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South African SMME Business Confidence Index Report: Third Quarter 2007

Compiled by: Africagrowth Institute

**Index is Funded by Industrial Development Corporation (IDC) &
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Table of contents

1. Introduction.....	3
2. Background Information about sample	3
3. Survey Results.....	6
3.1 Business Limiting Factors.....	6
3.1 Business situation Last 3 Months	7
3.2 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 (Perception).....	13
4.1.2 Trade Sector Present Outlook (Perception).....	13
4.1.3 Services Sector Present Outlook (Perception).....	13
4.2. Sectorial Future Outlook.....	13
4.2.1. Industrial Sector Future Outlook (Perception)	13
4.2.2. Trade Sector Future Outlook (Perception).....	14
4.2.3. Services Sector Future Outlook (Perception).....	14
4.3 Overall Present Index.....	14
4.4. Overall Future Index.....	15
4.5. Overall Index Movement	15

Table of Figures

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

1. Introduction

For the third time in a row, the business confidence of the South African SMME sector has declined. The index which is a survey of the opinions of SMME managers and owners throughout has been decreasing on a quarter to quarter basis since January 2007. The sub-indices indices are divided into three strata by business sectors. These are (a) Industrial sector; (b) Trade sector and (c) Services sector. The South African SMME Index is constructed by Africagrowth Institute. The index is sponsored by the Industrial Development Corporation (IDC) and part funded by the WK Kellogg Foundation.

The index is constructed on the basis of responses to questions on policy factors ranging from employment levels, financial situation, new orders, and 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 expectations in 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 overall index for this quarter (that is third quarter of 2007) shows a declining rate in business confidence as compared to the second quarter of 2007.

The indices are divided into three strata by business sectors. These are:

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

Presented below are the results from the third quarter survey of 2007.

2. Background Information about sample

The firms sampled for this survey were largely made up of the previously surveyed firms (148) and some additions (18) drawn from the South African SMME database from Africagrowth Institute. The geographical dispersion of the firms is shown in Figure 1 below.

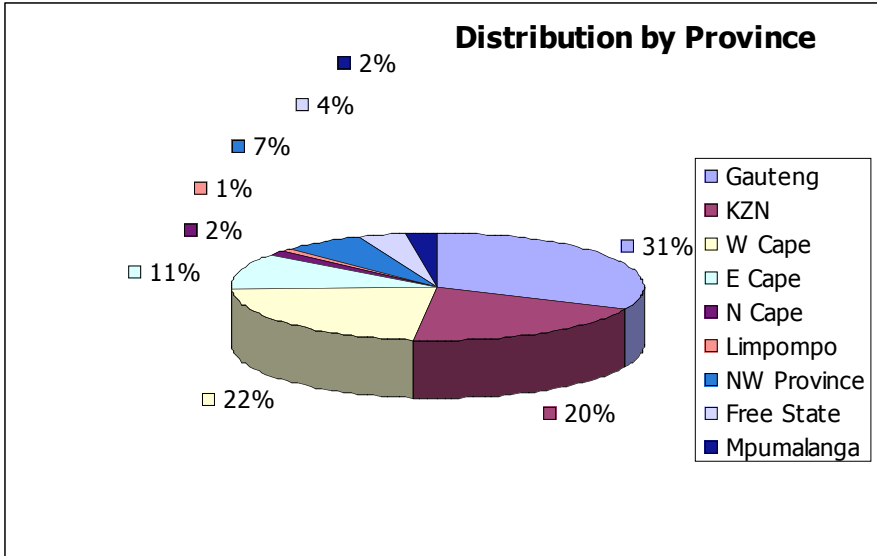


Figure 1. Distribution by Province

The response rate has been variable over time. However, Gauteng, KwaZulu Natal and Western Cape provinces, which have the highest SMMEs in the country, represent about 70% of the sample used in the survey.

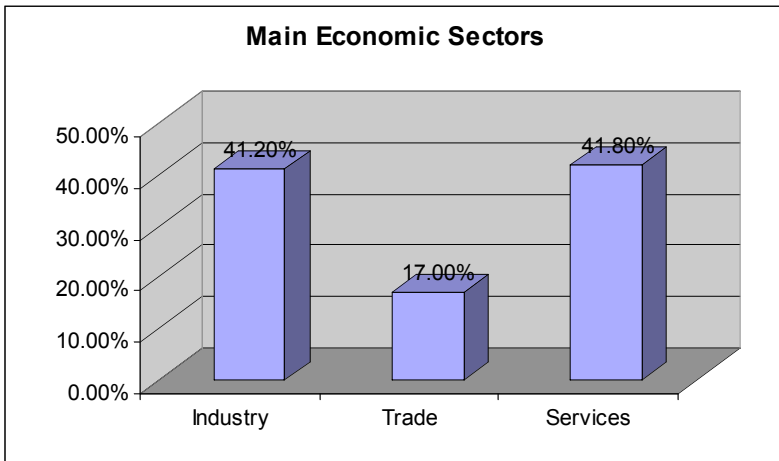


Figure 2. Distribution by Economic Sector

In terms of sector distribution, figure 2 shows that the industrial and the services sectors are dominant. Even though there has been an improvement from 14.90% to 17.00% in the trade sector, it still remains the least represented.

