

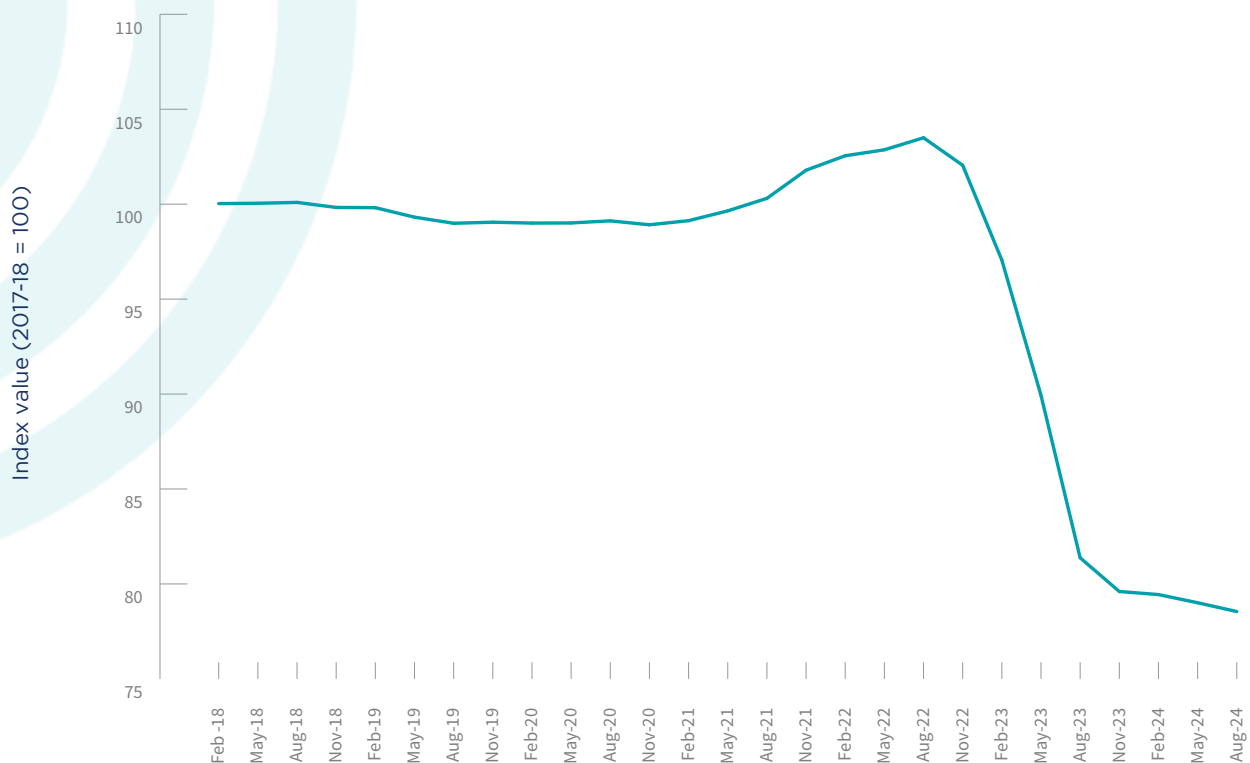
## ASBFEO LAUNCHES SMALL BUSINESS PULSE

August 2024

### Key highlights:

- World-leading index that provides an overall perspective of the challenges and opportunities for small businesses, drawing in sentiment, operating conditions and the ability to transform or grow a business.
- Over the past 12 months conditions for small business have deteriorated by 3.5% and continue to be well below long-term average.
- The business operating environment has been in decline for the past two years with rising concerns about regulation, increased costs and slowing demand weighing on profitability.
- Concerns by small business owners about their business viability have increased. This includes those already in financial distress and those who are considering their options while they still have them.
- Fewer small businesses are considering expanding or transforming their business as they struggle to stay open. Queries on hiring staff, advertising, new product offerings and other innovations are all relatively low.
- These tough conditions are affecting optimism, with fewer people considering starting a business.

