



# South African SMME Business Confidence Index Report:

## First Quarter 2011<sup>1</sup>

Compiled by: Africagrowth Institute

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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 across South Africa about their current performances 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.

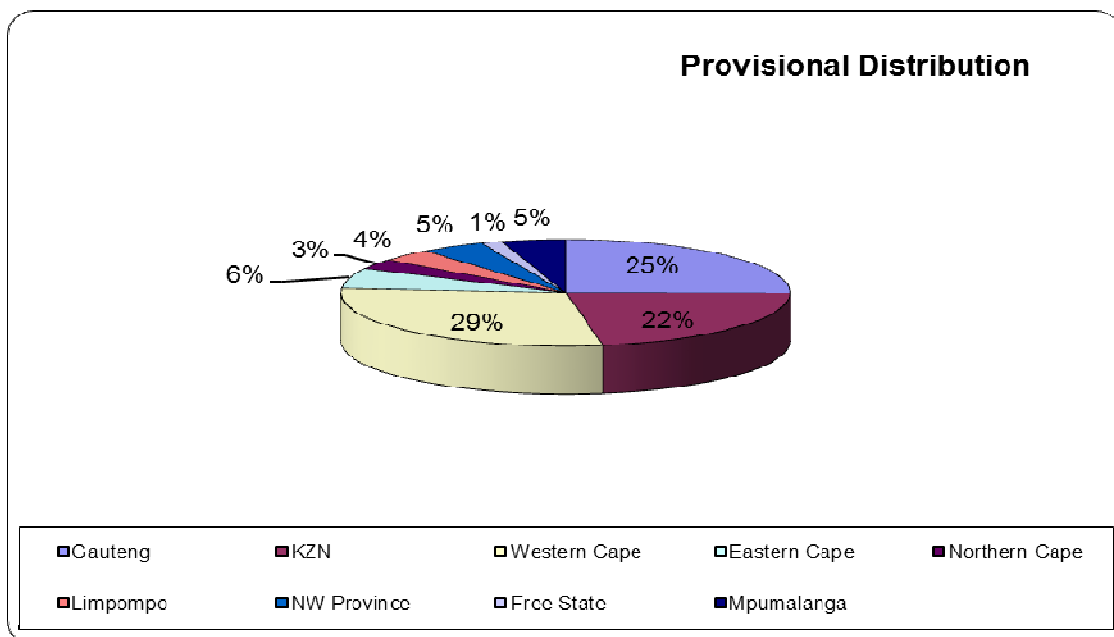
The index is constructed on the basis of responses to questions on policy factors ranging from employment levels, financial situation, new orders or contracts, volume of demand to selling price. The respondent firm (represented by the owner or a senior manager) then indicates whether these factors have 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 overall BCI has, declined during the First quarter of 2011. Presented below are the results from the first quarter survey of 2011.

## 2. Background Information about sample

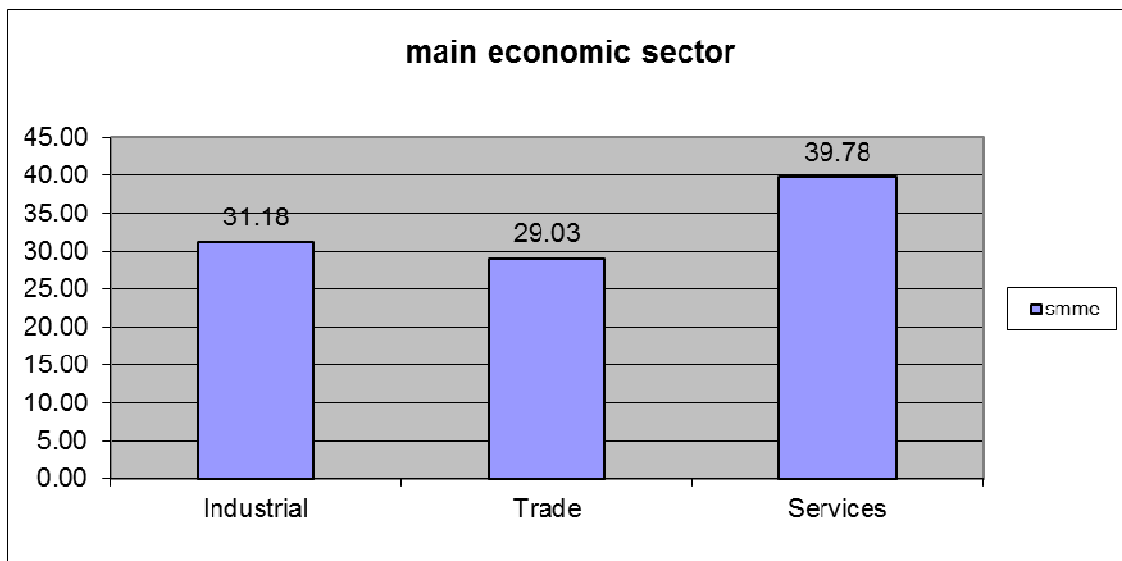
Out of 1857 randomly selected SMME managers and/or owners, 151 responded to questions posed in the survey. The provincial distribution of the SMMEs for this study is shown in Figure 1 below.



