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Africagrowth SMME Business Confidence Index Report

1. Introduction

This is a 3rd survey of a series of the SMME Business Confidence Index surveys undertaken by Africagrowth Research. It as a follow up on 2 previous surveys that were undertaken on the last quarter of 2005 and the 1st quarter of 2006. Great effort has been undertaken to keep the same sample and add a few new members to the survey panel.

2. Methodology

As in the initial survey, questionnaires were sent to senior managers or owners of the business entities that qualify to be categorized as SMEs. The same number of qualitative questions was asked to the respondents, whose answer will help determine whether a change in the business mood did in fact take place or not. As previously e-mails were sent to the previous respondents to the survey as well new ones in order to improve the national spread of the survey. The results indicated on the paragraphs below gives a picture of what changes did in fact take place.

3. Survey Results

3.1 Demographics

This section of the report looks at the demographics of the 133 enterprises that completed and returned the questionnaires. Summaries are given in terms of the distribution of the responses by province, size of the organisation as determined by the number of people employed, and annual turnover and by economic sector.

3.1.1 Name of Province

We received back 133 completed questionnaires. The bulk of the respondents this time came from the Western Cape at 28,5% followed by Gauteng at 21,1%. Following close by is the provinces of Kwazulu Natal at 18,8%. The Eastern Cape and the North West provinces were tied at 7,5 % each. The Free State and the Mpumalanga provinces were 6 and 5,3 percent respectively. The least number of respondents came from the Northern Cape and the Limpompo provinces which came in at 3% and 2,3% respectively. This did not deviate much from the last quarter’s survey, the only change came from the Western Cape which surpassed Gauteng by being the province with the most respondents.
3.1.2. Number of employees

The majority of the survey respondents at 32% indicated that they employ more than 5 but less than 20 employees. This is followed closely at 27% by respondents that advise that they employ less than 5 employees at any given time. Only 4.8% of the respondents indicated that they employ more than 200 people. 23.8% of the respondents advised that they employ less than 50 employees whilst 12.7% advise that they employ less than 200. The employee breakdown is further illustrated by the diagram below.
3.1.3. Annual Turnover

Bulk of the reporting units at 39% reported an annual turnover of more than 4 million rands. This is followed at 22.6% by units earning less than R2m per annum. 19.1% reported earnings of less than R4m per annum whilst 10.4% reported earnings of less than R150 000.00 per annum. The least number of respondents at 8.70% reported earnings of less than R400 000.00 per annum.

Figure 3.

![Annual turnover (millions)](image)

3.1.4. Main Economic Sectors

The main economic sectors we conducted the survey on were Industry, Trade and Services. The majority of the respondents came from the Industrial sector at 50.4%. This is followed by the Services sector at 33.8% whilst the Trade sector trails at 15.8%. These figures have not varied from the previous survey sample. The industrial sector continues to carry the bulk of the SMME sector in the South African economy.

Figure 4.

![Main Economic Sectors](image)
3.1.4.1. Industry sub-sectors

There were in total 65 respondents from the Industry sector the bulk of which came from the manufacturing sub-sector at 83.3% of the respondents. The remainder is scattered amongst the Construction, Agriculture, Mining and quarrying, Electricity, gas and water sub-sectors.

3.1.4.2. Trade sub-sectors

We received 22 survey responses from this sector accounting to about 16.5% of the total survey. The sector is further subdivided into Retail and Wholesale Trade each accounted to 52.4% and 47.6% respectively.

3.1.4.3. Services sub-sector

The Financial and Business Services sub sector together with the Catering and Accommodation sub-sector constitute 60.8% between the two of them. Transport Storage and Communication follows at 26.1% whilst Community Social and Personal trails at 13%. These figures more or less do not deviate from the last quarter’s survey responses.

The graph below illustrates the above spread.

*Figure 5.*
3.2. Present and Future Business Situation- Trade Sector

This section of the report discusses SME business perception of the present state of the economy and their outlook for the next 6 months. The responses presented represent the views of SMME engaged in trade related activities. The number of businesses that responded to this section of the questionnaire numbered 22.

3.2.1 Perception about present state of economy compared to the last 3 months - Trade

Employment Levels – There hasn’t been much movement in this sectors for the last 3 months with matters pertaining employment. More than half of the respondents cite not change in the employment movements (62%). 14% of them though advise that their employment levels have gone down whilst a quarter of the sample at 24% advise that new employment opportunities were created over this period. Although minimal this is a move in a positive direction.

Financial situation – 43 % of the respondents on this sector equally advise that their financial situation has either gone down or remained the same. The remaining 14 percent say their have reaped some rewards in matters financial. This is more or the less the same response compared to the last survey.