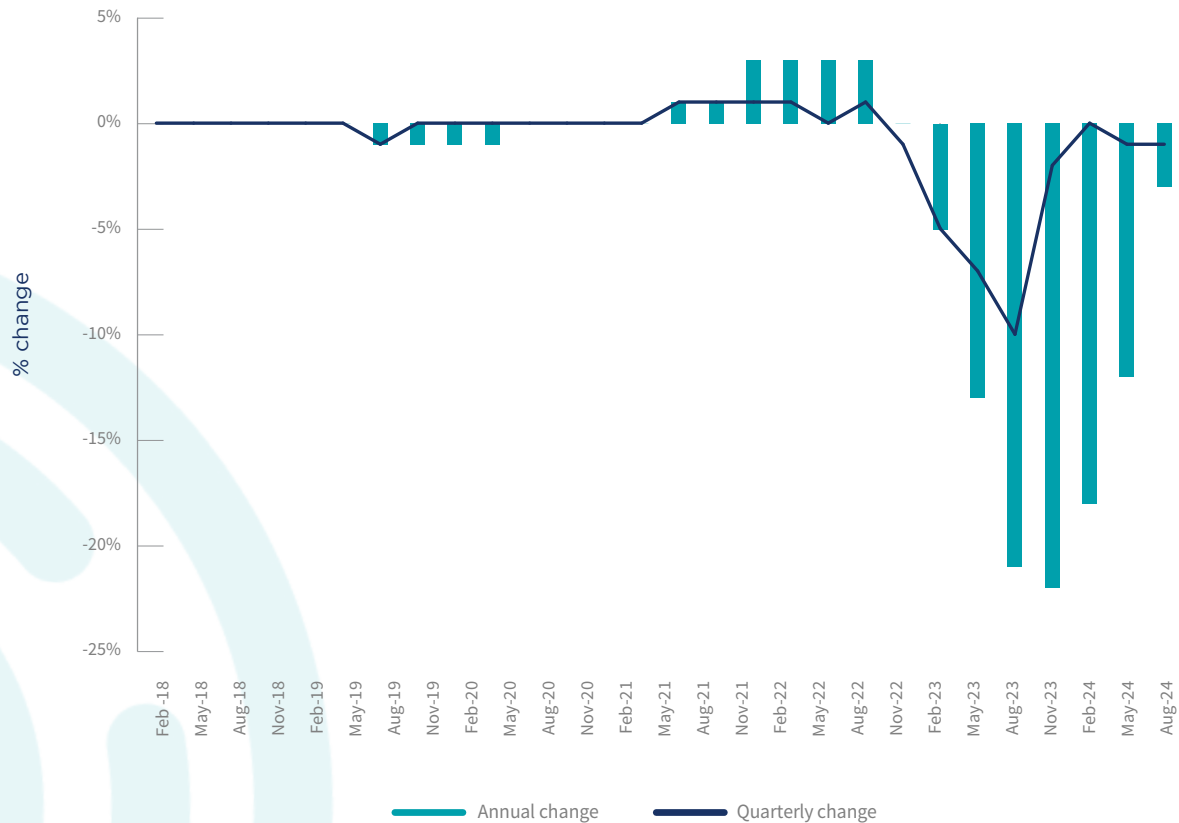
### ASBFEO Small Business Pulse



Note: Scale starts at 75.0.

Source: ASBFEO, 2024

## ASBFEO Small Business Pulse changes



**Note:** The ASBFEO Small Business Pulse did not reflect a fall in 2020 as government support measures outweighed other economic impacts. As economic activity, including insolvencies, have returned to trend levels, the Pulse has reflected these shifts.

Source: ASBFEO, 2024

## Introducing the ASBFEO Small Business Pulse

The Australian Small Business and Family Enterprise Ombudsman, Bruce Billson, has today launched the ASBFEO Small Business Pulse – an innovative combination of non-traditional and traditional data to produce an indicator of small business health.

“The Small Business Pulse is a health check of objective vital signs for small business while also taking into account the ‘animal spirits’ that drive decision making by the enterprising Australians who look for delicious opportunities as they navigate challenges they may face,” Mr Billson said.

“Small business is the beating heart of our communities and our economy. The Pulse is a world-leading index that provides an overall perspective of the challenges and opportunities for small businesses, drawing in sentiment, operating conditions, how business owners are responding to these conditions and the ability to transform or grow a business.

“The Pulse was created in line with OECD best practice and brings together a range of data sources that can provide early indicators of changes in the lived experience of small business and the motivations that drive them and is particularly important when conditions are changing rapidly, which traditional sources of information and point-in-time surveys often miss.

“Our approach is different to other interesting and informative small business surveys that provide useful snapshots, since we use measurements beyond customer data, sample populations and specific questions. We are therefore able to capture the views and experiences of the business life-cycle, and in near real time.

“The ASBFEO Pulse probes factors which range from people considering starting a business, responses to changing conditions, those who are transforming or growing their business, through to those who are considering closing their business and those who finally do so. The ASBFEO Small Business Pulse was developed to address this gap.

“The Pulse captures three broad areas that reflect the eco-system for small business owners.

**Sentiment:** the human emotions and instincts that drive behaviour. This includes people considering starting a business, existing business owners considering closing their business and existing sentiment survey measures.

**Business transformation:** measuring variables such as queries about engaging staff, innovation, coaching and mentoring, marketing, advertising, capital investment and funding.

**Business operation:** The business of running a business such as complying with regulations, business entries and exits (including insolvencies), demand, economic performance, levels of debt and general economic conditions including disputes.

“The time-series for the Pulse covers the past eight years and has been developed by my agency over the past two years.

## August 2024 ASBFEO Small Business Pulse

“The ASBFEO Small Business Pulse shows that the business environment in August 2024 remains well below the long-term average. The ASBFEO Pulse fell 0.6% in August 2024 – the eighth consecutive fall. Over the past 12 months it has fallen 3.5%.

