SMME Quarterly Update
1st Quarter 2019

The Small Enterprise Development Agency

August 2019

Executive summary

- **The number of SMMEs in South Africa (SA) grew by 4.4% year-on-year (y-o-y) to 2.55 million in 2019Q1.** Growth was stronger in the formal sector. While not smooth, the rising tendency in the overall number has been in place since 2014.
- The increase in the number of SMMEs over the past year occurred at the backdrop of a 0.4% contraction in economy-wide employment. **As the number of SMME employees (mainly in the formal sector) expanded strongly (29%), this indicates a big shift in employment from large to small enterprises**.
- Employment provided by SMMEs (including the owners) increased to 10.8 million in 2019Q1, accounting for 66% of economy-wide employment.
- Despite the growth in the number of SMME enterprises and employment, the sector's financials remained largely stable. This suggests that the sector continued to lose out compared to its larger counterparts in the current trying economic conditions.
- **The SME* share in the total turnover of all enterprises[#1] continued to slide to 38.2% in 2019Q1, from 39.5% a year ago**.

The SA economy finds itself in a rather grim predicament. The economy has been on a downturn since the end of 2013 and at the time of writing there was no clear sign of a lower turning point. To make matters more challenging, the global economy has slowed significantly over the past 18 months, invoking fears of recession. The major economies' industrial sectors are already contracting and, while services remain a source of sustained expansion, it too is slowing down. The major central banks, as well as those of leading emerging market countries have embarked on monetary easing. This is afforded due to a general decline in actual inflation and inflation expectations. Global economic forecasts are being scaled down. Prospects are highly conditional upon the direction of the US-China trade war and it is clouded by geo-political tensions and uncertainties.

The SA economy is expected to rebound in 2019Q2, following the sharp contraction in the first quarter. **However, it is not clear what will drive growth during the second half of the year**. Forward-looking indicators (e.g. business confidence and capital spending) are weak. Eskom's (and other SOE) financial crises are impacting negatively on the country's fiscal metrics, putting credit ratings agencies on the alert. **The poor economic situation is best captured by the shocking increase in the (narrow) unemployment rate to 29% during the second quarter**. In view of the intensifying political contestation, economic growth is likely to remain pedestrian over the short term, including cumulating risk of a more negative outcome.

An analysis of sectoral growth trends shows that the economic malaise is particularly located in the mining, manufacturing, electricity & water and construction sectors. **Even the much-vaunted inward tourism sector is under pressure; however, it remains a key source of future growth.** It is also hoped that the imminent release and licensing of high-demand radio spectrum will in time boost economic activity and employment, particularly in the SMME sector.

The latest SMME survey shows that the number of enterprises and employment continued to grow, albeit that finances are under pressure. Favourable longer-term tendencies are also evident.

KEY INDICATORS	2018Q1	2018Q4	2019Q1	q-o-q change	y-o-y change
Number of SMMEs	2 443 163	2 557 762	2 550 540	-0.3%	4.4%
Number of formal SMMEs	658 719	745 061	736 198	-1.2%	11.8%
Number of informal SMMEs	1 714 233	1 744 013	1 754 443	0.6%	2.3%
Number jobs provided	8 886 015	10 597 371	10 839 819	2.3%	22.0%
% operating in trade & accommodation	39.3%	41.1%	41.3%	0.2% pts	2% pts
% operating in community services	15.1%	12.7%	12.7%	0% pts	-2.4% pts
% operating in construction	13.6%	14.9%	13.9%	-1% pts	0.2% pts
% operating in fin. & business services	13.3%	13.0%	13.3%	0.3% pts	0% pts
% black owned formal SMMEs	74.9%	74.7%	74.5%	-0.1% pts	-0.3% pts
% contribution of SMEs* to turnover of all enterprises[#]	39.5%	37.1%	38.2%	1% pts	-1.3% pts

**excluding micro enterprises*

[#]excluding agriculture, financial intermediation, insurance and government institutions

[1]The contribution of SMEs to GDP is contested. An estimate could be possible from existing National Accounts data. However, further research, in cooperation and with assistance from Statistics South Africa, is needed.

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Economic background

International

The global economy slowed down from the early part of last year. Regional industrial sectors are under pressure, partly due to downward cyclical forces and partly due to the disruption of trade and producer value chains linked to the US-China trade war and other uncertainties. **The US manufacturing PMI is at a 10-year low; the Euro area manufacturing PMI at a 6-year low (in deep contractionary territory) and China's manufacturing PMI hovers around a neutral level**. Services sectors have also been impacted, albeit remaining the source of sustained expansion. In the advanced economies, consumer spending continues to underpin growth on the back of strong labour markets, particularly in the USA. Unfortunately, business confidence has been sapped and capital spending is weak, which threaten the sustainability of consumption spending and broader growth. Exports have shrunk sharply, and this is a global phenomenon. Furthermore, financial market risk has intensified, particularly in the frothy US stock market.

The global economy on the verge of a recession …

At the G20 meetings (end-June), the presidents of the USA and China decided to call a truce on further tariff action. While trade talks have resumed subsequently, the damage of earlier tariff hikes and the associated uncertainties (being prolonged by the failure to reach agreement) are impacting international trade flows and industrial production negatively, not to mention the adverse impact on business confidence. **It is the nature of trade wars to drag all participating countries, including the rest, down.** The USA and China's combined contribution to world GDP (at market exchange rates) amounts to 40% (IMF WEO, April 2019). Furthermore, the latest Brexit developments, related EU uncertainties (also fuelled by Mr Trump's hostilities directed at the auto sector, NATO, etc.) and other geo-political tensions (e.g. between Japan and South Korea; and in the Persian Gulf) heighten risk in the global economic outlook.

… with the outlook being clouded by uncertainty and geo-political tensions

A key outcome of the deteriorating global growth trajectory is that actual price pressures and inflation expectations have receded further in most regions. The major central banks (US Fed, ECB, BoJ, PBoC and the BoE) are easing monetary policies. Some emerging market country central banks have already begun cutting interest rates following the US Fed's dramatic monetary policy pivot earlier this year. The disinflationary tendencies are strengthened by a volatile, but declining, international crude oil price. The latter bounces between softer demand impacts and supply concerns linked to developments in the Persian Gulf and key producing areas. **The low inflation and interest rate environment have benefits for emerging country capital markets such as SA**.

Inflation expectations decline globally, and most central banks cut interest rates

The easier financing conditions provide a window of opportunity for SA to implement the urgently required structural reforms (e.g. in the SOE sector and the broader fiscus). However, given the prevalent global risks, this window can suddenly close. **Furthermore, it is clear that commodity prices and the demand for SA exports will be under pressure over the short term**.

South Africa

The SA economy is on a dangerous slide. Already low business (and consumer) confidence drive lower spending and, in turn, cost-cutting, inventory disinvestment and production retrenchment (including worker layoffs) on the part of business. This feeds back to yet lower confidence. For each individual business it makes complete commercial sense to rationalise. Unfortunately, combining these micro actions, the macro consequences are dire. **Whereas the government should step in to arrest such recessionary forces, it is not able to do so due to financial constraints**. In fact, the SOEs add insult to injury. Eskom's financial rescue (measuring R26 billion in the current fiscal year, or 0.5% of GDP, and R33 billion in fiscal 2020/21) on top of the R23 billion per annum over the MTEF period (2019/20 to 2021/22) announced in the February budget, is conservatively expected to ratchet the fiscal deficit from a budgeted 4.5% of GDP to above 6% (2019/20). In the absence of drastic action, this metric is likely to turn out worse due to lower-than-expected economic growth (and inflation) given the recessionary spiral in the real economy. During the first half of 2019, more than 70% of business executives surveyed by the BER (and closer to 80% in manufacturing) were dissatisfied with business conditions (Figure 1). **SA's narrow unemployment rate reached a historic high of 29% in the second quarter; including the discouraged work-seekers, this number stands at 38.5%.**

The SA economy is trapped in a dangerous downward spiral …

Moody's Investor Services, the only ratings agency (of the three major ones) continuing to maintain an investment grade credit rating for SA's sovereign debt, describes the Eskom financial rescue (without an agreeable turnaround strategy) as *'credit negative'*. Fitch, in turn, immediately downgraded SA's outlook to negative from positive, a clear signal of a further notch below sub-investment grade in the absence of noticeable improvement over the following 12 months[1]. **Low economic growth will continue to compromise tax revenues, putting brakes on government spending, in turn, exacerbating the recessionary forces in the economy.** A sub-investment grade credit rating will make credit more expensive in SA, hurting real economic growth; not to mention the potential dislocations which may result due to volatile financial market developments.

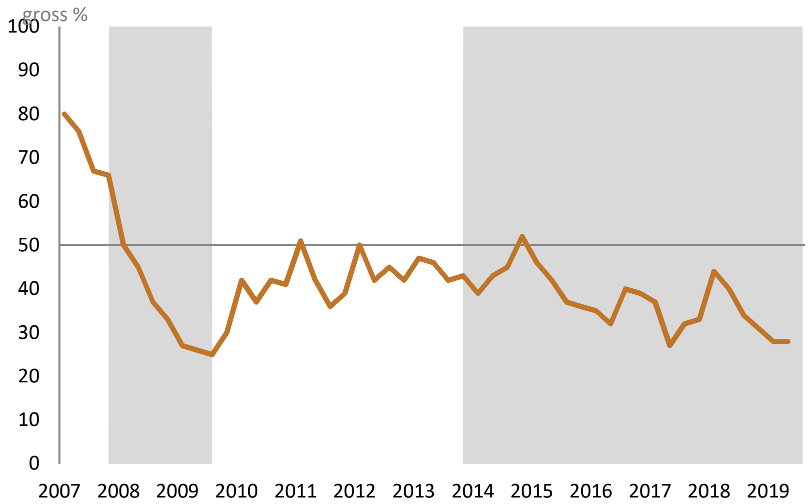
Eskom's financial rescue impacts SA's fiscal metrics and sovereign credit rating

These developments acquire an ominous character when the governing political party is embroiled in factional fights, precluding progress with urgent policy action. Given the pre-election expectations of material progress after the event, **the current intensifying political contestation and enduring economic policy uncertainty are certain to drive yet lower business (and consumer) confidence**, skilled emigration and socio-political instability. While welcome, the ease of monetary policy can only go so far. Furthermore, weaker export demand is likely to hit the SA economy significantly harder than expected over the short term. **Economic growth forecasts have therefore been downgraded significantly. SMMEs will be impacted first and disproportionately.**

Outlook remains grim despite stable inflation and lower interest rates

[1] The fact that SA is inexorably moving closer to a general sub-investment grade credit rating is best reflected in the economy's poorer performance compared to the median of countries rated at the same level by Fitch (i.e. 'BB'): SA's trend real economic growth rate is measured (by Fitch) at 1.7% per annum compared to a 3.4% median; its budget deficit is projected increasing to 6% of GDP, or above (compared to a median of 2.3%); general government debt to GDP is projected to rise to 68% (compared to a median of 44.6%) and the ratio of external debt (mainly in the corporate sector), 27.3% of GDP (compared to a median of 17.6%). The SARB's most recent estimate of SA's trend real GDP growth rate is 1.1%, which is closer to the truth.

