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1. Introduction

The SMME Business Confidence Index (BCI) report is based on a quarterly survey of the responses of SMME owners or managers in relation to factors that impact on their businesses. The survey is conducted by the Africagrowth Institute. It, specifically, measures the opinions of SMME managers and owners all over South Africa about their current and future business prospects. This report provides useful information that serves to guide managers and decision makers in planning strategically and designing effective policies to mitigate constraining factors and improve on performance.

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 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 perception for the next six months after the survey. The index is then 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 BCI has picked from its continuous down trend in the third quarter of 2009, all the sectors seemed to be optimistic about the future. Presented below are the results from the third quarter survey of 2009.

2. Background Information about sample

Out of the 1200 randomly selected SMMEs, 119 responded to questions posed in a survey. The provincial distribution of the SMMEs for this study is shown in Figure 1 below.

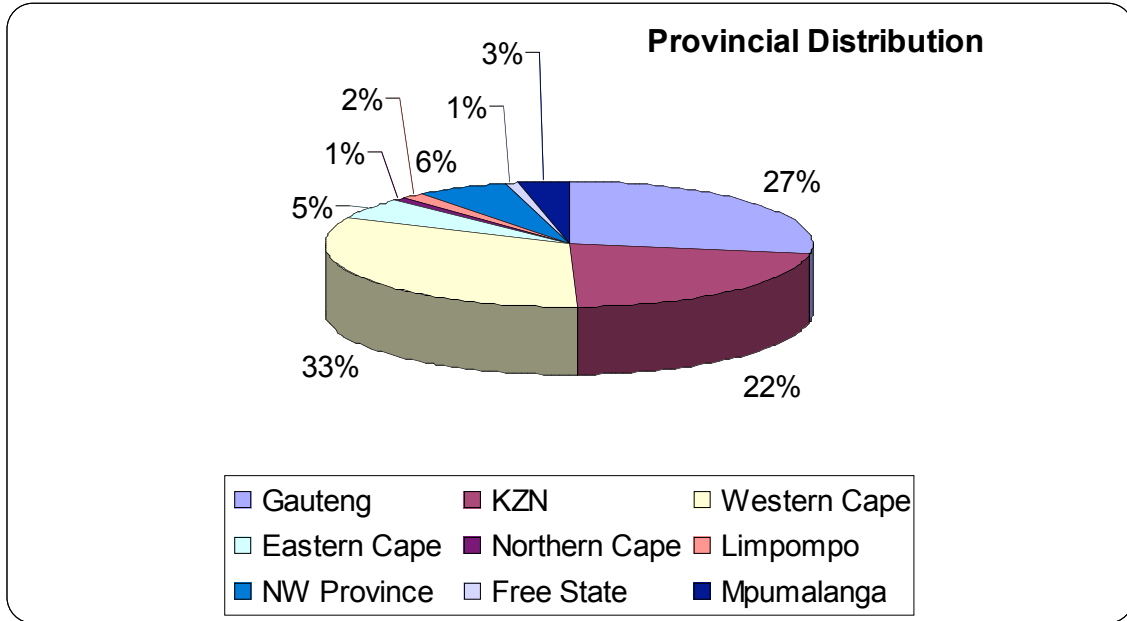


Figure 1 Provincial Distribution

From the graph (figure1) it is clear that Gauteng, KZN and Western Cape provinces, which have the highest SMMEs in the country, had the highest response rate. The three provinces combined represent 82% of the responses received.

In terms of sector distribution, figure 2 below shows that the services sector and industrial sector were the most represented. The trade sector remains the least represented.

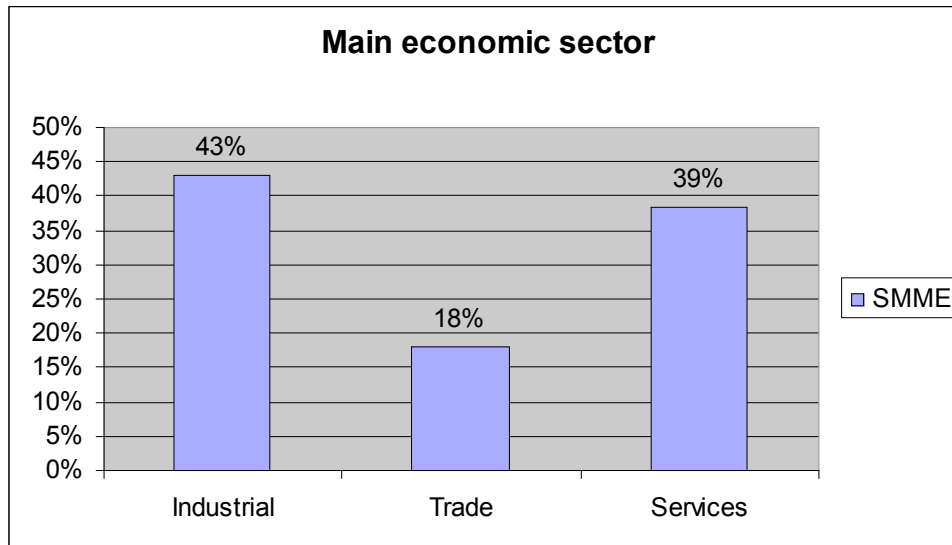


Figure 2: Distribution by Economic Sector

Sub-sector analysis in the broader Industrial sector indicates that the manufacturing sub-sector continues to dominate with a representation of over 80% followed by construction

(17%). In the trade sector response, the retail was more represented with 67% whereas the wholesale took the balance (33%). Finally, Catering & Accommodation was the most represented with 39%, followed by Financial & Business Services; Community, Social & Personal Services and Transport & Storage and this represents 35%, 22% and 4% respectively. This reflects a rise in Financial & Business Services as the most dominant sub-sector in the services sector. Figure 3 displays a summary of the sub-sector distribution.

