

SMALL & MEDIUM ENTERPRISE SENTIMENT TRACKER

Wave 52 – June 2023





Too often, we see businesses confusing data with insights, but data alone is not enough.

We provide organisations with insight about their markets and customers by layering context and expertise on top of data.

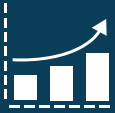
This allows our clients to make better decisions and unlock tomorrow's opportunities today.



Ovation is committed to delivering quality data, analytics and online research services with access to one of Australia's largest and most responsive online research panels. Our wide reach includes professionals, from small business owners to executives, across a variety of industries.

Our continued success is based on integrity and passion to ensure the best outcomes for both our clients and members alike.

KEY LEARNINGS



Year on year revenues continue to track down with 34% reporting less revenue than 12 months ago



87% are concerned about rising interest rates



40% are not well positioned to withstand the impact of a possible recession



Only 19% currently recruiting compared to 26% in March

Interest rates and energy costs drive SME sentiment lower

The tracking data reveals both positive and negative indicators in June. Notably, 37% of SME decision-makers reported a good performance in the 2023 financial year, compared to only 17% indicating it was a poor year. Additionally, 34% of SMEs are planning expansion in the next 12 months.

However, there are major concerns as year on year revenues continue to track down with 34% reporting less revenue than 12 months ago. Profitability has dropped to 46% in June from 59% in April. Furthermore, only 21% anticipate revenue growth over the next four weeks, a significant decline from 32% in March.

Additionally, 87% of SMEs are concerned about rising interest rates and 83% about energy costs. Accordingly, 40% of SMEs are not well positioned to withstand a recession, and 67% expect the Australian economy to weaken in the next three months. Recruitment activity is stagnant, with only 19% actively seeking to fill roles. 62% of these are struggling to find skilled applicants with suitable wage expectations.

Consistent with these challenges, there is an increased demand for additional finance (15%) especially for working capital. However, investment in capital equipment and marketing are both expected to decline.

Accordingly, satisfaction with the federal Labor government's ability to support business needs has declined to 27% overall, with particularly low levels of support in Victoria, where it stands at 18%.

In summary, the June data paints a challenging picture. The increase in interest rates continues to dampen demand and the cost of doing business continues to rise, making it very difficult for SMEs to remain profitable. Accordingly, sentiment remains weak and recruitment activity soft. These indicators highlight the tough economic environment SMEs are navigating.



1

KEY PERFORMANCE INDICATORS

2

PEOPLE

3

BUSINESS INVESTMENT

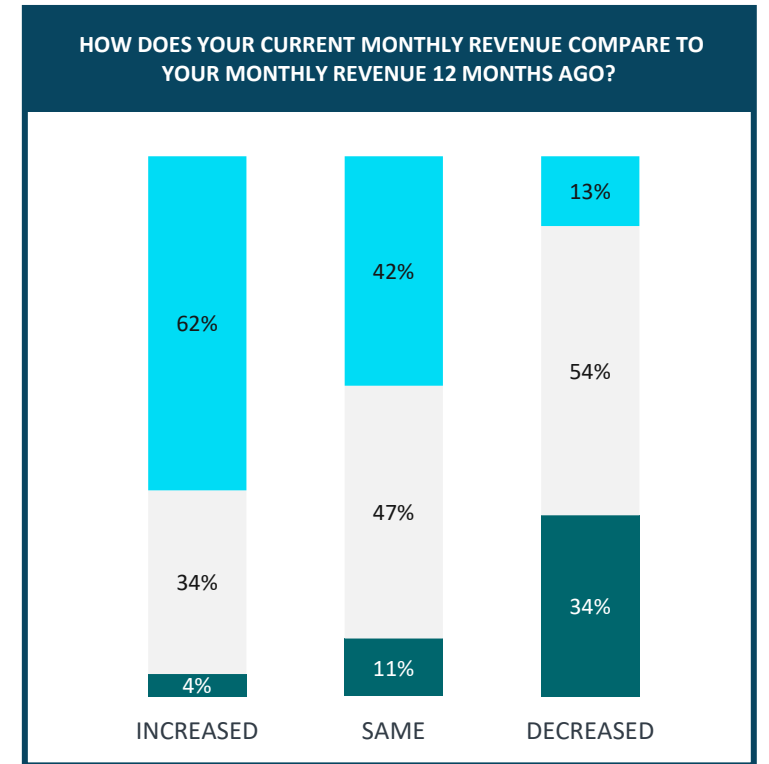
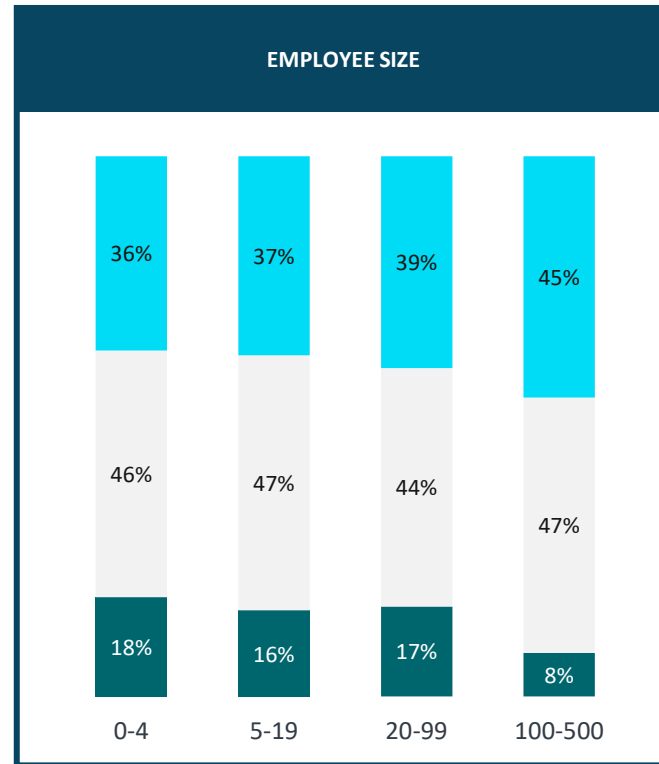
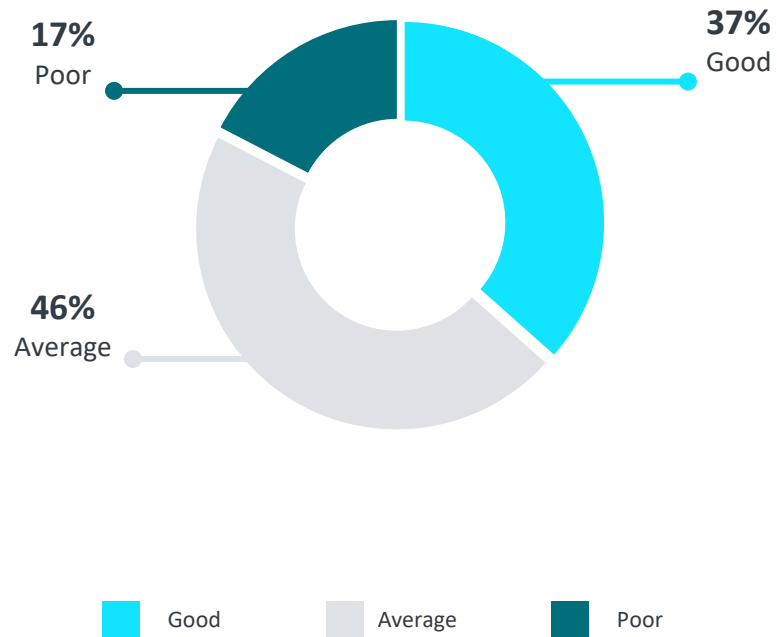
4

BUSINESS SENTIMENT

FY23 PERFORMANCE

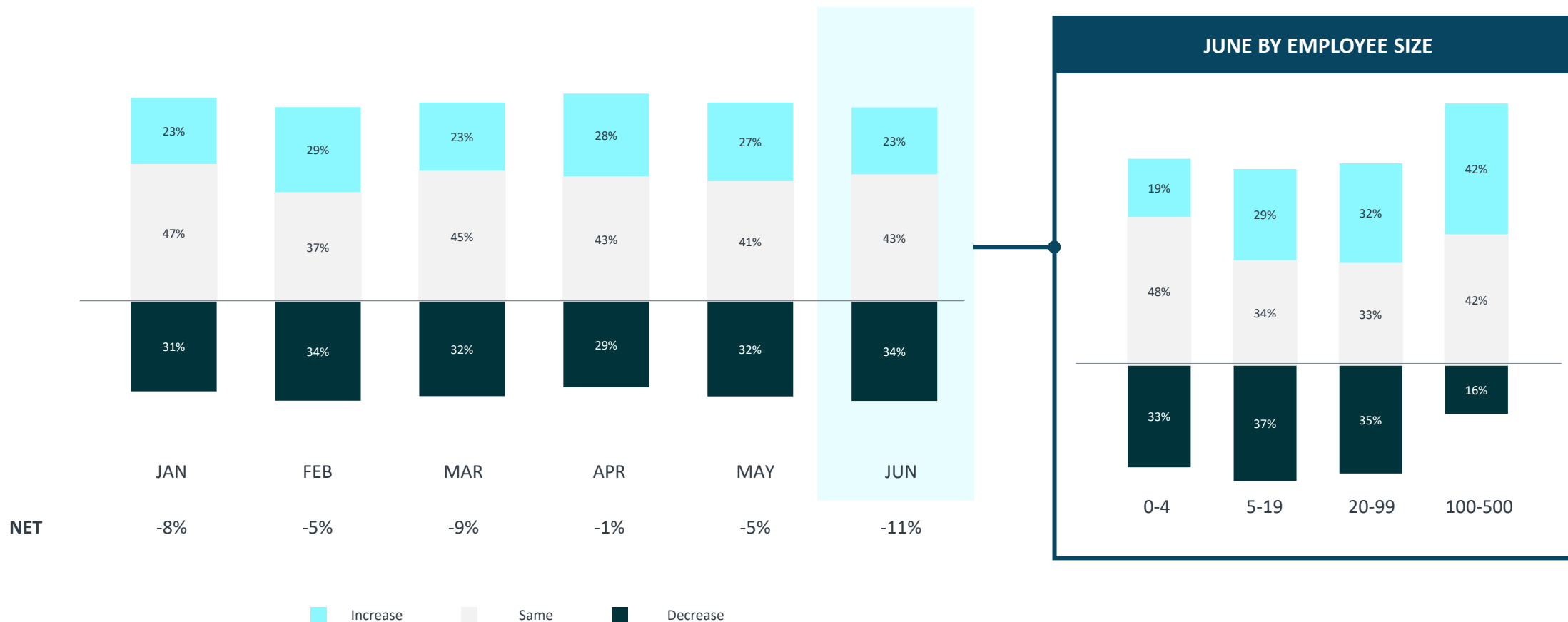
Overall, 37% of SME decision-makers reported a good performance in the 2023 financial year, with larger SMEs indicating a slightly better outcome.

OVERALL, HOW WOULD YOU RATE THE PERFORMANCE OF YOUR BUSINESS IN FY23?



