

# SMME Quarterly Update

## 3<sup>rd</sup> Quarter 2018

### The Small Enterprise Development Agency



SMALL ENTERPRISE DEVELOPMENT AGENCY

an agency of the dsbd

March 2019

# Executive summary

- **The number of SMMEs in South Africa (SA) increased by 13.6% year-on-year (y-o-y) from 2.25 million in 2017Q3 to 2.56 million in 2018Q3.** Growth was prevalent in both the formal and informal sectors.
- Total employment provided by SMMEs grew by 10.1% between 2017Q3 and 2018Q3 to 10.1 million. Excluding the employers and own account workers, **SMME employment increased by 9%.**
- While the number of SMMEs in the trade & accommodation sector grew, the relative share of this sector contracted (due to faster growth in construction, financial & business services and community services).
- The educational attainment and skills profile of SMME owners improved over the survey period.
- **The most worrying result from the latest survey is the reported contraction in SME\* turnover (8.6%)** and therefore its receding share in the total turnover of all enterprises<sup>#1</sup>, down 3.6 % pts to 38% in the four quarters up to 2018Q3.

The SA economy exited the technical recession which unexpectedly developed during the first half of last year, heavily influenced by the normalisation in agriculture, witnessing a bumper 2017 season. **Unfortunately, growth remains weak and uncertain.** Furthermore, the global economy is in the midst of a slowdown, which will impact domestic export demand. **On the financial front, things have eased.** There has been a major shift in global monetary policy outlooks due to lower than expected inflation. In SA, CPI inflation receded to 4% in January 2019, and the expectation is that interest rates will remain unchanged for the foreseeable future. The crisis at Eskom is a major risk, not only due to the reality of load-shedding but also due to its negative impact of the fiscus. The risk of a credit rating downgrade is higher.

The upcoming national and provincial elections remain an important hurdle to cross on the political landscape. The 2019 National Budget was received with mixed reaction, albeit clear that the Ramaphosa administration is intent on reviving SA economic growth and society. The fiscal metrics have all tended to deteriorate, largely due to the adverse impact of the Eskom (and other SOE) financial crises. Growth forecasts have been downscaled, both globally and domestically. **SA's real GDP is currently projected to increase from an estimated 0.7% last year to 1.3% this year and 1.9% in 2020.**

The latest SMME survey results reveal a sharp contrast in financial performance, which deteriorated noticeably compared to the reported restoration of growth, both in the number of SMMEs and employment in the sector. The deteriorating financial performance may be a result of the weak economic conditions and the fact that the sector's larger counterparts fare better in the adverse conditions. **The positive aspect of the latest survey is the indication that some of the previously reported survivalist tendencies appear to have been arrested.**

This is reflected in the fact that the quality of the reported 13.6% growth in SMME numbers and the 10% growth in SMME employment improved. The relative increase of older SMME owners hints at more experience in the sector. Educational attainment among SMME owners and the growth in the higher skilled occupational categories corroborates this tendency. Furthermore, the number of 2-3-year-old enterprises remained stable, which may be an indication that more SMMEs made it beyond this important threshold.

**In all, amid all the adversity and change, new opportunities are opening up for the SMME sector, which should be capitalised upon.**

KEY INDICATORS	2017Q3	2018Q2	2018Q3	q-o-q change	y-o-y change
Number of SMMEs	2 251 286	2 440 760	2 556 891	4.8%	13.6%
Number of formal SMMEs	631 810	683 621	734 023	7.4%	16.2%
Number of informal SMMEs	1 552 889	1 670 416	1 756 314	5.1%	13.1%
Number jobs provided	9 141 056	9 593 640	10 067 628	4.9%	10.1%
% operating in trade & accommodation	42.6%	39.3%	40.4%	1.1% pts	-2.3% pts
% operating in community services	13.9%	14.0%	13.7%	-0.2% pts	-0.1% pts
% operating in construction	12.2%	14.5%	14.7%	0.2% pts	2.5% pts
% operating in fin. & business services	11.8%	13.4%	13.3%	-0.1% pts	1.5% pts
% black owned formal SMMEs	76.1%	74.8%	75.1%	0.3% pts	-1% pts
% contribution of SMEs* to turnover of all enterprises <sup>#</sup>	41.5%	38.7%	37.9%	-0.9% pts	-3.6% pts

\*excluding micro enterprises

<sup>#</sup>excluding agriculture, financial intermediation, insurance and government institutions

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

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# Economic background

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Global growth disappoints, inducing a general easing of inflation and interest rate expectations

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High uncertainty impacts business confidence and investment negatively

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In all, a less supportive global economic environment

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## International

The global economic picture has shifted. The slowdown in the major economies' industrial sectors, which commenced during the first quarter of last year, continued through the year compared to expectations of a recovery. The growth malaise is worse in the Euro area (with Italy dipping into a technical recession during the second half of the year and Germany narrowly escaping a similar predicament) and Japan (contracting sharply during the third quarter). However, it is also clear that the long post-2009 US expansion is coming to an end and the Chinese economy is heading for its slowest growth in two decades, with its industrial sector being under substantial pressure. The weaker global growth environment and the dramatic fall in the crude oil price have lowered inflation expectations (to a point where renewed deflation worries are surfacing). This has led to a dramatic switch in the USA Fed's monetary policy stance and a general easing of monetary policy outlooks, including in many emerging market economies. **Global growth forecasts in respect of 2019 and 2020 are being scaled down.**

In its January 2019 *World Economic Outlook Update*, the IMF shaved 0.2 and 0.1 percentage points off its 2019 and 2020 global growth forecasts respectively. Even the IMF's current forecast of 3.5% for world economic growth over the short term may be too optimistic. US growth slowed sharply towards the end of the year as earlier interest rate hikes impacted interest rate sensitive sectors (such as housing and autos), capital spending slowed, and trade uncertainties cumulated. The government shutdown over the year-end added insult to injury. **Other economies suffered the impact from a slowing US economy on top of home-grown issues.** China's industrial sector contracted towards year-end and economic growth in the Euro area flattened. To make matters worse, general political uncertainty regarding Brexit impacts business confidence and capital spending negatively. Furthermore, while it is hoped that China and the USA reach agreement on trade, the D-date for the unleashing of an intense trade war looms large (1 March).

Weaker global demand will adversely impact emerging economy exports and general economic growth. On the positive side, the earlier financial pressures tied to the strong US dollar and increasing interest rates may ease as capital flows to emerging economies remain keen. However, in this regard, it is also necessary that trade and other uncertainties (which bolster the dollar and safe-haven currencies) dissipate. In all, **SA firms and SMMs are likely to face a less supportive global economic environment during 2019 and 2020.**

## South Africa

SA's economic performance disappointed materially in 2018. Compared to expectations of faster growth, the economy re-entered a technical recession during the first half of the year, including a sharp fall in agricultural output following the 2016/17 bumper season. The economy exited this recession during the third quarter (registering a decent 2.2% annualised real growth rate); however,

fourth quarter economic indicators disappointed again. The BER revised its estimate in respect of the 2018 calendar year growth rate to a meagre 0.7% (compared to a forecast of 1.4% in July 2018).

Real GDP growth disappointed in 2018, barely exceeding an estimated 0.5 per cent ....

The economy suffered disruptions in electricity supply towards the end of the year, and load shedding resumed in February this year. SA's electricity supplier is in serious trouble, operationally and financially, and threatens SA's fiscal and broader economic outlook. The economy is suffering due to a lack of (employment and) income growth and low business confidence. Gross domestic fixed investment contracted sharply during the third quarter of 2018, and all indications are that the malaise continues. **The RMB/BER business confidence index declined to a low level of 31 points in 2018Q4** (see below). Substantial uncertainty in the run-up to elections (8 May) persists despite the government's economic recovery plan (announced in July) and the Investment Summit (hosted towards the end of October).

Inflation surprises on the low side ...

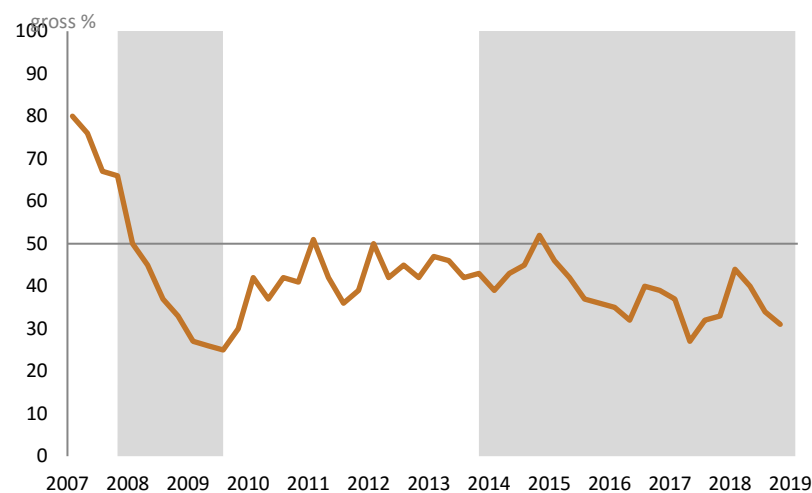
Linked to the weaker than expected domestic demand conditions, inflation surprised on the low side in 2018. A resilient currency and a sharp drop in the international crude oil price, as well as lower than expected food price inflation assisted in this regard. The year-on-year CPI inflation rate moderated to 4.5% in December and the SARB adjusted its inflation forecast in respect of 2019 to 4.8% (down from 5.5% anticipated at the time of its November 2018 MPS). We currently expect that the repo rate will remain unchanged for the foreseeable future, following the upward adjustment in November last year. **GDP growth is forecast to accelerate to 1.3% (2019) and 1.9% (2020).**

High unemployment remains the economy's no. 1 challenge ...