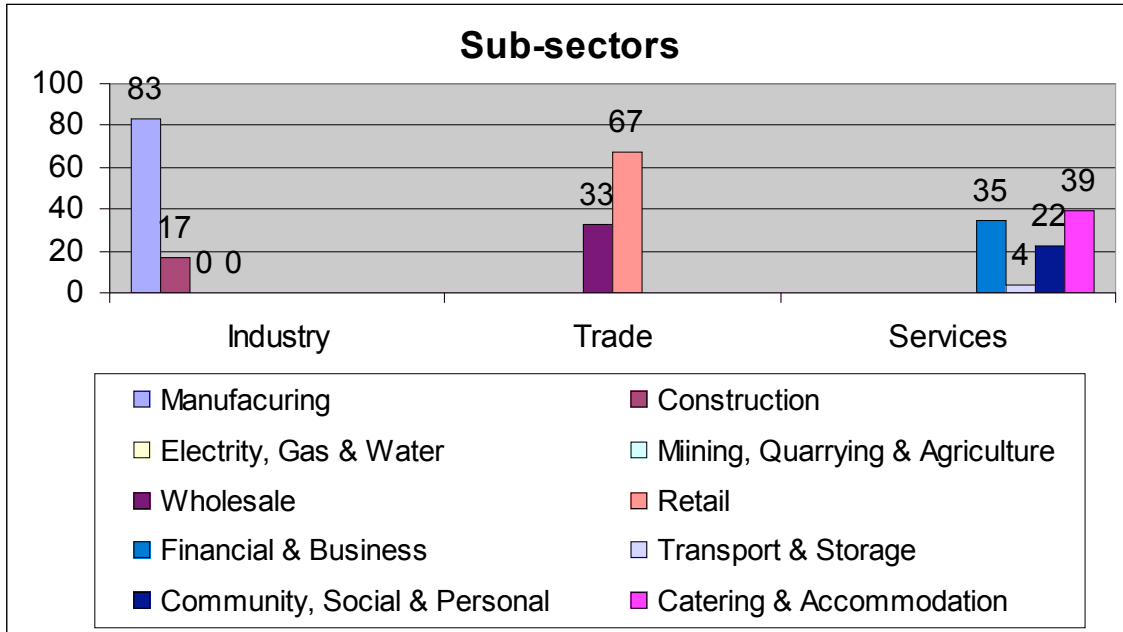


Figure 3: Sub-Sector Distribution

Figure 4 below shows a graphical representation of the number of people employed. It shows that majority of the firms who responded (35%) have a staff strength of less than 20.

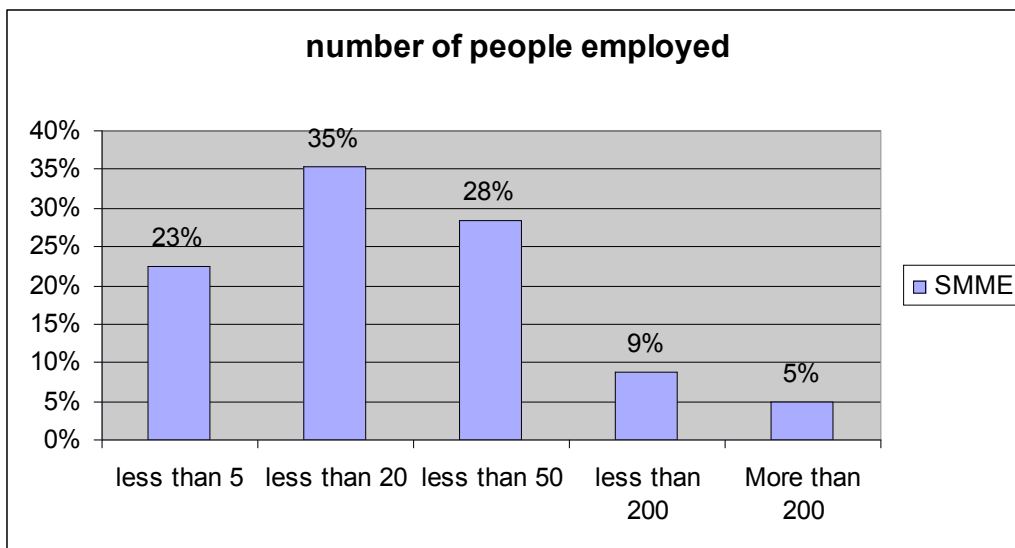


Figure 4: Number of Employees

Figure 5, which depicts the turnover distribution, shows that most of the firms (60%) record an annual turnover of above four (4) million Rand. However, there has been a decrease in all

the other percentages of firms with annual turnover less than 0.15m to less than 4m, making the firms with more than 4million rise by 10%.