“This represents a modest decline over recent quarters after the stark deterioration caused by an end of Covid-support and Covid-amplified changes in the structure of the economy including inflationary pressures, skills shortages, supply chain challenges and pronounced margin squeeze, and the series of interest rate increases.

“For small and family businesses, higher interest rates not only impact their costs of financing but have profound implications for customers in terms of their spending, preferences and confidence. All small businesses know there is no substitute for customers in determining business success.

“The decline in the operating environment for small business reflects a rise in queries from small business owners about compliance with their regulatory obligations. These were mainly about responsibilities as an employer, tax and business registrations.

“The other key driver was rising queries from exhausted small business owners looking at their options. These include those who are in financial distress and those who are looking for a dignified dismount while they still have choices.

“Small business owners are concerned about the viability of their business and whether they can ride the tough economic climate out.

“It’s a real gamble, with the value of debts owed by small businesses increasing over the last year and around half of small business loans secured by the family home. Higher interest rates have increased the cost of this finance. Credit checks for approving credit (either finance or trade credit) had their largest fall in over a year.

“Business insolvencies are rising, and small businesses are increasingly concerned that other businesses that owe them money are insolvent.

“There is good reason for them to be worried, with corporate insolvencies at a record high. Unincorporated business failures have also increased, although they remain below pre-pandemic levels.

“Payment disputes are often an early warning sign of cash flow issues. These now account for 42% of disputes where ASBFEO provides one-to-one assistance to small businesses. This has risen from 36% last financial year.

“The labour market remains tight but has eased slightly over the year. While this is positive for small businesses looking to hire staff, there are fewer smaller employers than there were last year.

“Queries about recruiting new staff have reached their lowest levels in nine months. The proportion of self-employed businesses hiring additional employees decreased last year. This early indicator suggests that this will continue to fall.

“Fewer small business owners are enquiring about expanding their business as they struggle to stay viable and open.

“As well as fewer inquiries about hiring staff, queries about advertising, expanding offerings and other forms of innovation were also relatively low in the August Pulse. A rise in small business queries about capital expenditure and associated tax deductions partly offset these falls.

“These difficult conditions have affected optimism, with enquiries about starting a new business at their lowest levels in six months. However, there are signs of a pickup, particularly in the Northern Territory, Queensland and Western Australia.

“Early indicators suggest that the next Pulse, due in November, may improve. Queries from people considering taking the leap into business have remained relatively high since February. Similarly, there has been a rise in small business owners interested in growth ambitions and seeking business coaching and mentoring.

“However, the operating environment remains challenging. Concerns about regulation continue to remain high, particularly tax and work health and safety. There are also increasing queries about small business’ privacy obligations.

“Requests for help from small businesses in financial distress have remained stubbornly high, as have insolvencies. These challenges in the operating environment are likely to offset the positive effects of the rising optimism for starting and growing businesses.”

**MEDIA CONTACT:** 0448 467 178 / [www.asbfeo.gov.au](http://www.asbfeo.gov.au)

## Methodology

The ASBFEO Small Business Pulse is a world-leading combination of non-traditional and traditional data to produce an indicator of small business health. There is growing research on the value of harvesting alternative data such as internet searches to complement traditional sources of information such as official statistics. These alternative sources can provide the early indicators of changes in the environment and ambition when combined with traditional data and interpreted with subject matter expertise. This is particularly important when conditions are changing rapidly, which traditional sources of information and point-in-time surveys often miss.

The Pulse was constructed in line with the *OECD Handbook on Constructing Composite Indicators*. This aimed to develop a simple model that has flexibility to adjust to changing conditions and new datasets as they become available while maintaining a reliable time series. The ASBFEO Small Business Pulse is a composite indicator divided into three branches:

**Sentiment:** the human emotions and instincts that drive behaviour. This includes people considering starting a business, existing business owners considering closing their business and existing sentiment survey measures.

**Business transformation:** measuring variables such as queries about engaging staff, innovation, coaching and mentoring, marketing, advertising, capital investment and funding.

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Variables are normalised prior to aggregation because they have different measurement units. The Pulse assigns each variable to one of these three branches and weights them to calculate a branch score. Some variables such as funding could sit in multiple branches but have been assigned to a single branch based on ASBFEO analysis of small business queries. Each branch has equal weight in the overall index. The branch weights reflect conceptual expectations and small business contribution to macroeconomic indicators. For example, staffing variables such as the underutilisation rate (a measure of spare capacity in the labour market) has a reduced weight as over 60% of small businesses do not have additional employees. Variables such as non-performing loans which suggest a deterioration in the business environment are multiplied by -1.

This approach provides flexibility to adjust for the changing data environment. ASBFEO splices in new datasets as they become available. This involves calculating the movement without the new data then adjusting this for the new data.