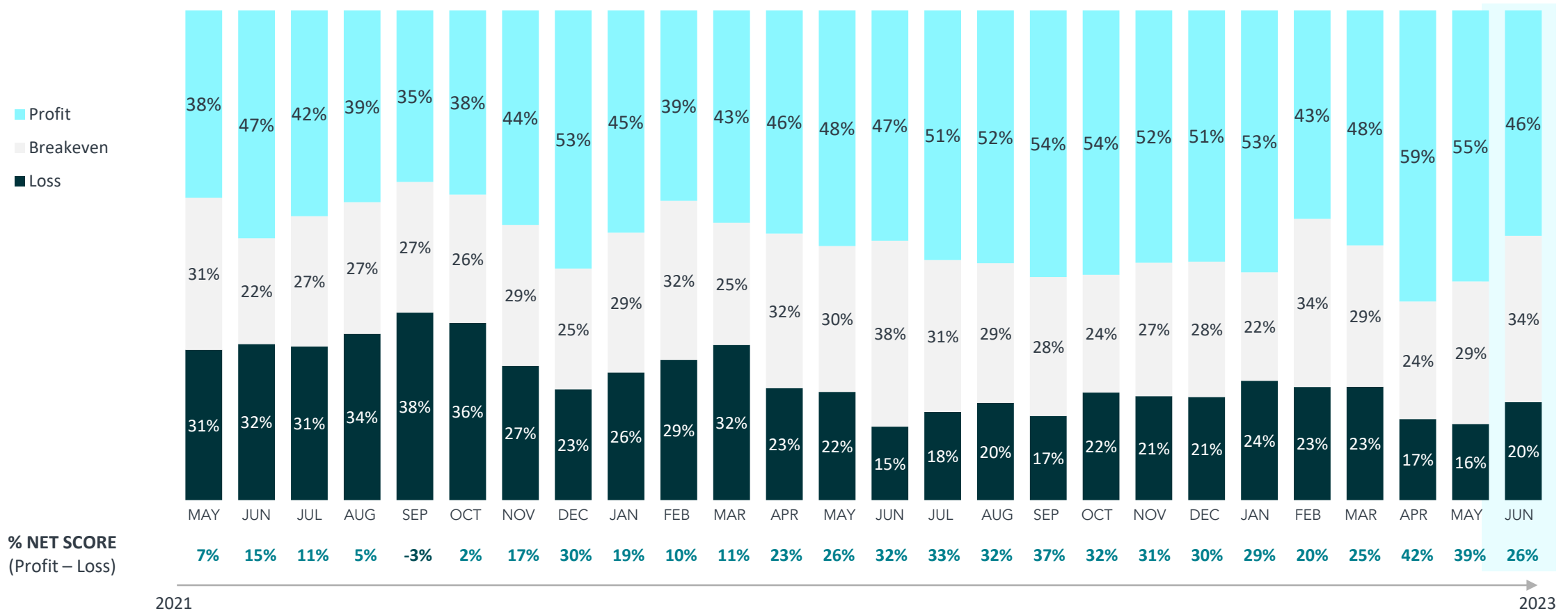
Year on year revenues continue to track down with 34% reporting less revenue than 12 months ago.

HOW DOES YOUR CURRENT MONTHLY REVENUE COMPARE TO YOUR MONTHLY REVENUE 12 MONTHS AGO?



Mirroring the revenue downturn among SMEs, profitability also fell in June, with only 46% reporting a profit, a drop from 59% in April.

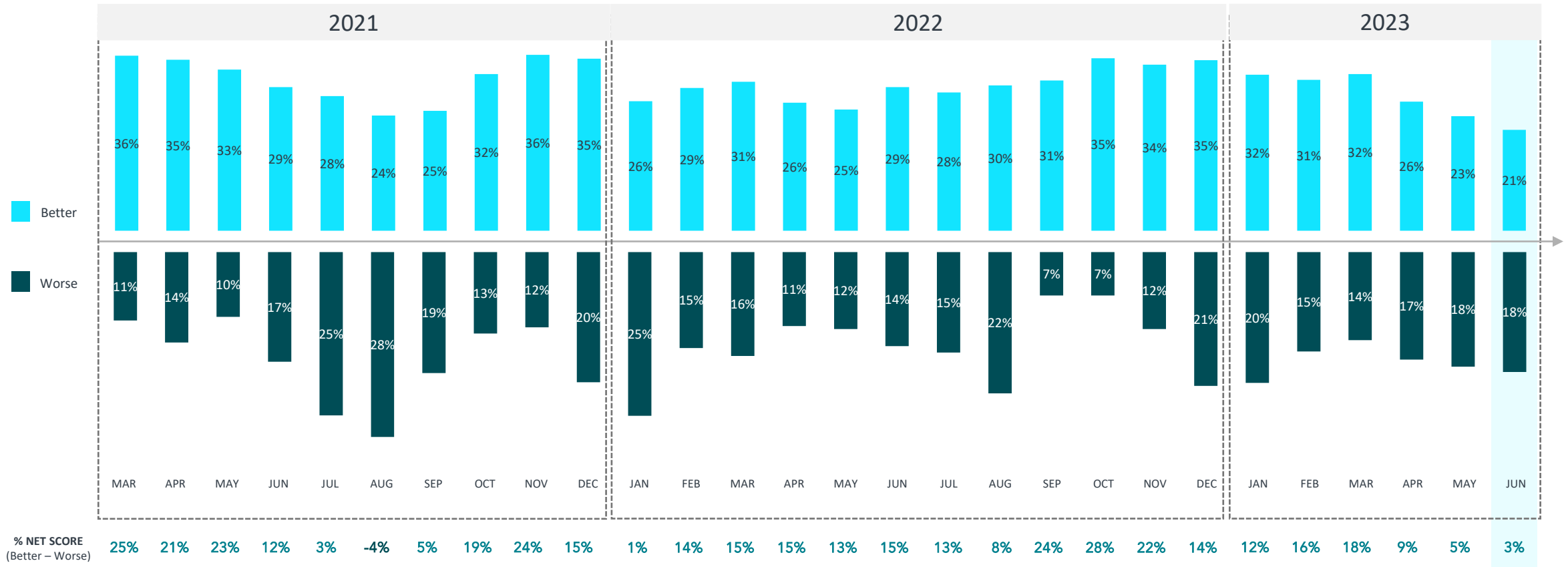
WHAT WAS YOUR PROFIT MARGIN LAST MONTH (MAY)?



REVENUE EXPECTATIONS (NEXT 4 WEEKS)

Short-term revenue expectations are also declining, with only 21% of respondents anticipating an increase in revenues over the next four weeks. This figure is noticeably lower compared to the end of 2022, when the figure was 35%.

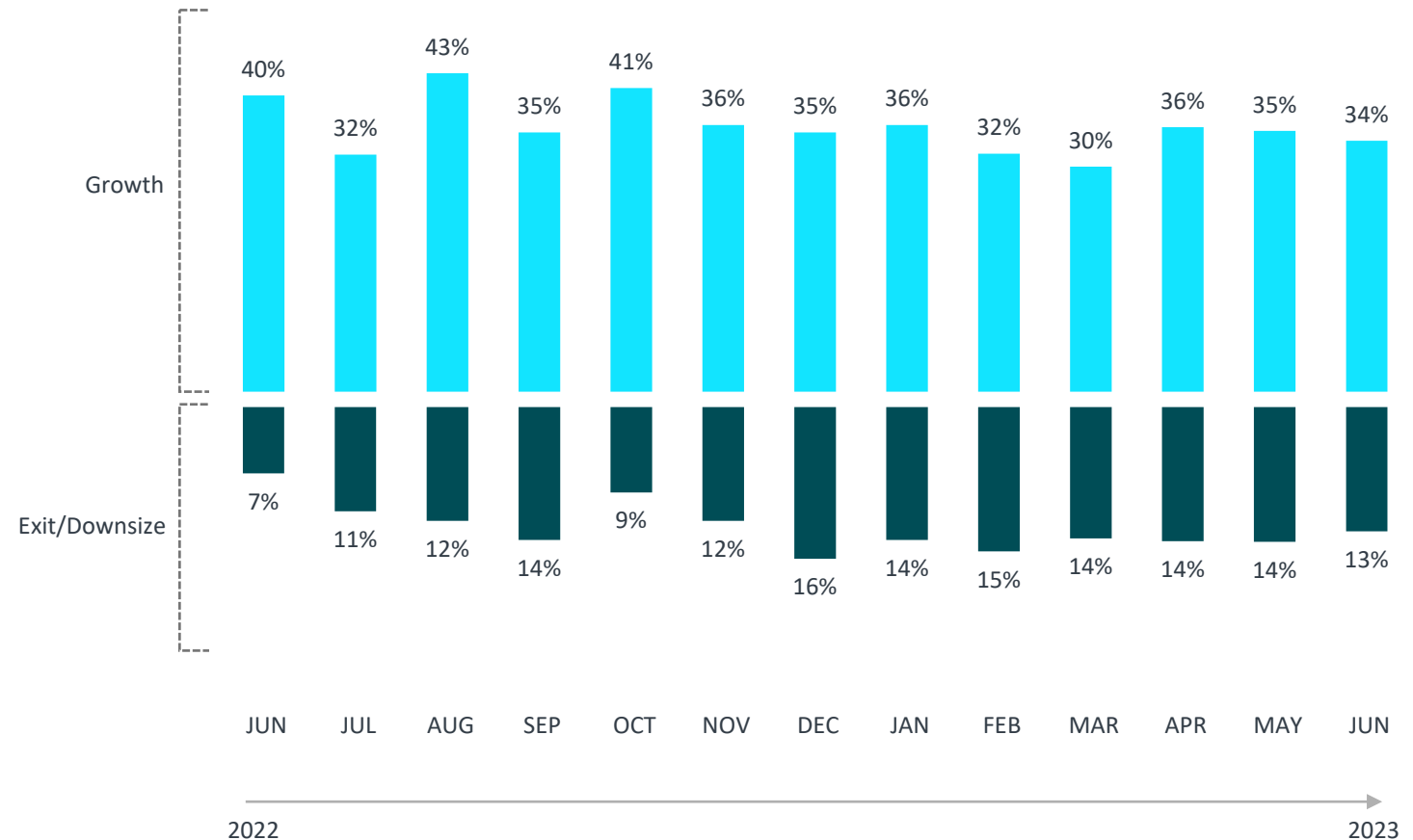
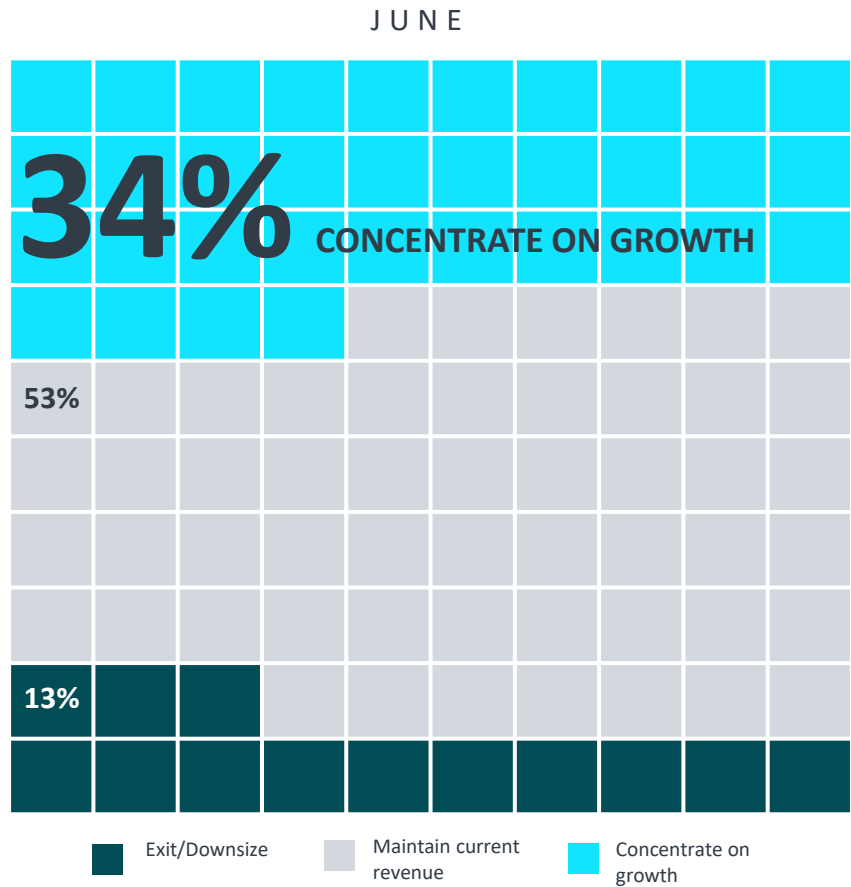
WHERE DO YOU EXPECT YOUR REVENUE TO BE IN 4 WEEKS COMPARED TO TODAY?



GROWTH EXPECTATIONS (NEXT 12 MONTHS)

The proportion of growth-oriented businesses remained steady in May, with 34% planning to expand over the next 12 months. However, the trend is gradually leaning towards a decline.

OVERALL, WHAT BEST DESCRIBES YOUR APPROACH TO BUSINESS OVER THE NEXT 12 MONTHS?