The President's State of the Nation Address contained an array of intentions to improve SA's economy and society. Revamping economic growth and employment creation, the education and training system, addressing poverty, governance and accelerating infrastructure investment will receive priority. Formidable implementation hurdles loom; however, it is expected that the post-election period will be more conducive to overcoming these. **SA's narrow unemployment rate remains poised above 27% (2018Q4), and including discouraged work seekers, at 37%.**

Only one-third of business executives satisfied with the prevailing business conditions, 18Q4

**Figure 1: RMB/BER business confidence index**



Source: BER

# SMME quarterly overview for 2018Q3

Following two reports where declines in the number of SMMEs and SMME employment were reported, the latest survey indicates that this haemorrhage was arrested. The number of SMMEs expanded by 13.6% over the year to 2018Q3, with the increase being prevalent in both the formal and informal sectors. **The total number of employers and own account workers (i.e. the proxy for the number of SMMEs) increased to 2.56 million, which is slightly above the 2.3 to 2.5 million range reported previously.** While this growth is encouraging (and exhibits positive features, such as improved educational attainment and higher skills among SMME owners), the sector remains under financial pressure. This is best reflected in the close to 9% contraction in SME turnover and the consequent 25% decline in profit levels over the period under consideration. It would appear as if the reported growth may be linked to employees losing their jobs and either report or commence with side-line businesses.

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While the number of SMMEs grew, their financial performance deteriorated ....

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While it is necessary to remind the reader of potential statistical noise in the survey, the positive aspect of the latest results is the reported increase in SMME employment. **Including the increase in the number of SMMEs, total SMME employment grew by 10% over the year to 2018Q3 to 10.1 million.** This accounted for 65% of total employment in the broader economy; the share of female SMME employment remained stable at around 38%.

A number of the previously reported deteriorating tendencies in the SMME sector (such as survivalism and the loss of skills and experience) were reversed over the year to 2018Q3. A proportionally larger share of the reported growth in SMMEs occurred in the older age categories (ages 45 to 60). Growth was also reported among enterprises that have been in business for 2-3 years, i.e. the critical threshold for small business survival. **Average education attainment of SMME owners also improved as the number with no schooling declined by 22% over the year to 2018Q3 and the number with a tertiary qualification increased by 23%.** This improvement is corroborated by the fact that manager, professional and technical occupational categories also showed the sharpest growth. Craft and related trade SMMEs also expanded strongly. These tendencies point to some arresting of the survivalist tendencies previously reported and are encouraging.

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A number of previously reported adverse tendencies were reversed

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Considering the distribution of SMME ownership across industries, only agriculture and manufacturing reported lower numbers of SMMEs. While the sector with the largest share of SMMEs, i.e. trade & accommodation, also reported an increase, its relative share declined noticeably (from 42.6% in 17Q3 to 40% in 18Q3) as the growth was sharper in other sectors (such as construction, financial & business services and community services). **Furthermore, it is clear that most of the growth in SMMEs occurred in Gauteng, hosting no less than 35% of all SMMEs (up from 31% a year earlier).**

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The bulk of SMME growth occurred in Gauteng

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**In all, the results are encouraging to the extent that the adverse survivalist tendencies appear to be arrested.** However, more research is required before this tendency can be confirmed. Furthermore, the poor financials indicate that the sector remains under serious financial pressure.

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More research is required

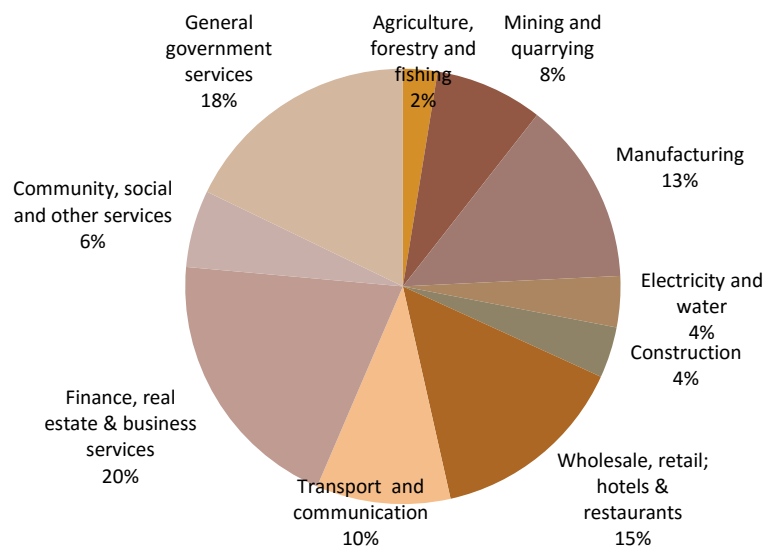
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## Focus on manufacturing, ICT and tourism: a sectoral perspective

The broad distribution of sectoral economic activity remained stable over the past year

The broad distribution of economic activity in the SA economy remained largely unchanged over the year to the third quarter of 2018 (see Figure 2). Only the share of general government shifted up a notch to 18% (from 17% a year ago), whereas that of agriculture, forestry & fishing declined by a notch to 2% (from 3%). The sharp contraction of agricultural output during the first part of 2018 explains its smaller relative size. Agricultural output normalised following the bumper 2017 season. **The relative share of all the other major sectors remained stable.** This is partly an outcome of an economy that also has for all practical purposes stalled. In this section, the focus is on the outlook for manufacturing, the ICT sector and tourism.

Figure 2: South Africa GDP by main economic sector in 2018Q3



Source: Stats SA

In the previous report, it was shown that the SA manufacturing sector accounts for more than a fifth of all economic activity when its backward linkages with supplying sectors are included. While its relative size has declined noticeably over the past two decades, it remains a pivotal sector in the economy. The manufacturing sector is a high-productivity sector and tends to absorb relatively more semi- and unskilled labour (compared to services, for instance). The SA labour market is characterised by a large surplus in this skills category and the growth of manufacturing remains critical to address this imbalance. **This challenge is rapidly acquiring an added dimension in view of technological developments, best captured by the onset of the 4th Industrial Revolution**, or the Digital Industrial Revolution (DIR).

Manufacturing remains a large sector and will be challenged by the impact of the 4<sup>th</sup> industrial revolution

The new technologies invading economic life, include autonomous robotics, simulation, horizontal & vertical integration of production processes, the Internet of Things (IoT), artificial intelligence/ cyber security/ the cloud/ big data & analytics, additive (3D) manufacturing, and augmented reality (the dti | IPAP: 2017-2020: 45). These technologies will impact the way products and services are produced – manufacturing will become more interconnected, with sensors and digital systems facilitating communication between the various parts of the production process, making production value chains

shorter and more flexible (not so dependent on mass production for the necessary economies of scale). The production of custom-made and smart products will become feasible; business models and revenue streams will change. In fact, the current distinction between primary and tertiary economic activities will become increasingly blurred.

These developments are lowering the barriers to entry for SMEs and embody new opportunities. However, in order to capitalise on these opportunities, **SA's preparation for the impact of the changes in the workplace need to be sharpened dramatically, e.g. in the fields of education and training and infrastructure support**. The technological changes will drastically increase skills requirements, threatening to exacerbate the skills mismatch in the labour market. **The dti** also warns regarding the potential technology-driven employment losses in retail and services, mining and parts of manufacturing, particularly of lower-skilled workers. *Secondly*, in the field of infrastructure support (e.g. broadband and communications), SA seriously lacks the so-called 'readiness requirements'. Once more, while there are exciting developments in this field (pending the release of broadcast spectrum), SA will need to double up efforts to expand internet connectivity, both in terms of access and affordability. These preparations require a collaborative effort<sup>1</sup>. The **dti** highlights a number of issues:

- The importance of collaboration between government, academia, science councils, business and labour: as noted, the labour market will be revolutionised.
- Upskilling needs to be the name of the game – i.e. continuous, targeted training and re-training in both the public and private sectors.
- Industries expected to invest heavily in DIR, include those with wide product ranges (e.g. food & beverages); commodity producers (agriculture & metals); precision-manufacturing (e.g. pharmaceuticals & electronic components). It follows that the opportunities will arise in these sectors and they need to take urgent steps to prepare for the changes.
- The importance of preparing the regulatory environment for the challenges that the digital revolution will bring to communications, e-commerce, environmental matters, etc.

The extent to which SA succeeds in embracing and adapting to the incumbent changes being introduced by the 4<sup>th</sup> industrial revolution will determine the impact on the economy and society. There are both opportunities and threats to small- and medium-sized firms.

Considering the growth of the manufacturing sector, it is clear that the sharp contraction of agricultural and mining output during the first half of last year exerted a negative impact on the sector, witnessing recessionary conditions. **The sector recovered during the second half of the year; however, overall**

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Education & training efforts and infrastructure support need to double up in the face of the DIR

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There are both opportunities and threats for the SME sector ...

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<sup>1</sup> It is encouraging to report that the authorities have a number of initiatives underway, e.g. the establishment of a new **dti** Chief Directorate: the *Future Industrial Production & Technologies unit*; the establishment of partnerships between **the dti** and Industry Associations and Export Councils to prepare for the DIR; SA's involvement with the International *Special Tooling & Machining Association (ISTMA)*, including efforts to establish an ISTMA Africa Forum; research efforts with the WEF and OECD Development Center deep-diving research in preparation for the DIR. See, **the dti** | IPAP, 2018-2021: 102.



**year-on-year growth came in at only 1% in 2018.** The consumer goods sectors fared better, growing by 3.2%, capital goods sector real output grew by 1.6% and intermediate goods sectors contracted by 0.8%. The BER 18Q4 Manufacturing Survey paints a bleaker picture, with production volumes in all three these sub-sectors down compared to a year earlier. The weakness is concentrated in the intermediate goods sectors (e.g. chemicals, rubber & plastic, including petro-refineries; and wood, paper & printing) and capital goods sectors (such as basic metals, metal products and machinery). On the positive side, sectors reporting positive growth, include textiles, clothing, leather & footwear<sup>2</sup>, as well as food & beverages, glass & non-metal mineral products and vehicles & transport equipment.

**Figure 3: Manufacturing: production volumes: 2018Q4 compared to 2017Q4**



Source: BER Manufacturing Survey, 2018Q4

The weakness of manufacturing production is concentrated in the capital and intermediate goods industries

The manufacturing sector's recovery from the 2009 recession lost steam from the end of 2013, when the broader economy entered a downturn and the overall production level in the sector was still lower compared to the pre-recession peak. It is to be hoped that the acceleration from the middle of last year will be sustained and strengthened over the short-to medium term.

**The growth and development of SA's ICT sector<sup>3</sup>** will be key in opening the way for the country's participation in the 4<sup>th</sup> industrial revolution. The industry is encouraged that the matter of licensing high-demand spectrum is receiving priority attention at the top level, with it being one of the economic stimulus measures emphasised by both President Ramaphosa in his SONA (8 February) and the Minister

<sup>2</sup> The positive net balance in respect of textiles, clothing, leather & footwear production volumes is somewhat misleading as the (smoothed) value declined from a peak of 33 in 18Q1 to 14 in 18Q4. Actual production data by Stats SA also indicated output contractions in these industries in 2018.