**Figure 1 Provincial Distribution**

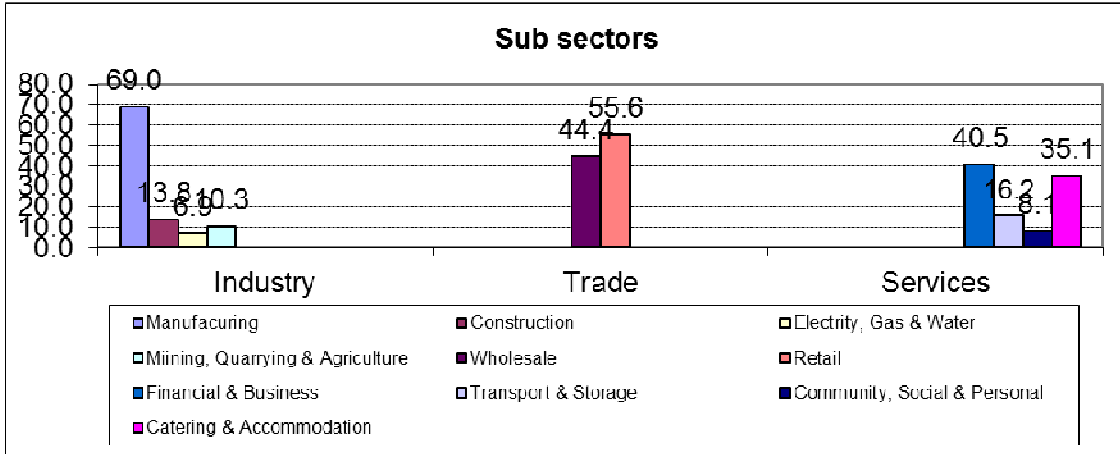
From the Figure 1, Gauteng, Western Cape and the KZN provinces, which have the highest formal SMMEs in the country, had the highest response rate. The three provinces combined represent 76% of the responses received.

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



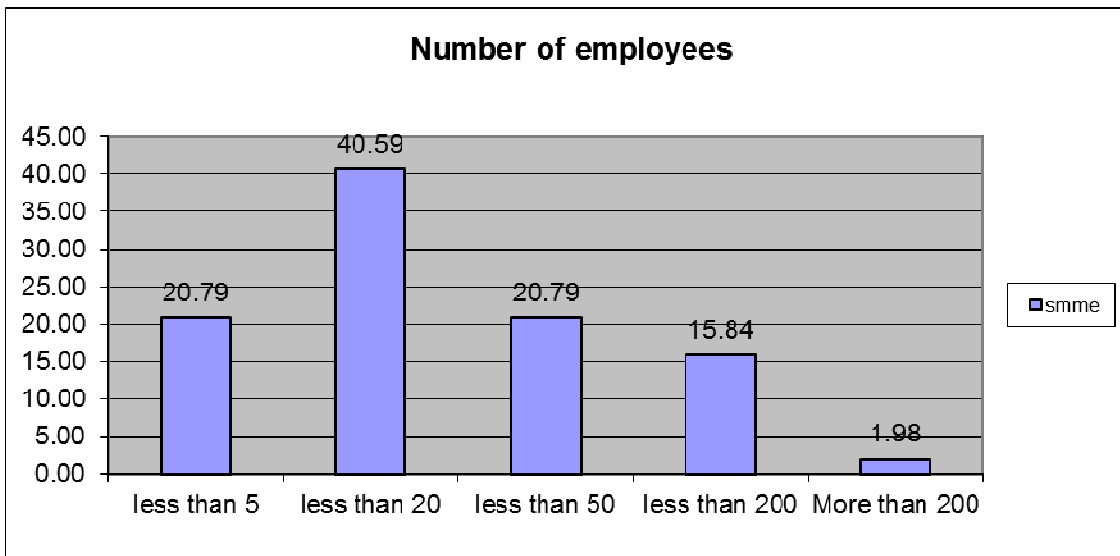
**Figure 2: Distribution by Economic Sector**

Sub-sector analysis in the broader industrial sector indicates that the manufacturing sub-sector dominates with 69% followed by 13.9% for Construction. In the trade sector, retailing dominates, representing 55.6% whereas the wholesale subsector follows with (44.4%). For the Services sector, Financial and Business Services dominate with a representation of 40.5%, followed by Catering and Accommodation and Transport and Storage with a representation of 35.1% and 16.2% respectively. Figure 3 displays a summary of the sub-sector distribution.



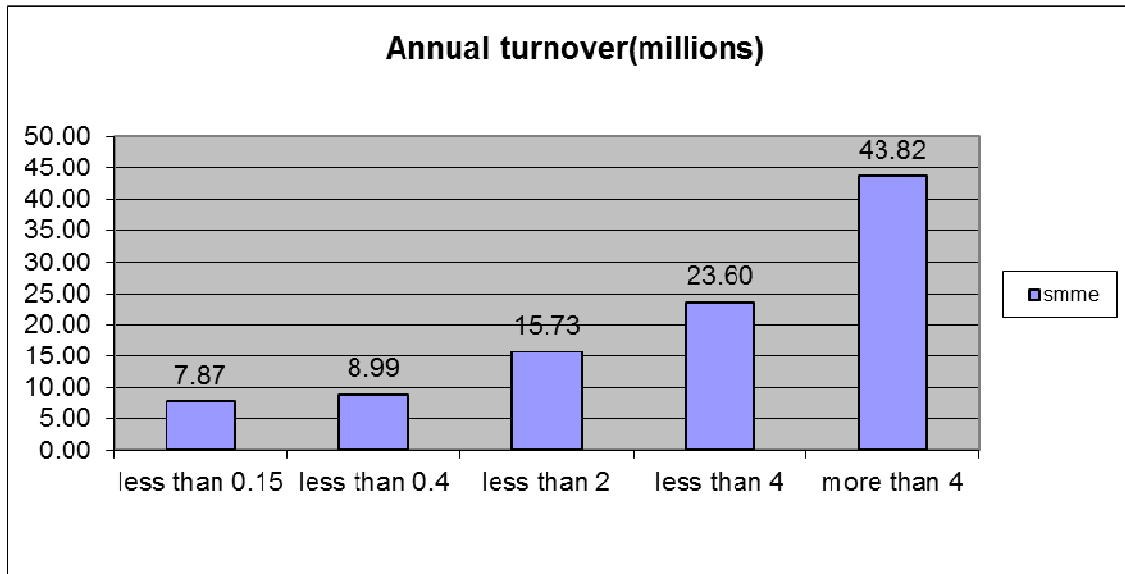
*Figure 3: Sub-Sector Distribution*

Figure 4 below shows a graphical representation of the number of people employed. It shows that majority of the firms which responded (40.6%) 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 (43.8%) record an annual turnover of above four (4) million Rand. This represents a decrease as compared to the 48% turnover figure recorded for the fourth quarter of 2011.

