



SMALL & MEDIUM ENTERPRISE SENTIMENT TRACKER

Wave 58 – December 2023





50% reported a profit and only 20% are now operating at a loss (down from 25% last month)



Confidence in the local and global economies remains weak, however optimism spiked in December.



Outlook for 2024 is positive, with 33% expecting to increase their revenue in January and 37% targeting growth for the year.



Lingering concerns regarding input costs could temper growth aspirations

SMEs Eye Brighter 2024

Despite challenging market conditions, the Fifth Quadrant Business Sentiment Index remains steady at 100, consistent with the long-term average.

The December report highlights that while 28% of SMEs have experienced an increase in monthly revenue compared to the same period last year, over one-third continue to witness declining revenues. The most impacted sectors include hospitality, distribution, construction, and retail, underscoring the difficulties these sectors face adapting to the current market environment.

In an encouraging sign of resilience, profitability among these businesses remains relatively stable. Half of the surveyed SMEs report profits, while only 20% are operating at a loss. This resilience suggests effective cost management and operational efficiencies, enabling many companies to maintain profitability despite revenue challenges.

However, SMEs continue to voice major concerns over rising input costs, indicating expectations of continued inflationary pressures into 2024. The overall economic outlook among SMEs remains cautious, with prevailing pessimism regarding global and Australian conditions. Nevertheless, a noticeable upturn in confidence was observed in December, underpinning a level of positivity for the coming year.

Looking ahead, short-term revenue projections for SMEs are also positive with one-third anticipating revenue increases in January. Furthermore, 37% of SMEs are setting their sights on growth in 2024, with a decrease in the number of businesses (13%) planning to downsize or exit. Additionally, 18% of businesses project an increase in their workforce in the next quarter, with a third foreseeing higher wages. However, projections for early 2024, indicate a modest decline in capital investment and marketing expenditures.

The demand for finance also spiked in December, with 20% of businesses indicating a need for additional funds to kickstart operations in 2024. However, while confidence in the ability to make loan payments has increased, loan stress remains a concern, particularly in the retail sector.

Heading into 2024, the sentiment among SMEs appears cautiously optimistic despite challenging market conditions. While revenue fluctuations persist, businesses continue to demonstrate resilience and effective cost management. Concerns over rising input costs and inflationary pressures remain, yet there's a growing confidence in revenue growth and workforce expansion. In summary, many SMEs will be hoping for a brighter 2024, after another year of significant challenges.



Too often, we see businesses confusing data with insights.
Numbers don't answer business questions by themselves, but
they still feel tangible.

We believe you need to go further.

Our people layer their understanding of the underlying
business environment, context and market on top of primary
or secondary data, using their expertise to discover insights
that unlock tomorrow's opportunities, today.

This is Fifth Quadrant.



01 Key Performance Indicators

02 Business Sentiment

03 People

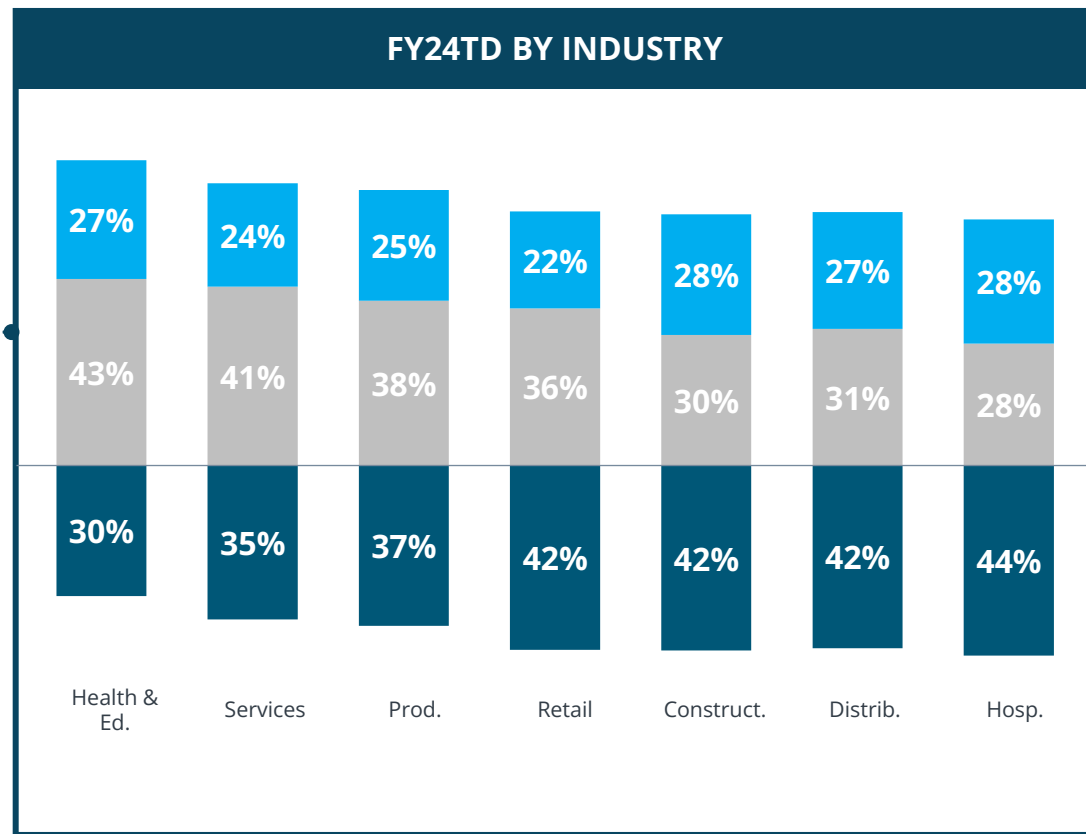
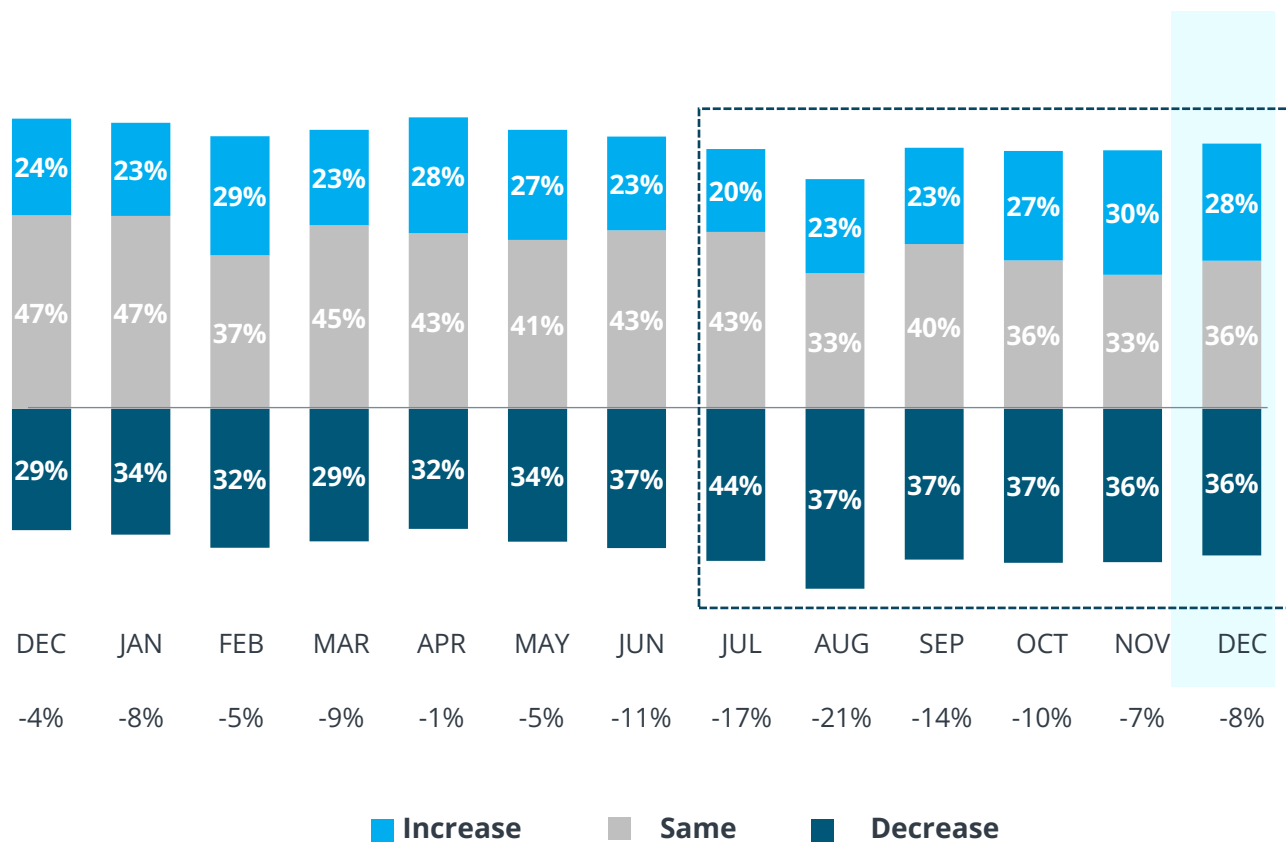
04 Business Investment

05 Methodology & Sample

Key Performance Indicators | Revenue

Although 28% of small and medium-sized enterprises (SMEs) have reported a rise in monthly revenue compared to the same period last year, it's notable that over one-third continue to generate lower revenues. Those in hospitality, distribution, construction and retail are most likely to report lower revenues demonstrating the difficulties adapting to current market conditions.

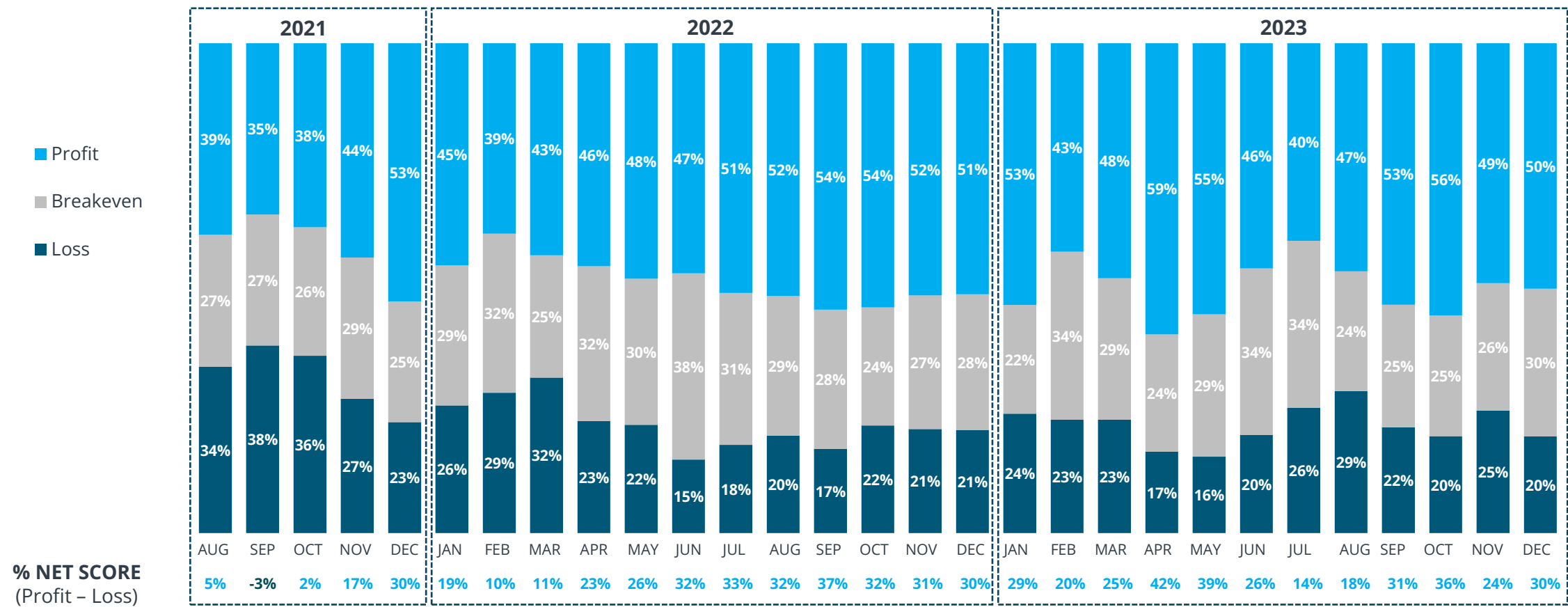
HOW DOES YOUR CURRENT MONTHLY REVENUE COMPARE TO YOUR MONTHLY REVENUE 12 MONTHS AGO?



