

A man in a suit and glasses is shown in profile, looking out of a window. The scene is backlit, creating a silhouette effect against the bright light coming through the window. The window has a grid pattern.

Small & Medium Enterprise Sentiment Tracker

Wave 83 – January 2026



fifth
quadrant

creating tomorrow today

At Fifth Quadrant we discover what matters tomorrow so our clients can act with confidence today to create a better future for their customers, their people, and their business.

By combining innovative methodologies, proven frameworks, and the latest AI-driven tools, we deliver deep, evidence-based insights that enable our clients to anticipate change, make smarter decisions, and drive sustainable growth.

our culture

We are fiercely committed to providing our team with the skills and knowledge they need to be successful in their careers.

We believe that when people feel valued, respected, and supported, they are unstoppable forces for good. They are also more likely to be creative and innovative, which is essential for driving growth and innovation.

Our culture is one of our greatest strengths. It is what attracts and retains top talent, and it is what drives our success. When everyone feels like they belong, they are more likely to be their best selves.





Confidence in the global economy (-53) deteriorated further, falling to its lowest level since April 2025.



Only 17% expect revenues to increase over the next 4 weeks. This is the lowest reported over past 2 years.



Only 31% are planning for growth over the next 12 months down from 40% in October



Only 10% of SMEs are currently hiring down from 19% in October

SME Confidence Falls Sharply as Rates and Uncertainty Rise

SME Confidence Has Taken a Hit

Short-term business confidence weakened materially in January, slipping well below consumer confidence and reaching its lowest level in nearly two years. Near-term revenue expectations also turned negative for the first time since mid-2024, with more businesses now expecting revenues to be worse over the coming four weeks, as higher interest rates, heightened geopolitical uncertainty and volatile global markets weigh on sentiment.

Growth sentiment has followed the same trajectory. Just 31% of businesses are now focused on growth over the next 12 months, the lowest share since June, highlighting a broad reassessment of risk.

From Expansion to Preservation

As confidence weakens, SMEs are clearly pulling back from expansion. Hiring intentions remain subdued, marketing spend expectations have softened, and capital investment plans have eased relative to December.

Rather than pursuing growth, businesses are prioritising cost control, cashflow management and operational efficiency. This shift is evident across firm sizes but is particularly pronounced among smaller businesses, which tend to be more exposed to changes in financing costs and demand conditions. The focus is on protecting the core business rather than pushing for expansion in an uncertain environment.

Financial Stress Remains Contained For Now

Despite weaker sentiment, loan stress remains relatively low. Fewer than one in ten SMEs with debt expect to miss repayments over the next six months, indicating that balance sheets remain broadly resilient. That said, loan stress is more pronounced among businesses in retail and distribution, as well as mid-sized firms with 20 to 99 employees who tend to be more exposed to both cost pressures and demand volatility.

In summary, SMEs are responding to heightened uncertainty by deferring decisions, preserving liquidity and tightening operating conditions. This shift toward defensive behaviour is likely to dampen near-term growth and investment activity, while increasing preparedness to further interest rate increases or external shocks should economic conditions deteriorate further.



01

Key Performance Indicators

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People

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Business Sentiment

04

Business Investment

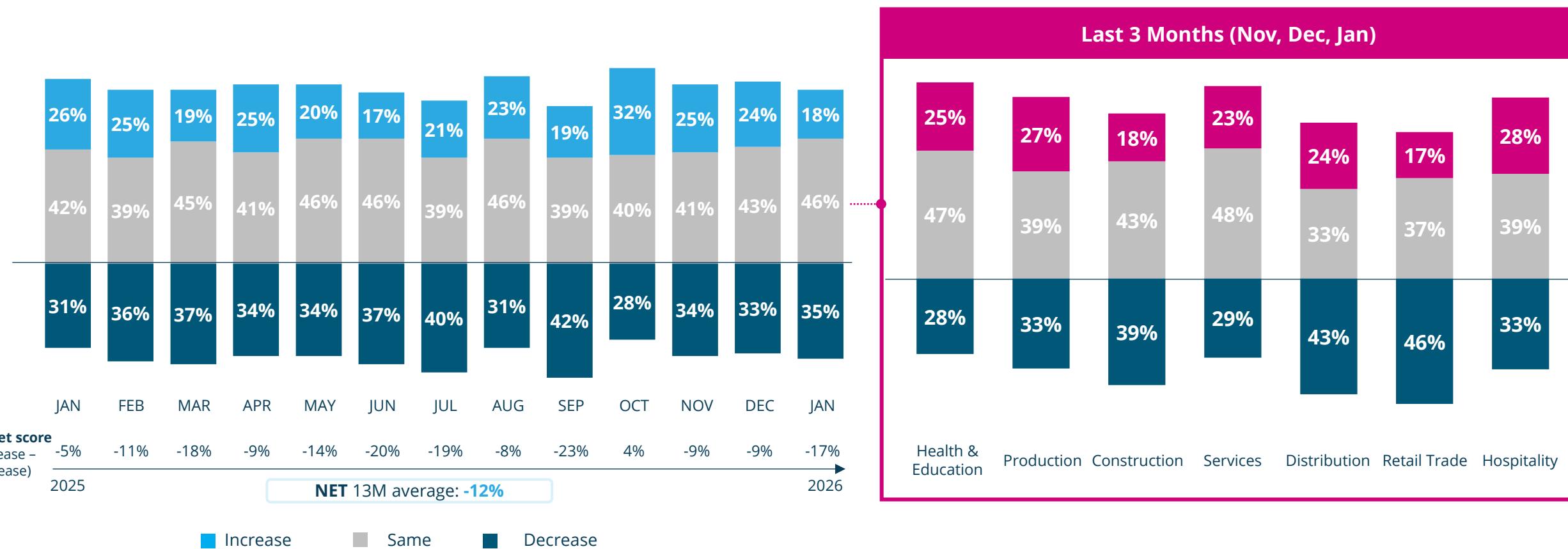
05

Methodology & Sample

Key Performance Indicators | Revenue

SME revenues softened further in January, deteriorating from December and remaining materially weaker year-on-year. Weakness remains broad-based, led by Distribution and Retail Trade, while Hospitality continues to show some resilience.

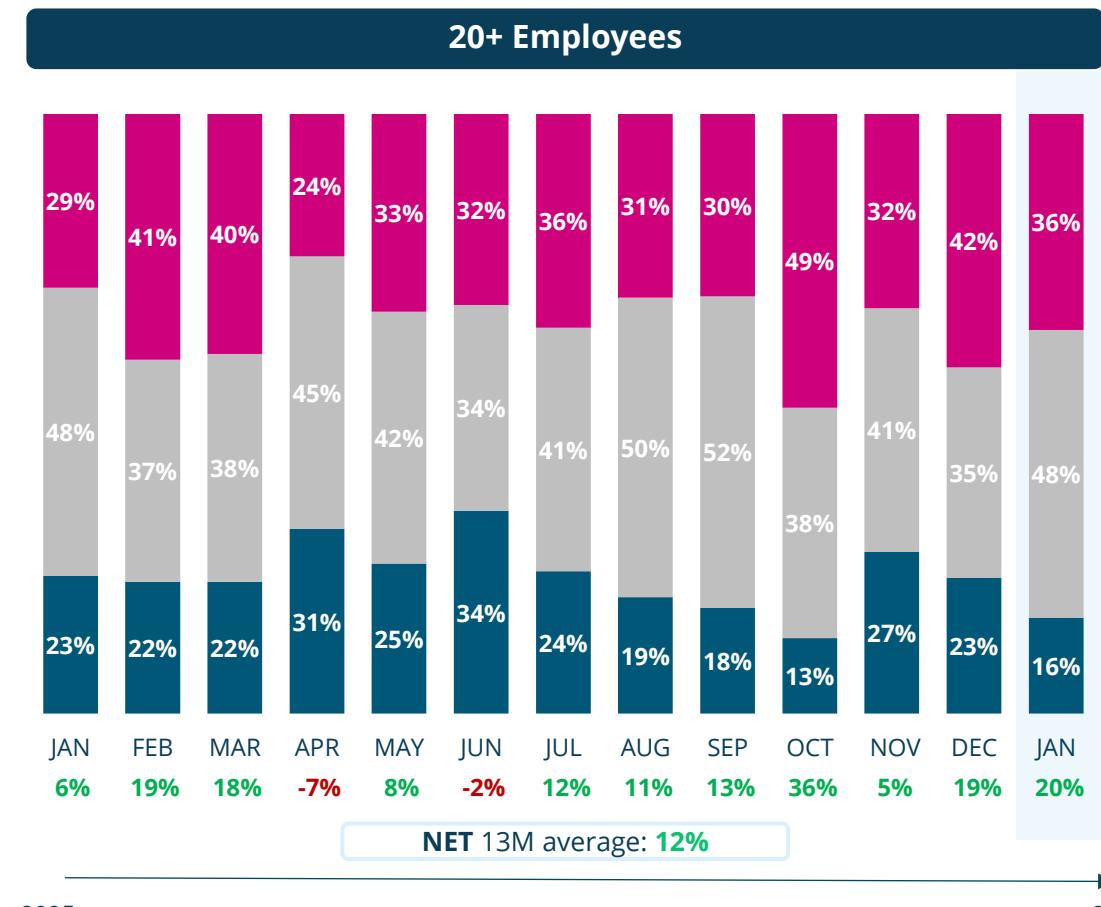
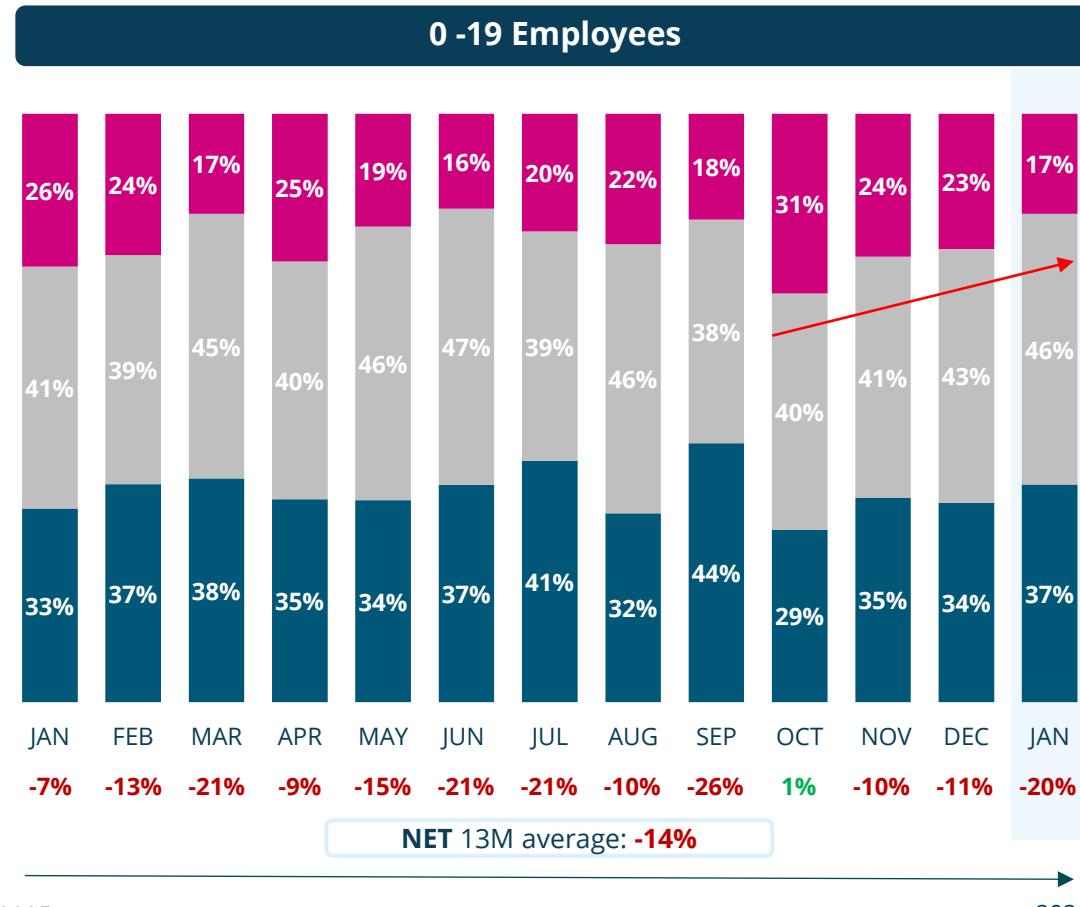
How Does Your Current Monthly Revenue Compare To Your Monthly Revenue 12 Months Ago?



