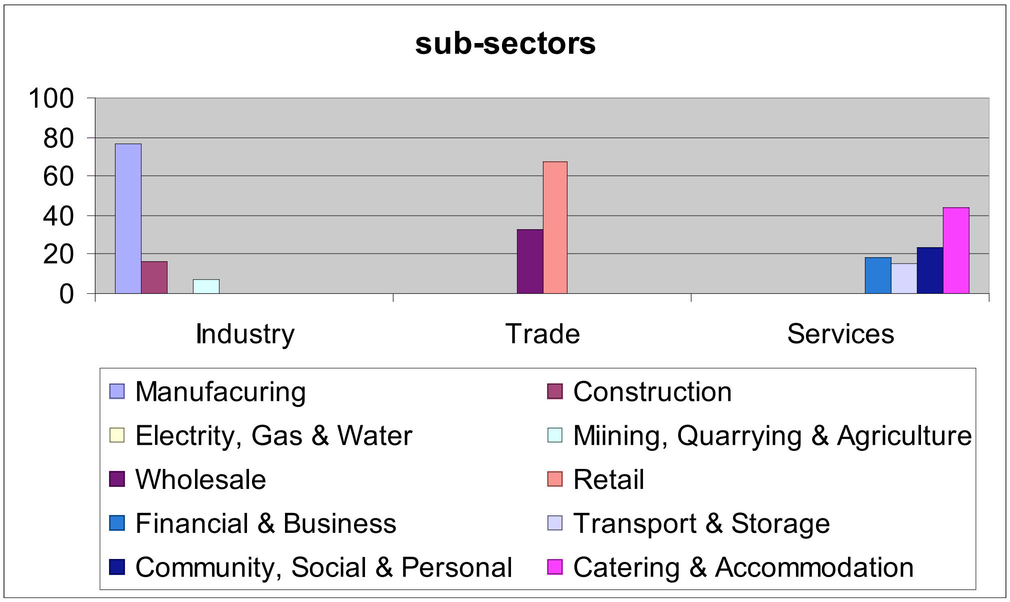

Figure 3: Sub-Sector Distribution

Figure 4 below shows a graphical representation of the number of people employed. It shows that majority of the firms who responded (60%) have a staff strength of less than 20.

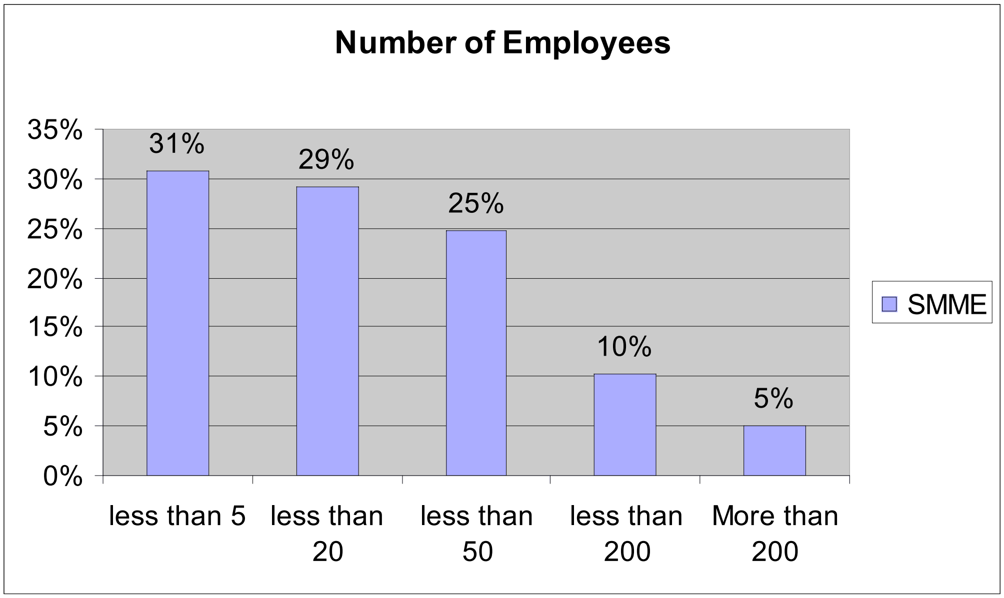

Figure 4. Number of Employees

Figure 5, which depicts the turnover distribution, shows that most of the firms (48%) record an annual turnover of above four (4) million Rand. However, there has been a rise in the percentage of firms with annual turnover less than 0.15m.