<sup>3</sup> 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>).

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It is not possible to fathom the revolutionary potential of the new communication technologies ...

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of Finance, Mr Mboweni, in his 2019 Budget speech (20 February). The lack of spectrum and delays in allocating additional spectrum has been a frustrating and cost-raising issue for the industry (Odendaal, 6 July 2018)<sup>4</sup>. The result has been that mobile operators invested heavily in infrastructure to meet the growing data volume demand and to connect rural areas, resulting in dense networks, which raised data unit costs. With the licensing of additional spectrum, it will be easier and cheaper to roll out 4G and 5G technologies, enabling operators to pass cost-savings onto consumers.

Currently, the revolutionary potential of new communication technologies is difficult to fathom.

**Average internet speeds and the number of internet users are projected to grow exponentially.** A recent research report by CISCO<sup>5</sup> suggests that by 2022, 60% of the world's population will be connected to the internet (compared to 45% in 2017); the internet population of Africa and the Middle East is projected to grow by more than 40% to 550 million in 2022 (from 388 million in 2017); the number of new internet connected devices is projected to increase by 800 million. Average world-wide ADSL internet speeds will almost double from 39 Mbps to 75 Mbps, Wi-Fi speeds from 24 Mbps to 54 Mbps and cell phone internet speeds, from 9 Mbps to 29 Mbps.

It is therefore important that SA's migration to 4G and 5G technologies be expedited in order to tap into this market potential. Govan-Vassen warns that while the release of high-demand spectrum and new 5G technology holds much promise for SA's re-industrialisation, the country faces formidable implementation challenges (see Odendaal, 6 July 2018). A large proportion of the population remains without internet access, the country is still struggling to move to 4G networks due to the unavailability of spectrum and 5G technology is still in the very early stages. As noted in the previous report, the regulatory authorities are considering a Wholesale Open Area Network (WOAN), operated by a public-private sector consortium, ensuring rural access.

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Concrete progress with the allocation of high-demand spectrum is close ...

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This has been met by criticism by industry specialists highlighting the problems with a WOAN in other countries (e.g. Rwanda, Kenya, Russia and Mexico) and the benefits of competition between private operators and different technologies. **The configuration of spectrum allocation remains the outstanding issue, including the government's plans with a WOAN.** The MD of World Wide Worx says that both ICASA and the minister of communications are showing vigour moving the agenda forward ... *"It does mean we should see real movement this year."* (Mzekandaba, 21 February 2019)<sup>6</sup>. This is great news for SME's as internet connectivity is critical in lowering the cost of doing business and in improving profitability, enabling small firms to compete with their bigger counterparts.

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<sup>4</sup> See Odendaal, N (6<sup>th</sup> July 2018): *Spectrum release expected to bring big economic and social benefits*, online: <http://www.engineeringnews/article>

<sup>5</sup> See Cisco (December 2018): *Cisco Complete Visual Networking Index (VNI): Complete Forecast Update, 2017-2022*, online: [https://www.cisco.com/c/dam/m/en\\_us/network-intelligence/service-provider/digital-transformation/knowledge-network-webinars/pdfs/1211\\_BUSINESS\\_SERVICES\\_CKN\\_PDF.pdf](https://www.cisco.com/c/dam/m/en_us/network-intelligence/service-provider/digital-transformation/knowledge-network-webinars/pdfs/1211_BUSINESS_SERVICES_CKN_PDF.pdf)

<sup>6</sup> See Mzekandaba, S (21<sup>st</sup> February 2019): *ICT industry 'encouraged' by Mboweni's budget*, online: <https://www.itweb.co.za/content/G98Yd7LxVYN7X2PD>

The SA tourism industry is an important contributor to value added and employment

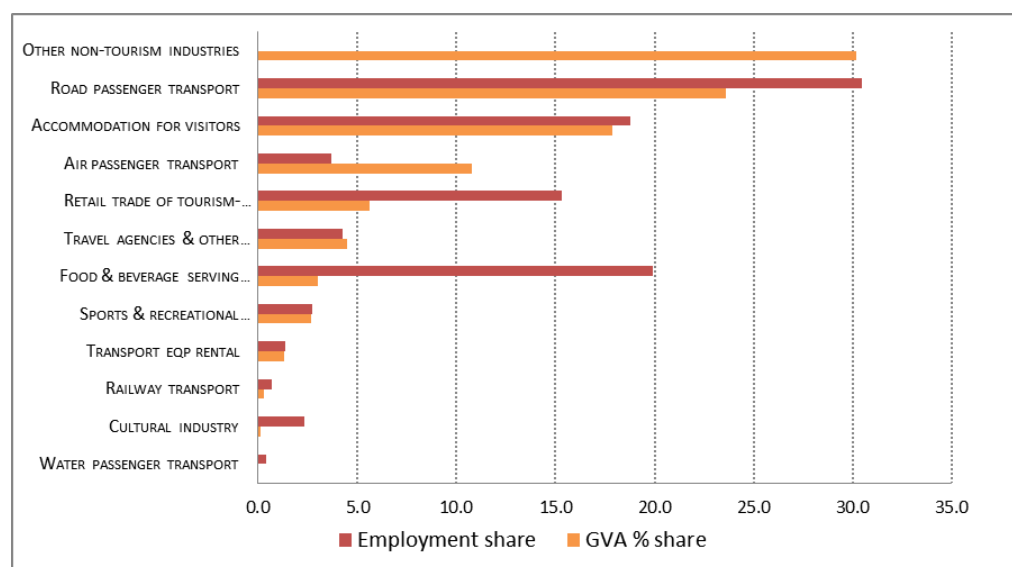
Earnings from tourist accommodation remain flat in 2018 and overseas arrivals decline

According to the latest *Tourism Satellite Account (TSA)* for SA<sup>7</sup>, profits and wages generated in the domestic tourism sector (i.e. its gross value added, or GVA) amounted to R120 billion in 2017 (i.e. 2.9% of national GVA). **A total of 722 000 employment opportunities were directly generated in the sector.**

Figure 4 shows the composition of the industry by GVA and employment contribution. While other (non-tourism) industries account for 30% of value added generated by tourism, among those classified as ‘tourism’ industries, road passenger transport (accounting for 31% of employment and 24% of GVA), accommodation for visitors (19% and 18% respectively), air passenger transport (4% and 11%), retail trade for tourism-connected goods (15% and 6%), travel agencies and other reservation services (4% and 5%) and food & beverage-serving industries (20% and 3%) are the largest contributors.

The tourism sector is targeted as a growth sector and one where SMMEs can play an important role. Unfortunately, the growth in the industry did not live up to expectation in 2018. **Statistics SA recently reported that total current income of the tourist accommodation sector remained flat during 2018 compared to 2017.** This compares to growth of 4.6% in 2017 and 8.5% per annum on average over the preceding four years. Earnings from hotel accommodation dropped 0.5%, that from guest houses & farms, by 13%, and caravan & camping, by 11%. Only other accommodation earnings increased, namely by 9%. In this category, Airbnb accommodation seemed to grow income due to higher prices as the number of Airbnb units also declined marginally. The disappointing tendency in the accommodation sector is corroborated by the decline in the number of overseas arrivals in the year to October 2018, i.e. 1.6% compared to the corresponding period in 2017. Including tourist arrivals from the African continent (2.9%), total growth came to 1.7%, i.e. well below the 4% per annum growth target.

**Figure 4: Composition of SA tourism industry GVA and employment, 2017**



Source: Statistics SA: Tourism Satellite Account, 2018

<sup>7</sup> Statistics SA (November 2018): *Tourism Satellite Account for South Africa, final 2015 and provisional 2016 and 2017*, online: <http://www.statssa.gov.za/publications/Report-04-05-07/Report-04-05-072017.pdf>

# Proxy numbers for SMMEs

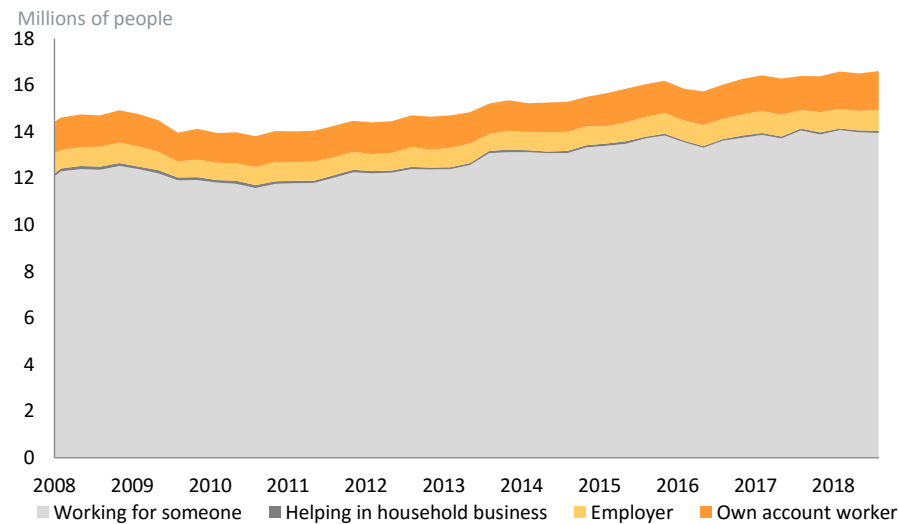
Derived from the Quarterly Labour Force Survey<sup>8</sup>

## Number of SMMEs

Number of small firms increased sharply

In the year up to the third quarter of 2018, the number of SMMEs expanded by a significant 13.6%, while total employment in the wider economy increased by only 1.3%. However, this expansion is not signalling an improvement in the SMME situation for the following reasons. The financial situation of SMMEs deteriorated (Table 12) while it seems that many of the additional SMMEs are side-line businesses, now reported for the first time, as people lost their jobs (p.14). *Of all employed people, 5.3% employed others in 2018Q3, while 10.1% worked for themselves. Combined at 15.4% (or 2.56 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	2017Q3		2018Q2		2018Q3		Quarterly change		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
Employer	795 428	4.9%	831 832	5.0%	887 297	5.3%	55 465	6.7%	91 869	11.5%
Own account worker	1 455 858	8.9%	1 608 927	9.7%	1 669 594	10.1%	60 666	3.8%	213 736	14.7%
<b>SMME owners</b>	<b>2 251 286</b>	<b>13.7%</b>	<b>2 440 760</b>	<b>14.8%</b>	<b>2 556 891</b>	<b>15.4%</b>	<b>116 132</b>	<b>4.8%</b>	<b>305 605</b>	<b>13.6%</b>
Working for someone	14 053 797	85.8%	13 969 388	84.6%	13 953 455	84.0%	-15 932	-0.1%	-100 341	-0.7%
Helping in household business	82 414	0.5%	93 942	0.6%	94 437	0.6%	495	0.5%	12 024	14.6%
<b>Total employed</b>	<b>16 387 497</b>	<b>100.0%</b>	<b>16 504 090</b>	<b>100.0%</b>	<b>16 604 784</b>	<b>100.0%</b>	<b>100 694</b>	<b>0.6%</b>	<b>217 287</b>	<b>1.3%</b>

Source: QLFS of Stats SA

<sup>8</sup> Please note there is substantial volatility in the sub-distributions of the SMMEs; most of this might be due to sampling noise.

