

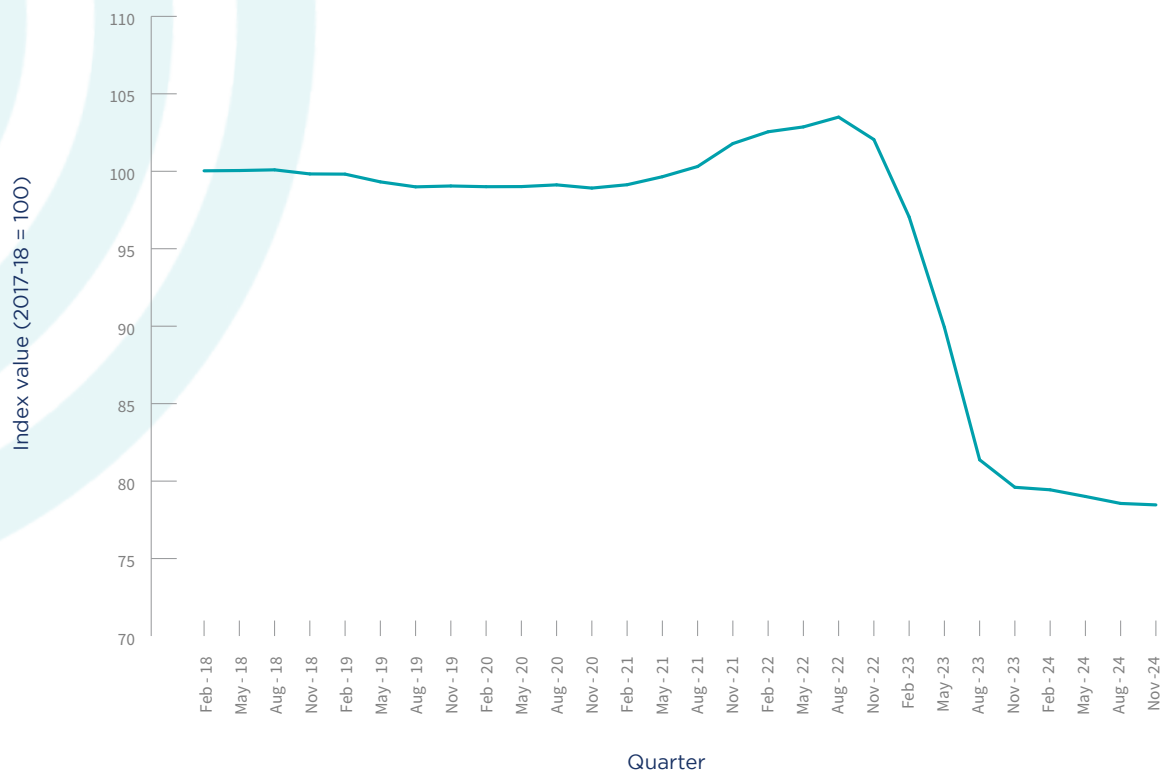
## SMALL BUSINESS CONDITIONS ARE STILL TOUGH BUT LEVELLING OUT

November 2024

### Key highlights:

- The small business operating environment has started to level off after sharply deteriorating in the post-COVID period.
- Over the past quarter conditions for small businesses fell just 0.1% and are down 1.4% over the past 12 months.
- High business expenses continue to put pressure on profit margins. These are widespread across supplies, labour and business essentials, particularly freight, insurance and finance.
- There are early signals of increased interest in growth and innovation initiatives for existing small businesses and increased enquiries about starting a new business.
- Small businesses are increasingly considering hiring additional staff, particularly in health and social support workers and specialist information and communication technology workers.