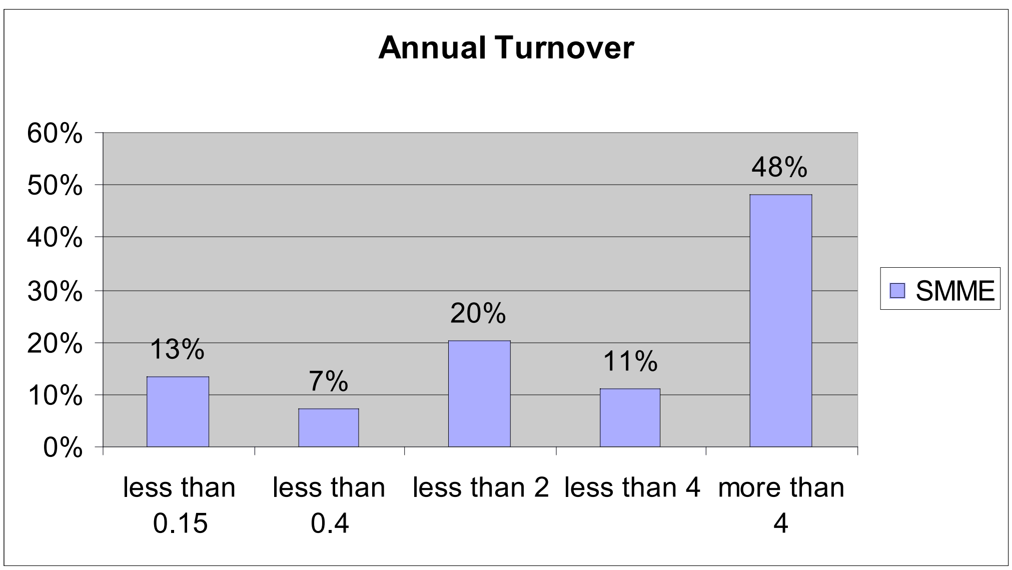

Figure 5: Annual Turnover

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 reports, most business managers representing 13% and 10% of SMMEs sampled cited operating costs & Government taxes & regulations, as major limiting factors to their operations. Figure 6 shows the response distribution.

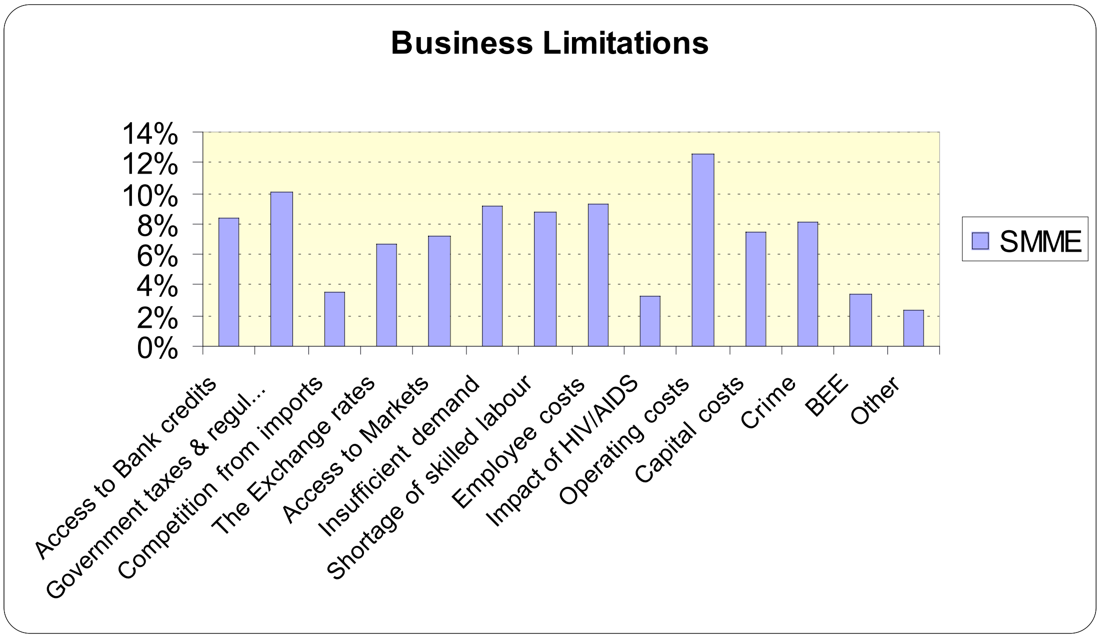

Figure 6: Business Limitations

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 40% of SMME owners indicated that their employment levels have gone down whilst majority of them 53% were of the view that it had remained the same and 7% were able to employ more.
- ***Financial situation***: 64% of SMME owners showed that this had gone down while 21% were of the view that it remained unchanged and 15% indicated an improvement.

- ❖ ***New orders or contracts***: 57% of SMME owners were of the opinion that new orders had gone down whereas 29% were of the view that it remained the same whilst 14% of them indicated that it had gone up.
- ❖ ***Selling price***: 29% of SMME owners indicated a downward trend, 46% indicated no change and 25% witnessed an increase.