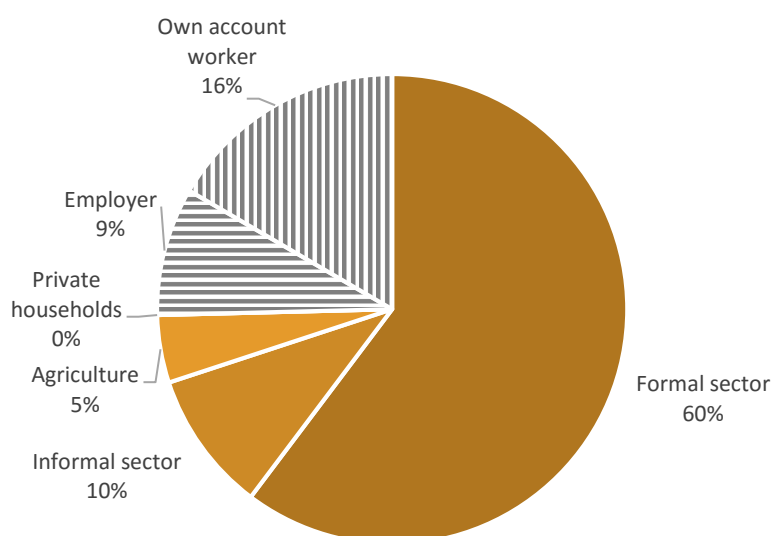
## Employment provided by SMMEs

SMME employment expands strongly

In the third quarter of 2018 the SMME sector provided employment to 10 million people in SA, which is 61% of all jobs (16.5 million) in the country. Of these, only 2.56 million jobs were for the SMME owners themselves, while the balance of 7.5 million jobs (or 75%) were for their employees. Overall, the number of SMME employees (non-owners) grew by 9% over the four quarters up to 2018Q3. The majority of SMME employment (60%) is located in the formal sector. Around half of the new 621 000 jobs-for-others created by SMMEs in the last year was in the formal sector, though the growth rates were the fastest in the informal and agricultural sectors. In these two sectors, jobs-for-others expanded by 24% and 36% respectively.

Of all jobs provided to others by SMME owners, an estimated 38% is filled by female workers\*. This proportion is up by 1 %pt in the previous four quarters.

**Figure 6: Employment provided by SMMEs**



Source: QLFS of Stats SA

**Table 2: Employment provided by SMMEs**

	2017Q3		2018Q2		2018Q3		Quarterly change		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
Formal sector	5 755 761	63.0%	5 638 368	58.8%	6 068 027	60.3%	429 660	7.6%	312 267	5.4%
Informal sector	788 579	8.6%	918 496	9.6%	974 087	9.7%	55 591	6.1%	185 508	23.5%
Agriculture	345 430	3.8%	596 016	6.2%	468 622	4.7%	-127 394	-21.4%	123 193	35.7%
Private households	0	0.0%	0	0.0%	0	0.0%	0	n/a	0	n/a
<b>Provided to others</b>	<b>6 889 769</b>	<b>75.4%</b>	<b>7 152 880</b>	<b>74.6%</b>	<b>7 510 737</b>	<b>74.6%</b>	<b>357 857</b>	<b>5.0%</b>	<b>620 967</b>	<b>9.0%</b>
% Female*		36.9%		37.9%		37.9%		0% pts		1.0%
Employer	795 428	8.7%	831 832	8.7%	887 297	8.8%	55 465	6.7%	91 869	11.5%
Own account worker	1 455 858	15.9%	1 608 927	16.8%	1 669 594	16.6%	60 666	3.8%	213 736	14.7%
<b>Total</b>	<b>9 141 056</b>	<b>100.0%</b>	<b>9 593 640</b>	<b>100.0%</b>	<b>10 067 628</b>	<b>100.0%</b>	<b>473 988</b>	<b>4.9%</b>	<b>926 572</b>	<b>10.1%</b>

Source: QLFS of Stats SA

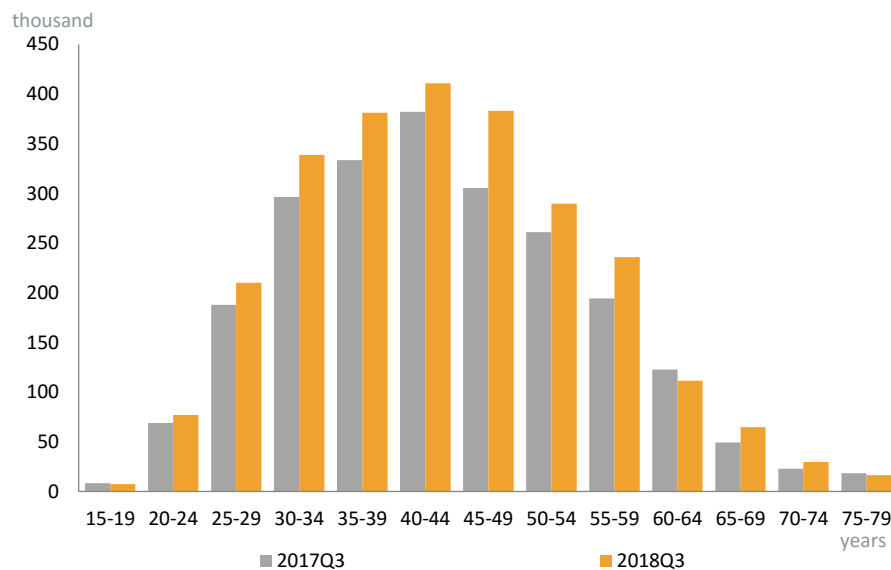
\* of all people working for private enterprises, of which 81% worked for SMMEs over the last 5 years

## SMME owners by age

### Older people start more SMMEs

The majority (60%) of SMME owners are older than 40 years. This ratio has been unchanged in the last year up to 2018Q3. However, in this period the growth in SMME owners has been most prominent among those aged between 45 and 60. The only decline was in the group 60-64 years, when people tend to retire. The growth for those older at 65-74 years indicates more retirees are reverting back to a working life, perhaps an indication of inadequate retirement income.

**Figure 7: SMME owners by age**



Source: QLFS of Stats SA

**Table 3: SMME owners by age**

Years	2017Q3		2018Q2		2018Q3		Quarterly change		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
15-19	8 297	0.4%	5 870	0.2%	7 574	0.3%	1 704	29.0%	-722	-8.7%
20-24	68 952	3.1%	77 965	3.2%	77 084	3.0%	-881	-1.1%	8 132	11.8%
25-29	188 022	8.4%	201 593	8.3%	210 143	8.2%	8 550	4.2%	22 121	11.8%
30-34	296 446	13.2%	307 534	12.6%	338 517	13.2%	30 983	10.1%	42 071	14.2%
35-39	333 452	14.8%	368 156	15.1%	381 317	14.9%	13 161	3.6%	47 865	14.4%
40-44	382 056	17.0%	405 411	16.6%	410 868	16.1%	5 457	1.3%	28 812	7.5%
45-49	305 437	13.6%	369 455	15.1%	383 232	15.0%	13 776	3.7%	77 795	25.5%
50-54	260 943	11.6%	253 822	10.4%	289 646	11.3%	35 824	14.1%	28 703	11.0%
55-59	194 214	8.6%	231 386	9.5%	235 757	9.2%	4 371	1.9%	41 543	21.4%
60-64	122 876	5.5%	112 869	4.6%	111 593	4.4%	-1 275	-1.1%	-11 282	-9.2%
65-69	49 281	2.2%	65 324	2.7%	64 882	2.5%	-442	-0.7%	15 601	31.7%
70-74	23 034	1.0%	26 496	1.1%	29 733	1.2%	3 237	12.2%	6 699	29.1%
75-79	18 277	0.8%	14 879	0.6%	16 546	0.6%	1 667	11.2%	-1 731	-9.5%
<b>Total</b>	<b>2 251 286</b>	<b>100.0%</b>	<b>2 440 760</b>	<b>100.0%</b>	<b>2 556 891</b>	<b>100.0%</b>	<b>116 132</b>	<b>4.8%</b>	<b>305 605</b>	<b>13.6%</b>

Source: QLFS of Stats SA

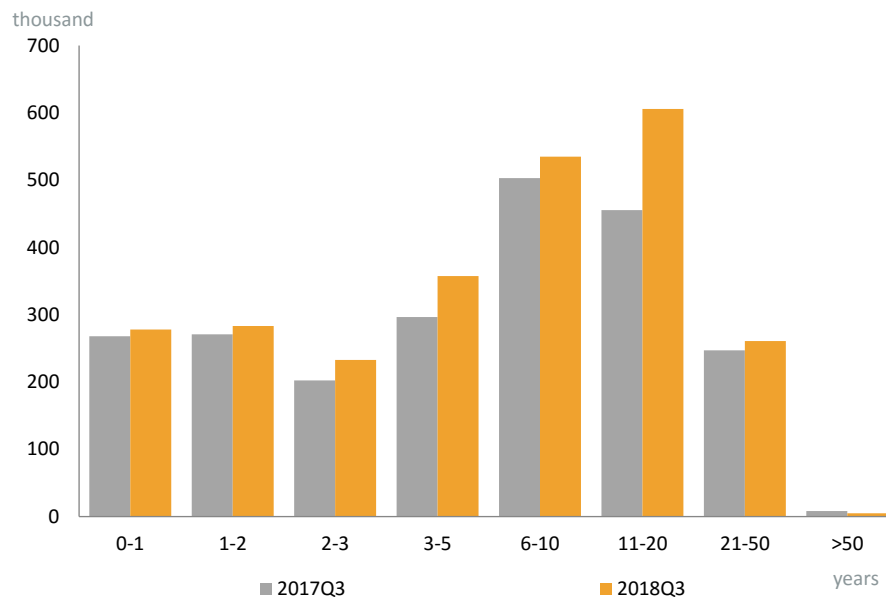
## Enterprise age of SMMEs

More SMMEs survived during the watershed year

According to the survey of 2018Q3, there were 278 000 SMMEs that operated longer than one year, which exceeded the 268 000 new entrants in 2017. There was a huge jump of nearly 150 000 SMMEs that operated between 11 to 20 years. The only way this is possible is if former employees, when they lose their jobs, suddenly report side-line businesses which they operated all along. Another possibility is sampling volatility in the QLFS.

