SMME Quarterly Update
3rd Quarter 2022

The Small Enterprise Development Agency

SMALL ENTERPRISE DEVELOPMENT AGENCY

an agency of the dsbd

March 2023

Executive summary

The latest results show that the total number of SMMEs rose by a significant 148 000 firms (+5.9% y-o-y). This brought the level of SMMEs back to its pre-COVID level. Meanwhile, the total level of employment in the economy remains below its pre-COVID level. Relative to 2021Q3, the number of SMME owners rose by 11.6% to 2.68 million. **On an annual basis, the 17% increase in formal SMMEs is encouraging – albeit it that the majority of SMMEs still operate in the informal space**.

In the third quarter of 2022, the nominal turnover of SMEs was 6.1% higher than a year before. This is below the consumer inflation rate of 7.7% over the same period, pointing to a real contraction. In line with the global surge in input costs and inflation, the purchases (of inventories) by SMEs increased by 9.1%, which is more than the increase in turnover. Consequently, profits fell by nearly 7% and employees were paid 2.5% less. On a positive note, capital expenditure surged by a hefty 21%.

According to the IMF, global economic growth slowed from 6.2% in 2021 to 3.4% in 2022. The rapid reopening of the Chinese economy following the government's decision in late 2022 to abandon its strict zero-COVID policy will be an important boost to global growth in 2023. However, in developed countries, high inflation in the first half of 2023 and the lagged, cumulative impact of aggressive policy interest rate hikes in 2022 should weigh on economic activity in the next 12 months. In all, the IMF forecast was for global growth to slow to 2.9%, with a more pronounced slowdown in G7 countries (from 2.7 to 1.2%) slightly outweighed by faster growth in EMs.

For the calendar year 2022, real GDP growth was 2% y-o-y in South Africa. This is a meaningful moderation from the bounce-back growth of 4.9% achieved in 2021. Compared to advanced economies, the pace of our recovery has slowed in 2021 with shocks such as intense and frequent load-shedding, natural disasters and strikes further derailing South Africa's progress. **The BER downwardly revised its growth forecast to 0.3% in 2023, while real GDP growth is expected to accelerate to 1.4% in 2024. The energy constraint should have lessened somewhat by 2024.** Over the medium term, growth should benefit from the expected pick-up of private sector investment on green energy projects.

KEY INDICATORS	2021Q3	2022Q2	2022Q3	q-o-q change	y-o-y change
Number of SMMEs	2 404 564	2 535 238	2 683 602	5.9%	11.6%
Number of formal SMMEs	677 786	680 830	792 838	16.5%	17.0%
Number of informal SMMEs	1 641 859	1 777 887	1 791 317	0.8%	9.1%
Number jobs provided	9 758 313	9 310 816	n/a	n/a	n/a
% operating in trade & accommodation	38.1%	39.5%	39.2%	-0.4% pts	1% pts
% operating in community services	13.5%	13.5%	14.6%	1.2% pts	1.2% pts
% operating in construction	13.1%	14.4%	14.4%	0% pts	1.3% pts
% operating in fin. & business services	16.0%	13.8%	12.1%	-1.7% pts	-3.9% pts
% black-owned formal SMMEs	73.6%	75.5%	75.7%	0.2% pts	2.1% pts
% contribution of SMEs* to turnover of all enterprises#	-55.5%	38.3%	36.1%	-2.1% pts	91.7% pts

**excluding micro enterprises*

#excluding agriculture, financial intermediation, insurance and government institutions

[1]The contribution of SMEs to GDP is contested. An estimate would 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 is set to slow further

According to the latest estimate by the International Monetary Fund (IMF), global economic growth slowed from 6.2% in 2021 to 3.4% in 2022. This follows a 3% slump in 2020 and is more or less in line with the average growth rate recorded from 2014 to 2019. Advanced economies (taking the G7 country grouping as a proxy) grew at a faster pace of 2.7% compared to their pre-COVID average of 1.9% growth. In 2022, on the back of much slower growth in China, emerging markets (EMs) expanded by a slightly slower 3.9% relative to 4.42. **However, the rapid reopening of the Chinese economy following the government's decision in late 2022 to abandon its strict zero-COVID policy will be an important boost to global growth in 2023.** Periodic, draconian lockdowns of major cities were a major drag on economic activity, causing supply chain disruptions which impacted the rest of the world and leading to stop-start growth and little momentum build-up in the Chinese economy. Positively, the latest data suggests that consumer spending and industrial activity have rebounded at a rapid pace in 2023, which should have positive global spillovers. The IMF now expects Chinese real GDP growth of just above 5% in 2023, up from a projection of 4.4% in October. Some private sector forecasters have pencilled in Chinese growth of more than 6% for this year. Furthermore, on a positive note, China is not facing high inflation as in many other parts of the world, which means it does not have to implement tighter monetary policy which could curtail growth.

In Europe, the near-term outlook has improved due to a sharp decline in gas prices amid ample inventories and a mild winter. However, the risk of an energy crisis during the next winter remains. Beyond 2023, an expected easing of inflationary pressures and the associated end of the European Central Bank's (ECB) interest rate hiking cycle should support a recovery in Eurozone household spending power, laying the foundation for improved real GDP growth. Meanwhile, data suggests that the US real economy and labour market remain fairly solid, despite the surge in the policy interest rate in an attempt to quell inflationary pressure. That said, the US housing market is taking strain and, at the time of writing, financial markets were grappling with the fallout of the collapse of Silicon Valley Bank. While a full-blown banking crisis seems unlikely at this stage, it is inevitable that the US economy will slow down or even enter a recession some time in 2023 or 2024.

In January, the IMF forecast was for global growth to slow to 2.9%, with a more pronounced slowdown in G7 countries (from 2.7 to 1.2%) slightly outweighed by faster growth in EMs. In developed countries, still high inflation in the first half of 2023 and the lagged, cumulative impact of aggressive policy interest rate hikes in 2022 should weigh on economic activity in the next 12 months or so. Growth by EMs is set to pick up slightly to 4% with a further acceleration to 4.2% in 2024. Closer to home, growth in Sub-Saharan Africa slowed to 3.8% in 2022, from 4.6% in 2021, and is set to remain unchanged at that rate in 2023 before accelerating to 4.1% in 2024.

Inflation in advanced economies has likely peaked

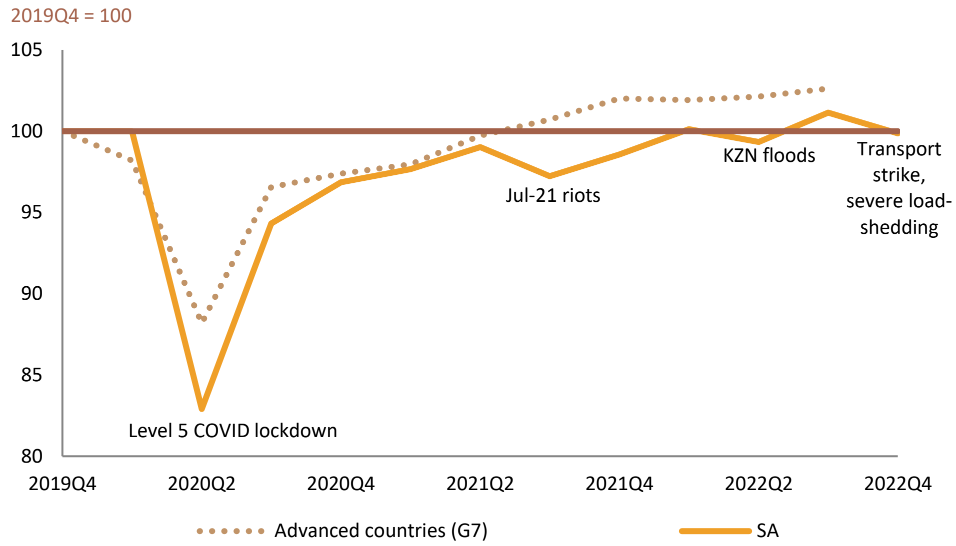
In major advanced economies, headline consumer inflation (CPI) has come down from the multi-decade highs reached in 2022. However, inflation in major economies should still be elevated early this year, which means that CPI inflation is likely to again average above central bank targets for calendar year 2023. Therefore, the prognosis at this stage is for G7 CPI inflation to only move sustainably back to target (around 2%) from 2024 onwards. The move towards the target rate is set to be somewhat earlier in the US than in the EZ. **Nonetheless, with the rate of inflation and real GDP growth both expected to moderate further in developed countries during 2023, and because the full impact of the most aggressive policy interest rate increases in four decades during 2022 still need to work their way through the economy, major central banks have started to scale back the pace of hikes, albeit still signalling a plan to continue hiking for some time.** Indeed, in the US in particular, the expectation was that the US Federal Reserve (Fed) would not only have to continue hiking rates, but that rates were also have to remain higher for longer than previously anticipated. However, due to the broader financial market implications and likely tightening of credit standards following the Silicon Valley Bank collapse, the Fed may opt to pause its rate hiking cycle now to aid with financial stability and may have to tighten less in total. In fact, while it is too soon to tell, the Fed may be forced to cut its policy interest rate should a full-blown banking and financial crisis develop.

South Africa

Size of the economy is smaller than it was three years ago

Real GDP performed notably worse than expected in the fourth quarter of 2022, declining by 1.3% q-o-q. This followed a surprisingly robust, and upwardly revised, 1.8% q-o-q increase during 2022Q3. As highlighted in Figure 1, a range of domestic shocks since 2021 prolonged the SA GDP recovery from the COVID lockdown-induced crash in 2020Q2. Indeed, after the GDP decline in 2022Q4, the level of real GDP dipped back to below the pre-COVID level in 2019Q4. **For the calendar year 2022, real GDP growth was 2% y-o-y. This is a meaningful moderation from the bounce-back growth of 4.9% achieved in 2021.** Compared to advanced economies, the pace of our recovery has slowed in 2021 with shocks such as intense and frequent load-shedding, natural disasters and strikes further derailing South Africa's progress. However, there was some support from reasonable global real GDP growth and the reopening of the domestic economy. All the remaining local COVID-19 restrictions were lifted in late-June 2022. As a result, the second half of 2022 was the longest uninterrupted period without any mobility restrictions since 2019. While difficult to quantify, the increased activity, especially in the services sector, that resulted from reopening cushioned GDP growth amid worsening power cuts in the latter part of 2022. There was also some technical support from inventory investment in the first three quarters of 2022.

