

Table of contents

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1. INTRODUCTION	3
2. BACKGROUND INFORMATION ABOUT SAMPLE.....	3
3. SURVEY RESULTS.....	7
3.1 BUSINESS LIMITING FACTORS	7
3.2 BUSINESS SITUATION DURING THE LAST 3 MONTHS	7
3.3 BUSINESS OUTLOOK FOR NEXT 6 MONTHS	10
4. BUSINESS CONFIDENCE INDEX RESULTS.....	13
4.1 SECTORIAL PRESENT OUTLOOK.....	13
4.1.1 Industrial Sector Present Outlook.....	13
4.1.2 Trade Sector Present Outlook.....	12
4.1.3 Services Sector Present Outlook.....	12
4.2. SECTORIAL FUTURE OUTLOOK	14
4.3 OVERALL PRESENT INDEX.	15
4.4. OVERALL FUTURE INDEX.	16
4.5. OVERALL INDEX MOVEMENT	16

Table of Figure

<i>Figure 1 Provincial Distribution</i>	<i>4</i>
<i>Figure 2: Distribution by Economic Sector.....</i>	<i>4</i>
<i>Figure 3: Sub-Sector Distribution</i>	<i>5</i>
<i>Figure 4: Number of Employees</i>	<i>6</i>
<i>Figure 5: Annual Turnover.....</i>	<i>6</i>
<i>Figure 6: Business Limitations</i>	<i>7</i>
<i>Figure 7: Industry Business Situation for last 3 months</i>	<i>8</i>
<i>Figure 8: Trade Business Situation for last 3 months.....</i>	<i>9</i>
<i>Figure 9: Services Business Situation for last 3 months</i>	<i>10</i>
<i>Figure 10: Industry Sector Business Outlook.....</i>	<i>11</i>
<i>Figure 11: Trade Sector Business Outlook Services.....</i>	<i>12</i>
<i>Figure 12: Services Sector Business Outlook.....</i>	<i>13</i>
<i>Figure 13: Present Outlook</i>	<i>14</i>
<i>Figure 14: Future Outlook</i>	<i>15</i>
<i>Figure 15: Overall Present Outlook Change</i>	<i>15</i>
<i>Figure 16: Overall Future Outlook Change.....</i>	<i>16</i>
<i>Figure 17: SMME Business Confidence Index.....</i>	<i>17</i>
<i>Figure 18: SMME Business Confidence Growth.....</i>	<i>17</i>

1. Introduction

The SMME Business Confidence Index (BCI) report is based on a quarterly survey of the responses of SMME owners and managers regarding factors that impact on their businesses. The survey is conducted by the Africagrowth Institute. It specifically, measures the opinions of SMME managers and owners across South Africa regarding their current performances and future business prospects.

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 and selling prices. 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 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 indices are divided into three strata. These are:

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

The overall BCI has, increased during the first quarter of 2014. Below are the results for the first quarter survey of 2014.

2. Background Information about sample

Out of 1100 randomly selected SMME managers and/or owners, 101 responded to questions posed in the survey. The provincial distribution of the SMMEs for this study is shown in Figure 1 below.

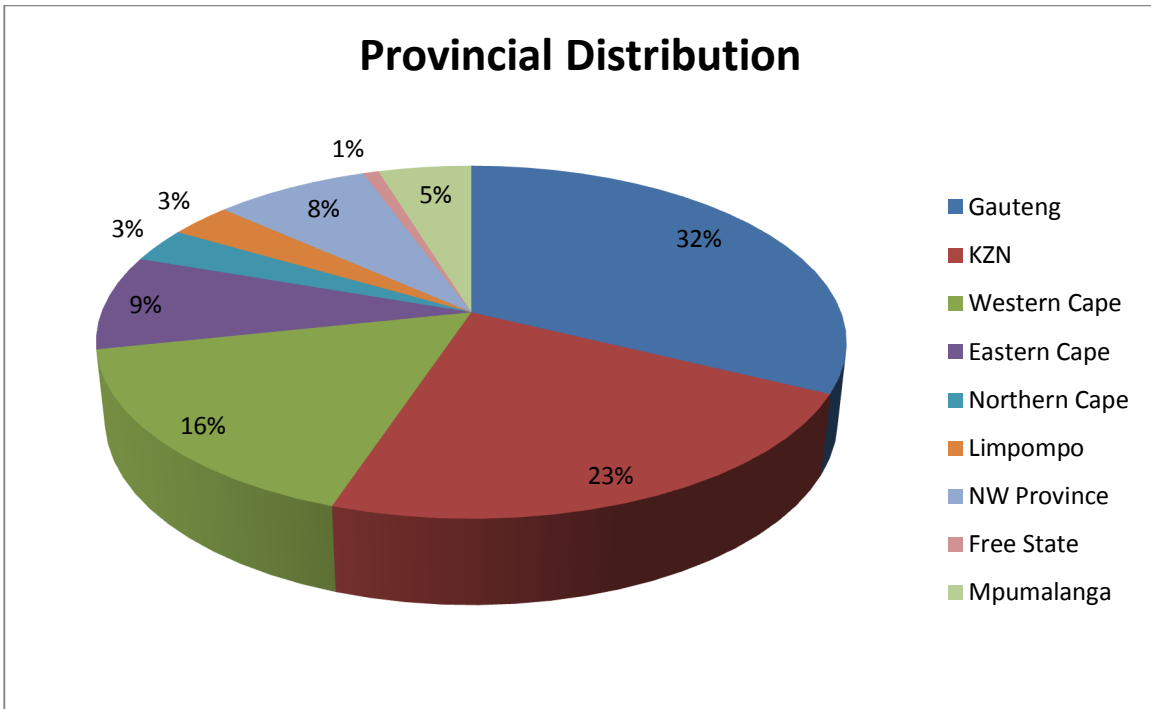


Figure 1 Provincial Distribution

From the Figure 1, Gauteng, KZN and Western Cape provinces had the highest response rate. The three provinces combined represent 71% of the responses received.

In terms of sector distribution, Figure 2 below shows that the industrial and services sectors were the most represented.