Demand for services – About half of the sample unit (45%) advice that there has been an increase in the demand for their products or services. 15% however felt that there was a damper in the demand for their wares. Two fifths felt that they had not noticed anything of note or any change in the demand.

Selling prices – Here again 38% of the trade sector respondents advise that there was an increase in their selling prices. This is equally supported by the fact that there was an increasing demand for the products or services hence the business owners could leverage on the selling prices. Here the old adage and laws of demand and supply come into play. There is however a notable fraction of the respondents at 24% that felt that the prices have come relatively down.

Figure 6. Trade Sector current business situation compared to the last 3 months.
3.2.2. Trade Future Business Outlook (for the next 6 months)

**Employment Levels** - About two thirds (67%) of the sample unit do not foresee any dramatic change in the number of people that will be employed in this sector. 10 percent felt that in fact is going to worsen whilst 23% felt there will be improvements. The trend here is that things are not going to change compared to the last 3 months going into the near future. Basically there will be very minimal new job creation.

**Financial situation** – The situation is somewhat dampened with 21% of the respondents on this sector indicating that they think their financial lot will decline in the near future in comparison to the current situation. Closer to half at 42% do not see any change on the foreseeable future. A considerable 37.5% felt that thing could worsen. Clearly the confidence in this sector has taken a knock going forward.

**Demand for services** – A little below half of the survey sample foresee a growth in the demand for their products and services in the near future. 33% think nothing will change whilst a considerable quarter of the sample in the sector (25%) see a downward trend in the local demand.

**Selling prices** – The atmosphere is more muted here in the foreseeable future where 56% of respondents in the trade sector felt that prices will remain the same in line with the demand. 31% felt that the prices will increase. A proportional number the predict gloom in the sector at 15% think that prices will go down.

*Figure 7. Trade Sector future Business Outlook: (next 6 months)*
3.3. Present and Future Business Situation- Services Sector

In looking at the business situation with reference to the past three months, firms in the services sector indicated their opinion on a four-variable point scale; namely number of people employed, the financial situation, volume of demand and stock levels over a 9-month period (3 months before and 6 months into the future). Out of a total of 131 of the sample survey 46 respondents answered questions for this sector. This constitutes 34.6% of the total survey sample. These figure are also line the same response on the previous quarter’s sample.

3.3.1 Services sector business perception compared to the last 3 months.

Employment Levels – The majority of the respondents at 60% did not see any change having taken place in the number of new jobs having been created presently compared to the last 3 months. A small number, 10% felt that there was in fact job shedding in this sector whilst 29% felt that there was some significant growth.

Financial situation – A little less than half of the respondents (45%) here felt that their financial situation has not in fact changed compared to the last 3 months. A little over a third (39%) of the sample felt that the financial situation has improved, whilst 16.1% were unimpressed with the performance of their respective business.

Volume of demand – Compared to the last 3 months less than half of the respondents in this sector have seen a urge in the demand for their services. E third however do not see any change whatsoever. 19.4% of the sample felt that the demand has weakened a bit. The general mood here is that things are going well for the sector currently.

Stock levels - Again here the bulk of the respondents indicate that their stock levels have not changed by much. This is being contended to by 40.3% of the respondents. This is about the same as the same sample compared to the last quarter. However 45.2% contradict this sentiment saying they have increased their stock levels in some anticipation of a higher demand in the near future. The remainder at 14.5% feel that their stock levels have generally gone down.

Below is a graphical representation of the above assessment.

Figure 8. Services sector business assessment compared to the last 3 months:
3.3.2 Services Sector Future Business Outlook (for the next 6 months)

**Employment Levels** – a Whooping 62% echo the same mood in comparison to the current situation. 34% however are upbeat that in line with future increase in demand, they will be able to absorb more people in the job market. The sentiment here is good that only a meager 4% felt that jobs will be shed in the foreseeable future.

**Financial situation** – The respondents here at 46,0% feel that the financial situation will not change. About half at 44% were more upbeat that things will improve financially. a small percentage at 10% feel that thing will rather go for the worst than getting better. This few is hugely outnumbered by their more upbeat counterparts.

**Volume of demand** – The business confidence in this sector is more or less the same as the last quarter. A considerable 58% are convinced that the demand for their services will vastly improve than the current prevailing conditions. About a third think things will stay the same (30%). The small difference at 12% think the demand will wane a bit.

**Stock levels** – In line with the anticipated surge in the volume of demand, 35,1% of the respondents will increase their stock levels to meet the demand. About half of the respondents in the services sector will play it safe and keep their stock level the same. 21,6 % of them however think that their stock levels will go down.

Below is a graphical representation of the above assessment.