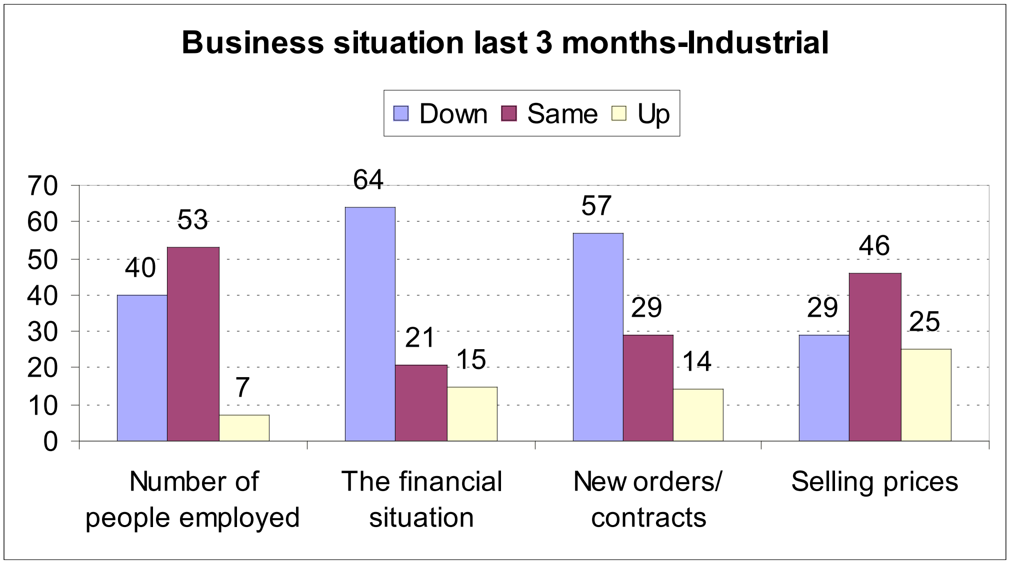

Figure7: Industry Business Situation for last 3 months

Trade

- ❖ ***Number of people employed***: 20% of SMME owners indicated that employment had gone down whilst 75% were of the view that it had remained the same and 5% were able to employ more.
- ❖ ***Financial situation***: In the trade sector 70% of SMME owners showed that the financial situation had gone down whilst majority 20% were of the view that it remained unchanged and 10% indicated an improvement.
- ❖ ***Volume of demand***: In the trade sector 75% of SMME owners were of the opinion that the volume of demand went down whilst 10% were of the view that it remained the same and 15% indicated that it had gone up.
- ❖ ***Stock levels***: In the trade sector 47% of SMME owners indicated a downward trend, 35% indicated no change and 18% witnessed an increase.

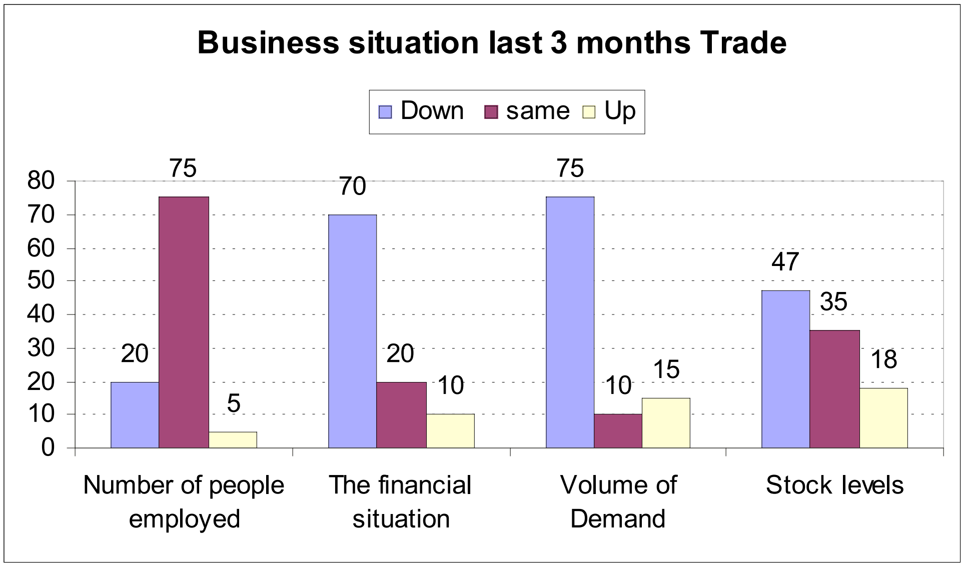

Figure 8: Trade Business Situation for last 3 months

Services

- ***Number of people employed***: 21% of SMME owners indicated that employment had gone down whilst an overwhelming majority 63% were of the view that it had remained the same and 16% were able to employ more.
- ***Financial situation***: 65% of SMME owners indicated that this had gone down whilst 24% were of the view that it remained unchanged and 11% indicated an improvement.
- ***Demand for services***: 52% of SMME owners were of the view that volume of demand had gone down whilst 24% were of the view that it remained the same and 24% of them indicated that it had gone up.
- ***Selling prices:*** In this sector 16% of SMME owners indicated a downward trend, 65% showed no change in stock levels and 19% witnessed an upward movement.