There is normally a decline in the number of SMMEs in their third year of operation, marking this as the watershed age. In the year up to 2018Q3, there was an increase of more than 15% in SMMEs of this age, perhaps an indication of more determination to succeed. 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	2017Q3		2018Q2		2018Q3		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%
0-1	267 759	11.9%	205 546	8.4%	277 868	10.9%	10 109	3.8%
1-2	270 766	12.0%	304 312	12.5%	283 041	11.1%	12 275	4.5%
2-3	202 301	9.0%	220 535	9.0%	232 708	9.1%	30 407	15.0%
3-5	296 442	13.2%	352 544	14.4%	357 403	14.0%	60 961	20.6%
6-10	503 136	22.3%	507 154	20.8%	534 679	20.9%	31 542	6.3%
11-20	455 645	20.2%	554 454	22.7%	605 537	23.7%	149 892	32.9%
21-50	246 880	11.0%	291 958	12.0%	260 739	10.2%	13 859	5.6%
>50	8 358	0.4%	4 256	0.2%	4 917	0.2%	-3 441	-41.2%
<b>Total</b>	<b>2 251 286</b>	<b>100.0%</b>	<b>2 440 760</b>	<b>100.0%</b>	<b>2 556 891</b>	<b>100.0%</b>	<b>305 605</b>	<b>13.6%</b>

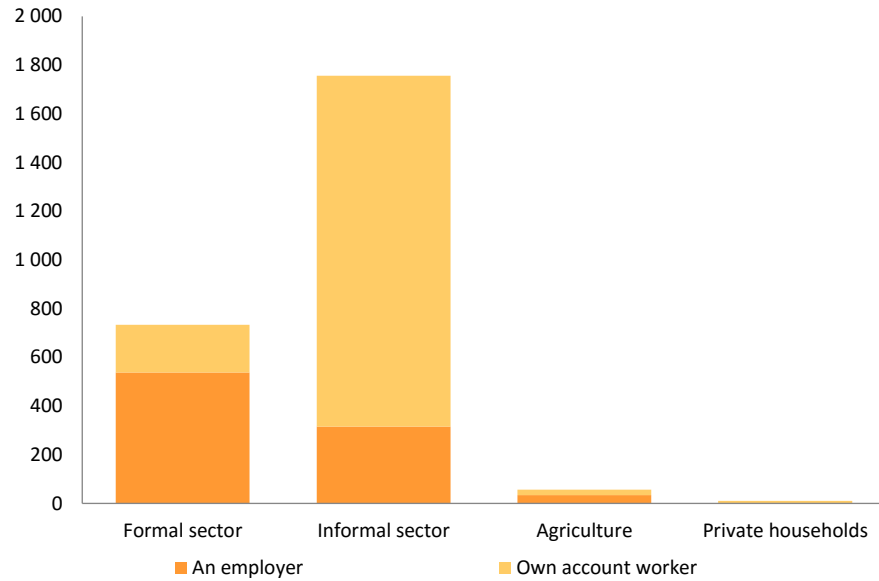
Source: QLFS of Stats SA

## SMMEs by formal and informal sectors

More than two in three  
SMMEs are informal

In the third quarter of 2018, the share of SMMEs operating in the informal sector was at 69%, while the share operating in the formal sector came in at 29%. 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 2018Q3**



Source: QLFS of Stats SA

**Table 5: Formal and informal SMMEs in 2018Q3**

Type	Formal sector	Informal sector	Agriculture	Private households	Total	Distrib.
An employer	537 019	315 944	34 335	0	<b>887 297</b>	34.7%
Own account worker	197 004	1 440 371	21 596	10 624	<b>1 669 594</b>	65.3%
<b>Total</b>	<b>734 023</b>	<b>1 756 314</b>	<b>55 931</b>	<b>10 624</b>	<b>2 556 891</b>	<b>100.0%</b>
% per sector	28.7%	68.7%	2.2%	0.4%	100%	

Source: QLFS of Stats SA

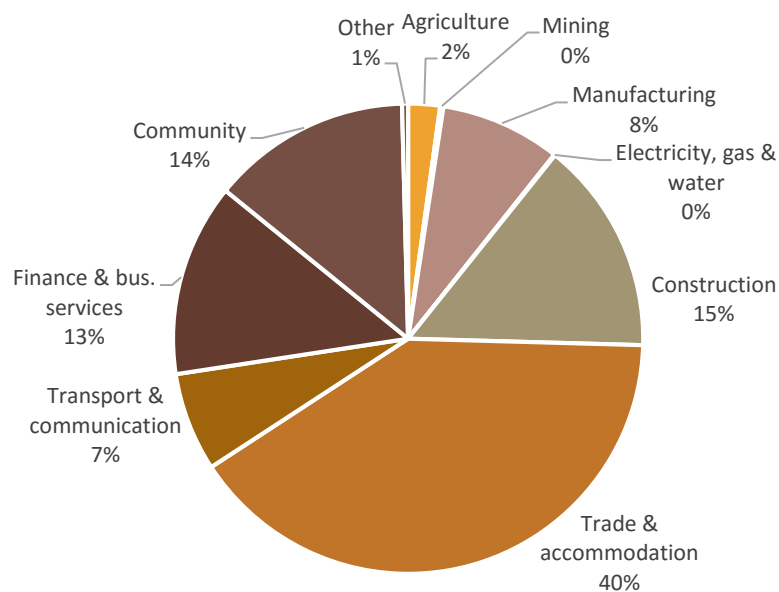


## SMMEs by industry

Large increase in the construction sector

In the year up to 2018Q3, only two sectors lost SMMEs, while the remaining eight gained some. The construction sector gained just above 100 000 SMMEs, followed by financial and business services at nearly 75 000. The number of SMMEs also increased in the trade and accommodation sector; however, its relative share declined to 40% as the growth in other sectors was sharper. The number of SMMEs in agriculture declined by nearly 3800 enterprises during these four quarters, followed by manufacturing losing just below 2200. The industry mix changed slightly over the year up to 2018Q3, indicating that entrepreneurs are adjusting to economic signals and searching for the best opportunities.

Figure 10: SMMEs by industry in 2018Q3



Source: QLFS of Stats SA

Table 6: SMMEs by industry

Industry	2017Q3		2018Q2		2018Q3		Quarterly change		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
Agriculture	59 716	2.7%	70 794	2.9%	55 931	2.2%	-14 863	-21.0%	-3 786	-6.3%
Mining	3 510	0.2%	6 532	0.3%	5 651	0.2%	-880	-13.5%	2 141	61.0%
Manufacturing	213 729	9.5%	198 614	8.1%	211 535	8.3%	12 921	6.5%	-2 194	-1.0%
Electricity, gas & water	0	0.0%	1 247	0.1%	1 732	0.1%	484	38.8%	1 732	n/a
Construction	275 522	12.2%	354 397	14.5%	375 646	14.7%	21 249	6.0%	100 124	36.3%
Trade & accommodation	959 736	42.6%	959 068	39.3%	1 032 063	40.4%	72 995	7.6%	72 327	7.5%
Transport & communication	155 034	6.9%	167 613	6.9%	173 351	6.8%	5 737	3.4%	18 316	11.8%
Finance & bus. services	264 877	11.8%	326 034	13.4%	339 113	13.3%	13 079	4.0%	74 235	28.0%
Community	312 291	13.9%	340 532	14.0%	351 247	13.7%	10 715	3.1%	38 956	12.5%
Other	6 871	0.3%	15 929	0.7%	10 624	0.4%	-5 305	-33.3%	3 753	54.6%
<b>Total</b>	<b>2 251 286</b>	<b>100.0%</b>	<b>2 440 760</b>	<b>100.0%</b>	<b>2 556 891</b>	<b>100.0%</b>	<b>116 132</b>	<b>4.8%</b>	<b>305 605</b>	<b>13.6%</b>

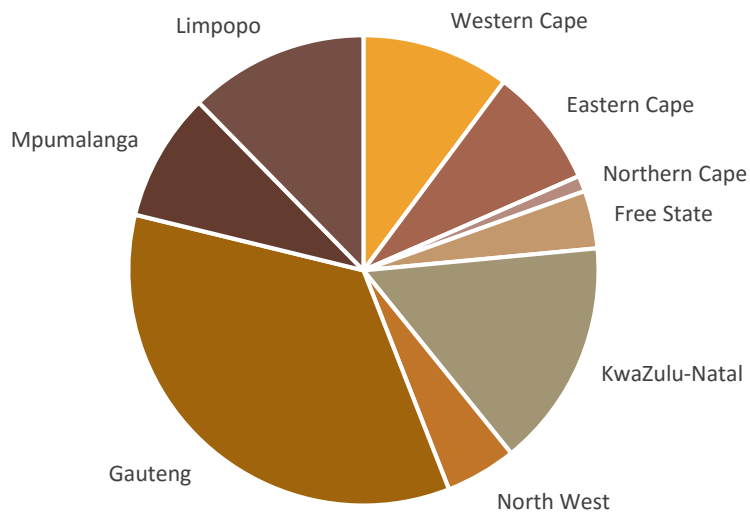
Source: QLFS of Stats SA

## SMMEs by province

Active SMMEs up sharply in Gauteng

In the third quarter of 2018, nearly 35% of SMMEs operated in Gauteng, followed by close to 16% in KwaZulu-Natal and 12% in Limpopo. The share of Gauteng is up from 31% a year before. In the last four quarters, by far the majority of additional SMMEs were active in Gauteng (200 000+), followed by KwaZulu-Natal at nearly 76 000. Three provinces reported fewer SMMEs in business during this period, namely the Western Cape, North West and the Free State.

