

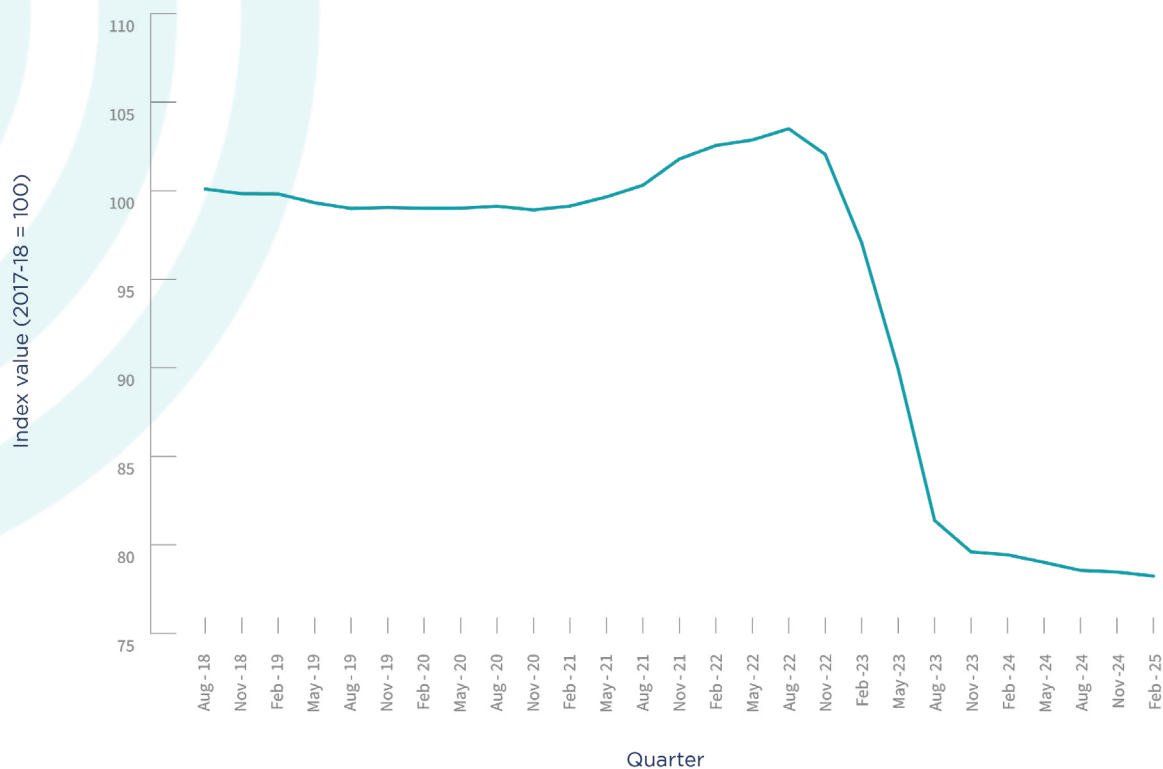
MODEST RELIEF BUT SMALL BUSINESS CONDITIONS REMAIN WEAK

February 2025

Key highlights:

- Over the past quarter conditions for small businesses deteriorated 0.3%, with the Pulse down 1.5% over the past 12 months.
- High business input costs and difficulty finding suitable staff continue to weigh on the small business operating environment.
- Concerns about regulatory requirements remain high but have moderated slightly. A rise in queries from sole traders on tax and insurance and from employing businesses on staff entitlements partly offset this fall.
- The small business operating environment is levelling off since sharply declining after COVID.
- The reduction in interest rates will provide modest welcome relief for constrained demand and financing costs. There are early signals of recovery in household spending, particularly discretionary spending. Small business owners are researching financing options for their existing operations and capital investment.