Sub-sector analysis in the broader Industrial sector indicates that the manufacturing sub-sector has the highest representation (86.8%) followed by electricity, gas and water

(7.9%). In the trade sector response, wholesale took precedence over retail by 5.2 percentage points. Finally, financial & business, catering & accommodation were the most represented with 36.40% and 30.30% respectively, in the services sector (Figure 3).

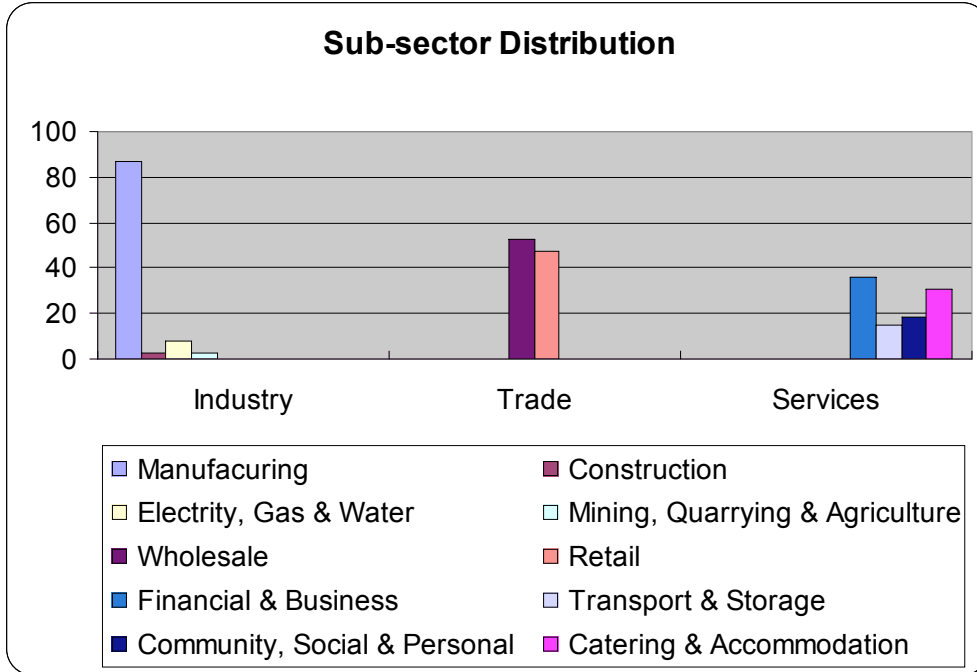


Figure 3. Sub-Sector Distribution

Figure 4 below shows a graphical representation of the number of people employed. It shows that majority of the firms (38%) have a staff strength of less than 20.

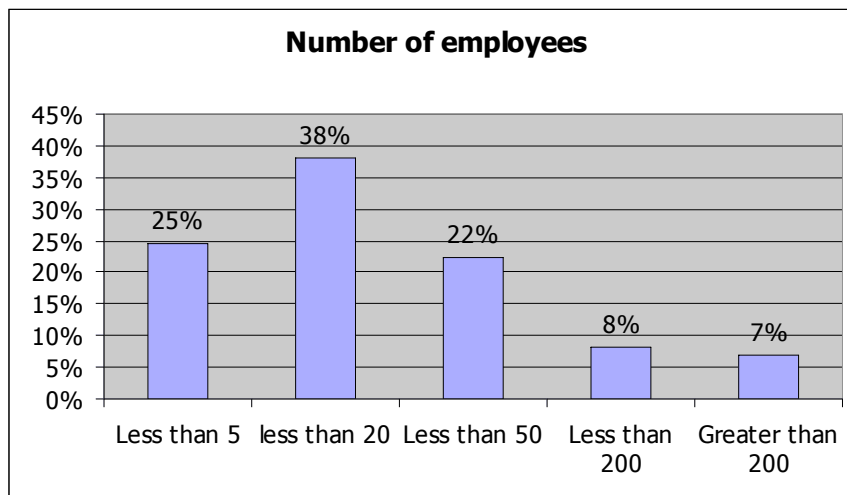


Figure 4. Number of Employees

Figure 5, which depicts the turnover distribution, shows that most of the firms (43.6%) record an annual turnover of above four (4) million Rand.