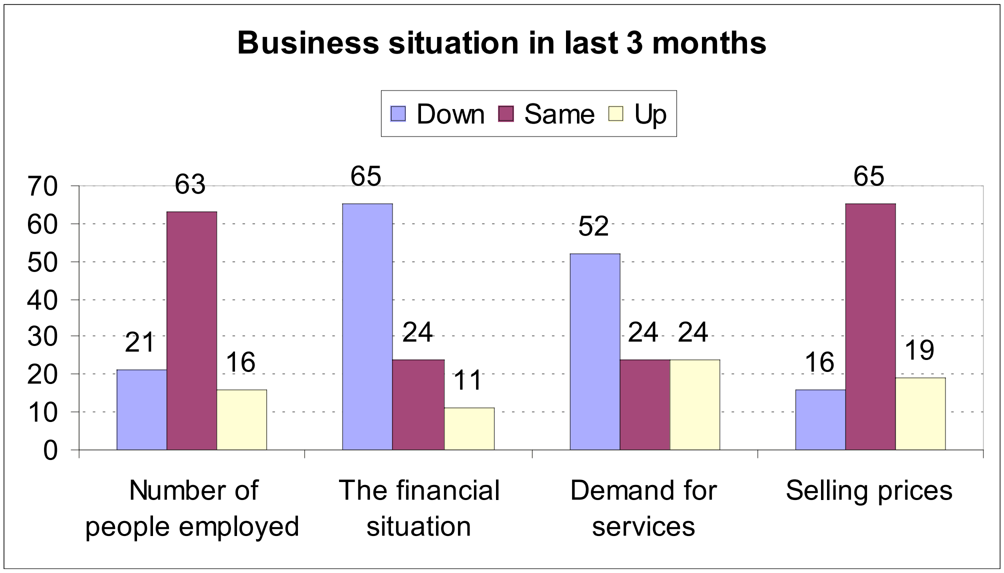

Figure 9: Services Business Situation for last 3 months

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***: 42% of SMME owners indicated that employment will go down whilst 42% were of the view that it will remain the same and 16% will be able to employ more.
- ***Financial situation***: 56% of SMME owners indicated that this will go down whilst , 16% were of the view that it will remain unchanged and 28% indicated an improvement.
- ***New orders or contracts***: 51% of SMME owners indicated that new orders will go down whilst 21% were also of the view that it will remain the same and 28% of them indicated that it will go up.
- ***Selling price***: 25% of SMME owners indicated a downward trend, 53% did not think there will be a change and 22% were of the view that selling prices will go up.

