

SMME Quarterly Update 1st Quarter 2018

The Small Enterprise Development Agency

July 2018

Executive summary

- The previously reported tendency that the number of SMMEs in South Africa (SA) was slipping, continued over the year to 18Q1, albeit that the rate of decline eased. **The number declined from 2.48 to 2.44 million, i.e. 1.4%**. This estimate remains within the range of 2.3 to 2.5 million identified previously.
- Of concern, is the indication that **SMME employment contracted** by 20% over the year (excluding the number of SMME owners); including the latter, the contraction was close to 16%. This happened while total employment in the economy expanded by 1% over the corresponding period.
- Employment provided by SMMEs was measured at 6.44 million, which is well below the range estimate of 6.9 to 8.1 million reported previously. **Including SMME owners, SMME employment was measured at 8.9 million in 2018Q1, down from 10.6 million in 2017Q1.**
- While the drought impact in the Western Cape may have exerted a toll, **it appears to be new ventures in particular that are failing.** This is a sure symptom of the poor general economic conditions.
- The SME* share in the total turnover of all enterprises^{#1} also slipped to 40% from 41.7% reported previously (17Q3).

The SA economy remains poised for faster growth, which is likely to benefit the SMME sector. The business cycle trajectory foreseen in this regard may have changed in view of the realities accompanying the transition from the Zuma to a Ramaphosa Presidency and the 2019 national election. **It appears that the election will be an important hurdle to cross before greater economic policy certainty will transpire,** boosting business confidence and latent private investment and employment creation. The forecast economic growth rate has been revised to 1.4% this year and 2% next year.

Inflation has surprised on the downside despite the 1% point VAT hike. Unfortunately the window for interest rate cuts has closed. We anticipate unchanged interest rate levels for the foreseeable future. The rand may continue to perform well from current weaker levels, albeit at risk from external developments as interest rate levels are being normalised in the USA and other major economies.

Globally, SA should continue to receive good support over the coming year, despite some evidence of a (temporary) slowdown during 18Q1. The 3%-plus world growth momentum is forecast to be restored during the second half of the year; however, **growth forecasts in respect of 2019 and beyond have been downgraded,** i.e. a slightly more hostile external environment when the SA economy is expected to revive. A serious trade war can of course exacerbate external pressures.

The most worrying tendency reported in the 2018Q1 SMME survey, is the contraction in SMME employment, i.e. both in the number of owners (1.4%) and employment (15.9%). It is furthermore clear that the damage is being wrought at the entry level, with the number of 2-3 year old enterprises contracting by more than 15% y-o-y and with the carnage being located in the younger owner age groups of 25-34. **With the 2-3 years enterprise age being a critical threshold for an SMME in terms of longer term survival, it is very important that new ventures receive the required development assistance.**

Finally, two sectors bucking the general business cycle trend, i.e. **ICT and tourism, continue to have bright prospects.** The much anticipated release of spectrum to mobile networks is likely to boost opportunities in the ICT sector, including for SMEs. It should also have important spinoffs for the manufacturing sector and the wider economy.

KEY INDICATORS	2017Q1	2017Q4	2018Q1	q-o-q change	y-o-y change
Number of SMMEs	2 478 877	2 407 440	2 443 163	1.5%	-1.4%
Number of formal SMMEs	725 698	674 065	658 719	-2.3%	-9.2%
Number of informal SMMEs	1 658 522	1 659 287	1 714 233	3.3%	3.4%
Number jobs provided	10 568 701	9 207 641	8 886 015	-3.5%	-15.9%
% operating in trade & accommodation	39.6%	40.7%	39.3%	-1.4% pts	-0.3% pts
% operating in community services	13.0%	14.9%	15.1%	0.2% pts	2.1% pts
% operating in construction	14.8%	13.4%	13.6%	0.2% pts	-1.2% pts
% operating in fin. & business services	12.7%	11.4%	13.3%	1.9% pts	0.7% pts
% black owned formal SMMEs	73.6%	75.3%	74.9%	-0.4% pts	1.2% pts
% contribution of SMEs* to turnover of all enterprises [#]	41.0%	40.0%	40.0%	0% pts	-0.9% pts

*excluding micro enterprises

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

¹The 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

Global growth remains lively in 2018, despite some 18Q1 slowdown

The global economy developed a 3%-plus momentum from the middle of 2016. Growth appeared to have slowed somewhat during the first quarter of 2018 and also became somewhat less synchronized across the Atlantic. Whereas the Euro area growth forecast is being downgraded (closer to 2%), that of the USA has been upgraded (closer to 3%). The broader slowdown is likely to be temporary – **the JPM composite manufacturing PMI index remained on a level of 53 in June 2018**, i.e. well above the critical value of 50 separating expansion from contraction. This level of the PMI is 1.5 index points below the seven-year high registered in December 2017. While the growth momentum is expected to recover during the second half of the year, with US fiscal stimulus being a key support, the forecast for 2019 (and beyond) is for lower growth.

Growth forecasts in respect of 2019 are being lowered

Furthermore, the previous mentioned **risk of a trade war seems to be materialising**. This could involve tit-for-tat trade tariffs between the US and China (with values of \$500 billion lately doing the rounds) and the EU (auto industry), with wider repercussions for EM countries. The UK and the EU is also in a race to strike a deal in the remaining window period before Brexit takes effect (29 March 2019). While the direct adverse trade impacts of all this are still estimated to be bearable, the uncertainty which is created in the process will be exerting a more damaging impact on business confidence and fixed investment, which has been a key driver of improved global growth. How this will play out remains to be seen; however, global growth forecasts in respect of 2019 is generally lower compared to the current 2018 outlook.

Risks and downside factors accumulate ...

The US dollar has strengthened since the previous report, which has put pressure on emerging market currencies. **US inflation is above-target and interest rate levels are being normalised**. This process is expected to remain gradual, which could limit capital flow reversals from EM countries. However, EM countries with large current account deficits are at greater risk. The high oil price is also impacting negatively on oil-importing countries and growth concerns regarding China are weighing on commodity markets. In all, the previous bright global outlook has faded somewhat.

South Africa

SA's economic growth disappoints ...

SA's GDP contracted by 2.2% (annualised) in real terms during the first quarter of 2018 and April/May real economic indicators point to lacklustre growth during the second quarter. The general political climate remains tense ahead of national elections next year and service delivery protests are reaching crisis proportions. Growth forecasts have been scaled down in respect of 2018. The BER's forecast was cut back from 1.9% in April to 1.4% in July; the SARB cut back from 1.7% to 1.2% between the May and July MPC meetings. **The envisaged recovery in private sector fixed investment may take longer to materialise**. This is putting the consumption-driven growth in the current phase of the business cycle at risk as it will not be supported by income growth linked to employment generation. Weaker

... and downside risks prevail

than expected growth and the higher than expected recent public sector wage offer will either cause further cutbacks in public sector infrastructure investment (to plug the fiscal gap) or lead to deteriorating fiscal metrics, putting SA's sovereign credit rating at risk, as well as the broader anticipated economic recovery.

The 2019 national election is seen as a key hurdle before the momentum can pick up

As noted previously, the improvement in the growth momentum is likely to be gradual as the transition from a Zuma to a Ramaphosa Presidency faces formidable hurdles. The agricultural sector is also likely to subtract from GDP growth during the middle quarters of the year. Hopefully the agricultural situation normalises from the fourth quarter. Furthermore, we remain confident that the domestic economy will improve beyond the national elections' hurdle next year. Unfortunately, the 2019 external environment may be slightly more hostile compared to earlier expectations.

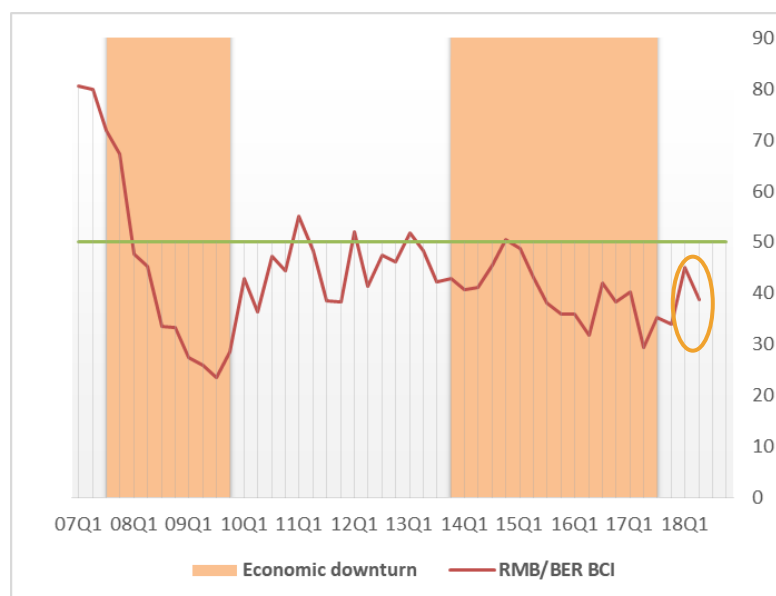
SA inflation has surprised on the low side, coming in at 4.6% in June, i.e. two months since the 1% point VAT hike (effective 1 April). Lower than expected inflation will support real disposable income and household spending. However, the outlook includes some headwinds. *Firstly*, the oil price and a weaker rand exchange rate may jeopardise the benign inflation picture. *Secondly*, the window for interest rate cuts has closed – the next move in the repo rate is likely to be upwards. *Thirdly*, pending the fiscal metrics, more fiscal tightening may be on the cards. It is clear that any renewed economic growth momentum will have to be driven by increased private sector investment.