Key Performance Indicators | Profit

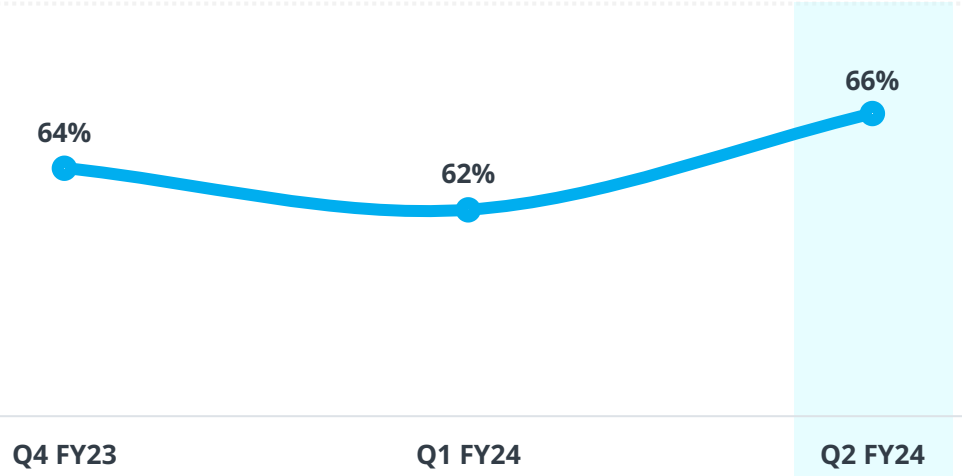
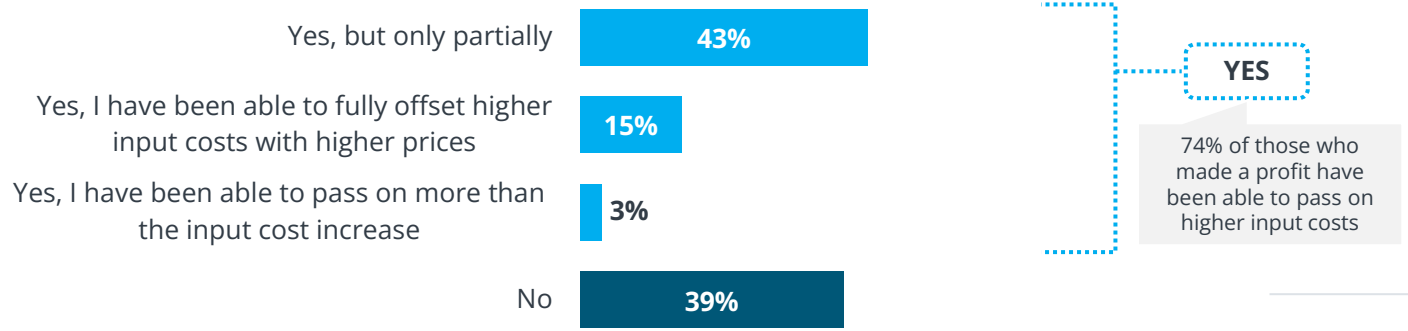
Despite facing revenue challenges, profitability among these businesses remains relatively stable, with half (50%) reporting profits, while 20% are operating at a loss. This suggests that, despite lower revenues, a significant number of companies have effectively managed costs or found ways to operate more efficiently to maintain profitability in 2023.

WHAT WAS YOUR PROFIT MARGIN LAST MONTH (NOVEMBER)?

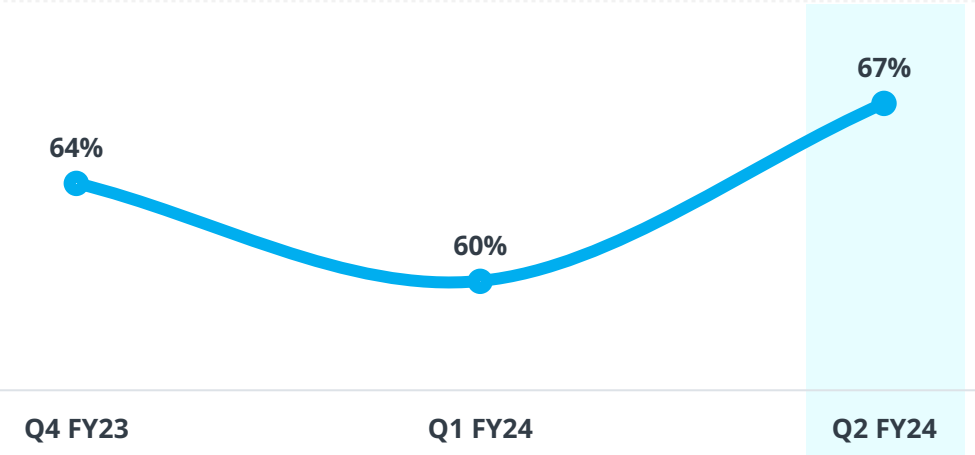
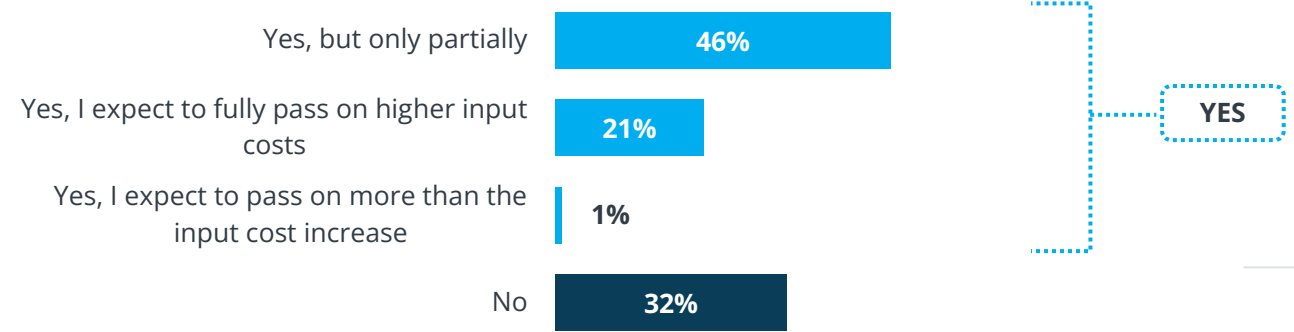


Two-thirds of SMEs have been able to pass on at least some of the higher input costs to their customers during the final quarter of 2023.

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



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

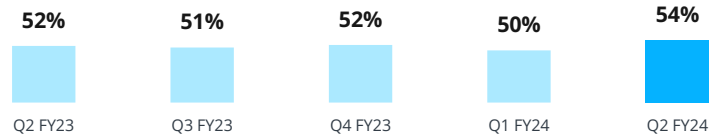


Key Performance Indicators | Business Concerns

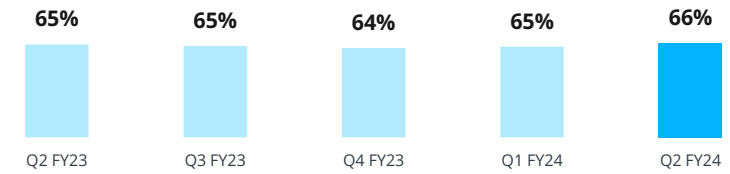
During December, there was a notable uplift in concerns among SMEs about rising input costs, signaling an expectation that inflationary pressures will persist into 2024.

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

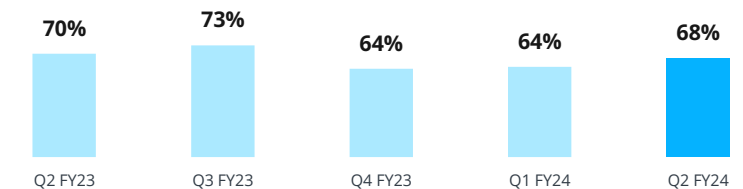
Staff or skill shortages



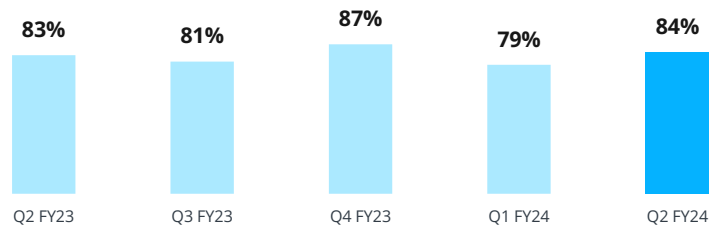
Increasing wage costs



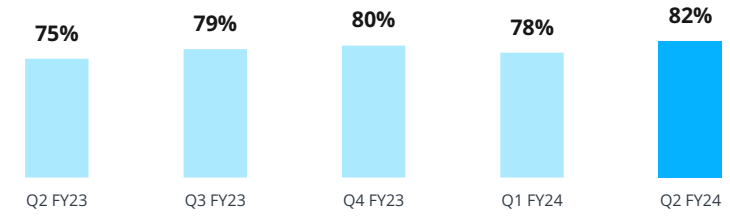
Supply chain delays and associated cost increases