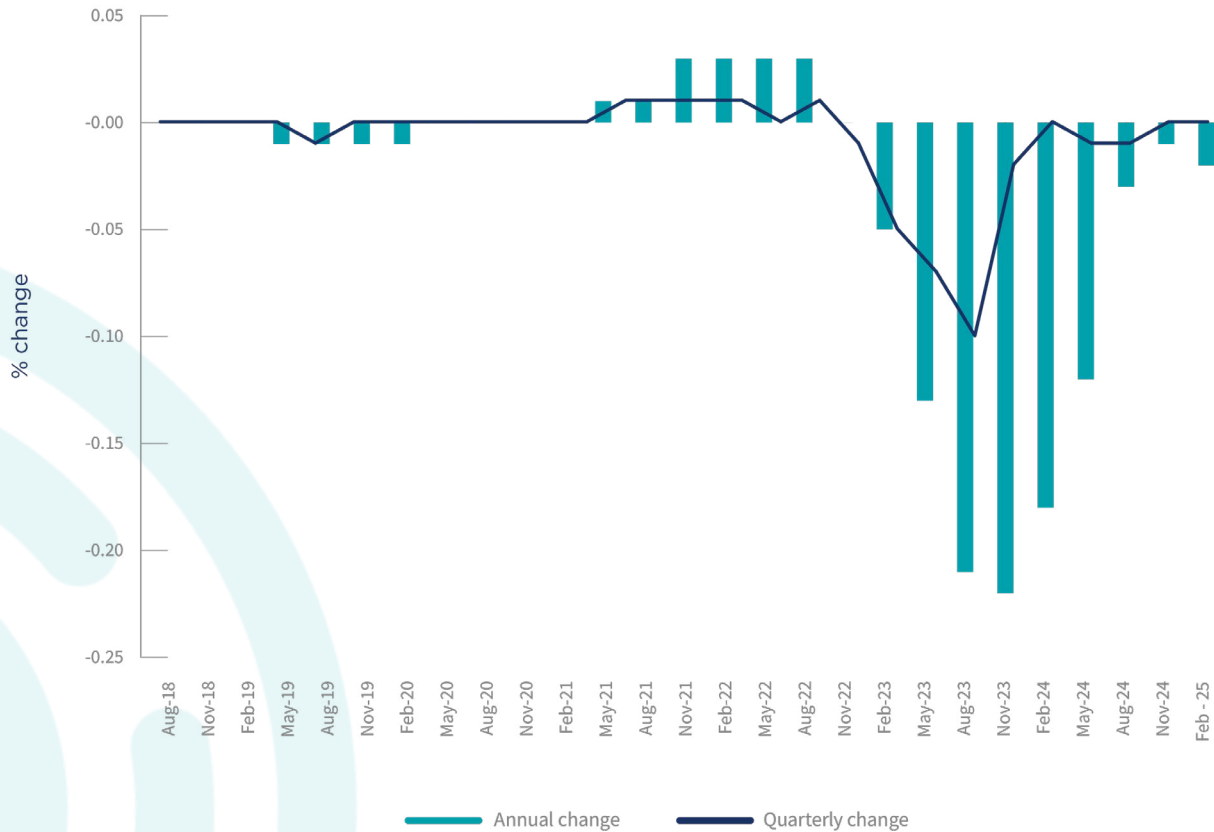
ASBFEO Small Business Pulse



Note: Scale starts at 75.0.

Source: ASBFEO, 2025

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, 2025

ASBFEO Small Business Pulse February 2025

The ASBFEO Small Business Pulse shows that the business environment in February 2025 remains well below the long-term average. The ASBFEO Pulse dropped 0.3% in February 2025 – the tenth consecutive fall. Over the past 12 months it has fallen 1.5%.

The Australian Small Business and Family Enterprise Ombudsman, Bruce Billson, said it has been a prolonged period of tough conditions that are levelling out well below average.

“The Reserve Bank’s decision to lower the cash rate target to 4.1% will provide some relief to small and family businesses as rising input costs and frugal customers have continued to challenge margins, profitability and viability,” Mr Billson said.

“High business expenses and difficulty finding suitable staff are still weighing on the small business operating environment. Yet enterprising small business people continue to meet these pressures with ingenuity and optimism.

“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,” Mr Billson said.

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 reduction in interest rates is likely to provide some modest welcome respite and may encourage investment appetite. Small business owners are already researching financing for capital investment including business vehicles and equipment. Personal interests and assets are interwoven with that of the business in the small and family business community. Small business owners are also comparing costs of using personal loans to fund their business and using personal assets to secure finance,” Mr Billson said.

“Research into alternative funding sources such as crowd funding and venture capital has also increased. This is noticeable in startups and small businesses seeking to invest in sustainability initiatives.

“Household expenditure contracted as budgets tightened in response to cost-of-living pressures. This slightly recovered late last year, particularly discretionary spending in industries such as hospitality. It is uncertain whether this will be a sustained improvement. Many customers are still being more discerning about where they are spending their hard-earned money and more price conscious.

“This recovery in discretionary spending comes too late for many small businesses, especially in the hospitality industry. There were a record number of corporate insolvencies in this industry last year.

“Small and family business owners are worried about being paid by their business customers as they face challenging business conditions that have seen high numbers of corporate insolvencies. Our office continues to observe elevated requests for help from distressed business owners who are fearful that another business who owes them money has become insolvent. Small business owners are researching controls such as trade credit insurance and the Personal Property Securities Register.

“Extended payment times and terms are weighing on small business operating conditions. Payment disputes are an early warning sign of a cash flow problem and can have a ripple effect that threatens the viability of other businesses. 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. Requests for our office’s help from small businesses due to other businesses insisting on longer payment terms have also increased. Too often, small businesses feel that they must accept these terms in order to maintain the customer relationship and the viability of their business, which depends on it.

“High business expenses continue to put pressure on margins and profitability. Enquiries about profit margins have increased, along with structured monitoring of performance metrics. The availability of suitable staff remains a constraint for small businesses. Research into alternative options is increasing. These include remote and flexible work arrangements and recruiting skilled migrants. There was a surge in enquiries about staff entitlements this quarter, especially penalty rates. These staffing difficulties are particularly evident in the information, communication and technology, hospitality and disability support industries.

“There has been a modest fall in concerns about the complex regulatory environment, although these remain high compared to long-term trends. However, queries from sole traders about tax obligations and insurance requirements have increased.

“Growth in enquiries about starting a business has slowed overall but is patchy. Interest remains high in industries that facilitate home-based work such as daycare, freelancing and online gaming. The transport, postal and warehousing industry had the highest growth in business numbers over the last year. This is likely to continue, with enquiries about starting a delivery/fulfilment business in this industry remaining high.”

“Small business needs to be front of mind for our policy makers and regulators. We need to do all we can to shift the mindset from minimising headwinds to maximising the ‘wind in the sails’ of our hard-working small and family businesses. That’s why we have proposed 14 Steps designed to give more support to the nation’s 2.5 million small businesses,” Mr Billson said.

You can find them here www.asbfeo.gov.au/14-steps

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.