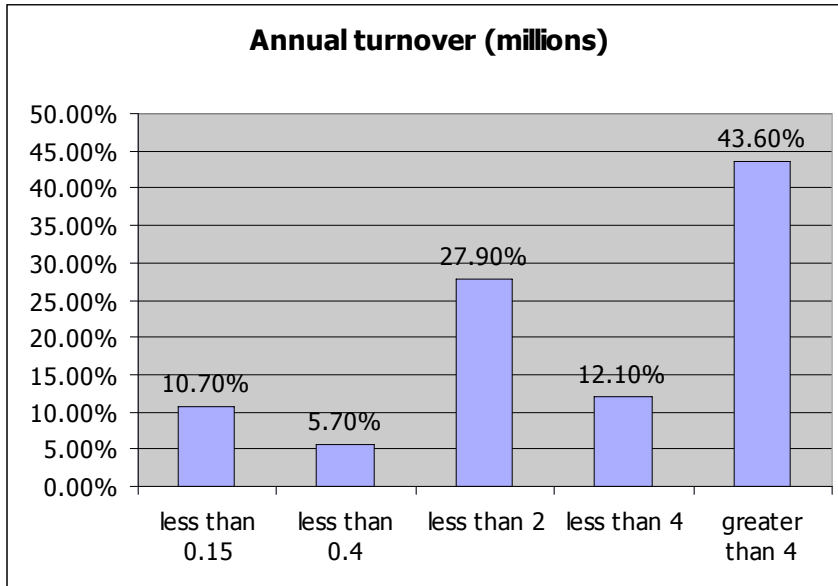


Figure 5. Annual Turnover

3. Survey Results

3.1 Business Limiting Factors

Firms were asked to indicate the five most important factors they consider as having negative impact on their businesses. Figure 6 shows the response distribution

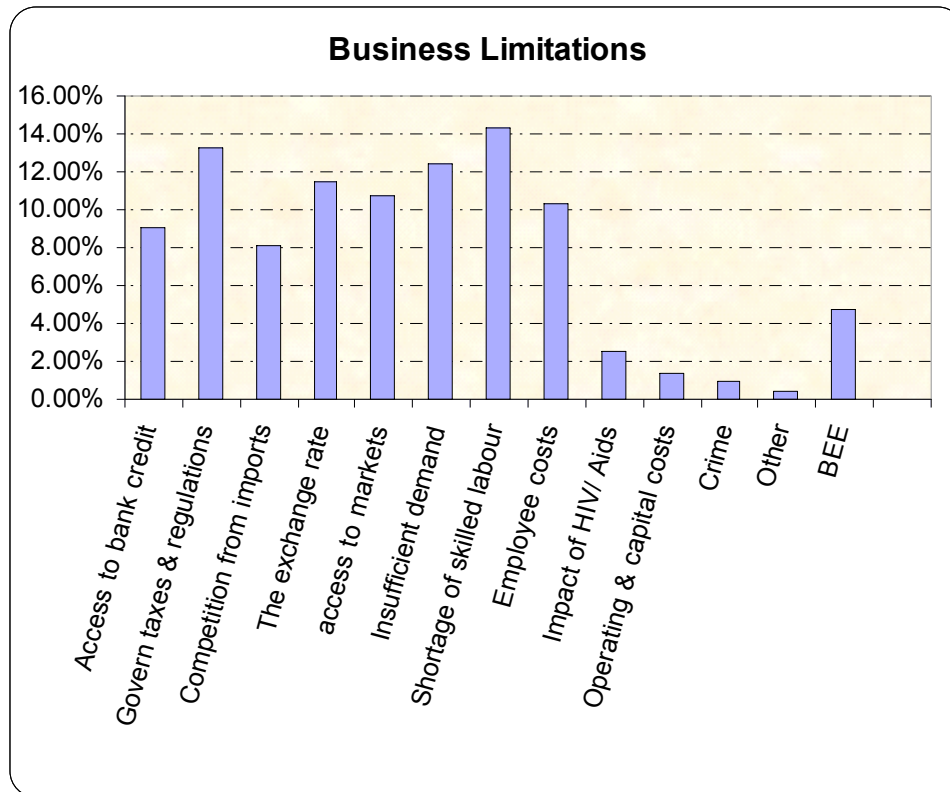


Figure 6. Business Limitations

Most business managers representing 14.29% of SMME in South Africa cited shortage of skilled labour as the major limitation to their operations. Similar to the results of the previous quarter, Government taxes and regulations constitute the second major challenge to businesses with a slight margin over the previous results at 13.31%. In addition 12.46% of SMME’s indicated insufficient demand as a limiting factor whilst another 11.48% considered exchange rate as limiting factors.

3.1 Business situation Last 3 Months

This section provides results of the survey questions pertaining 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.