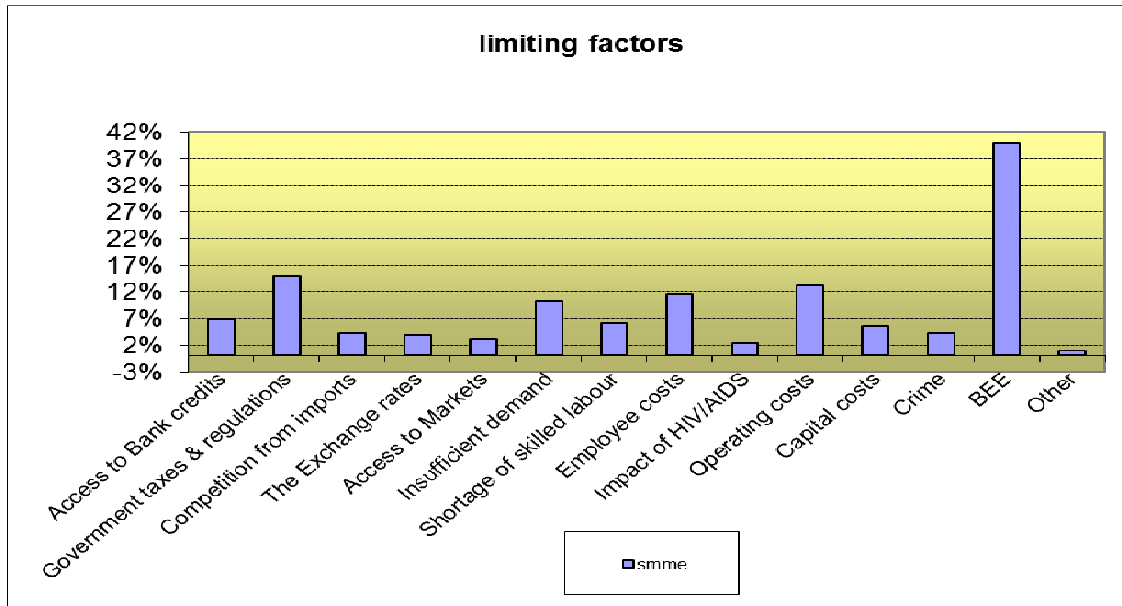


*Figure 5: Annual Turnover*

### 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 of the SMME business managers sampled cited high operating costs, BEE, Government taxes & regulations, Insufficient demand and Employee costs respectively as major limiting factors to their operations. Figure 6 shows the response distribution.



