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

Compiled by: Africagrowth Institute

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## **INTRODUCTION**

The South African SMME Index which measures current and future business sentiments of SMME Managers throughout South Africa has just been released by the Africagrowth Institute. The index is sponsored by the Industrial Development Corporation (IDC).

The index is on a scale between 0 and 100 with 0 representing the lowest confidence rating and 100 the highest. Unlike the mixed feelings expressed by the SMMEs in the last quarter of 2006, the results from the first quarter of 2007 SMME business confidence survey depict hope in business confidence.

The indices are divided into three categories by business sectors. These are

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

The industrial sector (which includes manufacturing, construction, agriculture, mining etc.) continues to exhibit increasing confidence in business following a similar outlook in the last quarter of 2006, though the increase is marginal. The increased growth in the South African economy coupled with an increase in manufacturing activities and an increasing housing demand appear to be contributing to the positive outlook in business confidence by this sector. The confidence level for the 1<sup>st</sup> quarter of 2007 in this sector increased to 62.52 from the previous level of 61.35 in the last quarter of 2006. This represents an increase in confidence of 1.92%. Details of the index results are given provided as follows:

### **1 Sectoral Present outlook**

#### **1.1 Industrial Sector Present Outlook (Perception)**

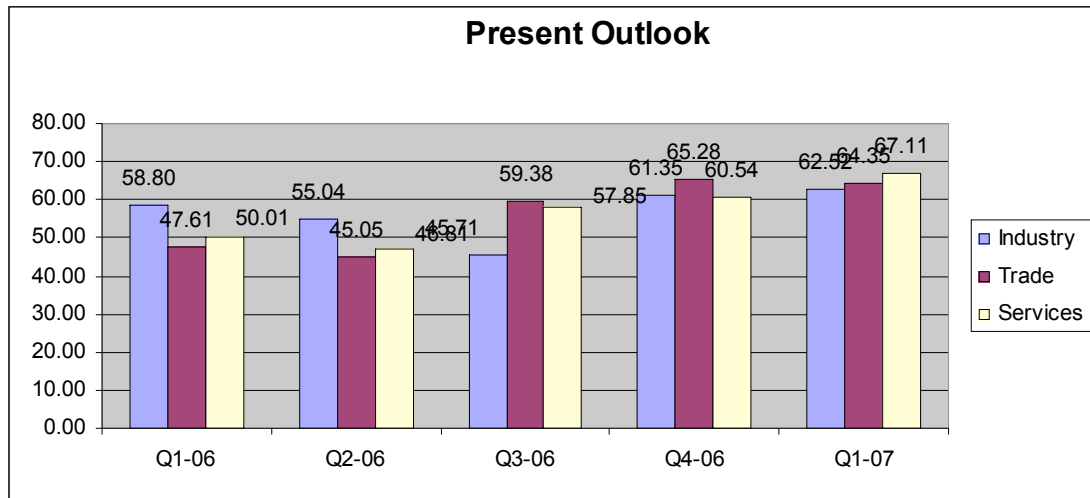
The industrial sector continues to exhibit increasing confidence in business following a similar outlook in the last quarter of 2006, though the increase is marginal. The increased growth in the South African economy coupled with an increase in manufacturing activities and an increasing housing demand appear to be contributing to the positive outlook in business confidence by this sector. The confidence level for the 1<sup>st</sup> quarter of 2007 in this sector (Figure 1) increased to 62.52 from the previous level of 61.35 in the last quarter of 2006. This represents an increase in confidence of 1.92%

#### **1.2 Trade Sector Present Outlook (Perception)**

There was a marginal slump in business confidence in the trade sector. The confidence index in this sector for the 1<sup>st</sup> quarter of 2007 (Figure 1) increased to 64.35 from 65.28 in the last quarter of 2006, representing a decrease of 1.42%. This slump is however consistent with the pessimistic future outlook expressed by this sector in the last quarter of 2006. This continuing slump in business situation could stem from effects from the Reserve Bank's continuous interest rate hikes.

#### **1.3 Services Sector Present Outlook (Perception)**

The services sector expressed the highest business confidence in current business situations. The confidence index for the sector was 67.1 in the 1<sup>st</sup> quarter of 2007 (Figure 1), as compared to 60.54 in the last quarter of 2006, representing an increase of 10.85%. This is the first time this sector has outstripped other sectors in terms of confidence in present business outlook.