BUSINESS CONCERNS

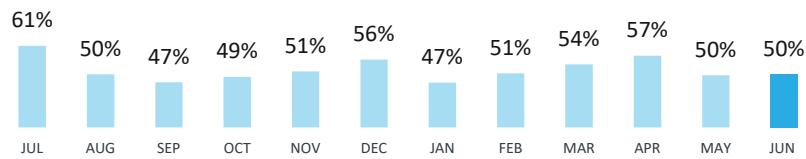
On a positive note, supply chain concerns among SMEs decreased significantly, falling from 73% in May to 64% in June. However, the recent interest rate hike coupled with escalating energy costs continues to pose significant challenges to SMEs.

HOW CONCERNED ARE YOU ABOUT THE IMPACT OF THE FOLLOWING ISSUES ON YOUR BUSINESS?



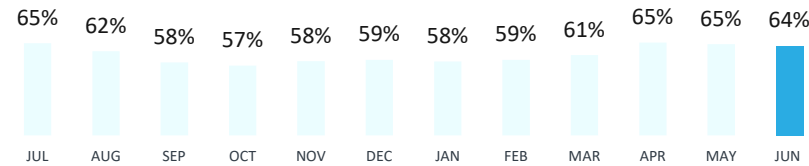
Staff or skill shortages

12 month trend: -11%



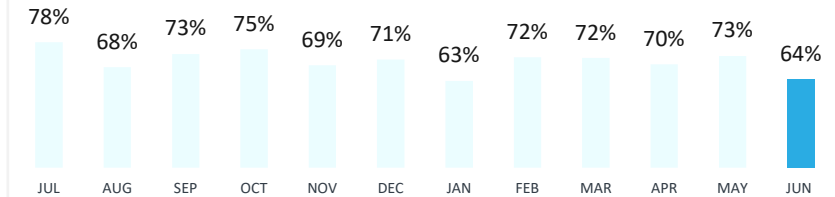
Increasing wage costs

12 month trend: -1%



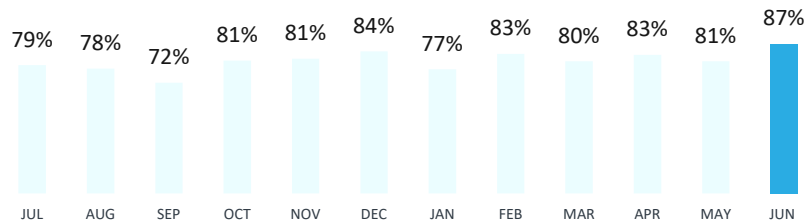
Supply chain delays and associated costs increase

12 month trend: -14%



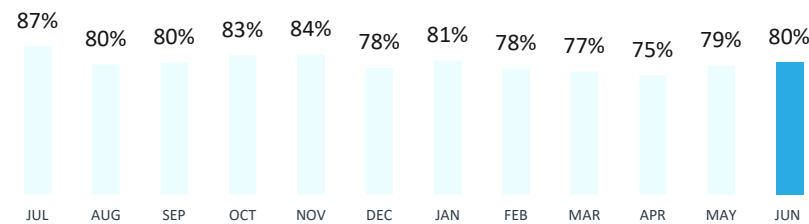
Rising interest rates

12 month trend: +8%



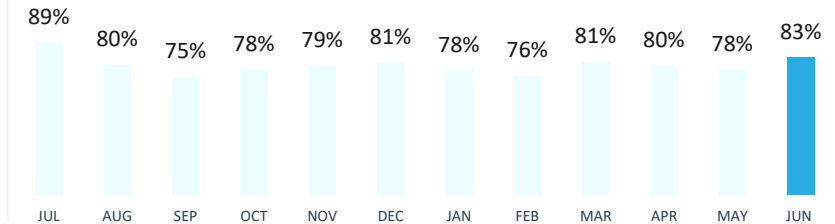
Increasing fuel costs

12 month trend: -7%



Increasing energy costs

12 month trend: -6%

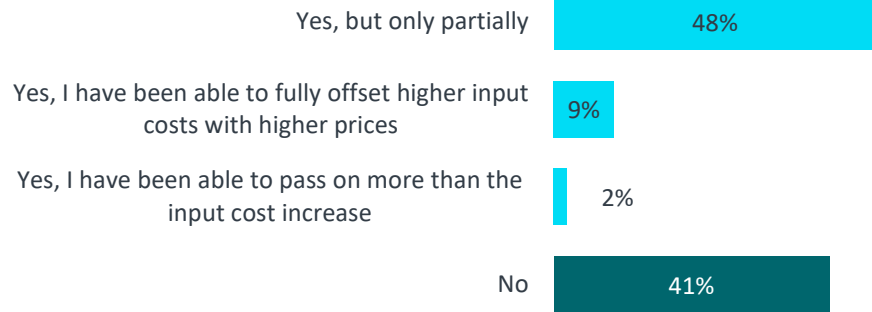


Total concerned

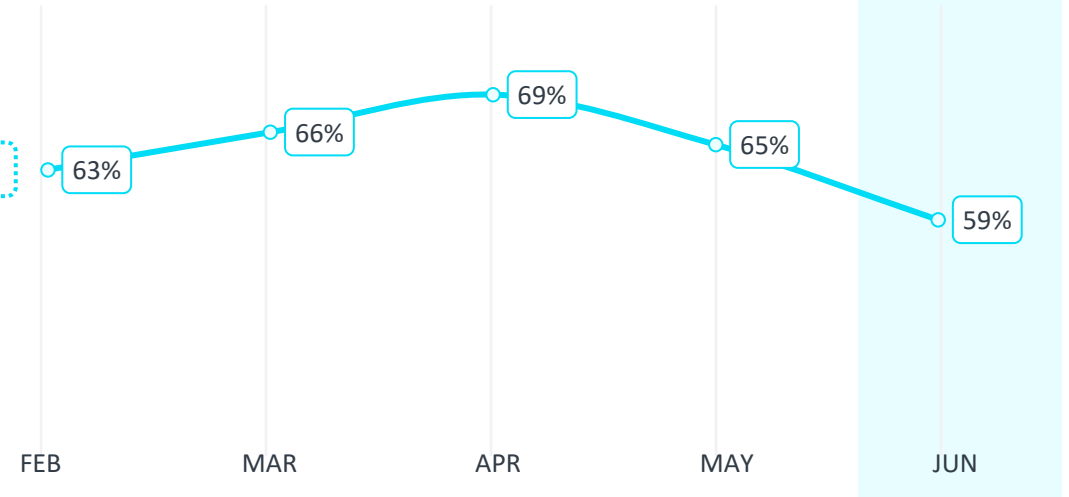
COST RECOVERY

Exacerbating the cost challenges faced by SMEs is the decreasing ability to transfer these higher input costs to customers, adding another layer of complexity to the business environment.

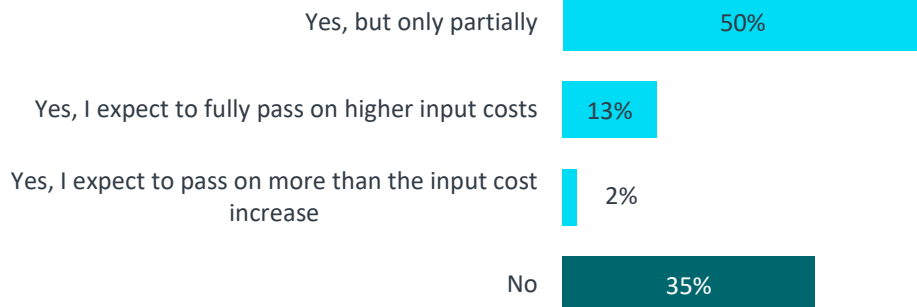
HAVE YOU BEEN ABLE TO PASS ON HIGHER INPUT COSTS TO YOUR CUSTOMERS?



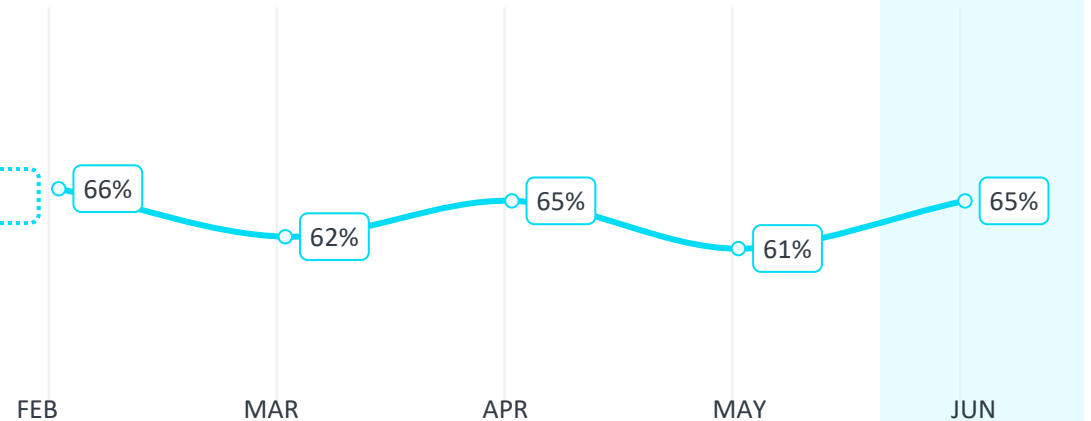
YES



DO YOU EXPECT TO BE ABLE TO PASS ON/CONTINUE TO PASS ON HIGHER INPUT COSTS TO CUSTOMERS IN THE NEXT 6 MONTHS?



YES





1

KEY PERFORMANCE INDICATORS

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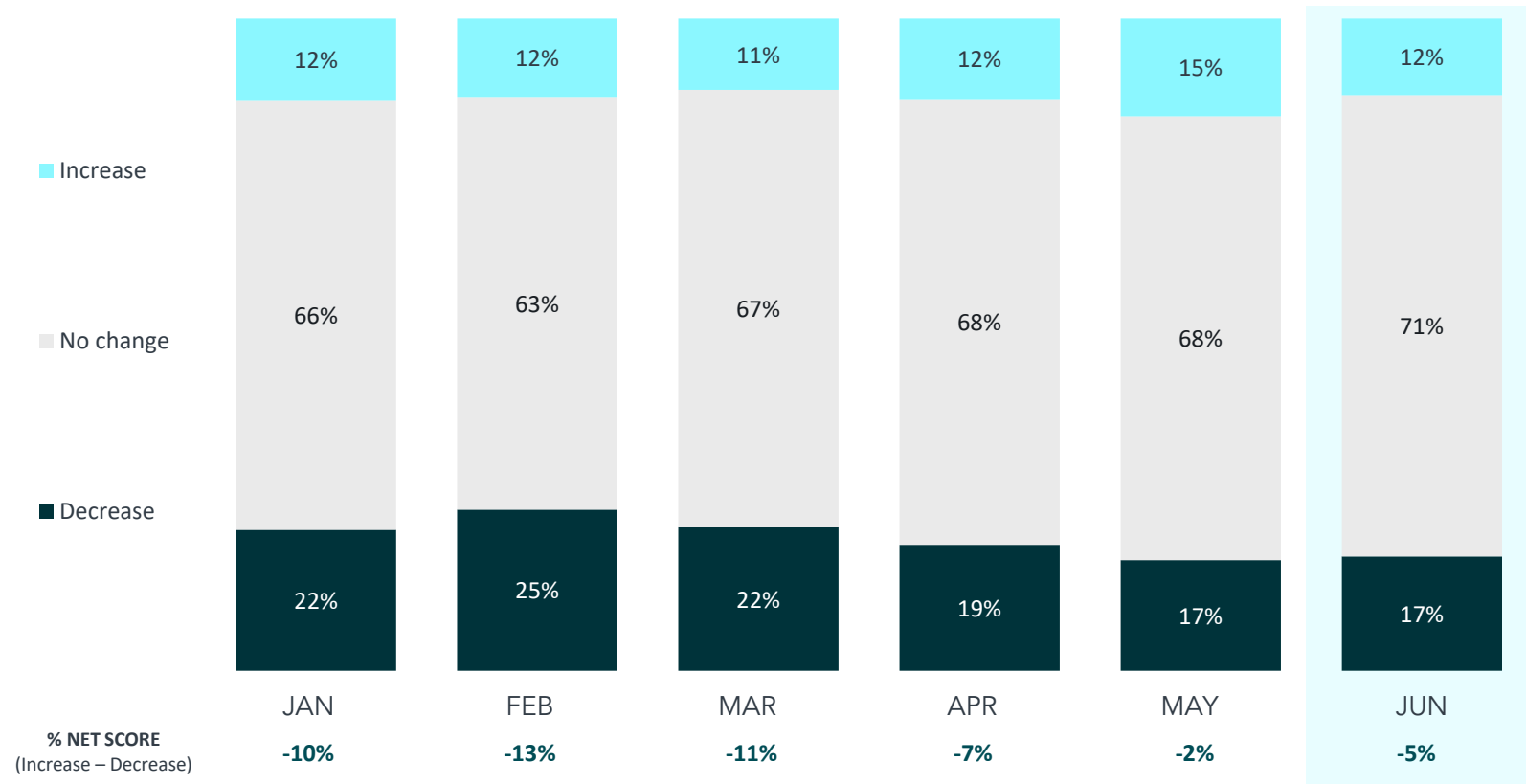
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BUSINESS SENTIMENT

EMPLOYMENT

Net employment compared to 12 months ago has again decreased over the past month.