Figure 1: The stop-start economy in South Africa (level of real GDP)



Source: Stats SA, OECD, own calculations

GDP growth set to slow further in 2023

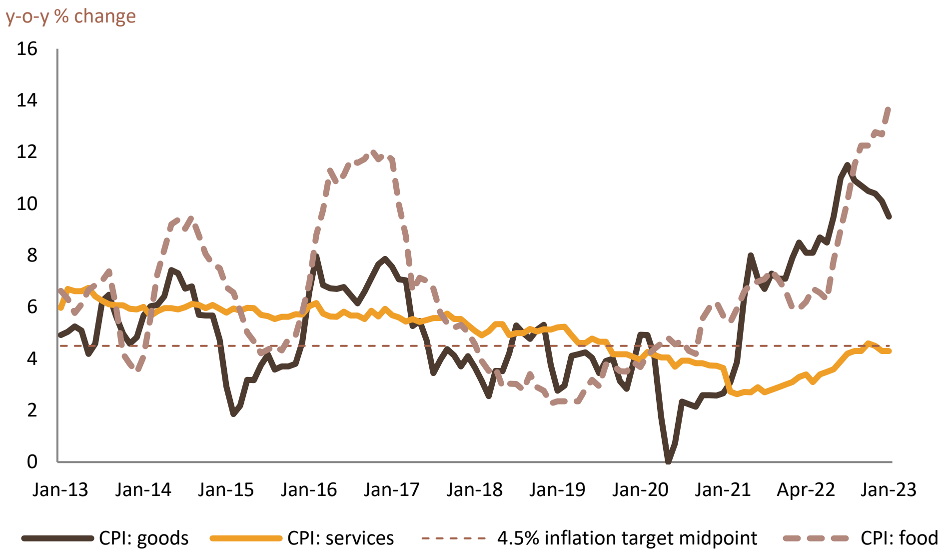
These supporting factors are set to fade in 2023. Combined with the severe logistical constraints on Transnet's bulk railway lines, domestic export volumes are set to be weak over the next 12 months. Domestically, much of the COVID reopening boost is likely now behind us. Finally, inventory investment is not expected to repeat the contribution made to GDP growth in 2022. And load-shedding is set to be worse in 2023 than last year. **As such, the BER downwardly revised its growth forecast to 0.3% in 2023. This would be a further material slowdown from 2022. Real GDP growth is expected to accelerate to 1.4% in 2024. The energy constraint should have lessened somewhat by 2024.**

Over the medium term, growth should benefit from the expected pick-up of private sector investment on green energy projects. While the green energy investment boom will boost the private capex numbers for years to come, there is a concern about non-energy private capex in the near term. Across sectors, leading companies have of late raised the possibility of reducing or diverting capex budgets to free up funds to finance the cost of running diesel generators to ensure business continuity. Concern about a weak domestic economic outlook suggests that while many firms need to invest just to sustain current operations, there is little appetite for investment to enable capacity expansion. However, on the upside, there could be even more or faster investment in green energy projects that will lift private capex growth above the BER's latest forecast. There is however also the risk that the negative impact of the intensified power cuts and general uncertainty is underestimated, and that non-energy investment could be even weaker than currently expected.

In line with global price trends, from more than a decade high of 7.8% y-o-y in July 2022, the rate of increase for South African consumer inflation (CPI) slowed steadily to a still-elevated 6.9% in January 2022. For goods, a sharp falloff in the annual rate of increase in petrol has been a key driver of the easing. Indeed, the increase for CPI petrol halved to 13% y-o-y in January 2023, down from almost 26% y-o-y recorded in 2022Q4. This means that despite food prices remaining elevated, goods inflation has likely peaked (see Figure 2) which should contribute to total inflation also moving lower. **Indeed, headline CPI is set to slowly move back to the South African Reserve Bank's (SARB) preferred rate of 4.5% in the latter**

part of the year. On average, the rise in inflation is set to average around 5.5% in 2023 before slowing to 4.5% next year.

Figure 2: Consumer inflation peaked mid-2022, but remains elevated



Source: Stats SA

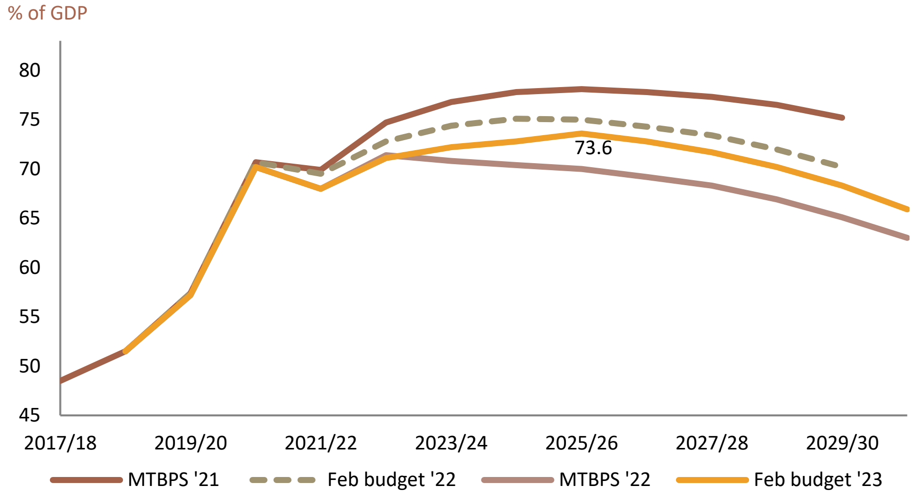
Nearing the end of the domestic hiking cycle

Poor local growth dynamics and the promising 12- to 24-month baseline outlook for consumer prices suggest that after 375bps worth of local policy interest rate increases since November 2021, the end of the domestic policy interest rate hiking cycle is close. **The BER expects a final 25bps hike in early 2023. Thereafter, the policy rate is projected to remain on hold through 2023 as the SARB gains comfort that inflation will sustainably return to 4.5%. By early-2024, there should be sufficient confirmation of this for the SARB to start a modest interest rate-cutting cycle**. Cuts totalling 50bps are pencilled in for 2024.

SDR-grant extended by another year; future income support likely

On the fiscal front, National Treasury's budget in February was generally well received by the business community and investors. The major budget announcements included a package of Eskom debt relief totalling R254bn over the next three fiscal years, no increase in any of the major tax rates, and projected primary (excluding interest payments) budget surpluses from 2022/23 onwards. The Eskom debt relief comes with several conditionalities, including that the utility prioritises capital expenditure on the country's transmission and distribution network. In addition, Eskom may only use the funds to settle debt and interest payments. However, even taking account of the Eskom assistance, the debt trajectory remains less onerous than outlined in the 2022 Budget (**Error! Reference source not found.**3), but is w orse compared to the picture presented during the medium-term budget statement in October 2022.

Figure 3: Eskom assistance drives debt deterioration relative to the 2022 MTBPS



Source: National Treasury

Some tax incentives and relief from fuel levy hikes

The Budget also included some tax-related proposals important for households and businesses. This includes a temporary extension of a tax incentive for businesses to promote renewable energy investments. Furthermore, a rooftop solar tax incentive is proposed for households. According to this, individuals who invest in solar PV at their private residence will receive a tax rebate amounting to 25% of the cost (up to R15 000) of any new and unused solar PV panels. As in 2022, the general fuel and Road Accident Fund (RAF) levies will remain unchanged, providing some relief for households and firms. Finally, the existing diesel refund system in place since 2000 for primary sectors, which provides full or partial relief from the fuel and RAF levies, will be extended to the manufacturers of foodstuffs. This will take effect from 1 April 2023, with refund payments taking place once the system is developed. The measure, implemented to limit the impact of the electricity crisis on food prices, will be in place through the end of March 2025.

SMME quarterly overview for 2022Q3

The SMME survey results are extracted from the 2022Q3 Quarterly Labour Force Survey (QLFS) by Stats SA. **There are some caveats to keep in mind when looking at the data, especially when considering the quarterly and annual movements.** Although less pronounced than during 2021, when annual data was compared to the strictest phases of South Africa's lockdown in 2020, the 2022 data to some extent still benefits from so-called base effects. During 2021, more activity was allowed compared to 2020, but there were still alcohol bans, curfews and limitations on gathering sizes which would have negatively impacted business and employment in 2021, but not in 2022. More importantly, however, was that due to the strict lockdown, Stats SA had to switch to telephone-assisted interviews to conduct the quarterly labour force survey during 2020 and 2021 instead of their usual in-person method. As a result, the response rate fell to just 44.6% in 2021Q4. A smaller sample means a larger standard error, which means that the results are less precise and less accurate. The reliability of the results also declines with a lower sample size, while there is also the possibility of a so-called selection bias in the results (for example, respondents need a phone to participate in the survey). In the first quarter of 2022, lockdown regulations had sufficiently eased for Stats SA to shift back to computer-assisted personal interviewing (which was the mode used prior to the

Some caution is required when interpreting annual changes in employment and SMME data pandemic). The response rate has recovered to 85.1% by 2022Q3. **By now, the improved response rate means that the survey provides a reasonably accurate picture of labour market conditions compared to the surveys that took place through 2021 and earlier in 2022.** However, it is difficult to assess whether all the additional jobs counted in 2022Q3 were indeed created in that specific quarter or were created earlier, but only captured by the survey in 2022Q1. This means that the magnitude of the job growth may overstate the actual improvement, and this has implications for the interpretation of the movements in the SMME indicators too. **Until the sample size has stabilised at pre-pandemic levels for at least a year, the movements need to be interpreted with caution.**

Total number of SMMES back at pre-COVID level

The latest results show that the total number of SMMEs rose by a significant 148 000 firms (+5.9% y-o-y). This brought the level of SMMEs back to its pre-COVID level. Meanwhile, the total level of employment in the economy remains below its pre-COVID level. Relative to 2021Q3, the number of SMME owners rose by 11.6% to 2.68 million. **On an annual basis, the 17% increase in formal SMMEs is encouraging – albeit it that the majority of SMMEs still operate in the informal space**. Employment provided by SMMEs rose by 1.1% q-o-q (10.2% y-o-y) as many (new and existing) SMMEs do not provide employment opportunities for additional workers. Self-employment plays an important role towards social development. Many people rely on the income generated by a self-employed person, or SMME business owner, which contributes positively to local communities and broader economies in which they operate.

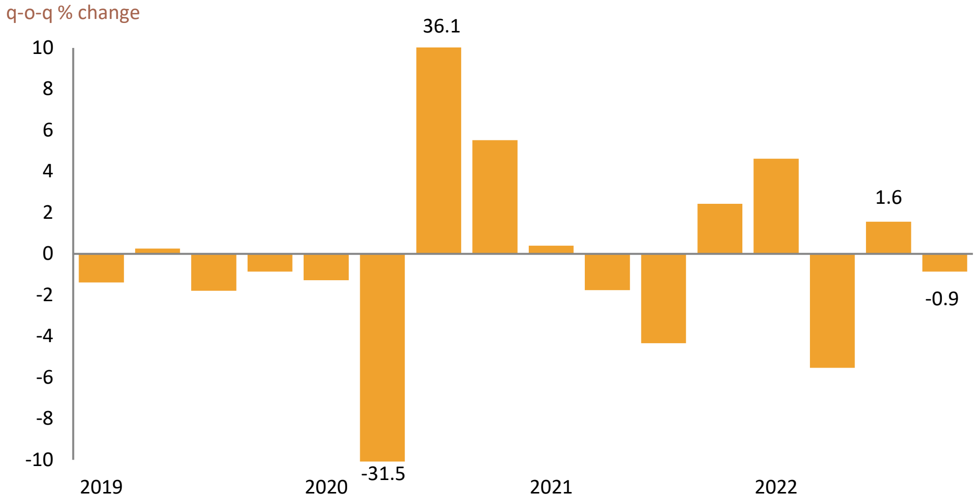
This section of the report provides a short overview of the latest developments and outlook for the manufacturing, ICT and tourism sectors. These sectors have been identified by SEDA as growth areas for SMMEs.