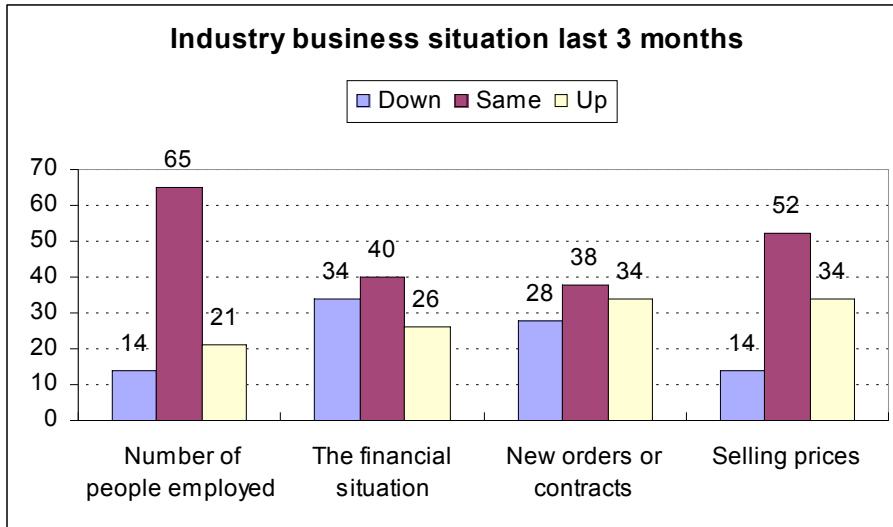


Figure 7. Industry Business Situation for last 3 months

Industry

- ❖ **Number of people employed:** In the industrial sector 14% of SMME owners indicated that their employment levels have gone down whilst 65% were of the view that it had remained the same and 21% were able to employ more.
- ❖ **Financial situation:** In the industrial sector 34% of SMME owners showed that this had gone down while 40% were of the view that it remained unchanged and 26% indicated an improvement.
- ❖ **New orders or contracts:** In the industrial sector 28% of SMME owners were of the opinion that new orders went down whereas 38% were of the view that it remained the same and 34% indicated that it had gone up.
- ❖ **Selling price:** In the industrial sector 14% of SMME owners indicated a downward trend, 52% indicated no change and 34% witnessed an increase.

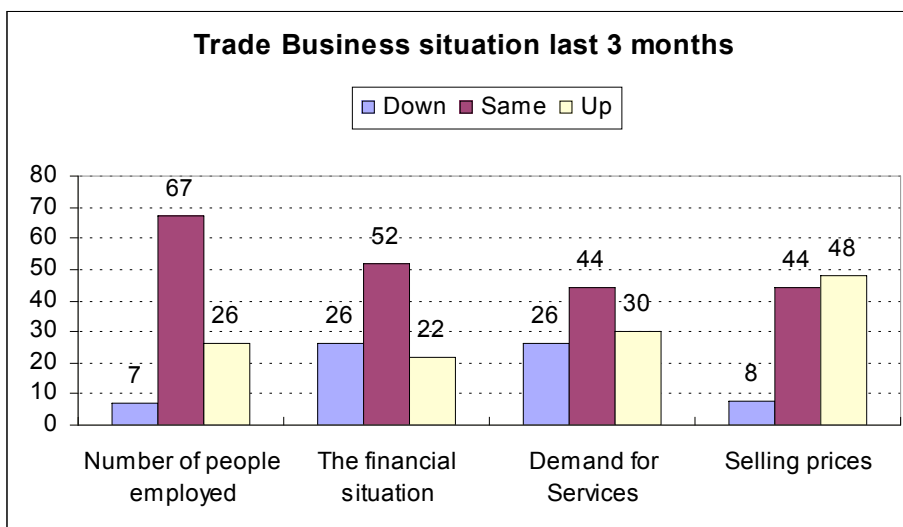


Figure 8. Trade Business Situation for last 3 months

Trade

- ❖ **Number of people employed:** In the trade sector 7% of SMME owners indicated that employment had gone down whilst 67% were of the view that it had remained the same and 26% were able to employ more.
- ❖ **Financial situation:** In the trade sector 26% of SMME owners showed that the financial situation had gone down whilst 52% were of the view that it remained unchanged and 22% indicated an improvement.
- ❖ **Demand for Services:** In the trade sector 26% of SMME owners were of the opinion that the demand for services went down whilst 44% were of the view that it remained the same and 30% witnessed improvement in terms of numbers in their staff strength.
- ❖ **Selling price:** In the trade sector 8% of SMME owners indicated a downward trend, 44% indicated no change and 48% witnessed an increase.

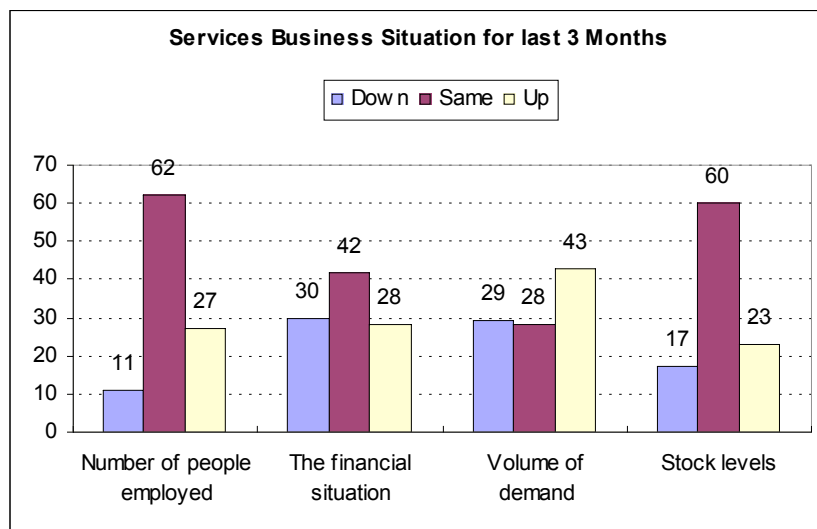


Figure 9. Services Business Situation for last 3 months

Services

- ❖ **Number of people employed:** In this sector 11% of SMME owners indicated that employment had gone down whilst 62% were of the view that it had remained the same and 27% were able to employ more.
- ❖ **Financial situation:** In this sector 30% of SMME owners indicated that this had gone down whilst 42% were of the view that it remained unchanged and 28% indicated an improvement.