**Figure 11: SMMEs owners by province**



Source: QLFS of Stats SA

**Table 7: SMME owners by province**

Occupation	2017Q3		2018Q2		2018Q3		Quarterly change		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
Western Cape	268 821	11.9%	279 354	11.4%	260 439	10.2%	-18 915	-6.8%	-8 381	-3.1%
Eastern Cape	190 749	8.5%	215 334	8.8%	210 986	8.3%	-4 348	-2.0%	20 237	10.6%
Northern Cape	14 940	0.7%	19 690	0.8%	27 760	1.1%	8 070	41.0%	12 820	85.8%
Free State	110 291	4.9%	118 452	4.9%	101 709	4.0%	-16 744	-14.1%	-8 583	-7.8%
KwaZulu-Natal	325 051	14.4%	372 151	15.2%	400 967	15.7%	28 817	7.7%	75 917	23.4%
North West	125 329	5.6%	126 470	5.2%	125 046	4.9%	-1 423	-1.1%	-283	-0.2%
Gauteng	687 867	30.6%	808 598	33.1%	888 120	34.7%	79 522	9.8%	200 253	29.1%
Mpumalanga	216 328	9.6%	204 352	8.4%	226 230	8.8%	21 878	10.7%	9 902	4.6%
Limpopo	311 911	13.9%	296 359	12.1%	315 634	12.3%	19 275	6.5%	3 722	1.2%
<b>Total</b>	<b>2 251 286</b>	<b>100.0%</b>	<b>2 440 760</b>	<b>100.0%</b>	<b>2 556 891</b>	<b>100.0%</b>	<b>116 132</b>	<b>4.8%</b>	<b>305 605</b>	<b>13.6%</b>

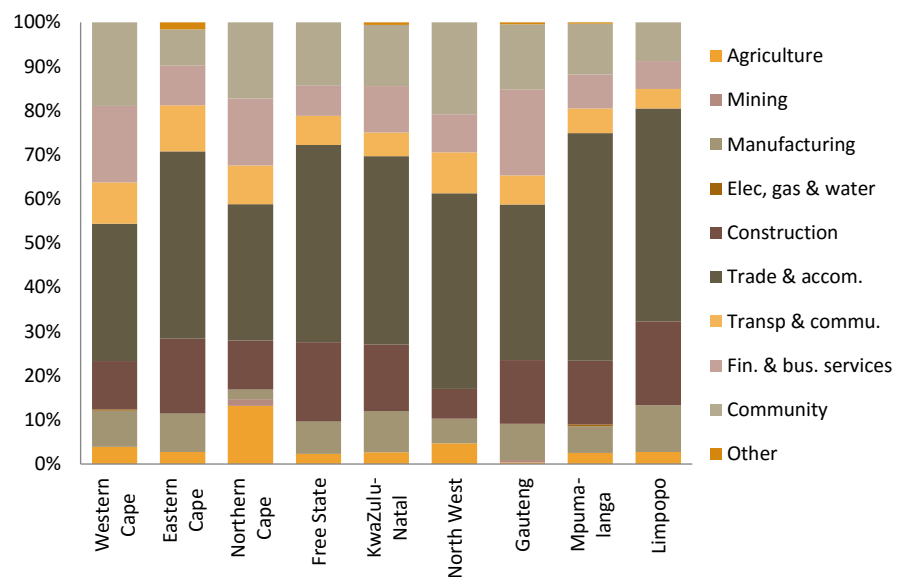
Source: QLFS of Stats SA

## SMMEs by industry and province

Western and Northern Cape different from other provinces

The industry distribution of most provinces is somewhat similar; the trade and accommodation sector (internal trade) is the largest in all provinces. This sector accounted for 40% of SMMEs in the country, but are smaller sizes in the Western Cape, Northern Cape and Gauteng (31%, 31% and 35% respectively). These three provinces have unique specialities; the Northern Cape is highly involved in agriculture and Gauteng 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 2018Q3

	Western Cape	Eastern Cape	Northern Cape	Free State	KwaZulu-Natal	North West	Gauteng	Mpumalanga	Limpopo	Total
Agriculture	10 198	5 821	3 647	2 352	10 800	5 892	2 881	5 694	8 646	55 931
Mining	0	0	432	0	0	0	5 220	0	0	5 651
Manufacturing	21 223	18 266	606	7 466	37 298	6 943	72 800	13 665	33 267	211 535
Elec, gas & water	802	0	0	0	0	0	0	930	0	1 732
Construction	28 571	35 845	3 074	18 242	60 480	8 435	128 225	32 625	60 149	375 646
Trade & accom.	80 922	89 443	8 577	45 409	170 924	55 390	312 788	116 648	151 961	1 032 063
Transp & commu.	24 285	22 017	2 429	6 702	21 390	11 573	58 376	12 487	14 091	173 351
Fin. & bus. services	45 130	19 053	4 198	6 921	42 286	10 767	173 465	17 448	19 844	339 113
Community	49 307	17 142	4 798	14 615	55 295	26 047	130 289	26 079	27 675	351 247
Other	0	3 398	0	0	2 495	0	4 076	655	0	10 624
<b>Total</b>	<b>260 439</b>	<b>210 986</b>	<b>27 760</b>	<b>101 709</b>	<b>400 967</b>	<b>125 046</b>	<b>888 120</b>	<b>226 230</b>	<b>315 634</b>	<b>2 556 891</b>

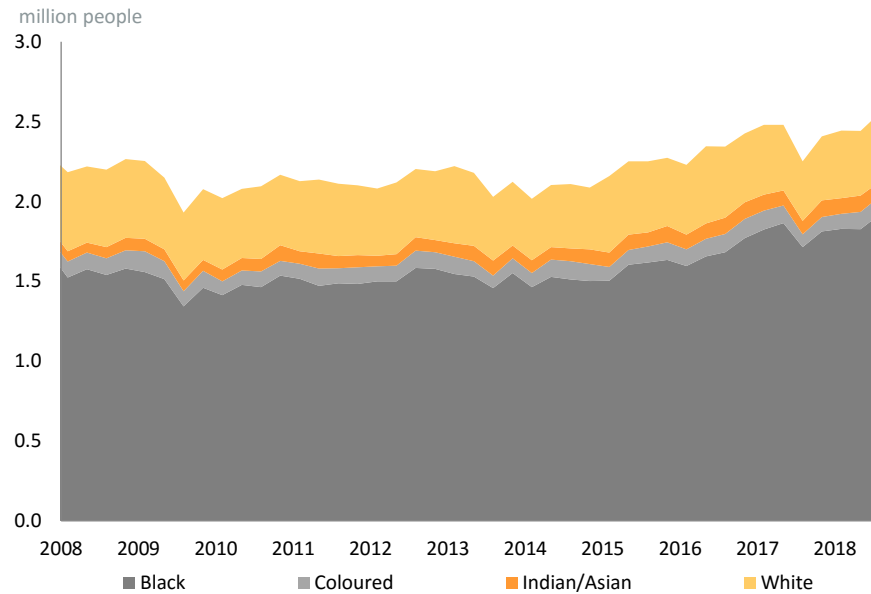
Source: QLFS of Stats SA

## SMMEs by population group

The share of black-owned SMMEs decreased somewhat

In the year up to 2018Q3, more than two-thirds of the increase in SMME owners were black. However, the growth rate was the highest among coloureds, where ownership increased by just more than 38%, lifting their portion of the total from 3.6% to 4.4%. In the same period, the portion of black owners fell from 76% to 75%.

**Figure 13: Number of SMMEs by population group**



Source: QLFS of Stats SA

**Table 9: SMME owners by population group**

Race	2017Q3		2018Q2		2018Q3		Quarterly change		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
Indian/Asian	82 672	3.7%	103 372	4.2%	92 180	3.6%	-11 193	-10.8%	9 507	11.5%
Coloured	81 377	3.6%	108 462	4.4%	112 498	4.4%	4 036	3.7%	31 120	38.2%
White	373 647	16.6%	403 011	16.5%	431 632	16.9%	28 621	7.1%	57 985	15.5%
Black	1 713 590	76.1%	1 825 915	74.8%	1 920 582	75.1%	94 667	5.2%	206 993	12.1%
<b>Total</b>	<b>2 251 286</b>	<b>100.0%</b>	<b>2 440 760</b>	<b>100.0%</b>	<b>2 556 891</b>	<b>100.0%</b>	<b>116 132</b>	<b>4.8%</b>	<b>305 605</b>	<b>13.6%</b>

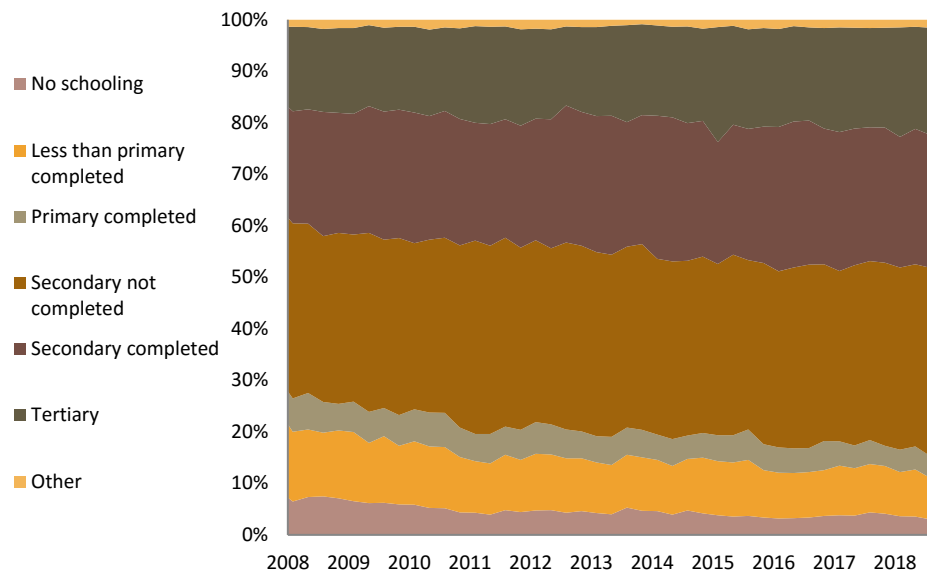
Source: QLFS of Stats SA

**Educational attainment  
continues to improve**

**SMME owners by educational attainment**

In the year up to the third quarter of 2018, the gradual improvement in the educational attainment of SMME owners continued. Those without any schooling fell by nearly 22% while those with tertiary education increased by nearly 23%. They now constitute close to 21% of the total, compared to 19% a year before. Around half of the absolute increase in the number SMMEs was in the group with some secondary schooling. Nearly 37% of SMME owners now fall in this group.