Manufacturing

Factories hit by various shocks in 2022

The South African manufacturing sector experienced a tumultuous 2022, with numerous shocks and load-shedding keeping the sector from generating any real recovery momentum. These include severe flooding in April in KwaZulu-Natal, which had a lingering impact on vehicle manufacturing in particular, a strike derailing exports in the third quarter and intense and frequent load-shedding during the second half of the year. Looking at the latest GDP data, the sector contracted on a quarterly basis in the fourth quarter. The sector declined by 0.9% following 1.6% growth recorded in the previous quarter – see Figure 4. The sector contracted by 0.5% compared to the fourth quarter of 2021.

Figure 4: Another quarterly decline in gross value added by the manufacturing sector



Source: Stats SA

Very subdued business confidence in the manufacturing sector

Looking at the latest survey data by the BER, business confidence among manufacturers fell by a significant 9 points to 17 in 2023Q1[1]. This is the most pessimistic respondents have been since the strictest phase of the COVID-19 lockdown in the first half of 2020. At the current level, less than two out of ten respondents were satisfied with prevailing business conditions. While the survey largely covers larger firms in the formal manufacturing sector of the economy, it can be argued that SMMEs, including those operating in the informal space, face the same challenges – if not more pronounced. For example, larger firms are likely to have a bigger budget or reserves to deal with temporary shocks to production and income. Larger firms may also be able to diversify input supply chains or source markets without disrupting their business. It may also be easier of larger firms to access credit or to have internal financing available to purchase alternative energy generators to cope with Eskom load-shedding, while smaller firms have to stop production and cannot recoup any losses. Back to the survey results**, respondents' comments captured by the survey make it clear that business confidence is negatively impacted by load-shedding, water shortages and other service delivery failings. Continued friction at the local ports which hampers the ability to export, and import, is also a cause of concern to many respondents.** Load-shedding negatively impacts production, while alternative power sources – especially generators – put an additional cost burden on already struggling manufacturers. It remains to be seen whether producers are able to push these costs onto consumers without suffering from a decline in demand due to higher prices. The frequent power outages and power surges when electricity returns also damage machinery and equipment, this requires additional maintenance (further adding to the cost burden) and results in further downtime. Over time this also filters through to investment and employment decisions. **Despite the current environment already being so challenging, a net majority of 45% of respondents expects business conditions to worsen further in twelve months' time.** While the load-shedding situation is likely to remain very tough over the short term and through winter, the hope is that there will be some improvement by this time next year which could help conditions turn out slightly better than feared.

[1] A copy of the report can be found here: **https://www.ber.ac.za/BER%20Documents/Manufacturing-Survey/?doctypeid=1067**

ICT

Green technologies provide interesting opportunities for SMMEs

A recent development within the broader ICT field is the emergence of so-called green technologies. These are aimed to produce the same amount and quality of goods and services, but with a smaller carbon footprint. This could be as simple as not travelling for a business meeting, but rather meeting virtually, or redesigning a production process to limit wastage. **While the adoption of digital and green technologies may slow down the pace by which the formal sector adds jobs, it could create new opportunities for small businesses and self-employment. Services that previously needed to be supplied inhouse, can be outsourced to virtual platforms. This leverages smaller companies' ability to scale up, compete with bigger companies and service a global market instead of being bound by geographical proximity**. For example, by using communication technologies and platforms like Zoom and Teams, hybrid workspaces can be developed without the financial burden of brick-and-mortar offices and team members from across the globe can work together in real time. The potential of cooperating across borders becomes even more viable with real-time translation services and recording and editing options. Taking this a step further, and while not a green technology per se, a younger workforce also means that apps such as TikTok and other easily accessible digital platforms can be used to develop a still human-centric product and service. Often advertising on these platforms comes with significantly lower costs compared to traditional media and it could be easier to reach the intended target market.

Moving back to green technologies, unfortunately, according to the United Nations Conference on Trade and Development (Uncd) Technology and Innovation Report 2023[2], it has so far mostly been advanced economies which have been benefitting from the trend However, Unctad states that developing countries can still benefit if they ensure their economies become more diversified, productive and competitive to take advantage of so called frontier technologies, such as blockchain, drones, gene editing, nanotechnology and solar power. In the latter field, however, South Africa's forced roll-out of green energy projects to mitigate the impact of load-shedding may give it an advantage over time, as Unctad states early adopters of these frontier technologies are able to move ahead faster and create permanent advantages. In this regard, Unctad calculates a frontier technology readiness index, based on ICT skills, research and development, industrial capacity and finance indicators. South Africa is ranked 56th out of 166 countries, well ahead of all its sub-Saharan African peers. To further improve its readiness, South Africa needs to improve its education pipeline through the science, technology, engineering and math fields.

[2] A copy of the report can be found here: **https://unctad.org/tir2023**

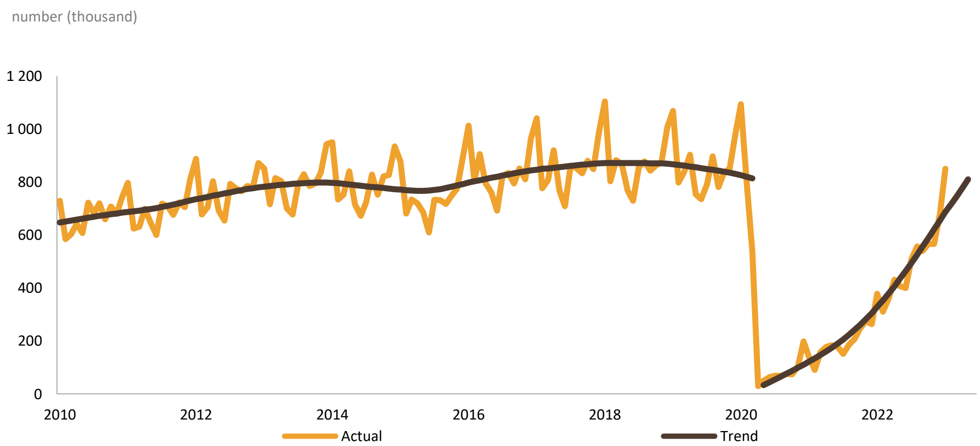
Tourism and hospitality

Due to the complex nature of the industry, tourism sector data is only made available with a significant lag. This means that only now do we get a clearer picture of the impact of the COVID-19 pandemic on South Africa's tourism sector. According to the 2020 Tourism Satellite Account for South Africa, published by Stats SA[3], inbound tourist visitors fell from 14.8 million in 2019 to just 3.9 million in 2020. This resulted in a 70.5% drop in inbound tourism expenditure, with all product categories struggling. The figure would have likely been worse if were not for the first three months of 2020 (part of the usual high season of tourism to SA) being relatively undisturbed. Domestic tourism also struggled, but fell by slightly less as local travel was allowed before international tourism picked up and some local spending which may have otherwise taken place overseas, likely diverted 'back home' during this time. Domestic tourism expenditure still fell by 32.8% y-o-y in 2020. **As a result, the tourism sector's direct contribution to GDP fell to just 2.2%. WThismeans that in 2020, the sector was even smaller than utilities, agriculture and construction. As to be expected, the number of direct tourism jobs also plummeted in 2020. The tourism sector saw job numbers fall fofrom80 096 to just 459 533.** The biggest job losses were in road passenger transport and retail trade of tourism connected products. Worryingly, due to the myriad of linkages throughout the economy, the sector supports a large number of semi-skilled jobs and provides many opportunities in the informal economy as well – which may not all have been captured by the satellite account. The sector is also an important employer of women, with almost one out of the three jobs in the sector occupied by a black female.

The size of the tourism sector fell in 2020

However, while it will be some time before official data can confirm expenditure and GDP trends, the latest foreign tourism arrival data points to a strong recovery in tourism in the 2022/23 high season – see Figure 5. **This bodes well for the sector's contribution to GDP and job creation. The re-opening of the Chinese economy in late 2022 means that we should see a pick-up in arrivals from China through 2023 as well, further boosting activity in the sector, with ripple effects for SMMEs throughout the industry.**

Figure 5: Overnight tourists to South Africa



Source: Stats SA

[3] A copy of the repot can be found here: **https://www.statssa.gov.za/publications/Report-04-05-07/Report-04-05-072020.pdf**

Proxy numbers for SMMEs

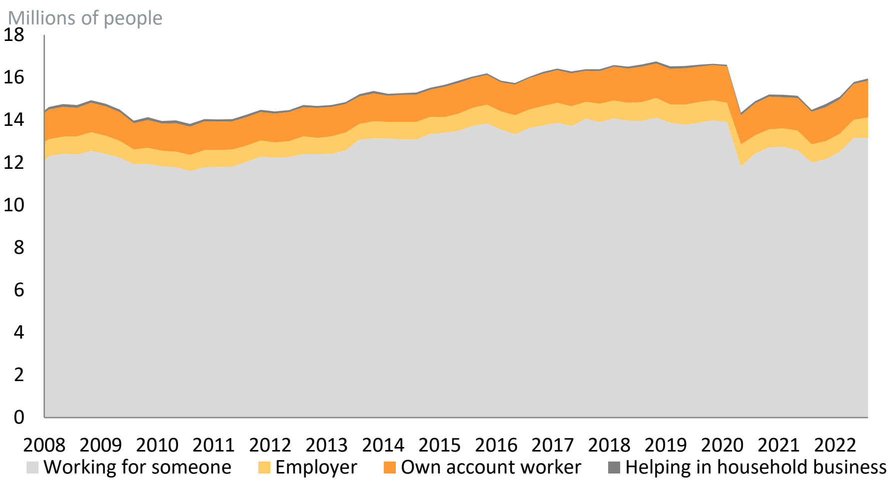
Derived from the Quarterly Labour Force Survey[4]