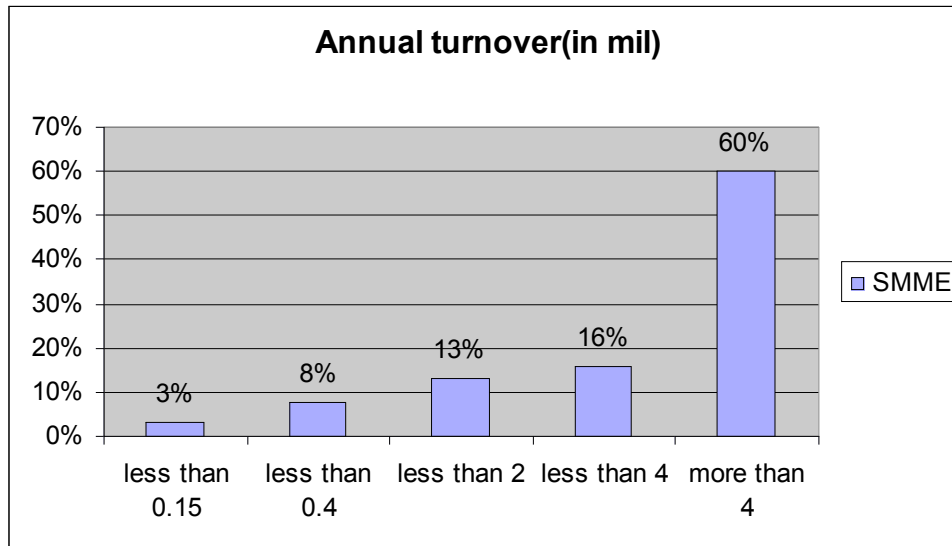


Figure 5: Annual Turnover

3. Survey Results

3.1 Business Limiting Factors

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

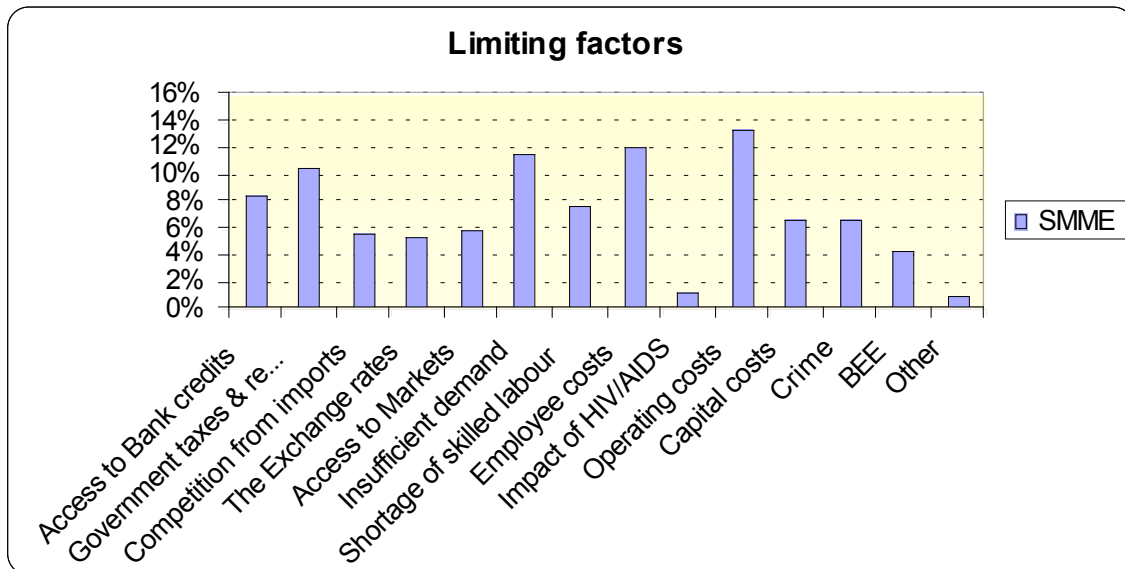


Figure 6: Business Limitations

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 show Responses on attributes with respect to business situation in the last 3 months for the Industrial, Trade and Services sectors are shown as figures 7, 8 and 9 respectively.

Industry

- ❖ **Number of people employed:** In the industrial sector 35% of SMME owners indicated that their employment levels have gone down whilst majority of them 51% were of the view that it had remained the same and 14% were able to employ more.
- ❖ **Financial situation:** 47% of SMME owners showed that this had gone down while 43% were of the view that it remained unchanged and 10% indicated an improvement.
- ❖ **New orders or contracts:** 63% of SMME owners were of the opinion that new orders had gone down whereas 23% were of the view that it remained the same whilst 14% of them indicated that it had gone up.
- ❖ **Selling price:** 31% of SMME owners indicated a downward trend, 49% indicated no change and 20% witnessed an increase.