*Figure 9*
3.4. Present and Future Business Situation- Industry Sector

3.4.1 Industry sector business perception compared to the last 3 months.

Employment Levels – A little over half of the reporting units advised that there has been neither growth nor decline in the number of people that they employ. 23% reported a little growth in the creation of new jobs in this sector. Roughly about the same number at 20% advise the was in actual fact a decline in the job creation initiative.

Financial situation – 38% of the reporting units here indicated that their financial situation has neither gone up nor down. About a third at 34 percent says things are getting increasingly difficult for them financially. 36% of the respondents felt that their financial situation has taken for the worst. The main culprits here being very high government taxes and regulations. It is also further aggravated by very high operating and capital costs. Only 27% of the respondents felt that their fortunes were growing compared to the last 3 months.

New Orders or Contracts – A third of the respondents on the industrial sector report having an experience of a decline in the demand for their products or services. The same number advises that there has not been a significant change in the demand for products or services. To them, things have generally stayed the same. 31% however were upbeat that things have improved somewhat in getting new orders or contracts for the products or services.

Selling prices - More than half of the respondents on the industrial sector informed that there has been no change in the selling prices of the manufactured goods. A further 175 felt that there was a slump in the selling prices whilst a quarter at 25% experienced u surge in the selling prices of the wares.

Below is a graphical representation of the above assessment.

Figure B. Industry sector business assessment compared to the last 3 months

![Industry business situation last 3 months](chart.jpg)
3.4.2 Industry Sector Future Business Outlook (for the next 6 months)

**Employment Levels** – About two thirds of the Industrial sector survey sample do not foresee any major changes towards job creation. They felt that they will still operate with same manpower as they currently have. A further 34% were more upbeat that job creation will be on the increase in the sector. A very slim 8% anticipated a decline in employment levels. This is very positive indicator in the confidence level of these players in this sector.

**Financial situation** – 40% of the respondent here are generally upbeat that things will bode well for them financially in the near future. A further 45% are not that enthusiastic and therefore do not see their efforts being rewarded with higher profit margins. They feel that the situation will play itself rather the same. A small number of respondents at 15% felt that things will go for the worst riding into the future. They in fact anticipate that their financial situation will actually drop going forward.

**New Orders or Contracts** – Half of the respondents at 50% are generally upbeat about the future outlook with respect to the demand for their products or services. Less than a third at 31% do not foresee any major or radical changes in the demand for services whilst only 19% of the survey sample felt that things will get worse.

**Selling prices** - 46% of the survey sample in the industrial sector foresee an increase in the selling prices in the line with the expected increase in demand. Only 40% of the industrial players Felt that there will be no radical change in their selling prices in neither direction. A small fraction at 14 percent felt there will be in fact a drop in the selling prices of the manufactured goods or services provided.

![Industry Sector Business Outlook](image)

**Analysis - Factors Limiting Business Success**

Government taxes and regulations were cited by most respondents as the most stumbling block to the growth and development of their businesses. This was cited by about 13,62% of the survey sample. Operating and capital Cost followed closely behind at 11,9%. This is the view equally shared by all 3 sectors of the economy.

Crime, Shortage of skilled labour and Insufficient demand for goods and services ranged from 8 to 12 percentage points as other factors that are of concern to SMMEs. Shortage of skilled labour was more abound in the Trade and Industry sectors than it was on the Services sector. Half of the whole survey respondents cited access to bank credit as another factor worth looking into.
The current South African banking institutions are very wary of extending credit to SMEs because of the large failure rate of such entities. When they do open themselves up to this risk, they would require large amounts of collateral which is never there in 80% of the cases.

The employers also advised that BEE as the impact of HIV/AIDS does not necessarily affect them that much. This could be attributed to the very low numbers of employees that these entities employ.

**Below is a schematic representation of the Business Limitations Affecting SMEs in South Africa.**

![Limitations to Business Success](image)

### 3.5. The SMME Business Confidence Indices

#### 3.5.1. Methodology

There are 2 common methods of constructing business confidence indexes, Net Balances and Diffusion Indexes. The Diffusion Indexes range from 0 to 100 whilst Net Balances range from -100 to 100. Both methods essentially have the same information content and move in the same direction when plotted over time. The SMME Index was constructed using the Diffusion Index method. The index is computed as:

\[
DI = 100(U + S / 2)
\]

\(DI\) = Diffusion Index

\(U\) = Fraction of (Up) responses to questions in the survey

\(S\) = Fraction of (Same) responses to questions in the survey

Though the reporting units (firms) within the sample come from a homogenous group of SMMEs there are nonetheless differences in the sizes. The difference in sizes is captured by the number of employees in each firm. In this regard responses from larger firms would carry more weight than that of smaller firms. A size weight is therefore computed and used to weight the responses.
\[ DI_W = \sum (DI \times w_s) \]

\[ DI_{W} = \] Weighted Diffusion Index

\[ w_s = \] Size weights based on the number of employees in each firm, thus the larger the number of employees in a particular firm the larger the weight for that firm.