Number of SMMEs

SMME back at the pre-pandemic level in 2022Q3

In the third quarter of 2022, the total number of SMME owners rose by a significant 148 000 firms (5.9%). Thereby increasing back to its pre-COVID level for the first time since the start of the pandemic. This improvement was in conjunction with a smaller bounce in GDP over the same period (1.8% q-o-q). The GDP recovery was supported by the resumption of normal operations at the Durban harbour, following disruptions on the back of severe flooding in April 2022. Adding to the bounce in small firms are perhaps the continued recovery in tourists who arrived by air, which was up by 19% in the third quarter. *Of all employed people, 6% also employed others in 2022Q3, while 10.8% worked for themselves. Combined at 16.8% (or 2.68 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	2021Q3		2022Q2		2022Q3		Quarterly change		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
Employer	866 747	6.0%	853 917	5.4%	958 429	6.0%	104 512	12.2%	91 682	10.6%
Own account worker	1 537 817	10.6%	1 681 321	10.7%	1 725 174	10.8%	43 853	2.6%	187 357	12.2%
SMME owners	**2 404 564**	**16.6%**	**2 535 238**	**16.1%**	**2 683 603**	**16.8%**	**148 365**	**5.9%**	**279 039**	**11.6%**
Working for someone	11 986 519	82.8%	13 158 476	83.4%	13 157 761	82.5%	-715	0.0%	1 171 242	9.8%
Helping in household business	87 889	0.6%	90 628	0.6%	109 259	0.7%	18 631	20.6%	21 370	24.3%
Total employed	**14 478 972**	**100.0%**	**15 784 343**	**100.0%**	**15 950 623**	**100.0%**	**166 280**	**1.1%**	**1 471 651**	**10.2%**

Source: QLFS of Stats SA

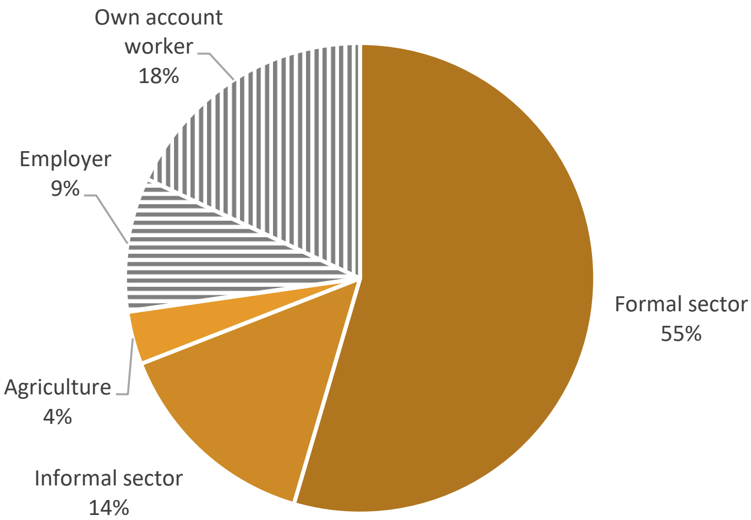
[4] Please note there is substantial volatility in the sub-distributions of the SMMEs; most of this might be due to sampling noise.

Employment provided by SMMEs

SMMEs provide most jobs in SA

As explained earlier, Stats SA reintroduced face-to-face interviews in the Labour Force Survey in the first quarter of 2022, which might have an impact on the results. Unfortunately, they also only publish results on the employment positions provided by SMME owners up to the second quarter of 2022. Against this backdrop, the survey recorded that SMMEs provided 9.31 million jobs in the second quarter of 2022. This constitutes 59% of total employment in South Africa at the time. Of the 9.31 million jobs, close to 27% was for the SMME owners themselves, and the balance of 73% was for other workers they hired.

Figure 7: Employment provided by SMMEs in 2022Q2



Source: QLFS of Stats SA

Table 2: Employment provided by SMMEs

	2021Q3		2022Q2		2022Q3		Quarterly change		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
Formal sector	4 575 128	46.9%	5 078 663	54.5%	n/a	n/a	n/a	n/a	n/a	n/a
Informal sector	2 134 474	21.9%	1 353 259	14.5%	n/a	n/a	n/a	n/a	n/a	n/a
Agriculture	631 057	6.5%	338 555	3.6%	n/a	n/a	n/a	n/a	n/a	n/a
Private households	13 091	0.1%	5 101	0.1%	n/a	n/a	n/a	n/a	n/a	n/a
Provided to others	**7 353 749**	**75.4%**	**6 775 578**	**72.8%**	**n/a**	**n/a**	n/a	n/a	n/a	n/a
*% Female**		*36.3%*		*38.4%*		n/a	n/a	n/a	n/a	n/a
Employer	866 747	8.9%	853 917	9.2%	n/a	n/a	n/a	n/a	n/a	n/a
Own account worker	1 537 817	15.8%	1 681 321	18.1%	n/a	n/a	n/a	n/a	n/a	n/a
Total	**9 758 313**	**100.0%**	**9 310 816**	**100.0%**	n/a	n/a	n/a	n/a	n/a	n/a

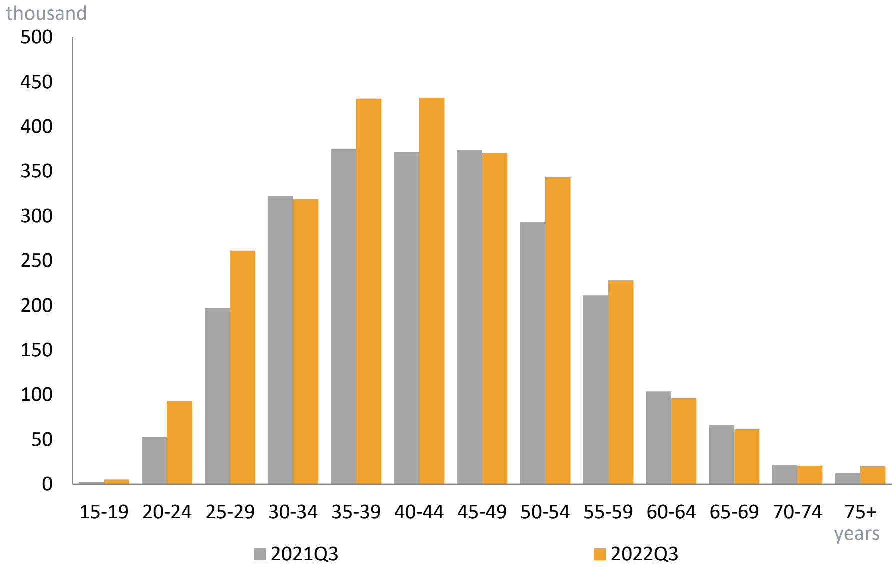
Source: QLFS of Stats SA ** of all people working for private enterprises, of which 84% worked for SMMEs over the last 5 years*

SMME owners by age

Unemployed youth opting for own business to survive

Though the number of SMME owners increased substantially in the third quarter of 2022 (and the year up to then), the age distribution remains relatively similar to a year before. Most SMME owners are in the age group of 25 to 60 years old. This makes sense. People younger than 25 may still be in training or education, and after age 60 many owners start to retire. However, despite the general distribution remaining more or less unchanged, some trends are visible. Compared to a year before, the age group 20 to 24 grew by nearly 76%, perhaps as the unemployed youth opt to start their own business as a survival mechanism due to the difficulty of finding employment elsewhere. Since many more young people joined the SMME ranks, and more older people retired, the average age dropped slightly from the long-term average of 44 years to 43 years.

Figure 8: SMME owners by age



Source: QLFS of Stats SA

Table 3: SMME owners by age

	2021Q3		2022Q2		2022Q3		Quarterly change		Yearly change	
Years	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
15-19	2 464	0.1%	2 736	0.1%	5 267	0.2%	2 532	92.5%	2 803	113.8%
20-24	52 975	2.2%	88 723	3.5%	93 139	3.5%	4 416	5.0%	40 164	75.8%
25-29	197 038	8.2%	225 415	8.9%	261 332	9.7%	35 917	15.9%	64 294	32.6%
30-34	322 722	13.4%	316 737	12.5%	318 856	11.9%	2 119	0.7%	-3 866	-1.2%
35-39	374 754	15.6%	380 834	15.0%	431 502	16.1%	50 668	13.3%	56 748	15.1%
40-44	371 748	15.5%	423 622	16.7%	432 586	16.1%	8 964	2.1%	60 838	16.4%
45-49	374 192	15.6%	359 897	14.2%	370 599	13.8%	10 702	3.0%	-3 594	-1.0%
50-54	293 722	12.2%	316 846	12.5%	343 304	12.8%	26 458	8.4%	49 583	16.9%
55-59	211 161	8.8%	230 087	9.1%	228 145	8.5%	-1 941	-0.8%	16 985	8.0%
60-64	103 972	4.3%	89 019	3.5%	96 309	3.6%	7 290	8.2%	-7 664	-7.4%
65-69	66 206	2.8%	58 824	2.3%	61 718	2.3%	2 894	4.9%	-4 488	-6.8%
70-74	21 412	0.9%	22 665	0.9%	20 641	0.8%	-2 024	-8.9%	-771	-3.6%
75+	12 198	0.5%	19 835	0.8%	20 205	0.8%	370	1.9%	8 007	65.6%
Total	**2 404 564**	**100.0%**	**2 535 238**	**100.0%**	**2 683 602**	**100.0%**	**148 364**	**5.9%**	**279 038**	**11.6%**

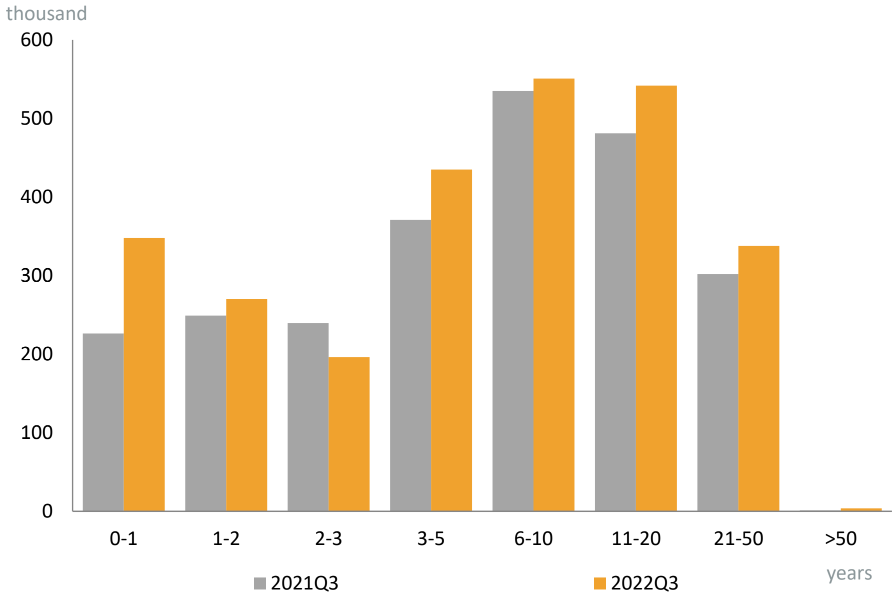
Source: QLFS of Stats SA

Enterprise age of SMMEs

A large number of new SMMEs enter the market

As expected, the increase in the total number of SMMEs was due to nearly 110 000 new businesses that opened. From a more nuanced point of view, the significant increase in firms operating for more than 10 years perhaps reflects dormant firms which have now been reactivated as the economy and thus business opportunities improve post-COVID. In contrast, there was a decline during the third quarter in the number of firms from 1 to 10 years old, implying that less settled and experienced businesses were less able to capitalise on the brief economic recovery.