Key Performance Indicators | Revenue

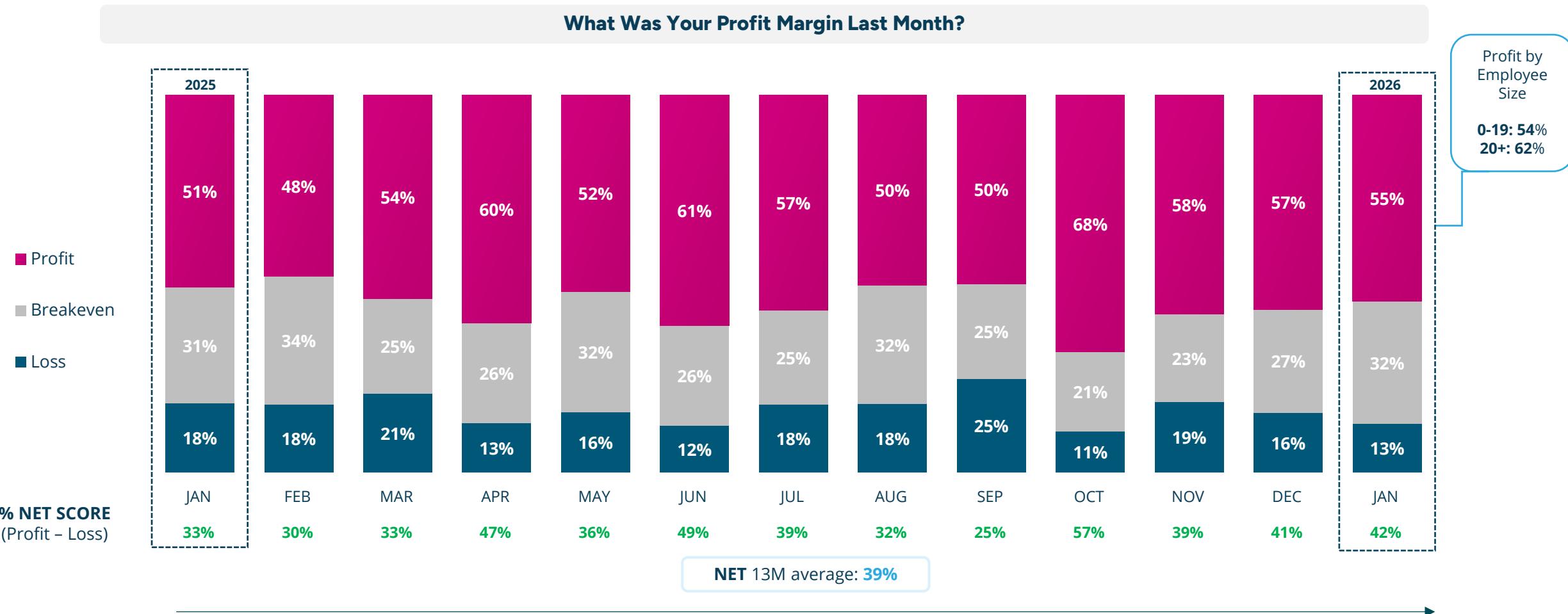
Among smaller businesses (0–19 employees), revenues weakened again in January, with the net score falling back to -20% and remaining firmly negative on a year-on-year basis.

How Does Your Current Monthly Revenue Compare To Your Monthly Revenue 12 Months Ago?



Key Performance Indicators | Profit

Despite softer revenue conditions, profit performance remained resilient in January. The net profit position held at a solid +42%, reflecting a continued high share of businesses reporting profits and a relatively low incidence of losses. This stability suggests firms are continuing to offset revenue pressure through disciplined cost control with profitability remaining above the average and well above January 2025.



Key Performance Indicators | Responding To Challenges

Effective cost management reflects increased focus on streamlining business operations, renegotiating supplier contracts, and improving staff productivity.

How Is Your Business Responding To The Challenges Posed By Ongoing Inflation And Increasing Costs?

	January	August	September	October	November	December	January
Discontinuing products/services that are not profitable	31%	26%	29%	25%	26%	32%	31%
Enhancing efficiency by streamlining business operations	25%	26%	22%	30%	18%	23%	25%
Renegotiating supplier contracts or seeking new supply sources	24%	20%	23%	20%	20%	22%	24%
Expanding the range of products/services to generate new revenue streams	21%	27%	21%	21%	21%	22%	21%
Maximising staff productivity through better training and optimisation	19%	16%	18%	22%	16%	18%	19%
Reassessing current projects and significant investments for viability and impact	19%	25%	16%	19%	23%	21%	19%
Adopting new technologies for increased automation and operational efficiency	15%	19%	18%	18%	19%	20%	15%
Undertaking debt restructuring to reduce financial burdens	11%	14%	17%	8%	11%	10%	11%
Refining inventory management practices for better efficiency	9%	18%	18%	16%	12%	14%	9%
Delegating non-essential functions to external providers	9%	11%	9%	12%	8%	10%	9%
Shifting towards the use of renewable energy sources	9%	6%	9%	8%	11%	8%	9%
Implementing workforce reductions, such as layoffs or hiring freezes	8%	6%	10%	7%	8%	8%	8%

Key Performance Indicators | Cost Recovery

After weakening in December, cost recovery rebounded sharply in January, with nearly three-quarters of businesses able to pass on at least some input cost increases, lifting the rate well above January last year and the 13-month average.

Have You Been Able To Pass On Higher Input Costs To Your Customers?

January

Yes, but only partially

64%

Yes, I have been able to fully offset higher input costs with higher prices

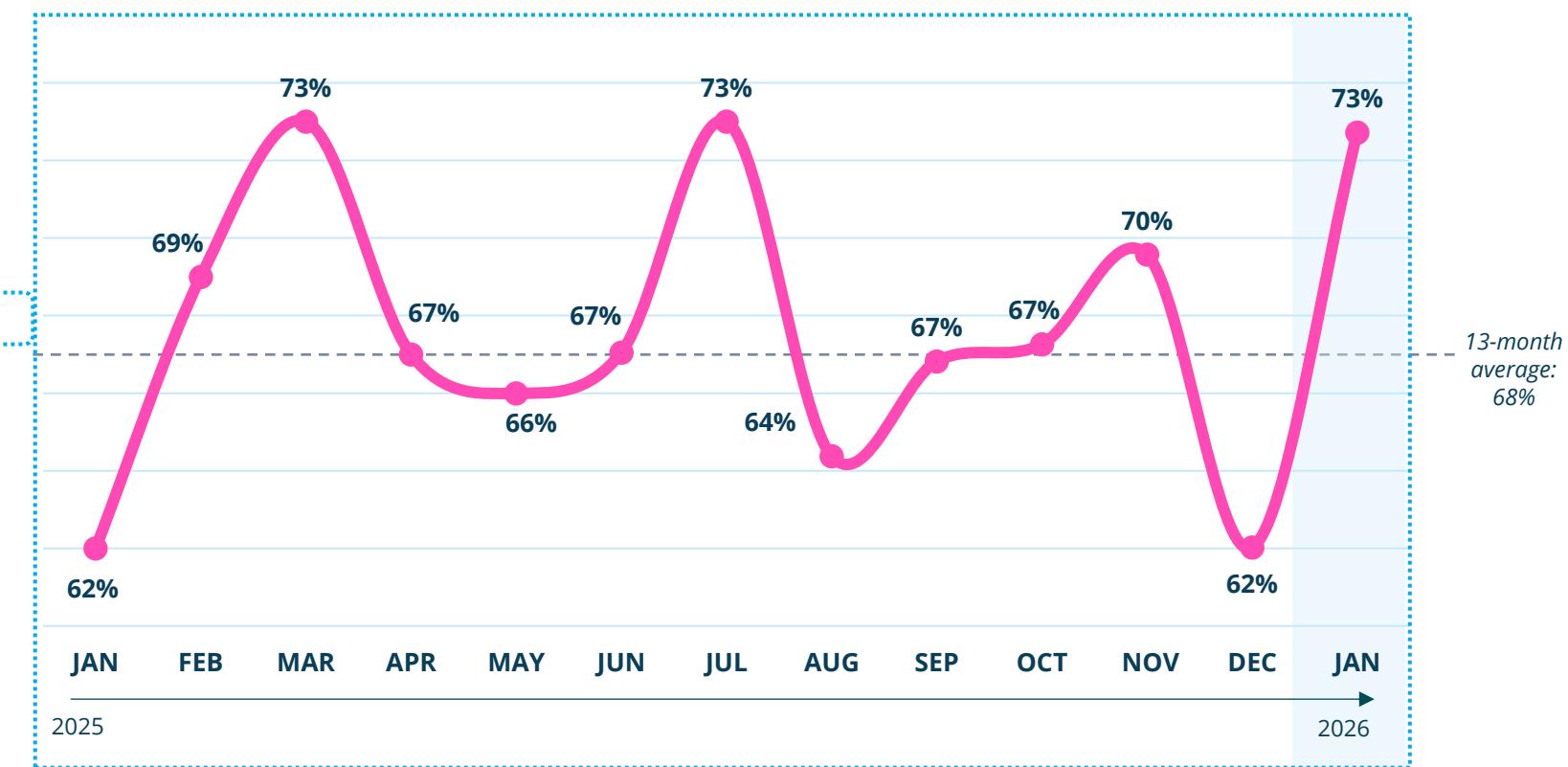
6%

Yes, I have been able to pass on more than the input cost increase

2%

No

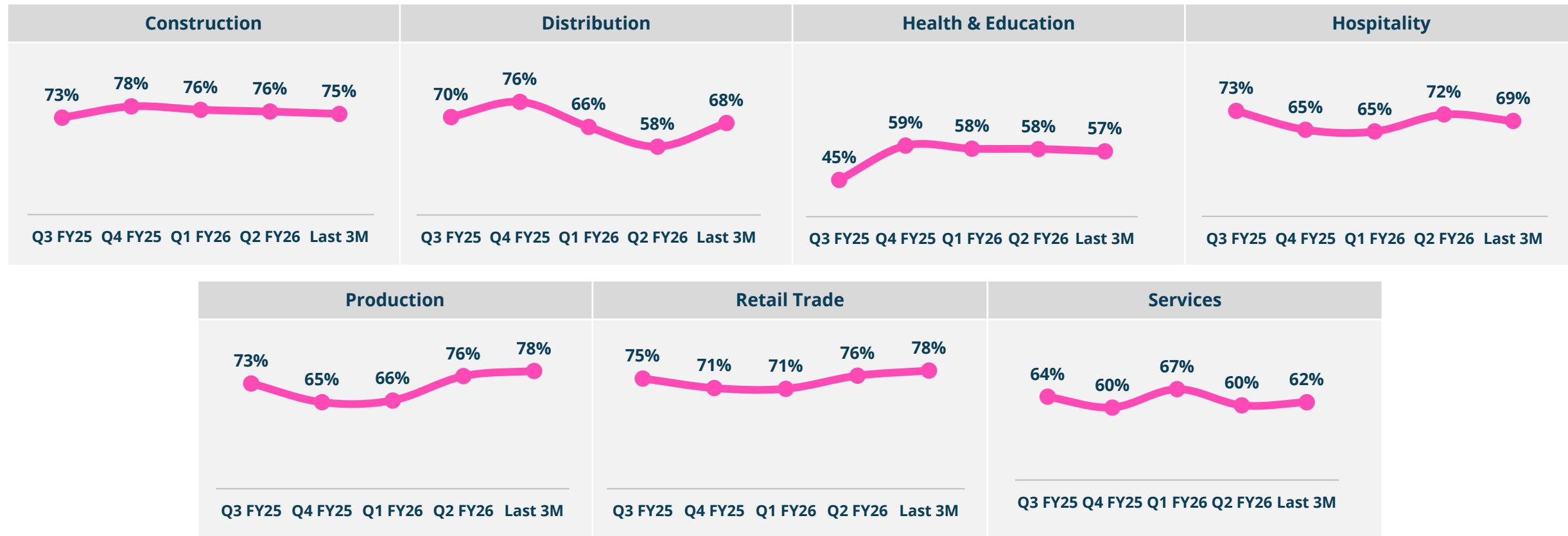
27%



Key Performance Indicators | Cost Recovery

Cost recovery has been strongest across supply-chain-exposed sectors over the past three months, led by Production, Distribution, and Retail Trade.