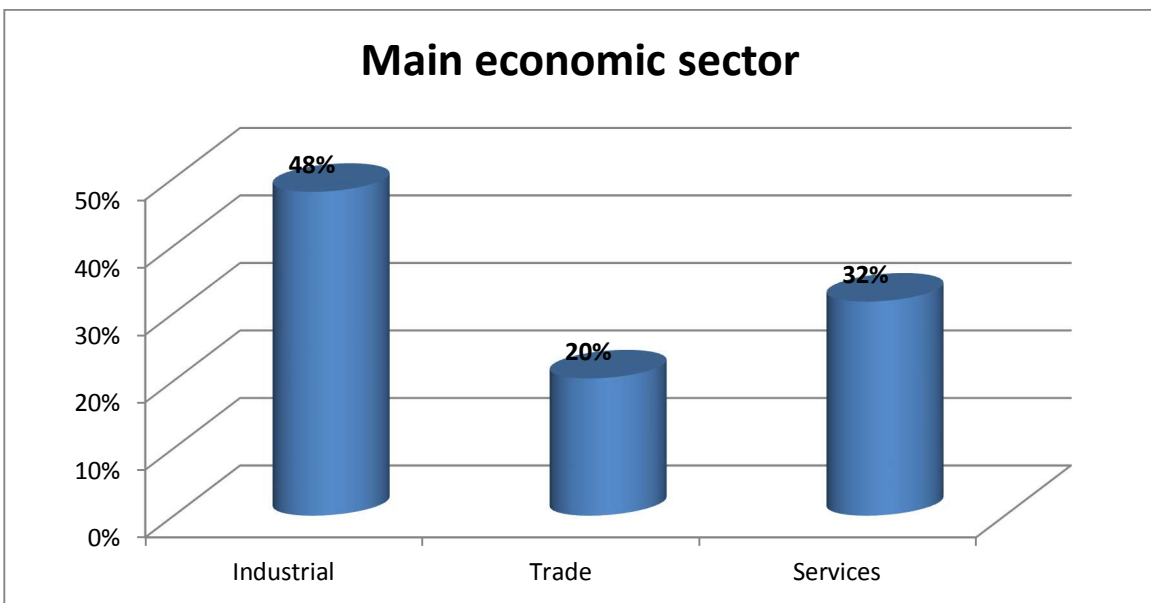


Figure 2: Distribution by Economic Sector

Sub-sector analysis in the broader industrial sector indicates that the manufacturing sub-sector dominates with 73% followed by 22% for Construction. In the trade sector, the retail subsector dominates with 68% and wholesale subsector score 32%. For the Services sector, Financial and Business Services dominate with a representation of 36%, followed by Transport & Storage at 33%. Figure 3 displays a summary of the sub-sector distribution.

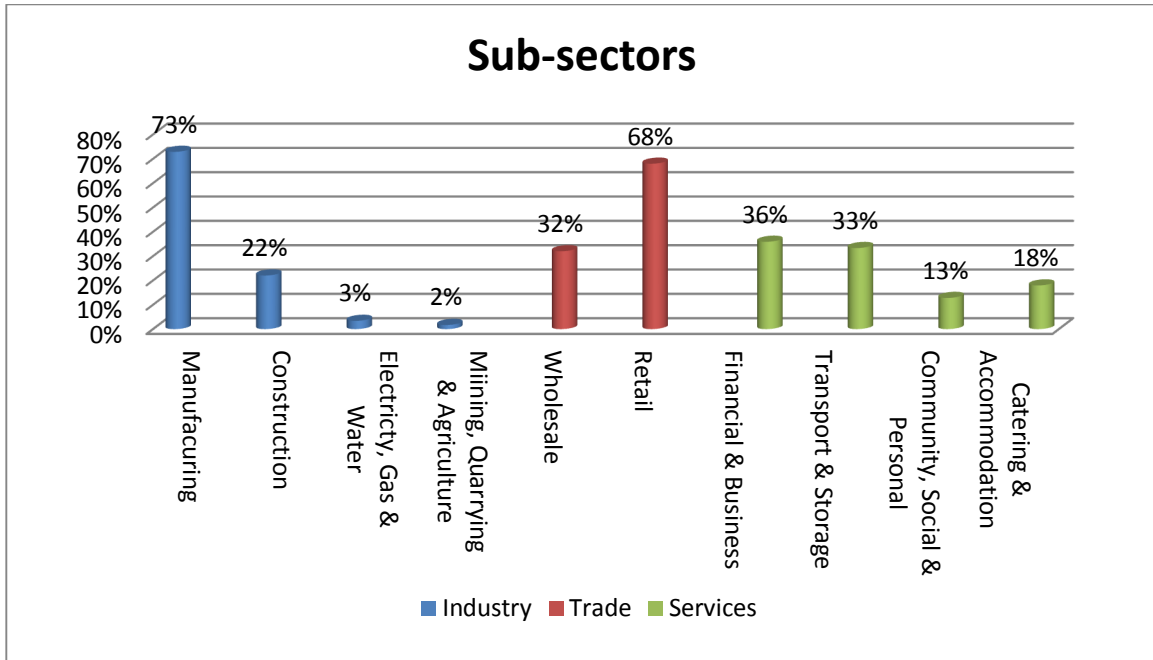


Figure 3: Sub-Sector Distribution

Figure 4 below shows a graphical representation of the number of people employed. It shows that majority of the firms which responded (73%) have staff strength of less than 20.

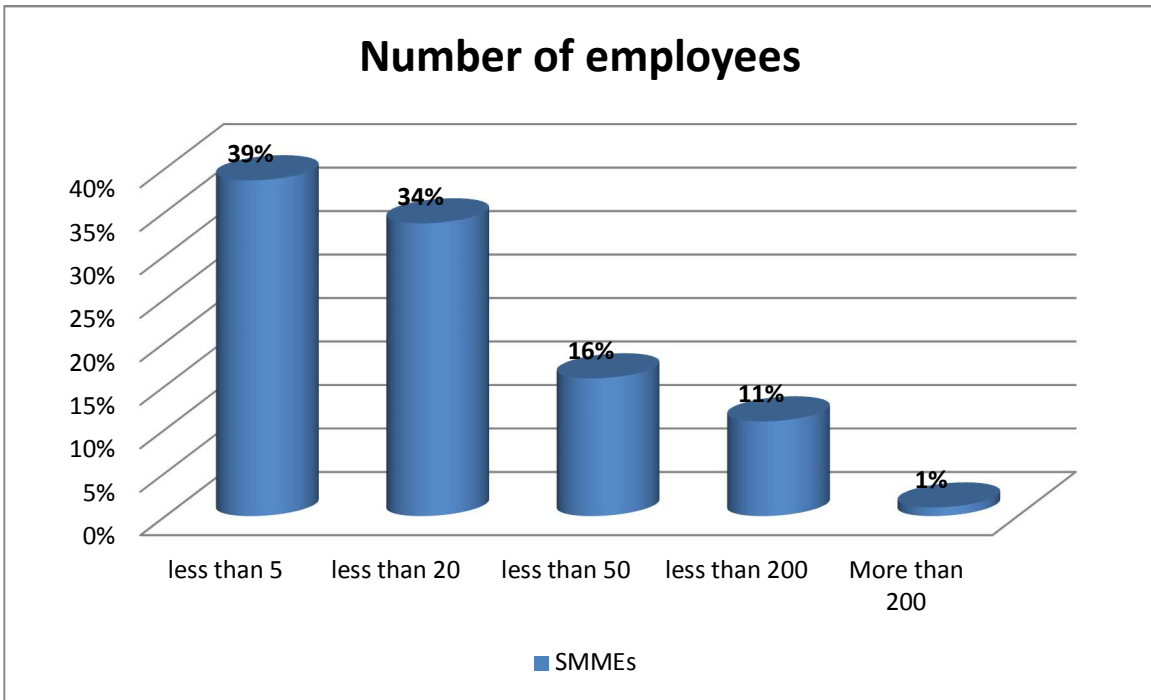


Figure 4: Number of Employees

Figure 5, which depicts the turnover distribution, shows that most of the firms (45%) recorded an annual turnover of above four (4) million Rand during the second quarter of 2014.