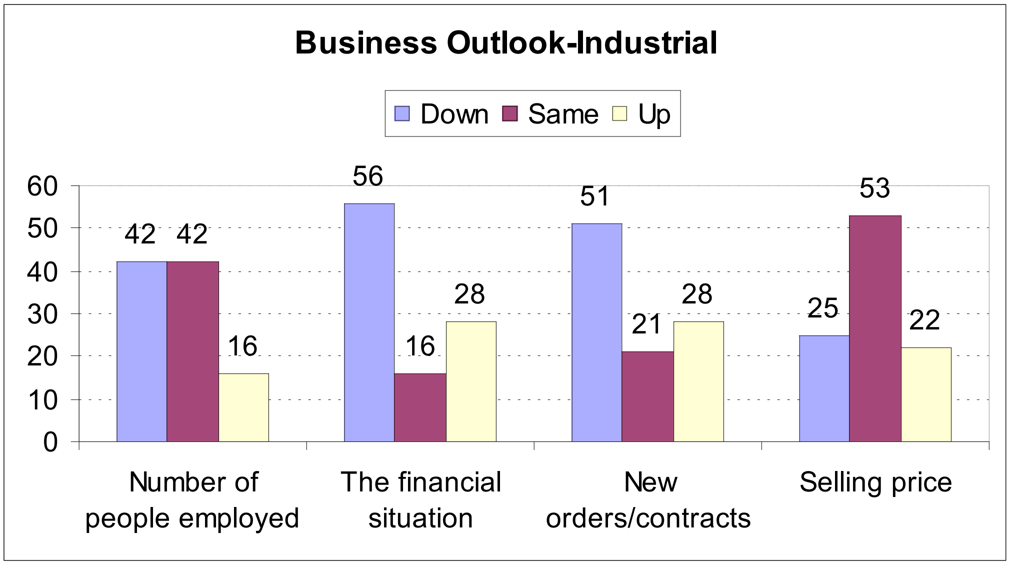

Figure10: Industry Sector Business Outlook

Trade

- ***Number of people employed***: 29% of SMME owners indicated that employment will go down. However 42% were of the view that it will remain the same and 29% will be able to employ more.
- ***Financial situation***: 52% of SMME owners indicated that this will go down whilst about the same percentage, 19% were of the view that it will remain unchanged and 29% indicated an improvement.
- ***Volume of demand***: 50% of SMME owners were of the opinion that the demand of services will go down whilst 15% were also of the view that it will remain the same and 35% of them indicated an upward trend.
- ***Selling price***: 40% of SMME owners indicated a downward trend in future, 25% indicated there will be no change and 35% indicated an increase.

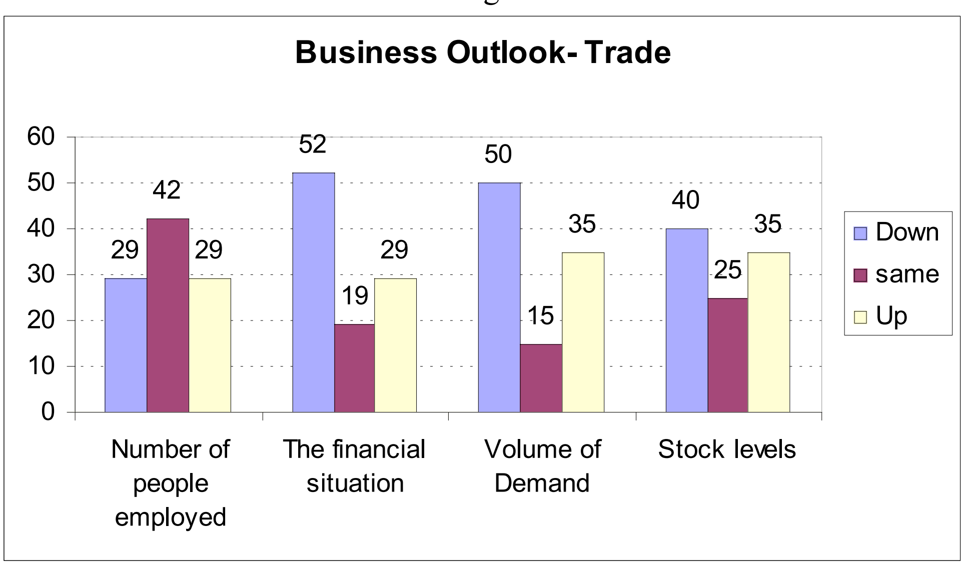

Figure11: Trade Sector Business Outlook Services

- ❖ ***Number of people employed***: 34% of SMME owners indicated that employment will go down whilst 41% were of the view that it will remain the same and 26% will be able to employ more.
- ❖ ***Financial situation***: 44% of SMME owners indicated that this will go down whilst 23% were of the view that it will remain unchanged and 33% indicated there will be improvement.
- ❖ ***Demand for services***: In this sector 40% of SMME owners indicated that the volume of demand will go down whilst 27% were of the view that it will remain the same and 32% of them predicted a possible increase.
- ❖ ***Selling price***: 23% of SMME owners indicated there will be a downward trend, 60% do not think there will be a change and 17% think selling price will go up.