- ❖ **Volume of demand:** In this sector 29% of SMME owners were of the view that volume of demand had gone down whilst 28% were of the view that it remained the same and 43% of them indicated that it had gone up.
- ❖ **Selling price:** In this sector 17% of SMME owners indicated a downward trend, 60% showed no change in selling price and 23% witnessed an upward movement.

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 of the next 6 months for the Industrial, Trade and Services sector respectively.

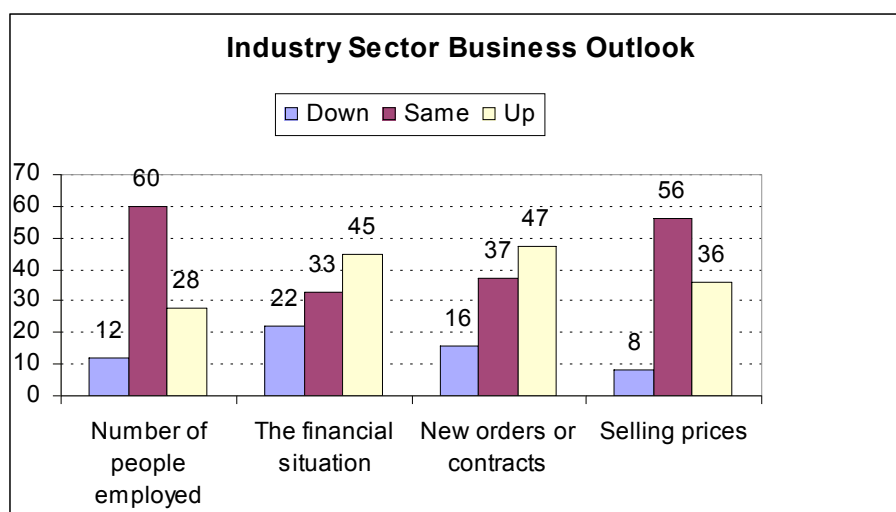


Figure 10. Industry Sector Business Outlook

Industry

- ❖ **Number of people employed:** In this sector, 12% of SMME owners indicated that employment will go down whilst 60% were of the view that it will remain the same and 28% will be able to employ more.
- ❖ **Financial situation:** In this sector, 22% of SMME owners indicated that this will go down whilst 33% were of the view that it will remain unchanged and 45% indicated an improvement.
- ❖ **New orders or contracts:** In this sector, 16% of SMME owners indicated that new orders will go down whilst 37% were of the view that it will remain the same and 47% of them indicated that it will go up.
- ❖ **Selling price:** In this sector, 8% of SMME owners indicated a downward trend, 56% did not think there will be a change and 36% were of the view that selling price will go up.

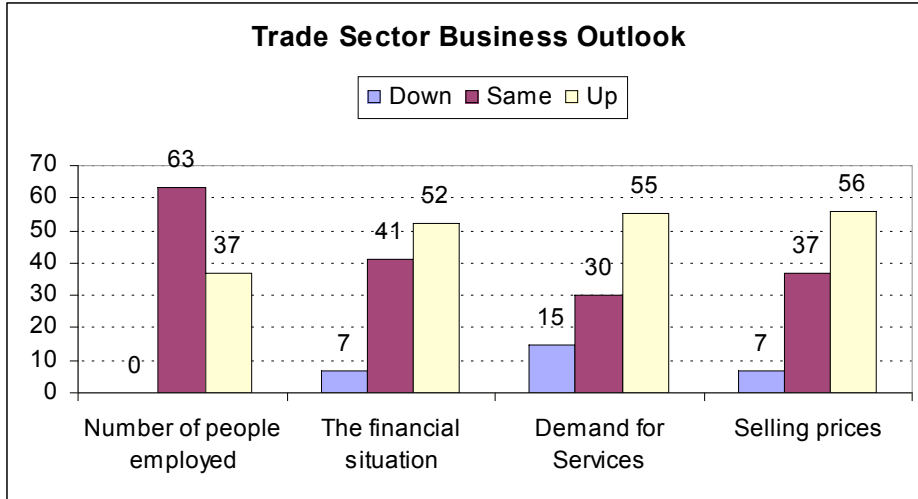


Figure 11. Trade Sector Business Outlook

Trade

- ❖ **Number of people employed:** In the trade sector, none of SMME owners indicated that employment will go down. However 63% were of the view that it will remain the same and 37% will be able to employ more.
- ❖ **Financial situation:** In the trade sector, 7% of SMME owners indicated that this will go down whilst 41% were of the view that it will remain unchanged and 52% indicated an improvement.
- ❖ **Demand for Services:** In the trade sector, 15% of SMME owners were of the opinion that the demand of services will go down whilst 30% were of the view that it will remain the same and 55% of them indicated an upward trend.
- ❖ **Selling price:** In the trade sector, 7% of SMME owners indicated a downward trend in future, 37% indicated there will be no change and 56% indicated an increase.