Figure 1: RMB/BER business confidence index



Source: BER

More than 70% of business executives were unhappy with business conditions during the 1st six months of the year

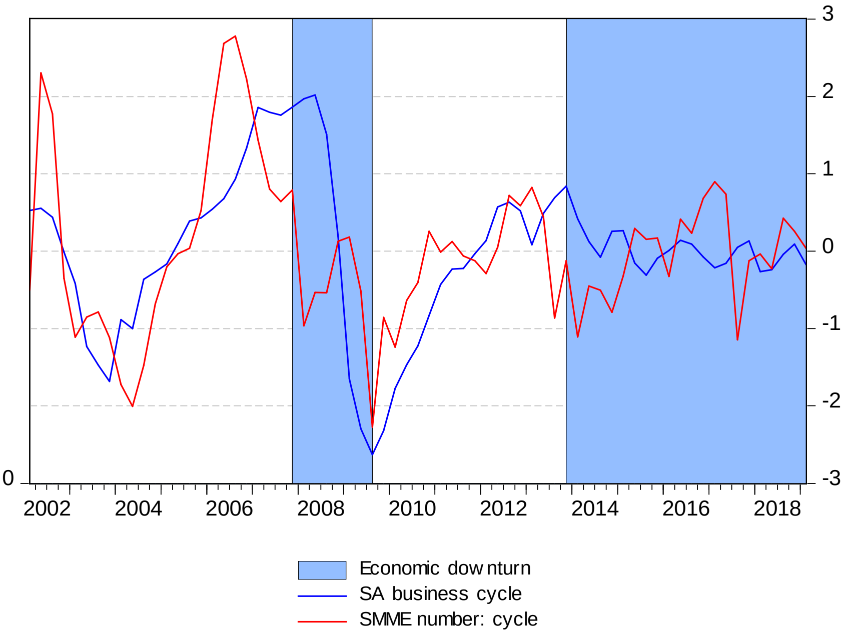
SMME quarterly overview for 2019Q1

Strong increase in formal SMME employment in year to 19Q1

The return to a positive tendency in the number of SMME's continued according to the latest survey. The number of SMMEs increased by 4.4% to 2.55 million in 2019Q1 compared to 2.44 million a year ago. **The more significant result from the latest survey, is the fact that the number of people employed in the SMME sector (i.e. excluding the owners) jumped by 29% to 8 million**. More than 85% of this increase transpired in the formal SMME sector (accounting for less than a third of the number of enterprises). Including the owners, SMME employment (10.8 million) accounts for close to two thirds of economy-wide employment (16.5 million). **The number of SMME enterprises has been on an upward trajectory from 2014 (around 2 million) to the current 2.55 million**. It is also interesting to observe that the sector broadly oscillates with the SA business cycle – *see Figure 2.*

The number of SMMEs fluctuates in line with the SA business cycle

Figure 2: Cyclical components: the number of SMMEs vs the SA business cycle



Source: Statistics SA / SARB / own calculations

Encouraging qualitative improvements in the SMME sector

However, the difficult economic conditions put pressure on the sector

The longer-term analysis also allowed a proper assessment of the previously reported survivalist tendencies in the sector, e.g. the large share of SMME's not surviving the age of two years, the low levels of educational attainment and the skills complexion of the various occupational categories. While these ratios remain high, it is most encouraging that they have receded over the past decade. **The share of SMMEs less than three years in business has gradually declined from 35% in 2008 to 26% in 2019Q1; the share of owners with lower than secondary schooling completed, from 61% to 51%; and the share of owners in the unskilled occupational categories, from 27% to 25%** (contrasting with the share of managers, professional and technical occupations increasing from 31% to 35%). These tendencies attest to qualitative improvements in the sector. Unfortunately, it is also clear that **the sector's finances remain, notwithstanding, under pressure in the current challenging broader economic conditions, with the smaller enterprises losing out *vis-à-vis* their larger counterparts**.

Focus on manufacturing, ICT and tourism: a sectoral perspective

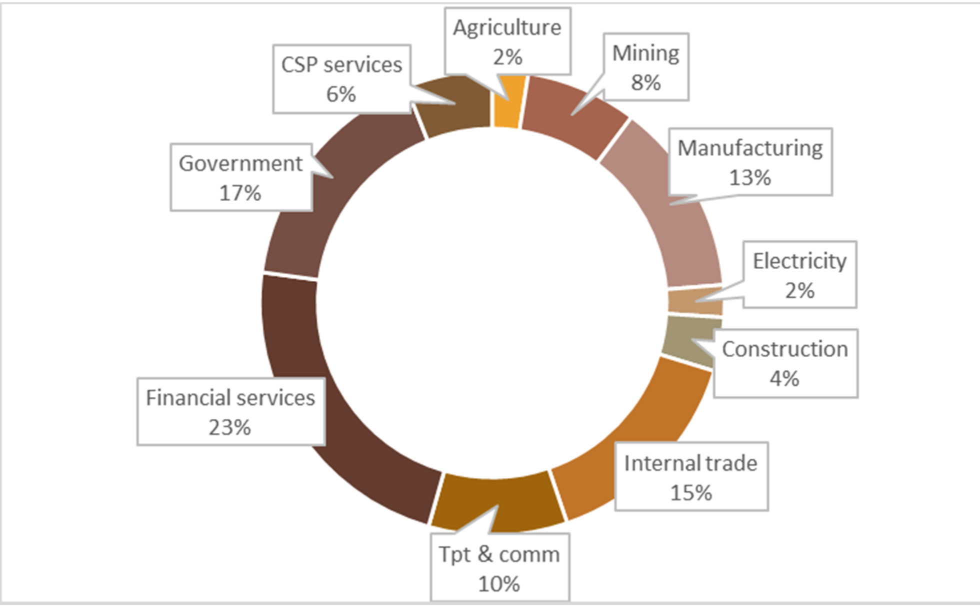
Figure 3 depicts the broad sectoral composition of SA's GDP. The sectoral composition and dominance of services (also in the SMME sector) has been discussed in previous reports and the chart is only included here for reference purposes. The more relevant chart is Figure 4, comparing the broad sectoral growth performances over the past 5 years (2014-18) with that of the preceding 14 years, i.e. over the period 2000-13. Before the sectoral growth performances are discussed, it is helpful to note SA's aggregate GDP growth performance over this 19-year period.

SA's economic growth has slowed dramatically over the past 5 years, 'decoupling' from global growth

Real GDP growth averaged 1.1% per annum over the past 5 years, which compares to 3.4% on average over the preceding 14 years. The 3.4% real economic growth performance was in line with real world economic growth over the corresponding period (i.e. 3.4% per annum; IMF WEO, April 2019). Global growth receded to 3.0% per annum over the subsequent 5 years, mainly due to slower growth in the major advanced economies and China. While the global growth slowdown will have impacted SA's growth, this impact was marginal. It is evident that domestic factors explain the sharp weakening and the *'decoupling'* with global growth. Without analysing these factors (given the scope of the current report), it is useful to consider the sectoral performances. This also puts SA's poor manufacturing growth performance – and the broader *deindustrialisation* trend – into proper context.

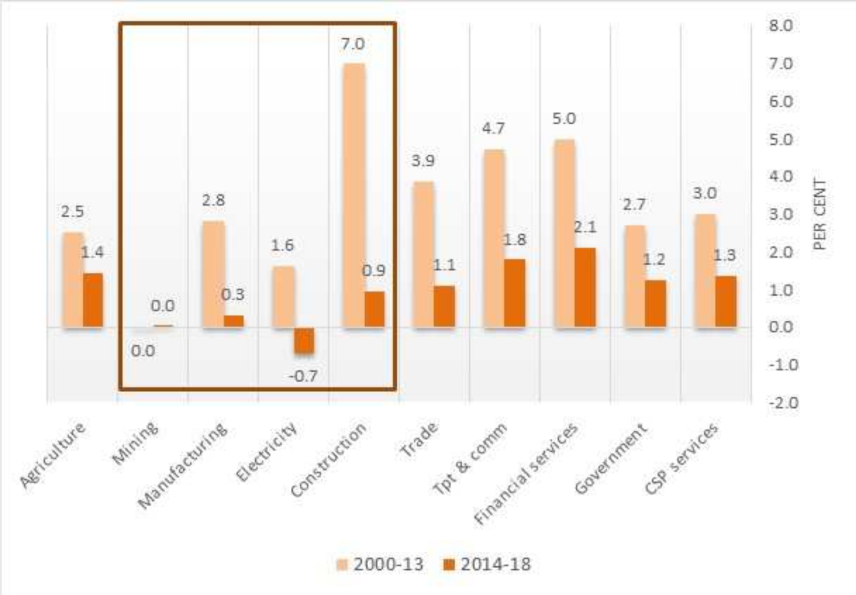
SA's GDP is dominated by services activities, which are largely derived from primary and secondary economic activity

Figure 3: South Africa GDP by main economic sector in 2019Q1



Source: Statistics SA

Figure 4: SA economy average real GDP growth by sector, 2000-13 vs 2014-18



Source: Statistics SA

The economic malaise is concentrated in the mining, electricity, manufacturing and construction sectors

Figure 4 shows that all major sectors slowed sharply over the past 5 years. **However, the contrasting growth performances are much sharper in the mining, manufacturing, electricity & water and construction sectors (indicated in the block).** Mining is an odd exception as it stagnated over the complete period. This is a shocking statistic in view of the commodities boom over the 2002 to 2011 period. Manufacturing also almost stagnated, expanding by a meagre 0.3% per annum over the past five years, compared to growth of 2.8% over the preceding 14 years. SA's electricity supply problems since 2008 are well-documented and explain the shrinkage of this sector over the 2014-18 period as well. The slowdown was starkest in the broad construction sector and ties in with the disappointing fixed investment performance over the past 5 years. **Gross domestic fixed investment contracted by 0.1% per annum over the 2014-18 period, whereas growth averaged 6.3% over the preceding 14 years**. Construction sector real GDP expanded by 7% per annum, 2000-13 (boosted by the infrastructure developments linked with the 2010 FIFA World Cup Soccer event and the investment by SA's parastatals); however, this fell flat over the past 5 years, with growth averaging below 1% per annum.

The deindustrialisation trend in SA is also impacting services economic activity negatively

All the services sectors (and agriculture) grew more rapidly over the past 5 years compared to any of the noted primary and secondary sectors, led by the financial & business services sector (2.1% per annum). A large part of the slowdown in the services sectors is explained by the reversal of fortunes in the primary and secondary sectors, notably manufacturing and construction. This links with the deindustrialisation theme of SA's economic development.

Rather than delving deeper into the matter, suffice to conclude that it has to be a priority to arrest this tendency. **Manufacturers are extremely pessimistic given the prevailing general business conditions**. While **the dti** is working hard to reverse deindustrialisation, little success has transpired (apart from one or two selected sectors). Prospects and current policy initiatives will be considered in the next report.