A modest 2% real GDP growth forecast in respect of 2019

The **RMB/BER Business Confidence Index** increased to 45 index points during the first quarter of 2018, but fell back to 39 points again during the second quarter (see chart). A decisive break above the neutral level of 50 is required to boost the fixed investment outlook and make any impact on the stubbornly high unemployment rate (measured at 26.7%, 18Q1). **In the context of the foregoing, while real GDP growth is projected to improve next year, the outcome may still be a modest 2%.**

Business confidence has on balance lifted following Mr. Ramaphosa's election, but requires a decisive break above the neutral level of 50 index points

Figure 1: RMB/BER business confidence index



Source: BER

SMME quarterly overview for 2018Q1

The pressure on SMME ownership and employment continued in the year to 18Q1

The contraction in the number of SMMEs and the decline in SMME employment reported previously, persisted in the year to 2018Q1, despite a quarterly rise of 1.5% compared to 17Q4. **While the rate of decline in the number of SMMEs moderated from 3.9% (in the year to 17Q3) to 1.4% (in the year to 2018Q1) that of SMME employment deteriorated sharply from 5.6% to 15.9% over the corresponding periods¹.** The decline in the number of SMMEs was notably more serious in the formal sector, i.e. 9.2%, which ties in with the large contraction in SMME employment; excluding the decline in the number of SMME owners, the contraction in SMME employment amounted to a shocking 20%. Therefore, the number of employees in the SMME sector contracted from 8.1 million in 2017Q1 to 6.44 million in 2018Q1, i.e. a loss of more than 1.6 million employment opportunities. **The sustained pressure on the SMME sector is a symptom of the poor broader economic conditions.** This report contains evidence of greater flexibility in the SME sector in generating a profit compared to large enterprises.

The decline in the number of SMMEs has specific features

When the 1.4% year-on-year decline in the number of SMMEs is unpacked, a number of features come to the fore. While close to 60% of SMME owners are aged older than 40, the biggest decline in the number of SMMEs, namely 7.8%, occurred in the age group of 25-34 typically the ages when business ventures are started up. It would appear that it is new ventures that are failing as the biggest decline by enterprise age group occurred in the 2-3 year-old bracket, i.e. 15.5%. **This is clearly a sign of the tough economic conditions as 2-3 years of age is a critical threshold for any SMME in terms of longer term survival.** The fact that SMME employment suffered so badly, is explained by the fact that it was particularly managers whose numbers dwindled, i.e. the SMME occupation group that is likely to employ workers². It should also be noted that the surviving firms are the larger ones and they managed to expand employment in the economy (1.5%). Whereas the previous set of results suggested that the share of SMME owners with no education (or less than primary education) increased sharply and the number of SMME owners in the technical & related professions contracted, the latest results indicate opposite tendencies. The industry mix changed slightly over the year up to 2018Q1, indicating that entrepreneurs are adjusting to economic signals and searching for the best opportunities.

Adverse tendency in SMME start-ups is a sign of poor economy

In all, the results point to a worrying decline in new ventures in the SMME sector. This is clearly a sign of the tough economic conditions and also where the focus of development assistance need to be at this stage. While the drought in the Western Cape may have taken its toll, particularly in the agricultural sector, it is imperative that the adverse tendency in SMME start-ups be arrested.

¹ As noted previously, one has to be careful in over interpreting the quarterly results. There may be substantial volatility in the data due to wide confidence intervals.

² It is possible that the drought in the Western Cape explain much of the decline in SMME employment as this sector reported a 48% contraction during the year to 2018Q1. This is also corroborated by the fact that overall SMME ownership contracted by a net 4% in the Western Cape and more specifically in the coloured population group (accounting for close to two thirds of the overall contraction in the number of SMMEs).

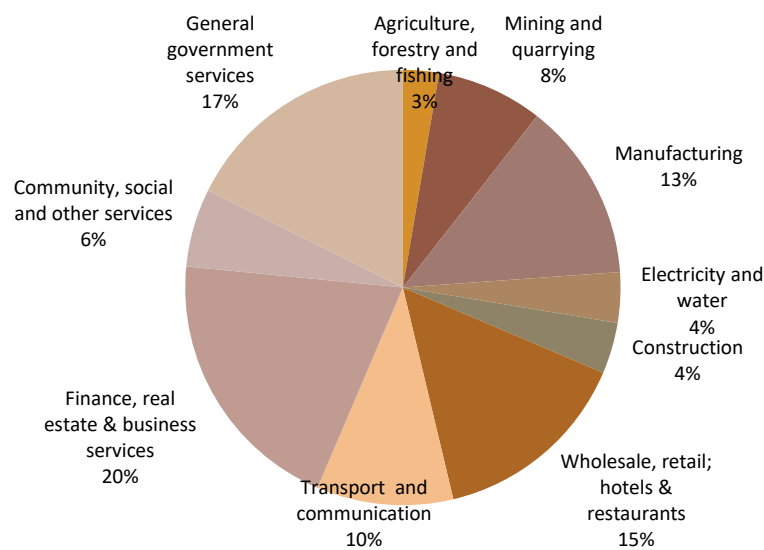
Focus on manufacturing, ICT and tourism: a sectoral perspective

In the previous report, the dominance of services activities in SA's GDP was highlighted, both nationally and in the SMME sector. It is worthwhile to repeat the most important tendencies regarding the composition of economic activity in SA.

Both nationally and in the SMME sector, services activities dominate

- Considering the composition of the number of SMMEs, 70-75% of economic activity in this sector consists of services. Nationally (and in the private sector), the finance, real estate & business services sector is the largest (contributing 20% of GDP; Figure 2), with wholesale, retail, hotels & restaurants (also private sector³) in second place (15%). In the SMME sector, internal trade activities comprise the largest services sector (accounting for more than 40% of the total number of enterprises). Community, social & personal services account for 14% of SMME enterprises and financial & business services for 12%. The latter-mentioned sector contributes a larger share of national GDP due to the large role of financial intermediation services which are not represented in the SMME sector. Two important services SMME sectors, identified as growth sectors, are tourism and information and communication technology (ICT).

Figure 2: South Africa GDP by main economic sector in 2018Q1



Source: Stats SA

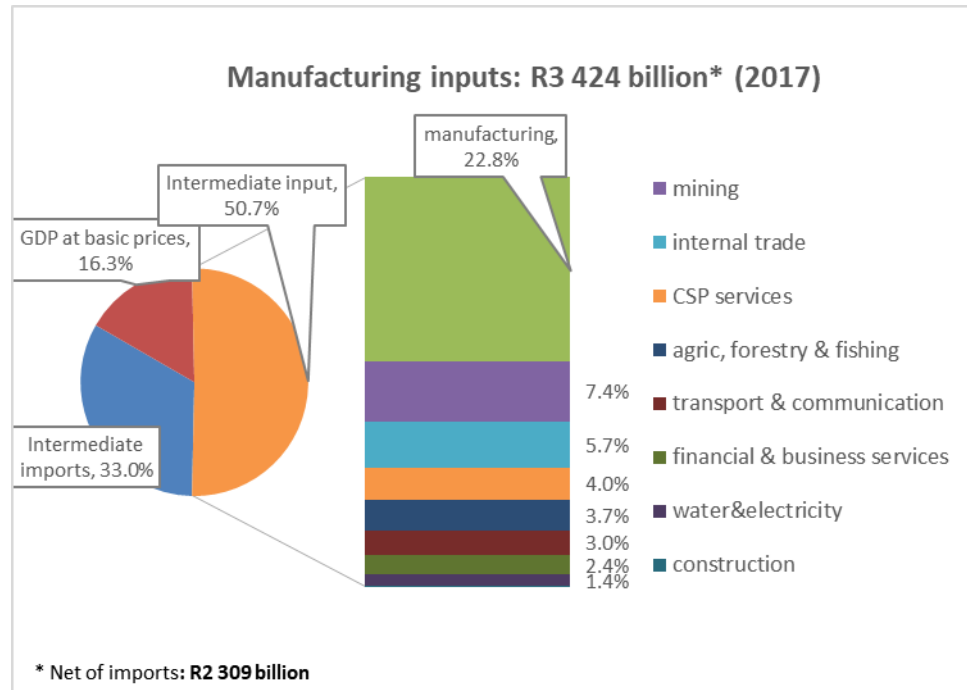
Manufacturing SMMEs are important in terms of productivity considerations

- The secondary sector, consisting of manufacturing, construction and electricity & water production, accounts for 20-22% of activity, both considering national GDP and the number of SMME enterprises. In the secondary sector, manufacturing and construction activity dominate. Whereas construction accounts for a larger share of SMME enterprises (12%) compared to manufacturing (10%), the picture reverses when productivity is considered. Nationally, construction accounts for only 4% of GDP, whereas manufacturing accounts for 13% (Figure 2). The implication is that

³ The general government, including the three tiers of government and the wider public sector is actually larger than the internal trade sector (contributing 17% of GDP). For obvious reasons, the government is not represented in the SMME sector.

construction SMMEs consist of many small operators, whereas in manufacturing SMMEs the output per enterprise is higher. Excluding micro enterprises (and agriculture, financial intermediation & government services), the manufacturing sector accounts for 24% of total turnover in the SME sector.

Figure 3: Manufacturing’s wide backward linkages in the economy, 2017#



Based on the input/output relations of 2014; Source: Statistics SA

Manufacturing’s role in the economy is often misunderstood. Figure 3 is informative in this regard. According to the chart, the sector acquired more than half its inputs (i.e. an estimated R1.7 trillion, or 50.7% in 2017) from other sectors in the economy, combined that with imports (R1.1 trillion, or 33%), and added value (i.e. GDP of R552 billion, or 16.3%, being the wages, profit and net taxes generated in production) in order to produce total output of R3.4 trillion; excluding imports, domestic output amounted to R2.3 trillion). **While the sector’s value add (or GDP, i.e. R552 billion in 2017) only accounted for 13.2% of national GDP, considering all the input requirements (i.e. the so-called backward linkages), its role in aggregate domestic economic activity is multiplied to an estimated 21.5%.** It follows that for every unit of GDP generated, the sector stimulates and additional 3.2 units of output activity in backwardly linked sectors.⁴ Forty-five per cent of the sector’s inputs are acquired from within manufacturing. Other sectors closely linked to manufacturing include, mining (15% of intermediate inputs), internal trade (11%), CSP services (8%) and agriculture (7.3%) – see Figure 3.