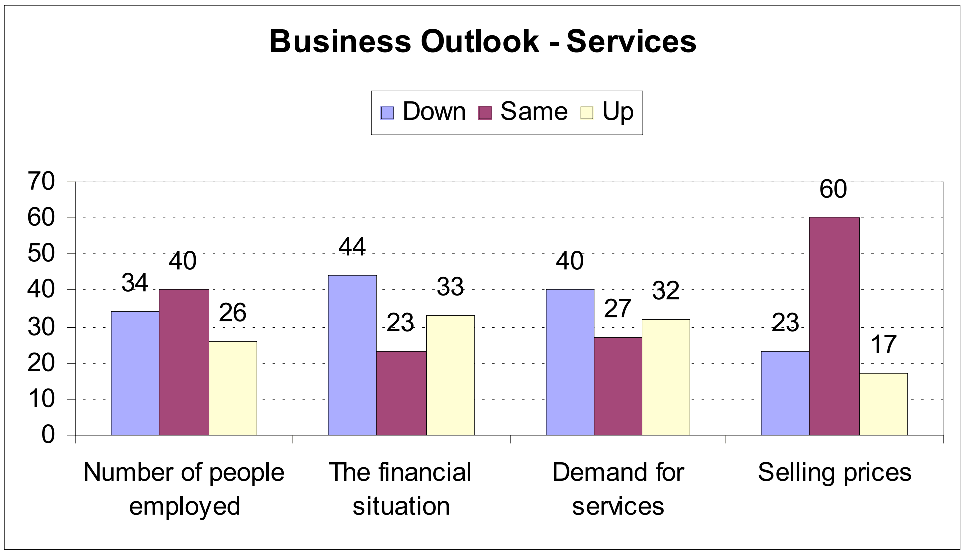

Figure12: Services Sector Business Outlook

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 within the industrial sector has decreased from 51.08% in the last quarter of 2008 to 36.87% in the first quarter of 2009. This represents a margin of 27.83 %.

4.1.2 Trade Sector Present Outlook

The trade sector has recorded a decrease in business confidence from 48.73% in the last quarter of 2008 to 26.78% in the first quarter of 2009, representing a decrease of 45.04%.

4.1.3 Services Sector Present Outlook

Like the other sectors services sector has also witnessed a decrease in confidence level from 55.11% in last quarter of 2008 to 42.92% in the first quarter of 2009, representing a decrease of 22.11%.

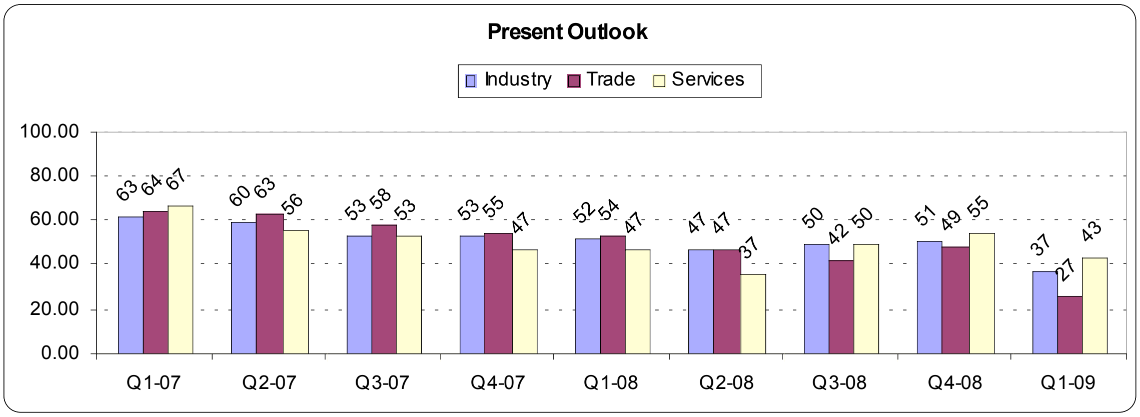

Figure 13. Present Outlook

4.2. Sectorial Future Outlook

4.2.1. Industrial Sector Future Outlook

The business confidence level for future outlook (Figure 14) under this sector moved from 54.62% in the last quarter of 2008 to 44.09% in the first quarter of 2009, representing a decrease of 19.27%.

4.2.2. Trade Sector Future Outlook

The confidence index for future outlook in this sector has also decrease from 59.69% in the last quarter of 2008 to 43.07% in the first quarter of 2009, a decrease of 27.84%.

4.2.3. Services Sector Future Outlook

The services sector outlook for future business activity decreased. The confidence index for future outlook decreased from 65.32% in the last quarter of 2008 to 49.54% in the first quarter of 2009 (Figure 14), representing a decrease of 24.17%.

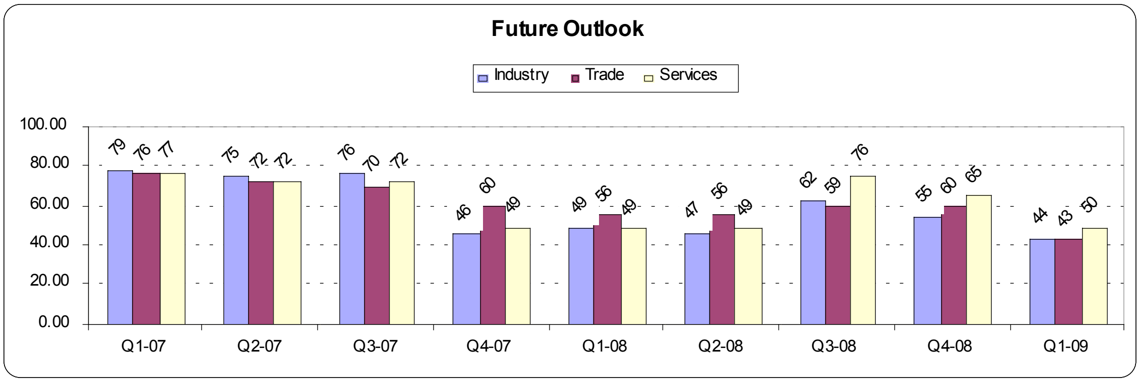

Figure 14 Future Outlook

4.3 Overall Present Index.

The business confidence index for present outlook in the first quarter of 2009 decline from 51.64% to 35.52%. This represents a decrease of 31.21%.