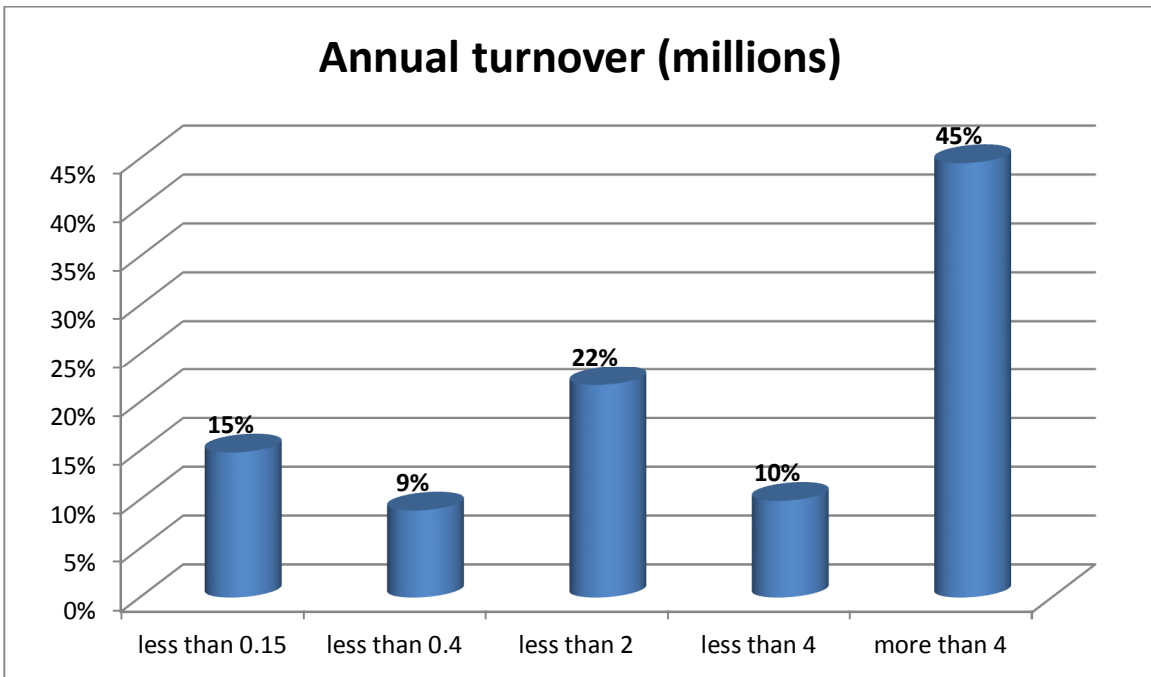


Figure 5: Annual Turnover

3. Survey Results

3.1 Business Limiting Factors

Firms were asked to indicate the five most important factors they consider as having adverse effect on their businesses. Most of the SMME business managers sampled cited Government taxes & regulations, high employee costs and high operating costs respectively as major limiting factors to their operations. Figure 6 shows the response distribution.

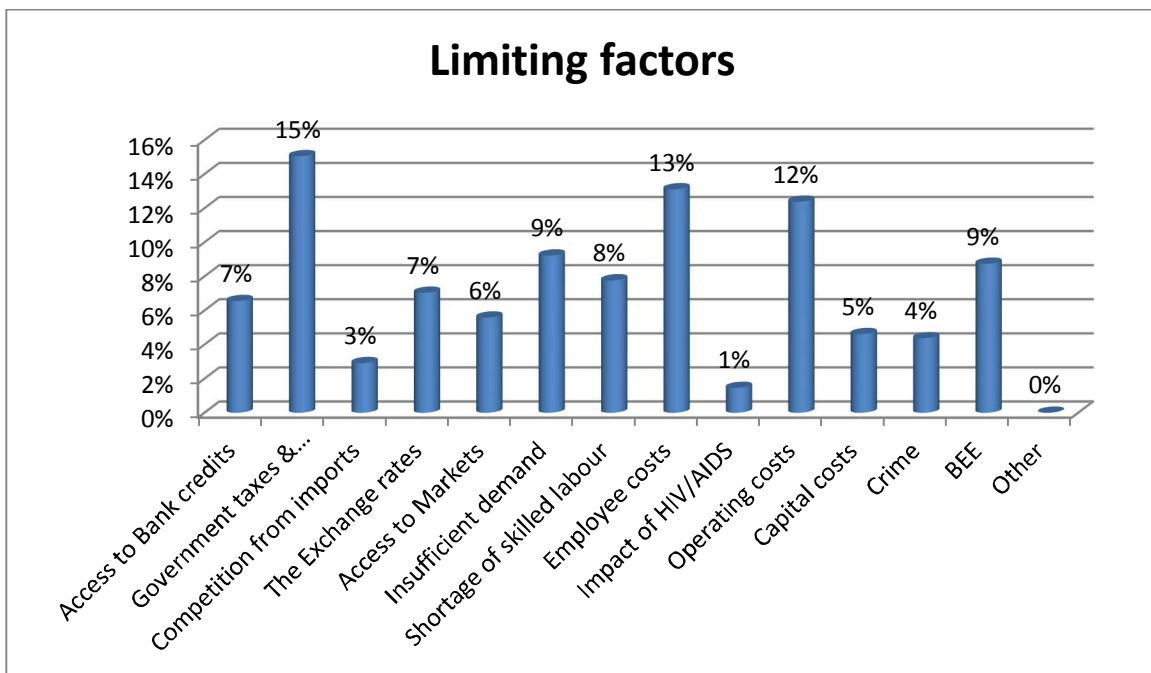


Figure 6: Business Limitations

3.2 Business Situation during the 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 respectively show responses on attributes with respect to business situation in the last 3 months for the Industrial, Trade and Services sectors.

Industrial Sector:

- ❖ **Number of people employed:** In the industrial sector, 10% of SMME owners indicated that they have been able to employ more people whilst 68% were of the view that the employment situation had remained the same with 22% indicating that it had worsened.
- ❖ **Financial situation:** The financial situation for the industrial sector during the second quarter of 2014 has continued to decline. Of the total surveyed, 14% of the SMME owners indicated that there has been an improvement in their financial situation. 40% of the SMME owners indicated that there has been no change in their financial situation for the second quarter of 2014, and 46% indicated a worsening of their financial situation.
- ❖ **New orders or contracts:** 16% of SMME owners indicated an increase in new orders whereas 47% were of the view that orders have remained the same with same percentage of 37% indicating a decline.
- ❖ **Selling price:** In the case of selling price, 20% of SMME owners indicated an upward trend, 68% indicated no change and 12% witnessed a downward trend

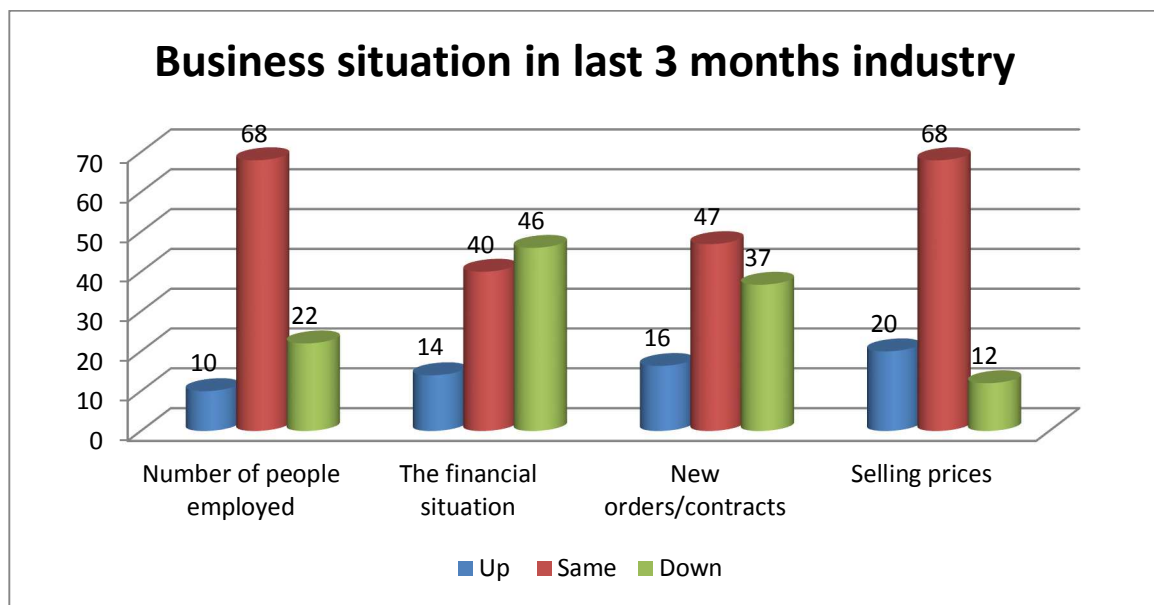


Figure 7: Industry Business Situation for last 3 months

Trade Sector:

- ❖ **Number of people employed:** In the trade sector, 22% of SMME owners indicated that employment had increased whilst 74% were of the view that it had remained the same and an estimated 4% indicated that it had deteriorated.
- ❖ **Financial situation:** 26% of SMME owners showed that the financial situation had improved whilst 43% were of the view that it remained unchanged and an estimated 30% indicated a worsening of their financial situation.

- ❖ **Volume of demand:** In this quarter, 39 % of SMME owners were of the opinion that the volume of demand had increased whilst 39% were of the view that it remained unchanged, whilst 22% indicated a decline.
- ❖ **Stock levels:** In the case of stock levels, 39% of SMME owners indicated an upward trend, 48% indicated no change and 13% witnessed a decline.

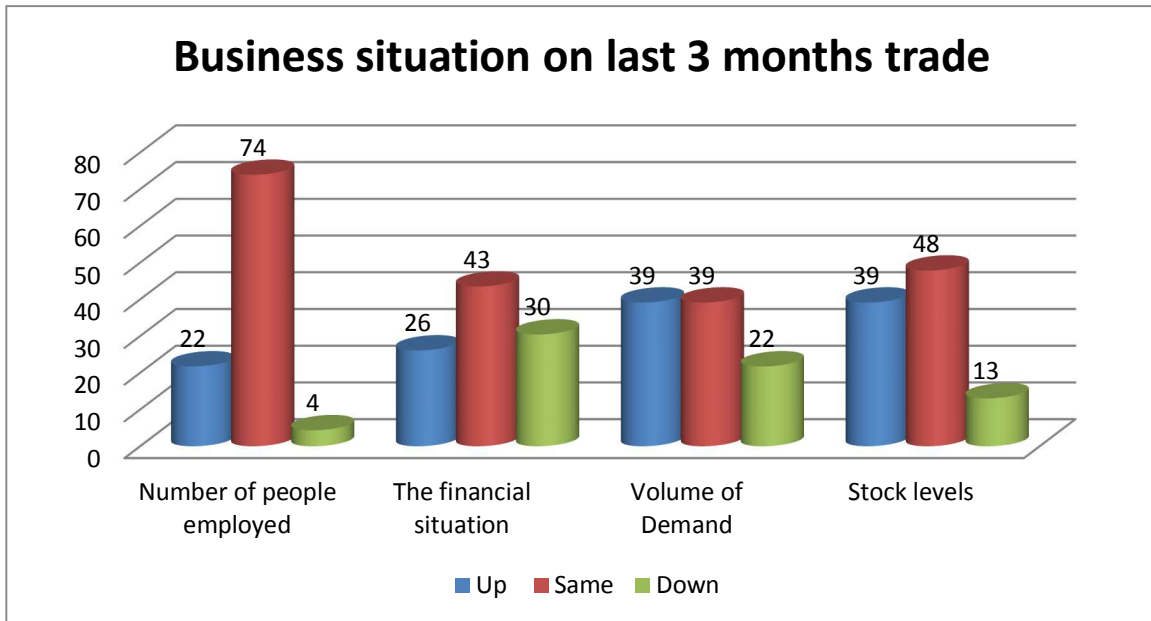


Figure 8: Trade Business Situation for last 3 months

Services Sector:

- ❖ **Number of people employed:** 16% of SMME owners indicated that number of people employed had increased whilst a majority 60% were of the view that it had remained the same and 24% indicated it had deteriorated.
- ❖ **Financial situation:** 22% of SMME owners indicated that this had gone up whilst 38% were of the view that it remained unchanged and 40% indicated a deterioration.
- ❖ **Demand for services:** 24% of SMME owners were of the view that volume of demand had gone up whilst 38% were of the view that it remained the same and 38% of them indicated that it had gone down.
- ❖ **Selling prices:** In this sector, 33% of SMME owners indicated an upward trend, 56% showed no change in selling prices and 11% witnessed an upward movement.

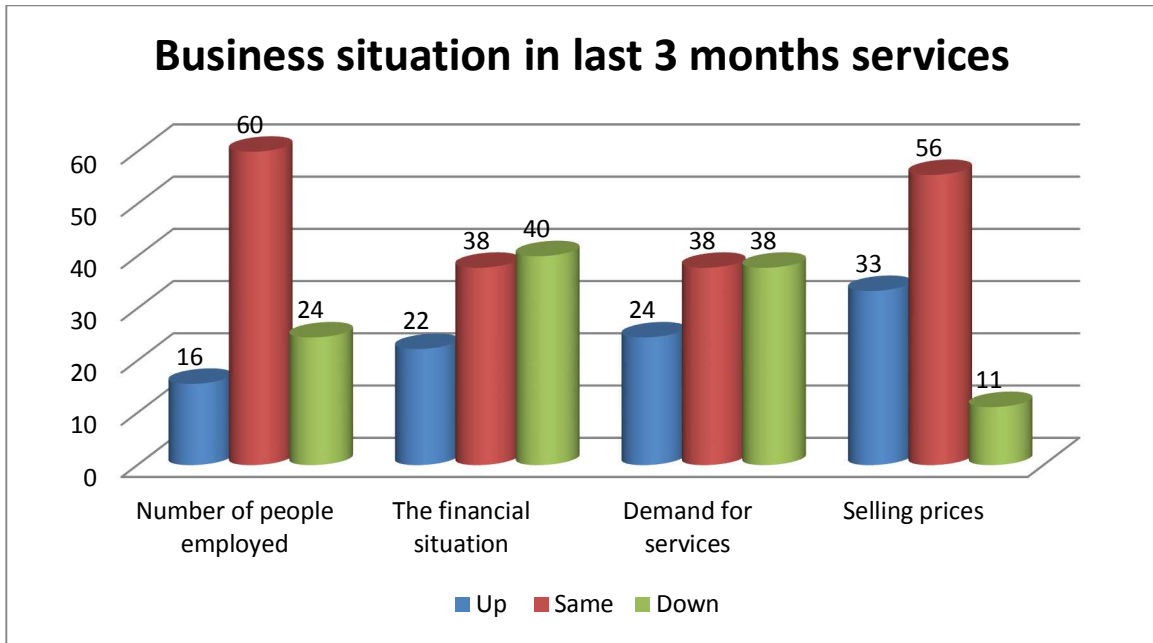


Figure 9: Services Business Situation for last 3 months

3.3 Business outlook for next 6 Months

This section provides results of the survey questions on the future outlook of Business Confidence Index attributes - Number of people employed; Financial situation, New orders or contracts and Selling price. Responses on attributes with respect to business outlook within the next 6 months for the Industrial, Trade and Services sectors are shown as figures 10, 11 and 12 respectively.