**Figure 1 Present Outlook**

## **2. Sectoral Future Outlook**

### **2.1. Industrial Sector Future Outlook (Perception)**

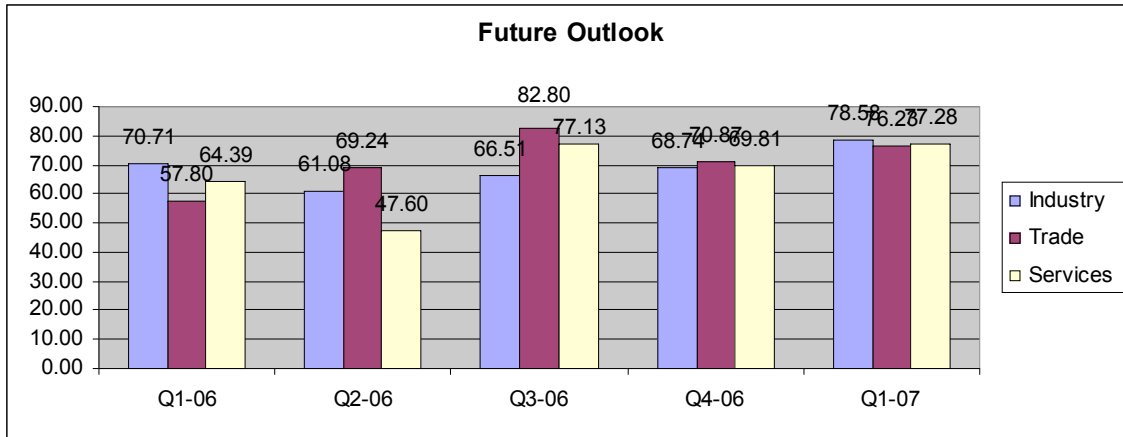
The industrial sector expressed the most optimistic outlook for future business activity. The business confidence level for future outlook (Figure 2) for the Industrial Sector increased from 68.74 in the last quarter of 2006 to 78.58 in the 1<sup>st</sup> quarter of 2007 representing an increase of 14.3%

### **2.2. Trade Sector Future Outlook (Perception)**

Despite the bleak perception in current business situations, the trade sector seems to be optimistic about future outlook (Figure 2). The confidence index for future outlook in this sector increased from 70.87 in the last quarter of 2006 to 76.23 in the 1<sup>st</sup> quarter of 2007, an increase of 7.56%. It appears that SMMEs in this sector expect that the negative effects of the Reserve Bank interest rates would have subsided in future hence the optimistic expectation of a positive turn-around in business activity in the future.

### **2.3. Services Sector Future Outlook (Perception).**

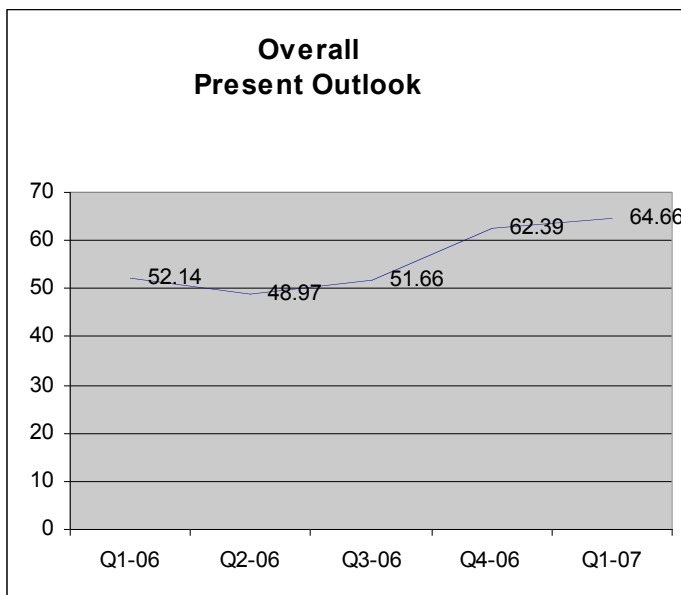
Again a similar optimistic view about future business is expected by the services sector. The confidence index for future outlook increased from 69.81 in the last quarter of 2006 to 77.28 in the 1<sup>st</sup> quarter of 2007 (Figure 2), representing an increase of 10.7%.



**Figure 2 Future Outlook**

### 3. Overall Present Index.

On the whole business confidence index for present outlook in the 1<sup>st</sup> quarter of 2007 edged up by 3.64% compared to that of the last quarter of 2006. With the exception of the drop in confidence from 52.14 to 48.97 from the 1<sup>st</sup> to the 2<sup>nd</sup> quarters of 2006, business confidence has increased generally as seen in Figure 3.



**Figure 3 Overall Present Outlook Change**

#### 4. Overall Future Index.

Unlike the trend noticed in the last quarter of 2006, the future outlook in the 1<sup>st</sup> quarter of the 2007 survey results (Figure 4) show an optimistic trend in business activities. The overall future outlook index increased from 69.8 in the last quarter of 2006 to 77.36 in the 1<sup>st</sup> quarter of 2007, an increase of 10.82%.