Figure 9: Enterprise age of SMMEs



Source: QLFS of Stats SA

Table 4: Enterprise age of SMMEs

	2021Q3		2022Q2		2022Q3		Quarterly change		Yearly change	
Years	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
0-1	226 492	9.4%	238 445	9.4%	347 956	13.0%	109 511	45.9%	121 464	53.6%
1-2	249 039	10.4%	294 219	11.6%	270 186	10.1%	-24 033	-8.2%	21 147	8.5%
2-3	239 432	10.0%	210 937	8.3%	196 301	7.3%	-14 636	-6.9%	-43 131	-18.0%
3-5	370 933	15.4%	432 355	17.1%	435 065	16.2%	2 710	0.6%	64 132	17.3%
6-10	534 952	22.2%	556 291	21.9%	550 886	20.5%	-5 405	-1.0%	15 934	3.0%
11-20	481 014	20.0%	499 182	19.7%	541 735	20.2%	42 553	8.5%	60 720	12.6%
21-50	301 599	12.5%	301 098	11.9%	337 823	12.6%	36 726	12.2%	36 224	12.0%
>50	1 104	0.0%	2 710	0.1%	3 649	0.1%	939	34.6%	2 546	230.7%
Total	**2 404 564**	**100.0%**	**2 535 238**	**100.0%**	**2 683 602**	**100.0%**	**148 364**	**5.9%**	**279 038**	**11.6%**

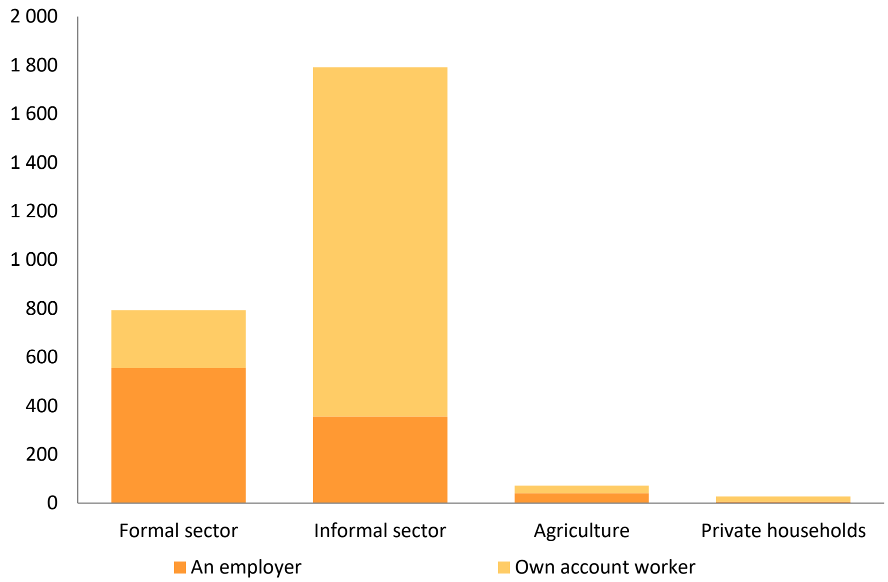
Source: QLFS of Stats SA

SMMEs by formal and informal sector

Share for formal SMMEs recover to the long-term average

The share of SMMEs operating in the informal sector returned to 67% by the third quarter of 2022, after peaking at 70% in the first quarter. As such, the proportion of those operating the in the formal sector recovered from 26% to 30% over the same period. (*However, these changes might also be due to the different sampling method utilised by Stats SA.)* Most SMMEs in the formal sector are employers (70%), while in the informal sector, only 20% employ others besides themselves.

Figure 10: SMMEs by formal and informal sector in 2022Q1



Source: QLFS of Stats SA

Table 5: SMMEs by formal and informal sector in 2022Q3

Type	Formal sector	Informal sector	Agriculture	Private households	Total	Distrib.
An employer	556 396	355 578	41 264	5 191	**958 429**	35.7%
Own account worker	236 442	1 435 739	30 560	22 433	**1 725 174**	64.3%
Total	**792 838**	**1 791 317**	**71 824**	**27 624**	**2 683 602**	**100.0%**
% per sector	29.5%	66.8%	2.7%	1.0%	100%	

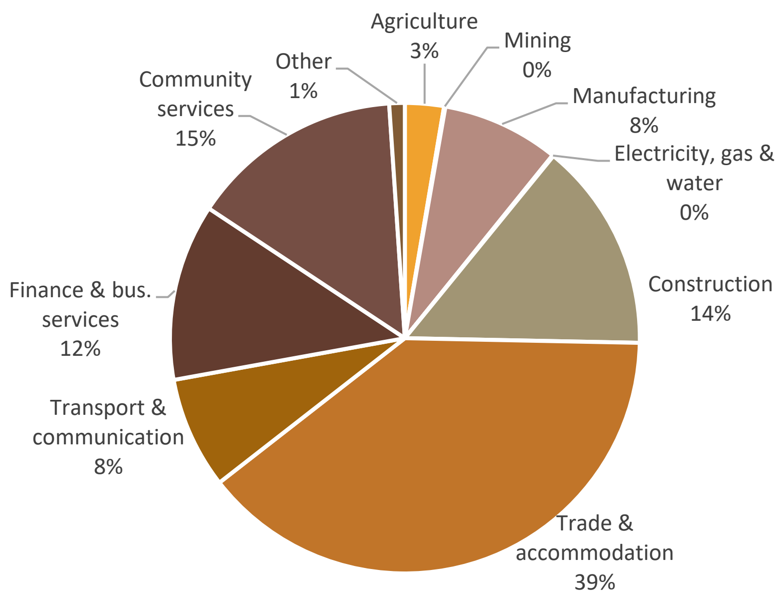
Source: QLFS of Stats SA

SMMEs by industry

Tourism recovery presents new opportunities

In the third quarter of 2022, the increase in SMMEs was most prominent in four sectors of the economy. The rise of just more than 48 000 firms in trade and accommodation could be partially connected to the 19% increase in tourists who arrived by air. Compared to a year ago, around half of the increase in SMMEs was in this sector (134 000), most probably because opening a small tuck shop is an easy option for new entrepreneurs. Of note is the large increase of 71 000 construction sector firms over the year *(this cannot be explained by the flood-damage reparations in KwaZulu-Natal, since this province had a decline in SMMEs).*

Figure 11: SMMEs by industry in 2022Q3



Source: QLFS of Stats SA

Table 6: SMMEs by industry

Industry	2021Q3		2022Q2		2022Q3		Quarterly change		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
Agriculture	63 888	2.7%	56 990	2.2%	71 824	2.7%	14 834	26.0%	7 936	12.4%
Mining	0	0.0%	2 233	0.1%	2 365	0.1%	132	5.9%	2 365	n/a
Manufacturing	198 274	8.2%	218 136	8.6%	216 255	8.1%	-1 882	-0.9%	17 981	9.1%
Electricity, gas & water	2 353	0.1%	4 480	0.2%	1 961	0.1%	-2 519	-56.2%	-392	-16.6%
Construction	315 909	13.1%	365 186	14.4%	386 910	14.4%	21 724	5.9%	71 001	22.5%
Trade & accommodation	917 240	38.1%	1 002 491	39.5%	1 050 996	39.2%	48 505	4.8%	133 755	14.6%
Transport & communication	177 332	7.4%	175 020	6.9%	206 162	7.7%	31 142	17.8%	28 830	16.3%
Finance & bus. services	385 111	16.0%	349 855	13.8%	325 771	12.1%	-24 084	-6.9%	-59 340	-15.4%
Community services	323 426	13.5%	341 316	13.5%	392 701	14.6%	51 386	15.1%	69 275	21.4%
Other	21 032	0.9%	19 532	0.8%	28 658	1.1%	9 126	46.7%	7 626	36.3%
Total	**2 404 564**	**100.0%**	**2 535 238**	**100.0%**	**2 683 602**	**100.0%**	**148 364**	**5.9%**	**279 038**	**11.6%**

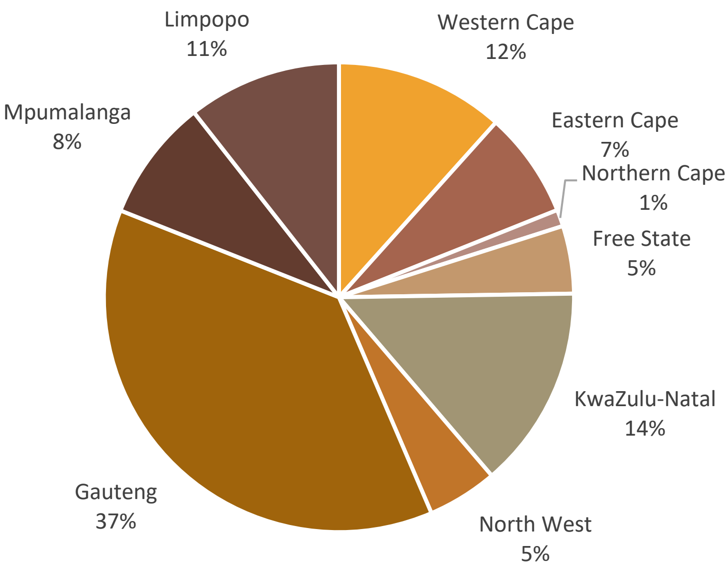
Source: QLFS of Stats SA

SMMEs by province

The large increase in the Northern Cape and Limpopo

In the year to 2022Q3, the number of SMMEs declined only in one province: KwaZulu-Natal. This happened along with an increase in overall employment, implying that many workers in KwaZulu-Natal had the opportunity to work for larger firms. Further, there was a disproportionately large increase in the number of SMMEs operating in the Northern Cape (61%) and Limpopo (42%). These might be due to spin-offs of a general recovery in total employment (up 17.6% in the Northern Cape and 16.7% in Limpopo). At the end, Gauteng remains the province with the most SMMEs (38% of the total), which is in line with its share of the total SA economy (35%).