Therefore, the sector plays a critical role in the SA economy. Due to the length of value chains in the sector, it often happens that there is a mismatch between final demand in the economy and the supply

Apart from inter-manufacturing inputs, other key sectors stimulated are mining, internal trade, CSP services and agriculture

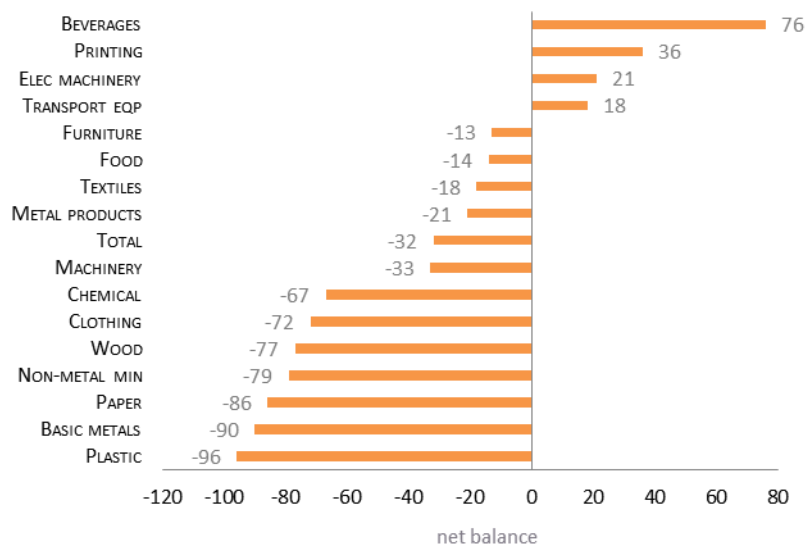
While manufacturing GDP accounts for 13% of national GDP, its total output activity accounted for more than 21% of national output in 2017

⁴ The ratio of manufacturing output to value added is estimated at 4.2 in 2017.

While manufacturing GDP accounts for 13% of national GDP, its total output activity accounted for more than 21% of national output in 2017

of raw materials. This mismatch, in turn, gives effect to cyclical patterns in the sector’s growth, which permeates the whole economy. **It is probably the key sector driving the SA business cycle.** It follows that the flat trajectory in manufacturing growth in the wake of the 2009 global recession goes a long way in explaining the flat SA business cycle. Furthermore, it is clear that the cyclical improvement in the sector from 17Q2 has fallen flat again during the first half of 2018. The BER’s 18Q2 manufacturing survey shows that sales volumes expanded only in four subsectors, i.e. beverages, printing, electrical machinery and transport equipment (Figure 4). A number of sectors reported relatively mild contractions, i.e. furniture, food, textiles, metal products and machinery and a range of sectors reported deep year-on-year contractions, i.e. chemicals, clothing, wood, non-metal minerals, paper, basic metals and plastic. Manufacturing business confidence also fell back from 37 index points in 18Q1 to 27 in 18Q2, suggesting that less than one-in-three respondents are happy with business conditions.

Figure 4: SA Manufacturing: domestic sales volumes in 2018Q2



Only four manufacturing subsectors report positive year-on-year growth in sales, 18Q2

Source: BER Manufacturing Survey, 2018Q2

The release of spectrum to mobile network operators will boost broadband services

SA’s ICT sector⁵ is on the threshold of significant expansion, pending the release of spectrum to mobile services as SABC progresses with its digital migration project. Spectrum refers to all wireless signals, including television, radio, GPS and mobile broadband. A telecommunications service provider can improve its capacity and quality of ICT services the greater access it has to ‘high-demand’ spectrum. SA’s high data costs are well-known and increased spectrum can go a long way in reducing broadband costs. The telecommunications companies are currently investing heavily in infrastructure (e.g. the rollout of the 4G ‘fast internet’ network). **The availability of reliable broadband networks has led to a surge in smart phone sales and data usage.** Fast internet is also stimulating new industries such as mobile app

⁵ 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>).

development and new online internet services such as online banking, video and music streaming. It also facilitates the development of the Internet of Things and cloud computing.

The aggressive roll-out of reliable and affordable broadband sure to relieve one of SA's key growth constraints

Government has proposed the establishment of a wireless open-access network (Woan), with the aim to stimulate competition and remove barriers to entry for new entrants, e.g. black entrepreneurs and SME's. The idea is to allocate the lucrative spectrum to Woan and this company leasing it out to other companies, including mobile network operators. This White Paper proposal has been met with critique as **infrastructure competition is critical in driving innovation and ensuring lower data costs**. The compromise proposal from government's side is to only reserve part of the released spectrum for Woan and releasing the remainder to industry⁶.

The regulation of infrastructure access and sharing between mobile operators is another priority. Furthermore, the aggressive roll-out of Wi-Fi services in social spaces, accessible to poorer consumers, is in the pipeline. Plans are underway to find solutions for providing universal internet access in SA by 2020. **Reducing the cost of internet access and expanding coverage will go a long way in addressing one of SA's key infrastructure bottlenecks**. Mr. Dondo Mogajane, Director General of National Treasury, is on record, saying that the release of spectrum is one of the proverbial 'low-hanging fruit' to get the SA economy growing again⁷.

SA travel & tourism contribution to GDP to grow by 3% to a record R424.5 billion in 2018

SA's tourism industry also remains a key pillar for economic growth. It is an important employer in the economy, generates foreign exchange and stimulates the development of infrastructure. The World Travel & Tourism Council (WTTC) estimates that at a global level, travel and tourism has been the fastest growing industry in 2017, i.e. for the seventh consecutive year. Travel and tourism out-performed other sectors such as manufacturing (4.2% per annum), retail & wholesale (3.4%), agriculture, forestry & fishing (2.6%) and financial services (2.5%)⁸. The report also notes that over the past ten years, one in five of all jobs created across the globe has been in the tourism sector.

The tourism sector's contribution to the SA economy is on par with the global averages. It is estimated that, including direct, indirect and induced effects, **the travel and tourism sector accounted for 9.5% of total employment in SA in 2017 and 9% of GDP (or R412.5 billion)**. This contribution is projected to grow by close to 3% in 2018 (to R424.5 billion), making it a record year for SA tourism⁷. According to the WTTC, one in ten jobs is supported by the travel and tourism industry globally and the sector contributes 10% to global GDP.

⁶ Hodge, J (13 July 2017): *Releasing more spectrum to mobile networks part of broadband solution*. Online: <https://www.businesslive.co.za/bd/opinion/2017-07-13-releasing-more-spectrum-to-mobile-networks-part-of-broadband-solution/#>

⁷ See GSB, UCT (27 March 2018): *SA economy on track for growth*, Online: <https://www.news.uct.ac.za/article/-2018-04-13-sa-economy-on-track-for-growth>.

⁸ Smith, C (22 March 2018): *Record year from SA tourism in 2018*, Online: <https://www.fin24.com/Economy/record-year-for-sa-tourism-in-2018-global-report-20180322>

Proxy numbers for SMMEs

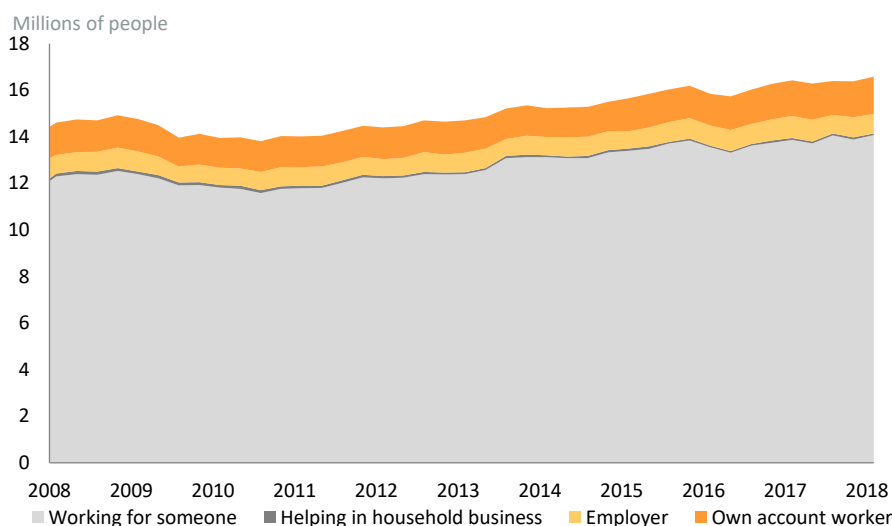
Derived from the Quarterly Labour Force Survey⁹

Number of SMMEs

Number of small firms falling sharply

In the year up to the first quarter of 2018, the number of SMMEs declined by 1.4%, while total employment in the wider economy increased by 1.0%. Closer inspection reveals that the number of employers fell by a significant 11.4% in this period, an indication that firms struggle to survive. Despite fewer employers, the remaining firms managed to employ 1.5% more people, an indication that larger firms are growing as small ones disappear. Of all employed people, 5.1% employed others in 2018Q1, while 9.6% worked for themselves. Combined at 14.7% (or 2.44 million), this comprises the proxy measure for the number of SMMEs in South Africa.