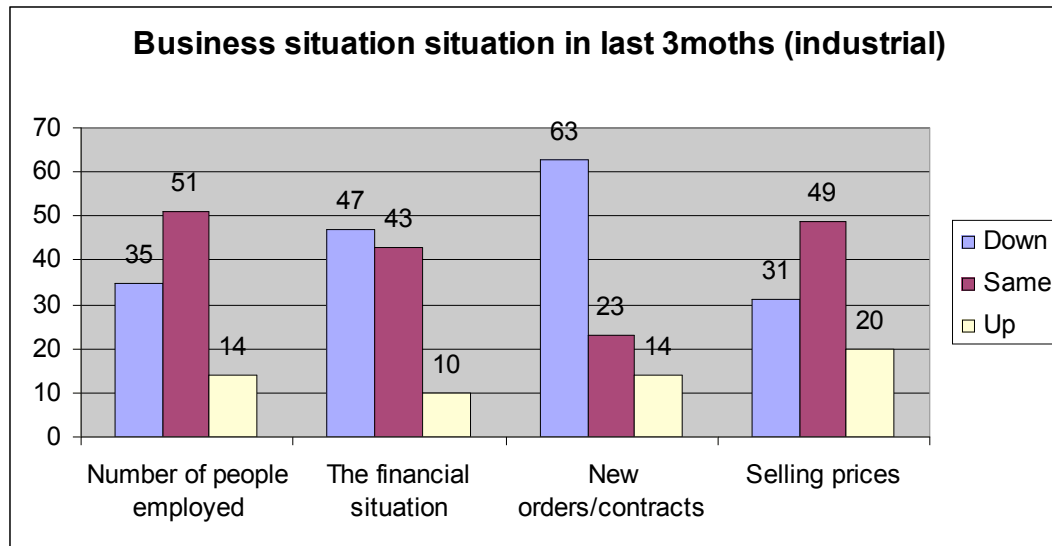


Figure 7: Industry Business Situation for last 3 months

Trade

- ❖ **Number of people employed:** 20% of SMME owners indicated that employment had gone down whilst 70% were of the view that it had remained the same and 10% were able to employ more.
- ❖ **Financial situation:** In the trade sector 50% of SMME owners showed that the financial situation had gone down whilst 40% were of the view that it remained unchanged and 15% indicated an improvement.

- ❖ **Volume of demand:** In the trade sector 65% of SMME owners were of the opinion that the volume of demand went down whilst 20% were of the view that it remained the same and 15% indicated that it had gone up.
- ❖ **Stock levels:** In the trade sector 40% of SMME owners indicated a downward trend, 55% indicated no change and 5% witnessed an increase.

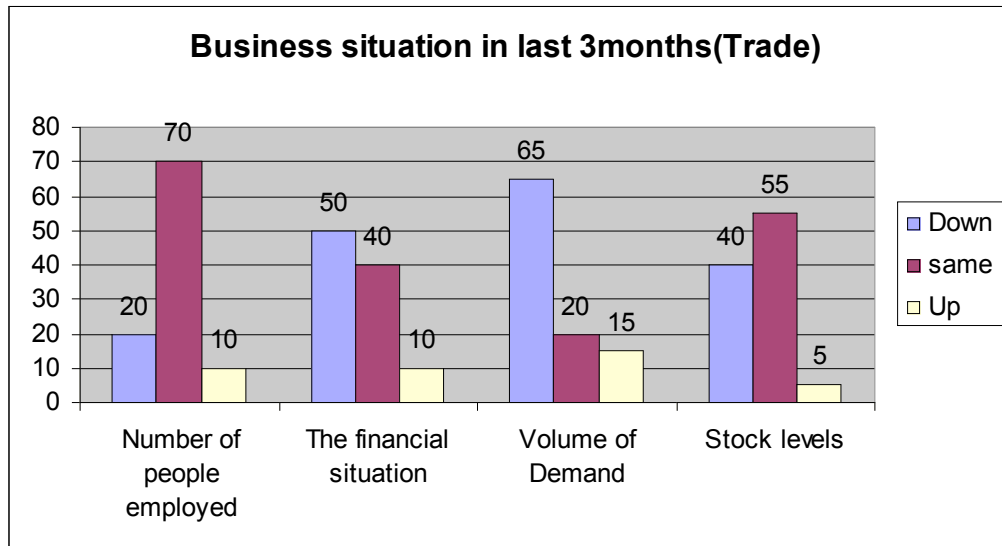


Figure 8: Trade Business Situation for last 3 months

Services

- ❖ **Number of people employed:** 24% of SMME owners indicated that employment had gone down whilst an overwhelming majority 52% were of the view that it had remained the same and 24% were able to employ more.
- ❖ **Financial situation:** 52% of SMME owners indicated that this had gone down whilst 24% were of the view that it remained unchanged and 24% indicated an improvement.
- ❖ **Demand for services:** 41% of SMME owners were of the view that volume of demand had gone down whilst 26% were of the view that it remained the same and 33% of them indicated that it had gone up.
- ❖ **Selling prices:** In this sector 23% of SMME owners indicated a downward trend, 66% showed no change in stock levels and 11% witnessed an upward movement.