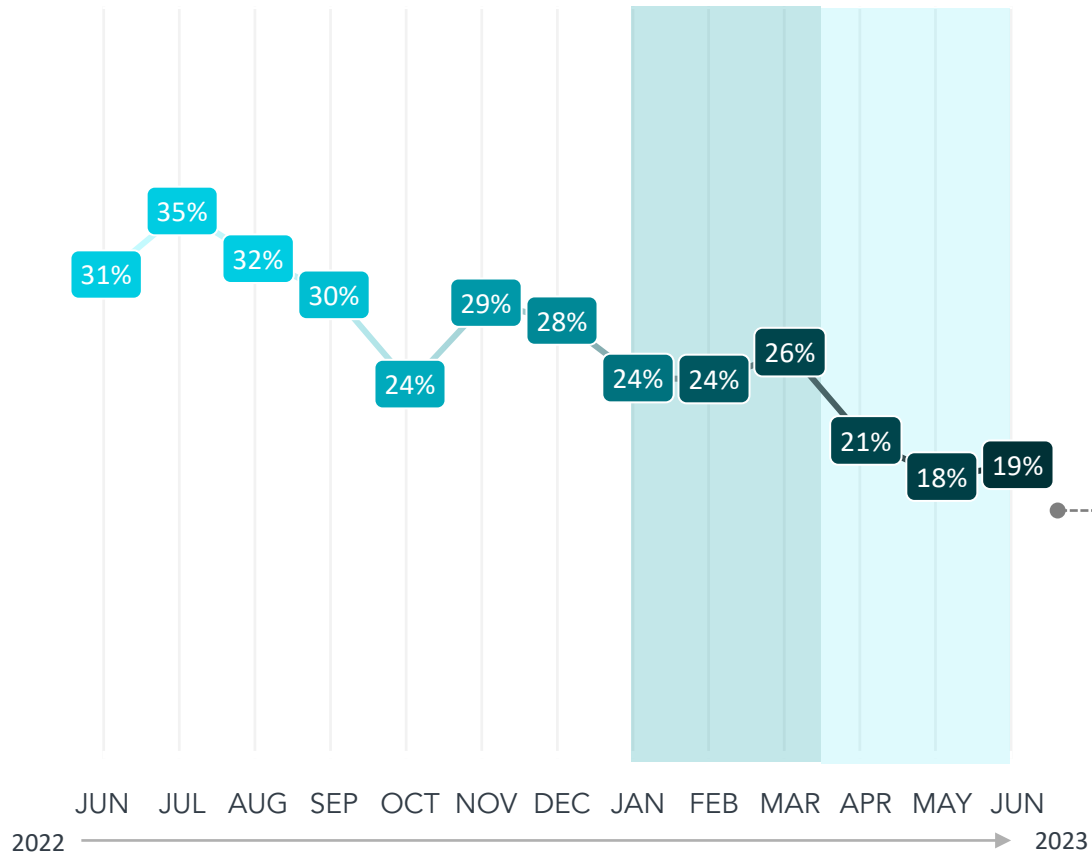
CHANGE IN NUMBER OF EMPLOYEES OVER THE LAST 12 MONTHS



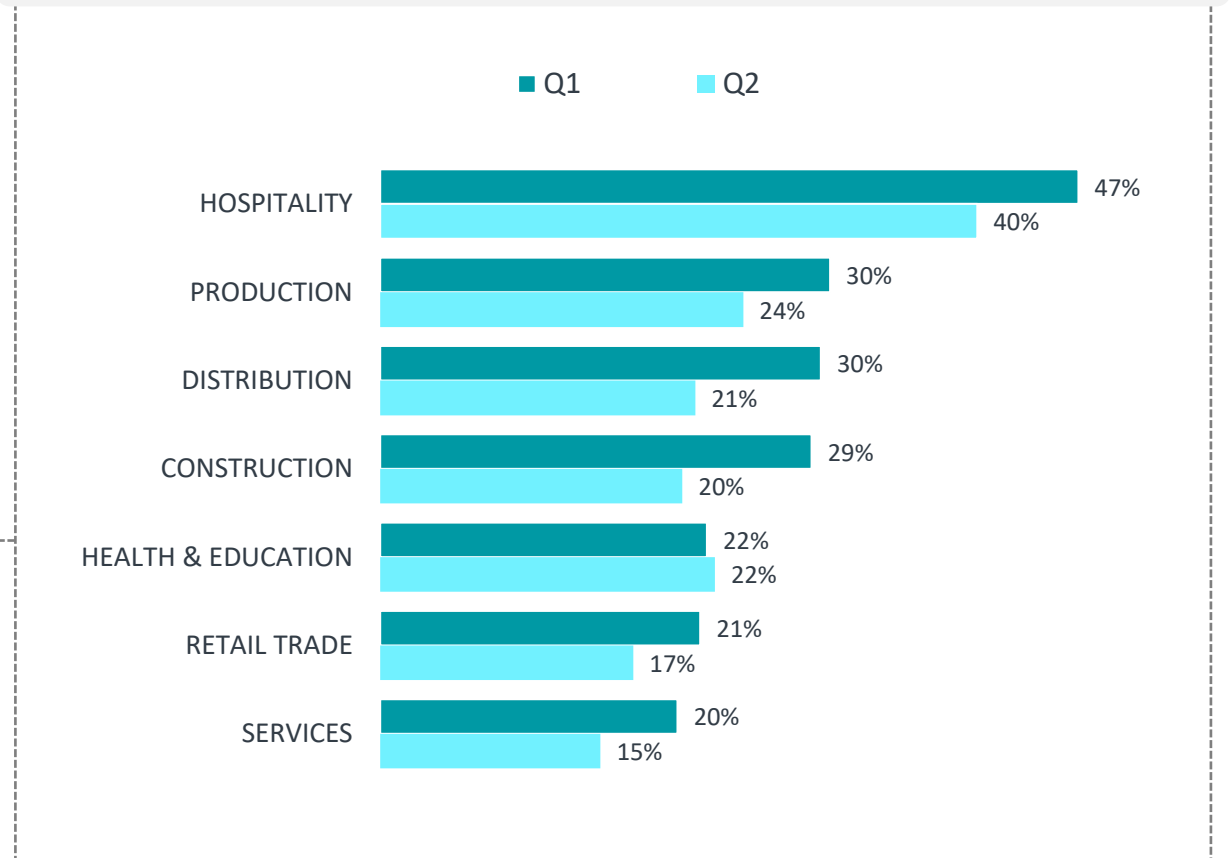
RECRUITMENT

Recruitment activity remains stagnant, with only 19% of SMEs looking to fill roles, down from 26% in March. This decline in activity is observed across most sectors in the second quarter of 2023.

SMEs THAT CURRENTLY HAVE JOB ROLES THEY ARE TRYING TO FILL



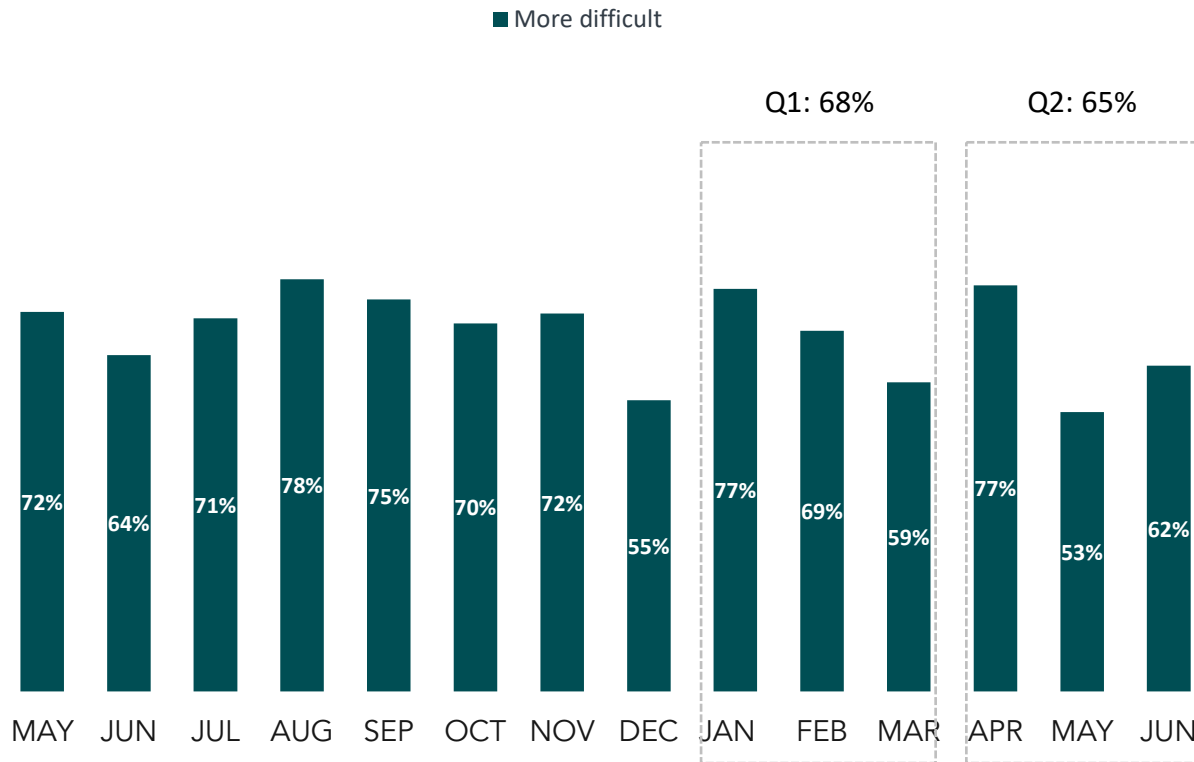
INDUSTRY



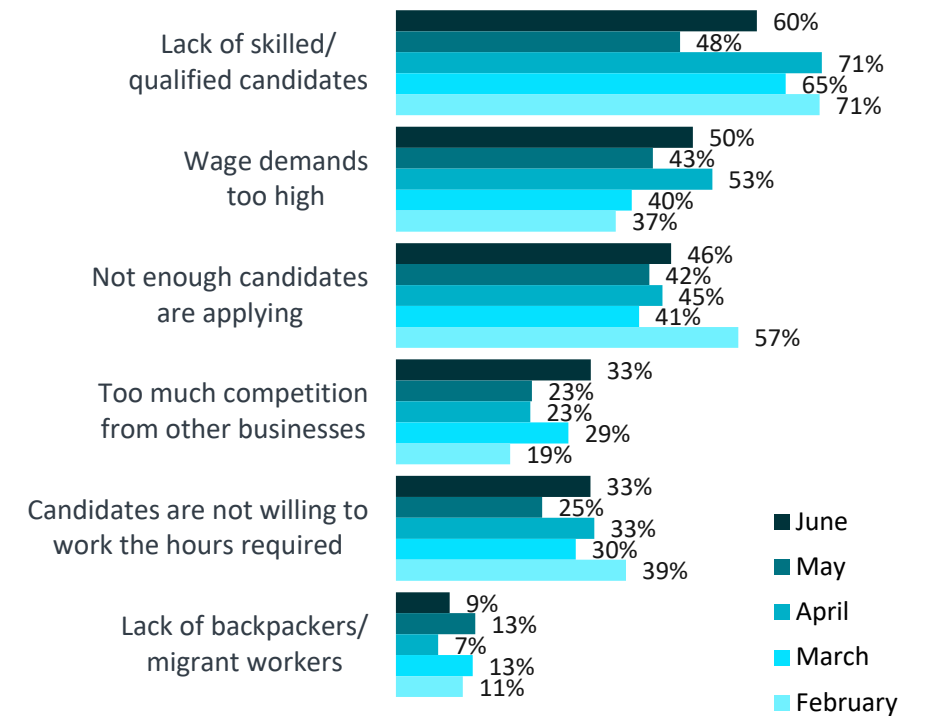
RECRUITMENT

Despite the lower recruitment activity, 62% of SMEs report difficulty in finding applicants with the right skills and wage expectations. Increased competition among businesses is driving wage demands higher.

