

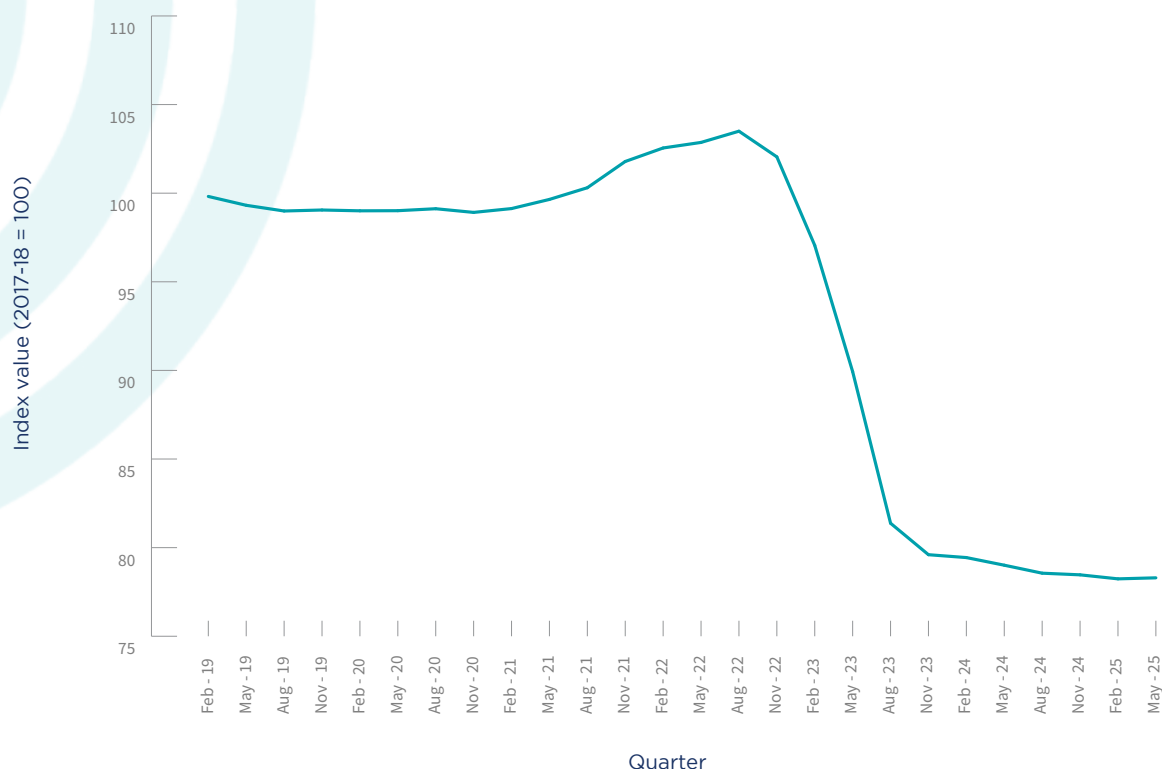
## SMALL BUSINESS CONDITIONS SHOW MODEST IMPROVEMENT FOR FIRST TIME SINCE 2022

May 2025

### Key highlights:

- Over the past quarter conditions for small businesses improved 0.1% - the first quarterly rise since August 2022. Over the past 12 months deteriorated by 0.9%, but now appear to have stabilized.
- This modest lift reflects a shift towards re-pricing as input inflation starts to ease, with small business owners increasingly focussing on a longer-term view on required margins for their ongoing viability, cost containment and growth opportunities.
- Small business owners are reviewing customer satisfaction, input costs, final prices, and ways to increase sales, product offerings and margins. This increasingly includes researching importing and exporting and the use of artificial intelligence.
- Cash flow remains a concern for small businesses, but many have a sense that the worst is over with moderating inflation pressures, improving consumer sentiment and a small uptick in optimism following the Reserve Bank of Australia's recent reductions in the target cash rate.
- Queries about starting a business have increased, particularly for ideas that aim to improve social and environmental outcomes.