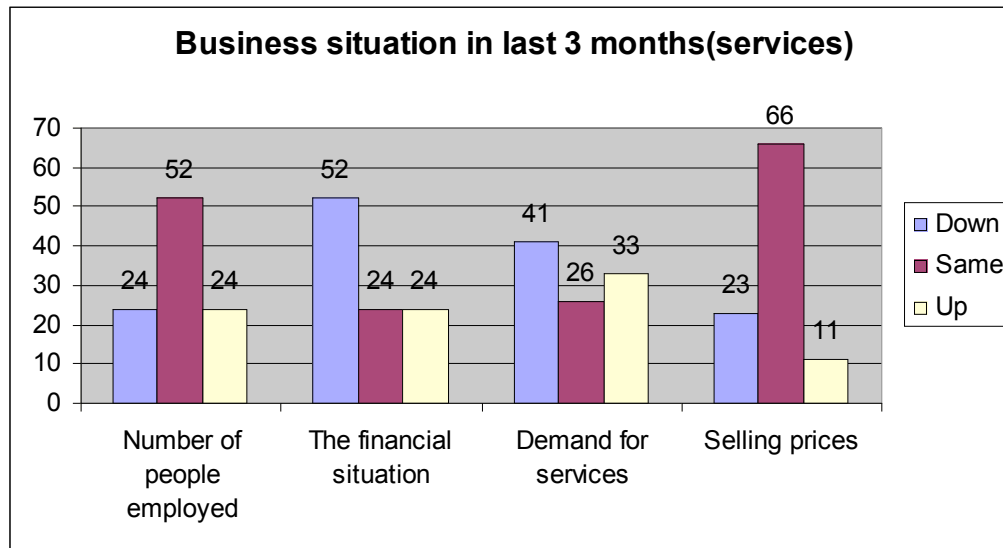


Figure 9: Services Business Situation for last 3 months

3.3 Business outlook for next 6 Months

This section provides results of the survey questions on the future outlook of BCI 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.

Industry

- ❖ **Number of people employed:** 16% of SMME owners indicated that employment will go down whilst 60% were of the view that it will remain the same and 24% will be able to employ more;
- ❖ **Financial situation:** 32% of SMME owners indicated that this will go down whilst, 40% were of the view that it will remain unchanged and 28% indicated an improvement;
- ❖ **New orders or contracts:** 26% of SMME owners indicated that new orders will go down whilst 42% were also of the view that it will remain the same and 32% of them indicated that it will go up;
- ❖ **Selling price:** 18% of SMME owners indicated a downward trend, 58% did not think there will be a change and 24% were of the view that selling prices will go up.

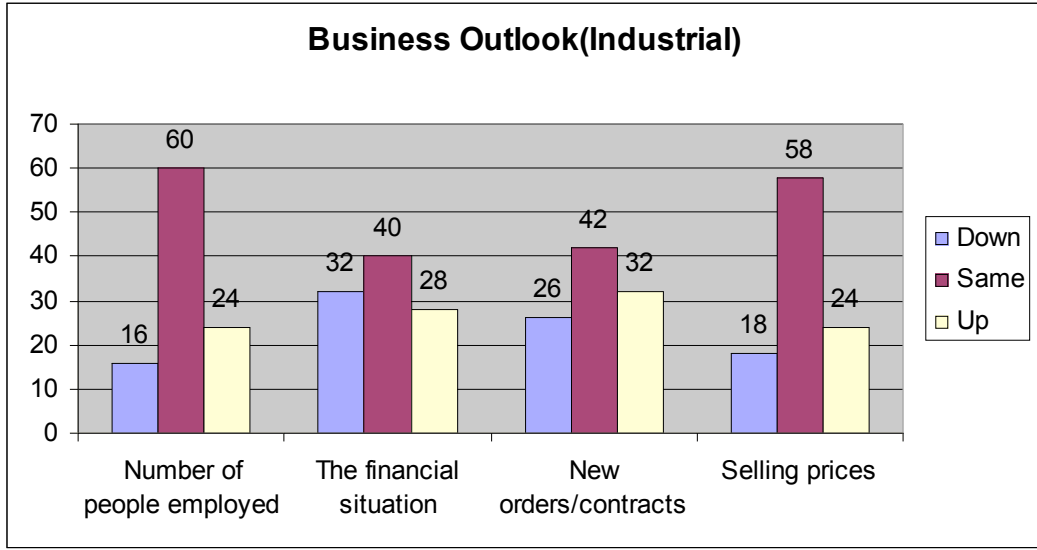


Figure 10: Industry Sector Business Outlook

Trade

- ❖ **Number of people employed:** 10% of SMME owners indicated that employment will go down. However 75% were of the view that it will remain the same and 15% will be able to employ more;
- ❖ **Financial situation:** 20% of SMME owners indicated that this will go down whilst about the same percentage, 50% were of the view that it will remain unchanged and 30% indicated an improvement.
- ❖ **Volume of demand:** 10% of SMME owners were of the opinion that the demand of services will go down whilst 45% were also of the view that it will remain the same and 45% of them indicated an upward trend.
- ❖ **Selling price:** 30% of SMME owners indicated a downward trend in future, 45% indicated there will be no change and 25% indicated an increase.