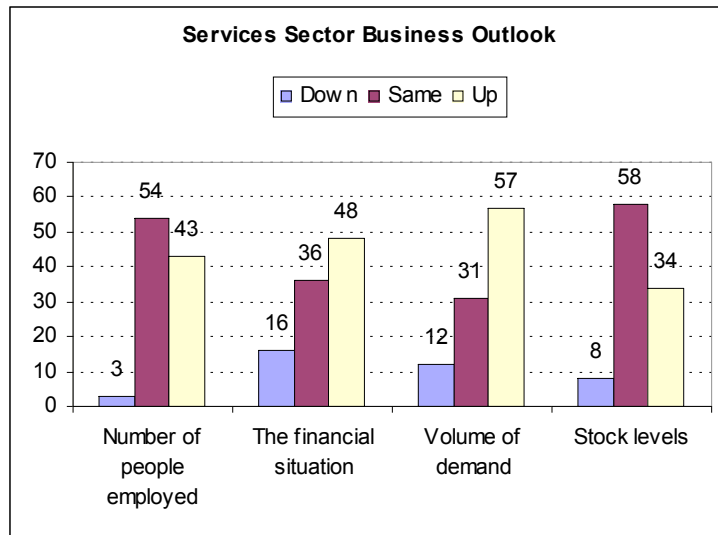


Figure 12. Services Sector Business Outlook

Services

- ❖ **Number of people employed:** In this sector, 3% of SMME owners indicated that employment will go down whilst 54% were of the view that it will remain the same and 43% will be able to employ more.
- ❖ **Financial situation:** In this sector, 16% of SMME owners indicated that this will go down whilst 36% were of the view that it will remain unchanged and 48% indicated there will be improvement.
- ❖ **Volume of demand:** In this sector 12% of SMME owners indicated that the volume of demand will go down whilst 36% were of the view that it will remain the same and 48% of them predicted a possible increase.
- ❖ **Selling price:** In this sector, 8% of SMME owners indicated there will be a downward trend, 58% do not think there will be a change and 34% think selling price will go up.

4. Business Confidence Index Results

4.1 Sectorial Present outlook

4.1.1 Industrial Sector Present Outlook

The industrial sector revealed a decline in business confidence. The business confidence level for present outlook for the Industrial Sector decreased from 59.60% in the 2nd quarter of 2007 to 52.78% in the 3rd quarter of 2007 representing a decrease of 11.44%.

4.1.2 Trade Sector Present Outlook

The trade sector recorded a decrease in business confidence from 62.74% in the 2nd quarter of 2007 to 58.06% in the 3rd quarter of 2007 representing a decrease of 7.46%.

4.1.3 Services Sector Present Outlook

The services sector also witnessed a decline in confidence level from 56.42% in the 2nd quarter of 2007 to 52.96% in 3rd quarter of 2007 representing a decrease of 6.13%. This decrease was however, much lower when compared to that of the previous quarter (15.93%).

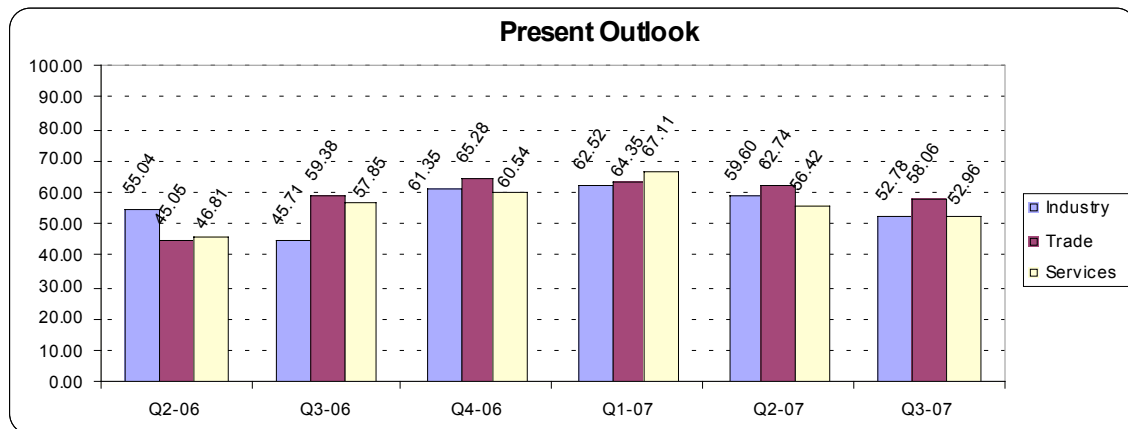


Figure 13. Present Outlook

4.2. Sectorial Future Outlook

4.2.1. Industrial Sector Future Outlook

Unlike the previous quarter, the industrial sector expressed optimism about future business outlook. The business confidence level for future outlook (Figure 14) under this sector improved from 74.91 in the 2nd quarter of 2007 to 76.19% in the 3rd quarter representing a possible rise of 1.71%.