Have You Been Able To Pass On Higher Input Costs To Your Customers? (Yes)





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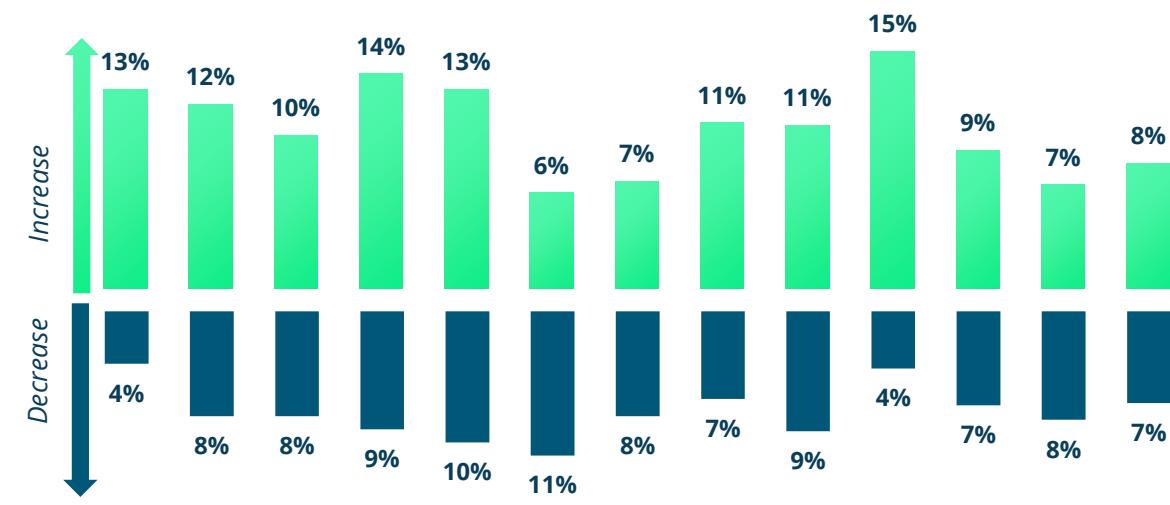
05 Methodology & Sample

Key Performance Indicators | People

Staffing expectations remain weak, with hiring plans largely confined to larger firms and materially below early-2025 levels.

Expectations Over The Next 3 Months Regarding Staff

The Number Of Staff You Employ



% Net score (Increase - Decrease)
 JAN 9% FEB 4% MAR 2% APR 5% MAY 3% JUN -5% JUL -1% AUG 4% SEP 2% OCT 11% NOV 2% DEC 1% JAN 1%

NET 13M average: 3%

2025 → 2026

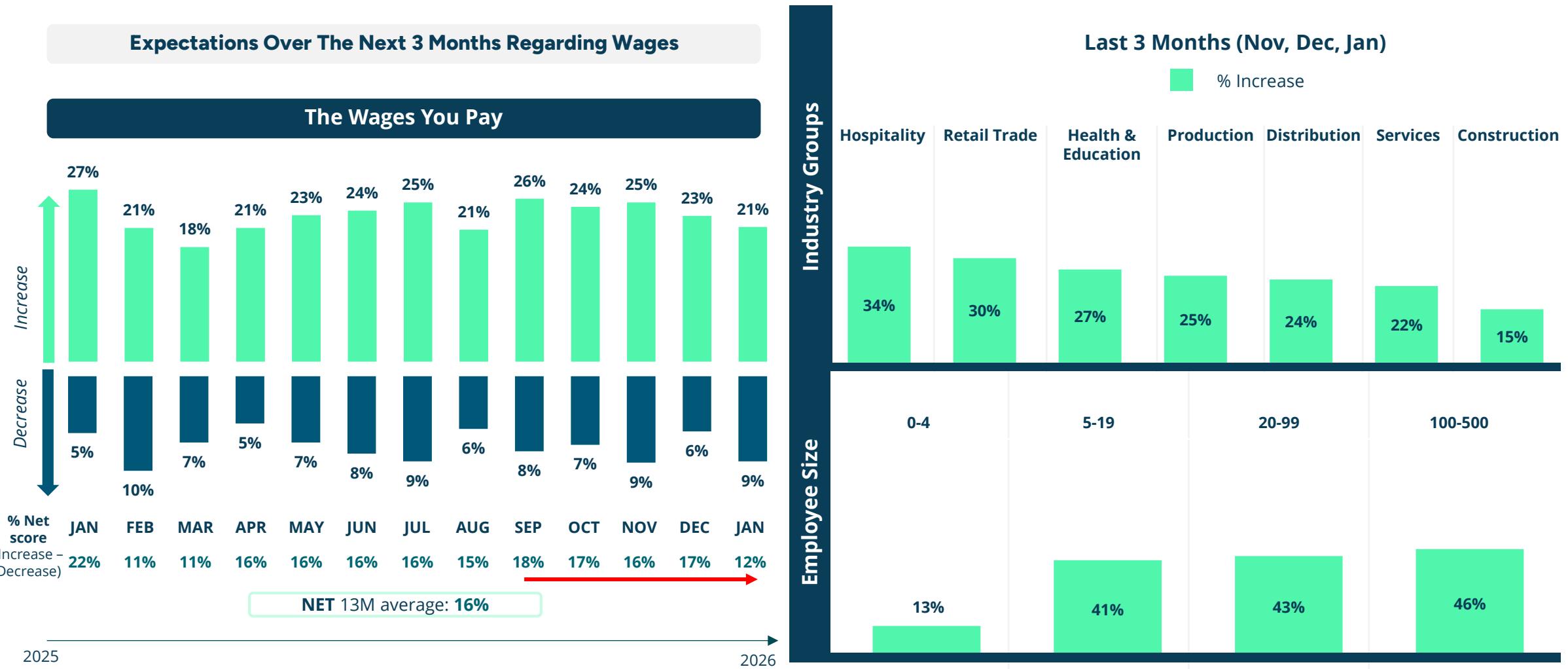
Last 3 Months (Nov, Dec, Jan)

% Increase



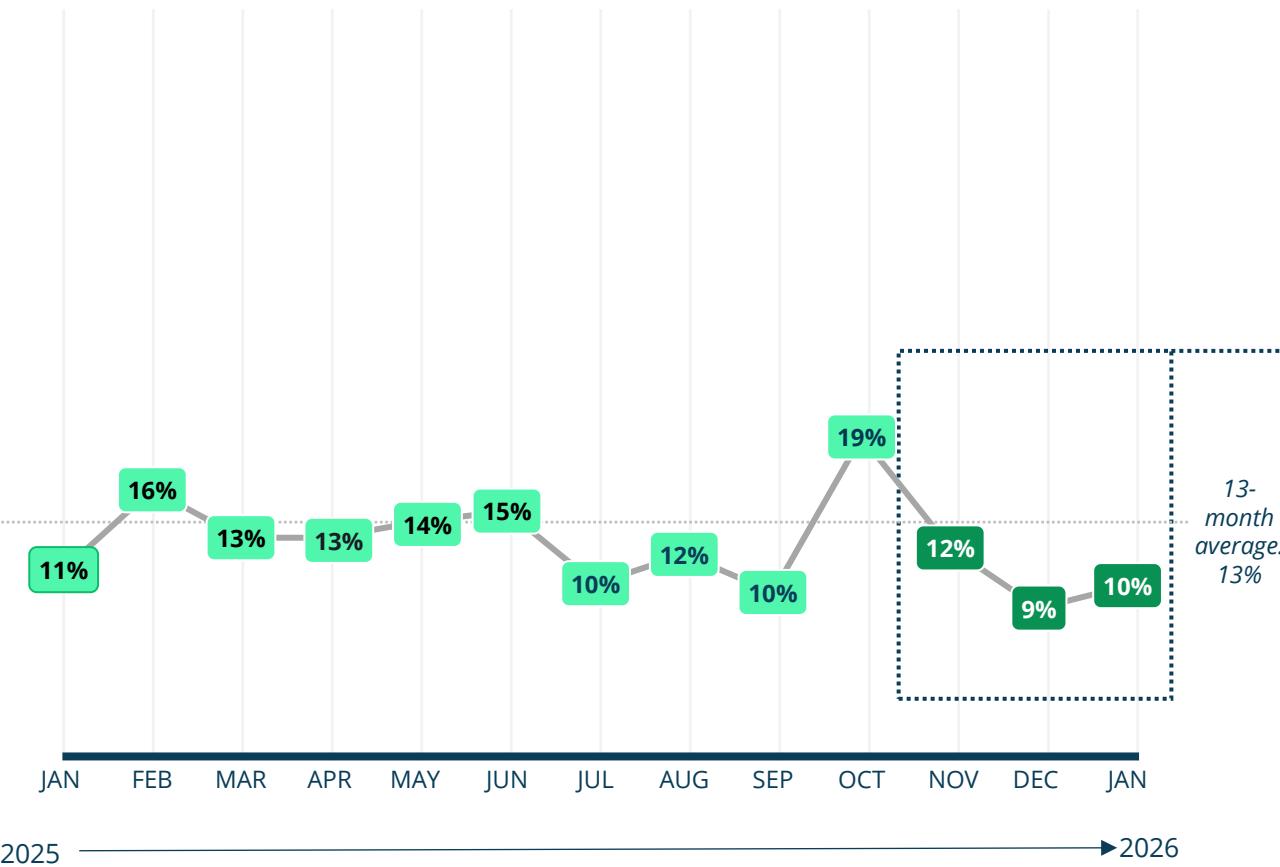
Key Performance Indicators | People

Expectations for wage increases continued to ease in January, extending the downward trend for a fifth consecutive month. Net wage expectations have fallen below the average and now sit well below January 2025 levels.

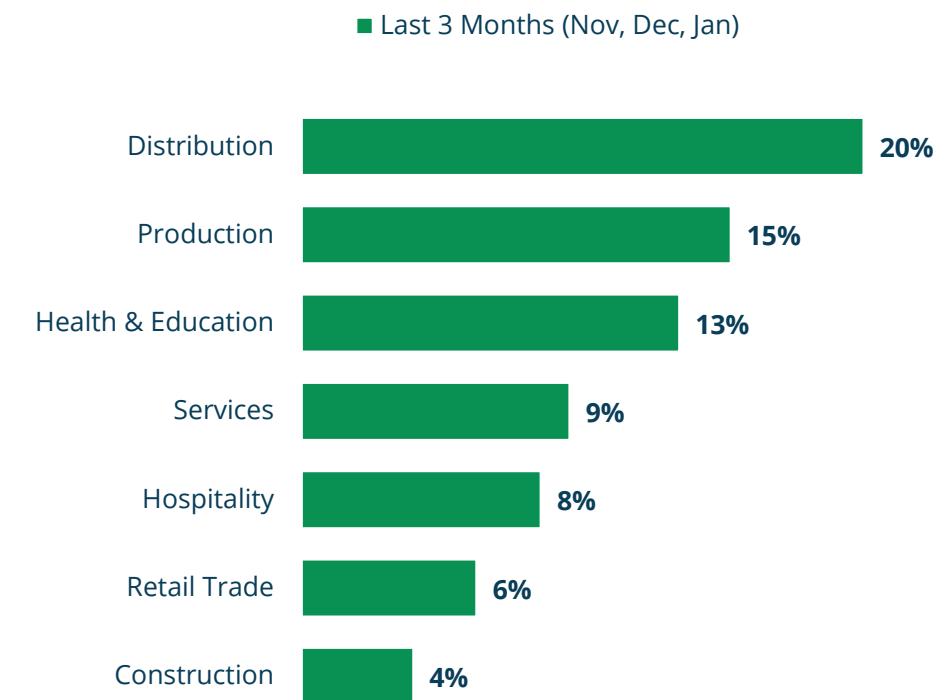


Job vacancies also remain weak and well below the 13-month average.