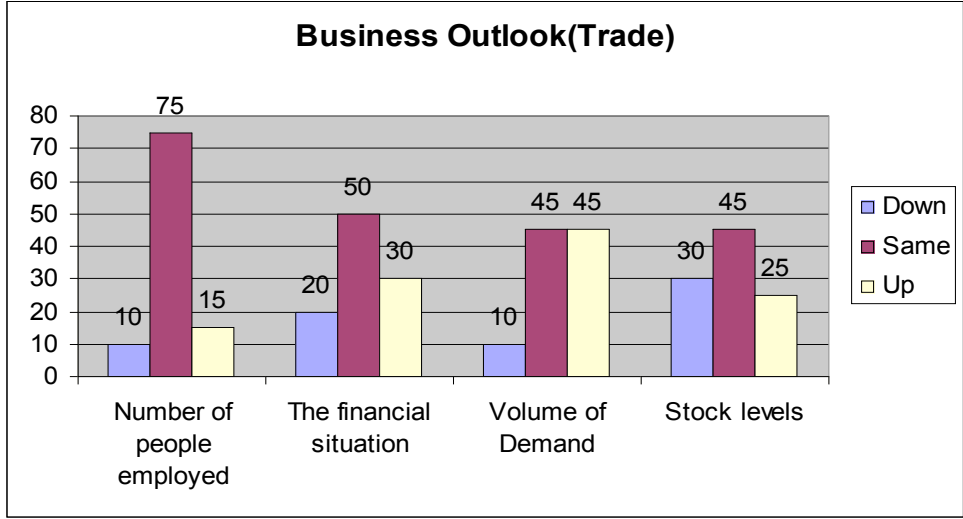


Figure 11: Trade Sector Business Outlook Services

Services

- ❖ **Number of people employed:** 17% of SMME owners indicated that employment will go down whilst 50% were of the view that it will remain the same and 33% will be able to employ more.
- ❖ **Financial situation:** 22% of SMME owners indicated that this will go down whilst 30% were of the view that it will remain unchanged and 48% indicated there will be improvement.
- ❖ **Demand for services:** In this sector 24% of SMME owners indicated that the volume of demand will go down whilst 26% were of the view that it will remain the same and 50% of them predicted a possible increase.
- ❖ **Selling price:** 16% of SMME owners indicated there will be a downward trend, 52% do not think there will be a change and 32% think selling price will go up.

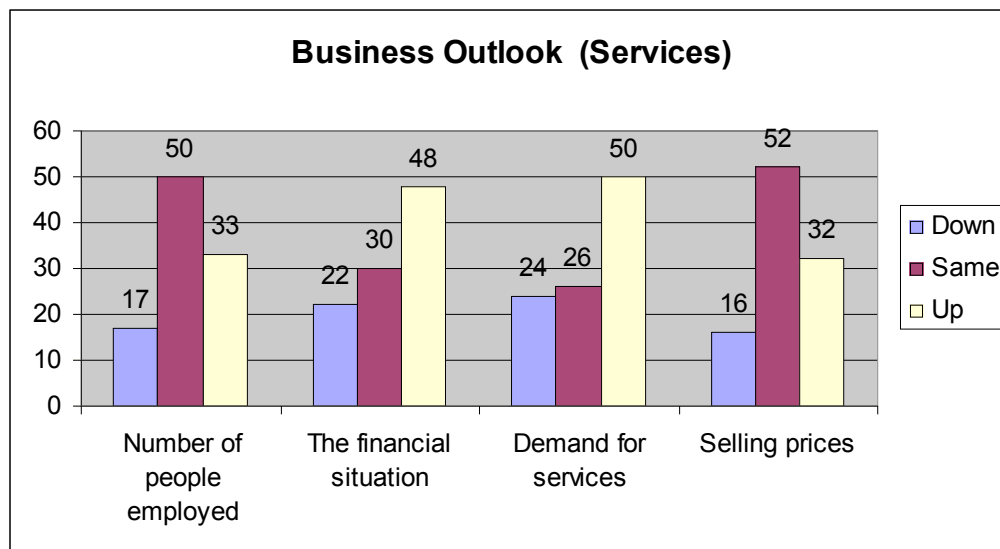


Figure 12: Services Sector Business Outlook

4. Business Confidence Index Results

4.1 Sectorial Present outlook

4.1.1 Industrial Sector Present Outlook

The industrial sector revealed an increase in business confidence. The Business Confidence within the industrial sector has increased from 31.33% in the second quarter of 2009 to 38.86 % in the third quarter of 2009. This represents a margin of 24.03%.

4.1.2 Trade Sector Present Outlook

The trade sector has recorded an increase in business confidence from 25.87% in the second quarter of 2009 to 32.80% in the third quarter of 2009, representing an increase of 26.78%.

4.1.3 Services Sector Present Outlook

Like the other sectors, services sector has also witnessed an increase in confidence level from 41.69% in second quarter of 2009 to 43.77% in the third quarter of 2009, representing an increase of 5%.

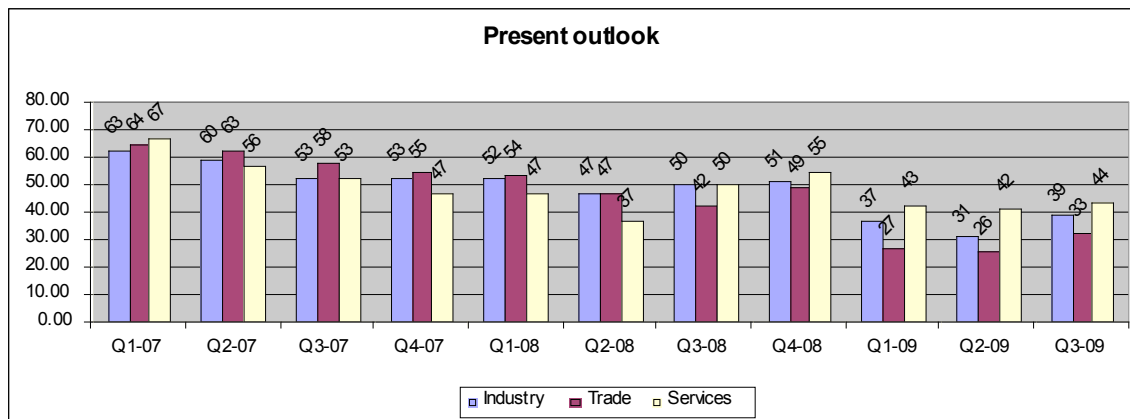


Figure 13: Present Outlook

4.2. Sectorial Future Outlook

4.2.1. Industrial Sector Future Outlook

The business confidence level for future outlook (Figure 14) under this sector moved from 43.85% in the second quarter of 2009 to 56.33% in the third quarter of 2009, representing a decrease of 28.46%.