OVERALL, DO YOU THINK IT IS MORE OR LESS DIFFICULT TO FILL ROLES THAN BEFORE THE COVID-19 PANDEMIC?



WHY IS IT DIFFICULT TO FILL THESE ROLES?





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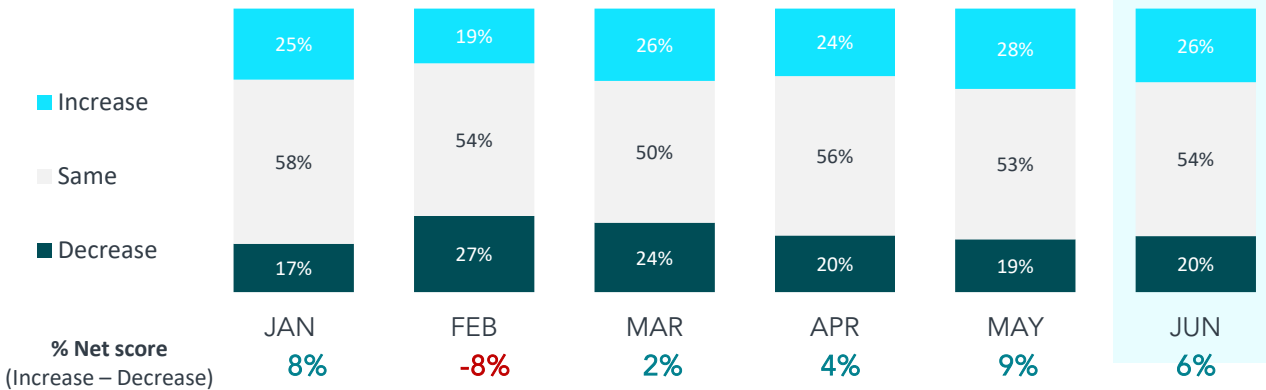
BUSINESS SENTIMENT

BUSINESS INVESTMENT (NEXT 3 MONTHS)

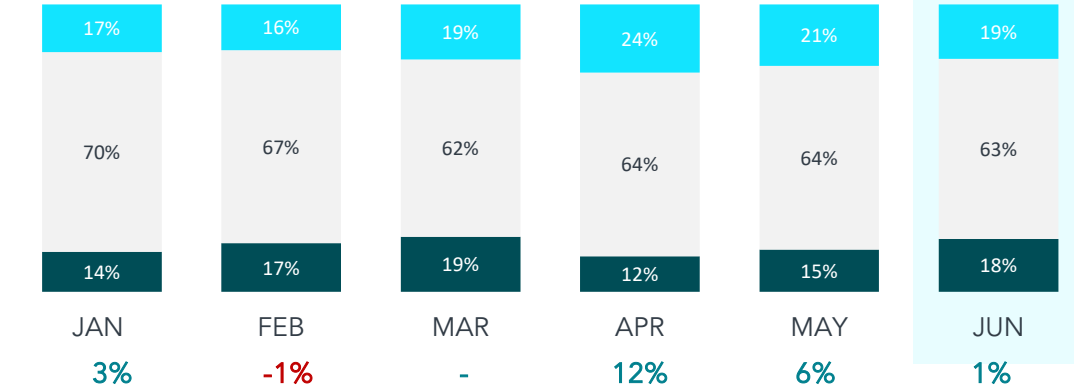
Investment intentions have also declined across all categories in the past month, with marketing spend being hit the hardest since April.

EXPECTATIONS OVER THE NEXT 3 MONTHS REGARDING BUSINESS INVESTMENT

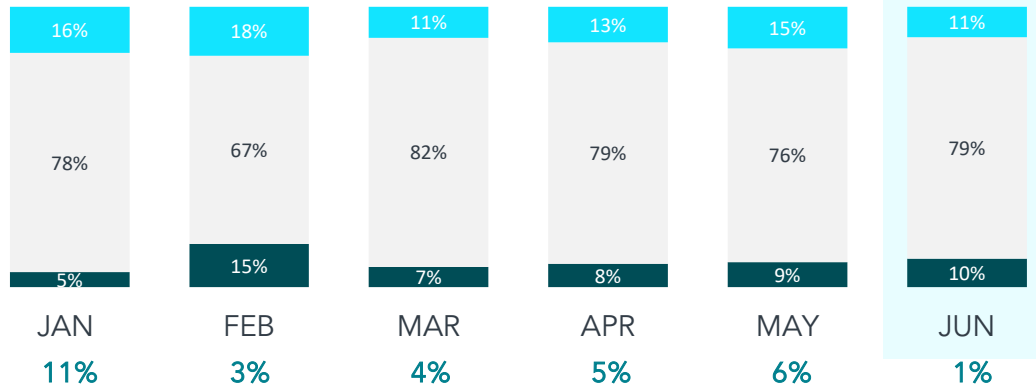
BUSINESS SPENDING/ CAPITAL INVESTMENT



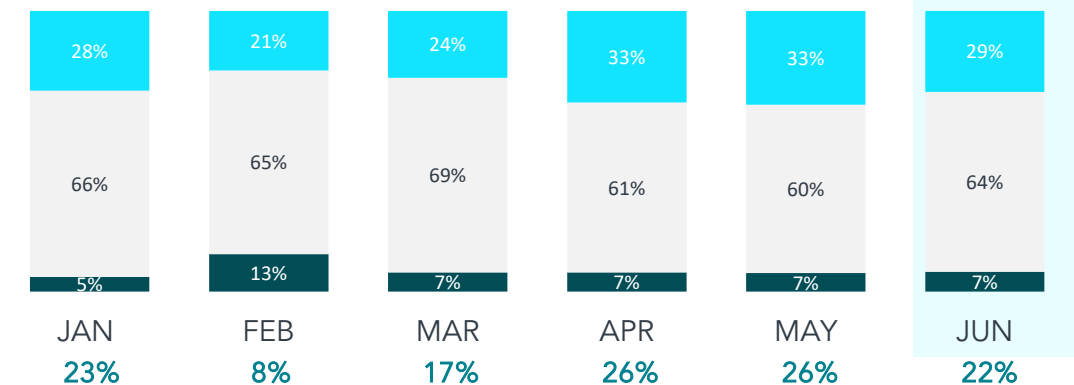
MARKETING SPEND



THE NUMBER OF STAFF YOU EMPLOY



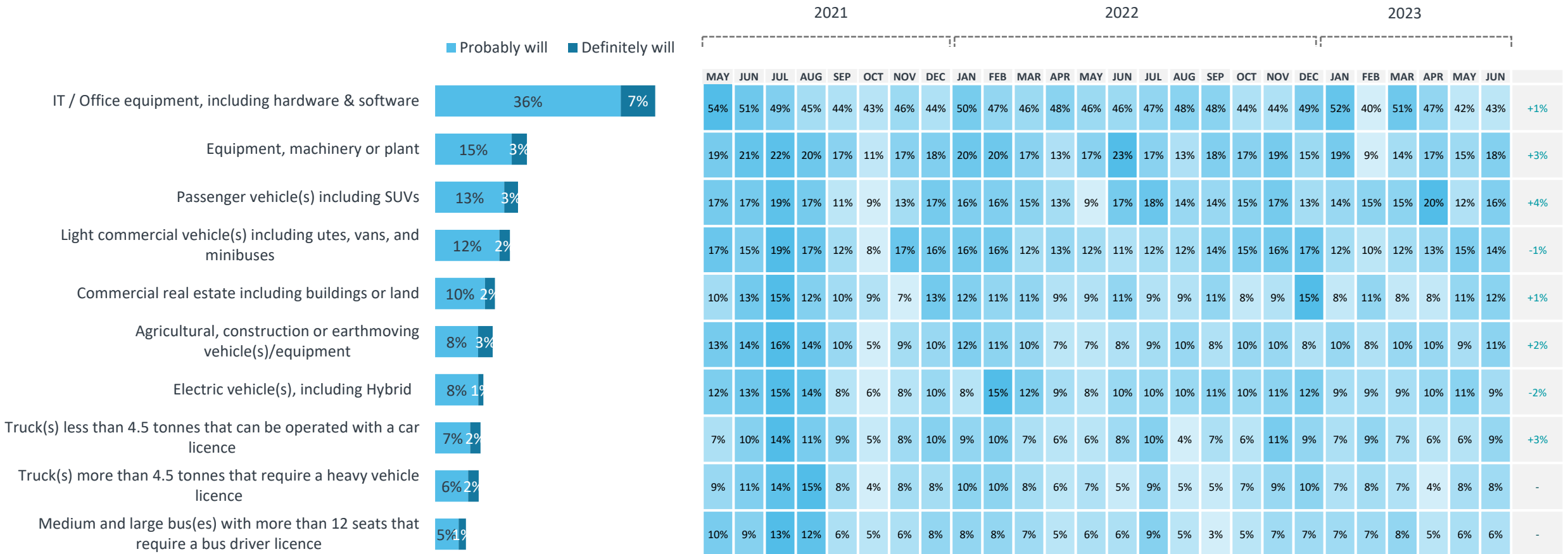
THE WAGES YOU PAY



CAPITAL EXPENDITURE (NEXT 3 MONTHS)

Despite investment intentions falling, the demand for passenger vehicles and light trucks has again picked up as supply issues gradually ease.