4.2.2. Trade Sector Future Outlook

The confidence index for future outlook in this sector continues to decline from 72.09% in the 2nd quarter of 2007 to 69.80% in the 3rd quarter of 2007, a decrease of 3.18%.

4.2.3. Services Sector Future Outlook

The services sector outlook for future business activity almost remained unchanged. The confidence index for future outlook increased from 72.46 in the 2nd quarter of 2007 to 72.49 in the 3rd quarter of 2007 (Figure 14), representing a marginal increase of 0.04%.

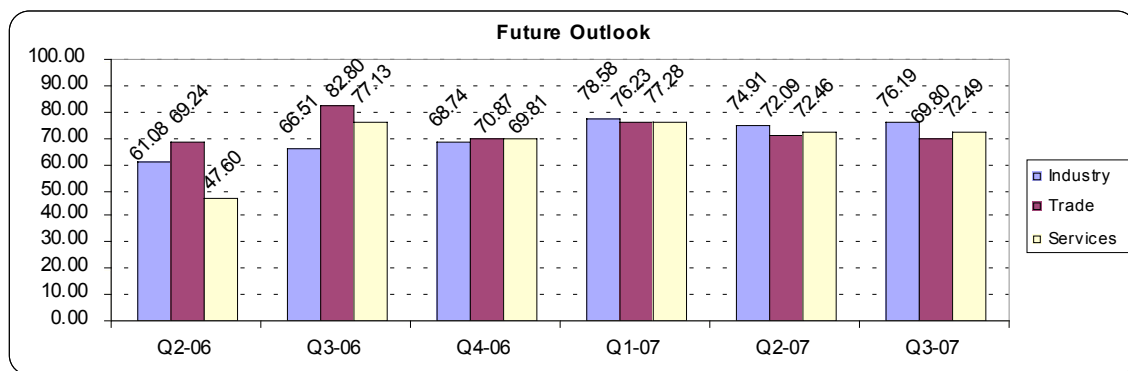


Figure 14. Future Outlook

4.3 Overall Present Index.

The business confidence index for present outlook in the 3rd quarter of 2007 dropped from 59.59% to 54.60%. This represents a decrease of 8.37%.

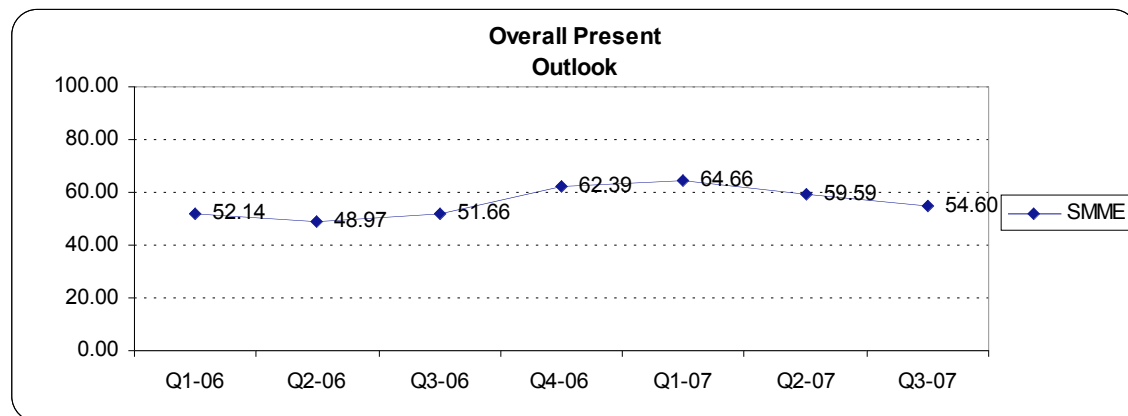


Figure 15. Overall Present Outlook Change

4.4. Overall Future Index.

The future outlook in the 3rd quarter of the 2007 survey results (Figure 16) also shows a slight declining trend in business activities. The overall future outlook index decreased from 73.16% in the 2nd quarter of 2007 to 72.83% in the 3rd quarter of 2007, a decrease of 0.45%.