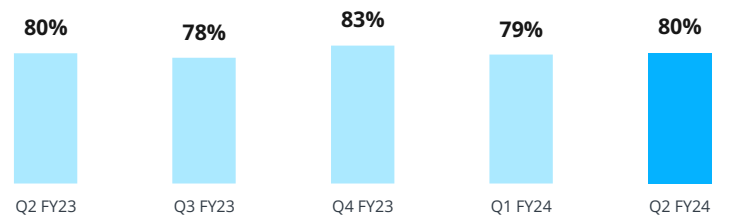
Rising interest rates



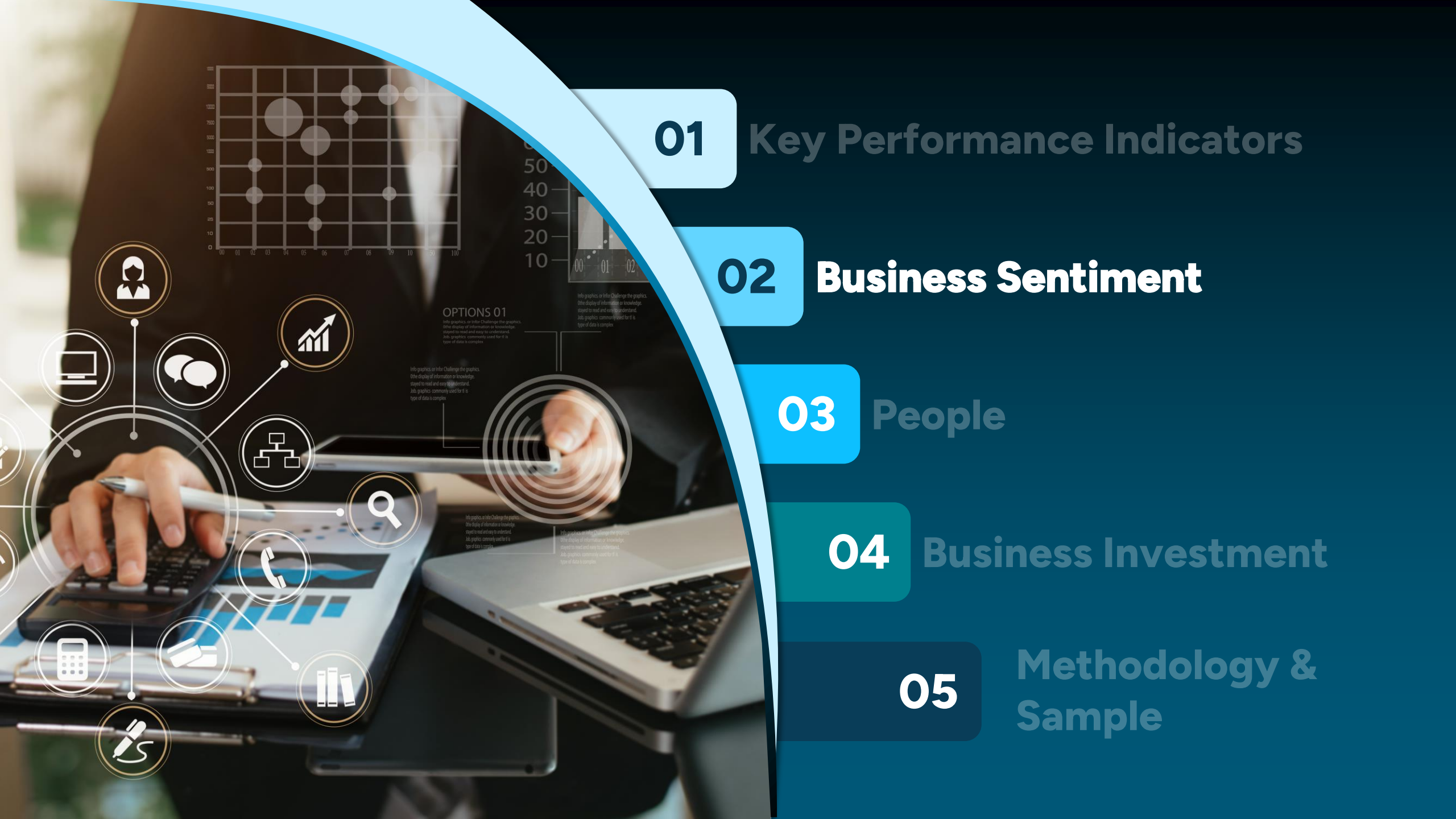
Increasing fuel costs



Increasing energy costs



Total concerned



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Key Performance Indicators

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Business Sentiment

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People

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Business Investment

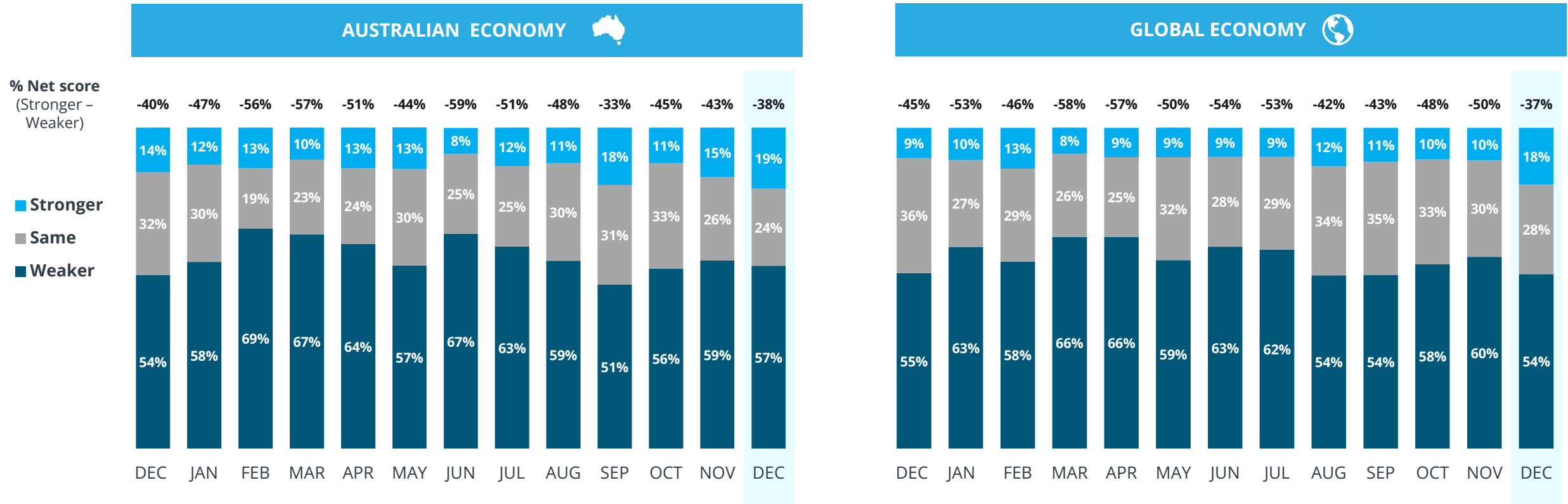
05

Methodology & Sample

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

Although the overall outlook on both global and Australian economic conditions continues to be pessimistic among SMEs, there was a noticeable increase in confidence in December. This uptick suggests that SMEs are cautiously optimistic, hoping that the prevailing economic challenges and geopolitical tensions might diminish in 2024.

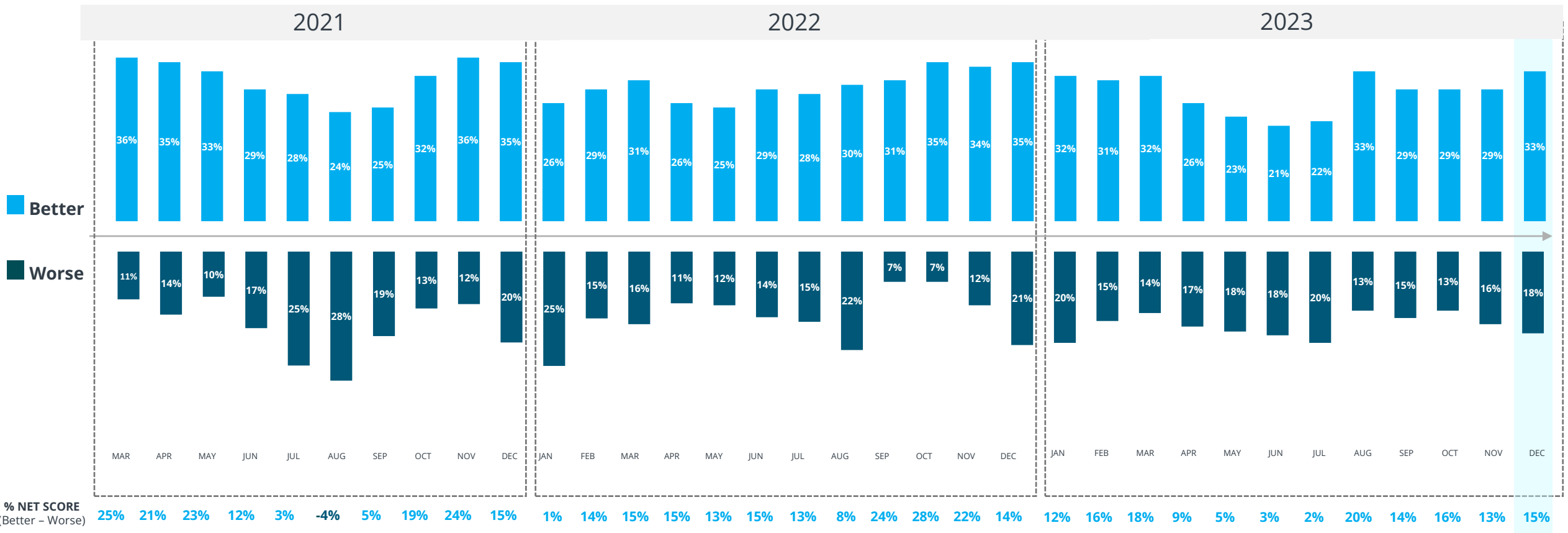
EXPECTATIONS OVER THE NEXT 3 MONTHS REGARDING ECONOMIC CONDITIONS



Key Performance Indicators | Revenue Expectations (Next 4 weeks)

Short-term revenue projections are looking up, with one third (33%) of SMEs anticipating an increase in revenues come January. While 18% foresee a downturn in revenue, this is consistent with the seasonal decline observed in previous years.

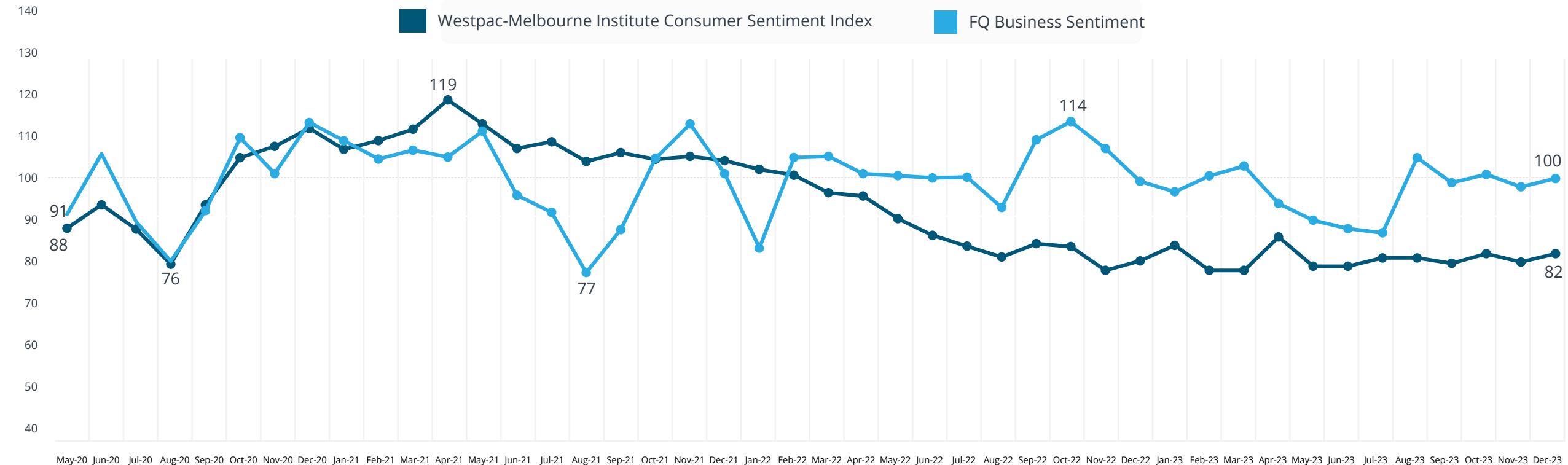
WHERE DO YOU EXPECT YOUR REVENUE TO BE IN 4 WEEKS COMPARED TO TODAY?