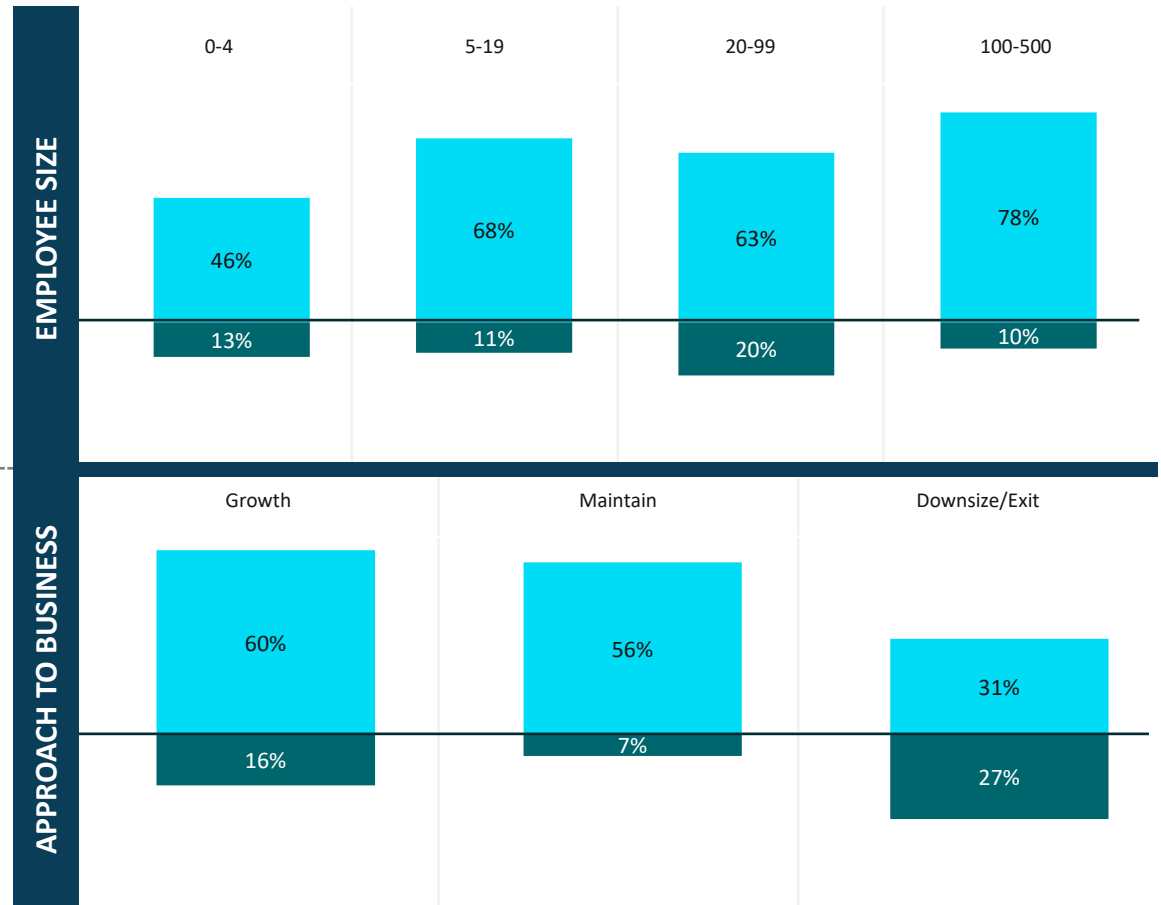
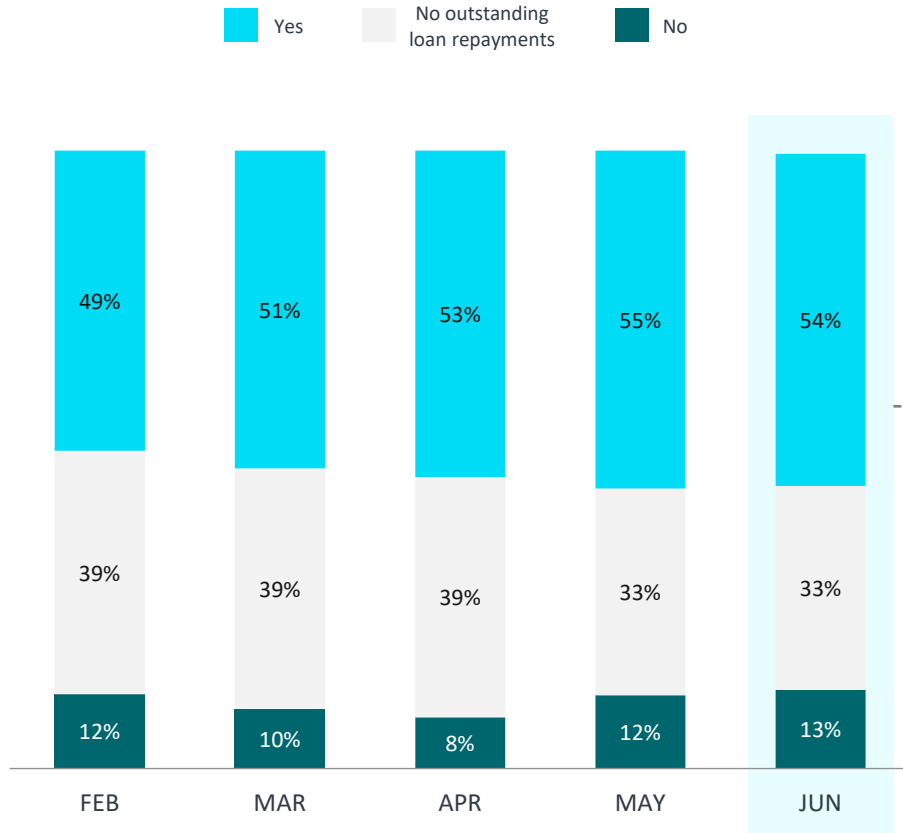
WHICH OF THE FOLLOWING WILL YOU PURCHASE FOR YOUR BUSINESS OVER THE NEXT 3 MONTHS?



LOAN STRESS

Loan stress is steady with 13% of SMEs expecting difficulties paying their loan repayments over the next 6 months.

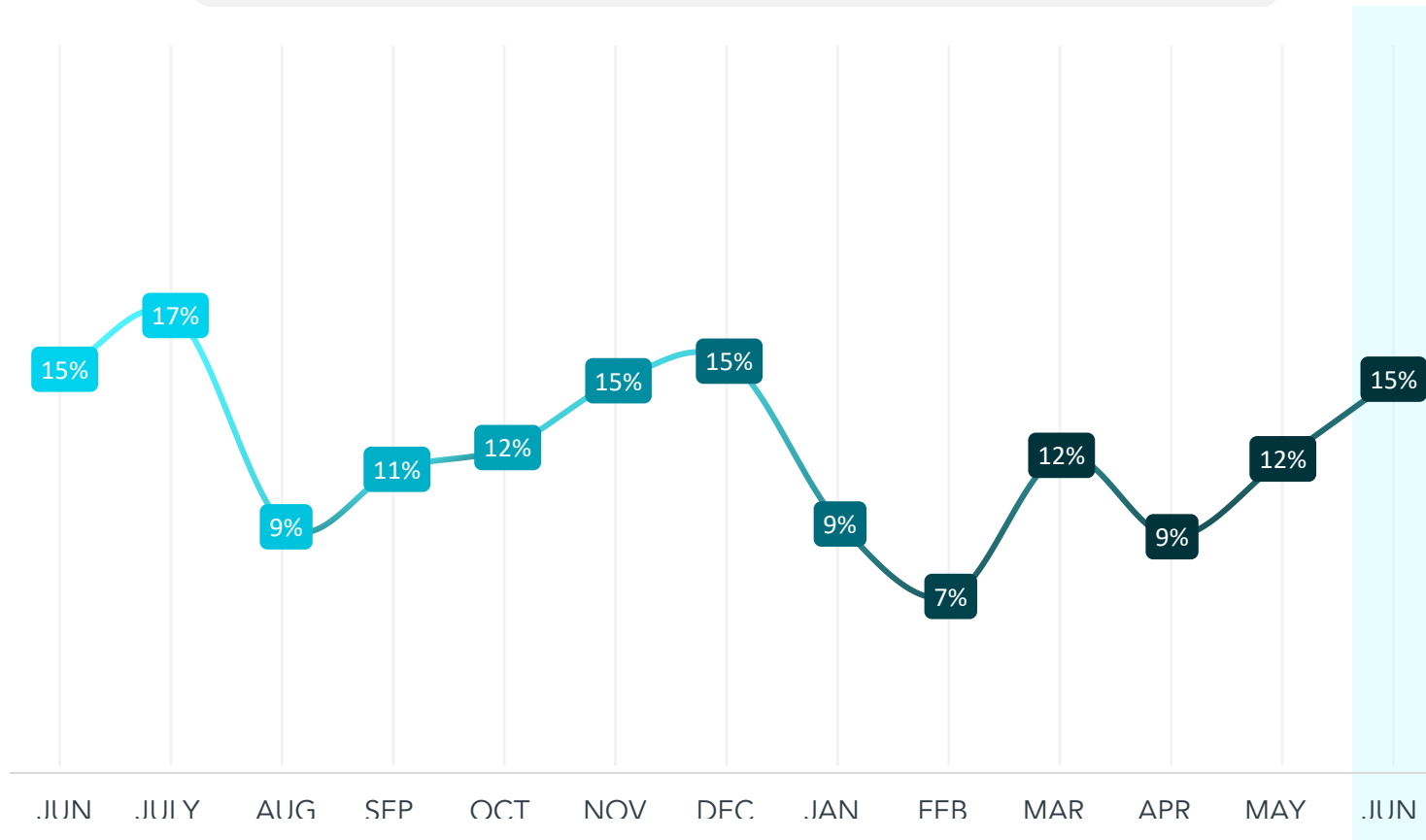
DO YOU EXPECT TO BE ABLE TO MEET YOUR LOAN REPAYMENTS OVER THE NEXT 6 MONTHS?



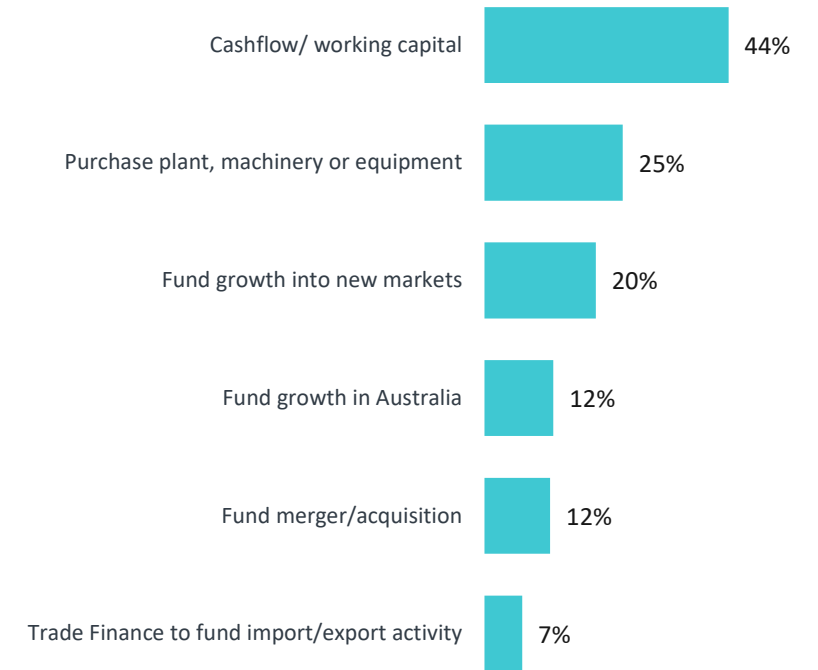
FINANCE NEEDS (NEXT 3 MONTHS)

Given the decrease in revenue and declining profitability, it's not surprising that there has been an increase in demand for additional finance for working capital.

SMEs THAT WILL REQUIRE ADDITIONAL FINANCE OVER THE NEXT 3 MONTHS



AND WHAT IS THE PURPOSE OF THIS FINANCE?





1

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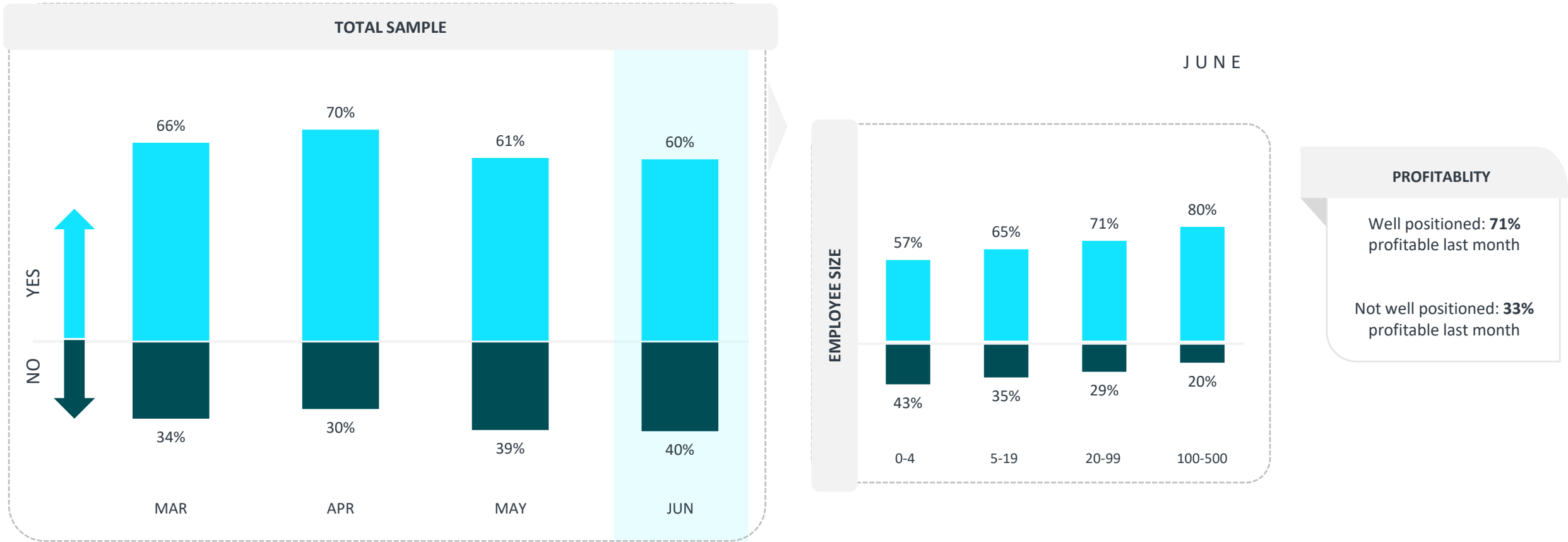
4

BUSINESS SENTIMENT

RECESSION READINESS

The proportion of SMEs not well positioned to withstand a recession has steadily increased and now stands at 40%.