Figure 5: Employment in South Africa



Source: QLFS of Stats SA

Table 1: Number of SMMEs (million)

Indicator	2017Q1		2017Q4		2018Q1		Quarterly change		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
Employer	951 220	5.8%	874 778	5.3%	843 253	5.1%	-31 525	-3.6%	-107 967	-11.4%
Own account worker	1 527 657	9.3%	1 532 662	9.4%	1 599 910	9.6%	67 248	4.4%	72 253	4.7%
SMME owners	2 478 877	15.1%	2 407 440	14.7%	2 443 163	14.7%	35 722	1.5%	-35 714	-1.4%
Working for someone	13 859 949	84.4%	13 880 597	84.7%	14 066 897	84.8%	186 300	1.3%	206 948	1.5%
Helping in household business	80 327	0.5%	90 958	0.6%	69 954	0.4%	-21 004	-23.1%	-10 374	-12.9%
Total employed	16 419 153	100.0%	16 378 995	100.0%	16 580 013	100.0%	201 018	1.2%	160 860	1.0%

Source: QLFS of Stats SA

⁹ Please note there is substantial volatility in the sub-distributions of the SMMEs; most of this might be due to sampling noise. While some of the yoy and qoq changes could indeed be highly significant it is possible that the proxy derived methodology employed in this analysis overemphasise them. Only a new specifically designed sample may be able to accurately reflect the changes.

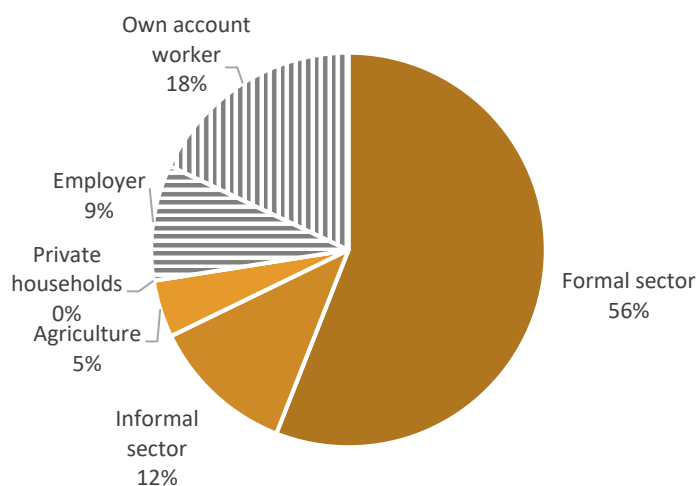
Employment provided by SMMEs

SMME employment recedes heavily

In the first quarter of 2018 the SMME sector provided employment to nearly 8.9 million people in South Africa. Of these, only 2.44 million jobs were for the SMME owners themselves, while the balance of 6.4 million jobs (or 73%) were for SMME employees. The majority of SMME employment (56%) is located in the formal sector. Of concern is the huge drop of 18% and 47% in the number of SMME employees in the formal and agricultural sectors respectively. As a consequence, employment by SMMEs are back to levels last seen in 2014. (It could partly be due to a change in the sampling method of Statistics South Africa.) Overall, the number of SMME employees (non-owners) fell by 20.4% over the four quarters up to 2018Q1¹⁰.

Of all jobs provided to others by SMME owners, an estimated 38% is filled by female workers*. This proportion has remained virtually the same in the previous four quarters.

Figure 6: Employment provided by SMMEs



Source: QLFS of Stats SA

Table 2: Employment provided by SMMEs

	2017Q1		2017Q4		2018Q1		Quarterly change		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
Formal sector	6 092 354	57.6%	5 307 175	57.6%	4 972 307	56.0%	-334 868	-6.3%	-1 120 047	-18.4%
Informal sector	1 200 400	11.4%	1 117 066	12.1%	1 053 129	11.9%	-63 937	-5.7%	-147 271	-12.3%
Agriculture	794 673	7.5%	372 013	4.0%	417 417	4.7%	45 404	12.2%	-377 256	-47.5%
Private households	2 398	0.0%	3 946	0.0%	0	0.0%	-3 946	-100.0%	-2 398	-100.0%
Provided to others	8 089 824	76.5%	6 800 200	73.9%	6 442 852	72.5%	-357 348	-5.3%	-1 646 972	-20.4%
% Female*		38.1%		36.7%		37.7%		1% pts		-0.5%
Employer	951 220	9.0%	874 778	9.5%	843 253	9.5%	-31 525	-3.6%	-107 967	-11.4%
Own account worker	1 527 657	14.5%	1 532 662	16.6%	1 599 910	18.0%	67 248	4.4%	72 253	4.7%
Total	10 568 701	100.0%	9 207 641	100.0%	8 886 015	100.0%	-321 625	-3.5%	-1 682 686	-15.9%

Source: QLFS of Stats SA

* of all people working for private enterprises, of which 81% worked for SMMEs over the last 5 years

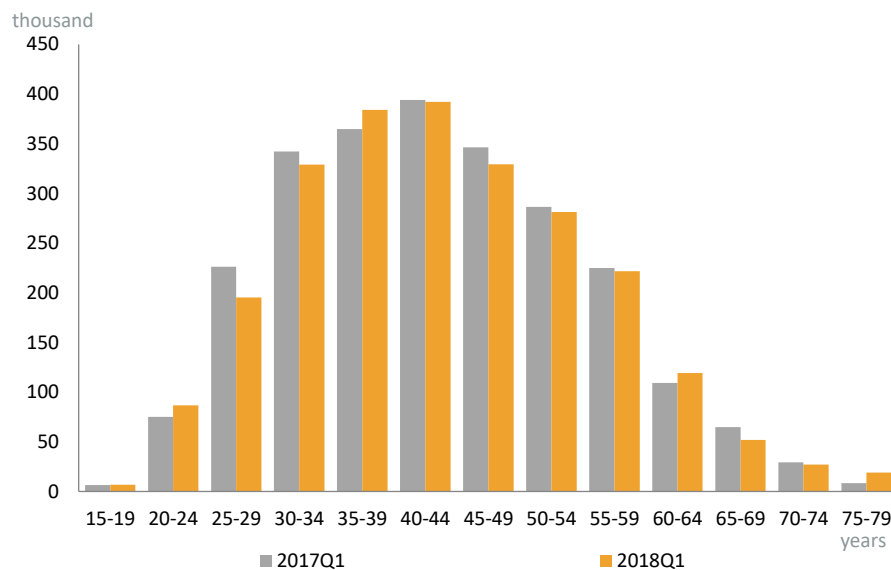
¹⁰ Please refer to footnote 9.

SMME owners by age

Fewer people decided to start a new SMME

The majority (59%) of SMME owners are older than 40 years. This ratio has been unchanged in the last year up to 2018Q1. Still, there was a large contraction in the number of SMME owners in the age group 25-34. This is the age where most SMME owners start their business. Accordingly, this development points to a higher failure rate of new ventures. This may be another indication the heavy toll SA's poor general economic conditions are taking.

Figure 7: SMME owners by age



Source: QLFS of Stats SA

Table 3: SMME owners by age

Years	2017Q1		2017Q4		2018Q1		Quarterly change		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
15-19	6 587	0.3%	6 559	0.3%	6 630	0.3%	71	1.1%	43	0.7%
20-24	75 018	3.0%	75 239	3.1%	86 598	3.5%	11 359	15.1%	11 580	15.4%
25-29	226 292	9.1%	194 759	8.1%	195 220	8.0%	461	0.2%	-31 071	-13.7%
30-34	342 260	13.8%	309 176	12.8%	329 023	13.5%	19 847	6.4%	-13 238	-3.9%
35-39	364 716	14.7%	367 701	15.3%	384 120	15.7%	16 419	4.5%	19 404	5.3%
40-44	394 154	15.9%	393 799	16.4%	392 051	16.0%	-1 748	-0.4%	-2 103	-0.5%
45-49	346 389	14.0%	323 121	13.4%	329 365	13.5%	6 245	1.9%	-17 024	-4.9%
50-54	286 593	11.6%	287 811	12.0%	281 281	11.5%	-6 530	-2.3%	-5 312	-1.9%
55-59	224 931	9.1%	223 055	9.3%	221 667	9.1%	-1 388	-0.6%	-3 263	-1.5%
60-64	109 200	4.4%	123 162	5.1%	119 314	4.9%	-3 848	-3.1%	10 114	9.3%
65-69	64 915	2.6%	58 759	2.4%	51 913	2.1%	-6 847	-11.7%	-13 002	-20.0%
70-74	29 407	1.2%	25 695	1.1%	27 031	1.1%	1 337	5.2%	-2 376	-8.1%
75-79	8 414	0.3%	18 604	0.8%	18 949	0.8%	345	1.9%	10 534	125.2%
Total	2 478 877	100.0%	2 407 440	100.0%	2 443 163	100.0%	35 722	1.5%	-35 714	-1.4%

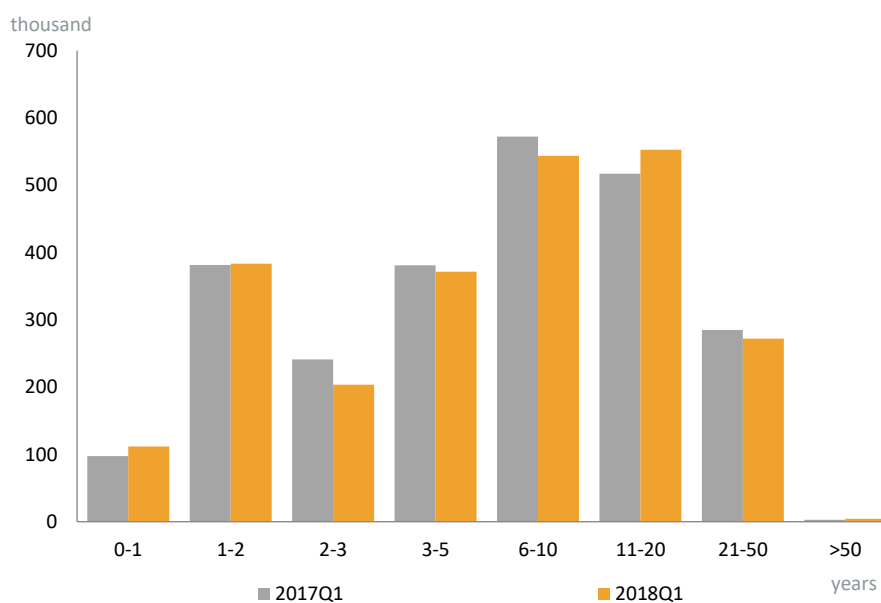
Source: QLFS of Stats SA

Enterprise age of SMMEs

More SMMEs failed during the watershed year

The number of new SMMEs that entered the market increased by 14% from nearly 98 000 in 2017Q1 to nearly 112 000 a year later. However, there is normally a decline in the number of SMMEs in their third year in operation, marking this as the watershed age. In the year up to 2018Q1 there was a decline of more than 15% in SMMEs of this age, indicating a particularly tough year. As reported previously, the number of SMMEs tapers off significantly after 20 years in operation, probably due to owners reaching retirement age.