SMEs That Currently Have Job Roles They Are Trying To Fill

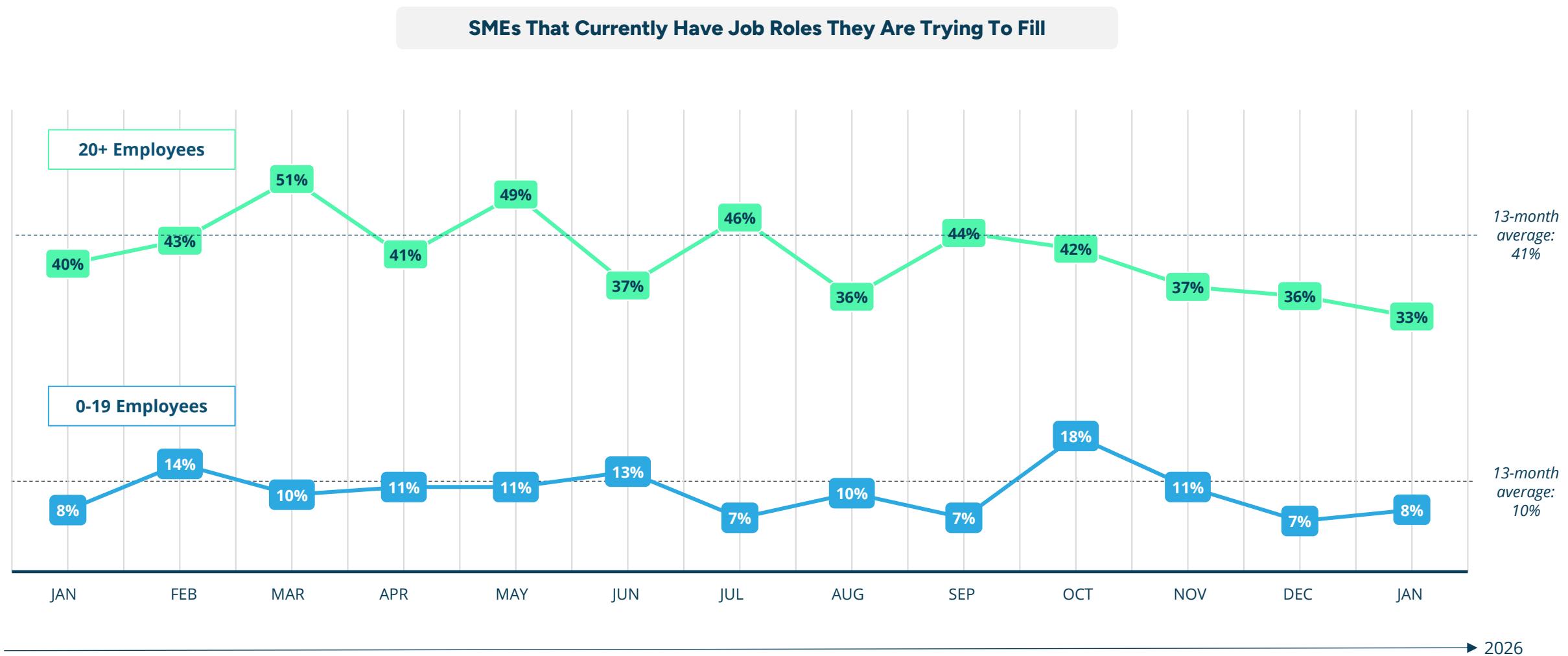


Current Job Vacancies By Industry



Key Performance Indicators | People

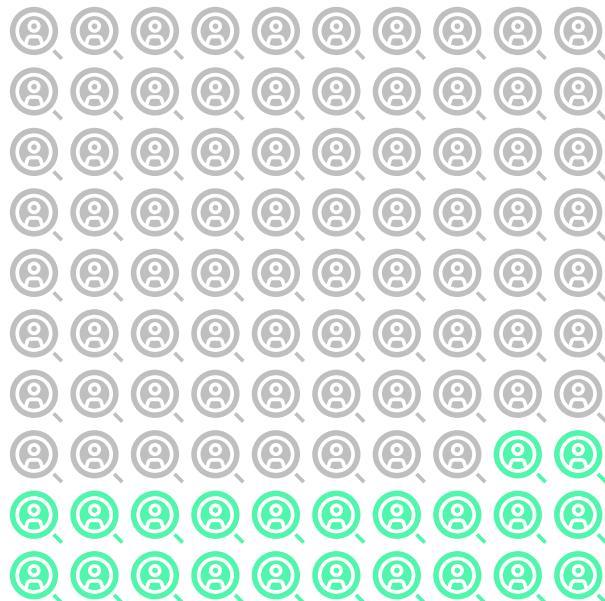
The continued decline in job vacancies among larger firms suggests a shift toward operating with leaner workforces. While demand uncertainty remains a factor, increased adoption of technology and AI-driven efficiencies may also be reducing the need for incremental hiring, particularly among larger businesses.



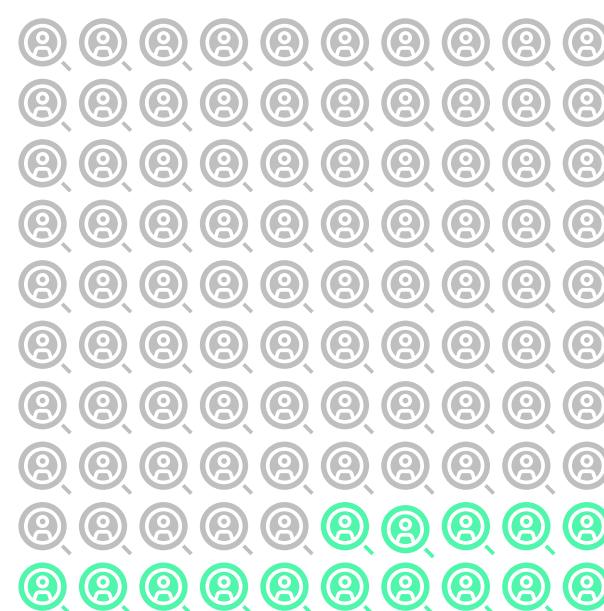
Recruitment activity in FY26 continues to track well below the past two years, with only 12% of SMEs reporting job vacancies.

SMEs That Currently Have Job Roles They Are Trying To Fill

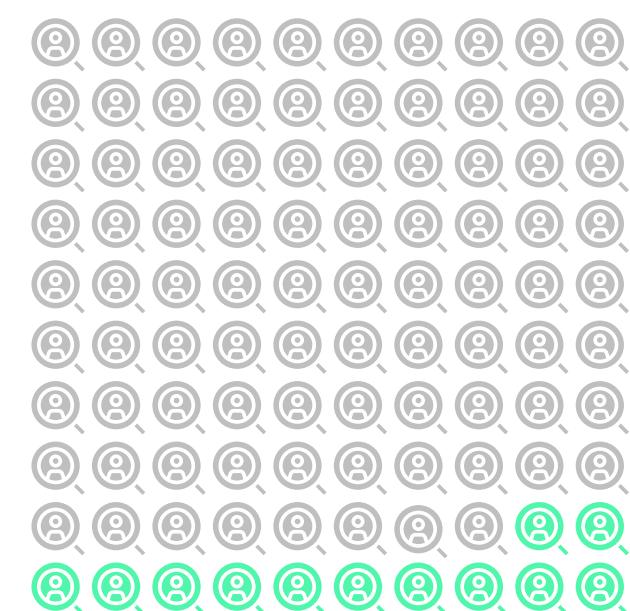
FY24



FY25



FY26



22% with job vacancies

15% with job vacancies

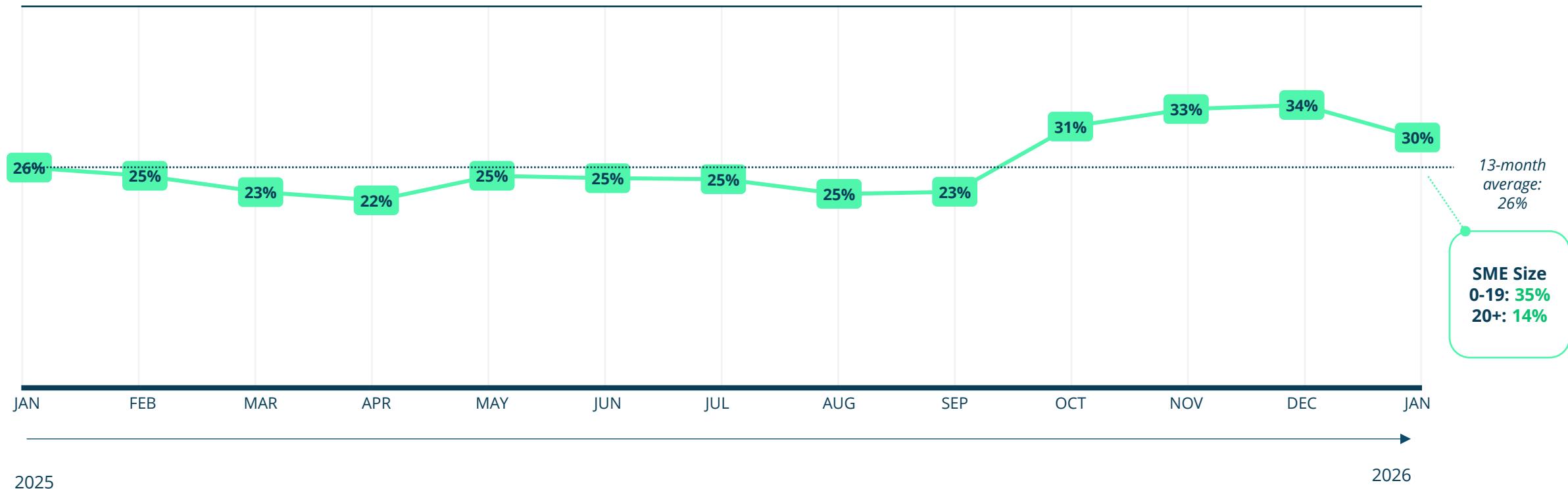
12% with job vacancies

Despite recruitment activity declining, hiring challenges remain above the 13-month average.

How Difficult Is It To Fill These Roles?

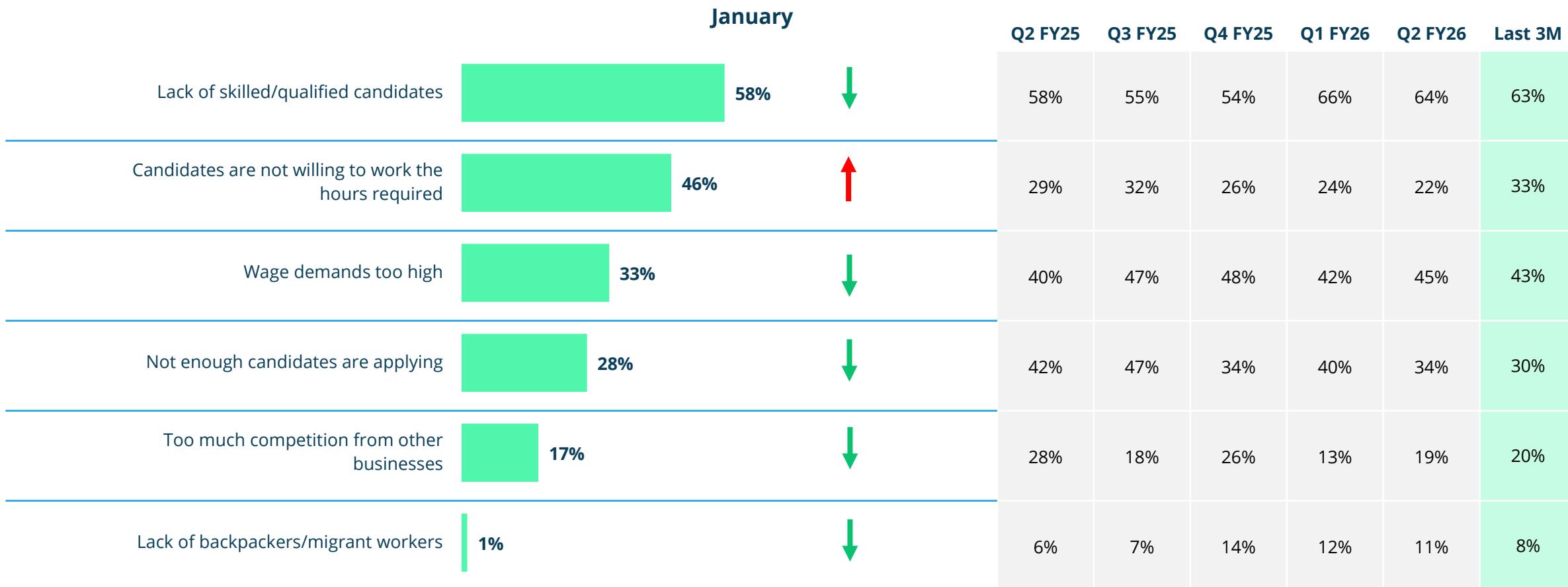
Data displayed as last 3 months (Nov, Dec, Jan)

Very Difficult



Compared with the past three months, recruitment pressures have eased across most dimensions, with the exception of candidate willingness to work required hours.

Why Is It Difficult To Fill Job Roles?