Industrial Sector:

- ❖ **Number of people employed:** 18% of SMME owners indicated that employment will go up whilst 66% were of the view that it will remain the same and 16% were pessimistic about the number of people being employed.
- ❖ **Financial situation:** 16% of SMME owners indicated that this will go up whilst, 54% were of the view that it will remain unchanged and 30% indicated a deterioration;
- ❖ **New orders or contracts:** 30% of SMME owners indicated that new orders will go up whilst 46% were of the view that it will remain the same and 24% of them indicated that it will go down;
- ❖ **Selling price:** 24% indicated an upward trend, 70% did not think there will be a change and 6% were of the view that the selling prices will go down.

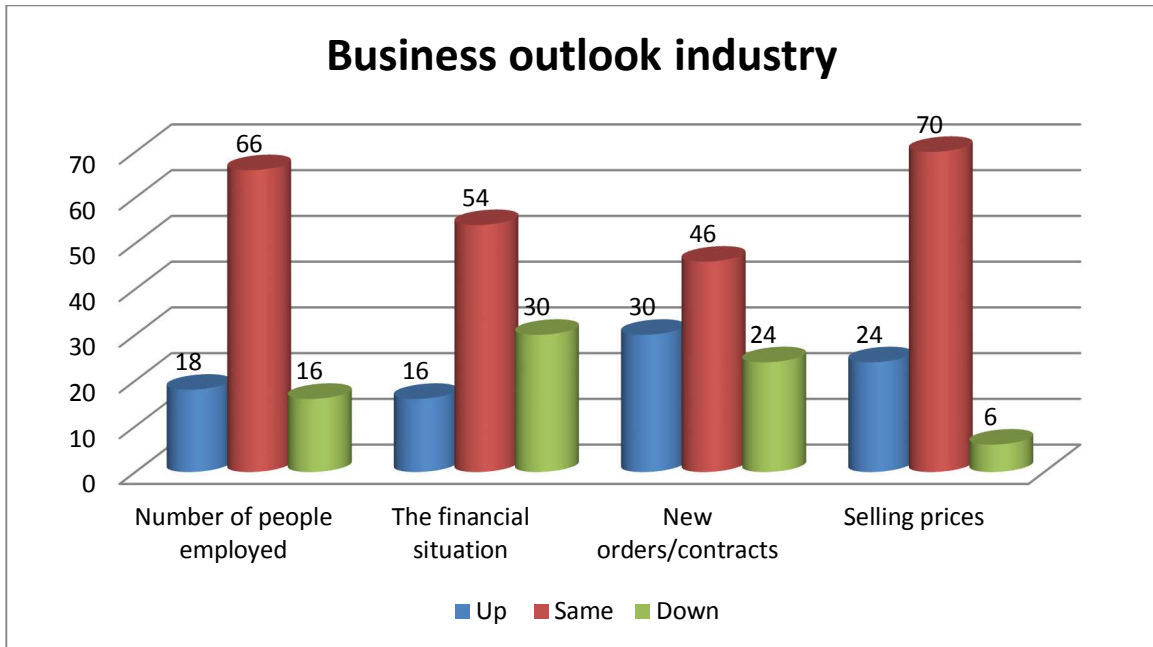


Figure 10: Industry Sector Business Outlook

Trade Sector

- ❖ **Number of people employed:** 22% of SMME owners indicated that employment will increase, 65% were of the view that it will remain the same and 13% were pessimistic;
- ❖ **Financial situation:** 23% of SMME owners indicated that this will go up whilst 50% were of the view that it will remain unchanged and 27% of SMME operators indicated a deterioration;
- ❖ **Volume of demand:** 35% of SMME owners were of the opinion that the demand for services will increase whilst 39% were also of the view that it will remain the same and 26% of them indicated a downward trend.
- ❖ **Stock levels:** 35% of SMME owners indicated an upward trend in future, 52% indicated there will be no change and 13% were of the view that it will deteriorate.

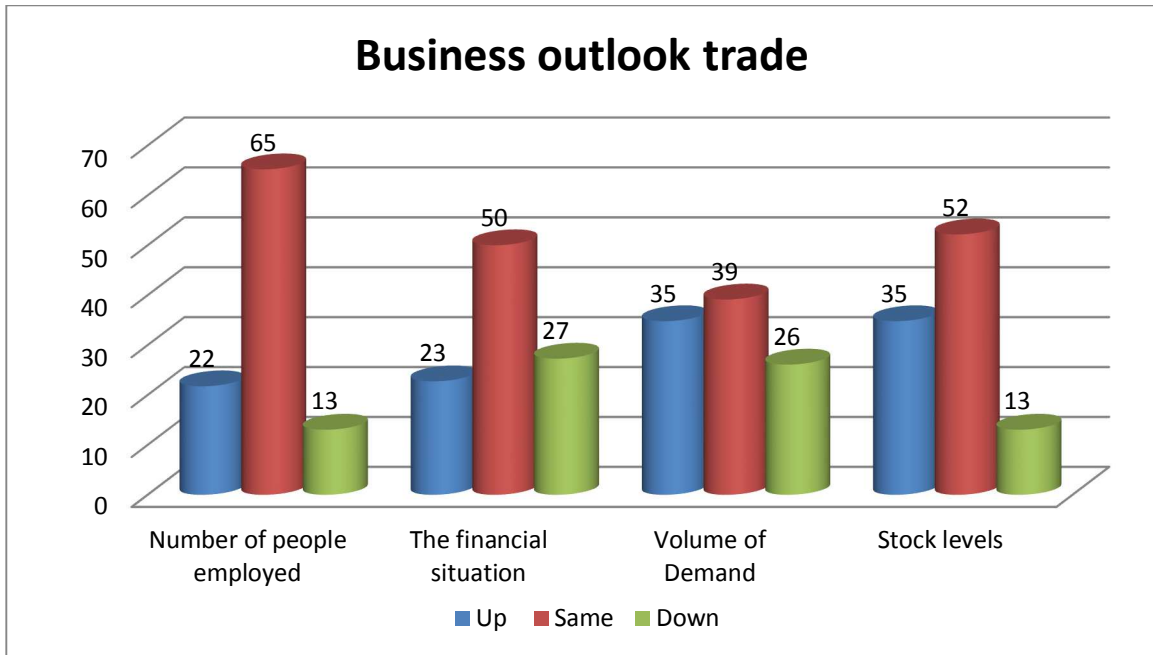


Figure 11: Trade Sector Business Outlook Services

Services Sector

- ❖ **Number of people employed:** 27% of SMME owners indicated that the employment situation will improve whilst 58% were of the opinion that it will remain the same and 16% indicated there will be a deterioration;
- ❖ **Financial situation:** 29% of SMME owners indicated that this will increase whilst 47% were of the view that it will remain unchanged and 24% indicated there will be a deterioration;
- ❖ **Demand for services:** In this sector 31% of SMME owners indicated that the volume of demand will go up whilst 42% were of the view that it will remain the same and 27% of them predicted a possible decline.
- ❖ **Selling price:** 31% of SMME owners indicated there will be an upward trend, 64% do not think there will be a change and 4% think selling price will go down.