Figure 8: Enterprise age of SMMEs



Source: QLFS of Stats SA

Table 4: Enterprise age of SMMEs

Years	2017Q1		2017Q4		2018Q1		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%
0-1	97 673	3.9%	354 640	14.7%	111 611	4.6%	13 938	14.3%
1-2	381 668	15.4%	266 238	11.1%	383 214	15.7%	1 547	0.4%
2-3	241 100	9.7%	206 052	8.6%	203 799	8.3%	-37 301	-15.5%
3-5	381 156	15.4%	296 433	12.3%	371 315	15.2%	-9 841	-2.6%
6-10	572 494	23.1%	494 400	20.5%	543 874	22.3%	-28 620	-5.0%
11-20	516 882	20.9%	517 076	21.5%	552 905	22.6%	36 024	7.0%
21-50	284 877	11.5%	266 971	11.1%	271 954	11.1%	-12 923	-4.5%
>50	3 027	0.1%	5 631	0.2%	4 489	0.2%	1 462	48.3%
Total	2 478 877	100.0%	2 407 440	100.0%	2 443 163	100.0%	-35 714	-1.4%

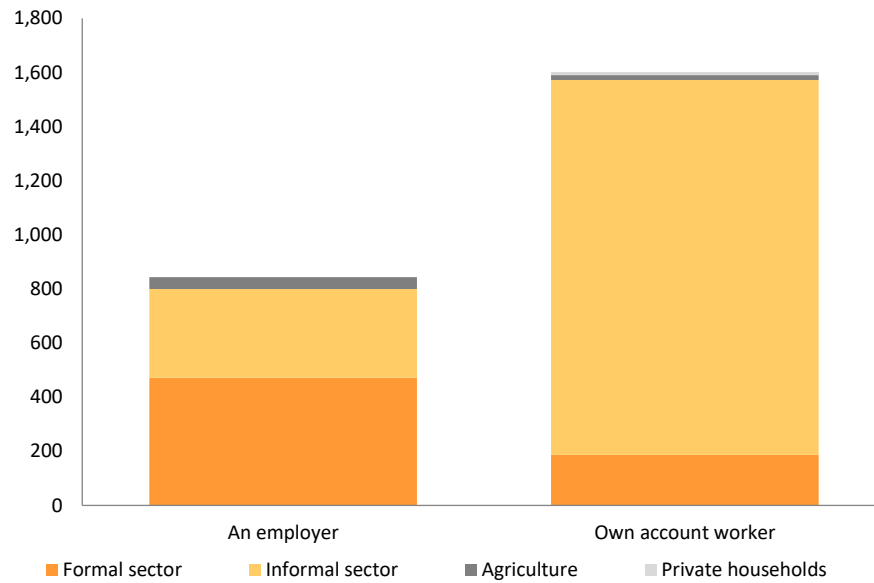
Source: QLFS of Stats SA

SMMEs by formal and informal sectors

More than two in three
SMMEs are informal

In the first quarter of 2018, the share of SMMEs operating in the informal sector was at 70%, while the share operating in the formal sector at 27%. These ratios have changed very little in the last two years. 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, 35% also employ other people.

Figure 9: SMMEs by formal and informal sector in 2018Q1



Source: QLFS of Stats SA

Table 5: Formal and informal SMMEs in 2018Q1

Type	Formal sector	Informal sector	Agriculture	Private households	Total	Distrib.
An employer	472 014	328 152	43 087	0	843 253	34.5%
Own account worker	186 705	1 386 081	16 883	10 242	1 599 910	65.5%
Total	658 719	1 714 233	59 969	10 242	2 443 163	100.0%
% per sector	27.0%	70.2%	2.5%	0.4%	100%	

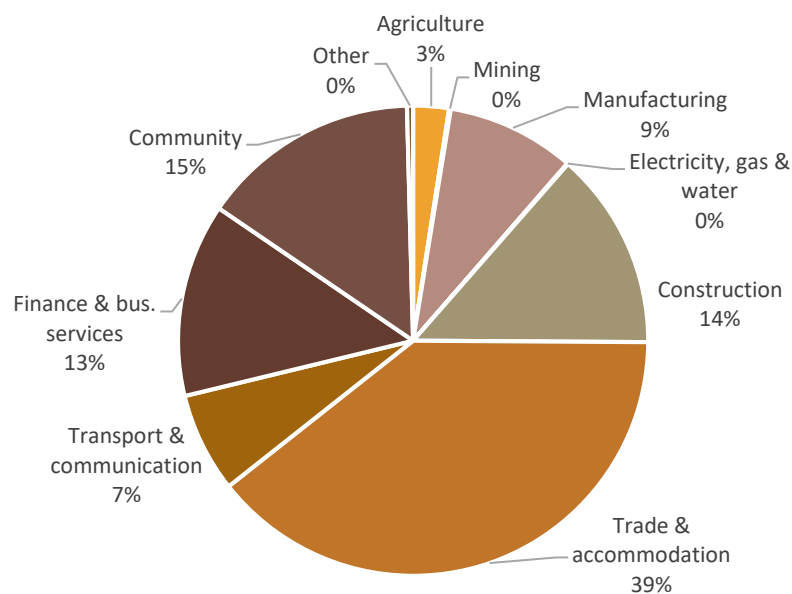
Source: QLFS of Stats SA

SMMEs by industry

Large decline in the construction sector

In the year up to 2018Q1, only three industry sectors gained SMMEs, while the remaining seven lost some. The community services sector gained nearly 47 000 SMMEs, followed by financial and business services at 11 000. In contrast, the number of SMMEs in construction fell by nearly 35 000 enterprises during these four quarters, followed by trade and accommodation losing more than 22 000. The number of SMMEs also declined significantly in the agricultural and mining sectors. The industry mix changed slightly over the year up to 2018Q1, indicating that entrepreneurs are adjusting to economic signals and searching for the best opportunities.

Figure 10: SMMEs by industry in 2018Q1



Source: QLFS of Stats SA

Table 6: SMMEs by industry

Industry	2017Q1		2017Q4		2018Q1		Quarterly change		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
Agriculture	71 237	2.9%	61 627	2.6%	59 969	2.5%	-1 657	-2.7%	-11 268	-15.8%
Mining	10 123	0.4%	4 853	0.2%	2 787	0.1%	-2 066	-42.6%	-7 336	-72.5%
Manufacturing	218 525	8.8%	214 536	8.9%	215 639	8.8%	1 103	0.5%	-2 886	-1.3%
Electricity, gas & water	4 601	0.2%	1 795	0.1%	1 411	0.1%	-385	-21.4%	-3 191	-69.3%
Construction	368 035	14.8%	322 977	13.4%	333 344	13.6%	10 367	3.2%	-34 690	-9.4%
Trade & accommodation	981 700	39.6%	979 265	40.7%	959 280	39.3%	-19 986	-2.0%	-22 420	-2.3%
Transport & communication	166 291	6.7%	176 739	7.3%	167 521	6.9%	-9 218	-5.2%	1 231	0.7%
Finance & bus. services	313 618	12.7%	274 858	11.4%	325 119	13.3%	50 261	18.3%	11 502	3.7%
Community	321 328	13.0%	358 328	14.9%	367 851	15.1%	9 523	2.7%	46 522	14.5%
Other	23 420	0.9%	12 461	0.5%	10 242	0.4%	-2 220	-17.8%	-13 178	-56.3%
Total	2 478 877	100.0%	2 407 440	100.0%	2 443 163	100.0%	35 722	1.5%	-35 714	-1.4%

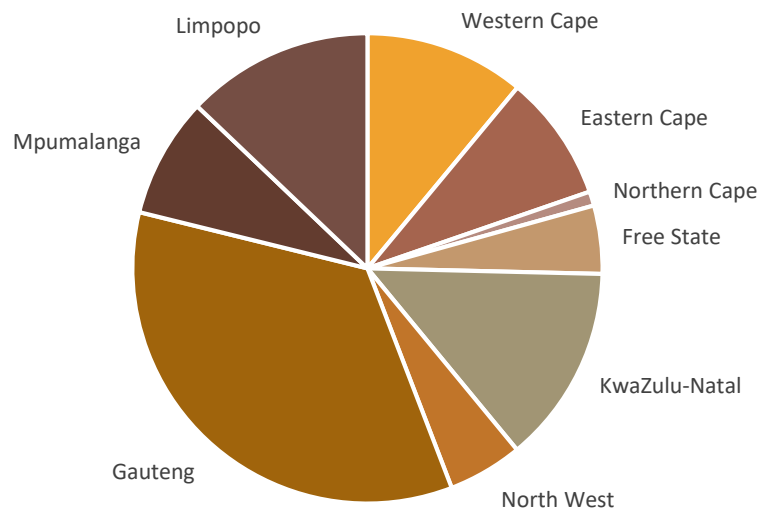
Source: QLFS of Stats SA

SMMEs by province

SMME ownership declined sharply in the south eastern provinces

In the first quarter of 2018 nearly 35% of SMMEs operated in Gauteng, followed by close to 14% in KwaZulu-Natal and 13% in Limpopo. In the last four quarters, the share of Limpopo and Mpumalanga increased due to growth of 12% and 5% y-o-y respectively. Growth was also positive, albeit more marginal, in the Northern Cape and Gauteng. This growth stands in contrast to the double digit contractions in the south eastern provinces of KwaZulu-Natal and the Eastern Cape.