**Figure 14: SMMEs by education group**



Source: QLFS of Stats SA

**Table 10: SMME owners by education group**

Schooling	2017Q3		2018Q2		2018Q3		Quarterly change		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
No schooling	98 179	4.4%	87 348	3.6%	76 913	3.0%	-10 435	-11.9%	-21 267	-21.7%
Less than primary completed	211 201	9.4%	222 789	9.1%	204 914	8.0%	-17 875	-8.0%	-6 287	-3.0%
Primary completed	105 376	4.7%	108 758	4.5%	108 653	4.2%	-104	-0.1%	3 277	3.1%
Secondary not completed	782 119	34.7%	862 494	35.3%	935 522	36.6%	73 027	8.5%	153 403	19.6%
Secondary completed	585 001	26.0%	642 504	26.3%	658 976	25.8%	16 472	2.6%	73 976	12.6%
Tertiary	433 526	19.3%	483 172	19.8%	532 653	20.8%	49 481	10.2%	99 127	22.9%
Other	35 885	1.6%	33 695	1.4%	39 260	1.5%	5 565	16.5%	3 375	9.4%
<b>Total</b>	<b>2 251 286</b>	<b>100.0%</b>	<b>2 440 760</b>	<b>100.0%</b>	<b>2 556 891</b>	<b>100.0%</b>	<b>116 132</b>	<b>4.8%</b>	<b>305 605</b>	<b>13.6%</b>

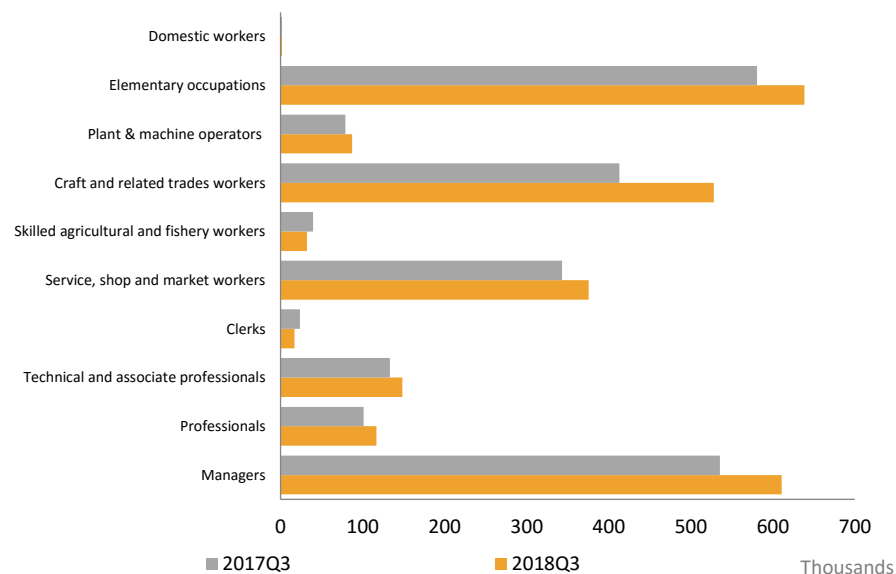
Source: QLFS of Stats SA

## SMMEs by occupation

### Increase in professionals among SMME owners

In the year up to 2018Q3, there was a significant absolute increase in higher skilled occupation SMMEs (managers, professionals, technical and associate professions). Just above 106 000 additional SMMEs operated in these occupations, which correlates with the 99 000 increase of those owners with a tertiary qualification. Besides these, more than 115 000 additional SMMEs were active as craft and related trades workers over this period. Of concern is the 19% drop in skilled agricultural and fishery SMMEs from close to 40 000 to just above 32 000, which may be drought related.

Figure 15: SMMEs by occupation



Source: QLFS of Stats SA

Table 11: SMME owners per occupation group

Occupation	2017Q3		2018Q2		2018Q3		Quarterly change		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
Managers	535 586	23.8%	577 952	23.7%	610 735	23.9%	32 783	5.7%	75 149	14.0%
Professionals	101 463	4.5%	114 809	4.7%	117 079	4.6%	2 270	2.0%	15 616	15.4%
Technical and associate professionals	133 264	5.9%	151 435	6.2%	148 551	5.8%	-2 884	-1.9%	15 287	11.5%
Clerks	23 462	1.0%	23 580	1.0%	16 976	0.7%	-6 604	-28.0%	-6 486	-27.6%
Service, shop and market workers	343 027	15.2%	347 167	14.2%	375 759	14.7%	28 592	8.2%	32 732	9.5%
Skilled agricultural and fishery workers	39 633	1.8%	37 163	1.5%	32 032	1.3%	-5 130	-13.8%	-7 601	-19.2%
Craft and related trades workers	413 135	18.4%	500 811	20.5%	528 290	20.7%	27 479	5.5%	115 155	27.9%
Plant & machine operators	79 160	3.5%	77 086	3.2%	87 057	3.4%	9 971	12.9%	7 897	10.0%
Elementary occupations	580 958	25.8%	606 151	24.8%	638 706	25.0%	32 554	5.4%	57 748	9.9%
Domestic workers <sup>9</sup>	1 599	0.1%	4 607	0.2%	1 706	0.1%	-2 901	-63.0%	107	6.7%
<b>Total</b>	<b>2 251 286</b>	<b>100.0%</b>	<b>2 440 760</b>	<b>100.0%</b>	<b>2 556 891</b>	<b>100.0%</b>	<b>116 132</b>	<b>4.8%</b>	<b>305 605</b>	<b>13.6%</b>

Source: QLFS of Stats SA

<sup>9</sup> Domestic workers who do contract work to households, excluding the nearly one million who view themselves as employed.

# Financial data of SMEs

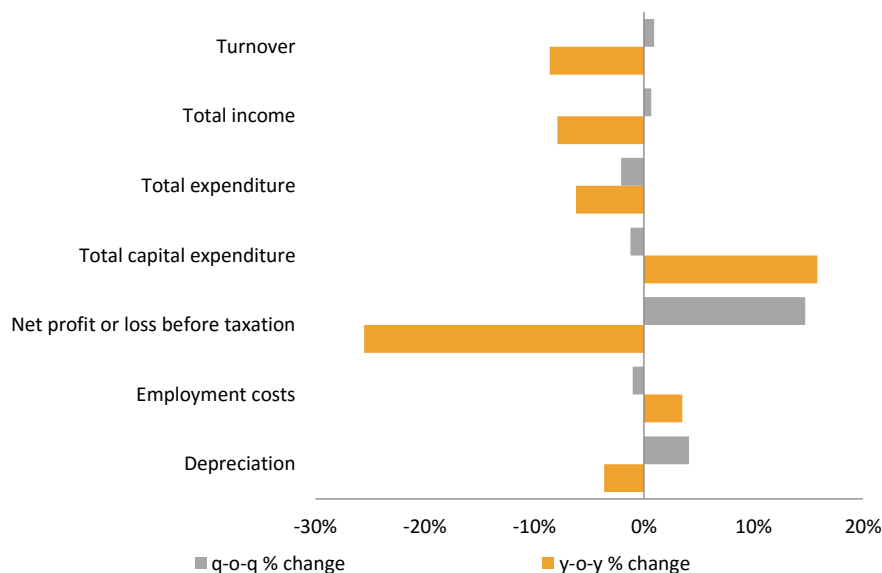
From the Quarterly Financial Survey

## Profitability of SMEs

### SME profitability under severe strain in 2018Q3

The nominal turnover of SMEs fell by a staggering 8.6% y-o-y in 2018Q3. This occurred with inflation in the vicinity of 5% and compares to the 6.3% turnover growth of large enterprises over the corresponding period. The contraction in turnover resulted in a drop of 25% in profit levels, despite a cut of 6% in expenditure. The growth of nearly 16% in capital expenditure concurs with the large number of additional SMMEs operating during this period, which probably had to be capitalised. **Of note**, employment costs increased by only 3.5% while the number of employees in the SMME sector increased by 9% (Table 2), thus the wage per employee should be down by some margin.

**Figure 16: Change per financial indicator: 2018Q3**



Source: QFS of Stats SA

**Table 12: Financial indicators of SMEs**

R million	2017Q3	2018Q2	2018Q3	q-o-q % change	y-o-y % change
Depreciation	R 13 541	R 12 531	R 13 048	4.1%	-3.6%
Employment costs	R 158 401	R 165 671	R 163 957	-1.0%	3.5%
Net profit or loss before taxation	R 88 169	R 57 226	R 65 652	14.7%	-25.5%
Total capital expenditure	R 13 722	R 16 094	R 15 897	-1.2%	15.9%
Total expenditure	R 951 771	R 911 772	R 892 870	-2.1%	-6.2%
Total income	R 1 041 186	R 952 676	R 958 956	0.7%	-7.9%
Turnover	R 1 006 061	R 911 159	R 919 683	0.9%	-8.6%

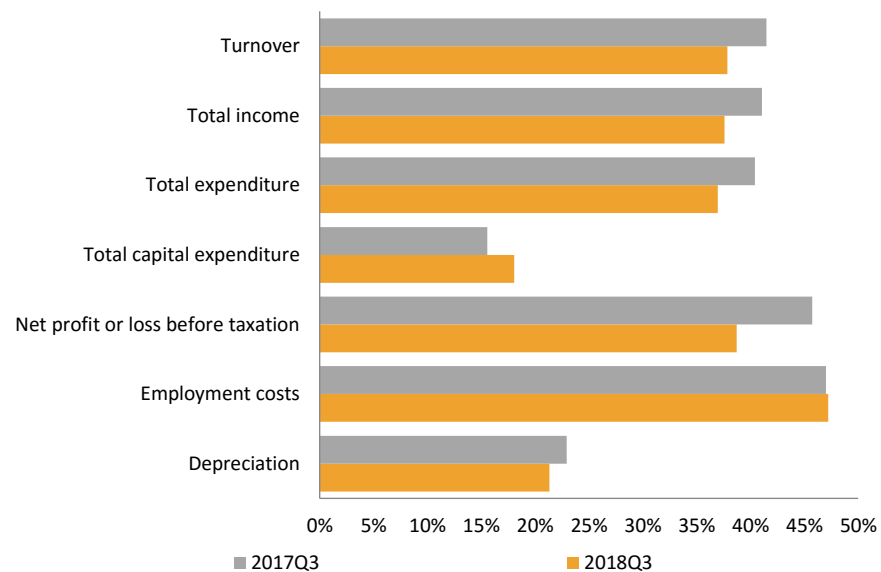
Source: QFS of Stats SA

## Economic contribution of SMEs

### Contribution of SMEs declining

The share that SMEs contribute to the turnover of all enterprises\* fell significantly from 42% to 38% in the four quarters up to 2018Q3. The share of net profit dropped from 46% to 39%, while expenditure declined from 40% to 37%. Only the share of capital investment improved from 16% to 18% of total investment. These numbers suggest that SMEs attracted a smaller share of total business compared to large enterprises, though they had to pay more wages.