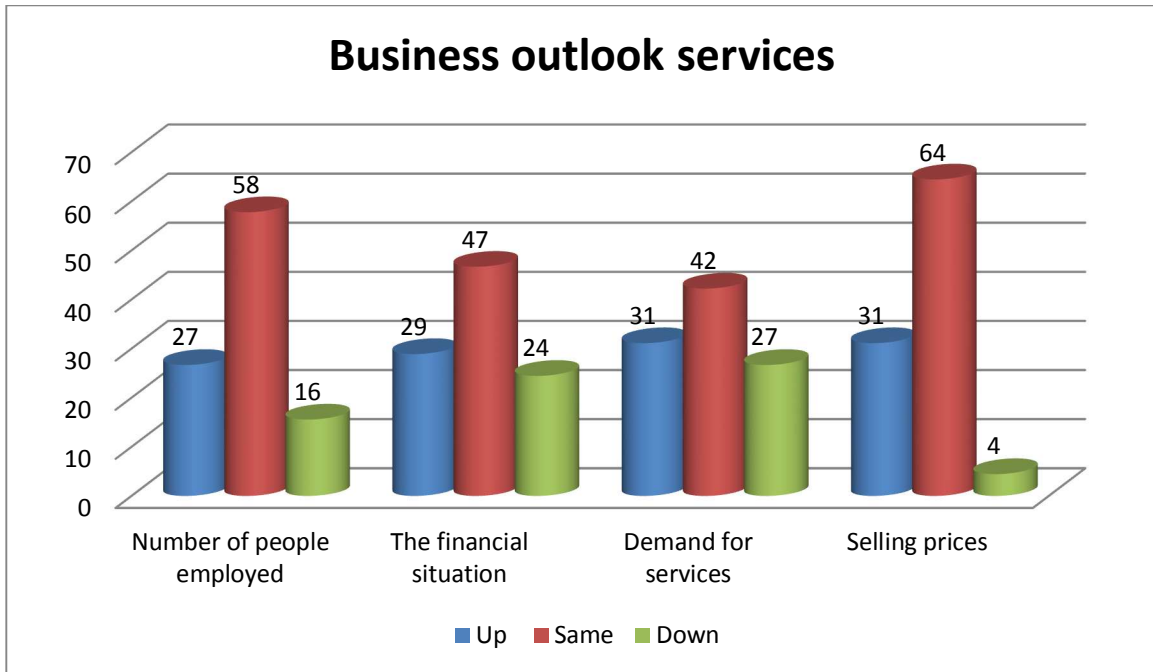


Figure 12: Services Sector Business Outlook

4. Business Confidence Index Results

4.1 Sector Present outlook

4.1.1 Industrial Sector Present Outlook

The Business Confidence within the industrial sector increased from 35% during the first quarter of 2014 to 36% in the second quarter of 2014. This represents an increase of 2.86%.

4.1.2 Trade Sector Present Outlook

The trade sector also recorded an increase in confidence level. Confidence level improved from 31% during the first quarter of 2014 to 38% in the second quarter of 2014. This represents an increase of 22.58%.

4.1.3 Services Sector Present Outlook

The service sector recorded an increase in business confidence from 33% during the first quarter of 2014 to 35% in the second quarter of 2014. This represents an increase of 6%.

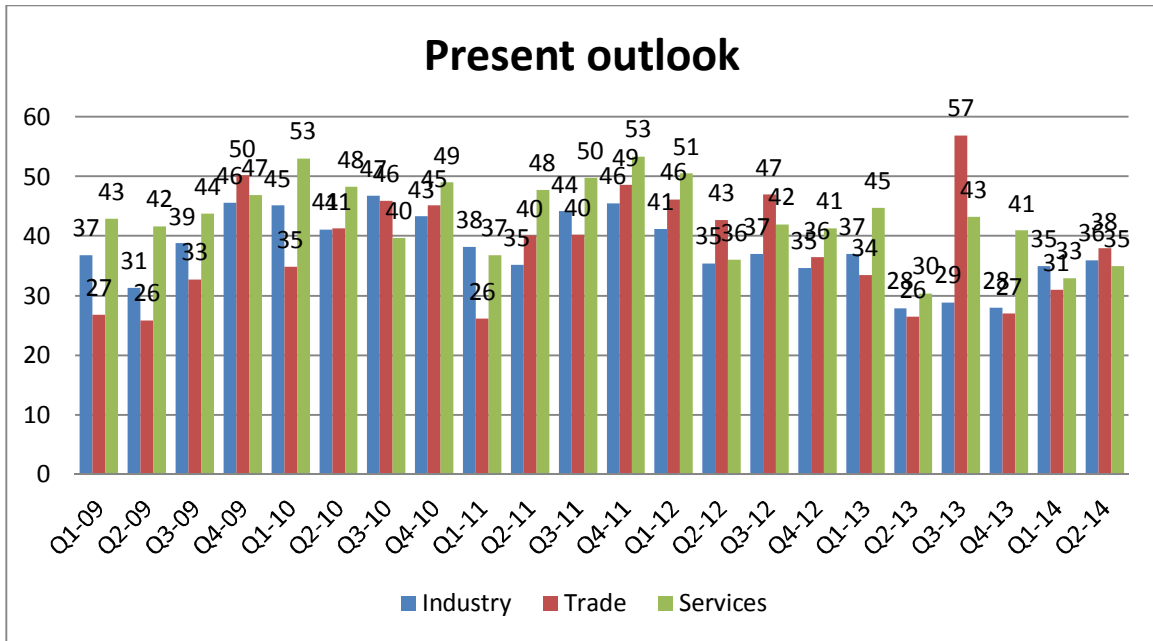


Figure 13: Present Outlook

4.2. Sector Future Outlook

4.2.1. Industrial Sector Future Outlook

The business confidence level for future outlook (Figure 14) under this sector decreased from 45% in the first quarter of 2014 to 44.87% in the second quarter of 2014. This represents a decrease of 0.44%.

4.2.2. Trade Sector Future Outlook

The business confidence index for future outlook in the trade sector also decreased from 41% in the first quarter of 2014 to 34% in the second quarter of 2014. This represents a decrease of 17%.

4.2.3. Services Sector Future Outlook

The confidence index for future outlook in the services sector decreased from 41% during the first quarter of 2014 to 38% in the second quarter of 2014 (see Figure 14). This represents a decrease of 7.32%.