01 Key Performance Indicators

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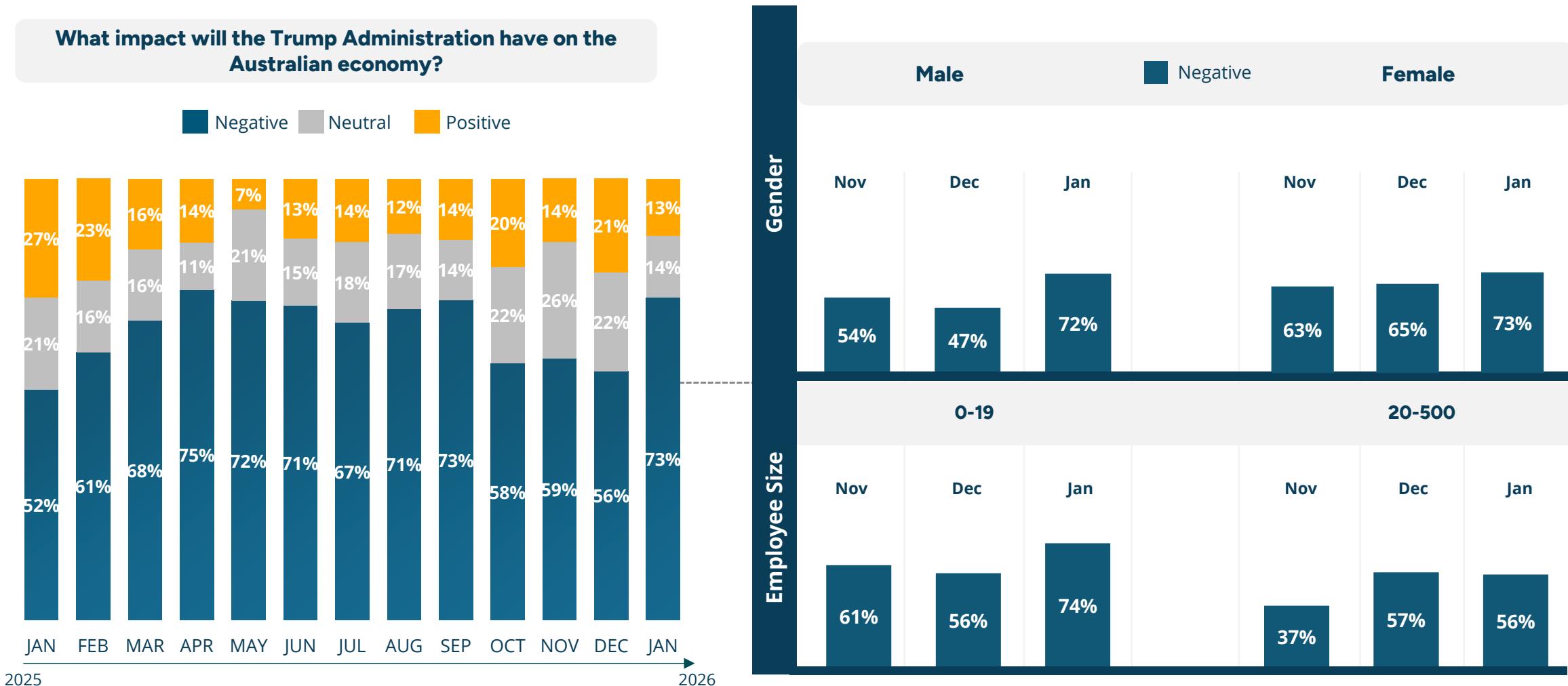
03 Business Sentiment

04 Business Investment

05 Methodology & Sample

Business Sentiment | Expectations Regarding Economic Conditions

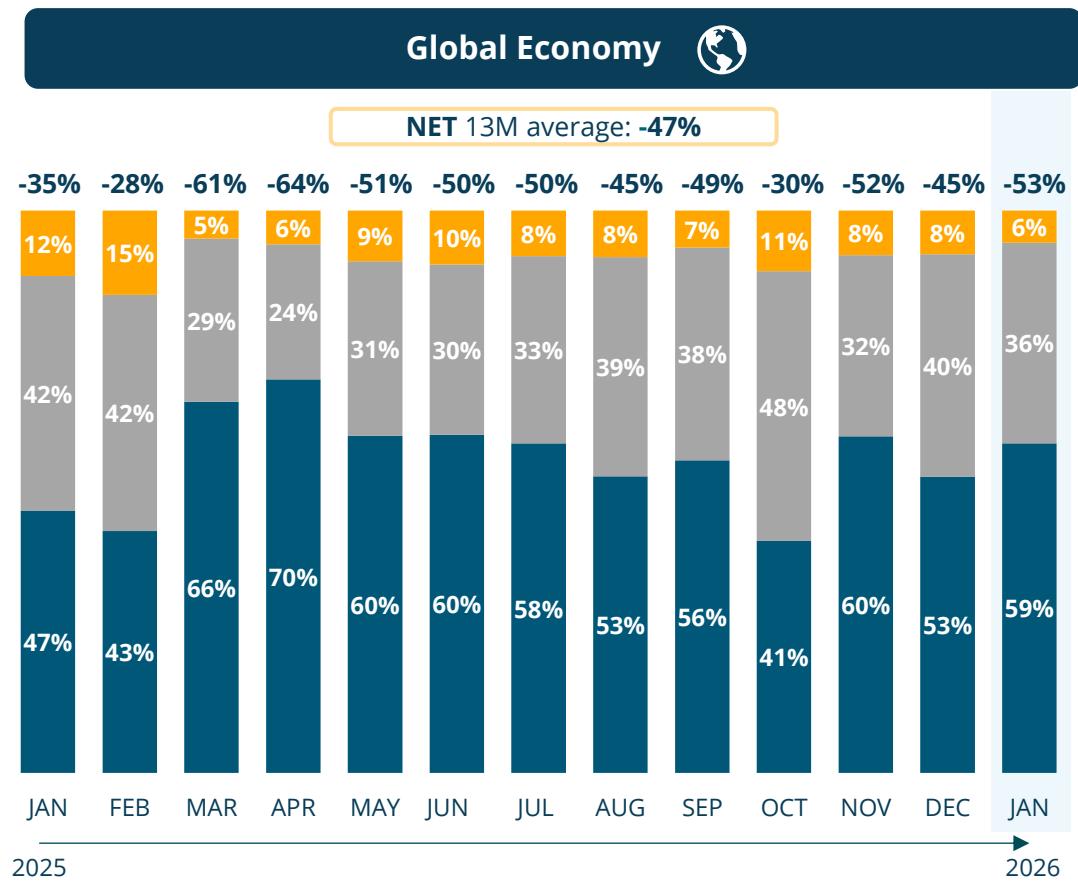
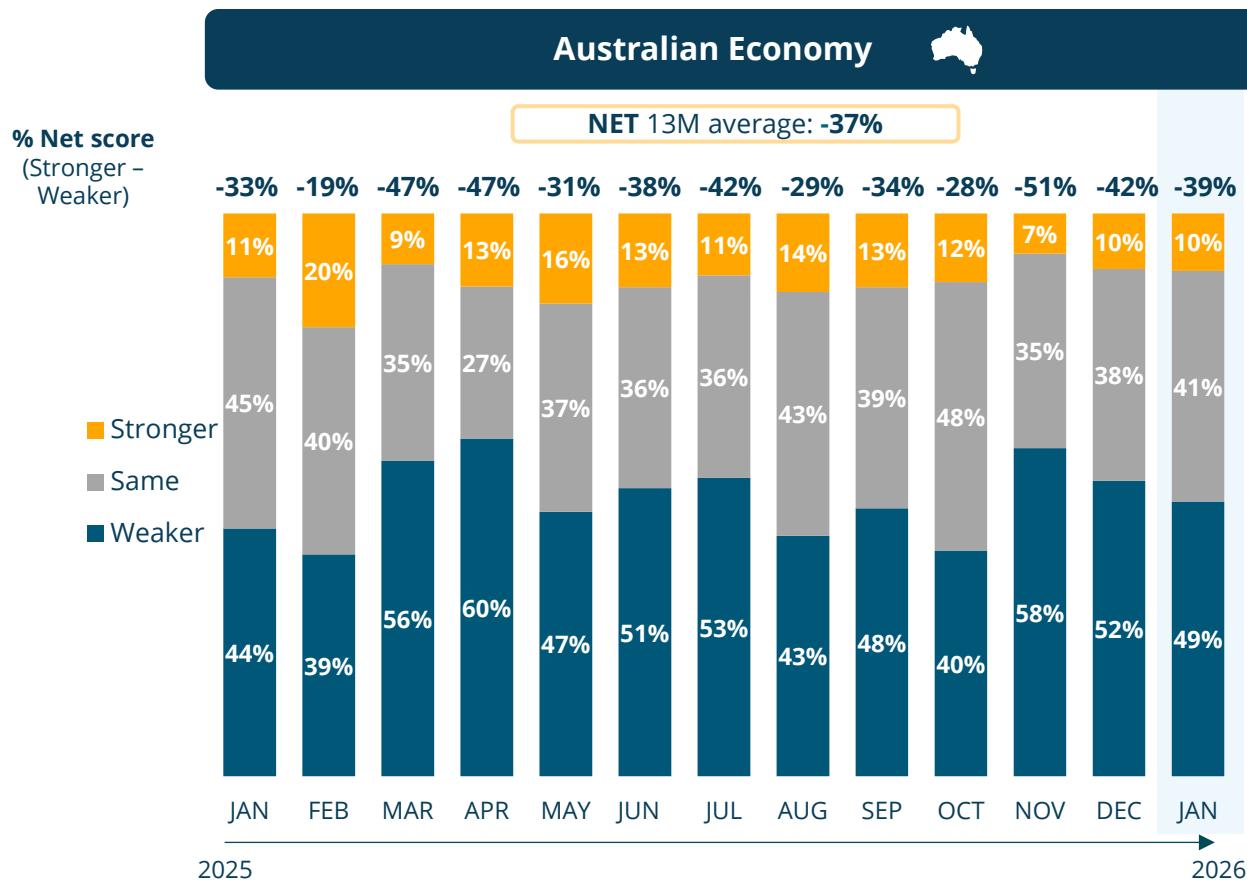
Sentiment toward the Trump Administration's impact on the Australian economy remains predominantly negative and volatile. In January, negative expectations increased again, particularly among smaller SMEs, reinforcing ongoing uncertainty around the implications of US domestic and global policy settings.



Business Sentiment | Expectations Regarding Economic Conditions (Next 3 months)

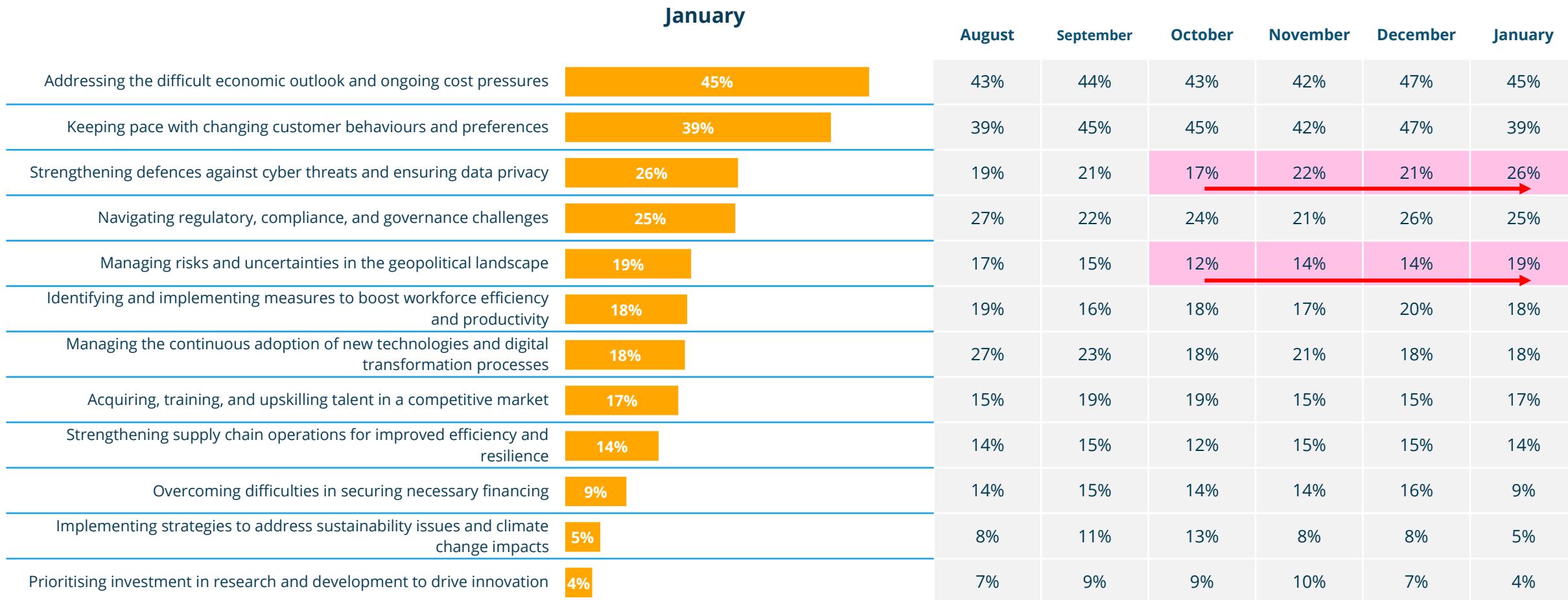
Consistent with elevated uncertainty around the Trump Administration, confidence in economic conditions remains weak. In January, confidence in the global economy deteriorated further, falling to its lowest level since April 2025.