Business Sentiment | Sentiment 2020-2023

The Fifth Quadrant Business Sentiment Index remains consistent with the long-term average at 100 and continues to be higher than consumer sentiment, suggesting that businesses are more optimistic in their outlook compared to the general consumer population.

BUSINESS AND CONSUMER SENTIMENT



August 2020: Victoria announces new lockdown measures

February 2021: First COVID-19 vaccine doses administered in Australia

June 2021: Sydney announces new lockdown measures

October 2021: Sydney & Melbourne released from lockdowns

January 2022: Reported daily case numbers increase 10x in the space of a month

May 2022: RBA increases cash rate target by 25 basis points, the beginning of 10 straight increases

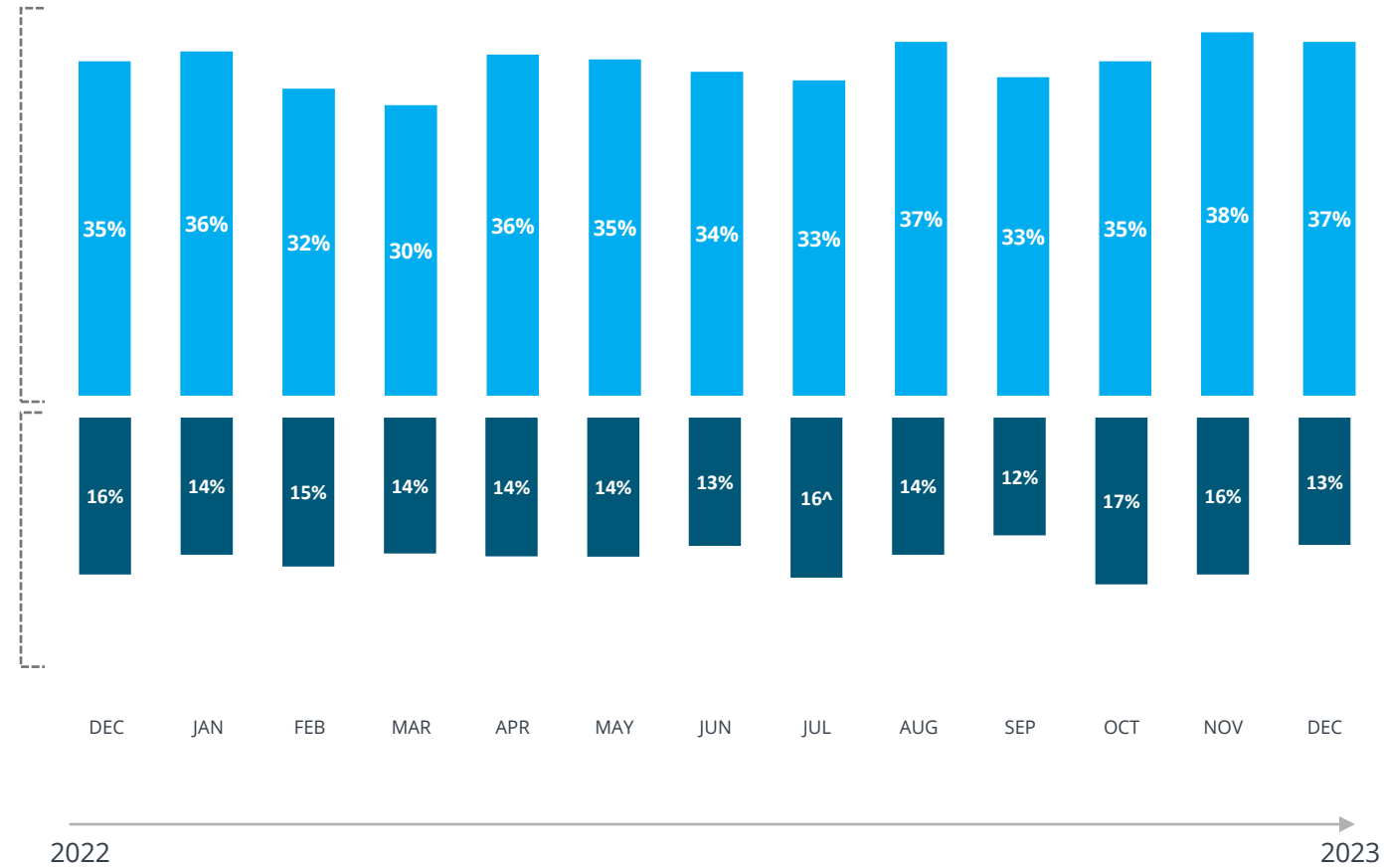
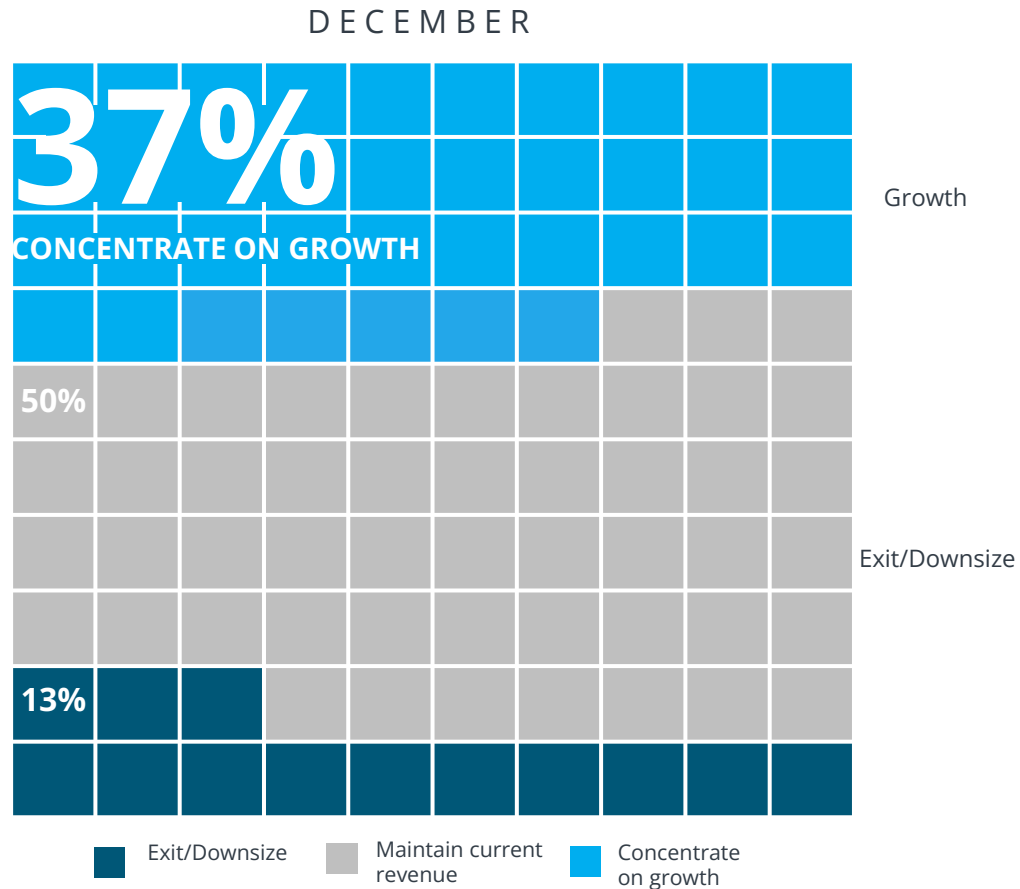
July 2023: RBA pauses interest rate increases for the first time since April 2023

November 2023: RBA raises cash rate target by 25 basis points after 4 months without change

Key Performance Indicators | Growth Expectations (Next 12 months)

Consistent with data over the past few months, 37% of SMEs are focusing on growth in 2024. Concurrently, there's a noticeable downward trend in the number of SMEs planning to downsize or exit (13%), reflecting a more optimistic business outlook for the coming year.

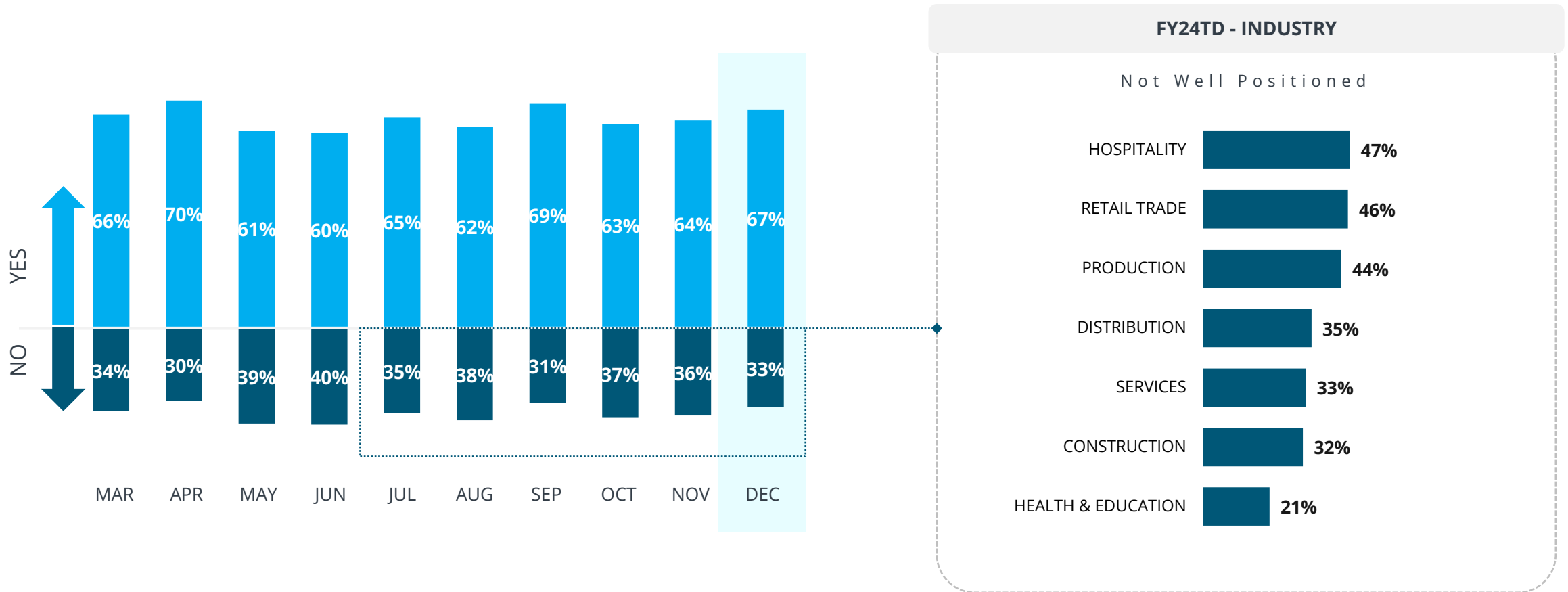
OVERALL, WHAT BEST DESCRIBES YOUR APPROACH TO BUSINESS OVER THE NEXT 12 MONTHS?