DO YOU THINK YOUR BUSINESS IS WELL POSITIONED TO WITHSTAND THE IMPACT OF A POSSIBLE RECESSION IN AUSTRALIA OVER THE NEXT 12 MONTHS?

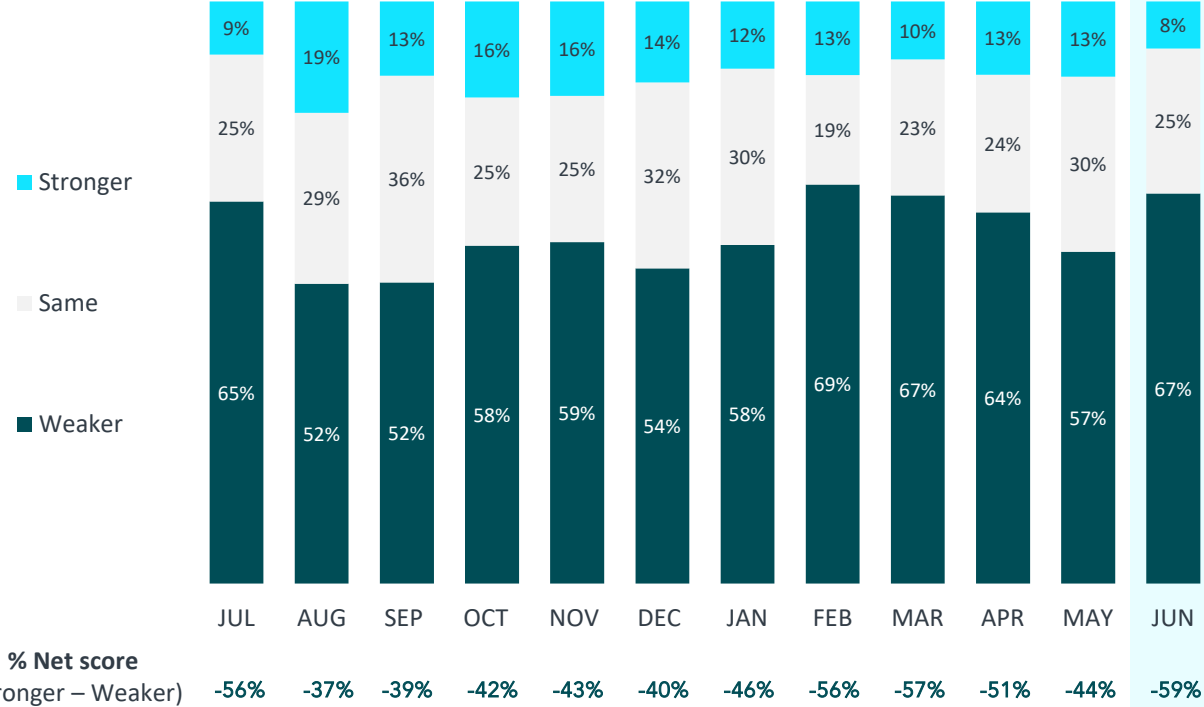


EXPECTATIONS REGARDING ECONOMIC CONDITIONS (NEXT 3 MONTHS)

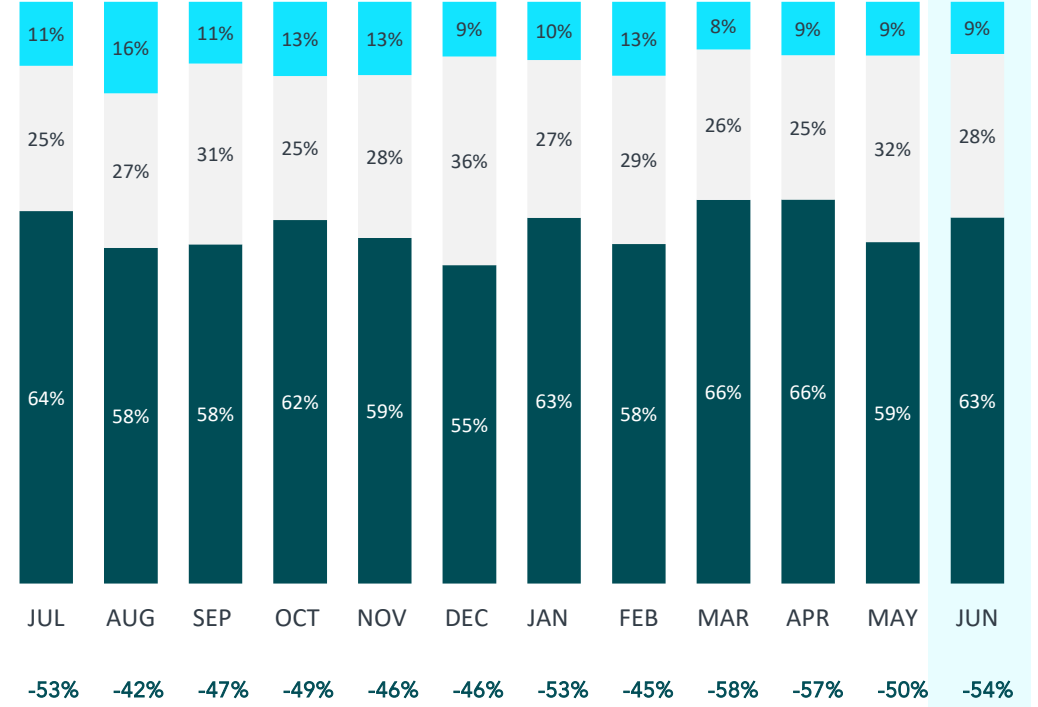
Consistent with other data, SME sentiment towards both local and global economies has taken a downturn once again.

EXPECTATIONS OVER THE NEXT 3 MONTHS REGARDING ECONOMIC CONDITIONS

AUSTRALIAN ECONOMY



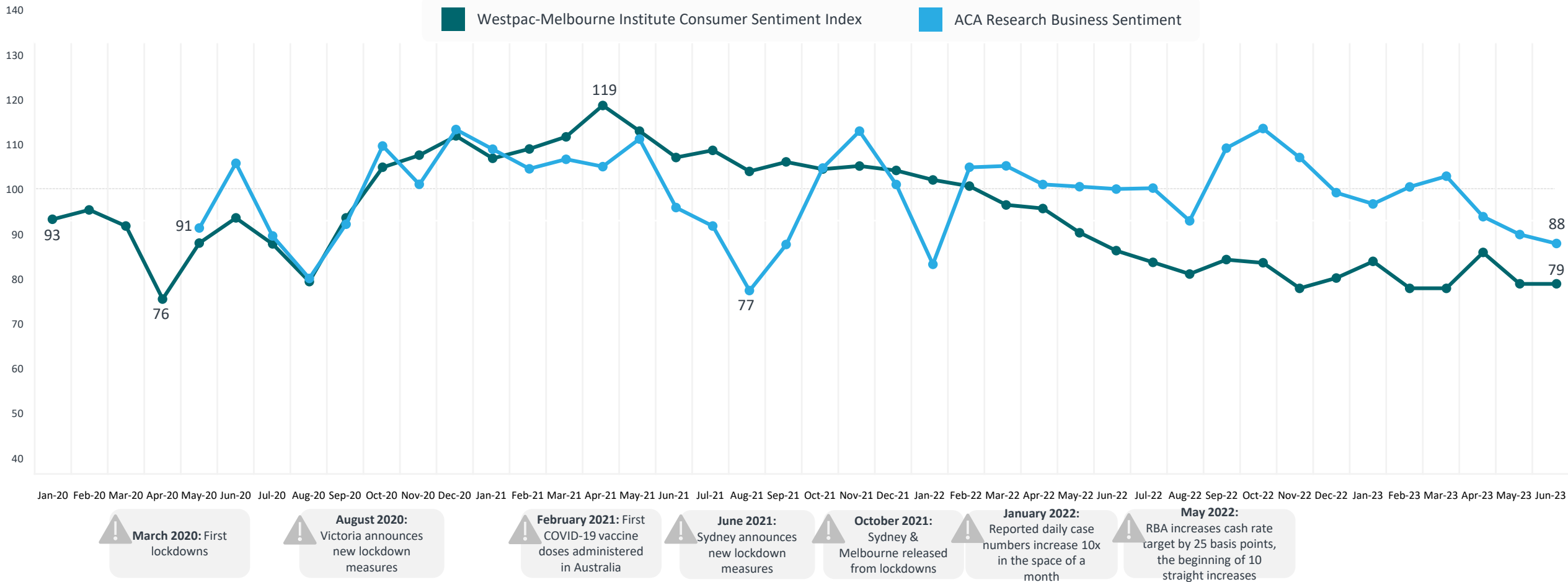
GLOBAL ECONOMY



SENTIMENT 2020-2023

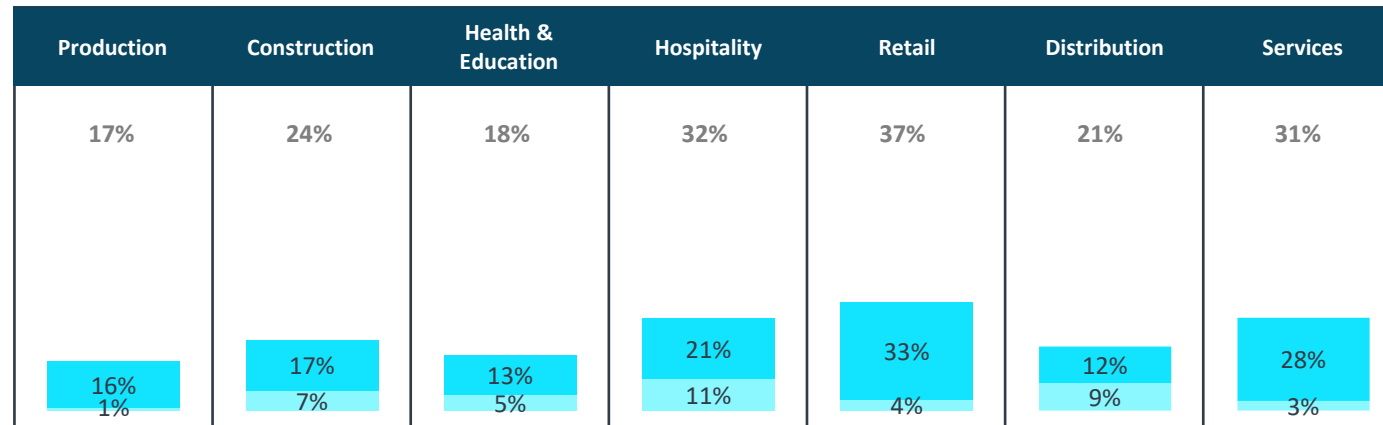
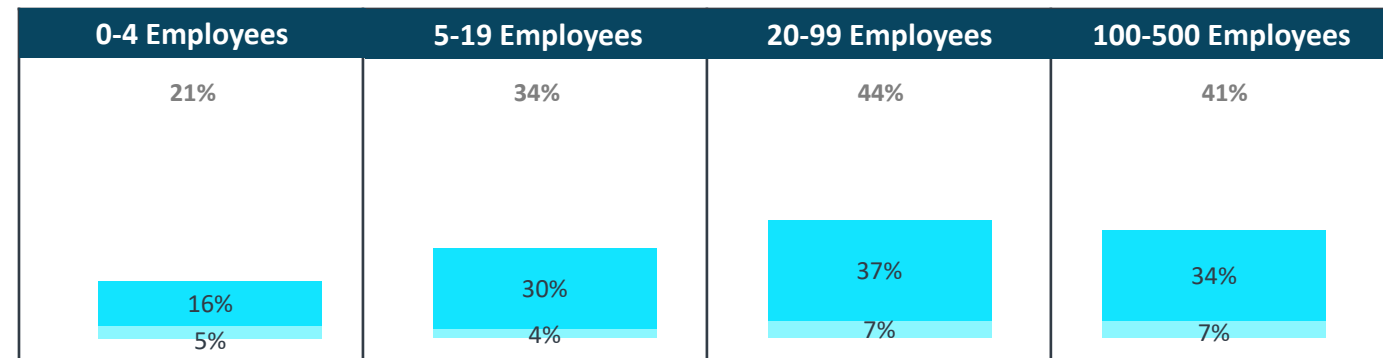
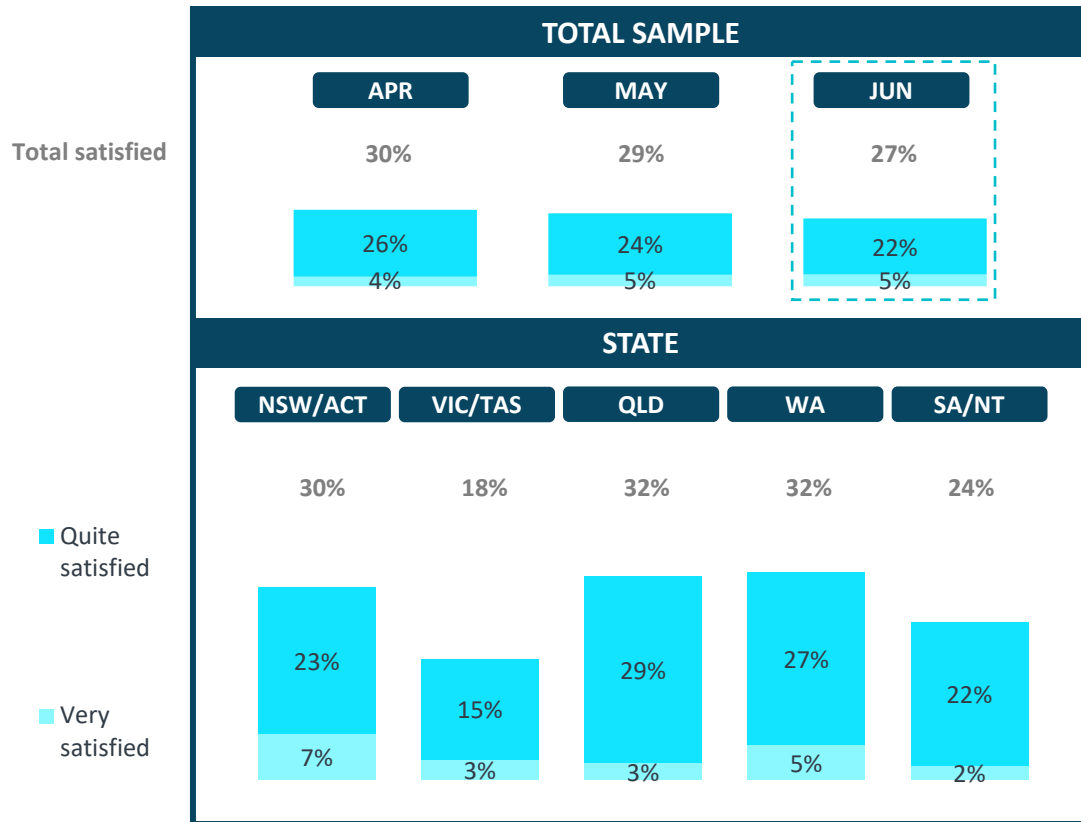
SME sentiment has steadily declined since October 2022, converging with consumer confidence.