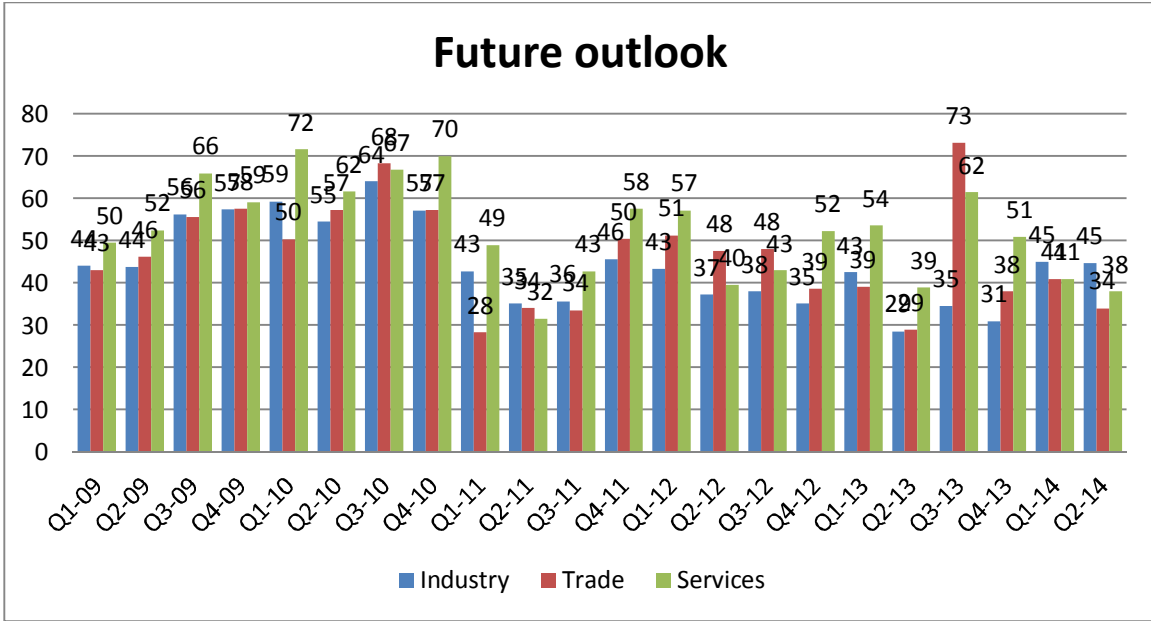


Figure 14: Future Outlook

4.3 Overall Present Index.

The overall business confidence index, for the present outlook increased from 33.1% during the first quarter of 2014 to 35.8% during the second quarter of 2014. This represents an increase of 8.16%.

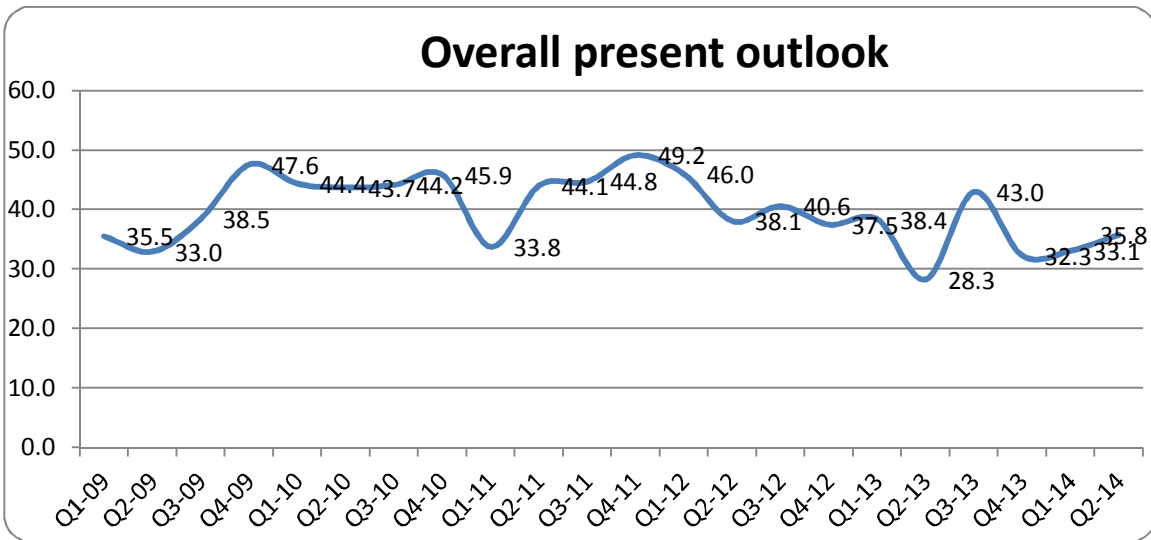


Figure 15: Overall Present Outlook Change

4.4. Overall Future Index.

The future outlook in the second quarter of the 2014 survey results decreased from 42.3% in the first quarter of 2014 to 38.9% (see figure 16). This represents a decrease of 8%.

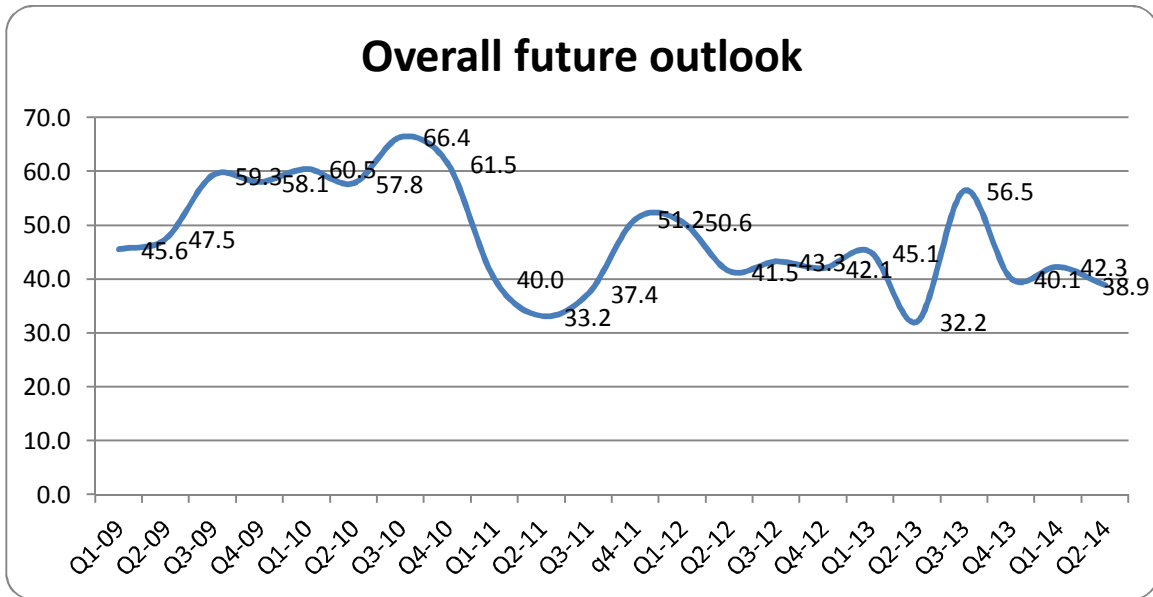


Figure 16: Overall Future Outlook Change

4.5. Overall Business confidence

The overall SMME Business Confidence Index (Figure 17) declined marginally from 37.8% in the first quarter of 2014 to 37.4% in the second quarter of 2014. This represents a decrease of 0.01%.

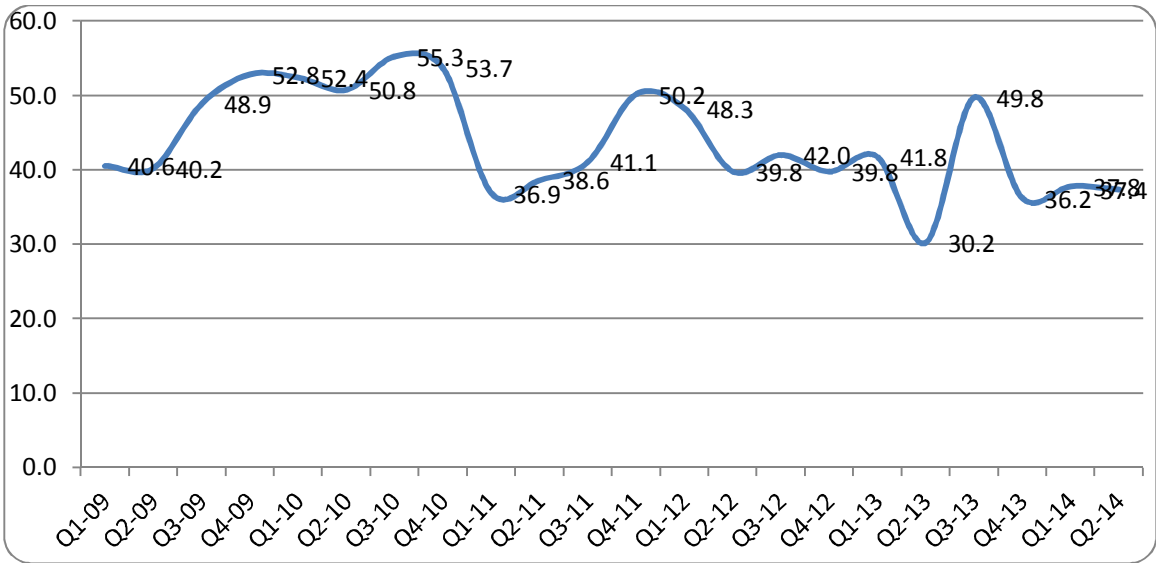


Figure 17: SMME Business Confidence Index

On both average and period-to-period quarterly basis, the overall business confidence decreased during the second quarter of 2014. Figure 18 indicates that the general trend has been one of an unstable growth pattern in the business confidence level.