Expectations Over The Next 3 Months Regarding Economic Conditions



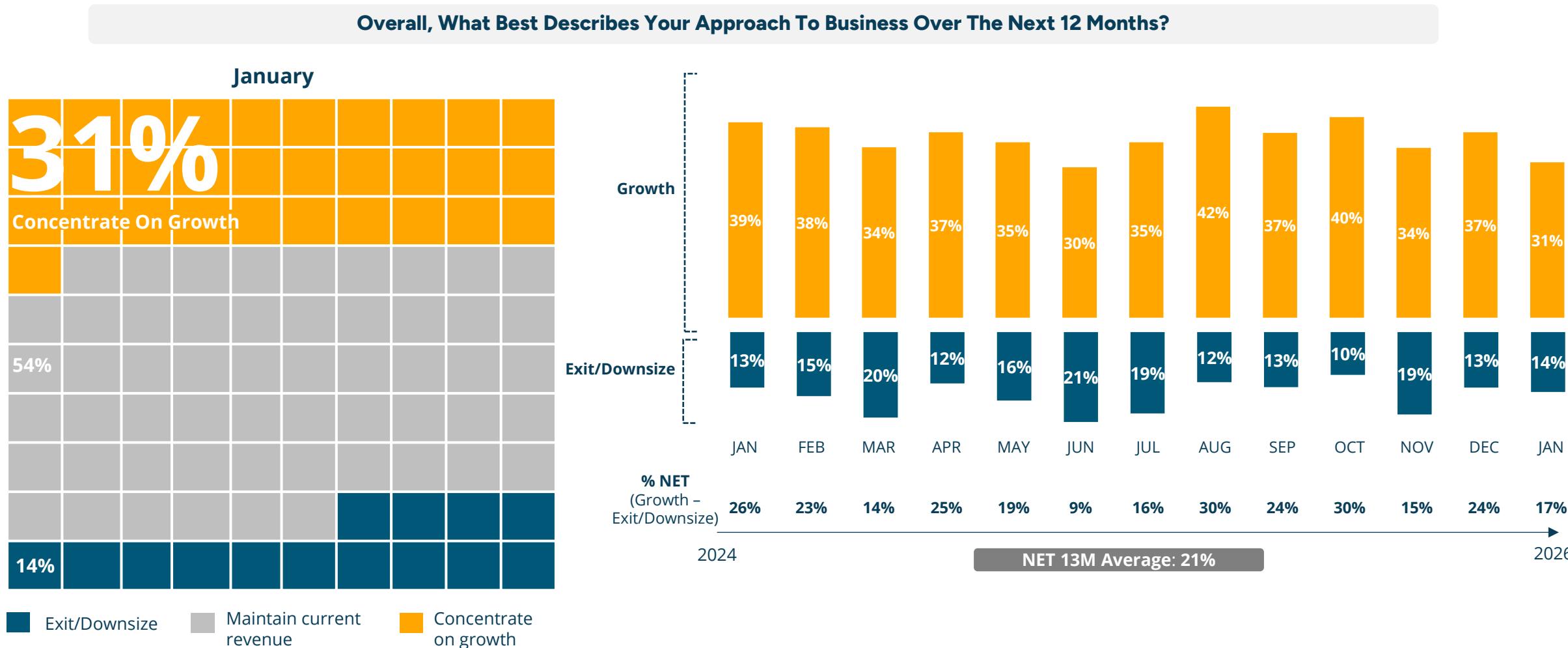
Concerns around the economic outlook and cost pressures remained dominant in January, while risks linked to the geopolitical landscape, cyber security and data privacy continue to trend upwards.

Which Of These Issues Do You Anticipate Will Pose The Most Significant Challenges To Your Business Over Next 3 Months



Business Sentiment | Growth Expectations (Next 12 months)

Growth expectations have softened, with the share of businesses focused on growth falling to 31% in January, the lowest level since June.



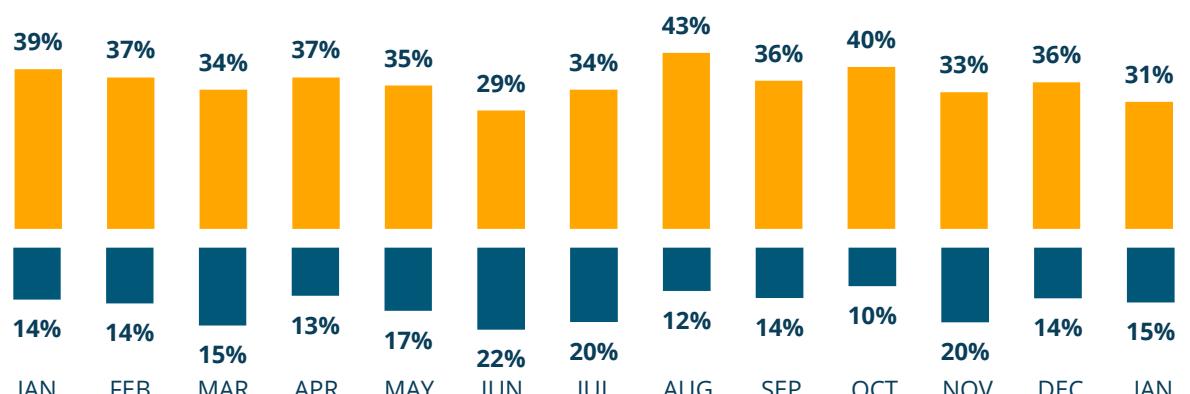
Business Sentiment | Growth Expectations (Next 12 months)

Growth sentiment weakened across both employee-size cohorts in January. This broad-based softening points to increasing caution around expansion across the SME sector, particularly as interest rates have moved higher.

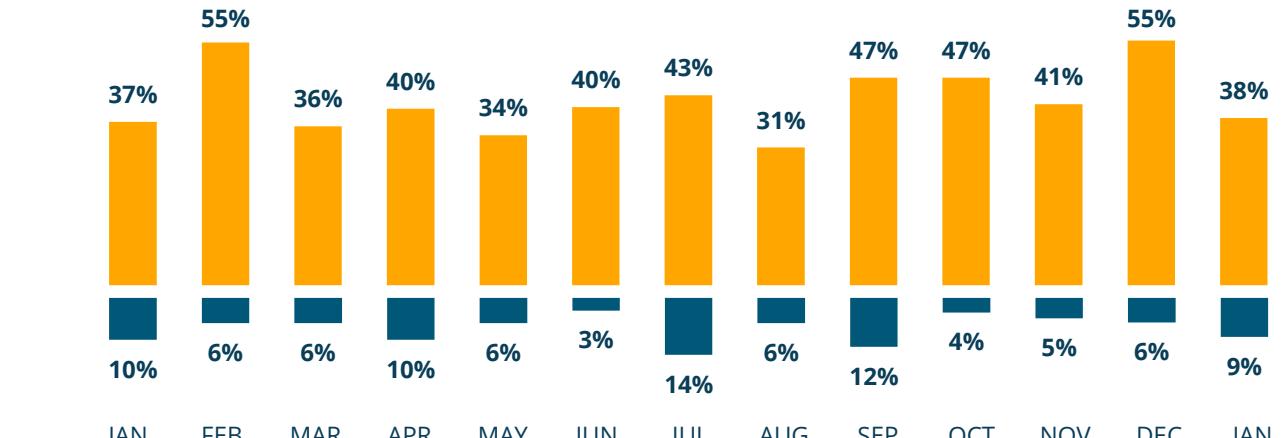
Overall, What Best Describes Your Approach To Business Over The Next 12 Months?

Concentrate on growth Exit/Downsize

0 - 19 Employees



20+ Employees



2025 → 2026
% NET SCORE (Better - Worse)

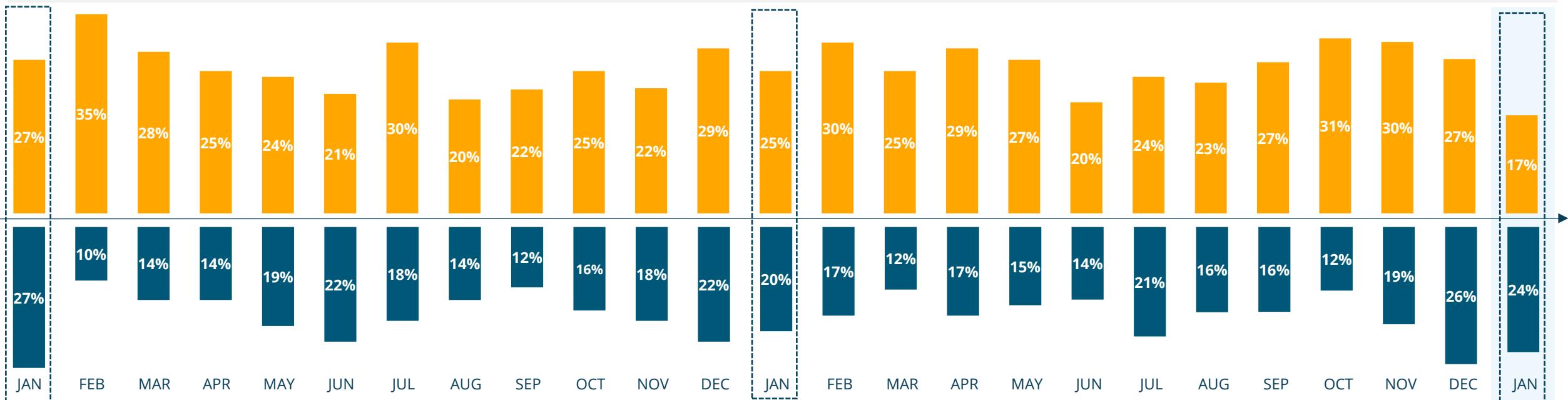
Business Sentiment | Revenue Expectations (Next Four Weeks)

Short-term revenue expectations weakened sharply in January, with the net balance turning negative for the first time since mid-2024. This outlook risks deteriorating further following the interest rate increase announced this week.

Better
Worse

Where Do You Expect Your Revenue To Be In 4 Weeks Compared To Today?

2024



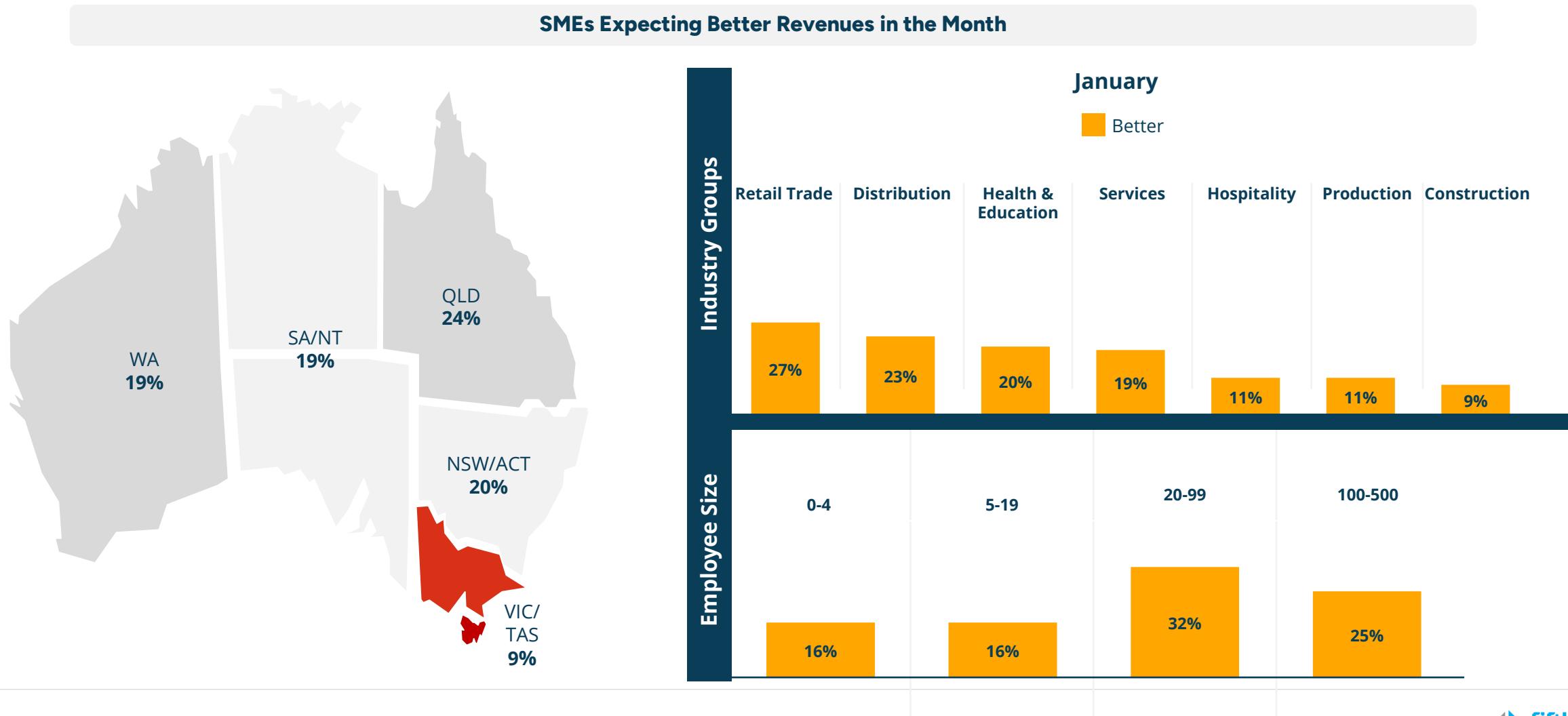
NET 25M average: 9%

% NET SCORE
(Better - Worse)