Business Sentiment | Recession Readiness

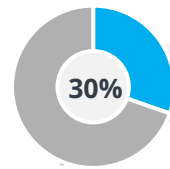
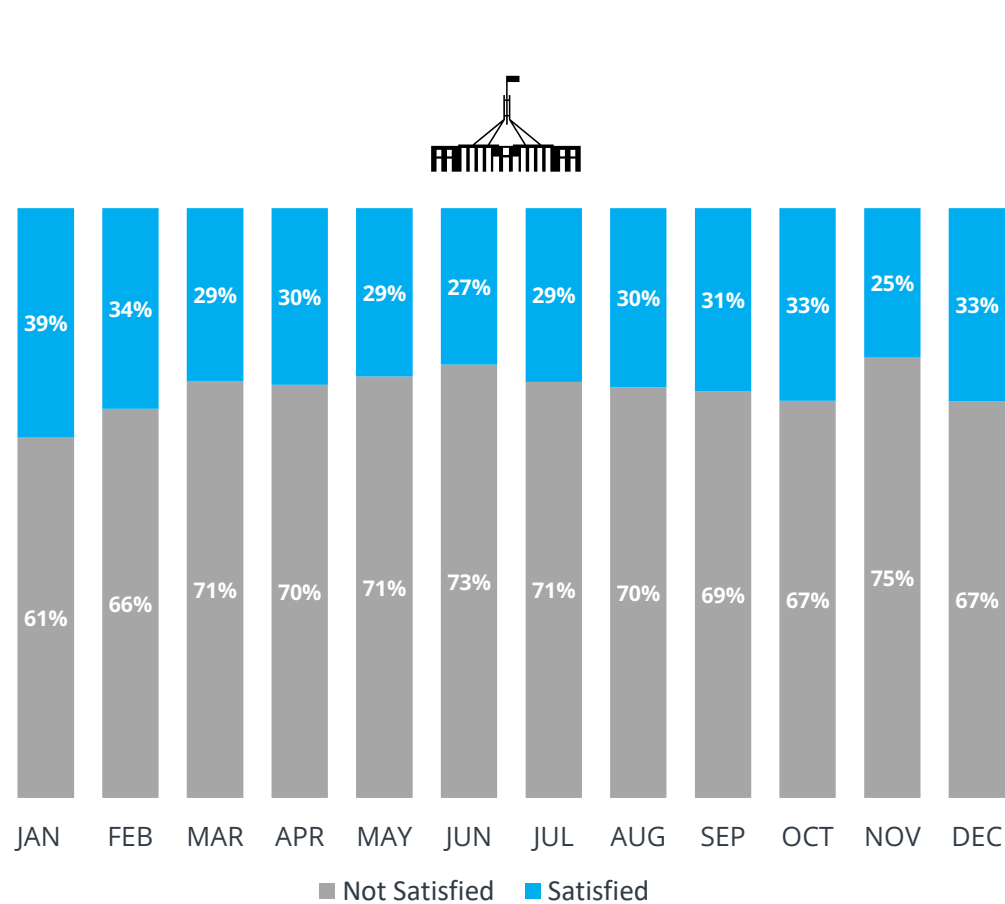
It's encouraging to note that two-thirds (67%) of SMEs feel confident in their ability to withstand a potential recession. However, businesses in the hospitality, retail, and production sectors remain more vulnerable, with nearly half indicating they are not well-prepared for a downturn.

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

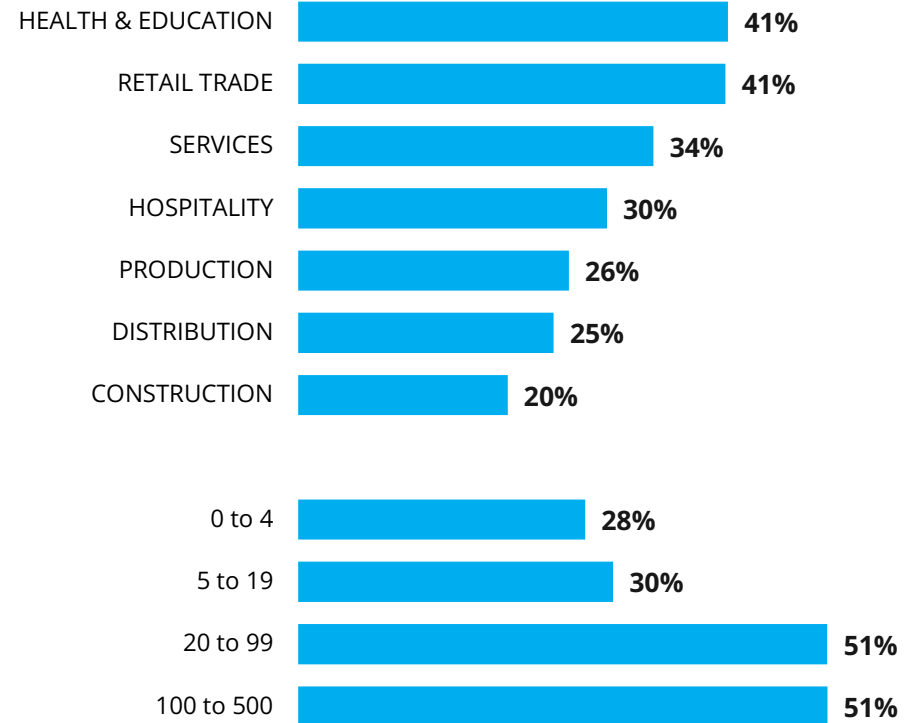


Satisfaction with the Federal Government rebounded in December, following a sharp drop in November. The construction industry felt least supported by the federal government in Q2 FY24, with only 1 in 5 (20%) satisfied.

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



Q2 FY24





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Key Performance Indicators

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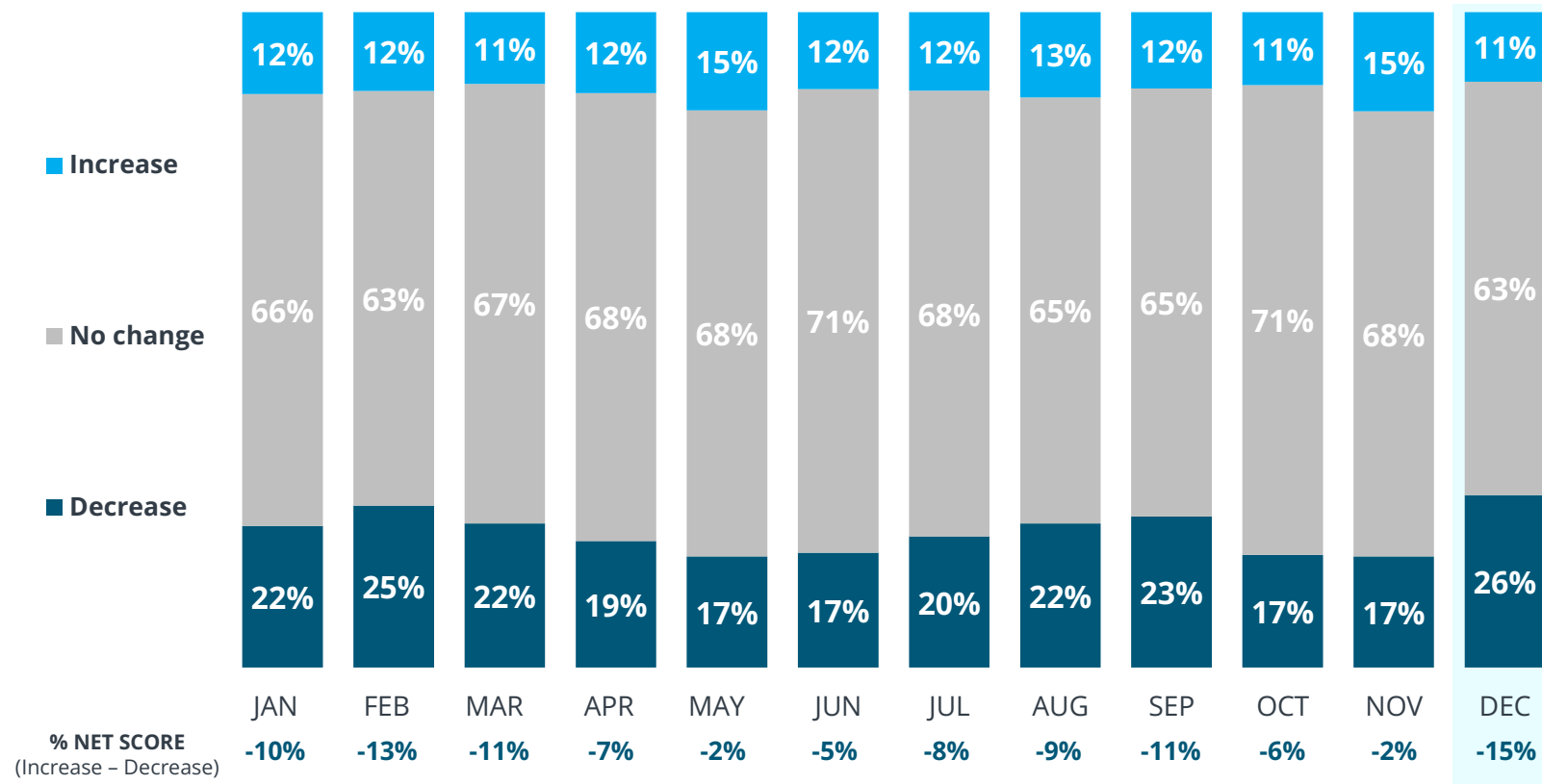
Business Investment

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**Methodology &
Sample**

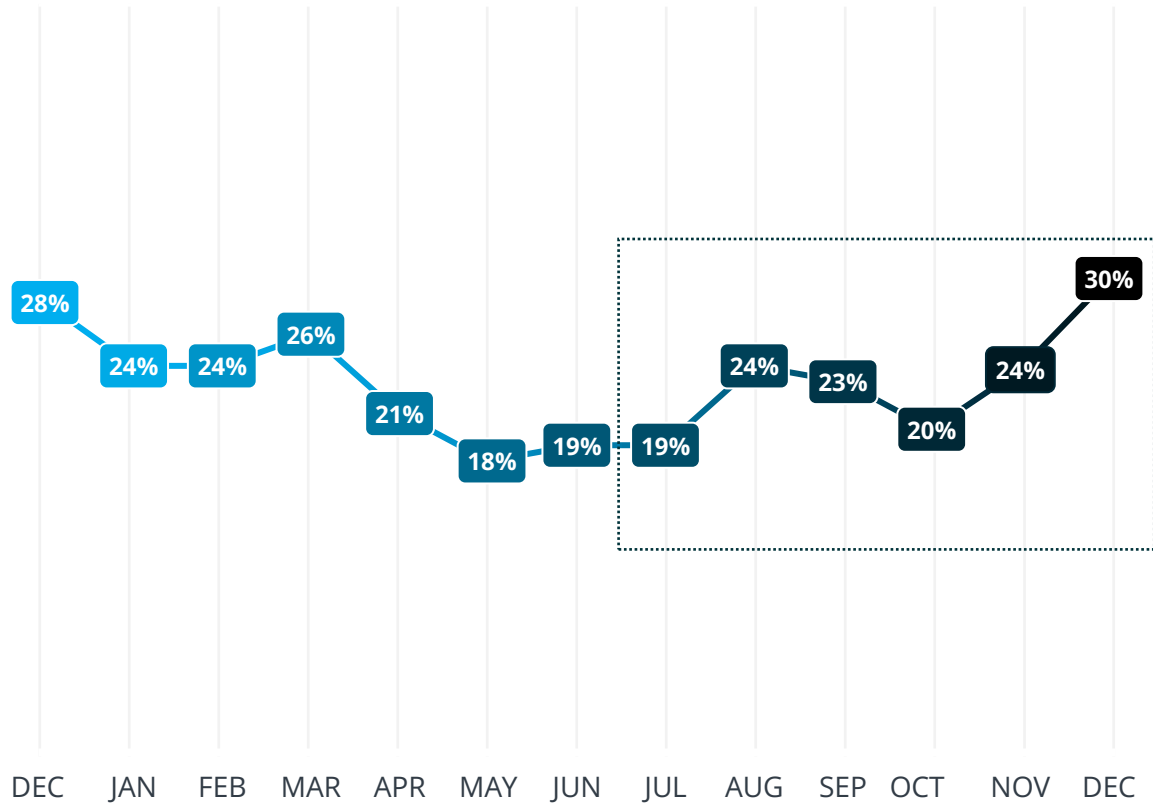
Year-on-year change in the number of employees declined substantially last month, with one in four (26%) now operating with less staff than 12 months ago.