Figure 12: SMMEs owners by province



Source: QLFS of Stats SA

Table 7: SMMEs by province

Province	2021Q3		2022Q2		2022Q3		Quarterly change		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
Western Cape	260 207	10.8%	261 274	10.3%	312 269	11.6%	50 995	19.5%	52 062	20.0%
Eastern Cape	172 333	7.2%	184 322	7.3%	196 136	7.3%	11 815	6.4%	23 803	13.8%
Northern Cape	19 129	0.8%	23 980	0.9%	30 761	1.1%	6 782	28.3%	11 632	60.8%
Free State	123 269	5.1%	128 095	5.1%	125 152	4.7%	-2 944	-2.3%	1 882	1.5%
KwaZulu-Natal	392 283	16.3%	344 681	13.6%	375 209	14.0%	30 528	8.9%	-17 074	-4.4%
North West	125 790	5.2%	140 285	5.5%	129 513	4.8%	-10 772	-7.7%	3 723	3.0%
Gauteng	917 043	38.1%	985 864	38.9%	1 005 288	37.5%	19 424	2.0%	88 245	9.6%
Mpumalanga	194 831	8.1%	190 588	7.5%	225 368	8.4%	34 780	18.2%	30 537	15.7%
Limpopo	199 680	8.3%	276 150	10.9%	283 907	10.6%	7 756	2.8%	84 227	42.2%
Total	**2 404 564**	**100.0%**	**2 535 239**	**100.0%**	**2 683 602**	**100.0%**	**148 364**	**5.9%**	**279 038**	**11.6%**

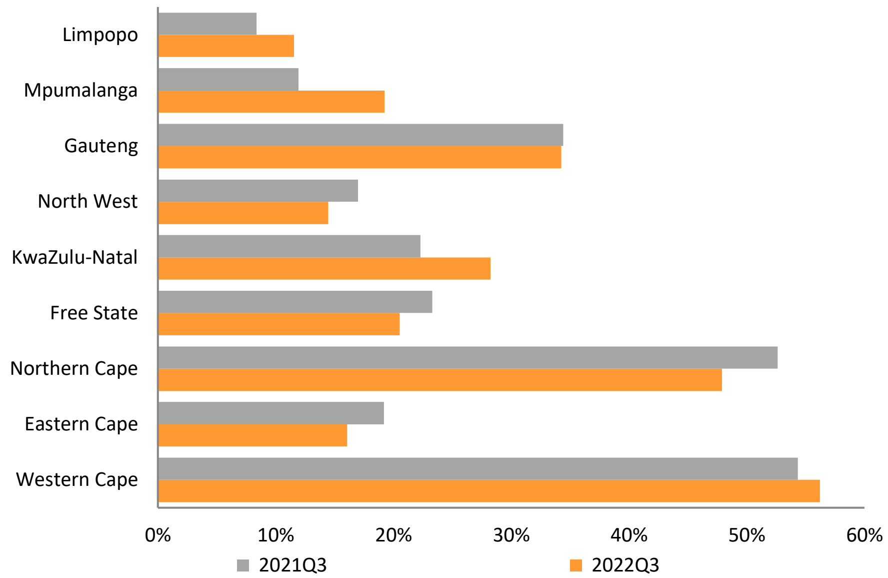
Source: QLFS of Stats SA

SMMEs by province and formal/informal sector

Formal sector SMMEs doubles in Limpopo

The number of SMMEs operating in the formal sector increased by 17% in the year up to the third quarter of 2022. In Limpopo, the absolute number nearly doubled, followed by Mpumalanga which showed an 86% increase. Formal sector firms declined in the Free State, North West and the Eastern Cape. KwaZulu-Natal is the only province where the number of informal SMMEs declined. Among the provinces, the Western and Northern Cape have the highest proportions of formal sector SMMEs (at 56% and 48% respectively). *Once again, the change in the sample method could be responsible for many of these changes.*

Figure 13: Percentage of SMME owners in the formal sector, by province



Source: QLFS of Stats SA

Table 8: SMMEs by province and formal/informal sector

Province	2021Q3			2022Q3			Yearly change (%)		
	Formal	Informal	Agric+	Formal	Informal	Agric+	Formal	Informal	Agric+
Western Cape	54.4%	39.0%	6.7%	56.2%	40.9%	2.9%	24.1%	25.7%	-47.1%
Eastern Cape	19.2%	78.3%	2.4%	16.1%	79.1%	4.9%	-4.8%	14.8%	127.0%
Northern Cape	52.6%	37.1%	10.3%	47.9%	36.4%	15.7%	46.4%	57.6%	146.6%
Free State	23.3%	66.2%	10.5%	20.5%	71.9%	7.5%	-10.5%	10.3%	-27.1%
KwaZulu-Natal	22.3%	74.4%	3.3%	28.2%	66.8%	4.9%	21.1%	-14.0%	41.0%
North West	17.0%	77.7%	5.3%	14.5%	83.0%	2.5%	-12.4%	10.0%	-51.3%
Gauteng	34.4%	64.0%	1.6%	34.3%	63.7%	2.0%	9.1%	9.1%	40.6%
Mpumalanga	11.9%	85.7%	2.4%	19.3%	76.9%	3.9%	86.7%	3.8%	84.7%
Limpopo	8.4%	86.8%	4.9%	11.6%	82.9%	5.6%	96.1%	35.8%	63.5%
Total	**28.2%**	**68.3%**	**3.5%**	**29.5%**	**66.8%**	**3.7%**	**17.0%**	**9.1%**	**17.1%**

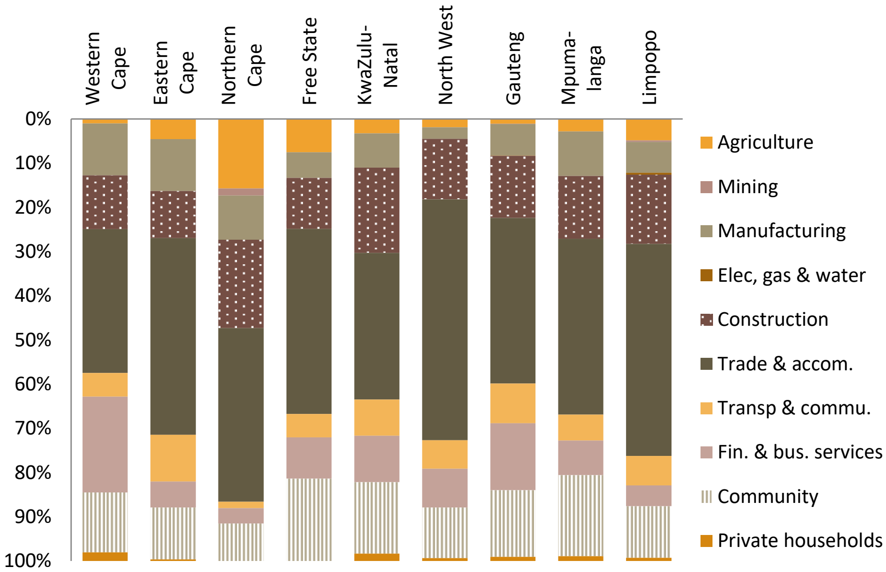
Source: QLFS of Stats SA *Agric+ refers to agriculture and private households*

SMMEs by industry and province

Western and Northern Cape have different profiles

Provinces with many of their SMMEs active in the trade and accommodation sector tend to have more informal SMMEs, since this sector lends itself to easy entry (in the form of informal spaza shops). The Western Cape, with more than half its SMMEs operating formally, has a relatively small trade and accommodation sector. In contrast to other provinces, it has a large finance and business services industry among its SMMEs. Gauteng and the Northern Cape are the only provinces with SMMEs operating in the mining sector (perhaps informal and illegal). The Northern Cape has a significantly large proportion of SMMEs in agriculture, unlike the other provinces.

Figure 14: SMMEs by industry and province in 2021Q3



Source: QLFS of Stats SA

Table 9: SMMEs by industry and province in 2021Q3

	Western Cape	Eastern Cape	Northern Cape	Free State	KwaZulu-Natal	North West	Gauteng	Mpuma-langa	Limpopo	Total
Agriculture	3 063	8 918	4 838	9 418	12 164	2 413	10 894	6 287	13 828	**71 824**
Mining	0	0	477	0	0	0	931	0	956	**2 365**
Manufacturing	36 665	23 084	3 081	7 273	29 047	3 424	71 291	22 706	19 683	**216 255**
Elec, gas & water	0	0	0	0	0	0	632	0	1 329	**1 961**
Construction	38 198	20 903	6 163	14 412	72 026	17 711	141 048	32 093	44 355	**386 910**
Trade & accom.	101 410	87 199	12 082	52 466	124 304	70 544	376 959	89 684	136 347	**1 050 996**
Transp & commu.	16 917	20 844	453	6 617	30 603	8 400	90 310	13 153	18 866	**206 162**
Fin. & bus. services	67 534	11 460	1 068	11 669	39 391	11 318	152 339	17 633	13 359	**325 771**
Community	42 396	23 074	2 599	23 296	60 351	14 892	151 565	41 404	33 124	**392 701**
Private households	6 085	654	0	0	6 289	809	9 319	2 409	2 059	**27 624**
Total	**312 269**	**196 136**	**30 761**	**125 152**	**374 174**	**129 513**	**1 005 288**	**225 368**	**283 906**	**2 682 568**

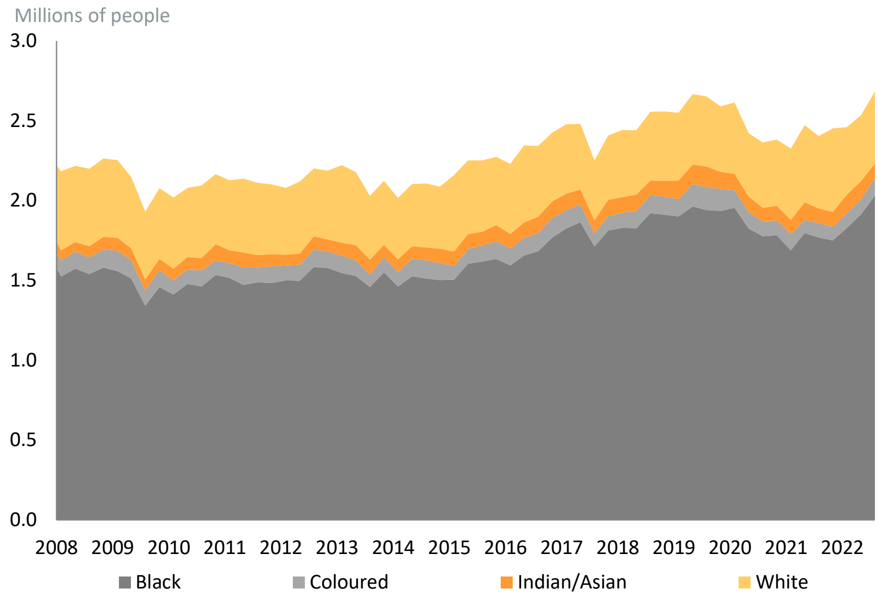
Source: QLFS of Stats SA

SMMEs by population group

Hugo growth among black-owned SMMEs

In the year up to the third quarter of 2022, there was solid growth in the number of black and coloured SMME owners, while the number of white and Indian owners was virtually unchanged. As a result, the share of black owners increased from 74% to 76% of the total, while white owners declined from 19% to 17% (a level already reached in 2017). Meanwhile, the share of Indian owners fell to only 3.4%, the lowest on record, after jumping in the first quarter to 4.7%. *Note this series is volatile and large changes do not point to fundamental trends.*

Figure 15: SMMEs by population group



Source: QLFS of Stats SA

Table 10: SMMEs by population group

Race	2021Q3		2022Q2		2022Q3		Quarterly change		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
Indian/Asian	91 523	3.8%	114 226	4.5%	92 251	3.4%	-21 975	-19.2%	729	0.8%
Coloured	89 702	3.7%	94 029	3.7%	109 145	4.1%	15 117	16.1%	19 443	21.7%
White	453 824	18.9%	413 453	16.3%	451 214	16.8%	37 762	9.1%	-2 609	-0.6%
Black	1 769 516	73.6%	1 913 531	75.5%	2 030 991	75.7%	117 460	6.1%	261 476	14.8%
Total	**2 404 564**	**100.0%**	**2 535 238**	**100.0%**	**2 683 602**	**100.0%**	**148 364**	**5.9%**	**279 038**	**11.6%**

