

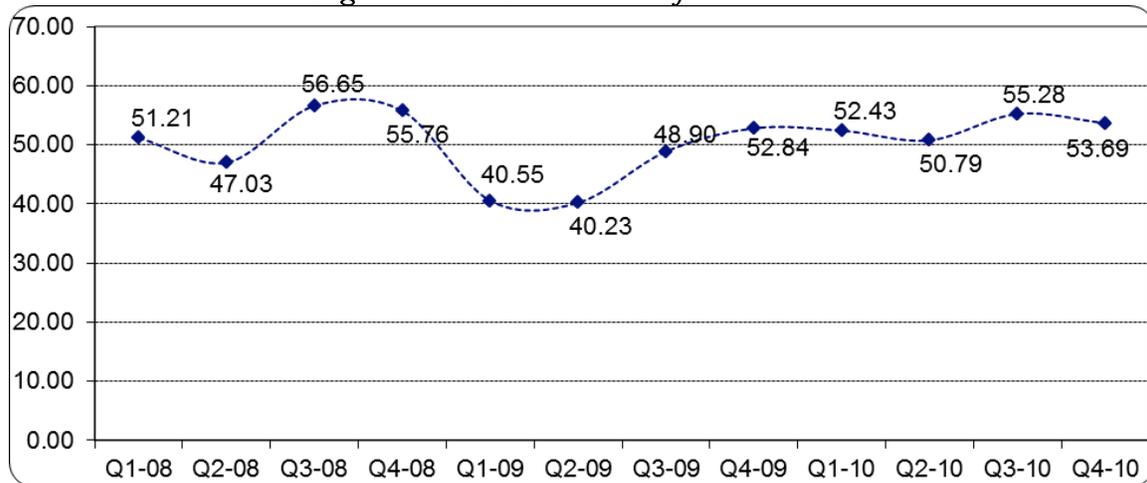
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SMME's continue to battle through recession

Due to their small size, SMMEs are more susceptible to the changing business environment. Although the long term trend reflects a recovery for this sector, the perceived economic activity dipped during the last quarter of 2010. Business Confidence survey conducted by the Africagrowth Institute, continue to show significant decrease. Although the global recession has been severe, the long term trend tends to indicate that the worst may be over for the SMME sector in this country says Professor Biekpe, President of Africagrowth Institute. However, the Professor cautioned that much will depend on the support that government gives the SMMEs within the ambit of its growth policies. He argued that the sector is still plagued by high taxation and regulation costs as well as high costs of starting a business.

Figure 1 shows the overall trend of South African SMMEs Business Confidence Indices form 2008 until the last quarter of 2010. The overall Business Confidence Index (which averages all the three business sectors in the economy, namely: trade, industrial and services) registered a decline of 55.28% during the third quarter of 2010 to 53.69% during the quarter under review. This represents a fall of 2.88%.

Figure 1: Business Confidence Index



The decline in the index was at the back of a downward trend in the trade and industrial sectors which offset the increase observed in the services sector. These sectors are critically important for an emerging market economy like South Africa to reach a sustainable growth path says Professor Biekpe. The industrial sector shrank by 7.33% from 46.79% during the third quarter of 2010 to 43.36% in the fourth quarter of 2010. The confidence index in the trade sector, decreased slightly from 45.95%, in the third quarter of 2010, to 45.19% in the fourth quarter, representing a decrease of 1.67%. However, the index for the services sector continued to rise from 39.72%, in the third quarter of 2010, to 49.05% in the fourth quarter, representing an incline of 23.48%. The decline in business confidence in the industrial and trade sectors does not augur well for the South African economy. One possible reason for

the decline could be attributed to the current strength of the rand which has likely reduced the competitiveness of the tourism sub-sector by thus making it more expensive for tourists to visit the country. Nevertheless, the index has remained on a robust upward trend compared to its worst dip during the height of the financial crisis in 2009 says Prof Biekpe.

Most businesses surveyed cited a number of inhibiting factors impacting negatively on their businesses. These include strong rand, high operating costs, high government taxes and regulations, limited access to bank credit, insufficient demand and high employee costs. The price of Brent crude oil has increased over the past weeks to exceed US\$80 per barrel, and this saw a cumulative increase in domestic petrol prices of 25 cents per litre in October and November. Fortunately, appreciation in the exchange rate has helped to moderate domestic petrol price increases. Unlike big business, small businesses tend to be more sensitive to these developments showing that they are more vulnerable.

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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