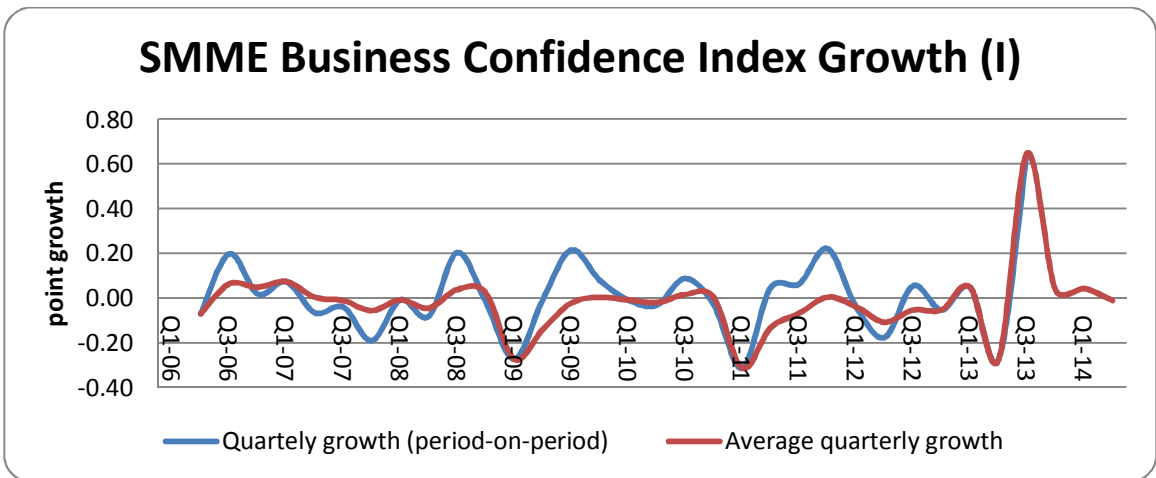


Figure 18: SMME Business Confidence Growth (I)

Figure 19 also indicates that, on a year-to-year basis, the overall business confidence of the SMMEs declined over the same quarter for 2014.

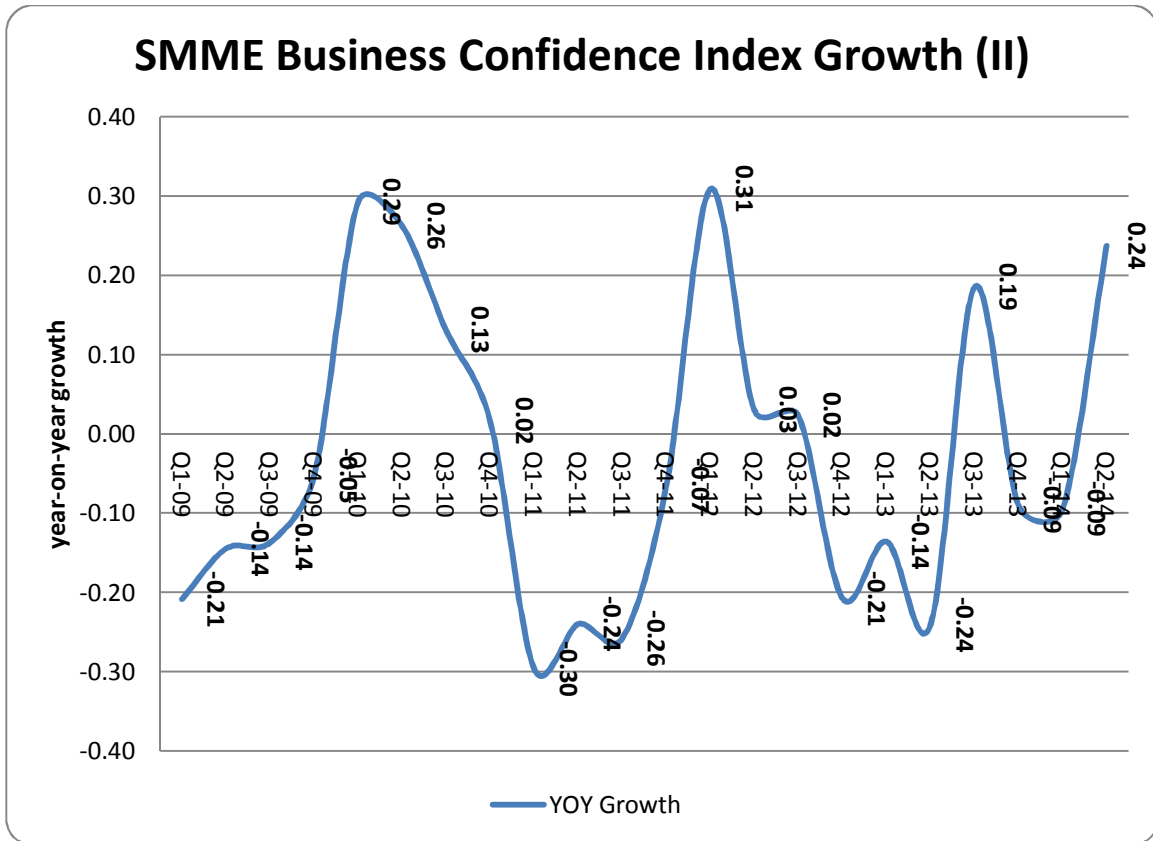


Figure 19: SMME Business Confidence Growth (II)

The marginal decline in trend can be attributed to the slight decline in the confidence of the SMMEs in the trade and service sectors of the economy. The best performing sector was the industrial sector which improved, on average, from 39.9% in the first quarter of 2014 to 40.57% in the second quarter of 2014. This represents an increase of 1.67%. The business confidence in the trade sector however declined from 36.14% in the first quarter of 2014 to 35.46% during the second quarter of 2014, representing a decrease of 1.88%. The services sector however witnessed the biggest decline in confidence from 37% in the first quarter of 2014 to 36.15% in the second quarter of 2014 representing a decrease of 2.29%.

5. Conclusion

Findings from the survey indicate that the overall business confidence level of the SMMEs has decreased negligibly during the second quarter of 2014. The overall decrease in the business confidence index for the second quarter of 2014 could be attributed to labour unrest, decline of household spending on goods and services, rising inflation as well as a weak Rand position. The worst performing sector during the period under review was the services sector.

Most of the businesses surveyed cited a number of inhibiting factors impacting negatively on their businesses. These include high employee costs, high operating costs and high government taxes.