BUSINESS AND CONSUMER SENTIMENT



Satisfaction with the federal Labor government's ability to support business needs is declining overall, with particularly low levels of support in Victoria, where it stands at 18%.

HOW SATISFIED ARE YOU THAT THE FEDERAL GOVERNMENT IS DELIVERING EFFECTIVE POLICIES THAT SUPPORT THE NEEDS OF YOUR BUSINESS?



1

METHODOLOGY & SAMPLE

2

ABOUT FIFTH QUADRANT

METHODOLOGY



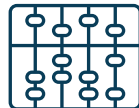
The SME Tracker was first launched
w/e 5th April 2020



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



All respondents are **business owners or
financial decision makers/influencers**



Monthly waves with a minimum of
**400 completed surveys with small
and medium businesses with up to
500 employees**



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

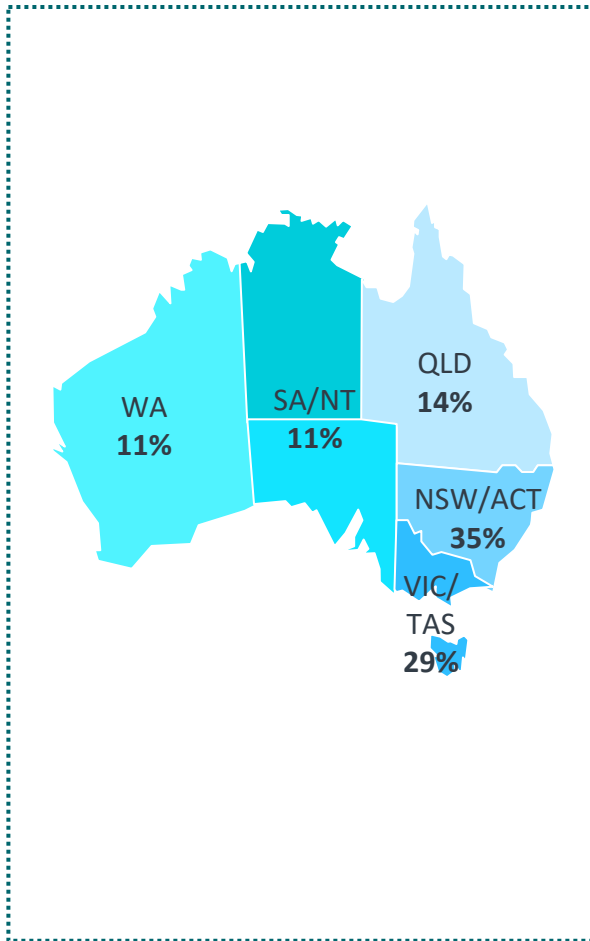


Data is **weighted** by industry, state
and number of employees to reflect
the national distribution of businesses
across the country

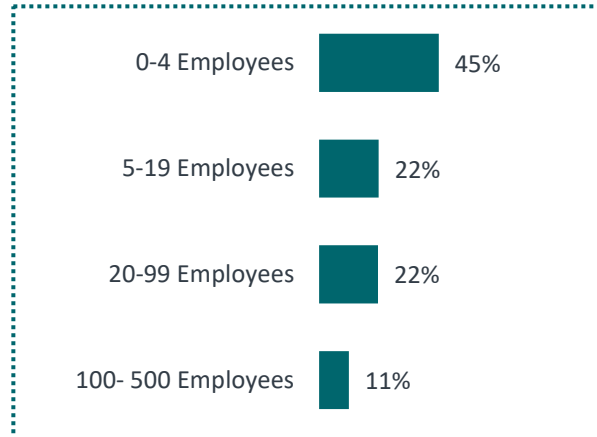
OUR SAMPLE

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.

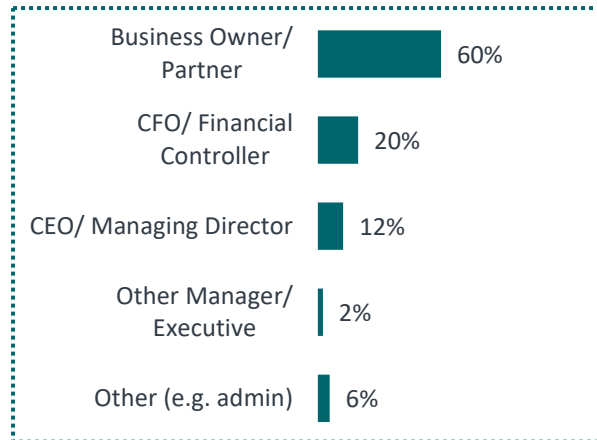
HEAD OFFICE LOCATION



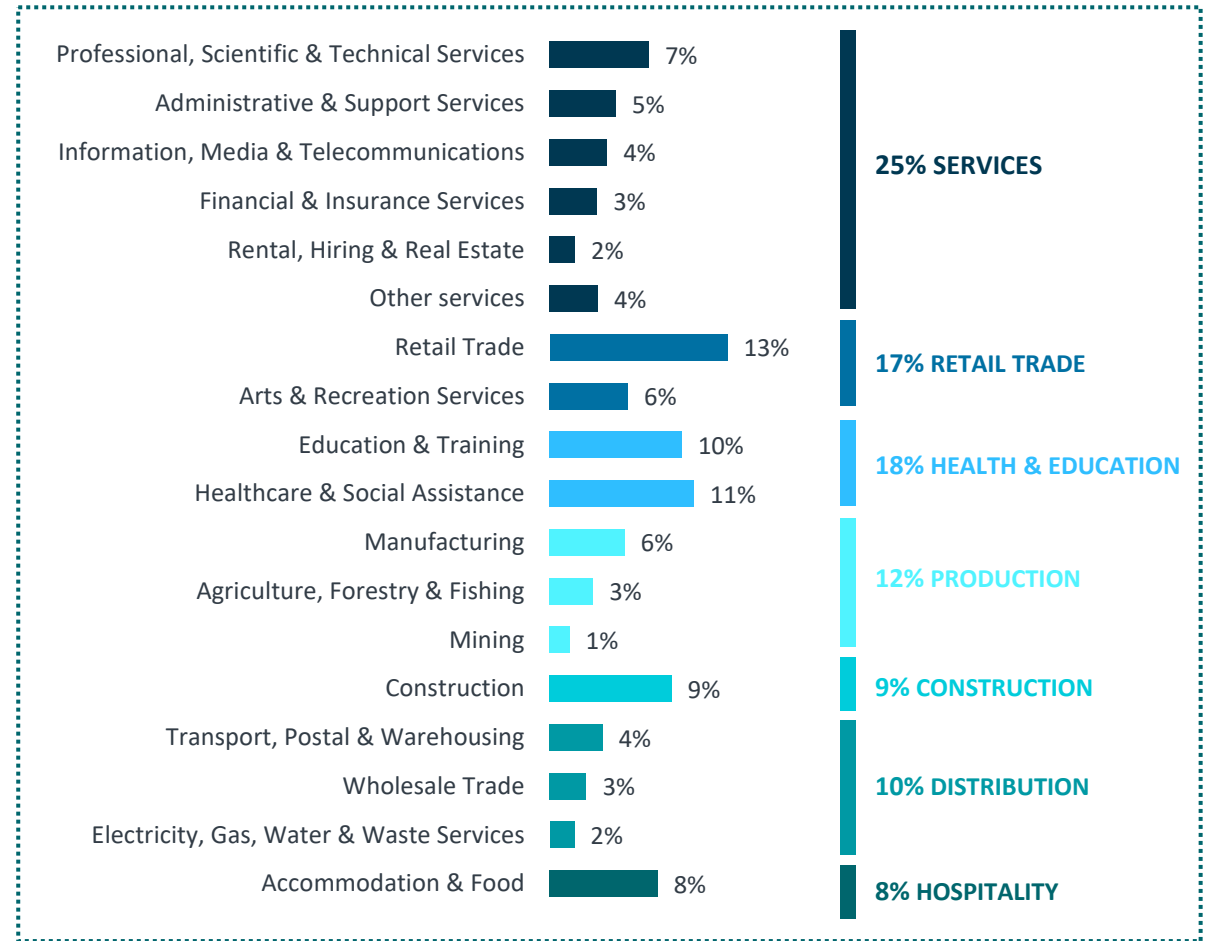
SIZE OF BUSINESS: EMPLOYEES



POSITION IN BUSINESS



INDUSTRY SECTOR



NOTE: CHARTS SHOW UNWEIGHTED DATA

APPENDIX

1

METHODOLOGY & SAMPLE

2

ABOUT FIFTH QUADRANT

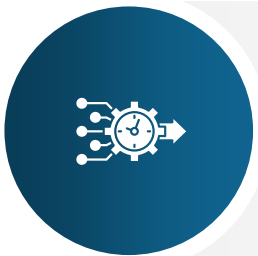
OUR PROMISE TO CLIENTS



Too often, we see businesses confusing data with insights, but data alone is not enough.



We provide organisations with insight about their markets and customers by layering context and expertise on top of data.



This allows our clients to make better decisions and unlock tomorrow's opportunities today.



discover
tomorrow
today

THANK YOU!

FOR FURTHER INFORMATION, PLEASE CONTACT:

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FIFTH QUADRANT

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