**Figure 17: SME contribution to all enterprises\* by indicator**



Source: QFS of Stats SA

**Table 13: SME contribution to all enterprises\* by indicator**

Indicator	2017Q3	2018Q2	2018Q3	q-o-q change	y-o-y change
Depreciation	22.9%	19.5%	21.3%	1.8% pts	-1.6% pts
Employment costs	47.0%	48.0%	47.2%	-0.8% pts	0.2% pts
Net profit or loss before taxation	45.7%	52.8%	38.7%	-14% pts	-7% pts
Total capital expenditure	15.5%	18.1%	18.1%	0% pts	2.5% pts
Total expenditure	40.4%	37.9%	37.0%	-0.9% pts	-3.4% pts
Total income	41.1%	38.4%	37.6%	-0.9% pts	-3.5% pts
Turnover	41.5%	38.7%	37.9%	-0.9% pts	-3.6% pts

Source: QFS of Stats SA

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



**Table 14: Financial indicators of SMEs by industry**

R million	2017Q3	2018Q2	2018Q3	q-o-q % change	y-o-y % change
<b>Employment costs</b>	<b>R 158 401</b>	<b>R 165 671</b>	<b>R 163 957</b>	<b>-1.0%</b>	<b>3.5%</b>
Community, social and personal services industry	R 13 125	R 10 934	R 10 797	-1.3%	-17.7%
Construction industry	R 9 750	R 7 783	R 8 053	3.5%	-17.4%
Electricity, gas and water supply industry	R 293	R 331	R 307	-7.3%	4.8%
Manufacturing industry	R 43 012	R 40 308	R 41 167	2.1%	-4.3%
Mining and quarrying industry	R 2 654	R 2 752	R 2 740	-0.4%	3.2%
Real estate and other business services industry	R 46 658	R 58 550	R 55 170	-5.8%	18.2%
Transport industry	R 9 170	R 10 842	R 10 709	-1.2%	16.8%
Trade industry	R 33 739	R 34 171	R 35 014	2.5%	3.8%
<b>Net profit or loss before taxation</b>	<b>R 88 169</b>	<b>R 57 226</b>	<b>R 65 652</b>	<b>14.7%</b>	<b>-25.5%</b>
Community, social and personal services industry	R 3 436	R 4 150	R 1 503	-63.8%	-56.3%
Construction industry	R 1 040	R 745	R 2 190	194.0%	110.6%
Electricity, gas and water supply industry	R 920	R 1 810	R 1 684	-7.0%	83.0%
Manufacturing industry	R 25 594	R 10 111	R 15 764	55.9%	-38.4%
Mining and quarrying industry	-R 3 889	R 1 726	R 1 846	7.0%	-147.5%
Real estate and other business services industry	R 19 696	R 9 675	R 11 431	18.1%	-42.0%
Transport industry	R 7 249	R 3 322	R 3 806	14.6%	-47.5%
Trade industry	R 34 123	R 25 687	R 27 428	6.8%	-19.6%
<b>Total capital expenditure</b>	<b>R 13 722</b>	<b>R 16 094</b>	<b>R 15 897</b>	<b>-1.2%</b>	<b>15.9%</b>
Community, social and personal services industry	R 484	R 522	R 574	10.0%	18.6%
Construction industry	R 8	R 587	R 160	-72.7%	1900.0%
Electricity, gas and water supply industry	R 59	R 145	R 139	-4.1%	135.6%
Manufacturing industry	R 3 736	R 4 789	R 3 484	-27.2%	-6.7%
Mining and quarrying industry	R 603	R 1 143	R 1 499	31.1%	148.6%
Real estate and other business services industry	R 4 865	R 4 267	R 4 933	15.6%	1.4%
Transport industry	R 2 034	R 2 861	R 2 685	-6.2%	32.0%
Trade industry	R 1 933	R 1 780	R 2 423	36.1%	25.3%
<b>Total expenditure</b>	<b>R 951 771</b>	<b>R 911 772</b>	<b>R 892 870</b>	<b>-2.1%</b>	<b>-6.2%</b>
Community, social and personal services industry	R 31 546	R 26 794	R 28 142	5.0%	-10.8%
Construction industry	R 59 964	R 45 437	R 41 724	-8.2%	-30.4%
Electricity, gas and water supply industry	R 5 014	R 4 238	R 4 274	0.8%	-14.8%
Manufacturing industry	R 240 178	R 241 390	R 234 401	-2.9%	-2.4%
Mining and quarrying industry	R 16 889	R 12 414	R 12 346	-0.5%	-26.9%
Real estate and other business services industry	R 151 540	R 156 151	R 151 161	-3.2%	-0.3%
Transport industry	R 50 921	R 52 073	R 53 249	2.3%	4.6%
Trade industry	R 395 719	R 373 275	R 367 573	-1.5%	-7.1%
<b>Total income</b>	<b>R 1 041 186</b>	<b>R 952 676</b>	<b>R 958 956</b>	<b>0.7%</b>	<b>-7.9%</b>
Community, social and personal services industry	R 34 976	R 30 939	R 29 716	-4.0%	-15.0%
Construction industry	R 60 849	R 45 827	R 44 157	-3.6%	-27.4%
Electricity, gas and water supply industry	R 5 895	R 6 041	R 5 916	-2.1%	0.4%
Manufacturing industry	R 261 737	R 243 668	R 252 443	3.6%	-3.6%
Mining and quarrying industry	R 12 912	R 14 141	R 13 880	-1.8%	7.5%
Real estate and other business services industry	R 171 448	R 166 202	R 161 393	-2.9%	-5.9%
Transport industry	R 58 171	R 55 442	R 57 119	3.0%	-1.8%
Trade industry	R 435 198	R 390 416	R 394 332	1.0%	-9.4%
<b>Turnover</b>	<b>R 1 006 061</b>	<b>R 911 159</b>	<b>R 919 683</b>	<b>0.9%</b>	<b>-8.6%</b>
Community, social and personal services industry	R 24 177	R 21 910	R 21 328	-2.7%	-11.8%
Construction industry	R 60 131	R 45 323	R 43 671	-3.6%	-27.4%
Electricity, gas and water supply industry	R 5 693	R 5 301	R 5 427	2.4%	-4.7%
Manufacturing industry	R 250 586	R 231 789	R 239 460	3.3%	-4.4%
Mining and quarrying industry	R 11 699	R 12 764	R 12 748	-0.1%	9.0%
Real estate and other business services industry	R 166 401	R 154 972	R 151 993	-1.9%	-8.7%
Transport industry	R 57 055	R 53 840	R 55 662	3.4%	-2.4%
Trade industry	R 430 319	R 385 260	R 389 394	1.1%	-9.5%

# Implications for the SMME sector

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Growth in the number of and employment in SMMEs restored, but this does not reflect in their financial performance

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There is a sharp contrast in the latest set of survey results. On the positive side, growth in the number of SMMEs and SMME employment was restored. **The total number of SMMEs is now reported at 2.56 million, which is slightly higher than the previously reported range of 2.3 to 2.5 million.** Furthermore, the number of SMME employees, employers and own account workers is up to 10.1 million, accounting for no less than 65% of economy-wide employment. This not only reverses the attrition in the sector reported in the previous two reports, but a number of positive tendencies in the quality of SMME ownership hint towards the possible arresting of survivalist tendencies in the sector. It may be too early to draw this conclusion.

**The main contrasting feature of the latest survey is the sustained under performance of the SME sector (i.e. excluding micro enterprises for the moment) compared to their larger counterparts.** The share of SME turnover in economy-wide turnover contracted further to 38% (from 40% reported previously) as an 8.6% decline in nominal turnover was reported by SMEs. While expenditure was also cut back, employment costs remained sticky and profit levels contracted by one quarter. Financially, at least, the sector remains under substantial pressure.

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It remains important that SMMEs be supported in a challenging economic environment

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The poor growth of the wider economy remains an important challenge. The reality of electricity blackouts and the crisis at Eskom are major risks for the SMME sector in particular and highlight the importance of considering alternative (renewable) energy sources. Currently there is some promise that SA's growth conditions will improve beyond the 8 May national and provincial elections. The renewed growth has to be home-grown as the global economy is in the midst of a slowdown. **It remains imperative that measures to assist SMME growth be doubled up.** The changes to the competition law should assist by lowering barriers to entry; measures to reduce the cost of doing business (e.g. lower communication and data costs) and infrastructure support all remain critical. An outcome of the weak domestic demand conditions is that inflationary pressures have subsided and related to that the likelihood of interest rate increases. Unfortunately, Eskom's financial crisis will counter these lower cost tendencies.

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Amid all the adversity and change, new opportunities are opening up for SMMEs

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Apart from facing current adversities, SMMEs must be informed of and plan for the onset of technological changes (embodied in the 4<sup>th</sup> industrial revolution). **It is interesting that exactly in this space new opportunities for SMME growth are opening up.** Reducing the cost and broadening the reach of internet connectivity holds much potential, particularly in view of the projected growth of the ICT sector. SMMEs must also be informed of the initiatives by **the dti** in preparing the country for technological change. Manufacturing remains an important sector; however, business models are rapidly changing and the emphasis on the education and training of the workforce needs to be stepped up decisively.

# 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