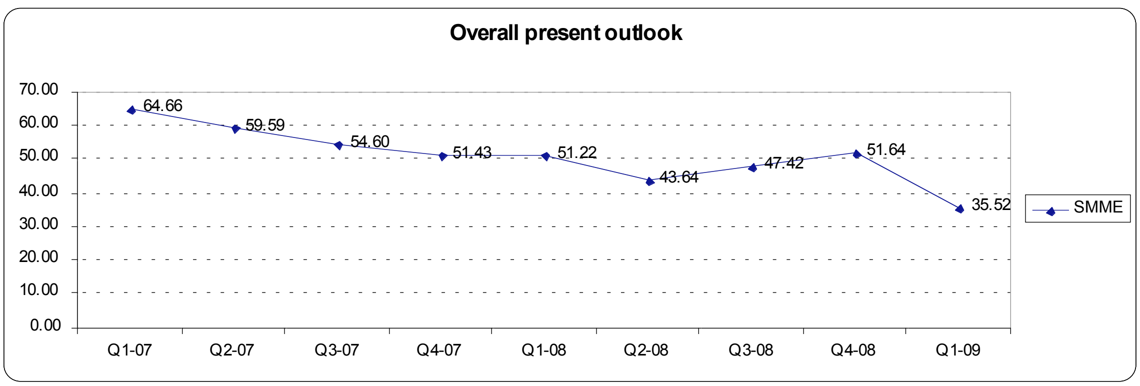

Figure15: Overall Present Outlook Change

4.4. Overall Future Index.

The future outlook in the last quarter of the 2008 survey results (Figure 16) also shows a downward trend in business activities. The overall future outlook index decreased from 59.88% in the last quarter of 2008 to 45.57% in the first quarter of 2009, a decrease of 23.90%.

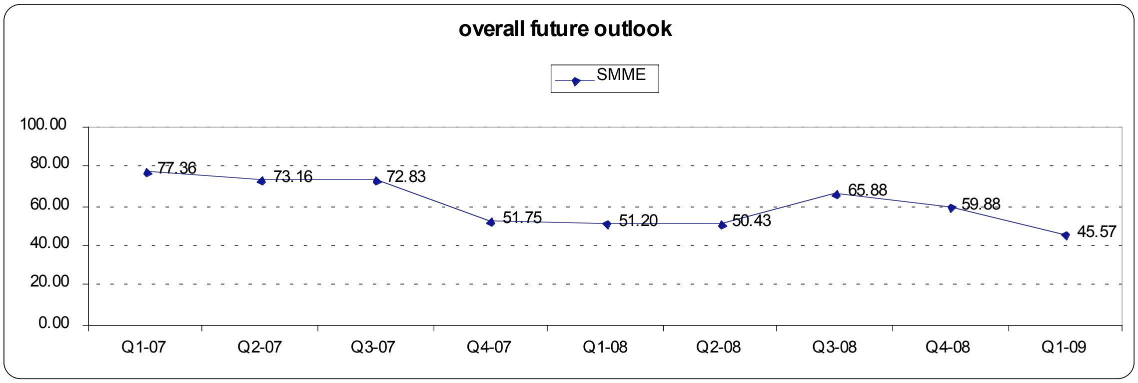

Figure16: Overall Future Outlook Change

4.5. Overall Index Movement

The overall SMME Business Confidence Index (Figure 17) illustrates a descending trend in the first quarter of 2009. The overall index decreased from 55.76% in the last quarter of 2008 to 40.55% in the first quarter of 2009, a decrease of 27.28% in business confidence.