We are constantly alerted to the fact that the **4th Industrial Revolution (or Digital Industrial Revolution, DIR)** is upon us. This generates as much enthusiasm and excitement regarding new opportunities as it creates fear in many resisting the changes and the required adjustments. **SA's ICT sector** [2] is the primary interface through which the DIR will impact the rest of the economy. Developments in this sector are therefore pivotal in the way SA absorbs these technological changes. In this respect the incumbent release of high-demand radio spectrum is a key development.

The government released its latest policy position on allocating unassigned high-demand radio spectrum

Given lengthy regulatory delays (as the government pondered the most appropriate policy/ business model), industry frustrations have reached boiling point. While the applicable policy document has not been studied, there were some media releases in this regard towards the end of July. It seems that government has in the main stuck with the recommendations of the CSIR (back in 2018), motivating the establishment of a wholesale open area network (WOAN). Rather than a complete WOAN (as was implemented in other countries with doubtful success), the plan is to allocate 30% of the unassigned radio spectrum to the WOAN (a public-private sector consortium ensuring policy objectives will be met) and the remainder of the spectrum to other operators. The express objective is to empower black-owned SMMEs in order to create competition in the oligopolous telecoms market.

This hybrid model appears to be more acceptable to the industry compared to the earlier proposed WOAN (under the previous administration). ICASA will be charged with allocating and licensing the additional spectrum. The idea is that the large telco's (e.g. Vodacom, MTN) source at least 30% of their national offtake from WOAN; the new market entrants will be licensed through ICASA, most likely by way of auction (a previous moot suggestion). This surely presents major opportunities to the favoured black-owned SMME operators. While the release of high-demand radio spectrum has exiting potential, realising the economic benefits are not obvious. Economics always involve trade-offs. <u>In view of the current policy directive, some of the issues at stake, include</u>:

The release of radio spectrum has exciting potential; however, realising the economic benefits are not obvious

- **Implementation lags**. There appears to be uncertainty regarding the sequencing of the licensing process: the understanding is that the WOAN will need to be up and running before the allocation and auctioning of spectrum to other operators can commence. All this may still involve much time before consumers (and the wider economy) finally benefit. Litigation battles have in the past also delayed the policy implementation process. Given the complex nature of the proposed WOAN model, it is to be hoped that this will not be repeated.
- Apart from potential monopoly pricing, the main reason for SA's high data costs has been the shortage of spectrum, prolonged by government delays with policy implementation. The big telco's were forced to invest in congested old-tech infrastructure in meeting the growing consumer demand. Additional spectrum is currently the vehicle for justifying new investment in 4G (and, later, 5G) technologies, given the generated economies of scale. It is **the economies of scale**, which

[2] This sector comprises telecommunications, broadcasting, data centres, cloud & IT services, business process management (BPM) services, Big Data and analytics, and the Internet of Things (IoT) (Frost & Sullivan: *South Africa ICT Outlook,* 2017; Online: **http://www.frost.com/sublib/display-report.do?id=MCD3-01-00-00-00**).

will afford lower data unit costs, higher speed and wider access. **The question is whether these benefits will be forthcoming with the proposed model where economies of scale may continue to lack?**

- The black-owned telecom SMMEs surely stand to benefit hugely; however, will this be a case again, that the economic benefits will be reaped by these firms, not being able to pass cost savings to the consumer due to scale disadvantages? It needs to be re-emphasised: **all SMMEs (also in other sectors of the economy) need to benefit from the ICT developments in order for SA to absorb the benefits of technological change embodied in the DIR as wide and equitably as possible**.
- It is also necessary to understand the development of the **consumer applications** enabled by the new generation technologies. **The question is, will the SA model facilitate sufficiently rapid development of the required communications infrastructure in meeting the progressive consumer demands?** Currently, the revolutionary potential of new communication technologies is difficult to fathom.
- *Finally*, and linked to the previous point, **will the required investment in new technologies happen on the required scale and as envisaged in the current policy objectives?**

The number of SA tourist arrivals contract

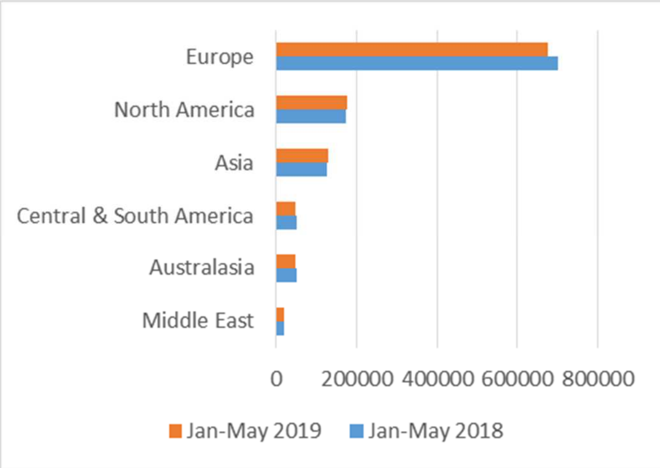
It appears that the adverse macro-economic tendencies are also impacting **SA's tourism market**. The latest tourism statistics, released by Statistics SA, show that the number of foreign nationals setting foot in SA during the first five months of the year contracted compared to a year ago. The tourism market is segmented into continental arrivals (mainly from SADC countries, accounting for close to 98% of African tourists) and overseas arrivals. **The number of overseas visitors (accounting for one quarter of the total market) declined by 24 177 (or 2.2%) and the number of visitors from the SADC region, by 37 204 (or 1.2%)** – *see Figure 5*. The chart shows that only the Asian and North-American arrivals in the overseas market grew over the year, by 2.2% and 1.7% respectively. The overseas market tendencies were, however, overshadowed by the sharp decline in SA's leading tourism market, i.e. Europe, contracting by 25 600 (or 3.6%). In the continental market, a sharp contraction of visitors from Lesotho (92 367, or 11.7%) overshadowed the growth experienced from Zimbabwe (46 776, or 5%) and Swaziland (21 518, or 6.1%).

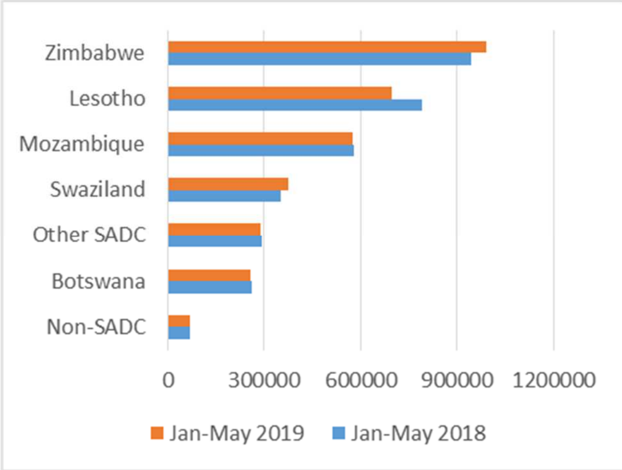
Key reasons for the contraction, include branding, price, safety and the visa application process

These negative tourism market tendencies come as a serious wake-up call to the industry and authorities involved. The potential of the tourism industry in terms of economic growth, employment and foreign exchange earning capacity is well-documented. While it may be difficult to be conclusive regarding the exact reasons for the contraction, Kahla quotes a few experts on the matter. The issues coming to the fore, include: the impact of the 'Day-Zero' water crisis campaign in the Western Cape, hurting SA's tourism brand; serious safety concerns due to escalating crime in SA; pricing trends in the industry, making SA uncompetitive; and the tourism visa-application process[3]. These are all serious issues and require the industry's and policy authorities' urgent attention.

[3] See Kahle, S (6 February 2019): *SA tourism projections for 2019 paint a bleak picture, experts say,* online: **https://www.thesouthafrican.com/travel/sa-tourism-2019-paint-bleak-picture/**

Figure 5: SA inward tourism by region of residence – Overseas & African markets: Jan-May 2019 vs Jan-May 2018





Source: Statistics SA

Proxy numbers for SMMEs

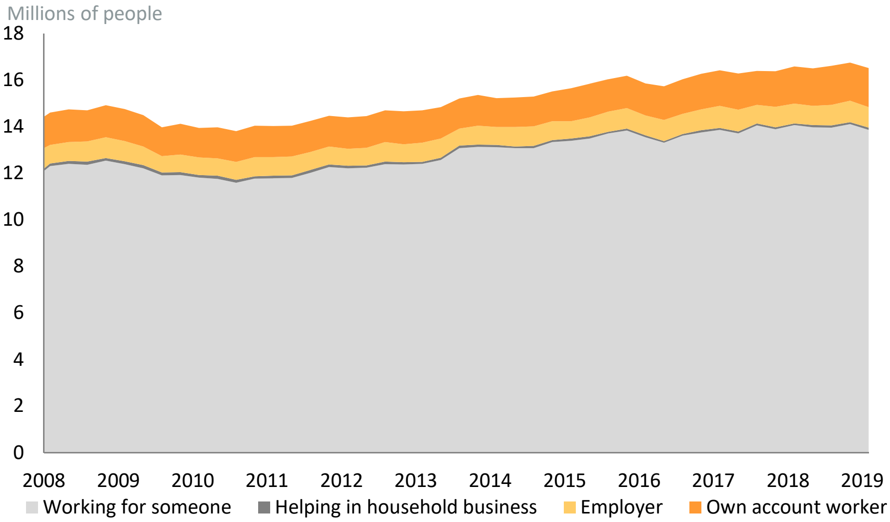
Derived from the Quarterly Labour Force Survey[4]

Number of SMMEs

SMMEs an alternative to employment

In the year up to the first quarter of 2019, the number of SMMEs grew by 4.4% against a backdrop where economy-wide employment contracted by 0.4%. As such, the SMME option has become the natural alternative for people struggling to find a job. However, a smaller cake is now divided by ever more enterprises, as the combined turnover of SMEs stagnated despite inflation being above 4% (Table 12). *Of all employed people, 5.3% also employed others in 2019Q1, while 10.2% worked for themselves. Combined at 15.4% (or 2.55 million), this comprises the proxy measure for the number of SMMEs in South Africa.*

Figure 6: Employment in South Africa



Source: QLFS of Stats SA

Table 1: Number of SMMEs (million)

Indicator	2018Q1		2018Q4		2019Q1		Quarterly change		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
Employer	843 253	5.1%	924 351	5.5%	872 711	5.3%	-51 640	-5.6%	29 457	3.5%
Own account worker	1 599 910	9.6%	1 633 411	9.8%	1 677 829	10.2%	44 418	2.7%	77 919	4.9%
SMME owners	**2 443 163**	**14.7%**	**2 557 762**	**15.3%**	**2 550 540**	**15.4%**	-7 222	**-0.3%**	107 377	**4.4%**
Working for someone	14 066 897	84.8%	14 102 663	84.2%	13 853 471	83.9%	-249 192	-1.8%	-213 425	-1.5%
Helping in household business	69 954	0.4%	88 994	0.5%	109 030	0.7%	20 036	22.5%	39 076	55.9%
Total employed	**16 580 013**	**100.0%**	**16 749 419**	**100.0%**	**16 513 041**	**100.0%**	**-236 378**	**-1.4%**	**-66 972**	**-0.4%**

Source: QLFS of Stats SA

[4] Please note there is substantial volatility in the sub-distributions of the SMMEs; most of this might be due to sampling noise.