CHANGE IN NUMBER OF EMPLOYEES OVER THE LAST 12 MONTHS

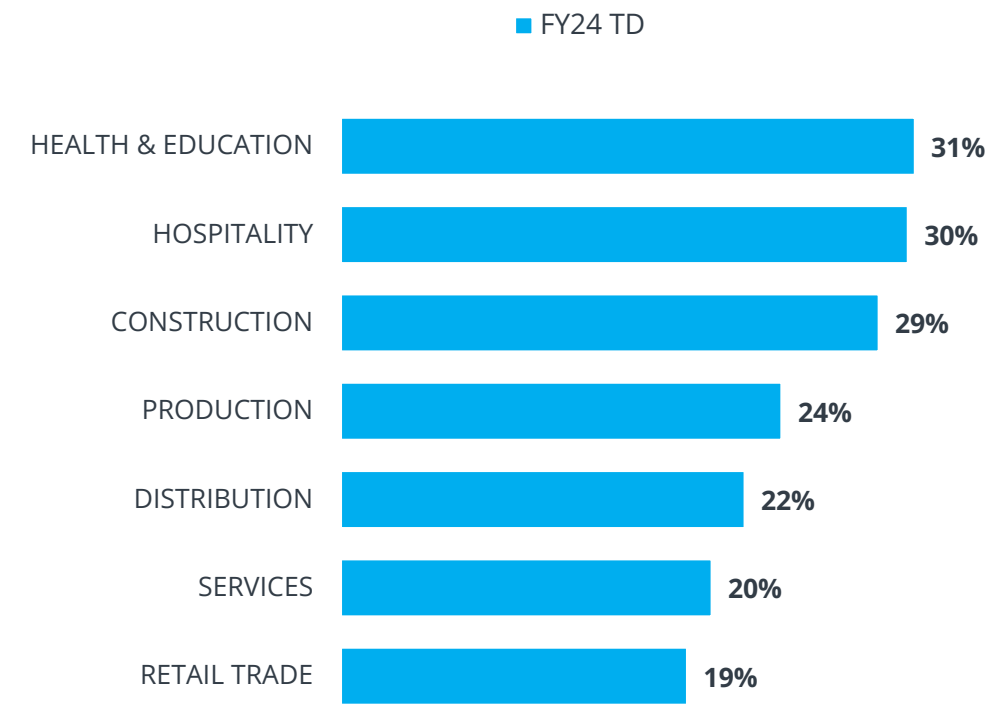


In December we saw a significant upward trend in recruitment activity, with 30% of SMEs seeking to fill roles. However, it's important to recognise that this trend is seasonal, mirroring patterns seen in the same period last year. Consequently, a normalisation in recruitment levels can be expected in the January data.

SMEs THAT CURRENTLY HAVE JOB ROLES THEY ARE TRYING TO FILL



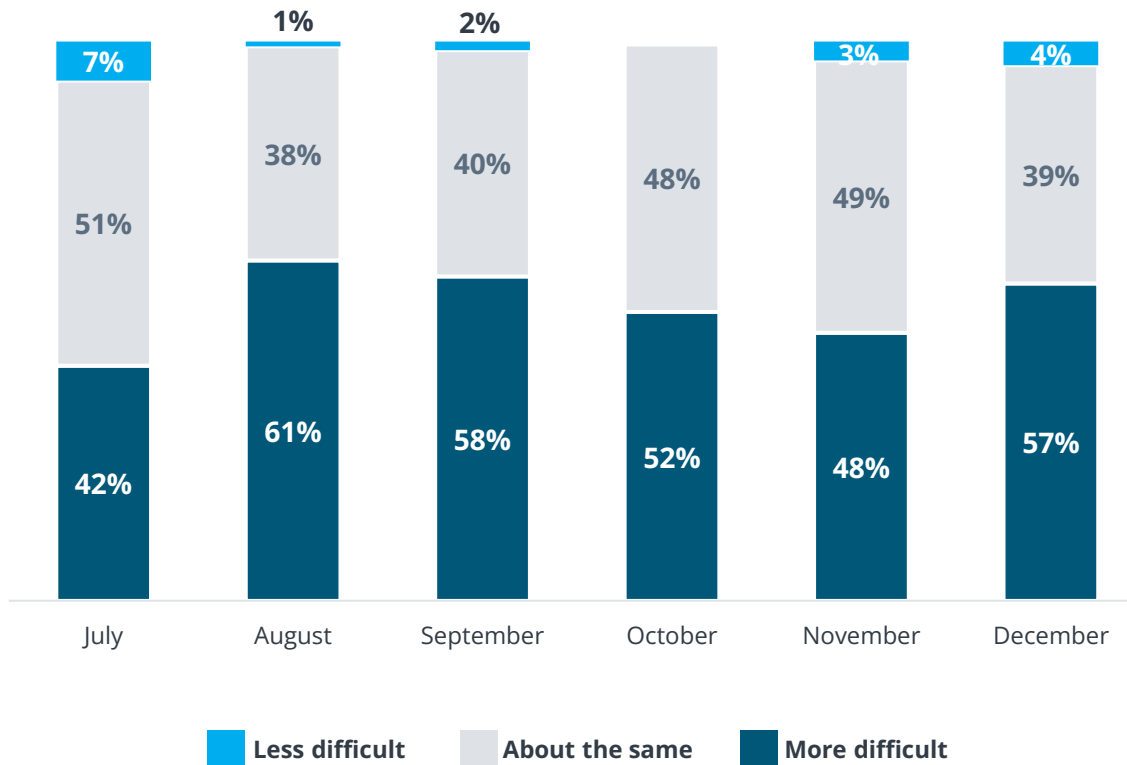
FY24TD BY INDUSTRY



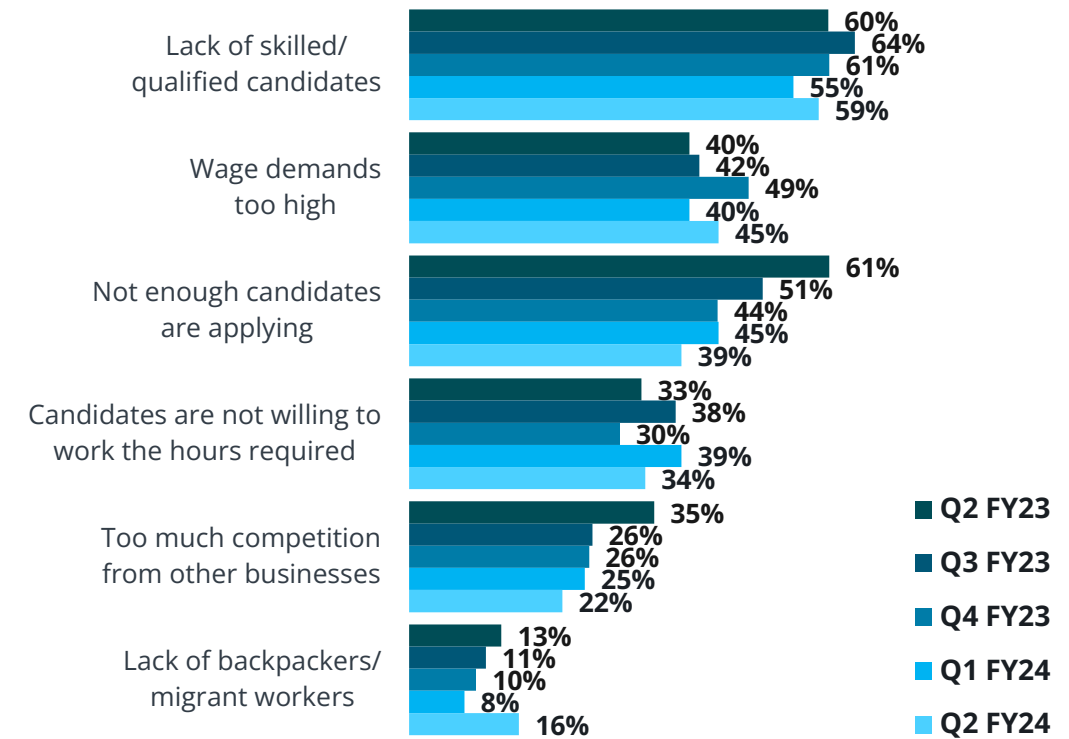
2022 → 2023

In line with the lift in recruitment activity, the difficulty in filling roles has again increased due to the lack of skilled and qualified candidates.

OVERALL, DO YOU THINK IT IS MORE OR LESS DIFFICULT TO FILL ROLES THAN IT WAS 12 MONTHS AGO?



WHY IS IT DIFFICULT TO FILL THESE ROLES?