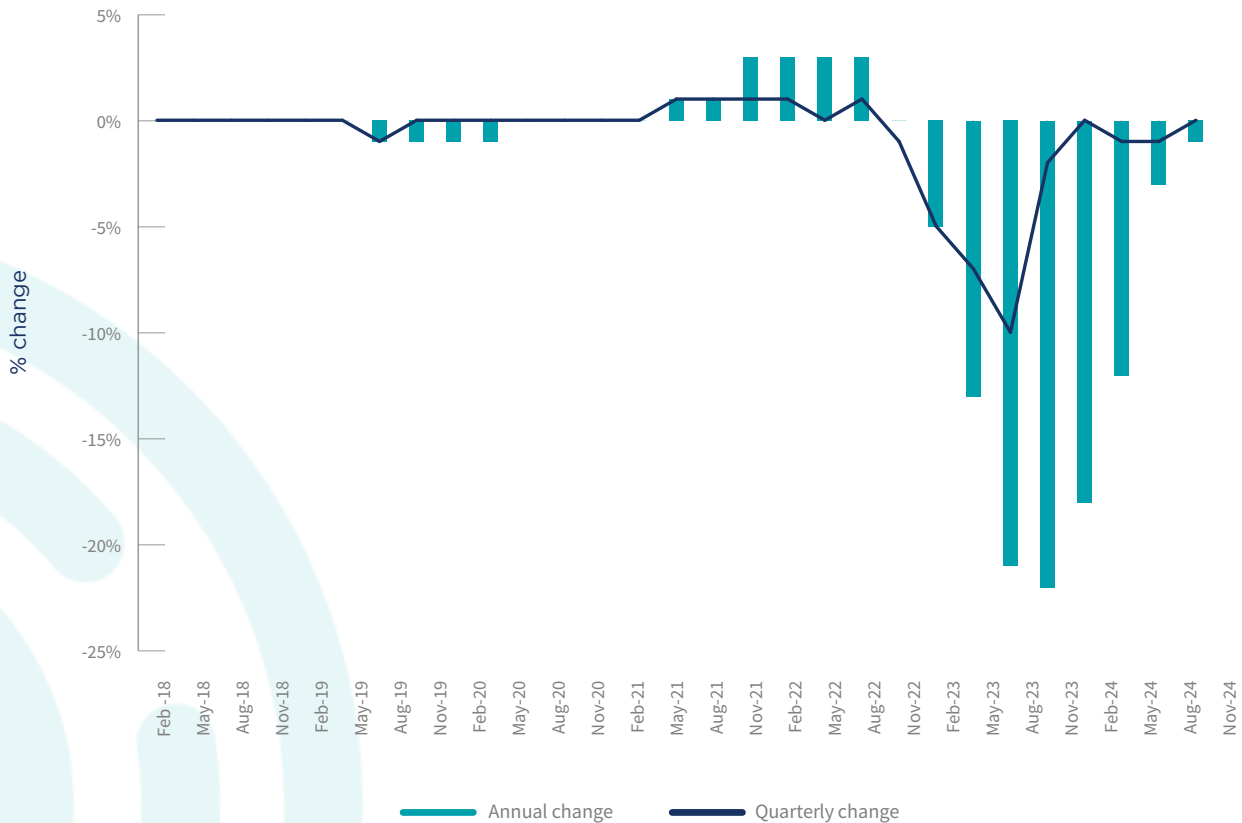
### ASBFEO Small Business Pulse



Note: Scale starts at 70.0.

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

## ASBFEO Small Business Pulse November 2024

The ASBFEO Small Business Pulse shows that the business environment in November 2024 remains well below the long-term average. The ASBFEO Pulse dropped 0.1% in November 2024 – the ninth consecutive fall. Over the past 12 months it has fallen 1.4%.

The Australian Small Business and Family Enterprise Ombudsman, Bruce Billson, said this represents a levelling out compared to previous quarters.

“While the small business operating environment remains weak, there are early signals of increased interest in growth and innovation initiatives for existing small businesses and increased enquiries about starting new businesses,” Mr Billson said.

“Small business is the beating heart of our communities and our economy and the greatest renewable resource in our country is the perpetual optimism of small business people.”

“Conditions have been rough for many small businesses with the post-COVID business environment 25% below the long-term average. If you believe as I do, that small and family businesses are the engine room of the economy, we have lost a cylinder in a 4-cylinder engine in the aftermath of COVID.”

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.

“The cost-of-living crisis is also the cost of doing business for small business owners, which is continuing to put pressure on profit margins,” Mr Billson said.

“Continuing high business expenses are widespread across supplies, labour and business essentials, particularly freight and insurance. An increasing number of small business owners are looking for affordable business continuity insurance heading into summer’s heightened risk of natural disasters.

“Although interest rates have remained on hold for a year, the cost of finance remains high and small business owners are researching their financing options. These queries are mainly considering refinancing to reduce interest costs and options for tapping into business owners’ personal funds or other ‘internal’ funding. A small subset is seeking financing to keep their business afloat.

“This is consistent with the slight easing in the number of financially distressed small businesses seeking help to consider their options this quarter. However, despite a slight decline, these query rates remain high compared to the long-term trend and business insolvencies continue to rise.

“Tightening trade credit and extended payment times from other businesses continue to weigh on small business operating conditions. Two in five of the cases that come to our office involve a payment dispute that can put an unpaid small or family business with modest cash reserves in a precarious position.

“But the ingenuity and perpetual optimism of enterprising small business people are starting to offset these pressures.

“There has been a rise in small business owners researching possible innovation initiatives for their businesses - generally these are incremental innovations, which can make a big difference over time. Queries from small business owners on marketing and advertising have also increased, especially digital marketing.

“A modest turn-around is observed with small businesses increasingly considering hiring staff compared to contractor engagement, despite the persistently tight labour market. This is particularly occurring in health and social support workers and specialist information and communication technology workers.

“These indicators of a modest uplift in optimism are also reflected in increased queries from people considering starting a new business. This interest is particularly high in sectors that do not require significant initial capital outlays such as professional services. People are increasingly looking to artificial intelligence to help them kick start their entrepreneurial journey by generating business plans.

“Queries about using digital platforms to connect and sell to customers have increased. This includes both people considering starting a business and those who are already in business.

“Interest in cyber insurance has also increased. Similarly, there has been a rise in small business owners enquiring about how to protect their online businesses through measures such as multi factor authentication and e-invoicing.

“Corporate insolvencies have reached record highs (in nominal terms) after subdued ‘winding up’ activity throughout COVID-19. Small business restructuring processes now account for one in five of these insolvencies, having steadily increased over the last 18 months. They are likely to continue to rise, with queries from small business owners about small business restructuring remaining elevated.”

We need to do more to energise enterprise. That’s why we have proposed 14 Steps designed to give more support to the nation’s 2.5 million small businesses [www.asbfeo.gov.au/14-steps](http://www.asbfeo.gov.au/14-steps)

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.

**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.

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.