A composite confidence indicator which measures the general assessment of present economic conditions and future expectations is also computed. For each question and industry an index is computed for both the present and future business situation. For instance for the Present business situation compared to the last 3 months the indices are computed as follows:

**Industrial Confidence Index:**
1. Q3a1: The number of people employed \((DI_{a1})\)
2. Q3a2: Financial Situation \((DI_{a2})\)
3. Q3a3: New Orders or contracts \((DI_{a3})\)
4. Q3a4: Selling prices \((DI_{a4})\)

Q3a1-Q3a4 are questions relating to Section 3a in the survey \((DI_{a1}) - (DI_{a4})\) are indices for each question

The Industrial Confidence Index \((ICI)\) is given as:

\[ ICI = (DI_{a1} + DI_{a2} + DI_{a3} + DI_{a4}) / 4 \]

**Trade Confidence Index:**
1. Q3b1: The number of people employed \((DI_{b1})\)
2. Q3b2: Financial Situation \((DI_{b2})\)
3. Q3b3: New Orders or contracts \((DI_{b3})\)
4. Q3b4: Selling prices \((DI_{b4})\)

Q3b1-Q3b4 are questions relating to Section 3b in the survey \((DI_{b1}) - (DI_{b4})\) are indices for each question

The Trade Confidence Index \((TCI)\) is given as:

\[ TCI = (DI_{b1} + DI_{b2} + DI_{b3} + DI_{b4}) / 4 \]

**Services Confidence Index**
1. Q3c1: The number of people employed \((DI_{c1})\)
2. Q3c2: Financial Situation \((DI_{c2})\)
3. Q3c3: New Orders or contracts \((DI_{c3})\)
4. Q3c4: Selling prices \((DI_{c4})\)
Q3c1-Q3c4 are questions relating to Section 3c in the survey

$$( DI_{c1} ) \ldots ( DI_{c4} )$$ are indices for each question

The Services Confidence Index \( SCI = ( DI_{c1} + DI_{c2} + DI_{c3} + DI_{c4} ) / 4 \)

The overall index for the present business situation compared to the last 3 months \( OIp \) is given as

\[
OIp = (I CI + T CI + SCI) / 3
\]

The same methodology as above is followed for the future outlook questions to obtain the overall index for the future business outlook in the next 6 months \( OIf \). The Overall SMME Confidence Index \( OSI \) is the average of the present and future indices.

**List of Tables (3rd Survey)**

**Table 1 Question Specific Business Confidence Indices by Sector**

<table>
<thead>
<tr>
<th>PRESENT</th>
<th>Industry</th>
<th>Trade</th>
<th>Services</th>
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</thead>
<tbody>
<tr>
<td>q3a1</td>
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<td>q3b1</td>
<td>52.50</td>
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<tr>
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<td>q3b2</td>
<td>42.50</td>
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<td>q3b3</td>
<td>70.00</td>
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<tr>
<td>q3a4</td>
<td>50.00</td>
<td>q3b4</td>
<td>62.50</td>
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<tr>
<td>Index (present)</td>
<td>45.75</td>
<td>59.38</td>
<td>57.85</td>
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**Overall Present Condition Index**

54.31

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<th>Trade</th>
<th>Services</th>
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<td>q4b1</td>
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<tr>
<td>Index (future)</td>
<td>66.51</td>
<td>82.80</td>
<td>77.13</td>
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**Overall Future Outlook Index**

75.48

**Overall Index (present and future)**

64.89

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<th>%change present to future</th>
<th>Industry</th>
<th>Trade</th>
<th>Services</th>
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<td>45.50%</td>
<td>39.45%</td>
<td>33.33%</td>
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**Overall Index %change present to future**

38.98%
Table 2 Business Confidence Indices for Present and Past Outlooks by Sector

<table>
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<tr>
<th>Industry Confidence Index Present</th>
<th>Industry Confidence Index Future</th>
<th>Trade Confidence Index Present</th>
<th>Trade Confidence Index Future</th>
<th>Services Confidence Index Present</th>
<th>Services Confidence Index Future</th>
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<tr>
<td>45.75</td>
<td>66.51</td>
<td>59.38</td>
<td>82.80</td>
<td>57.85</td>
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Table 3 Overall Business Confidence Indices

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<th>Industry Index</th>
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<th>Services Index</th>
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<td>56.11</td>
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| Present conditions Index | 54.31 |
| Future outlook Index     | 75.48 |
| Overall Index            | 64.89 |

Overall Summary