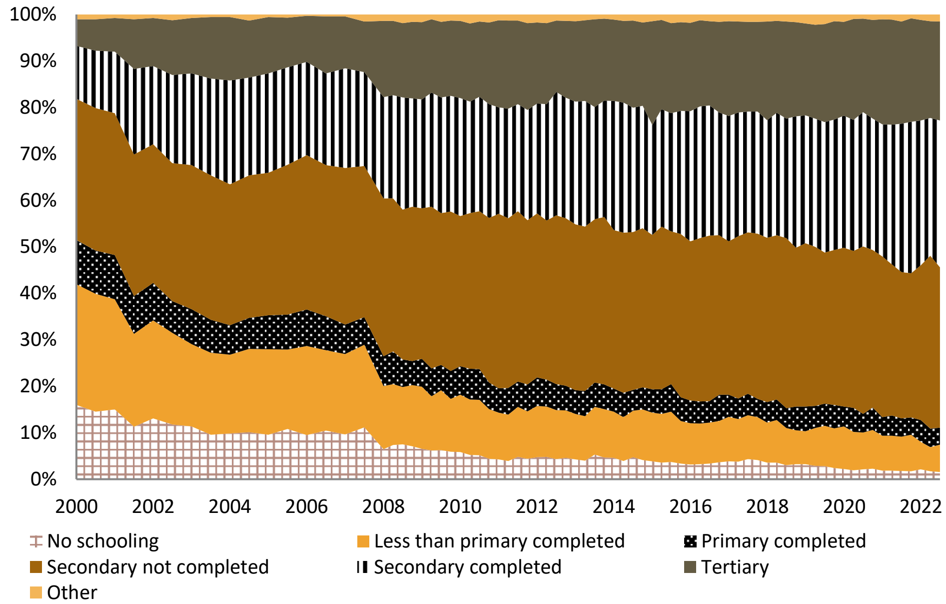
Source: QLFS of Stats SA

SMME owners by educational attainment

Entrepreneurs becoming more educated over time

The gradual improvement in the educational attainment of SMME owners continued in the year up to the third quarter of 2022. Those who completed secondary school increased by 11% and those with less than primary school declined by 10%. This might be due to a broader long-term demographic trend of improved literacy rates. Still, many SMME owners continue to operate in the informal sector and still seem to struggle to attain formal employment. During the third quarter, the bulk of the increase in SMME owners had completed secondary school (95 000) or had a tertiary qualification (44 000).

Figure 16: SMME owners by education group



Source: QLFS of Stats SA

Table 11: SMME owners by education group

Schooling	2021Q3		2022Q2		2022Q3		Quarterly change		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
No schooling	43 239	1.8%	43 261	1.7%	41 469	1.5%	-1 792	-4.1%	-1 770	-4.1%
Less than primary completed	176 512	7.3%	131 968	5.2%	158 815	5.9%	26 847	20.3%	-17 697	-10.0%
Primary completed	95 157	4.0%	101 103	4.0%	96 472	3.6%	-4 631	-4.6%	1 315	1.4%
Secondary not completed	757 689	31.5%	942 746	37.2%	927 764	34.6%	-14 982	-1.6%	170 075	22.4%
Secondary completed	767 357	31.9%	752 494	29.7%	847 695	31.6%	95 202	12.7%	80 339	10.5%
Tertiary	528 165	22.0%	526 627	20.8%	570 251	21.2%	43 624	8.3%	42 086	8.0%
Other	36 445	1.5%	37 040	1.5%	41 136	1.5%	4 095	11.1%	4 690	12.9%
Total	**2 404 564**	**100.0%**	**2 535 239**	**100.0%**	**2 683 602**	**100.0%**	**148 364**	**5.9%**	**279 038**	**11.6%**

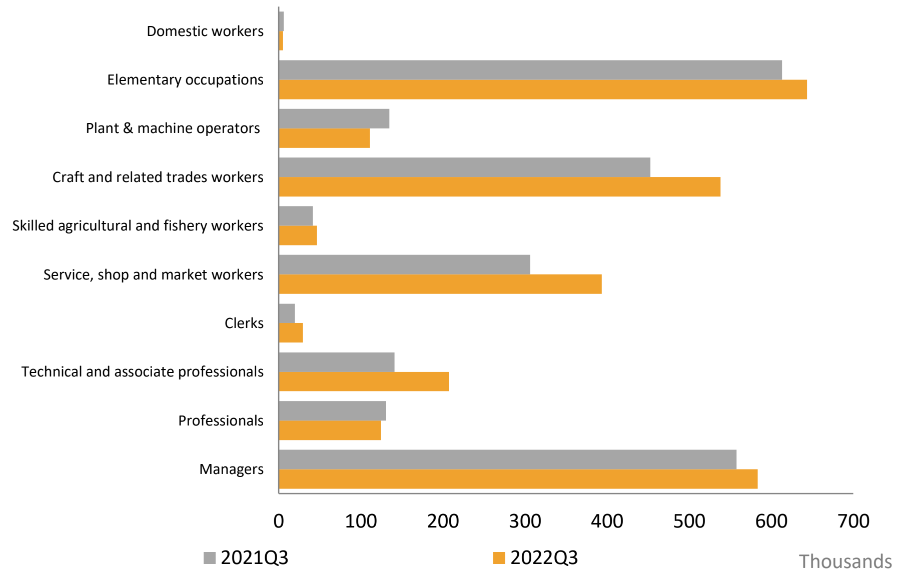
Source: QLFS of Stats SA

SMMEs by occupation

Most SMME owners now operate in elementary occupations

Of the 2.68 million SMMEs in operation during the third quarter of 2022, nearly 22% described themselves as managers, a very similar ratio to a year before. Most owners practice elementary occupations (24%). In the year up to the third quarter, there was a significant increase in craft and trades firms, small shops and technical service providers. In contrast, the number of professional service providers declined by nearly 5%.

Figure 17: SMMEs by occupation



Source: QLFS of Stats SA

Table 12: SMME owners per occupation group

Occupation	2021Q3		2022Q2		2022Q3		Quarterly change		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
Managers	557 663	23.2%	451 146	17.8%	583 567	21.7%	132 420	29.4%	25 904	4.6%
Professionals	130 981	5.4%	121 753	4.8%	124 578	4.6%	2 824	2.3%	-6 403	-4.9%
Technical and associate professionals	140 947	5.9%	195 185	7.7%	207 351	7.7%	12 165	6.2%	66 403	47.1%
Clerks	19 645	0.8%	19 440	0.8%	29 547	1.1%	10 107	52.0%	9 902	50.4%
Service, shop and market workers	306 600	12.8%	356 151	14.0%	393 387	14.7%	37 236	10.5%	86 787	28.3%
Skilled agricultural and fishery workers	41 574	1.7%	43 477	1.7%	46 765	1.7%	3 288	7.6%	5 191	12.5%
Craft and related trades workers	452 937	18.8%	566 238	22.3%	538 220	20.1%	-28 018	-4.9%	85 283	18.8%
Plant & machine operators	134 654	5.6%	114 901	4.5%	111 146	4.1%	-3 756	-3.3%	-23 509	-17.5%
Elementary occupations	613 333	25.5%	660 314	26.0%	643 764	24.0%	-16 551	-2.5%	30 430	5.0%
Domestic workers	6 230	0.3%	6 632	0.3%	5 279	0.2%	-1 352	-20.4%	-951	-15.3%
Other	0	0.0%	0	0.0%	0	0.0%	0	n/a	0	n/a
Total	**2 404 564**	**100.0%**	**2 535 238**	**100.0%**	**2 683 602**	**100.0%**	**148 364**	**5.9%**	**279 038**	**11.6%**

Source: QLFS of Stats SA

Financial data of SMEs

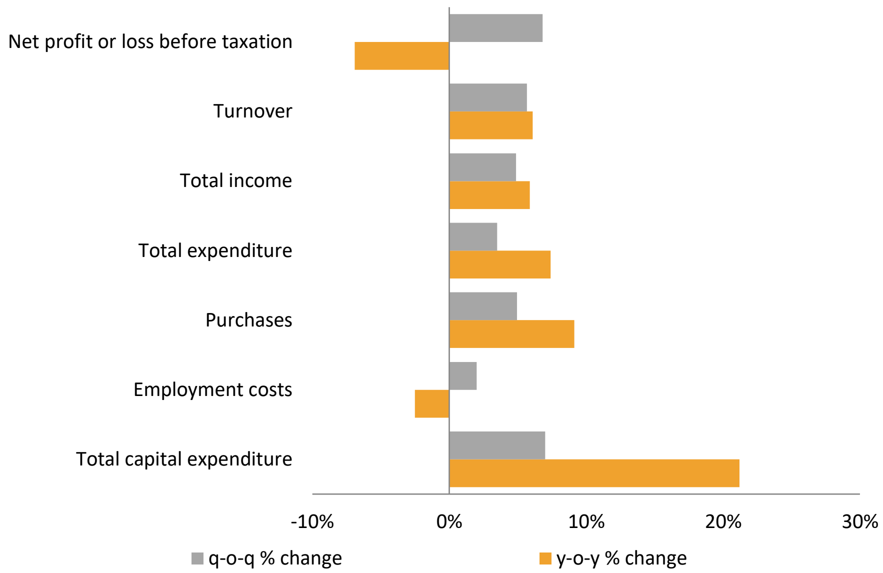
From the Quarterly Financial Survey

Turnover of SMEs

SME profits are down on rising input costs and inflation

In the third quarter of 2022, the nominal turnover of SMEs was 6.1% higher than a year before. This is below the consumer inflation rate of 7.7% over the same period, pointing to a real contraction. In line with the global surge in input costs and inflation, the purchases (of inventories) by SMEs increased by 9.1%, which is more than the increase in turnover. Consequently, profits fell by nearly 7% and employees were paid 2.5% less. On a positive note, capital expenditure surged by a hefty 21%, an indication that SMMEs have become more forward-looking.