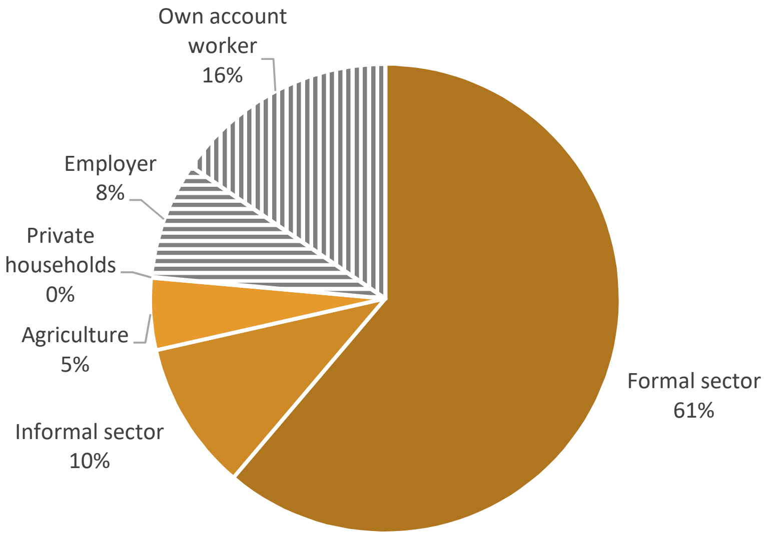
Employment provided by SMMEs

SMME employment expands strongly

In the first quarter of 2019, the SMME sector provided employment to 10.8 million people in South Africa, which accounts for 66% of all jobs (16.5 million) in the country. Of these, only 2.55 million jobs were for the SMME owners themselves, while the balance of 8.3 million jobs (or 77%) were for their employees. The combined **job creation** of SMMEs (for others and the owners) was a staggering 2 million positions in this period, an increase of 22%. These numbers indicate a huge swing in the labour market from large employers to smaller ones, implying that large enterprises culled jobs at a high rate.

Closer inspection shows that the number of SMME employees (non-owners) grew by 29% over the year up to 2019Q1. The majority of SMME employment (61%) is located in the formal sector. Of all jobs provided to others by SMME owners, an estimated 38% is filled by female workers*. This proportion was stable in the previous four quarters.

Figure 7: Employment provided by SMMEs



Source: QLFS of Stats SA

Table 2: Employment provided by SMMEs

	2018Q1		2018Q4		2019Q1		Quarterly change		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
Formal sector	4 972 307	56.0%	6 429 404	60.7%	6 631 459	61.2%	202 055	3.1%	1 659 152	33.4%
Informal sector	1 053 129	11.9%	883 026	8.3%	1 115 405	10.3%	232 379	26.3%	62 277	5.9%
Agriculture	417 417	4.7%	727 178	6.9%	537 157	5.0%	-190 021	-26.1%	119 740	28.7%
Private households	0	0.0%	0	0.0%	5 258	0.0%	5 258	n/a	5 258	n/a
Provided to others	**6 442 852**	**72.5%**	**8 039 609**	**75.9%**	**8 289 280**	**76.5%**	**249 671**	**3.1%**	**1 846 427**	**28.7%**
% Female*		37.7%		37.8%		38.0%		0.1% pts		0.3% pts
Employer	843 253	9.5%	924 351	8.7%	872 711	8.1%	-51 640	-5.6%	29 457	3.5%
Own account worker	1 599 910	18.0%	1 633 411	15.4%	1 677 829	15.5%	44 418	2.7%	77 919	4.9%
Total	**8 886 015**	**100.0%**	**10 597 371**	**100.0%**	**10 839 819**	**100.0%**	**242 449**	**2.3%**	**1 953 804**	**22.0%**

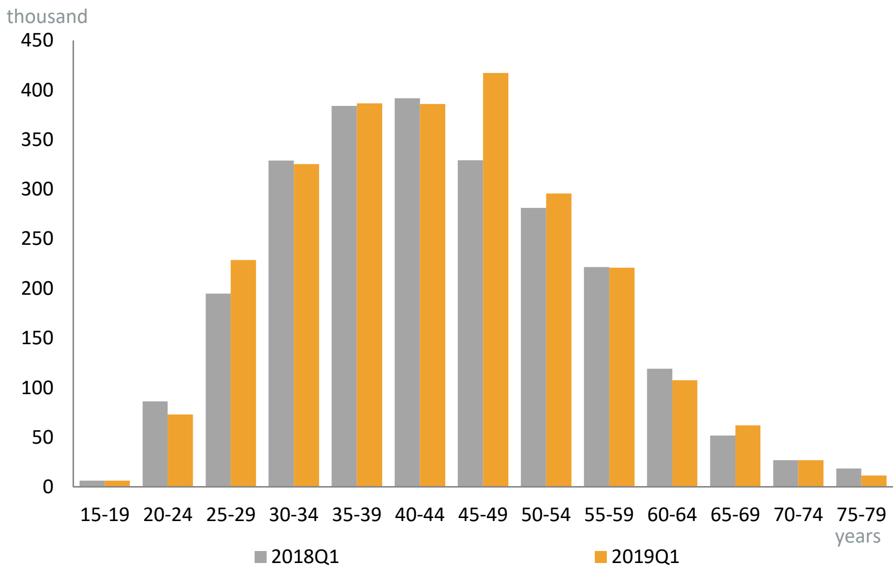
Source: QLFS of Stats SA ** of all people working for private enterprises, of which 81% worked for SMMEs over the last 5 years*

SMME owners by age

Huge jump in the 45-49 age group

In the year up to 2019Q1, there was a substantial increase (27%) in the number of SMME owners aged 45 to 49, making this age group the largest among them all. This is an age group where people have accumulated enough experience, and perhaps some capital, to take the risk of starting a new business. However, the proportion of SMME owners older than 40 years remains around 60% as there was also a significant increase in the age group 25-29. A possible reason for growth in this age group is perhaps the lack of jobs in the labour market for younger people.

Figure 8: SMME owners by age



Source: QLFS of Stats SA

Table 3: SMME owners by age

	2018Q1		2018Q4		2019Q1		Quarterly change		Yearly change	
Years	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
15-19	6 630	0.3%	7 273	0.3%	6 624	0.3%	-648	-8.9%	-6	-0.1%
20-24	86 598	3.5%	87 490	3.4%	73 187	2.9%	-14 303	-16.3%	-13 411	-15.5%
25-29	195 220	8.0%	218 641	8.5%	228 872	9.0%	10 232	4.7%	33 652	17.2%
30-34	329 023	13.5%	319 225	12.5%	325 453	12.8%	6 227	2.0%	-3 570	-1.1%
35-39	384 120	15.7%	391 568	15.3%	386 822	15.2%	-4 746	-1.2%	2 701	0.7%
40-44	392 051	16.0%	402 588	15.7%	386 179	15.1%	-16 409	-4.1%	-5 872	-1.5%
45-49	329 365	13.5%	390 738	15.3%	417 524	16.4%	26 786	6.9%	88 158	26.8%
50-54	281 281	11.5%	307 150	12.0%	295 764	11.6%	-11 386	-3.7%	14 483	5.1%
55-59	221 667	9.1%	223 482	8.7%	221 234	8.7%	-2 247	-1.0%	-433	-0.2%
60-64	119 314	4.9%	104 366	4.1%	107 756	4.2%	3 391	3.2%	-11 558	-9.7%
65-69	51 913	2.1%	65 130	2.5%	62 187	2.4%	-2 943	-4.5%	10 274	19.8%
70-74	27 031	1.1%	25 614	1.0%	27 341	1.1%	1 727	6.7%	309	1.1%
75-79	18 949	0.8%	14 498	0.6%	11 596	0.5%	-2 902	-20.0%	-7 353	-38.8%
Total	**2 443 163**	**100.0%**	**2 557 762**	**100.0%**	**2 550 540**	**100.0%**	**-7 222**	**-0.3%**	**107 377**	**4.4%**

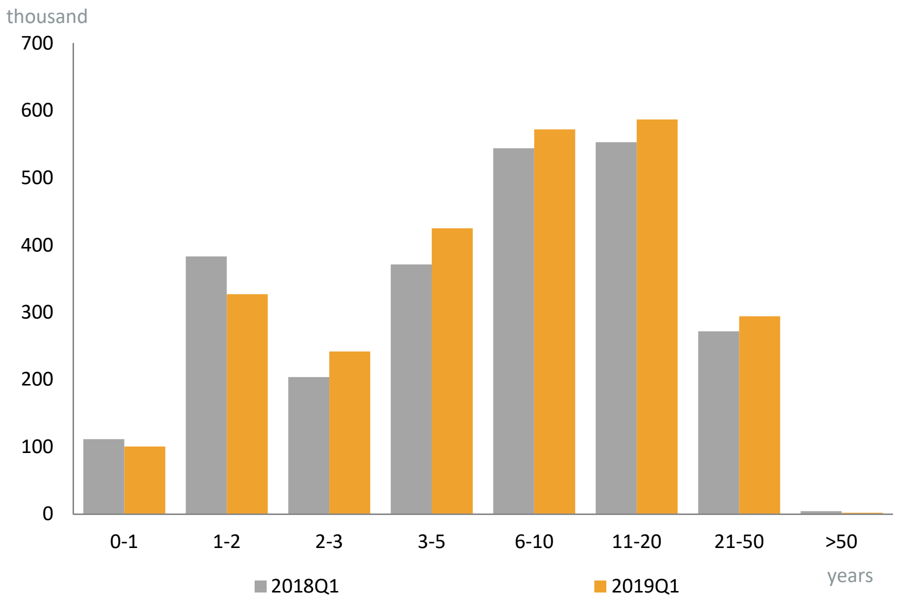
Source: QLFS of Stats SA

Enterprise age of SMMEs

Average age of SMMEs increased

Slightly more than 100 000 new SMMEs entered the market in the first quarter of this year. This number is 10% lower than the new entries in the first quarter of 2018. Still, the number of SMMEs operating for longer than two years increased while those operating for less, declined. This change points to SMMEs that survive longer, pushing the average age of SMMEs higher. The share of SMMEs surviving longer than three years increased from around 65% in 2008 to 74% in 2019Q1. As SMMEs age, their skills, networking and productivity should also improve. However, it could also be an indication that people tend to remain longer in the SMME sector as jobs at larger firms becomes scarcer.