4.2.2. Trade Sector Future Outlook

The confidence index for future outlook in this sector has increase from 46.20% in the second quarter of 2009 to 55.71% in the third quarter of 2009, an increase of 20.57%.

4.2.3. Services Sector Future Outlook

The services sector outlook for future business activity increased. The confidence index for future outlook increased from 52.47% in the second quarter of 2009 to 65.96% in the third quarter of 2009 (Figure 14), representing an increase of 25.72%.

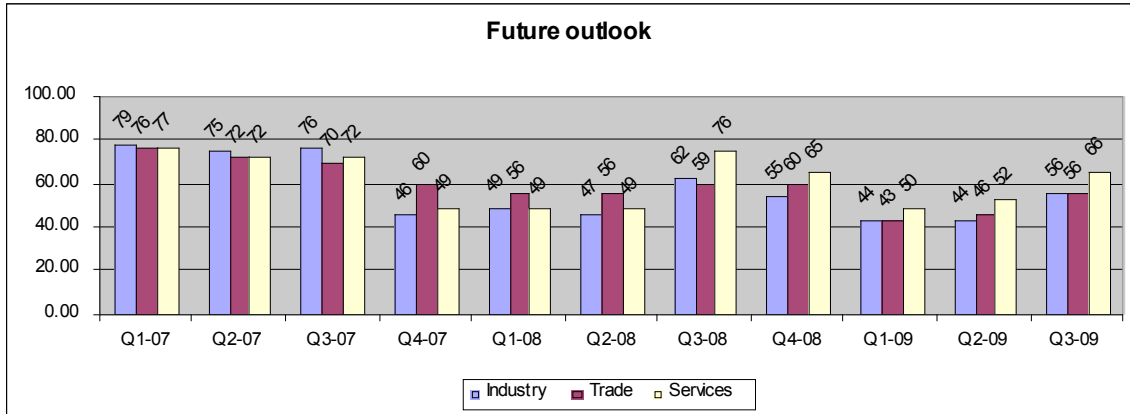


Figure 14: Future Outlook

4.3 Overall Present Index.

The business confidence index, for the present outlook in the third quarter of 2009; incline from 32.96% to 38.47%. This represents a decrease of 16.72%.

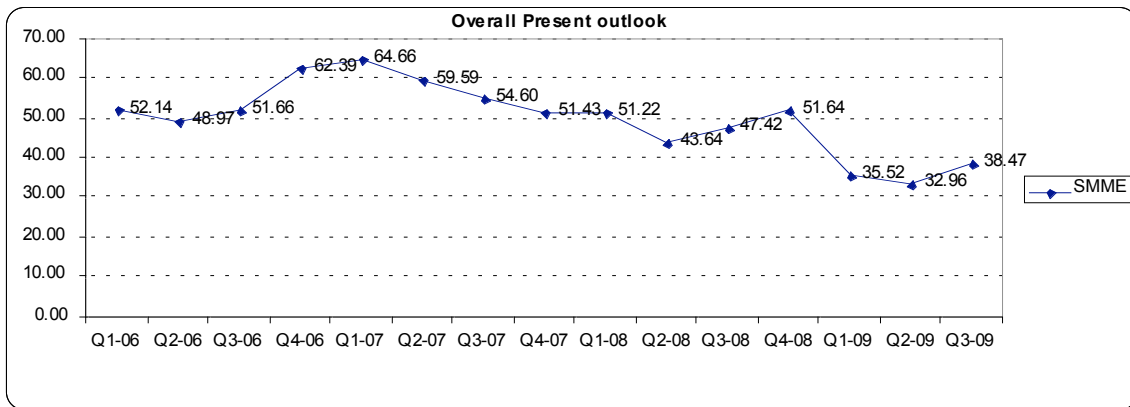


Figure 15: Overall Present Outlook Change

4.4. Overall Future Index.

The future outlook in the first quarter of the 2009 survey results (Figure 16) continues with its upward trend in business activities. The overall future outlook index increased from 47.51% in the second quarter of 2009 to 59.33% in the third quarter of 2009, an increase of 24.89%.