- 25% 14% 11% 5% -1% 12% 6% 10% 9% 4% 7% 5% 13% 13% 12% 12% 6% 3% 7% 10% 19% 11% 8% -7%

Business Sentiment | Revenue Expectations (Next Four Weeks)

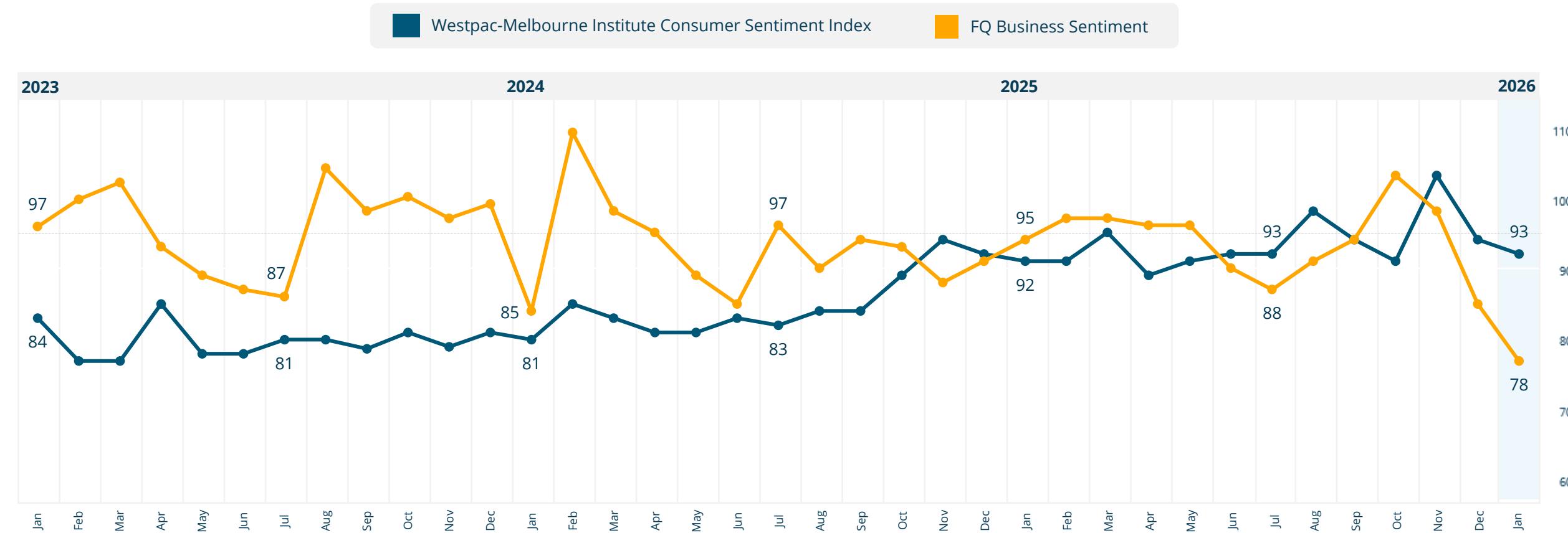
VIC/TAS stood out as a clear underperformer on short-term revenue expectations in January, with only 9% of SMEs anticipating revenue growth over the next four weeks.



Business Sentiment | Sentiment Index

Short-term business confidence has deteriorated sharply amid rising interest rates, falling well below consumer confidence and reaching its lowest level since 2023. This widening gap highlights growing concern among businesses about near-term trading conditions and the impact of rising rates on consumer spending.

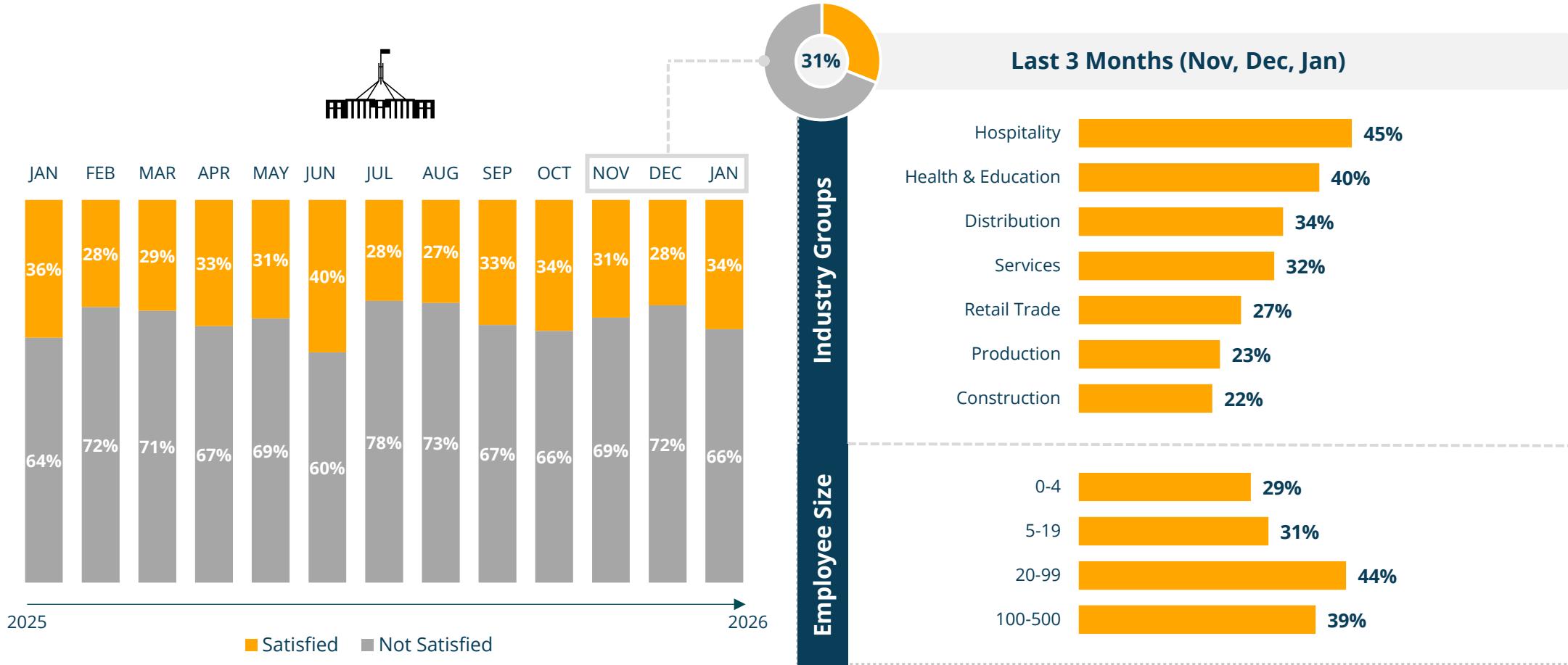
Business And Consumer Sentiment



Business Sentiment | Government Policy

Satisfaction with the Federal Government's delivery of business-relevant policy increased modestly in January. This uplift appears to coincide with heightened instability and public discord within the Liberal-National opposition, which may be improving relative perceptions of the current government despite overall satisfaction levels remaining low.

How Satisfied Are You That The Federal Government Is Delivering Effective Policies That Support The Needs Of Your Business?





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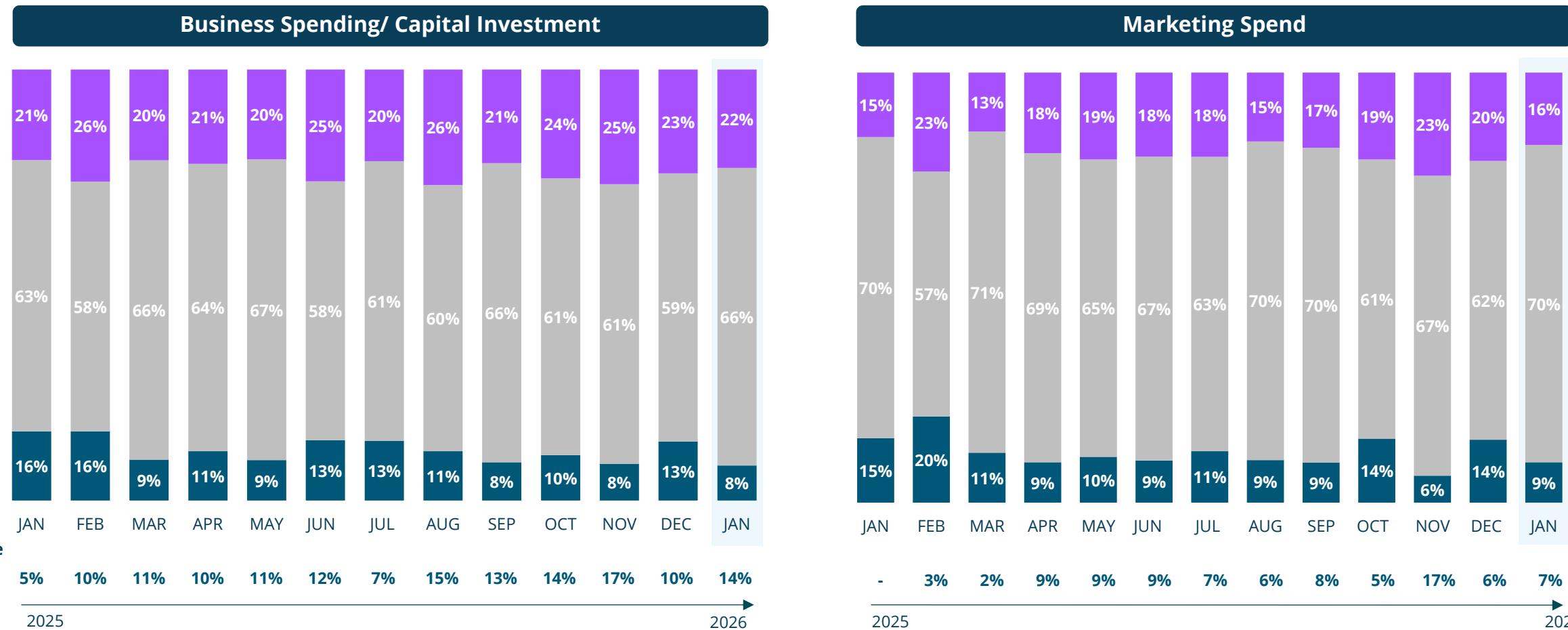
04 Business Investment

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Business Investment | Next Three Months

As business sentiment declines, firms are signalling greater restraint in discretionary spending, with both capital investment and marketing budgets expected to soften over the next three months.

Expectations Over The Next 3 Months Regarding Business Investment



Planned capital investment over the next three months is broadly lower than December across most categories, underlining increased caution amongst SME decision makers.

Which Of The Following Will You Purchase For Your Business Over The Next 3 Months? (Probably Will + Definitely Will)

January

	January		Nov	Dec	Jan
	Probably will	Definitely will			
IT / Office equipment, including hardware & software	32%	6%	38%	41%	45%
Equipment, machinery or plant	16%	3%	18%	22%	18%
Passenger vehicle(s) including SUVs	10%	1%	11%	12%	15%
Electric vehicle(s), including Hybrid	7%	1%	8%	10%	9%
Commercial real estate including buildings or land	5%	1%	7%	7%	10%
Light commercial vehicle(s) including utes, vans, and minibuses	5%	1%	6%	10%	11%
Agricultural, construction or earthmoving vehicle(s)/equipment	3%	2%	5%	7%	7%
Truck(s) less than 4.5 tonnes	3%	0%	4%	4%	7%
Truck(s) more than 4.5 tonnes	3%	0%	4%	6%	6%
Medium and large bus(es)	2%	0%	3%	5%	4%

Capital expenditure intentions have weakened across both employee-size cohorts, with the decline most pronounced among smaller businesses (0-19 employees).

