Economic indicators that SMEs should monitor

As the country struggles to meet its growth targets, small businesses will once again be put in the spotlight since they will be the hardest hit should South Africa fall into recession.

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Sanjeev Orie, CEO of Business Value Adds for FNB Business says, SMEs cannot sit back and wait for the worst to come. One of the most effective means to protect a business from a possible recession is to constantly track key economic indicators and use the insights to make informed strategic business decisions.

Using indicators as prediction tools

While a recession technically means the contraction of the economy or sector for two consecutive quarters, there are other indicators that SMEs can use as early predication tools.

Orie says there isn't a blanket approach for using these indicators, but a more cautious approach, which eliminates confusion, is to use them in relation to the nature of business and sector that an SME operates.

• **National budget speech** – SMEs can use the budget speech to gain valuable information on what the government is planning around business taxes and incentives, investment in infrastructure, partnerships with the private sector, legislation and relief for small businesses during tough economic times.

- **Consumer Price Index** – CPI generally measures changes in the price of goods and services. Changes in inflation can affect an SME's profitability and the overall cost of doing business. As product prices increase, the business can adjust prices and employee salaries in line with inflation.

- **Rand volatility** – the weakness of the rand against major currencies has direct consequences for SMEs in the export and import markets. It can further increase the cost of local products that are manufactured using imported raw materials.

- **Gross Domestic Product** – GDP tracks the overall health of the economy and how key sectors are performing. If the economy does not grow, businesses do not invest, unemployment increases and the entire country suffers.

- **Interest rates** – interest rates have a direct impact on the disposable income of consumers, loan repayments of small businesses and cash flow management. SMEs that charge interest on goods purchased on credit can also use the rate to adjust repayments accordingly.

- **Purchasing Managers Index** – PMI tracks manufacturing output in the country which is quite essential for SMEs that are active in the subsectors of manufacturing.

- **Retail trade sales** – retail sales measure the spending patterns of consumers on retail goods and services. It can also measure growth in the longer term.

- **Producers Price Index** – PPI is used to measure the price that wholesalers often pay producers for goods. SMEs can use PPI to determine the price they should pay for goods, and to negotiate future prices when renewing or entering into new contracts.

- **Consumer Confidence Index** – CCI is used to gauge the confidence of consumers, financial status and appetite for spending. If consumer confidence is low, SMEs can use this as an indication on tougher times to come.

- **Employment statistics** – high unemployment levels affect SMEs directly since they are often linked to the disposable income of consumers.

The South African Reserve Bank (SARB) recently cut its growth forecast to 0.9% from 1.5% painting a very bleak outlook for the country. As we prepare for the tough times ahead, SMEs must use all means at their disposal to overcome the challenges and risk presented by a contracting economy.

"If entrepreneurs are able to navigate this economic environment, it sets their businesses to outperform their peers when the economy does recover. The disciplines learnt in this cycle will place them in a great position in the years to come," concludes Orie.