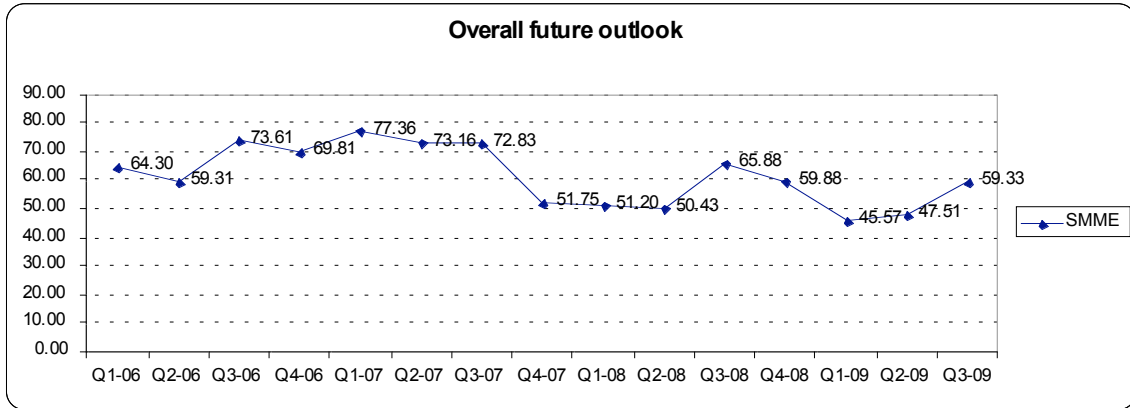


Figure 16: Overall Future Outlook Change

4.5. Overall Index Movement

The overall SMME Business Confidence Index (Figure 17) illustrates a start of an ascending trend in the third quarter of 2009. The overall index increased from 40.23% in the second quarter of 2009 to 48.90% in the third quarter of 2009, an increase of 21.55% in business confidence.

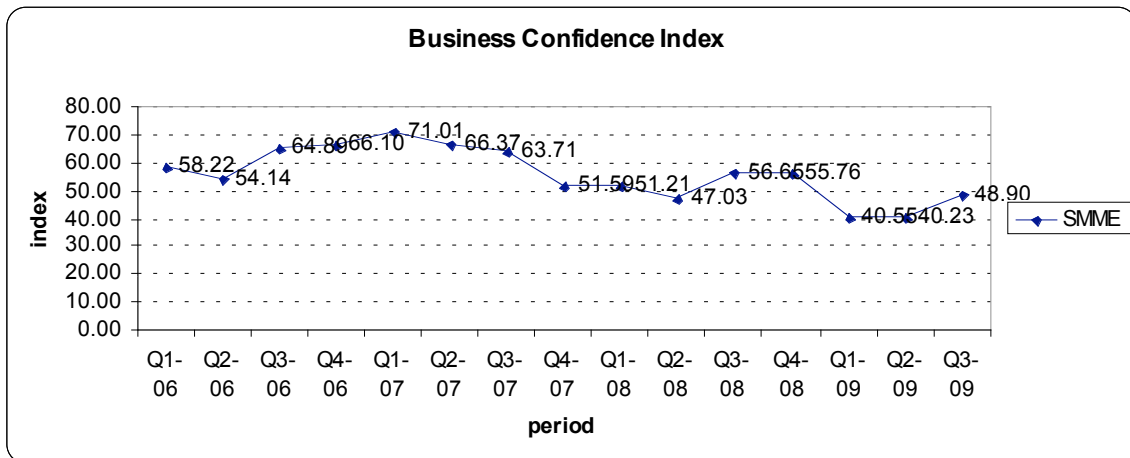


Figure 17: SMME Business Confidence Index

The year-to-date growth rate (Figure 18) for business confidence since the beginning of the survey in 2006, shows a general increasing growth in business confidence up to the first quarter of 2007. It, however, took a downward trend in the second quarter of 2007 and continued through the first and second quarters before taking an upward trend in the third quarter. The year-on-year growth rate has been fluctuating since the beginning of the survey in 2006 and is still continuing with the upward trend which started in the second quarter of 2009.

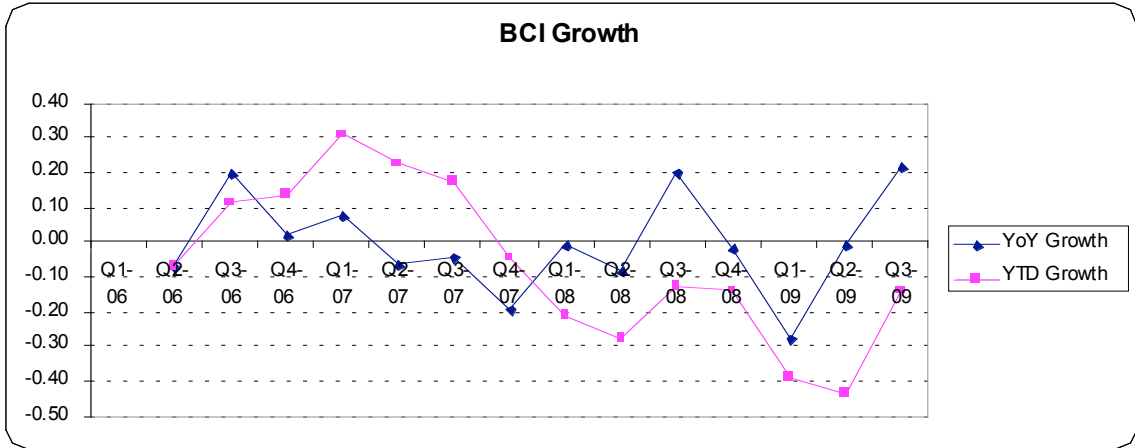


Figure 18: SMME Business Confidence Growth