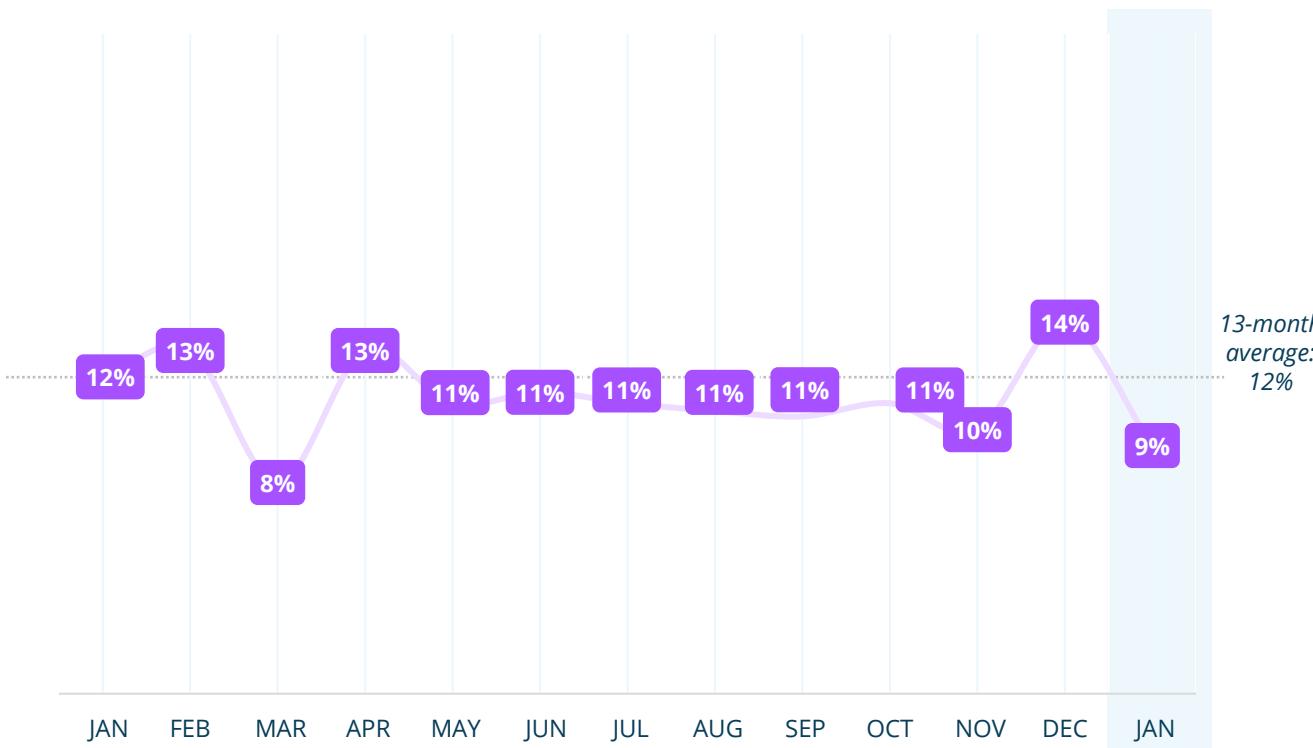
Which Of The Following Will You Purchase For Your Business Over The Next 3 Months? (Probably Will + Definitely Will)

	0-19 Employees			20+ Employees		
	Nov	Dec	Jan	Nov	Dec	Jan
IT / Office equipment, including hardware & software	39%	43%	36%	64%	68%	64%
Equipment, machinery or plant	22%	16%	16%	30%	42%	46%
Passenger vehicle(s) including SUVs	11%	14%	10%	24%	29%	27%
Electric vehicle(s), including Hybrid	9%	7%	7%	19%	28%	22%
Commercial real estate including buildings or land	6%	9%	5%	15%	22%	24%
Light commercial vehicle(s) including utes, vans, and minibuses	9%	9%	5%	20%	28%	23%
Agricultural, construction or earthmoving vehicle(s)/equipment	6%	6%	4%	19%	13%	10%
Truck(s) less than 4.5 tonnes	3%	6%	3%	19%	18%	17%
Truck(s) more than 4.5 tonnes	5%	5%	3%	19%	16%	15%
Medium and large bus(es)	4%	4%	1%	13%	8%	16%

Business Investment | Finance Needs (Next 3 months)

Following confirmation of the interest rate increase this week, the share of SMEs expecting to require additional finance over the next three months has eased back to 9%, below the 13-month average. Where finance is required, it is increasingly focused on cashflow and working capital rather than growth or expansion, reinforcing the broader shift toward caution.

SMEs That Will Require Additional Finance Over The Next 3 Months



And What Is The Purpose Of This Finance?

	Q2 FY25	Q3 FY25	Q4 FY25	Q1 FY26	Q2 FY26	Last 3M
Cashflow/ working capital	60%	54%	62%	57%	61%	67%
Purchase plant, machinery or equipment	26%	18%	23%	25%	22%	19%
Fund growth into new markets	13%	13%	17%	15%	21%	16%
Fund growth in Australia	23%	26%	16%	16%	15%	16%
Trade finance to fund import/export activity	9%	17%	12%	15%	8%	6%
Fund merger/acquisition	7%	7%	8%	7%	9%	6%

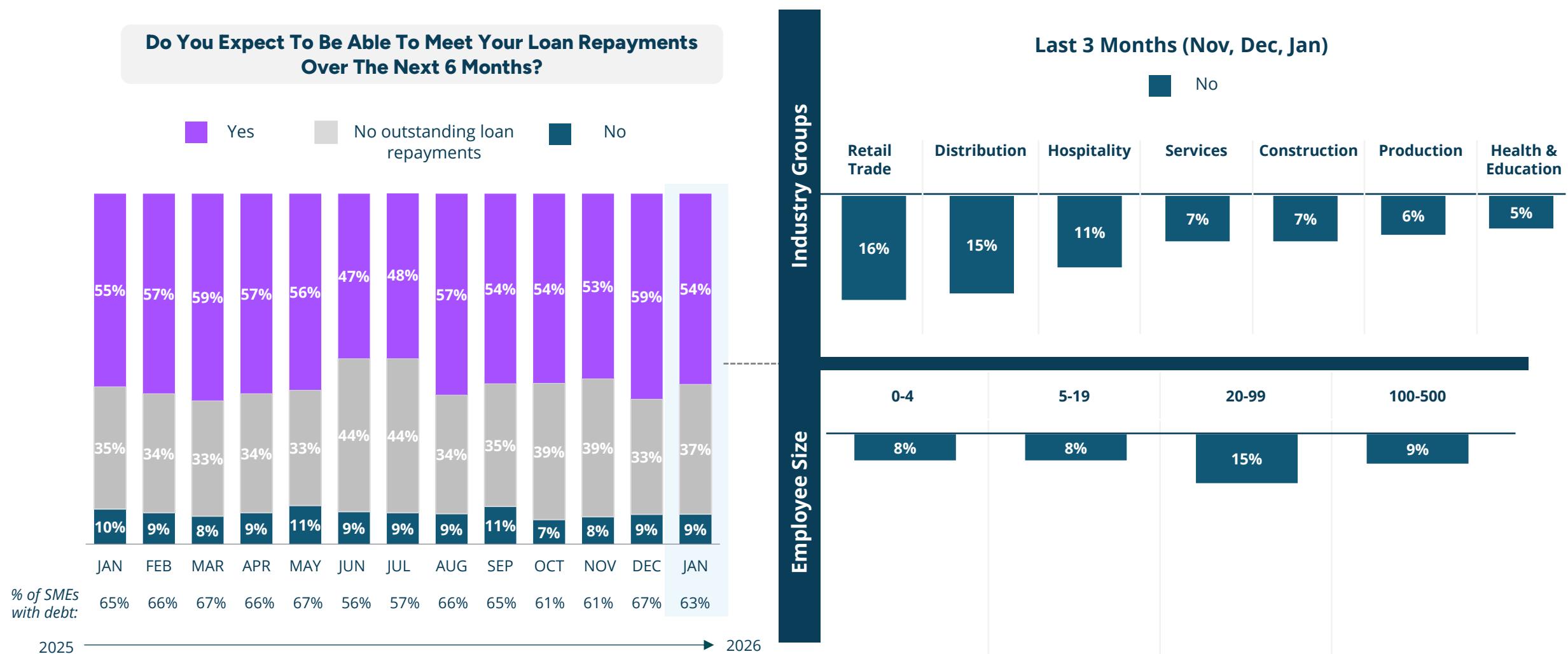
Additional finance demand is trending lower among larger SMEs, while remaining relatively steady for smaller businesses.

Will You Require Any Additional Finance Over The Next 3 Months? (Yes)

	Q2 FY25	Q3 FY25	Q4 FY25	Q1 FY26	Q2 FY26	Last 3M
0-19 Employees	14%	10%	11%	10%	11%	11%
20+ Employees	21%	24%	18%	17%	17%	14%
Construction	19%	9%	10%	11%	16%	13%
Distribution	16%	6%	21%	12%	18%	14%
Health & Education	8%	11%	11%	11%	10%	12%
Hospitality	17%	25%	10%	15%	18%	11%
Production	14%	12%	12%	11%	8%	10%
Retail Trade	9%	14%	12%	14%	13%	18%
Services	13%	11%	10%	9%	8%	9%

Business Investment | Loan Stress

Despite weaker business sentiment, loan stress remains contained below 10% for the time being. However, vulnerability is more pronounced among businesses in retail and distribution, as well as mid-sized firms with 20–99 employees, where repayment pressures are relatively higher.





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- ▶ The SME Tracker was first launched 5th April 2020
- ▶ Monthly waves with a minimum of 400 completed surveys with small and medium businesses with up to 500 employees
- ▶ All respondents are business owners or financial decision makers/influencers
- ▶ Use of accredited research panels ensures a consistent sample of the national population across states and territories.



Respondents from across Australia, including **metro and regional** areas



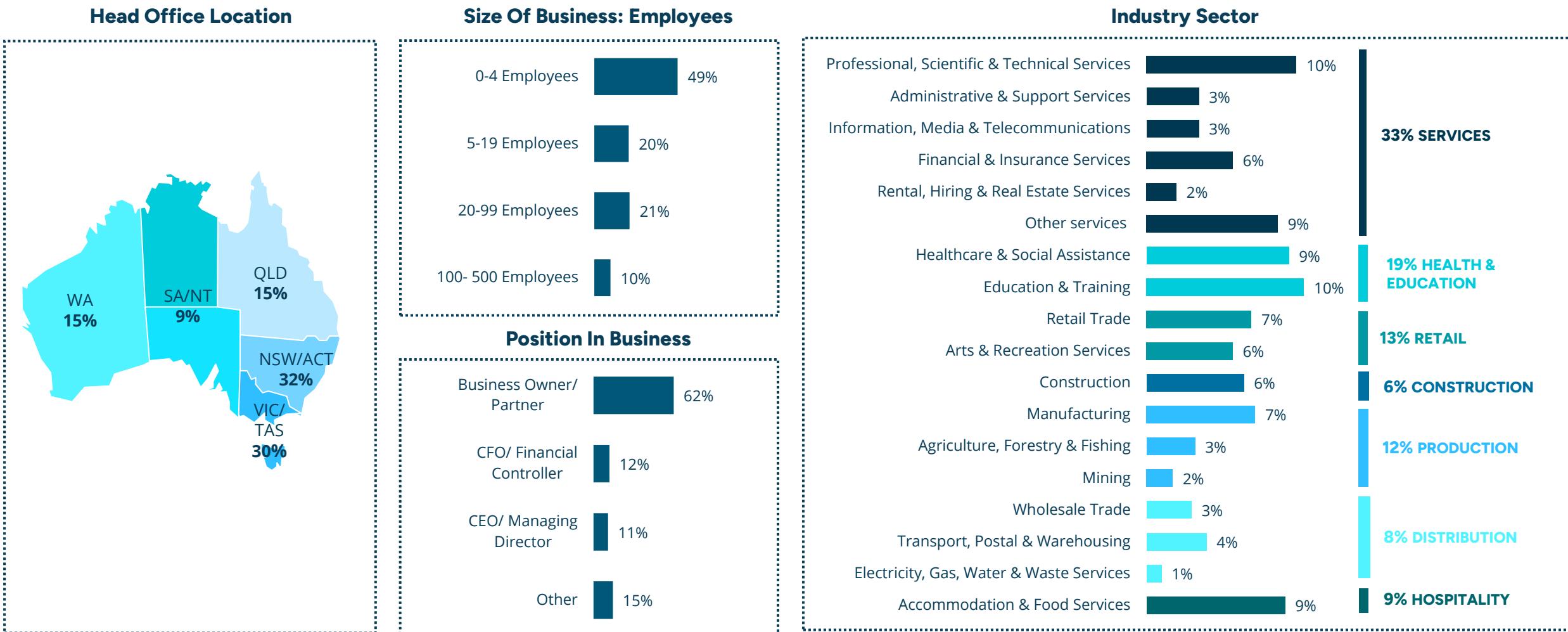
All **industry sectors** are represented, allowing for subgroup analysis



Data is **weighted** by industry, state and number of employees to reflect the national distribution of businesses across the country

Our Sample

Key decision makers and influencers at SMEs across all states and territories responded to the survey. We target SMEs across all sizes and industry sectors. Data is weighted to reflect the actual distribution by industry, number of employees and state.



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Creating Tomorrow Today