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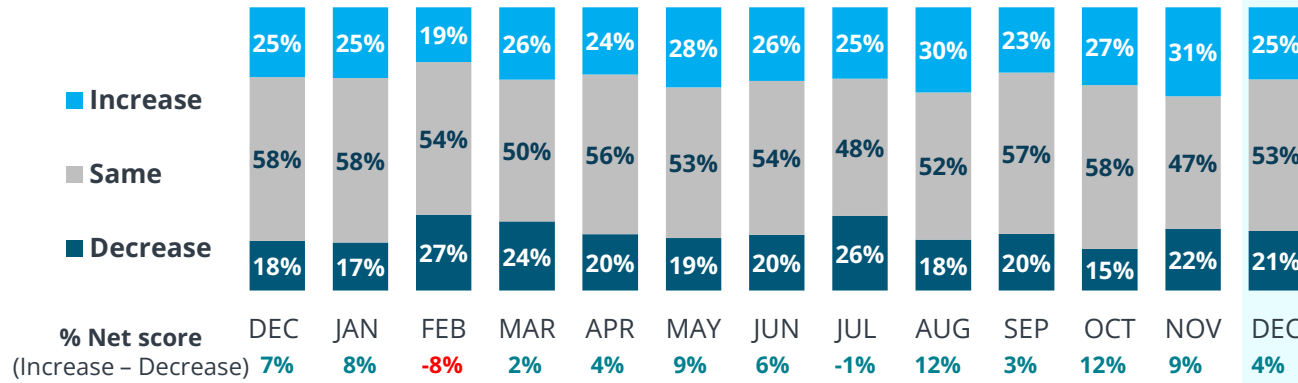
**Methodology &
Sample**

Business Investment | Next Three Months

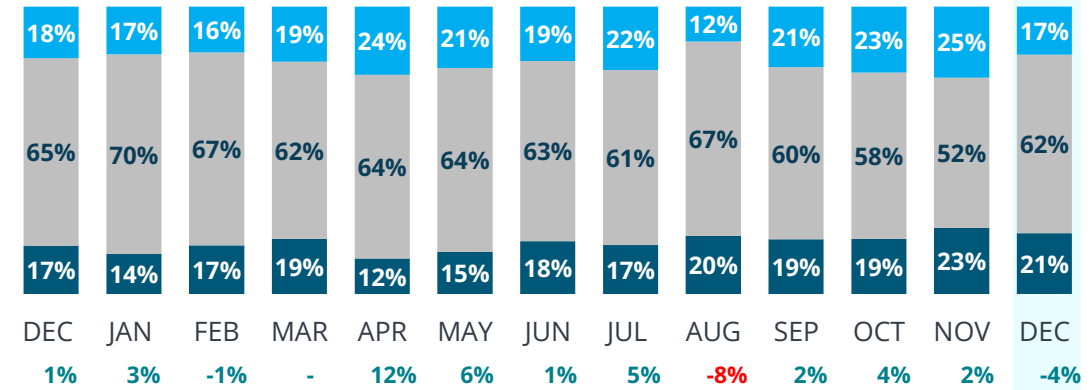
Concurrent with the uptick in recruitment efforts, 18% of businesses project an increase in their workforce in the next quarter, while a third (33%) foresee higher wages. Conversely, projections for early 2024 indicate a modest decline in capital investment and marketing expenditures.

EXPECTATIONS OVER THE NEXT 3 MONTHS REGARDING BUSINESS INVESTMENT

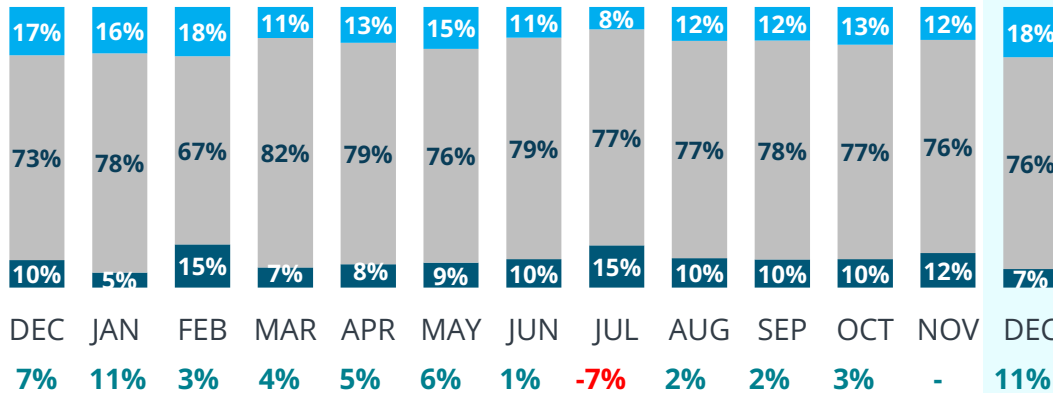
BUSINESS SPENDING/ CAPITAL INVESTMENT



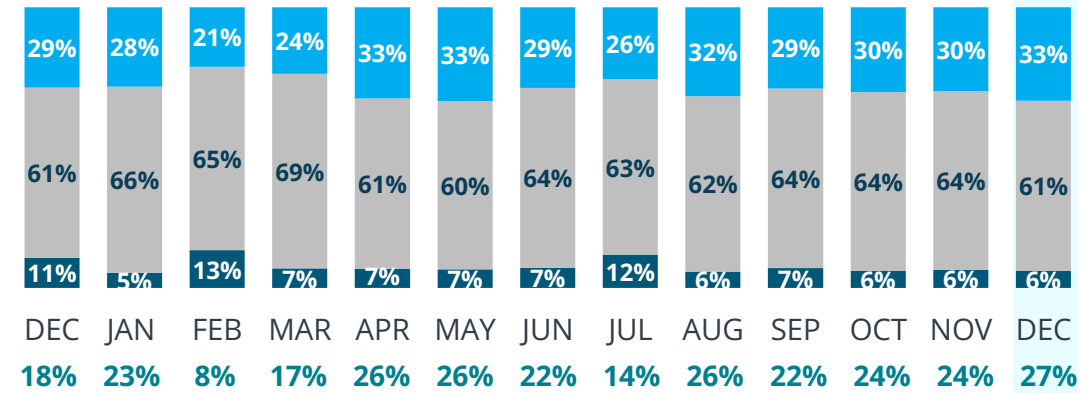
MARKETING SPEND



THE NUMBER OF STAFF YOU EMPLOY

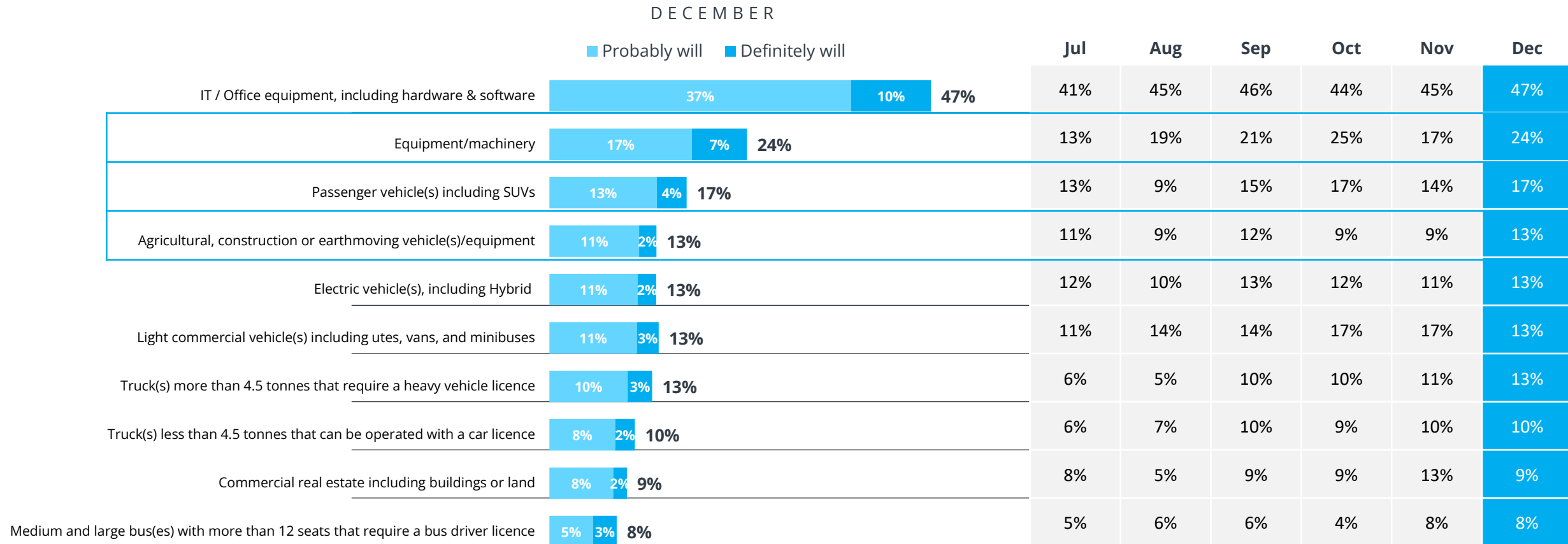


THE WAGES YOU PAY



Despite capex intent declining slightly overall, purchasing intentions across many categories has increased in December. Specifically, plant, equipment and machinery has bounced back after a weaker November.

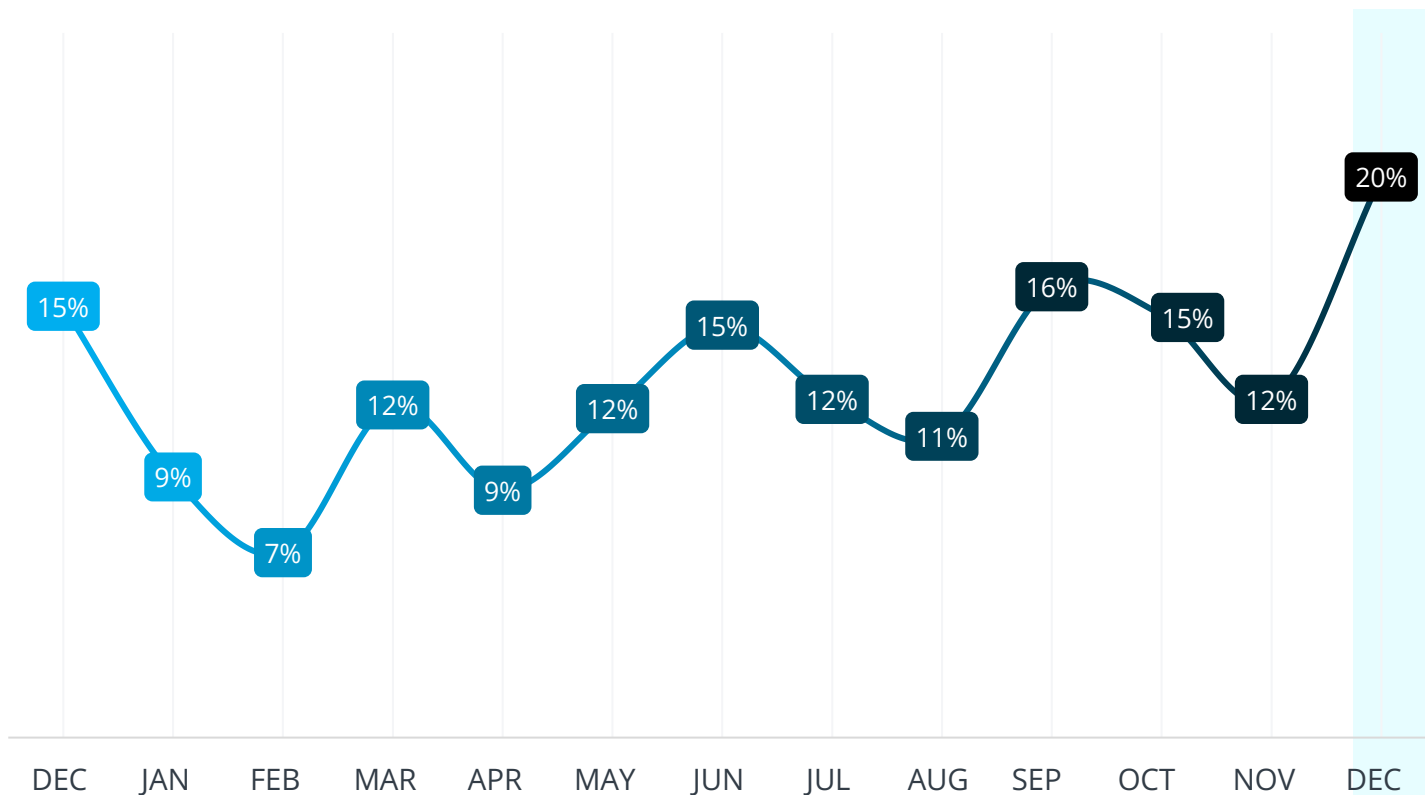
WHICH OF THE FOLLOWING WILL YOU PURCHASE FOR YOUR BUSINESS OVER THE NEXT 3 MONTHS?