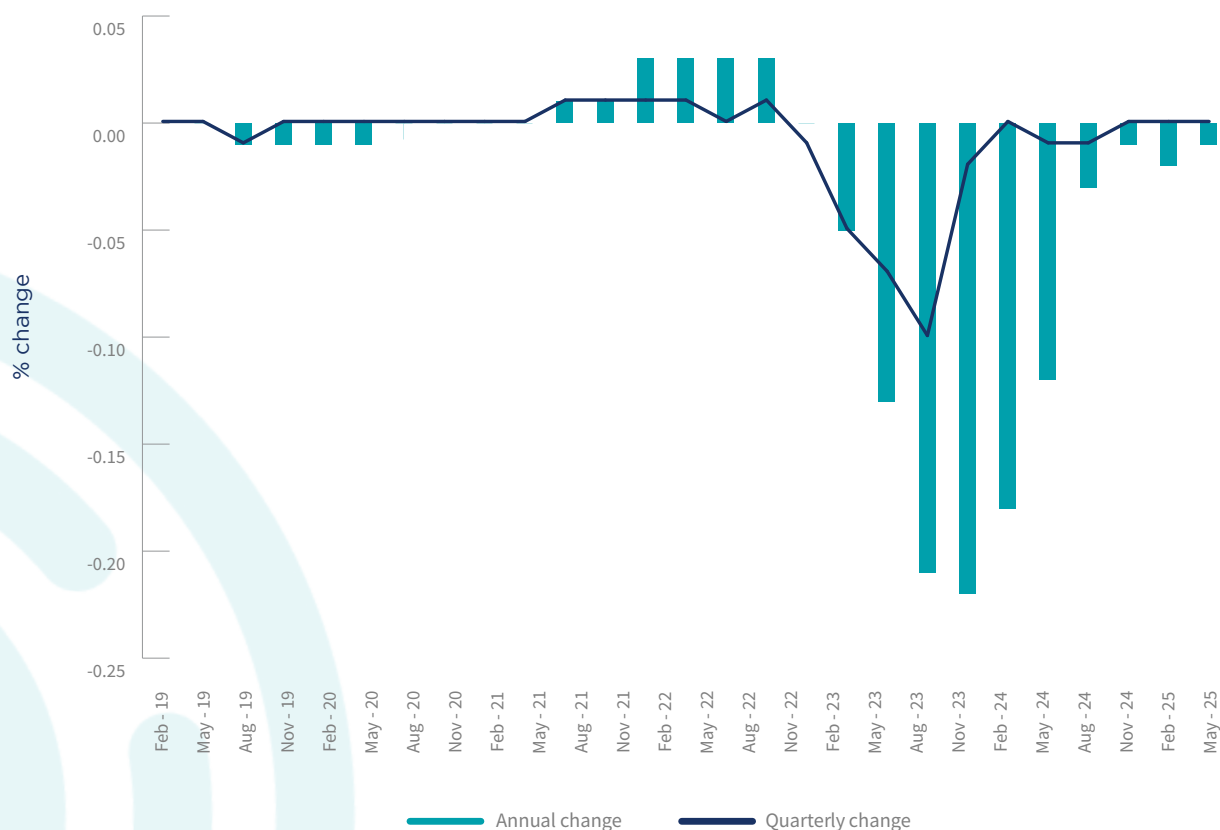
### ASBFEO Small Business Pulse



**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 while noting that there has been some recent movement in preliminary unincorporated insolvencies.

Source: ASBFEO, 2025

## ASBFEO Small Business Pulse May 2025

The ASBFEO Small Business Pulse increased by 0.1% in May 2025 – the first quarterly increase since August 2022. Over the past 12 months it has fallen 0.9%.

The Australian Small Business and Family Enterprise Ombudsman, Bruce Billson, said this modest lift reflected a shift towards re-pricing as input inflation starts to ease, with a longer-term view on margins, cost containment and growth opportunities coming to the fore of small business owners' thinking.

“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. The Reserve Bank of Australia's decision to further reduce the target cash rate to 3.85% and moderating inflation pressures provide a ray of light after a prolonged period of difficult conditions for small and family businesses,” 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.

“Both demand and supply factors are being considered as small business owners consider their margins for continued viability and opportunities for growth. Small business owners are reviewing customer satisfaction, input costs, final prices, and ways to increase sales, product offerings and margins. This increasingly includes

researching importing and exporting. This is widespread, from importing software products and hospitality supplies, to exporting in the retail and agricultural sectors. These enquiries are predominately about engaging in trade in the Asia-Pacific,” Mr Billson said.

“Household spending is showing early signs of recovery, although it remains weak in the hospitality industry. Cost of living pressures have constrained demand for a prolonged period, particularly in sectors that rely on discretionary spending such as hospitality. This has made it difficult for small and family businesses in these sectors to increase their prices to protect their margins.

“Small business owners are increasingly turning to artificial intelligence to find new opportunities and develop plans to grow their business. This research into artificial intelligence supplements research into digital services including software and cloud computing. Small business owners are considering how these technology tools can support regulatory compliance as well as natural disaster preparedness.

“Many small businesses have navigated the impacts of natural disasters so far this year. These business impacts include temporary closure and lost income, utility outages, structural damage to property, ongoing site mould issues and difficulty finding physical business records. In some cases, lack of business records impeded the sale of businesses. However, the recent flooding will likely have an impact over the year (and potentially years to come), with small businesses active in seeking help tailored to their very difficult circumstances.

“There has been a modest uptick in small businesses considering hiring additional staff, particularly in the hospitality and disability support industries. Difficulty finding suitable staff remains an issue, reflecting a persistently tight labour market, and prospects for productivity improvement remains weak. Small business owners continue to report how difficult it is to navigate the complex workplace laws and fear doing something wrong.

“Enquiries for information on staff and independent contractors’ superannuation entitlements remain relatively high, along with worries about having unclear advance notice of any changes. Concerns about other regulatory requirements, beyond workplace laws, have moderated slightly but remain elevated relative to historical trends.

“Cash flow remains a significant concern for small businesses, but many have a sense that the worst is over with moderating inflation pressures, improving consumer sentiment and a small uptick in optimism following the Reserve Bank of Australia’s recent reductions in the target cash rate. Rising requests for ASBFEO’s help reflect these cash flow concerns. Payment disputes continue to be the most common dispute our office assists with. Payment disputes account for two in five requests for help, most commonly in the construction industry and increasingly in the hospitality and disability support industries. In many cases, the business customer has told the small business supplier that they can’t afford to pay them. These disputes can put an unpaid small or family business with modest cash reserves in a precarious position.

“The small uptick in optimism of small business owners is magnified in those considering starting a business. These entrepreneurial ideas focus on addressing social and environmental issues such as improving outcomes for vulnerable people, sustainable farming and renewable energy<sup>1</sup>. Queries about starting a business were notably driven by an uptick in current and prospective digital nomads and influencers.

“We need to do more to energise enterprise and create and nurture the spark that will inspire someone to turn an idea into investment, to build a business, to take on the risk and big responsibility of creating an opportunity-generating new enterprise, and to employ that extra person. That’s why we have proposed 14 Steps designed to give more support to the nation’s 2.59 million small businesses,” Mr Billson said.

You can find them here [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)

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<sup>1</sup> Department of Industry, Science and Resources Contact Centre Operational Data (February to April 2025).

## 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.