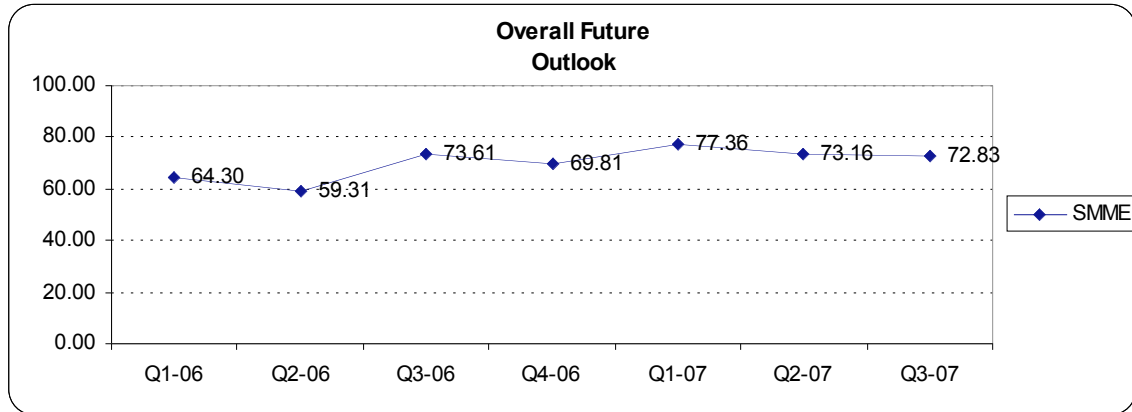


Figure 16. Overall Future Outlook Change

4.5. Overall Index Movement

The overall SMME Business Confidence Index (Figure 17) illustrated a gradual descending trend in the 3rd quarter 2007. The overall index decreased from 66.37% in the 2nd quarter of 2007 to 63.71% in the 3rd quarter of 2007, a decrease of 2.66% in business confidence. It does appear that, SMMEs are not optimistic about future trends in business activity for the rest of the year 2007.

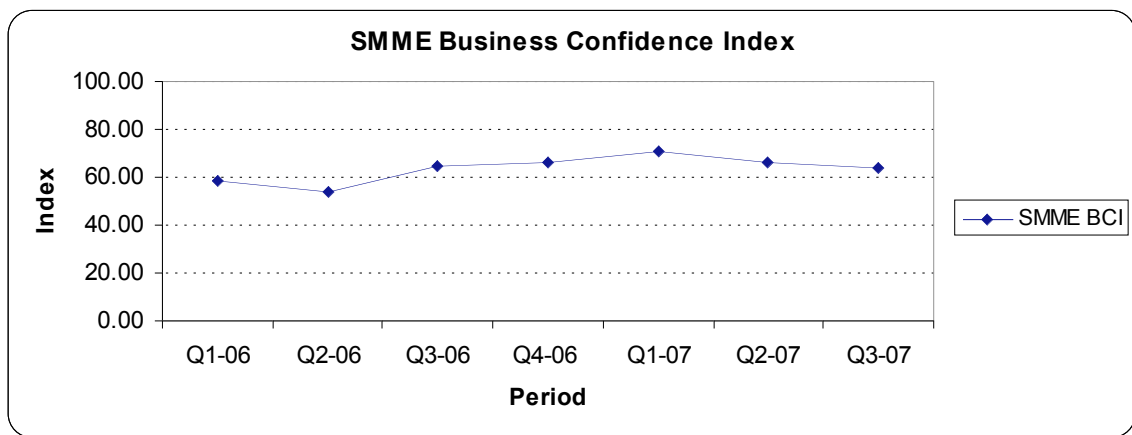


Figure 17. SMME Business Confidence Index

The year-to-date growth rate (Figure 18) for business confidence since the beginning of the surveys in 2006, shows a general increasing growth in business confidence. This increasing trend has however slowed down during the first and second quarters of 2007 and has fallen in the 3rd quarter of the same year. The year-on-year growth rates show a decline in business confidence in relative terms during the period between the 3rd quarter of 2006 and the 2nd quarter of 2007. It however took a twist to an upward trend between the 2nd and 3rd quarters of 2007.

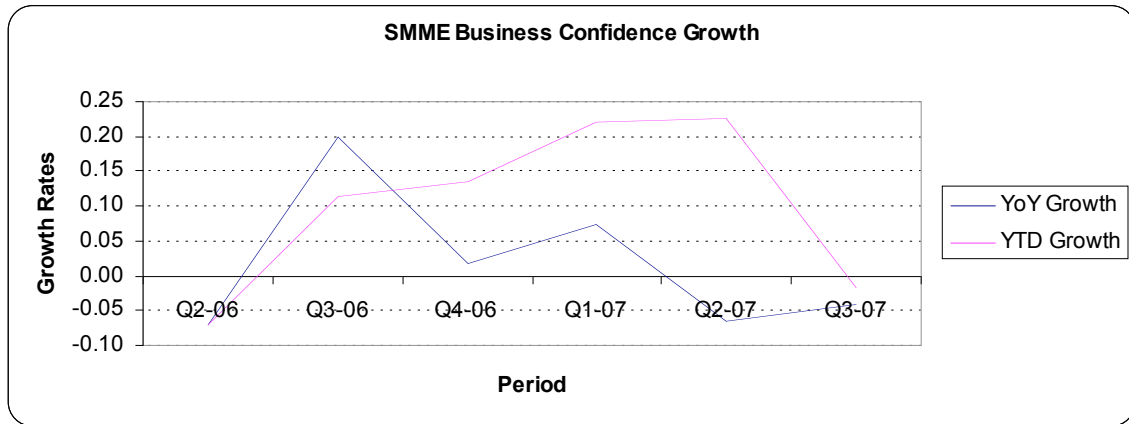


Figure 18. SMME Business Confidence Growth