Figure 9: Enterprise age of SMMEs



Source: QLFS of Stats SA

Table 4: Enterprise age of SMMEs

	2018Q1		2018Q4		2019Q1		Yearly change	
Years	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%
0-1	111 611	4.6%	374 743	14.7%	100 739	3.9%	-10 872	-9.7%
1-2	383 214	15.7%	252 821	9.9%	327 310	12.8%	-55 904	-14.6%
2-3	203 799	8.3%	249 665	9.8%	242 041	9.5%	38 241	18.8%
3-5	371 315	15.2%	325 075	12.7%	425 128	16.7%	53 813	14.5%
6-10	543 874	22.3%	530 532	20.7%	571 898	22.4%	28 024	5.2%
11-20	552 905	22.6%	555 771	21.7%	586 780	23.0%	33 875	6.1%
21-50	271 954	11.1%	266 546	10.4%	294 185	11.5%	22 231	8.2%
>50	4 489	0.2%	2 609	0.1%	2 459	0.1%	-2 031	-45.2%
Total	**2 443 163**	**100.0%**	**2 557 762**	**100.0%**	**2 550 540**	**100.0%**	**107 377**	**4.4%**

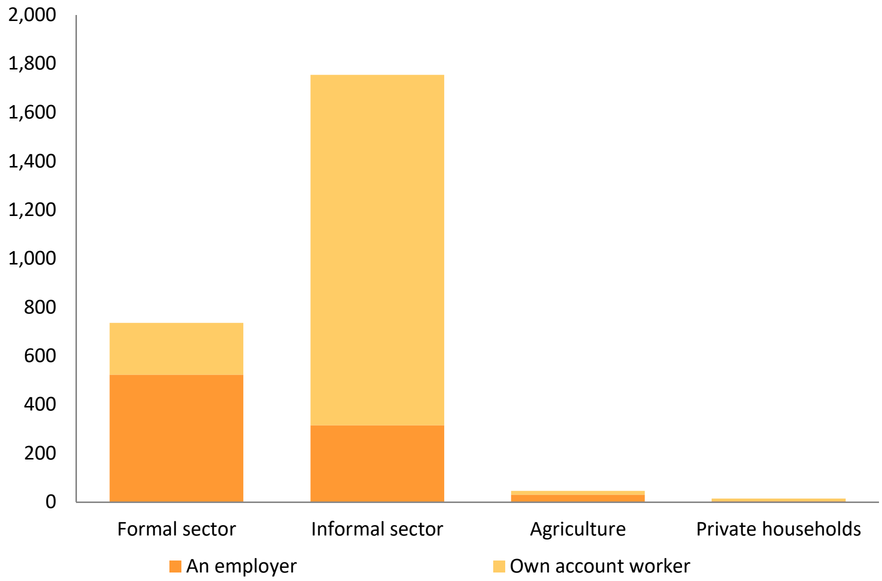
Source: QLFS of Stats SA

SMMEs by formal and informal sectors

More than two in three SMMEs are informal

In the first quarter of 2019, the share of SMMEs operating in the informal sector stood at 69%, with the share operating in the formal sector, at 29%. These ratios have remained stable since 2010. Most SMME owners in the formal sector also employ other people, while the majority in the informal sector are own account workers. Of all SMME owners, 34% also employ other people.

Figure 10: SMMEs by formal and informal sector in 2019Q1



Source: QLFS of Stats SA

Table 5: Formal and informal SMMEs in 2019Q1

Type	Formal sector	Informal sector	Agriculture	Private households	Total	Distrib.
An employer	523 606	315 380	29 987	3 737	**872 711**	34.2%
Own account worker	212 592	1 439 063	15 442	10 732	**1 677 829**	65.8%
Total	**736 198**	**1 754 443**	**45 429**	**14 470**	**2 550 540**	**100.0%**
% per sector	28.9%	68.8%	1.8%	0.6%	100%	

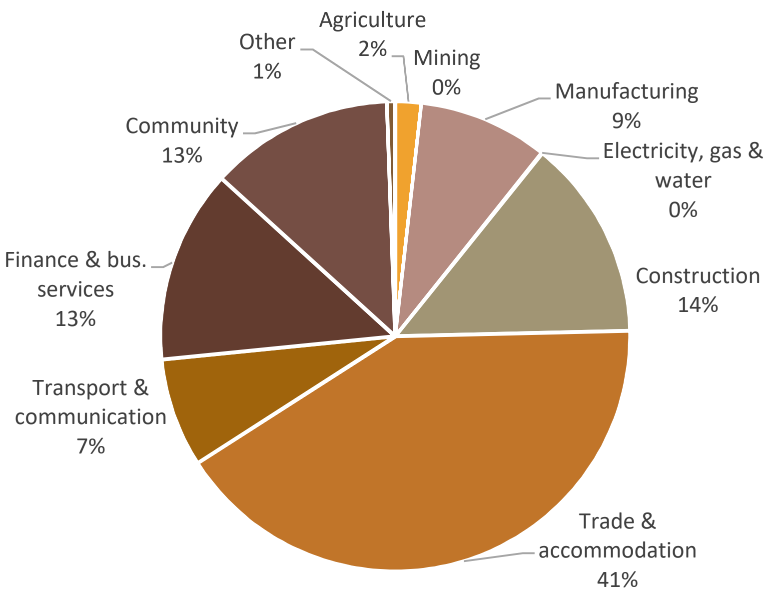
Source: QLFS of Stats SA

SMMEs by industry

Large increase in the trade and accommodation sector

In the year up to 2019Q1, there was an increase in the number of SMMEs active in only six of the ten main economic sectors. The trade and accommodation sector gained the most (accounting for close to 90% of the growth, i.e. 107 400 enterprises), followed by transport and communication (22%). The number of SMMEs also increased significantly in the construction, manufacturing and financial & business services sectors. In contrast, the number of SMMEs in the community services sector declined sharply, as well as in agriculture. The industry mix changed slightly over the year to 2019Q1, indicating that entrepreneurs are adjusting to economic signals and searching for the best opportunities.

Figure 11: SMMEs by industry in 2019Q1



Source: QLFS of Stats SA

Table 6: SMMEs by industry

Industry	2018Q1		2018Q4		2019Q1		Quarterly change		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
Agriculture	59 969	2.5%	53 993	2.1%	45 429	1.8%	-8 564	-15.9%	-14 540	-24.2%
Mining	2 787	0.1%	4 231	0.2%	0	0.0%	-4 231	-100.0%	-2 787	-100.0%
Manufacturing	215 639	8.8%	224 754	8.8%	228 303	9.0%	3 549	1.6%	12 664	5.9%
Electricity, gas & water	1 411	0.1%	1 218	0.0%	1 041	0.0%	-177	-14.6%	-370	-26.2%
Construction	333 344	13.6%	379 841	14.9%	353 477	13.9%	-26 364	-6.9%	20 133	6.0%
Trade & accommodation	959 280	39.3%	1 052 052	41.1%	1 053 385	41.3%	1 333	0.1%	94 105	9.8%
Transport & communication	167 521	6.9%	170 896	6.7%	191 114	7.5%	20 218	11.8%	23 592	14.1%
Finance & bus. services	325 119	13.3%	332 134	13.0%	339 697	13.3%	7 563	2.3%	14 577	4.5%
Community	367 851	15.1%	323 948	12.7%	323 625	12.7%	-323	-0.1%	-44 226	-12.0%
Other	10 242	0.4%	14 695	0.6%	14 470	0.6%	-225	-1.5%	4 228	41.3%
Total	**2 443 163**	**100.0%**	**2 557 762**	**100.0%**	**2 550 540**	**100.0%**	**-7 222**	**-0.3%**	**107 377**	**4.4%**

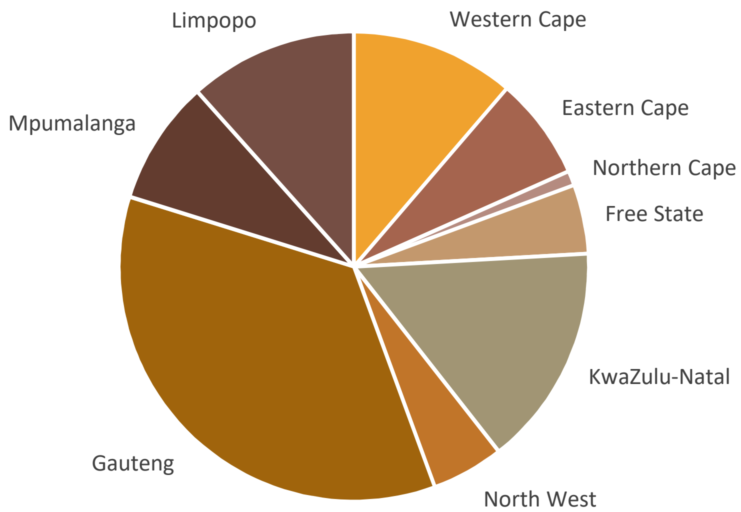
Source: QLFS of Stats SA

SMMEs by province

Active SMMEs up sharply in KZN

In the first quarter of 2019, 35% of SMMEs operated in Gauteng, followed by 15% in KwaZulu-Natal and close to 12% in Limpopo. Gauteng's share remained unchanged from a year ago. Given the overall growth in the number of SMME's, this implies that the number active in Gauteng also increased; those active in KZN also grew and – to a lesser extent – in the Western Cape and Mpumalanga. Only the Eastern Cape and Limpopo reported fewer SMMEs doing business over the past year.

Figure 12: SMMEs owners by province



Source: QLFS of Stats SA

Table 7: SMME owners by province

Occupation	2018Q1		2018Q4		2019Q1		Quarterly change		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
Western Cape	269 256	11.0%	279 741	10.9%	288 194	11.3%	8 453	3.0%	18 938	7.0%
Eastern Cape	212 292	8.7%	189 813	7.4%	179 908	7.1%	-9 905	-5.2%	-32 384	-15.3%
Northern Cape	23 904	1.0%	23 811	0.9%	25 577	1.0%	1 766	7.4%	1 673	7.0%
Free State	114 584	4.7%	101 087	4.0%	121 740	4.8%	20 652	20.4%	7 156	6.2%
KwaZulu-Natal	333 461	13.6%	385 713	15.1%	390 115	15.3%	4 402	1.1%	56 654	17.0%
North West	125 535	5.1%	126 912	5.0%	126 725	5.0%	-187	-0.1%	1 190	0.9%
Gauteng	847 329	34.7%	917 023	35.9%	903 220	35.4%	-13 803	-1.5%	55 891	6.6%
Mpumalanga	201 922	8.3%	228 161	8.9%	219 083	8.6%	-9 078	-4.0%	17 161	8.5%
Limpopo	314 880	12.9%	305 500	11.9%	295 978	11.6%	-9 522	-3.1%	-18 902	-6.0%
Total	**2 443 163**	**100.0%**	**2 557 762**	**100.0%**	**2 550 540**	**100.0%**	**-7 222**	**-0.3%**	**107 377**	**4.4%**

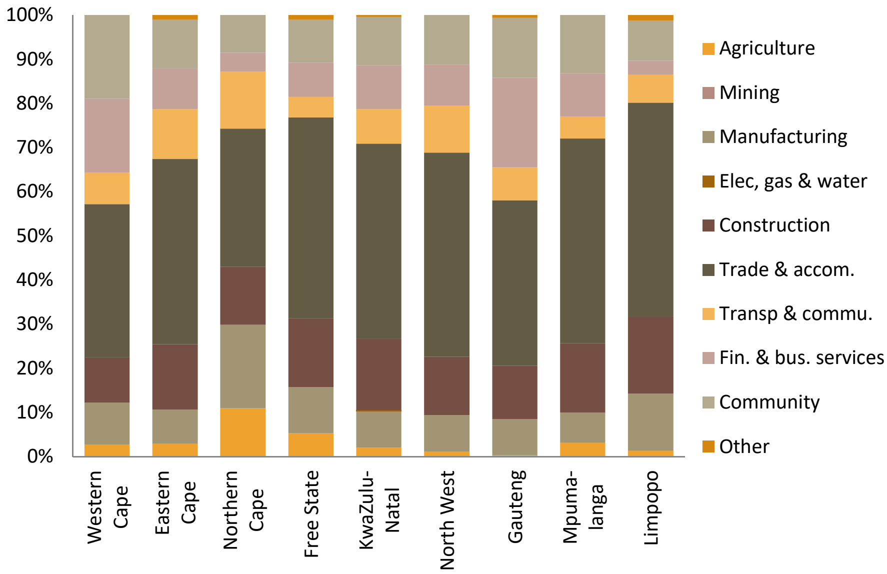
Source: QLFS of Stats SA

SMMEs by industry and province

Western Cape and Gauteng strong in financial services

The SMME industry distribution of most provinces remained relatively stable over the year to 2019Q1; the trade and accommodation sector (internal trade) is the largest in all provinces. This sector accounted for 41% of SMMEs in the country; however, is smaller in the Western Cape, Northern Cape and Gauteng (35%, 31% and 37% respectively). These three provinces have unique characteristics; the Northern Cape economy is concentrated in agriculture and Gauteng and the Western Cape in financial and business services.