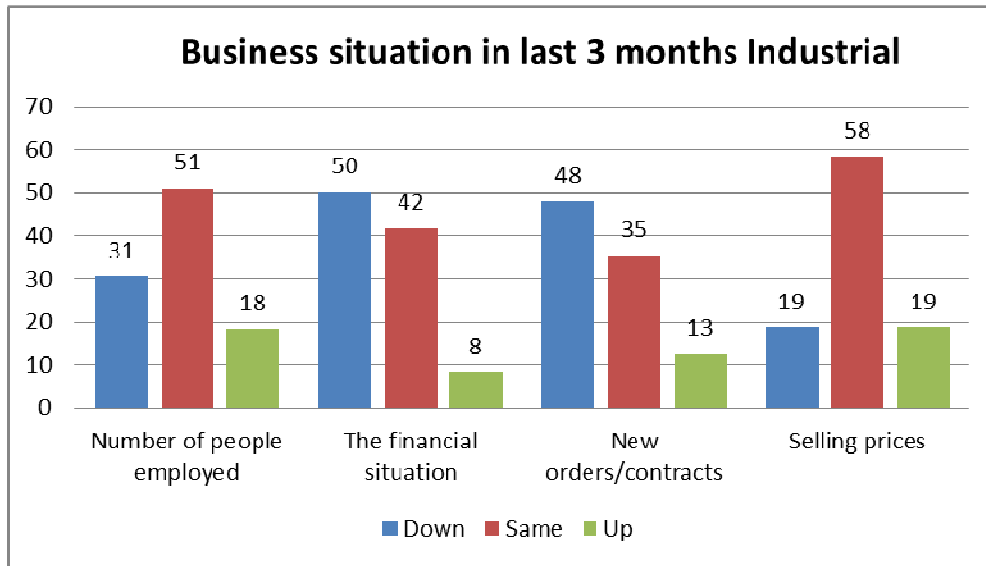
**Figure 6: Business Limitations**

### ***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.

#### **Industrial Sector:**

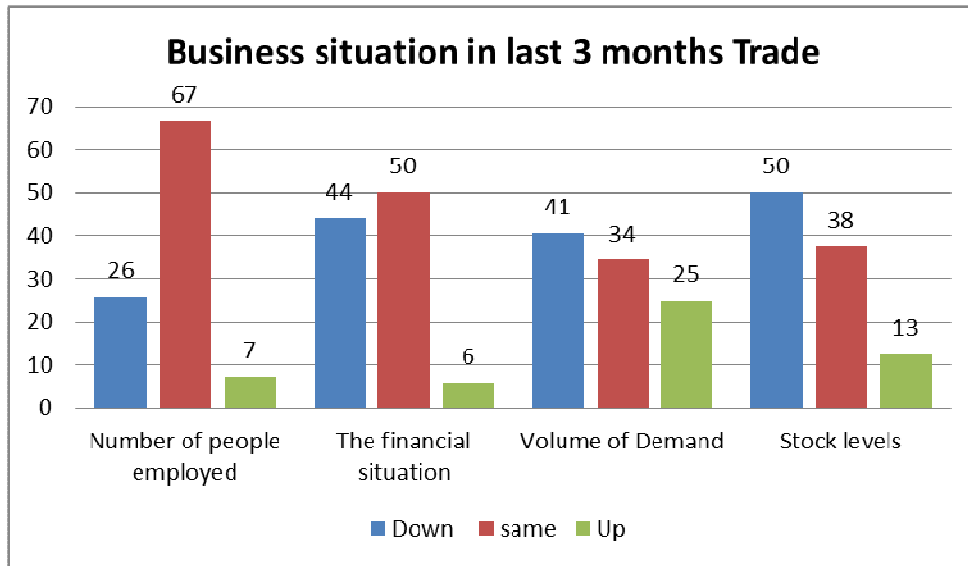
- ❖ ***Number of people employed:*** In the industrial sector, 31% of SMME owners indicated that their employment levels have gone down whilst majority of them 51% were of the view that it had remained the same with only 18% indicating they have been able to employ more people.
- ❖ ***Financial situation:*** The financial situation for the industrial sector during the first quarter of 2011 appears to have deteriorated. Of the total surveyed, 50% of the SMME owners indicated that their financial situation has worsened compared to the 39% recorded last quarter, with 42% indicating no change in their financial situation for the first quarter of 2011, and 8% indicating an improvement in their financial situation over the first quarter of 2011.
- ❖ ***New orders or contracts:*** 48% of SMME owners were of the opinion that new orders had gone down whereas 35% were of the view that orders have remained the same whilst 13% of them indicated that they had gone up.
- ❖ ***Selling price:*** In the case of selling price, 19% of SMME owners indicated a downward trend, 58% indicated no change and 19% witnessed an increase.



*Figure 7: Industry Business Situation for last 3 months*

**Trade Sector:**

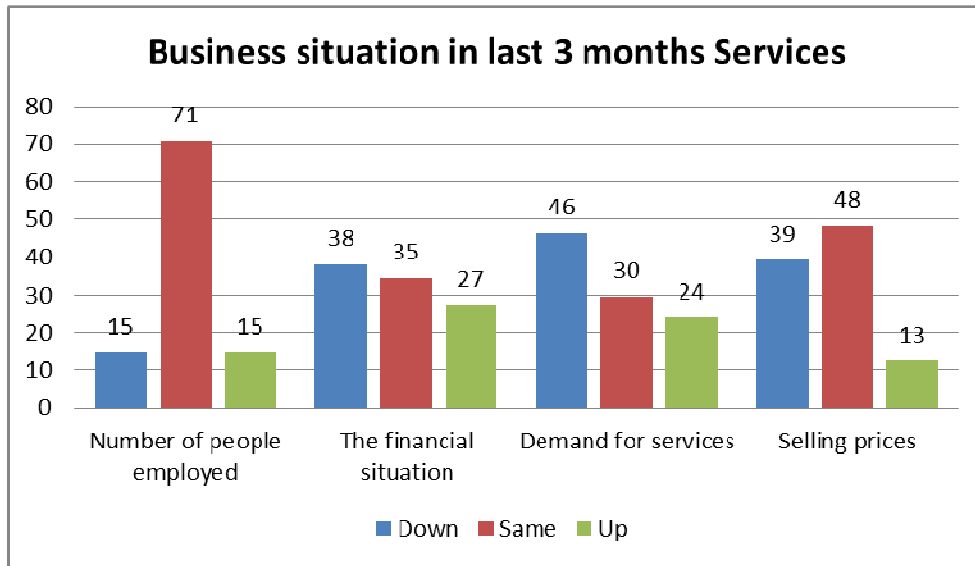
- ❖ **Number of people employed:** In the trade sector, 26% of SMME owners indicated that employment had gone down whilst 67% were of the view that it had remained the same and 7% indicated an increase.
- ❖ **Financial situation:** The financial situation of the SMMEs in the trade sector seems to have worsened over the year 2011. 44% of SMME owners showed that the financial situation had gone down whilst 50% were of the view that it remained unchanged and only 6% indicated an improvement.
- ❖ **Volume of demand:** In this quarter, 41% of SMME owners were of the opinion that the volume of demand went down whilst 34% were of the view that it remained the same and 25% indicated that it had gone up.
- ❖ **Stock levels:** In the case of stock levels, 50% of SMME owners indicated a downward trend, 38% indicated no change and 13% witnessed an increase.



*Figure 8: Trade Business Situation for last 3 months*

**Services Sector:**

- ❖ **Number of people employed:** 15% of SMME owners indicated that number of people employed had gone down whilst an overwhelming majority 71% were of the view that it had remained the same and 15% were able to employ more.
- ❖ **Financial situation:** 38% of SMME owners indicated that this had gone down whilst 35% were of the view that it remained unchanged and 27% indicated an improvement.
- ❖ **Demand for services:** 46% of SMME owners were of the view that volume of demand had gone down whilst 30% were of the view that it remained the same and 24% of them indicated that it had gone up.
- ❖ **Selling prices:** In this sector, 39% of SMME owners indicated a downward trend, 48% showed no change in selling prices and 13% witnessed an upward movement.