Figure 11: SMMEs owners by province



Source: QLFS of Stats SA

Table 7: SMME owners by province

Occupation	2017Q1		2017Q4		2018Q1		Quarterly change		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
Western Cape	281 062	11.3%	268 477	11.2%	269 256	11.0%	778	0.3%	-11 807	-4.2%
Eastern Cape	236 608	9.5%	194 060	8.1%	212 292	8.7%	18 232	9.4%	-24 316	-10.3%
Northern Cape	23 569	1.0%	21 344	0.9%	23 904	1.0%	2 559	12.0%	335	1.4%
Free State	117 145	4.7%	114 035	4.7%	114 584	4.7%	549	0.5%	-2 560	-2.2%
KwaZulu-Natal	384 675	15.5%	330 551	13.7%	333 461	13.6%	2 910	0.9%	-51 214	-13.3%
North West	130 883	5.3%	131 280	5.5%	125 535	5.1%	-5 745	-4.4%	-5 348	-4.1%
Gauteng	830 923	33.5%	807 787	33.6%	847 329	34.7%	39 542	4.9%	16 406	2.0%
Mpumalanga	192 178	7.8%	222 369	9.2%	201 922	8.3%	-20 447	-9.2%	9 744	5.1%
Limpopo	281 835	11.4%	317 537	13.2%	314 880	12.9%	-2 657	-0.8%	33 045	11.7%
Total	2 478 877	100.0%	2 407 440	100.0%	2 443 163	100.0%	35 722	1.5%	-35 714	-1.4%

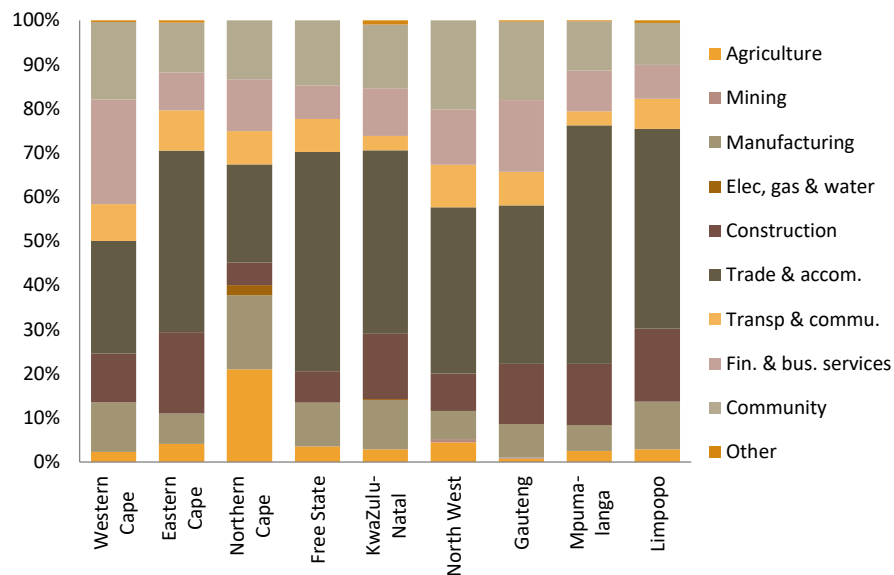
Source: QLFS of Stats SA

SMMEs by industry and province

Western and Northern Cape different from other provinces

The industry distribution of most provinces are somewhat similar; the trade and accommodation sector (internal trade) is the largest in all provinces. This sector accounted for 39% of SMMEs in the country, but are much smaller sizes in the Western and Northern Cape (25% and 22% respectively). These two provinces have unique specialities; the Northern Cape is highly involved in agriculture, and the Western Cape in financial services.

Figure 12: SMMEs by industry in 2018Q1



Source: QLFS of Stats SA

Table 8: SMMEs by province and industry in 2018Q1

	Western Cape	Eastern Cape	Northern Cape	Free State	KwaZulu-Natal	North West	Gauteng	Mpumalanga	Limpopo	Total
Agriculture	6 196	8 672	5 021	4 077	9 541	5 592	6 861	5 061	8 950	59 969
Mining	0	0	0	0	0	928	1 859	0	0	2 787
Manufacturing	30 216	14 714	3 996	11 324	37 223	7 988	64 308	11 847	34 024	215 639
Elec, gas & water	0	0	565	0	846	0	0	0	0	1 411
Construction	29 750	39 066	1 215	8 172	49 263	10 634	115 141	27 937	52 165	333 344
Trade & accom.	68 586	87 247	5 305	56 850	138 344	47 287	304 325	109 010	142 326	959 280
Transp & commu.	22 482	19 306	1 812	8 536	11 017	12 021	64 433	6 478	21 436	167 521
Fin. & bus. services	63 717	18 148	2 806	8 661	35 954	15 677	137 213	18 603	24 342	325 119
Community	47 275	24 026	3 184	16 965	48 122	25 408	150 553	22 512	29 807	367 851
Other	1 035	1 113	0	0	3 153	0	2 636	475	1 830	10 242
Total	269 256	212 292	23 904	114 584	333 461	125 535	847 329	201 922	314 880	2 443 163

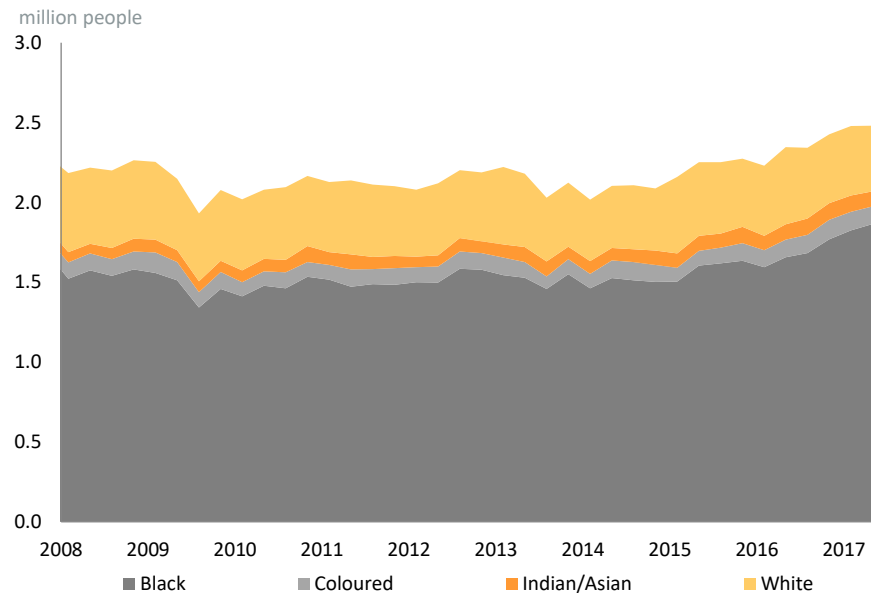
Source: QLFS of Stats SA

SMMEs by population group

The share of black-owned SMMEs increased somewhat

Only the number of black owned SMMEs grew in the four quarters up to 2018Q1, albeit that the growth was marginal. The share of black SMME owners increased from 74% to 75%, while that of Indians, coloureds and whites declined. Furthermore, the decline in SMME owners was the most severe among coloureds, with a decline of more than 20% reported over this period, accounting for no less than 64% of the overall decline in the number of SMMEs.

Figure 13: Number of SMMEs by population group



Source: QLFS of Stats SA

Table 9: SMME owners by population group

Race	2017Q1		2017Q4		2018Q1		Quarterly change		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
Indian/Asian	100 846	4.1%	103 439	4.3%	98 136	4.0%	-5 303	-5.1%	-2 711	-2.7%
Coloured	116 983	4.7%	90 081	3.7%	94 252	3.9%	4 171	4.6%	-22 731	-19.4%
White	436 041	17.6%	401 432	16.7%	421 967	17.3%	20 535	5.1%	-14 073	-3.2%
Black	1 825 007	73.6%	1 812 488	75.3%	1 828 808	74.9%	16 320	0.9%	3 801	0.2%
Total	2 478 877	100.0%	2 407 440	100.0%	2 443 163	100.0%	35 722	1.5%	-35 714	-1.4%

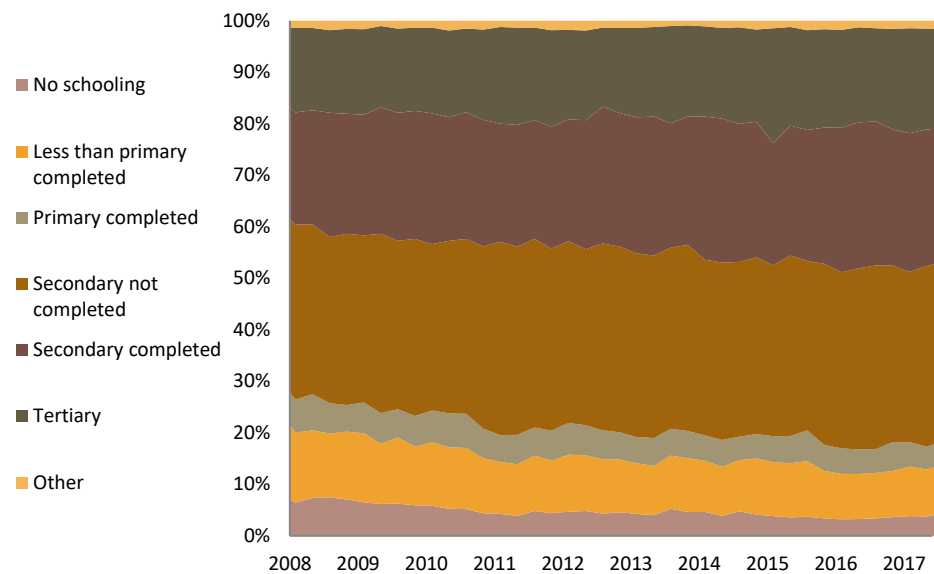
Source: QLFS of Stats SA

**Educational attainment
deteriorates slightly**

SMME owners by educational attainment

Unlike than what was reported previously, the proportion of SMME owners without any secondary schooling contracted while those with tertiary education increased. The proportion with a tertiary qualification increased from 20% to 21%, while those with less than secondary schooling fell from 18% to 17%. Nonetheless, considering the cumulative share of SMME owners with a completed secondary education or better, educational attainment deteriorated somewhat, with this ratio easing from 49% to 48% over the year to 2018Q1.