Figure 13: SMMEs by industry in 2019Q1



Source: QLFS of Stats SA

Table 8: SMMEs by province and industry in 2019Q1

	Western Cape	Eastern Cape	Northern Cape	Free State	KwaZulu-Natal	North West	Gauteng	Mpuma-langa	Limpopo	Total
Agriculture	8 043	5 297	2 808	6 413	7 876	1 364	2 928	6 795	3 904	**45 429**
Mining	0	0	0	0	0	0	0	0	0	**0**
Manufacturing	27 301	13 817	4 835	12 716	32 088	10 607	73 625	15 053	38 261	**228 303**
Elec, gas & water	0	0	0	0	1 041	0	0	0	0	**1 041**
Construction	29 334	26 655	3 341	18 947	63 212	16 726	109 092	34 290	51 880	**353 477**
Trade & accom.	100 045	75 526	8 007	55 487	172 292	58 576	338 403	101 756	143 294	**1 053 385**
Transp & commu.	20 687	20 271	3 308	5 652	30 461	13 488	67 597	10 925	18 726	**191 114**
Fin. & bus. services	48 069	16 604	1 097	9 384	38 930	11 710	183 155	21 460	9 287	**339 697**
Community	54 715	19 821	2 181	11 823	42 587	14 253	122 373	28 805	27 067	**323 625**
Other	0	1 917	0	1 319	1 628	0	6 046	0	3 559	**14 470**
Total	**288 194**	**179 908**	**25 577**	**121 740**	**390 115**	**126 725**	**903 220**	**219 083**	**295 978**	**2 550 540**

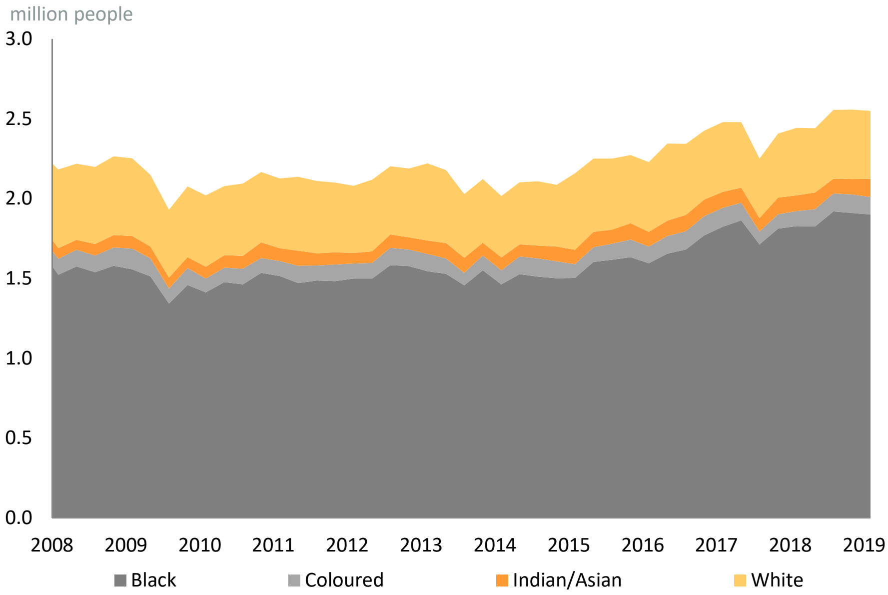
Source: QLFS of Stats SA

SMMEs by population group

The share of black-owned SMMEs unchanged at 75%

In the year up to 2019Q1, more than two-thirds of the increase in SMME owners were black. However, the growth rate was the highest among Indians and coloureds, where ownership increased by just more than 18% and 15% respectively. There was hardly any increase in the number of white owned SMMEs. Over the same period, the share of black SMME owners remained unchanged at 75%.

Figure 14: Number of SMMEs by population group



Source: QLFS of Stats SA

Table 9: SMME owners by population group

Race	2018Q1		2018Q4		2019Q1		Quarterly change		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
Indian/Asian	98 136	4.0%	97 306	3.8%	115 520	4.5%	18 215	18.7%	17 385	17.7%
Coloured	94 252	3.9%	115 633	4.5%	108 631	4.3%	-7 001	-6.1%	14 379	15.3%
White	421 967	17.3%	434 311	17.0%	425 027	16.7%	-9 284	-2.1%	3 060	0.7%
Black	1 828 808	74.9%	1 910 513	74.7%	1 901 361	74.5%	-9 151	-0.5%	72 553	4.0%
Total	**2 443 163**	**100.0%**	**2 557 762**	**100.0%**	**2 550 540**	**100.0%**	**-7 222**	**-0.3%**	**107 377**	**4.4%**

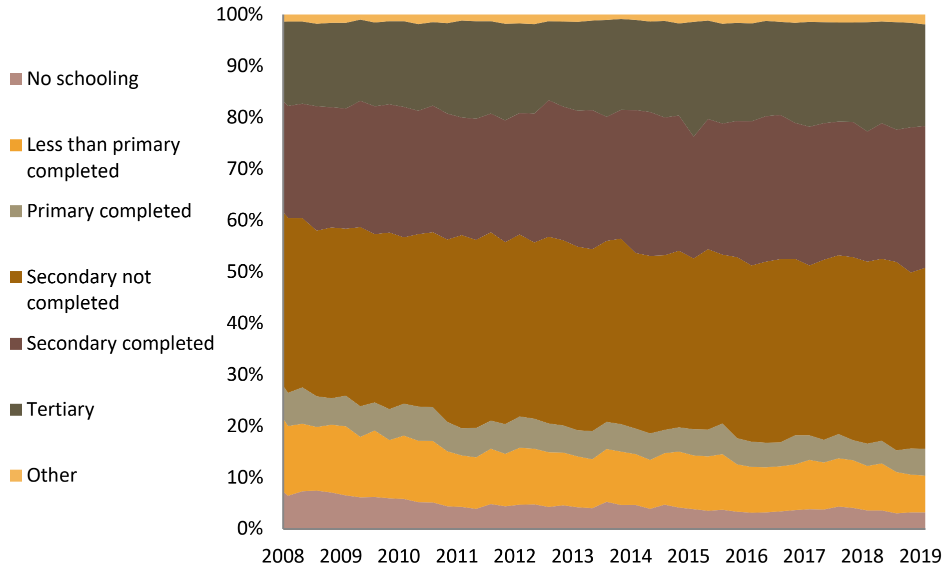
Source: QLFS of Stats SA

SMME owners by educational attainment

The educational attainment of SMME owners improved over the past decade

In the year up to the first quarter of 2019, the educational attainment of SMME owners showed an increased number of owners with completed primary and secondary education, as well as those who did not complete secondary schooling. A decline occurred in the number of SMME owners with a tertiary qualification (at the higher end), as well as for those with less than primary or no schooling (at the lower end). The share of the total of SMME owners who finished secondary schooling increased from 25% to nearly 28%. Over a longer time period, it is also interesting to note that the share of SMME owners with secondary schooling completed and higher, increased from 40% in 2008 to 49% in 2019Q1.

Figure 15: SMME owners by education group



Source: QLFS of Stats SA

Table 10: SMME owners by education group

Schooling	2018Q1		2018Q4		2019Q1		Quarterly change		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
No schooling	87 822	3.6%	82 672	3.2%	81 611	3.2%	-1 061	-1.3%	-6 211	-7.1%
Less than primary completed	210 446	8.6%	187 352	7.3%	182 399	7.2%	-4 953	-2.6%	-28 047	-13.3%
Primary completed	106 477	4.4%	130 248	5.1%	134 282	5.3%	4 034	3.1%	27 804	26.1%
Secondary not completed	864 020	35.4%	873 962	34.2%	896 277	35.1%	22 315	2.6%	32 257	3.7%
Secondary completed	618 897	25.3%	722 668	28.3%	701 603	27.5%	-21 064	-2.9%	82 706	13.4%
Tertiary	518 545	21.2%	519 146	20.3%	504 464	19.8%	-14 681	-2.8%	-14 081	-2.7%
Other	36 955	1.5%	41 714	1.6%	49 903	2.0%	8 189	19.6%	12 948	35.0%
Total	**2 443 163**	**100.0%**	**2 557 762**	**100.0%**	**2 550 540**	**100.0%**	**-7 222**	**-0.3%**	**107 377**	**4.4%**

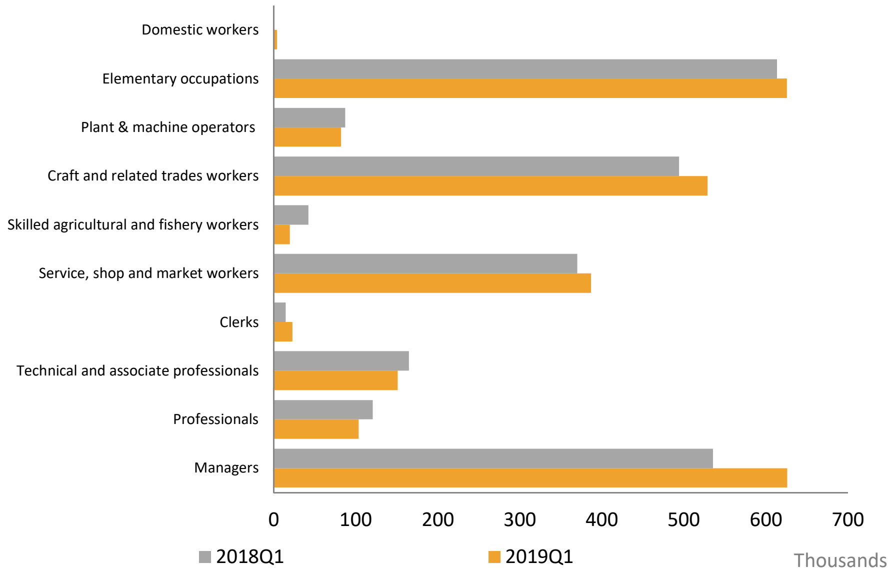
Source: QLFS of Stats SA

SMMEs by occupation

In the year up to 2019Q1, there was a significant increase in the number of SMME owners who classify themselves as managers. In contrast, the number who work as professionals and technicians declined as a significant number of job opportunities opened for them in the labour market. This decline concurs with the decline in SMME owners with a tertiary qualification. Of concern, is the sharp decline in skilled agricultural & fishery SMME owners, which may be linked to the drought in certain parts of the country, as well as the uncertainties in the sector.