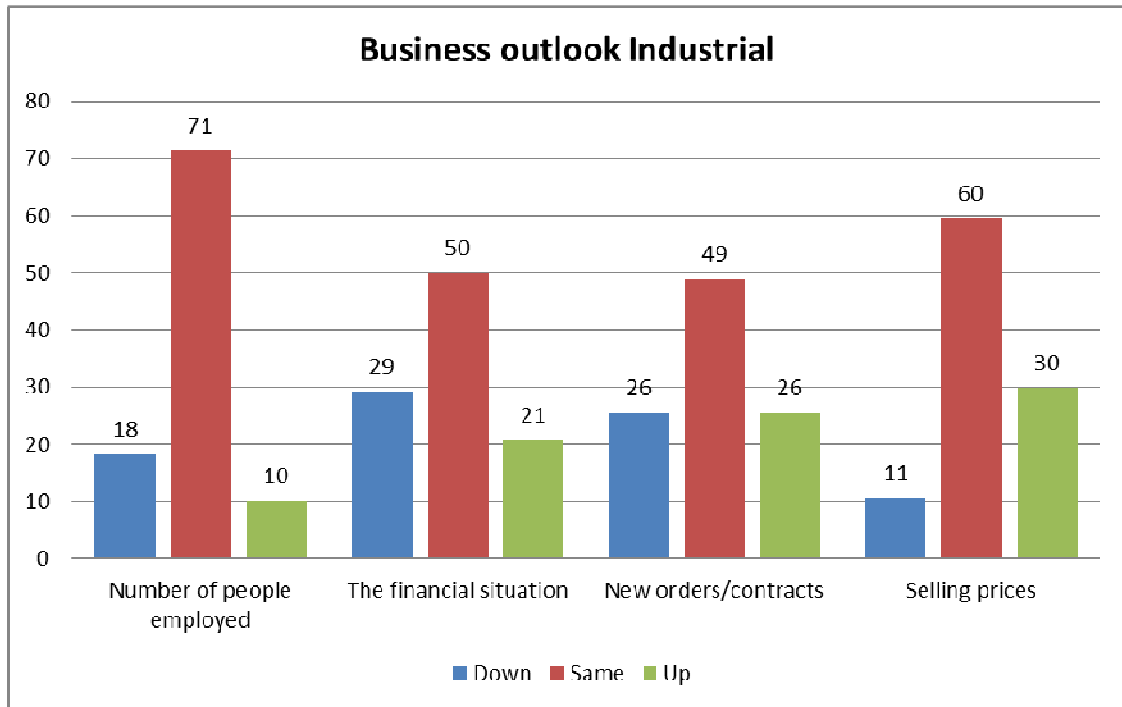
*Figure 9: Services Business Situation for last 3 months*

### ***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:**

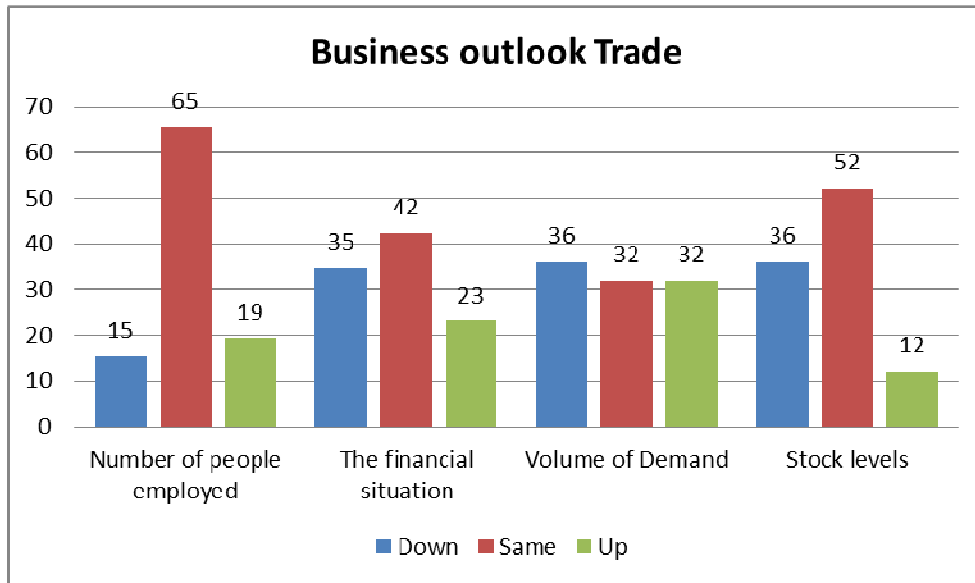
- ❖ ***Number of people employed:*** A lesser proportion of the SMMEs interviewed were optimistic about their ability to employ more people for the coming six months. 18% of SMME owners indicated that employment will go down whilst 71% were of the view that it will remain the same and 10% will be able to employ more;
- ❖ ***Financial situation:*** 29% of SMME owners indicated that this will go down whilst, 50% were of the view that it will remain unchanged and 21% indicated an improvement;
- ❖ ***New orders or contracts:*** 26% of SMME owners indicated that new orders will go down whilst 49% were of the view that it will remain the same and 26% of them indicated that it will go up;
- ❖ ***Selling price:*** 11% indicated a downward trend, 60% did not think there will be a change and 30% were of the view that selling prices will go up.