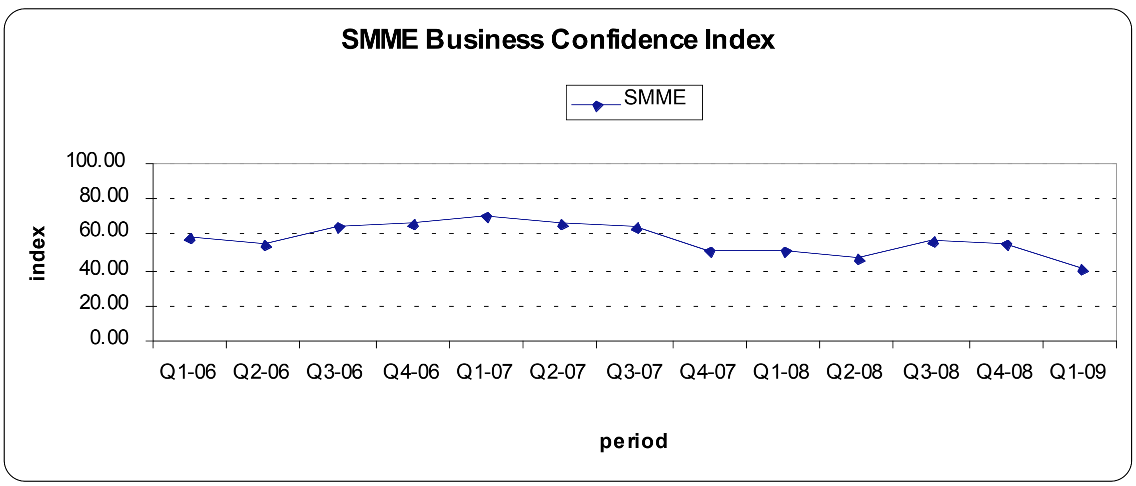

Figure 1: SMME Business Confidence Index

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 through the first and second quarters before taking an upward trend (possibly as a result of higher than expecting Christmas and New Year spending) in the third quarter. This, however, did not last long as a result of the current global financial meltdown resulting in a tumble of business confidence for this quarter. The year-on-year growth rates have been fluctuating since the beginning of the survey in 2006 and are now on a downward trend between the third quarter of 2008 and first quarter of 2009.

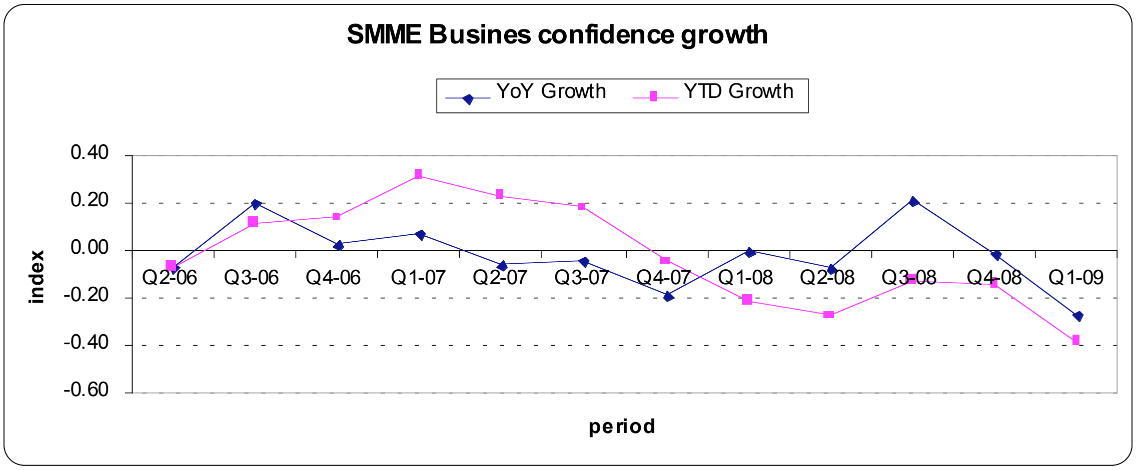

Figure 18: SMME Business Confidence Growth

5. Conclusion

The report has shown that the overall Business Confidence has continued its downward trend, as the BCI shows a massive decline of 27.28% in this first quarter of 2009. For all business situation variables respondents indicated that their businesses are not doing well. In Present Outlook it has not been a good quarter for businesses as the overall index decreased by 31.21%. In all of the strata, very few of the respondents had strength for hiring new employees, the financial situation for most businesses worsened, so did the market demand and selling prices of products of most businesses.

In the Future Outlook business were less optimistic in their business activities compared to the last quarter of 2008 as the overall future outlook index decrease by 23.90%. Most businesses anticipate a worsening of the business climate over the next 6 months of the year 2009. There is increasing fear among businesses that overall market demand for their products will decline even further and the financial situation will worsen, which makes them less optimistic about hiring new employees in the future.

Most of the businesses indicated that operating cost & Government taxes and regulations as the most constraining factors inhibiting their operations and performance. And this quarter we have also noted that the crime rate has increased compared to the last quarter of 2008, this increase in crime could be the result of poverty. Global Recession was indicated by most of the respondents as other limiting factor. Global recession generally results in reduced domestic and external demand and sales. This compels businesses to cut back on prices, output and employment.