Professionals and technicians prefer to work for a salary

Figure 16: SMMEs by occupation



Source: QLFS of Stats SA

Table 11: SMME owners per occupation group

Occupation	2018Q1		2018Q4		2019Q1		Quarterly change		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
Managers	535 666	21.9%	617 541	24.1%	626 171	24.6%	8 630	1.4%	90 506	16.9%
Professionals	120 883	4.9%	95 672	3.7%	103 645	4.1%	7 973	8.3%	-17 238	-14.3%
Technical and associate professionals	164 964	6.8%	146 566	5.7%	151 165	5.9%	4 599	3.1%	-13 799	-8.4%
Clerks	14 617	0.6%	26 446	1.0%	22 645	0.9%	-3 800	-14.4%	8 028	54.9%
Service, shop and market workers	369 883	15.1%	386 814	15.1%	386 966	15.2%	151	0.0%	17 083	4.6%
Skilled agricultural and fishery workers	42 280	1.7%	29 410	1.1%	19 648	0.8%	-9 763	-33.2%	-22 632	-53.5%
Craft and related trades workers	494 165	20.2%	543 714	21.3%	528 951	20.7%	-14 763	-2.7%	34 786	7.0%
Plant & machine operators	87 024	3.6%	89 878	3.5%	81 883	3.2%	-7 995	-8.9%	-5 141	-5.9%
Elementary occupations	613 681	25.1%	618 378	24.2%	625 509	24.5%	7 131	1.2%	11 828	1.9%
Domestic workers	0	0.0%	3 342	0.1%	3 957	0.2%	616	18.4%	3 957	n/a
Total	**2 443 163**	**100.0%**	**2 557 762**	**100.0%**	**2 550 540**	**100.0%**	**-7 222**	**-0.3%**	**107 377**	**4.4%**

Source: QLFS of Stats SA

Financial data of SMEs

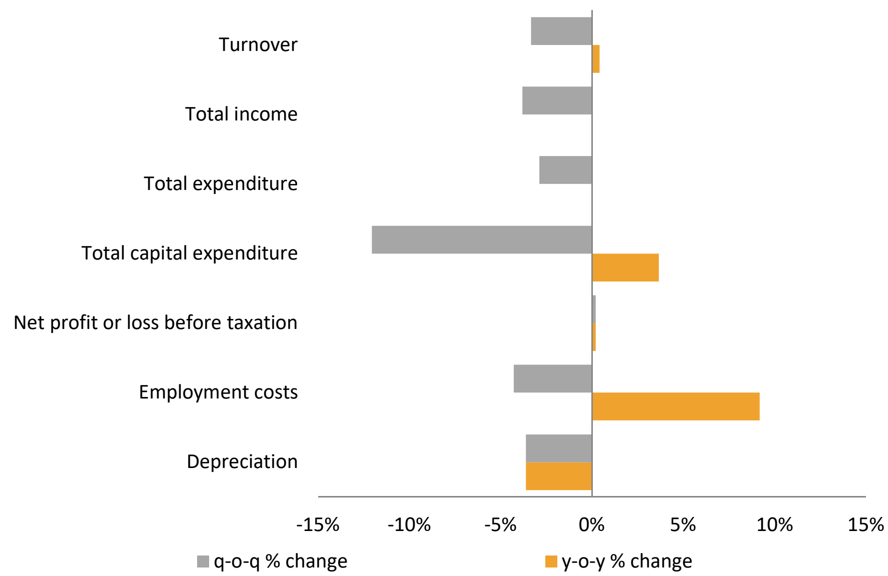
From the Quarterly Financial Survey

Profitability of SMEs

Stagnant SME profits contributed by a higher number of enterprises

The nominal turnover of SMEs increased by only 0.4% y-o-y in 2019Q1, which is significantly below the 6.2% turnover growth of large enterprises and the inflation rate of 4.2%. This stagnant level in turnover forced SMEs to also keep their expenditure under control by cutting on all expenses except labour and capital. As a result, profit levels remained unchanged. However, given that there were 4.4% more SMMEs in the same period, the average profit of SMEs probably declined. Employment costs of SMEs increased by a substantial 9% in this period, which agrees with the reported increase in SMME employment (29%).

Figure 17: Change per financial indicator: 2019Q1



Source: QFS of Stats SA

Table 12: Financial indicators of SMEs

R million	2018Q1	2018Q4	2019Q1	q-o-q % change	y-o-y % change
Depreciation	R 13 041	R 13 040	R 12 570	-3.6%	-3.6%
Employment costs	R 160 146	R 182 693	R 174 862	-4.3%	9.2%
Net profit or loss before taxation	R 59 260	R 59 266	R 59 388	0.2%	0.2%
Total capital expenditure	R 13 807	R 16 272	R 14 312	-12.0%	3.7%
Total expenditure	R 893 389	R 920 008	R 893 592	-2.9%	0.0%
Total income	R 945 774	R 983 728	R 946 270	-3.8%	0.1%
Turnover	R 908 999	R 944 249	R 912 799	-3.3%	0.4%

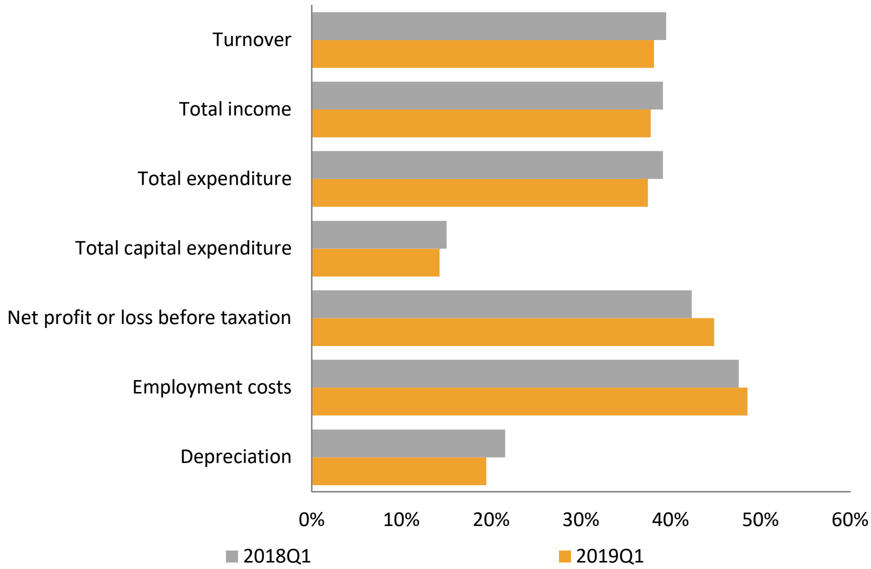
Source: QFS of Stats SA

Economic contribution of SMEs

Contribution of SMEs declining

The share of the contribution of SMEs to the turnover of all enterprises* declined slightly from 40% to 38% in the year up to 2019Q1. In contrast, the share of net profit increased from 42% to 45%, as the share of total expenditure declined from 39% to 38%. The SME share of capital investment slid marginally from 15% to 14% of total investment. These numbers suggest that the financial position of SMEs in the wider economy remained largely unchanged over the past year.

Figure 18: SME contribution to all enterprises* by indicator



Source: QFS of Stats SA

Table 13: SME contribution to all enterprises* by indicator

Indicator	2018Q1	2018Q4	2019Q1	q-o-q change	y-o-y change
Depreciation	21.6%	19.7%	19.4%	-0.2% pts	-2.1% pts
Employment costs	47.6%	49.3%	48.6%	-0.7% pts	1% pts
Net profit or loss before taxation	42.4%	43.8%	44.8%	1.1% pts	2.5% pts
Total capital expenditure	15.0%	16.8%	14.3%	-2.6% pts	-0.8% pts
Total expenditure	39.1%	36.2%	37.5%	1.2% pts	-1.7% pts
Total income	39.1%	36.8%	37.8%	1% pts	-1.3% pts
Turnover	39.5%	37.1%	38.2%	1% pts	-1.3% pts

Source: QFS of Stats SA
**excluding agriculture, financial intermediation, insurance and government institutions*