*Figure 10: Industry Sector Business Outlook*

#### Trade Sector

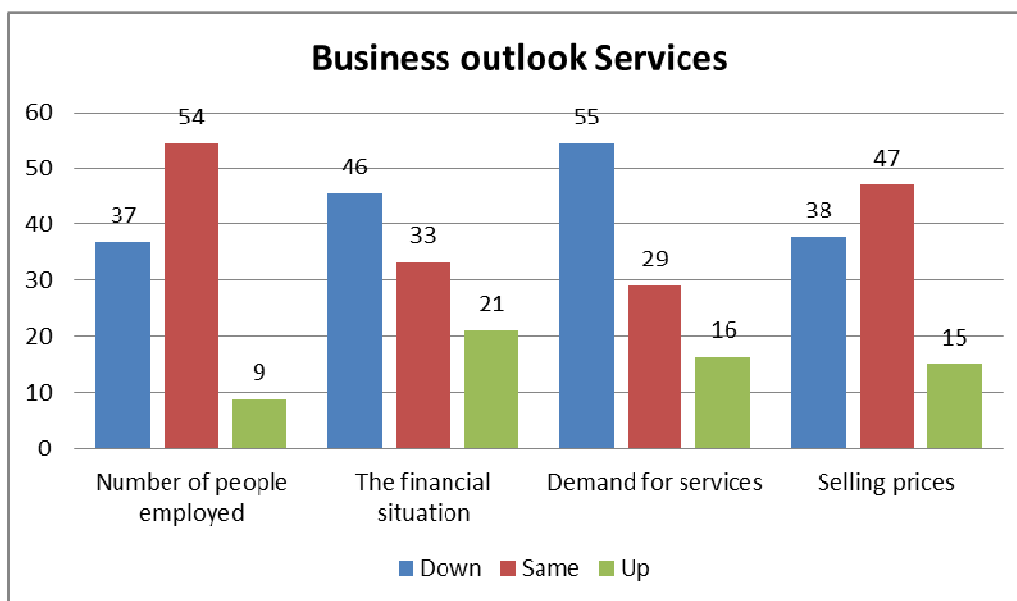
- ❖ **Number of people employed:** 15% of SMME owners indicated that employment will go down. However 65% were of the view that it will remain the same and 19% will be able to employ more;
- ❖ **Financial situation:** 35% of SMME owners indicated that this will go down whilst about the same percentage, 42% were of the view that it will remain unchanged and 23% indicated an improvement.
- ❖ **Volume of demand:** 36% of SMME owners were of the opinion that the demand of services will go down whilst 32% were also of the view that it will remain the same and 32% of them indicated an upward trend.
- ❖ **Stock levels:** 36% of SMME owners indicated a downward trend in future, 52% indicated there will be no change and 12% indicated an increase.



*Figure 11: Trade Sector Business Outlook Services*

### Services Sector

- ❖ **Number of people employed:** 37% of SMME owners indicated that employment will go down whilst 54% were of the view that it will remain the same and 9% will be able to employ more.
- ❖ **Financial situation:** 46% of SMME owners indicated that this will go down whilst 33% were of the view that it will remain unchanged and 21% indicated there will be improvement.
- ❖ **Demand for services:** In this sector 55% of SMME owners indicated that the volume of demand will go down whilst 29% were of the view that it will remain the same and 16% of them predicted a possible increase.
- ❖ **Selling price:** 38% of SMME owners indicated there will be a downward trend, 47% do not think there will be a change and 15% think selling price will go up.



*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 decreased from 43.36% during the fourth quarter of 2010 to 38.24% in the first quarter of 2011. This represents a decrease of 11.8%.

#### 4.1.2 Trade Sector Present Outlook

The trade sector also recorded a decrease in confidence level. Confidence level decreased from 45.19% in the fourth quarter of 2010 to 40.14% in the first quarter of 2011. This represents a decrease of 11.18%.

#### 4.1.3 Services Sector Present Outlook

The service sector recorded a marginal decrease in business confidence from 49.05% during the fourth quarter of 2010 to 48.07% in the first quarter of 2011. This represents a decrease of 1.99%.

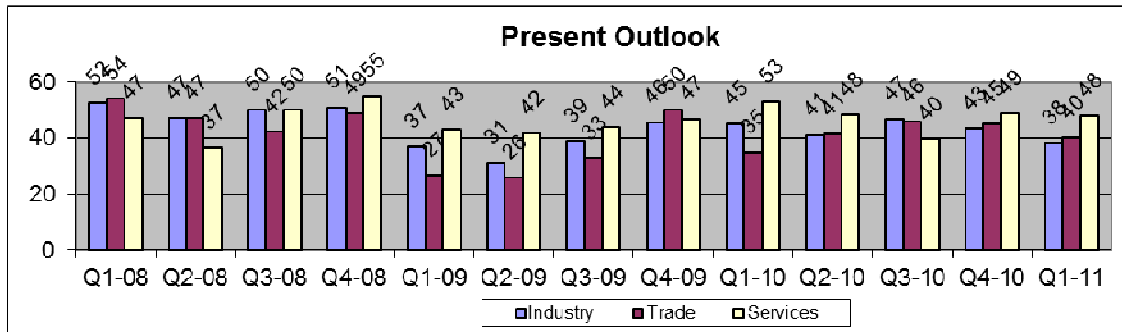


Figure 13: Present Outlook

## 4.2. Sector Future Outlook

### 4.2.1. Industrial Sector Future Outlook

The business confidence level for future outlook (Figure 14) under this sector fell from 57.17% in the fourth quarter of 2010 to 42.78% in the first quarter of 2011. This represents a decrease of 25.18%.

### 4.2.2. Trade Sector Future Outlook

The confidence index for future outlook in this sector has decreased from 57.31% in the fourth quarter of 2010 to 28.29% in the first quarter of 2011. This represents a decrease of 50.63%.

### 4.2.3. Services Sector Future Outlook

The confidence index for future outlook in the services sector also decreased from 70.09% during the fourth quarter of 2010 to 48.99% in the first quarter of 2011 (see Figure 14). This represents a decrease of 30.1%.