Figure 18: Change per financial indicator: 2022Q3



Source: QFS of Stats SA

Table 13: Financial indicators of SMEs

R million	2021Q3	2022Q2	2022Q3	q-o-q % change	y-o-y % change
Total capital expenditure	R 14 917	R 16 893	R 18 078	7.0%	21.2%
Employment costs	R 227 369	R 217 330	R 221 660	2.0%	-2.5%
Purchases	R 624 170	R 649 098	R 681 161	4.9%	9.1%
Total expenditure	R 1 104 344	R 1 146 083	R 1 186 085	3.5%	7.4%
Total income	R 1 206 581	R 1 218 334	R 1 277 655	4.9%	5.9%
Turnover	R 1 166 223	R 1 170 847	R 1 237 377	5.7%	6.1%
Net profit or loss before taxation	R 113 081	R 98 558	R 105 268	6.8%	-6.9%

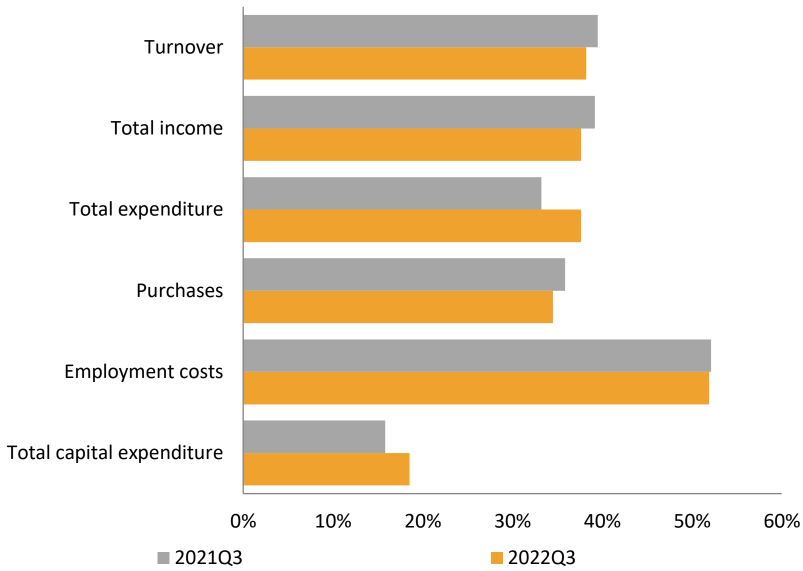
Source: QFS of Stats SA

Economic contribution of SMEs

SMEs pass more profit on to employees

The share that SMEs contribute to the turnover of all enterprises* decreased to 38.2% in the third quarter of 2022, from 39.5% a year before. Their share of capital expenditure is larger than a year before, up from 15.8% to 18.5%. Regarding employment costs, their share was virtually unchanged around 52%, despite a drop of 2.5% in their employment costs.

Figure 19: SME contribution to all enterprises* by indicator



Source: QFS of Stats SA

Table 14: SME contribution to all enterprises* by indicator

Indicator	2021Q3	2022Q2	2022Q3	q-o-q change	y-o-y change
Total capital expenditure	15.8%	18.9%	18.5%	-0.3% pts	2.7% pts
Employment costs	52.1%	51.8%	51.9%	0.1% pts	-0.2% pts
Purchases	35.9%	34.4%	34.5%	0% pts	-1.4% pts
Total expenditure	33.2%	37.7%	37.7%	0% pts	4.4% pts
Total income	39.2%	37.7%	37.6%	-0.1% pts	-1.5% pts
Turnover	39.5%	37.9%	38.2%	0.3% pts	-1.3% pts
Net profit or loss before taxation	n/a	38.3%	36.1%	-2.1% pts	n/a

Source: QFS of Stats SA

**excluding agriculture, financial intermediation, insurance and government institutions*

Table 15: Financial indicators of SMEs by industry

R million	2021Q3	2022Q2	2022Q3	q-o-q % change	y-o-y % change
Employment costs	**R 227 369**	**R 217 330**	**R 221 660**	**2.0%**	**-2.5%**
Community, social and personal services industry	R 11 571	R 11 805	R 11 695	-0.9%	1.1%
Construction industry	R 10 047	R 10 431	R 9 611	-7.9%	-4.3%
Electricity, gas and water supply industry	R 804	R 613	R 769	25.4%	-4.4%
Manufacturing industry	R 48 007	R 47 765	R 50 333	5.4%	4.8%
Mining and quarrying industry	R 4 129	R 4 281	R 4 373	2.1%	5.9%
Real estate and other business services industry	R 97 682	R 79 442	R 83 581	5.2%	-14.4%
Transport industry	R 11 068	R 11 590	R 10 613	-8.4%	-4.1%
Trade industry	R 44 061	R 51 403	R 50 685	-1.4%	15.0%
Net profit or loss before taxation	**R 113 081**	**R 98 558**	**R 105 268**	**6.8%**	**-6.9%**
Community, social and personal services industry	R 1 039	R 2 257	R 3 321	47.1%	219.6%
Construction industry	R 1 513	R 423	R 2 034	380.9%	34.4%
Electricity, gas and water supply industry	R 2 708	R 1 225	R 2 156	76.0%	-20.4%
Manufacturing industry	R 26 256	R 32 227	R 26 280	-18.5%	0.1%
Mining and quarrying industry	-R 534	R 3 589	R 2 325	-35.2%	-535.4%
Real estate and other business services industry	R 42 021	R 17 365	R 22 809	31.4%	-45.7%
Transport industry	R 2 588	R 2 038	R 4 050	98.7%	56.5%
Trade industry	R 37 490	R 39 434	R 42 293	7.3%	12.8%
Total capital expenditure	**R 14 917**	**R 16 893**	**R 18 078**	**7.0%**	**21.2%**
Community, social and personal services industry	R 932	R 270	R 413	53.0%	-55.7%
Construction industry	R 74	R 1 011	R 1 127	11.5%	1423.0%
Electricity, gas and water supply industry	R 219	R 187	R 197	5.3%	-10.0%
Manufacturing industry	R 6 335	R 4 175	R 4 384	5.0%	-30.8%
Mining and quarrying industry	R 1 084	R 1 399	R 1 631	16.6%	50.5%
Real estate and other business services industry	R 3 194	R 5 291	R 5 399	2.0%	69.0%
Transport industry	R 1 822	R 3 166	R 3 934	24.3%	115.9%
Trade industry	R 1 257	R 1 394	R 993	-28.8%	-21.0%
Total expenditure	**R 1 104 344**	**R 1 146 083**	**R 1 186 085**	**3.5%**	**7.4%**
Community, social and personal services industry	R 28 036	R 33 345	R 32 879	-1.4%	17.3%
Construction industry	R 38 143	R 43 621	R 41 556	-4.7%	8.9%
Electricity, gas and water supply industry	R 7 947	R 6 419	R 6 899	7.5%	-13.2%
Manufacturing industry	R 278 707	R 283 316	R 312 345	10.2%	12.1%
Mining and quarrying industry	R 19 232	R 21 937	R 22 344	1.9%	16.2%
Real estate and other business services industry	R 217 911	R 222 424	R 220 808	-0.7%	1.3%
Transport industry	R 61 705	R 75 581	R 80 741	6.8%	30.9%
Trade industry	R 452 663	R 459 440	R 468 513	2.0%	3.5%
Total income	**R 1 206 581**	**R 1 218 334**	**R 1 277 655**	**4.9%**	**5.9%**
Community, social and personal services industry	R 28 973	R 35 632	R 36 205	1.6%	25.0%
Construction industry	R 39 316	R 43 995	R 43 590	-0.9%	10.9%
Electricity, gas and water supply industry	R 10 576	R 7 614	R 8 941	17.4%	-15.5%
Manufacturing industry	R 306 804	R 298 750	R 330 282	10.6%	7.7%
Mining and quarrying industry	R 17 803	R 25 123	R 24 755	-1.5%	39.0%
Real estate and other business services industry	R 259 899	R 239 914	R 243 749	1.6%	-6.2%
Transport industry	R 64 218	R 77 558	R 84 623	9.1%	31.8%
Trade industry	R 478 992	R 489 748	R 505 510	3.2%	5.5%
Turnover	**R 1 166 223**	**R 1 170 847**	**R 1 237 377**	**5.7%**	**6.1%**
Community, social and personal services industry	R 25 926	R 31 970	R 32 835	2.7%	26.6%
Construction industry	R 36 150	R 39 276	R 38 303	-2.5%	6.0%
Electricity, gas and water supply industry	R 10 078	R 6 797	R 8 246	21.3%	-18.2%
Manufacturing industry	R 296 902	R 285 538	R 320 663	12.3%	8.0%
Mining and quarrying industry	R 16 832	R 22 143	R 23 428	5.8%	39.2%
Real estate and other business services industry	R 246 564	R 231 328	R 236 227	2.1%	-4.2%
Transport industry	R 62 436	R 76 120	R 83 071	9.1%	33.0%
Trade industry	R 471 335	R 477 675	R 494 604	3.5%	4.9%

Implications for the SMME sector

Load-shedding is set to remain a constraint on business

The South African economy, and the SMME sector, have been hit by several shocks which have derailed the post-COVID recovery. Fortunately, some of these shocks are now behind us – for example, the flooding in KwaZulu-Natal and strike-related export disruptions. Although natural disasters, protests and strikes are a regular feature of the South African business landscape and, where possible, business should aim to have buffer available to cope with these interruptions to production and income. **More intense and frequent load-shedding relative to earlier years is to be expected through at least 2023. This hurts production, adds to the cost burden and so directly weighs on the profitability of businesses. In part due to the expectation of more load-shedding in 2023, the South African economy is set to slow.** This will weigh on general demand in the South African economy and hurts employment and investment growth prospects, which provides a further challenge to SMME owners following years of hardship. Fortunately, the expectation is that the electricity constraint should be alleviated somewhat from 2024 onwards and that economic growth should improve slightly too. Indeed, the extensive investment expected in green energy alternative and the accompanying technology spending could turn out to be an important boon for the economy and the SMME sector. The ICT sector in particular could directly benefit from the (global) drive towards green technology investment and technologies. **Furthermore, while the load-shedding cost is set to remain for some time, general inflation is set to slow during this year. This should make costing and pricing strategies as well as inventory and turnover management easier for SMMEs.**

The tourism sector is set to recover through 2023, providing expansion opportunities

South Africa is also subject to the whims of the global economy and unfortunately the expectation is that global economic growth is set to slow this year. This could have negative implications for South African main export commodities and thus general economic activity in South Africa – which of course can filter through to SMMEs as well. **However, the more direct link with the rest of the world for the SMME sector is the tourism and hospitality sector and there the expectation is for further growth in 2023. The tourism sector is an important job creator in the South African economy, with linkages throughout different sectors and provides opportunities in both the formal and informal sectors. After several years of hardship, SMMEs in this sector can start looking forward to moving away from 'survival mode' to expanding businesses.** While travel from traditional European and US markets recovered through 2022, Chinese travellers have only recently been allowed to travel and return to South African shores.

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 2021 cut-off points appear in the table below. All enterprises falling below the 'large' category are grouped together to form the SME sector.

Table 16: 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	585	150	60	2
SIC3	Manufacturing	765	195	75	2
SIC4	Electricity, gas and water	765	195	77	2
SIC5	Construction	390	90	45	2
SIC61	Wholesale trade	960	480	90	2
SIC62	Retail trade	585	285	60	2
SIC63	Motor trade	585	285	60	2
SIC64	Accommodation and catering	195	90	77	2
SIC7	Transport	390	195	45	2
SIC8	Real estate & business services	390	195	45	2
SIC9	Community, social and personal	195	90	15	2

Source: QFS of Stats SA