Figure 14: SMMEs by education group



Source: QLFS of Stats SA

Table 10: SMME owners by education group

Schooling	2017Q1		2017Q4		2018Q1		Quarterly change		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
No schooling	94 799	3.8%	98 757	4.1%	87 822	3.6%	-10 935	-11.1%	-6 977	-7.4%
Less than primary completed	238 124	9.6%	222 620	9.2%	210 446	8.6%	-12 174	-5.5%	-27 678	-11.6%
Primary completed	117 820	4.8%	94 800	3.9%	106 477	4.4%	11 677	12.3%	-11 342	-9.6%
Secondary not completed	819 086	33.0%	855 819	35.5%	864 020	35.4%	8 201	1.0%	44 934	5.5%
Secondary completed	667 850	26.9%	631 984	26.3%	618 897	25.3%	-13 087	-2.1%	-48 953	-7.3%
Tertiary	504 519	20.4%	466 109	19.4%	518 545	21.2%	52 437	11.2%	14 027	2.8%
Other	36 679	1.5%	37 351	1.6%	36 955	1.5%	-396	-1.1%	276	0.8%
Total	2 478 877	100.0%	2 407 440	100.0%	2 443 163	100.0%	35 722	1.5%	-35 714	-1.4%

Source: QLFS of Stats SA

SMMEs by occupation

Increase in professionals among SMME owners

In concurrence with the increase of tertiary educated SMME owners (14 000), there was a comparable increase in owners who are professionals (18 000). Interestingly, by far the biggest drop was among owners who are managers (nearly 54 000). This concurs with the decline in the number of SMMEs who employ others. Besides these, there were no significant changes in the occupational distribution. The three main occupations among SMME owners remain elementary jobs, craft workers and managers.

Figure 15: SMMEs by occupation



Source: QLFS of Stats SA

Table 11: SMME owners per occupation group

Occupation	2017Q1		2017Q4		2018Q1		Quarterly change		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
Managers	589 484	23.8%	545 779	22.7%	535 666	21.9%	-10 114	-1.9%	-53 819	-9.1%
Professionals	102 164	4.1%	111 579	4.6%	120 883	4.9%	9 304	8.3%	18 720	18.3%
Technical and associate professionals	161 764	6.5%	163 584	6.8%	164 964	6.8%	1 380	0.8%	3 200	2.0%
Clerks	25 660	1.0%	17 177	0.7%	14 617	0.6%	-2 559	-14.9%	-11 043	-43.0%
Service, shop and market workers	356 058	14.4%	332 549	13.8%	369 883	15.1%	37 333	11.2%	13 824	3.9%
Skilled agricultural and fishery workers	44 769	1.8%	43 001	1.8%	42 280	1.7%	-721	-1.7%	-2 489	-5.6%
Craft and related trades workers	504 851	20.4%	471 354	19.6%	494 165	20.2%	22 811	4.8%	-10 686	-2.1%
Plant & machine operators	83 051	3.4%	95 327	4.0%	87 024	3.6%	-8 303	-8.7%	3 974	4.8%
Elementary occupations	605 039	24.4%	623 691	25.9%	613 681	25.1%	-10 010	-1.6%	8 642	1.4%
Domestic workers	6 037	0.2%	3 399	0.1%	0	0.0%	-3 399	-100.0%	-6 037	-100.0%
Total	2 478 877	100.0%	2 407 440	100.0%	2 443 163	100.0%	35 722	1.5%	-35 714	-1.4%

Source: QLFS of Stats SA

Financial data of SMEs

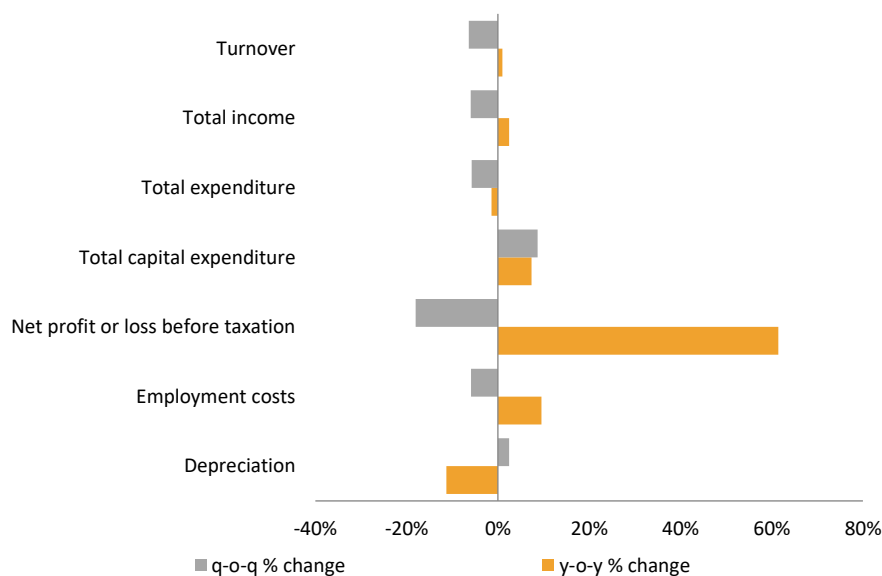
From the Quarterly Financial Survey

Profitability of SMEs

SME profitability remains under pressure in 2018Q1

The nominal turnover of SMEs increased by only 1% y-o-y in 2018Q1, which is significantly below the 5% turnover growth of large enterprises and the inflation rate of 4.1%. However, SMEs managed to reduce their expenditure by 1.4%, while raising their income by 2.5%, thereby realising a profit of R63.4 billion in the quarter. This profit was up 61% compared to the profit realised in the first quarter of 2017. While this may be a high growth rate, it is coming off a low base; it is clear that SME profitability remained under pressure in 2018Q1. **Of interest** is that SMEs managed to reduce their expenditure while simultaneously raising their employment costs by nearly 10%. Table 2 indicates a decline in SMME employees, suggesting that those who remained in employment were remunerated better.

Figure 16: Change per financial indicator: 2018Q1



Source: QFS of Stats SA

Table 12: Financial indicators of SMEs

R million	2017Q1	2017Q4	2018Q1	q-o-q % change	y-o-y % change
Depreciation	R 14 820	R 12 835	R 13 148	2.4%	-11.3%
Employment costs	R 148 083	R 172 296	R 162 203	-5.9%	9.5%
Net profit or loss before taxation	R 39 272	R 77 338	R 63 400	-18.0%	61.4%
Total capital expenditure	R 14 438	R 14 253	R 15 498	8.7%	7.3%
Total expenditure	R 919 753	R 961 554	R 906 608	-5.7%	-1.4%
Total income	R 944 847	R 1 029 622	R 968 318	-6.0%	2.5%
Turnover	R 920 674	R 993 559	R 930 077	-6.4%	1.0%

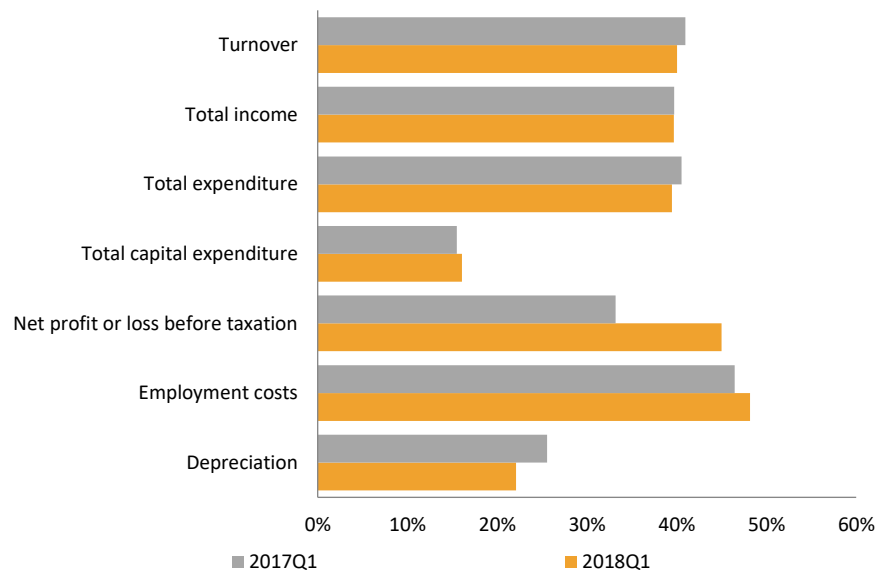
Source: QFS of Stats SA

Economic contribution of SMEs

SMEs were flexible to adjust to a lower business demand

The share that SMEs contributes to the turnover of all enterprises* fell slightly from 41% to 40% in the four quarters up to 2018Q1. Besides this decline, the SME sector managed to raise its share of most other financial indicators. Its share of net profit jumped from 33% to 45%, while expenditure on employment increased from 46% to 48%. These numbers suggest that SMEs attracted a smaller share of total business compared to large enterprises. However, they were more flexible to adjust and were able to produce larger surpluses for capital and labour.