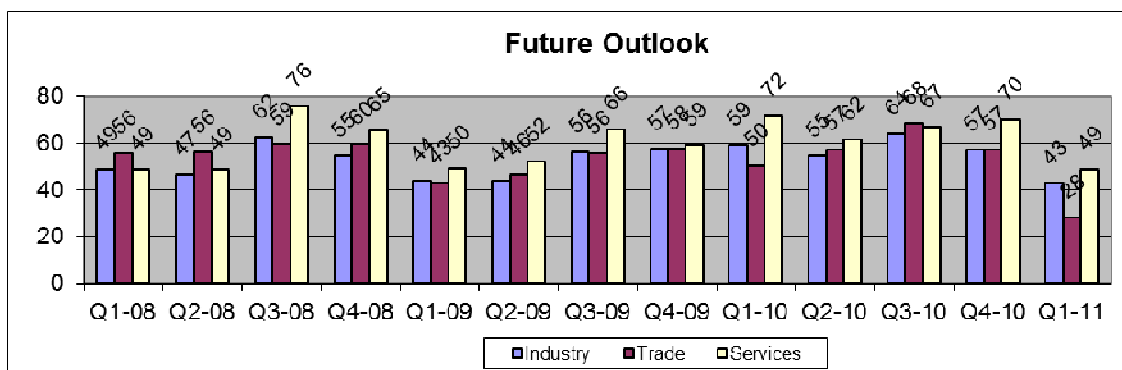


Figure 14: Future Outlook

### 4.3 Overall Present Index.

The overall business confidence index, for the present outlook decreased from 45.86% during the fourth quarter of 2010 to 42.15% during the first quarter of 2011. This represents a decrease of 8.09%.

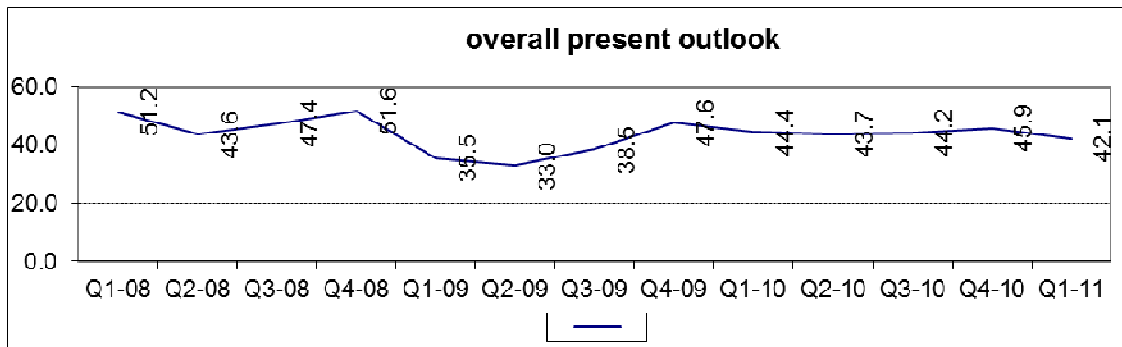


Figure 15: Overall Present Outlook Change

### 4.4 Overall Future Index.

The future outlook in the first quarter of the 2011 survey results decreased from 61.52% in the fourth quarter of 2010 to 40.02% (see figure 16). This represents a decrease of 34.95%.

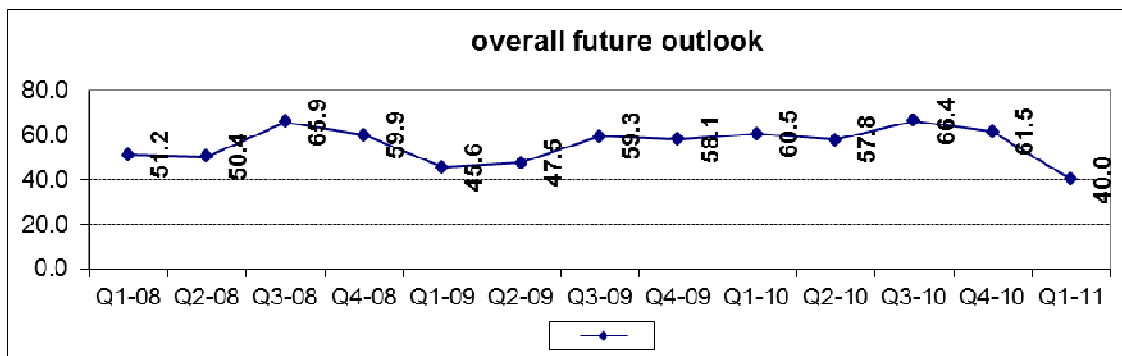


Figure 16: Overall Future Outlook Change

#### 4.5. Business confidence

The overall SMME Business Confidence Index (Figure 17) experienced a decrease during the first quarter of 2011. The overall index decreased from 53.69% in the fourth quarter of 2010 to 41.08% in the first quarter of 2011. This represents a decrease of 23.49%.