Table 14: Financial indicators of SMEs by industry

R million	2018Q1	2018Q4	2019Q1	q-o-q % change	y-o-y % change
Employment costs	**R 160 146**	**R 182 693**	**R 174 862**	**-4.3%**	**9.2%**
Community, social and personal services industry	R 9 841	R 9 503	R 8 898	-6.4%	-9.6%
Construction industry	R 7 497	R 9 957	R 10 498	5.4%	40.0%
Electricity, gas and water supply industry	R 303	R 476	R 471	-1.1%	55.4%
Manufacturing industry	R 40 385	R 47 567	R 41 887	-11.9%	3.7%
Mining and quarrying industry	R 2 465	R 5 037	R 4 663	-7.4%	89.2%
Real estate and other business services industry	R 56 961	R 65 523	R 64 566	-1.5%	13.4%
Transport industry	R 10 690	R 11 263	R 11 291	0.2%	5.6%
Trade industry	R 32 004	R 33 367	R 32 588	-2.3%	1.8%
Net profit or loss before taxation	**R 59 260**	**R 59 266**	**R 59 388**	**0.2%**	**0.2%**
Community, social and personal services industry	R 3 309	R 1 017	R 2 738	169.2%	-17.3%
Construction industry	R 3 468	R 3 094	R 963	-68.9%	-72.2%
Electricity, gas and water supply industry	R 1 431	R 1 709	R 91	-94.7%	-93.6%
Manufacturing industry	R 14 940	R 13 441	R 17 487	30.1%	17.0%
Mining and quarrying industry	R 733	-R 3 995	-R 2 557	-36.0%	-448.8%
Real estate and other business services industry	R 9 397	R 17 115	R 17 090	-0.1%	81.9%
Transport industry	R 3 416	R 3 442	R 1 707	-50.4%	-50.0%
Trade industry	R 22 566	R 23 443	R 21 869	-6.7%	-3.1%
Total capital expenditure	**R 13 807**	**R 16 272**	**R 14 312**	**-12.0%**	**3.7%**
Community, social and personal services industry	R 515	R 695	R 661	-4.9%	28.3%
Construction industry	R 135	R 54	R 12	-77.8%	-91.1%
Electricity, gas and water supply industry	R 37	R 221	R 32	-85.5%	-13.5%
Manufacturing industry	R 4 758	R 4 023	R 5 138	27.7%	8.0%
Mining and quarrying industry	R 431	R 3 104	R 1 281	-58.7%	197.2%
Real estate and other business services industry	R 3 707	R 3 733	R 3 533	-5.4%	-4.7%
Transport industry	R 2 432	R 2 589	R 1 676	-35.3%	-31.1%
Trade industry	R 1 792	R 1 853	R 1 979	6.8%	10.4%
Total expenditure	**R 893 389**	**R 920 008**	**R 893 592**	**-2.9%**	**0.0%**
Community, social and personal services industry	R 26 238	R 26 917	R 25 849	-4.0%	-1.5%
Construction industry	R 48 329	R 43 200	R 49 302	14.1%	2.0%
Electricity, gas and water supply industry	R 4 635	R 5 307	R 7 041	32.7%	51.9%
Manufacturing industry	R 229 175	R 232 934	R 211 971	-9.0%	-7.5%
Mining and quarrying industry	R 13 214	R 21 815	R 19 188	-12.0%	45.2%
Real estate and other business services industry	R 156 155	R 163 687	R 162 647	-0.6%	4.2%
Transport industry	R 51 908	R 59 961	R 59 316	-1.1%	14.3%
Trade industry	R 363 735	R 366 187	R 358 278	-2.2%	-1.5%
Total income	**R 945 774**	**R 983 728**	**R 946 270**	**-3.8%**	**0.1%**
Community, social and personal services industry	R 29 558	R 27 926	R 28 546	2.2%	-3.4%
Construction industry	R 52 657	R 46 446	R 49 996	7.6%	-5.1%
Electricity, gas and water supply industry	R 6 127	R 7 015	R 7 131	1.7%	16.4%
Manufacturing industry	R 238 487	R 252 453	R 225 031	-10.9%	-5.6%
Mining and quarrying industry	R 13 925	R 17 968	R 16 463	-8.4%	18.2%
Real estate and other business services industry	R 165 741	R 180 851	R 179 853	-0.6%	8.5%
Transport industry	R 55 336	R 63 439	R 60 893	-4.0%	10.0%
Trade industry	R 383 943	R 387 630	R 378 357	-2.4%	-1.5%
Turnover	**R 908 999**	**R 944 249**	**R 912 799**	**-3.3%**	**0.4%**
Community, social and personal services industry	R 21 562	R 25 911	R 26 259	1.3%	21.8%
Construction industry	R 51 007	R 45 556	R 49 083	7.7%	-3.8%
Electricity, gas and water supply industry	R 5 682	R 6 223	R 5 997	-3.6%	5.5%
Manufacturing industry	R 227 454	R 243 150	R 217 900	-10.4%	-4.2%
Mining and quarrying industry	R 12 255	R 15 828	R 15 121	-4.5%	23.4%
Real estate and other business services industry	R 157 475	R 164 347	R 167 640	2.0%	6.5%
Transport industry	R 53 790	R 61 019	R 58 865	-3.5%	9.4%
Trade industry	R 379 774	R 382 215	R 371 934	-2.7%	-2.1%

Implications for the SMME sector

The growth in the number of SMMEs and employment continues, while finances remain under pressure …

The latest SMME survey confirms the growth in numbers and employment reported previously. The longer-term analysis (of developments since 2008) also shows that the increase in the number of enterprises has been in place since 2014, albeit not entirely along a smooth trajectory. In fact, it is clear that the sector is subject to cyclical forces in the wider economy. **The economic downturn since the end of 2013 is therefore putting the sector under severe strain.** The 2019Q1 survey shows that (when excluding micro enterprises), the SME sector's share of overall economic turnover (excluding agriculture, the government and financial services) continued to recede to 38.2% compared to 39.5% a year ago and 41% two years ago. Therefore, the sector's constrained overall sales revenue has to be shared by an increasing number of enterprises. Furthermore, the sector is also absorbing labour being shed in the large enterprises and/or the new entrants to the labour market not successful in finding employment elsewhere. Formal SMME enterprises witnessed strong growth in employment (33%, or an estimated 1.7 million people) over the year to 2019Q1. This may, partly at least, reflect pressures in the large enterprise sector, experiencing job losses (overall employment contracted over this period).

Encouraging softening of the survivalist tendencies in the SMME sector over the past decade

Whereas the previous report noted a surprising softening of various survivalist tendencies in the SMME sector, a longer-term analysis now confirms that (despite periodic gyrations) this softening trend has broadly been in place over the past decade. **The lower share of young SMMEs and less qualified or educated owners hint towards qualitative improvements in the sector: higher survival rates, older aged and more experienced owners, being on balance, better qualified and in the managerial, professional and technical occupations**. To be true, survival remains a key characteristic of the SMME sector (in view of the current *levels* of young, inexperienced and low-schooled owners and the share of low-skilled occupations). The encouraging part is that these adverse characteristics have softened over the past decade. **SMME support should remain focused on sustaining this trend through the required training, financial and other support**.

The SMME sector remains critical in bridging the various divides in the economy

The broader SA economy is in a serious predicament to the extent that any SMME support will be overshadowed by the adverse business conditions. Under these circumstances, it is imperative to ensure that SMME business strategies are aligned accordingly. Furthermore, new opportunities coming to the fore need to be capitalised upon, e.g. in the ICT sector. **The SMME sector remains a key focus of economic policy, given its enabling role in bridging the divide between the so-called first and second economies**.

Glossary

Annualised growth: The growth rate of a given quarter compared with the previous quarter, compounded to an annual rate.

Business Cycle: The phase in which an economy grows (upswing) or contracts (downswing) relative to its long term trend. See "Coincident Indicator" and "Leading Indicator" below.

Coincident Indicator: An economic indicator (such as real retail sales) whose turning points coincide with those of the business cycle (called reference turning points).

Business Confidence Index: An index that tracks the percentage of respondents rating economic conditions to be satisfactory during a given period. It is measured on a scale from 0 to 100, where 50 indicates a neutral level. Mostly used as a business cycle indicator.

Constant Prices: The monetary value of an indicator after the impact of inflation has been accounted for. It will be expressed in terms of the currency value of a specific year, called the base year (e.g. 2005). This price-format reflects on volume changes at a specific time.

Consumer Price Index (CPI): The index from which consumer inflation is calculated. The prices of a representative basket of goods and services, which is typical to the median consumer, is tracked over time to monitor the purchasing power of the consumer's money.

Current Prices: The monetary value of an indicator before any adjustment for inflation. This price-format reflects the actual value of an indicator at a specific time as it would be recorded by accountants.

Employee Earnings: Calculated by dividing the total gross earnings, excluding severance, termination and redundancy payments, for the reference month by the number of employees as at the end of the reference month.

Gross Domestic Expenditure (GDE): The total value of spending originating within the borders of a country. The GDE excludes exports and includes imports.

Gross Domestic Fixed Investment (GDFI): The purchase of additional capital stock within the borders of one country, not providing for depreciation in the current capital stock.

Gross Domestic Product (GDP): The total value of all final goods and services produced within the geographic boundaries of a country in a particular period (usually one year).

Index: A series of index numbers at regular fixed intervals, which compare the level of an indicator with its own level at another time or place. The base period (e.g. 2005) will be set to 100 and all other periods will be expressed as a ratio of that.

Leading Indicator: An economic indicator (such as the number of new cars sold) whose turning points precedes those of the business cycle (called reference turning points).

M3: The broadest indicator of money supply in a country, including notes and coins and all the positive balances and deposits in all of the bank accounts of the private sector.

Private Consumption Expenditure: The largest single element of expenditure in the economy by households and firms on final goods and services.

Producer Price Index (PPI): Similar to the CPI, the PPI constitutes a basket of goods priced when they leave local farms, mines and factories, or are imported. It aims to monitor the price changes in production.

Real Prices: See Constant Prices

Seasonality: The fluctuation in a time series due to seasonal factors such as holidays, tax year-ends, agricultural crops etc. This fluctuation tends to repeat itself in constant cycles (usually the quarters of a year).

Seasonally adjusted (s.a.): The seasonal fluctuation within a time series has been eliminated. This makes it possible to compare two consecutive periods (quarters in most cases) on equal foot.

SMMEs: Small, medium and micro enterprises

SMEs: Small and medium enterprises

Appendix

Methodology to estimate a proxy for the number of SMMEs

The first step in identifying a proxy is to determine the number of SMMEs in a particular year, and then to find another statistic that would give a comparable number. According to the Integrated Business Register, South Africa had 553 491 enterprises in 2007, of which only 17 251 (3.1%) were classified as large enterprises (The DTI, 2008). The DTI estimated a total of 2.26 million SMMEs in South Africa in 2007, of which more than 75% operated in the informal sector. They based this estimate on the QLFS published by StatsSA.

With this number in mind, we analysed the QLFS data to see if a comparable statistic could be found. The QLFS publish data on the employment status of individuals. It specifies the number of persons in South Africa who work for a salary, the number who employ others and themselves and also the number who employ only themselves (own account worker). From this data, those who work for someone else are excluded from the proxy. To avoid double counting, those helping in a household business are also excluded.

The own account workers should all be included in a possible proxy as it would be highly unlikely that any would have a turnover above R123.5 million. Regarding employers, their numbers have been above the 700 000 level since 2008. This number can be assumed not to include large enterprises for two reasons. Firstly, large enterprises constitute such a small part of the total on the business register (3.1% in 2007). Secondly, many are owned by multiple owners and will not be counted in the QLFS, which is a sample of individuals. Their managers will be counted among those “working for someone”.

Thus, the proxy for the number of SMMEs will be taken as the number of employers and own account workers combined. Together they constitute 14% to 15% of all employees, a number which has not changed much in the last seven years. We can deduce that the QLFS-proxy is a relatively accurate estimate of the number of SMMEs in 2007 according to the DTI (it differs by only 3%). This methodology is similar to the original methodology used by the DTI.

Classification of enterprises according to size in terms of turnover

Regarding the financial data on SMEs, the methodology is determined by the DTI. They classify enterprise size according to their annual turnover in terms of the National Small Business Amendment Bill. These cut-off points differ among the economic sectors. Stats SA then adjusts the turnover cut-off points every year to provide for inflation. These are published in the QFS. The March 2017 cut-off points appear in the table below. All enterprises falling below the 'large' category are grouped together to form the SME sector.

Table 15: Cut-off points for enterprise turnover to determine their size

Industry Turnover		Large > Rm	Medium > Rm	Small > Rm	Very small > Rm
SIC2	Mining and quarrying	488	125	50	2
SIC3	Manufacturing	638	163	63	2
SIC4	Electricity, gas and water	638	163	64	2
SIC5	Construction	325	75	38	2
SIC61	Wholesale trade	800	400	75	2
SIC62	Retail trade	488	238	50	2
SIC63	Motor trade	488	238	50	2
SIC64	Accommodation and catering	163	75	64	2
SIC7	Transport	325	163	38	2
SIC8	Real estate & business services	325	163	38	2
SIC9	Community, social and personal	163	75	13	2

Source: QFS of Stats SA