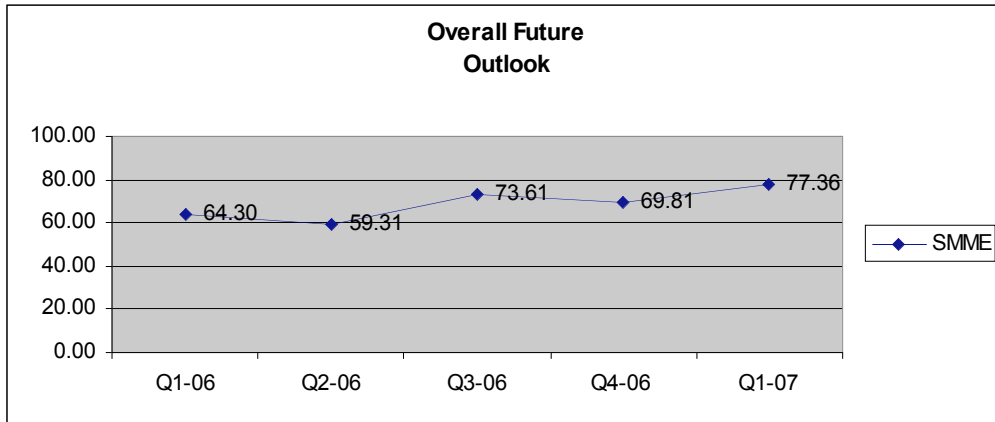


Figure 4 Overall Future Outlook Change

#### 5. Overall Index Movement

On the whole, the overall SMME Business Confidence Index (Figure 5) continued to depict a gradual upward trend in optimism about business situation in the South African economy. The overall index increased from 65.10 in the last quarter of 2006 to 71.01 in the 1<sup>st</sup> quarter of 2007, an increase of 7.43% in business confidence. It does appear that, SMMEs are optimistic about a good business year in 2007.

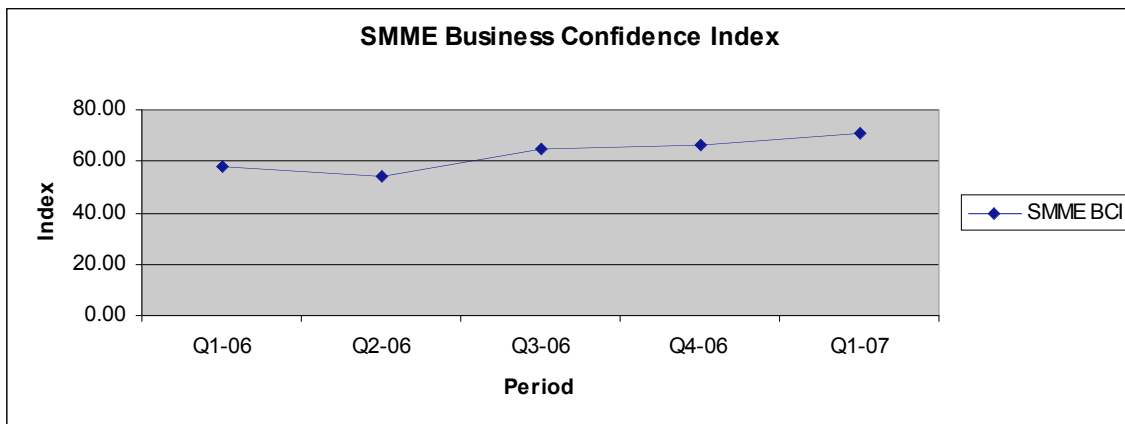
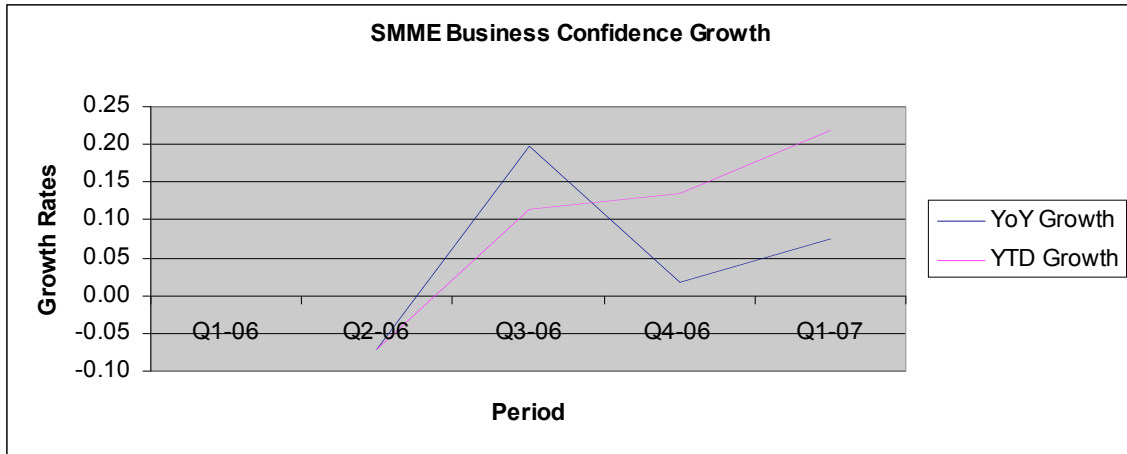


Figure 5 SMME Business Confidence Index

The year-to-date growth rate (Figure 6) for business confidence since the beginning of the surveys in 2006, show a general increasing growth in business confidence. However from the year-on-year growth rates it is clear that the last quarter of 2006, was a terrible period for SMMEs. Growth in business confidence has however picked up in the 1<sup>st</sup> quarter of 2007, and subsequent surveys will show whether this growth will be sustained, or will be reversed. Indications from the overall future outlook of business by SMMEs however point to a possible future increase in growth rates of business confidence.



**Figure 6 SMME Business Confidence Growth**