Figure 17: SME contribution to all enterprises* by indicator



Source: QFS of Stats SA

Table 13: SME contribution to all enterprises* by indicator

Indicator	2017Q1	2017Q4	2018Q1	q-o-q change	y-o-y change
Depreciation	25.6%	21.0%	22.1%	1.1% pts	-3.5% pts
Employment costs	46.5%	49.3%	48.2%	-1.1% pts	1.7% pts
Net profit or loss before taxation	33.2%	35.2%	45.0%	9.7% pts	11.8% pts
Total capital expenditure	15.5%	13.8%	16.1%	2.2% pts	0.6% pts
Total expenditure	40.5%	39.4%	39.5%	0% pts	-1.1% pts
Total income	39.7%	38.9%	39.7%	0.7% pts	-0.1% pts
Turnover	41.0%	40.0%	40.0%	0% pts	-0.9% pts

Source: QFS of Stats SA

*excluding agriculture, financial intermediation, insurance and government institutions

Table 14: Financial indicators of SMEs by industry

R million	2017Q1	2017Q4	2018Q1	q-o-q % change	y-o-y % change
Employment costs	R 148 083	R 172 296	R 162 203	-5.9%	9.5%
Community, social and personal services industry	R 7 535	R 12 317	R 9 935	-19.3%	31.9%
Construction industry	R 9 421	R 8 970	R 8 155	-9.1%	-13.4%
Electricity, gas and water supply industry	R 421	R 386	R 307	-20.5%	-27.1%
Manufacturing industry	R 36 650	R 43 040	R 41 077	-4.6%	12.1%
Mining and quarrying industry	R 4 323	R 2 856	R 2 514	-12.0%	-41.8%
Real estate and other business services industry	R 45 451	R 61 011	R 59 678	-2.2%	31.3%
Transport industry	R 8 906	R 10 427	R 10 624	1.9%	19.3%
Trade industry	R 35 376	R 33 289	R 29 913	-10.1%	-15.4%
Net profit or loss before taxation	R 39 272	R 77 338	R 63 400	-18.0%	61.4%
Community, social and personal services industry	R 4 903	R 664	R 3 435	417.3%	-29.9%
Construction industry	R 419	R 1 552	R 3 736	140.7%	791.6%
Electricity, gas and water supply industry	R 692	R 1 564	R 1 545	-1.2%	123.3%
Manufacturing industry	R 11 437	R 20 722	R 14 950	-27.9%	30.7%
Mining and quarrying industry	-R 1 593	R 666	R 782	17.4%	-149.1%
Real estate and other business services industry	R 14 435	R 15 412	R 11 612	-24.7%	-19.6%
Transport industry	R 2 908	R 4 935	R 4 157	-15.8%	43.0%
Trade industry	R 6 071	R 31 823	R 23 183	-27.2%	281.9%
Total capital expenditure	R 14 438	R 14 253	R 15 498	8.7%	7.3%
Community, social and personal services industry	R 712	R 1 010	R 546	-45.9%	-23.3%
Construction industry	R 175	R 183	R 134	-26.8%	-23.4%
Electricity, gas and water supply industry	R 725	R 73	R 37	-49.3%	-94.9%
Manufacturing industry	R 4 044	R 4 443	R 6 316	42.2%	56.2%
Mining and quarrying industry	R 928	R 627	R 524	-16.4%	-43.5%
Real estate and other business services industry	R 4 409	R 4 097	R 3 761	-8.2%	-14.7%
Transport industry	R 1 757	R 1 962	R 2 095	6.8%	19.2%
Trade industry	R 1 688	R 1 858	R 2 085	12.2%	23.5%
Total expenditure	R 919 753	R 961 554	R 906 608	-5.7%	-1.4%
Community, social and personal services industry	R 23 316	R 30 039	R 25 862	-13.9%	10.9%
Construction industry	R 58 119	R 53 472	R 52 755	-1.3%	-9.2%
Electricity, gas and water supply industry	R 4 330	R 4 841	R 4 877	0.7%	12.6%
Manufacturing industry	R 202 211	R 244 180	R 236 877	-3.0%	17.1%
Mining and quarrying industry	R 16 072	R 13 653	R 12 757	-6.6%	-20.6%
Real estate and other business services industry	R 151 323	R 160 869	R 163 252	1.5%	7.9%
Transport industry	R 56 287	R 48 860	R 50 191	2.7%	-10.8%
Trade industry	R 408 095	R 405 640	R 360 037	-11.2%	-11.8%
Total income	R 944 847	R 1 029 622	R 968 318	-6.0%	2.5%
Community, social and personal services industry	R 28 259	R 30 718	R 29 317	-4.6%	3.7%
Construction industry	R 58 359	R 55 960	R 57 350	2.5%	-1.7%
Electricity, gas and water supply industry	R 5 031	R 6 295	R 6 483	3.0%	28.9%
Manufacturing industry	R 207 138	R 260 076	R 249 094	-4.2%	20.3%
Mining and quarrying industry	R 15 045	R 14 313	R 13 502	-5.7%	-10.3%
Real estate and other business services industry	R 165 602	R 176 189	R 175 055	-0.6%	5.7%
Transport industry	R 59 819	R 53 656	R 54 339	1.3%	-9.2%
Trade industry	R 405 594	R 432 415	R 383 178	-11.4%	-5.5%
Turnover	R 920 674	R 993 559	R 930 077	-6.4%	1.0%
Community, social and personal services industry	R 25 593	R 21 967	R 21 205	-3.5%	-17.1%
Construction industry	R 57 901	R 55 354	R 55 698	0.6%	-3.8%
Electricity, gas and water supply industry	R 4 829	R 5 998	R 6 043	0.8%	25.1%
Manufacturing industry	R 200 422	R 249 743	R 237 422	-4.9%	18.5%
Mining and quarrying industry	R 14 189	R 12 450	R 11 850	-4.8%	-16.5%
Real estate and other business services industry	R 157 393	R 167 936	R 166 239	-1.0%	5.6%
Transport industry	R 58 881	R 52 419	R 52 802	0.7%	-10.3%
Trade industry	R 401 466	R 427 692	R 378 818	-11.4%	-5.6%

Implications for the SMME sector

From a size perspective, the latest quarterly results put the total number of SMMEs right in the middle of the range estimated from the previous two surveys (i.e. 17Q1 and 17Q3). **The number of SMME owners (i.e. employers and own account workers) was measured at 2.44 million (or 14.7% of aggregate employment)** and the range indicated previously was 2.3 to 2.5 million (i.e. between 13.7% and 15% of employment).

SMME start-ups require special assistance in the current challenging economic climate

However, in two important respects the size of the sector declined to below the ranges indicated previously, i.e. in terms of **SMME employment** (only 6.4 million compared to a range estimated at 6.9 to 8.1 million) and the **SME sector's contribution to economy-wide turnover**, which slipped to 40% (compared to an estimated range of 41% to 42%). While the latter deviation is marginal the loss of SMME employment is not and clearly a sign of the difficult economic conditions. It appears to be particularly new ventures that are suffering. **The singular implication from the 2018Q1 SMME survey is that SMME start-ups (say, enterprises of three years and younger) require special assistance in the current economic climate.** The macro-economic outlook over a 12-month time horizon remains clouded, suggesting this development assistance will remain in high demand in the SMME sector.

On the positive side, surviving SMEs display adaptability to the poor demand conditions in the economy ...

The evidence continue to point to larger firms and corporations growing at the cost of SMME enterprises, likely to intensify the survivalist nature of the latter-mentioned sector. However, it also appears that the SME sector (i.e. excluding the micro enterprises for the moment) manages to adapt to the poor demand conditions in the economy, by succeeding to generate higher profits and increasing their share of the profit pie and that is after also expanding their share of spending on employment costs. Unfortunately, it would appear that those remaining in employment attract this higher spending in view of the sharp decline reported in SMME employment.

An improvement in the domestic economic outlook will benefit the SMME sector

The SA economy remains poised for faster growth, which will benefit the SMME sector. The shape of the projected business cycle may have changed somewhat pending the realities of the Zuma-Ramaphosa political transition and the upcoming national election. **The 2019 election may be another hurdle to cross before greater economic policy certainty will transpire, boosting latent business fixed investment and job creation.** In terms of the business cycle trajectory, it appears the next 12 months will deliver more of the same, with an economy bumping along the bottom. Survival will be the name of the game, but this should not preclude any plans for expansion. The current macro forecasts centre on 2% for next year, which will be an improvement.

The WTTC projects a record tourism year for South Africa in 2018. This sector can continue bucking the general business cycle trend. Furthermore, the release of broadcast spectrum to mobile network operators can go a long way to boosting connectivity and the associated opportunities in the ICT sector (e.g. app development, video and music streaming). **Faster and more affordable broadband access remains a tough nut to crack, but any progress in this regard will relieve one of the key infrastructure constraints in the economy.** This will also have spinoffs to the manufacturing sector, which will directly

benefit from the digital migration project in television (e.g. revitalising the electrical machinery subsector, with the manufacture of set-top boxes, digital terrestrial television aerials and satellite dishes). The growth of the ICT sector does not only provide opportunities for entrepreneurs, but engaging with the latest (and lasting) developments in this sector should also benefit the small business sector and the wider economy.

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