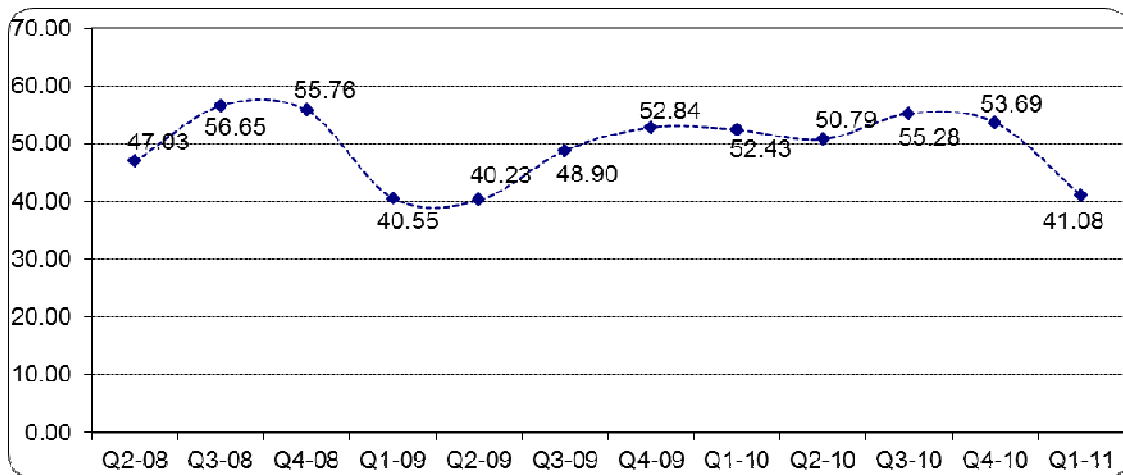


Figure 17: SMME Business Confidence Index

On quarterly (period-to-period) basis, the overall business confidence of the SMMEs continued to decrease during the first quarter of 2011. Figure 18 indicates that the general trend has been one of an unstable growth pattern in the business confidence level. On quarterly average basis, the observed trend remains virtually the same.

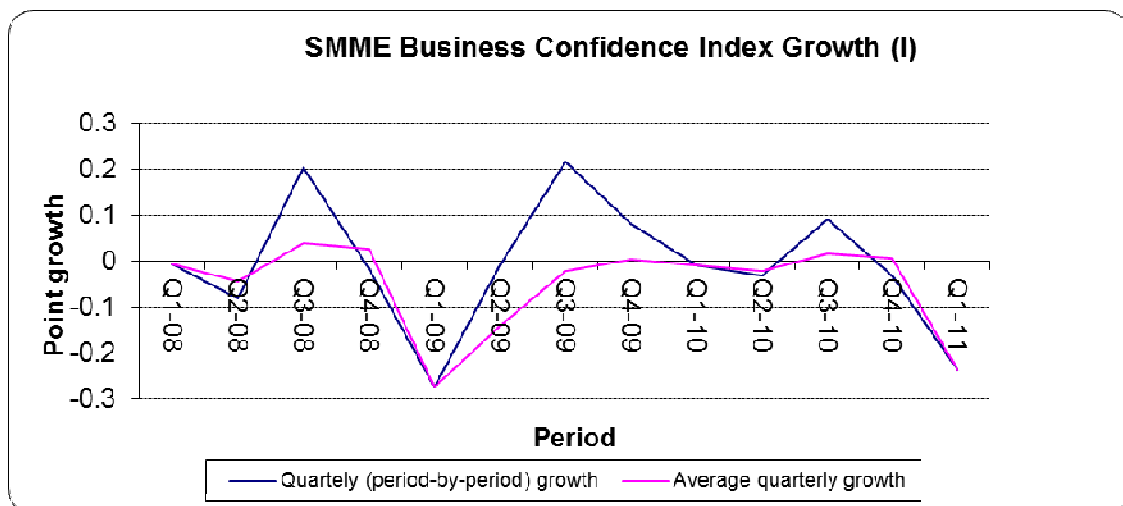


Figure 18: SMME Business Confidence Growth (I)

A similar growth trend is observed on a year-to-year basis (see figure 19).

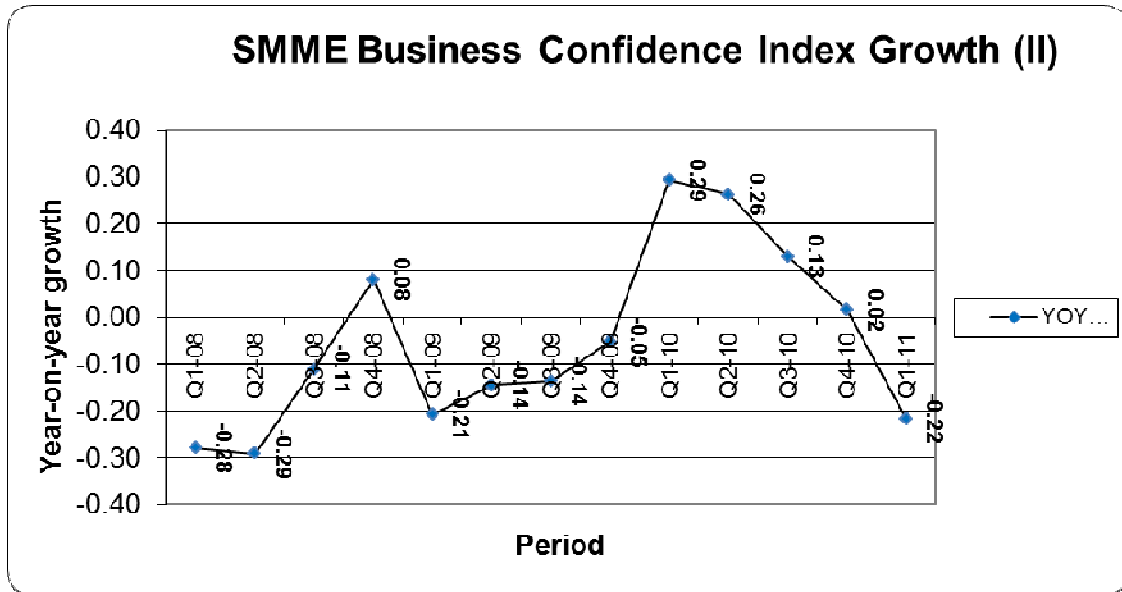


Figure 19: SMME Business Confidence Growth (II)

## 5. Conclusion

Findings from the survey indicate that the overall business confidence level of the SMMEs has decreased during the first quarter of 2011. The decrease in confidence index was recorded for all three sectors of SMME activities. SMME operators in all three sectors of the economy were pessimistic about the future.

Among the constraining factors mentioned by the interviewed SMME managers and owners are the high operating costs, high government taxes and regulations, limited access to bank credit, insufficient demand and high employee costs.