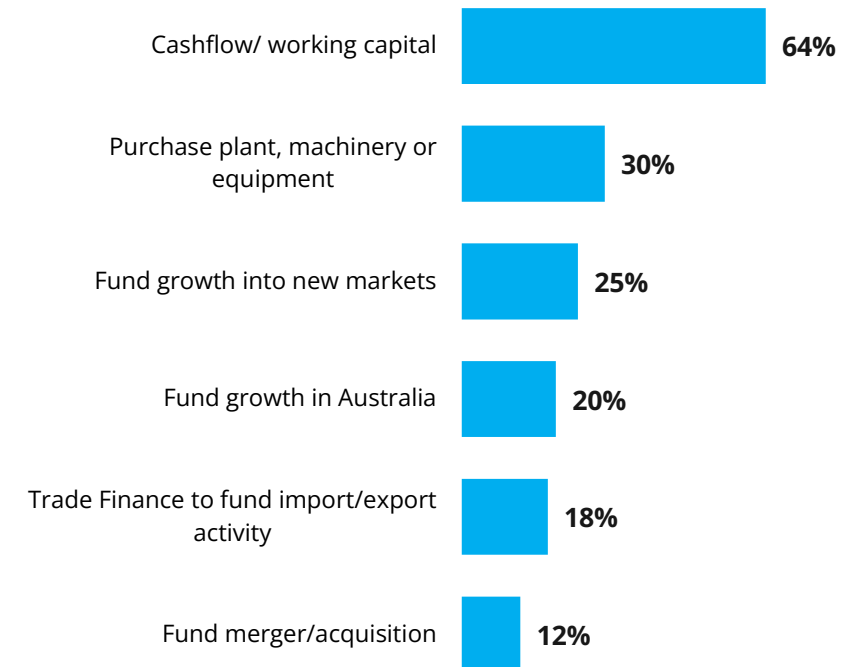
Business Investment | Finance Needs (Next 3 months)

In December, there was a significant surge in the demand for finance, with 20% of businesses indicating a need for additional funds to kickstart their operations in 2024.

SMEs THAT WILL REQUIRE ADDITIONAL FINANCE OVER THE NEXT 3 MONTHS



AND WHAT IS THE PURPOSE OF THIS FINANCE?

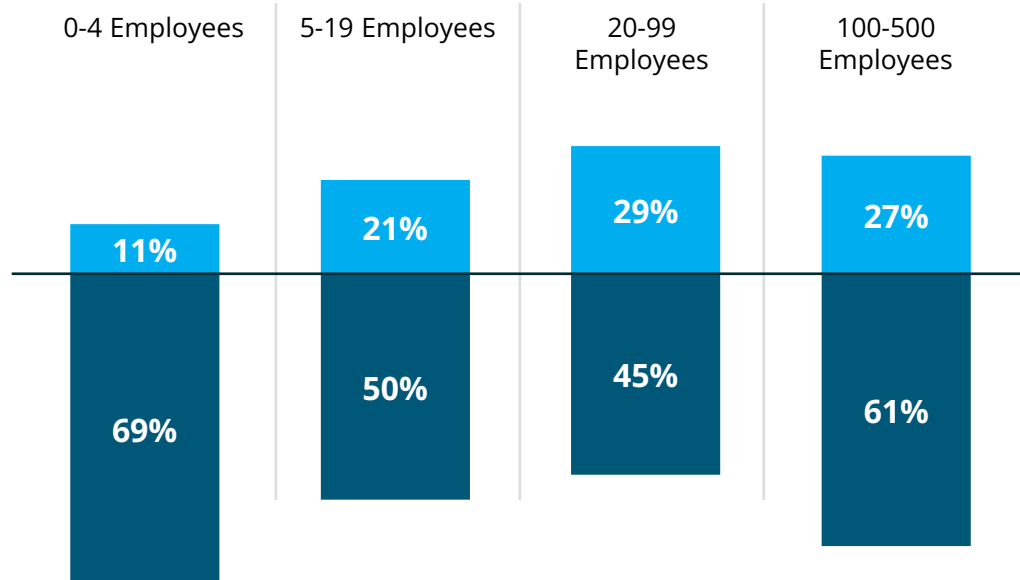


SMEs Requiring Additional Finance Over Q2 FY24

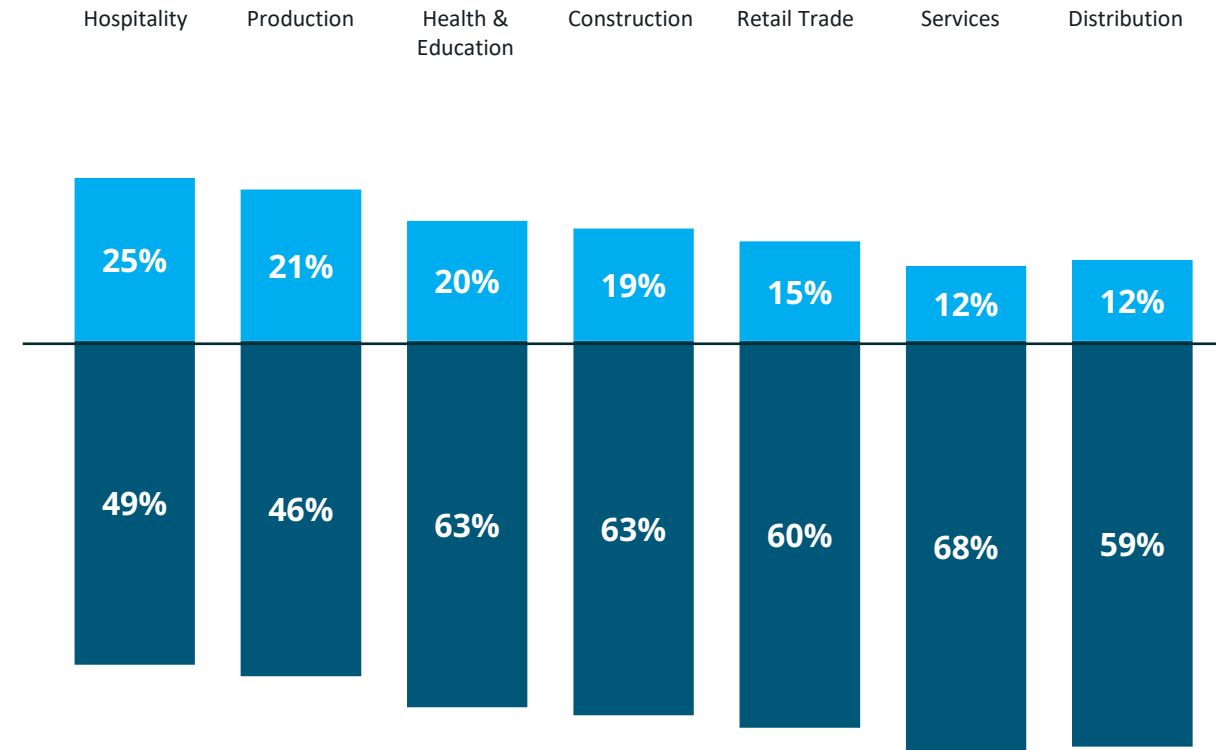
SMEs with 20+ employees and those in hospitality and production are most in need of additional finance.

Q2 FY24 EMPLOYEE SIZE

■ Yes ■ No

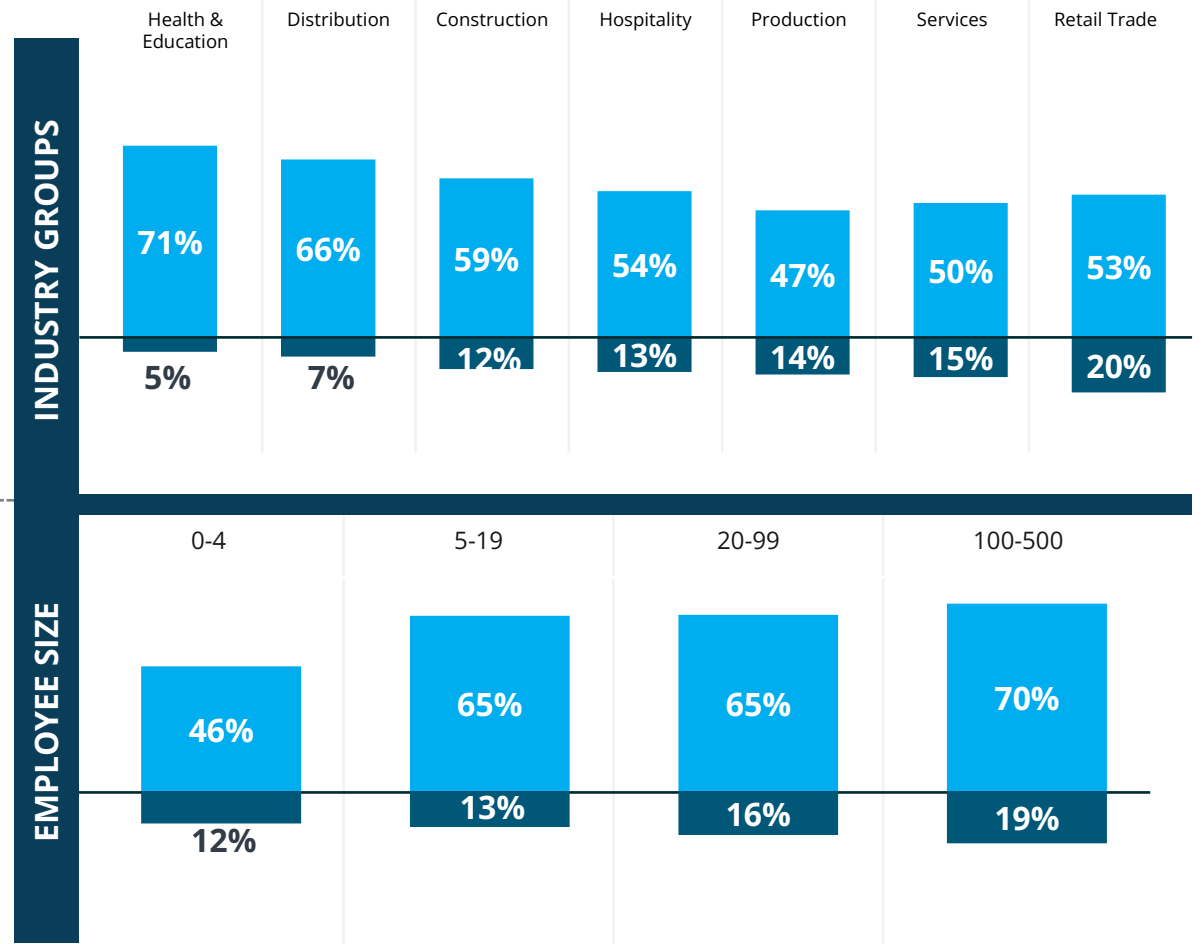
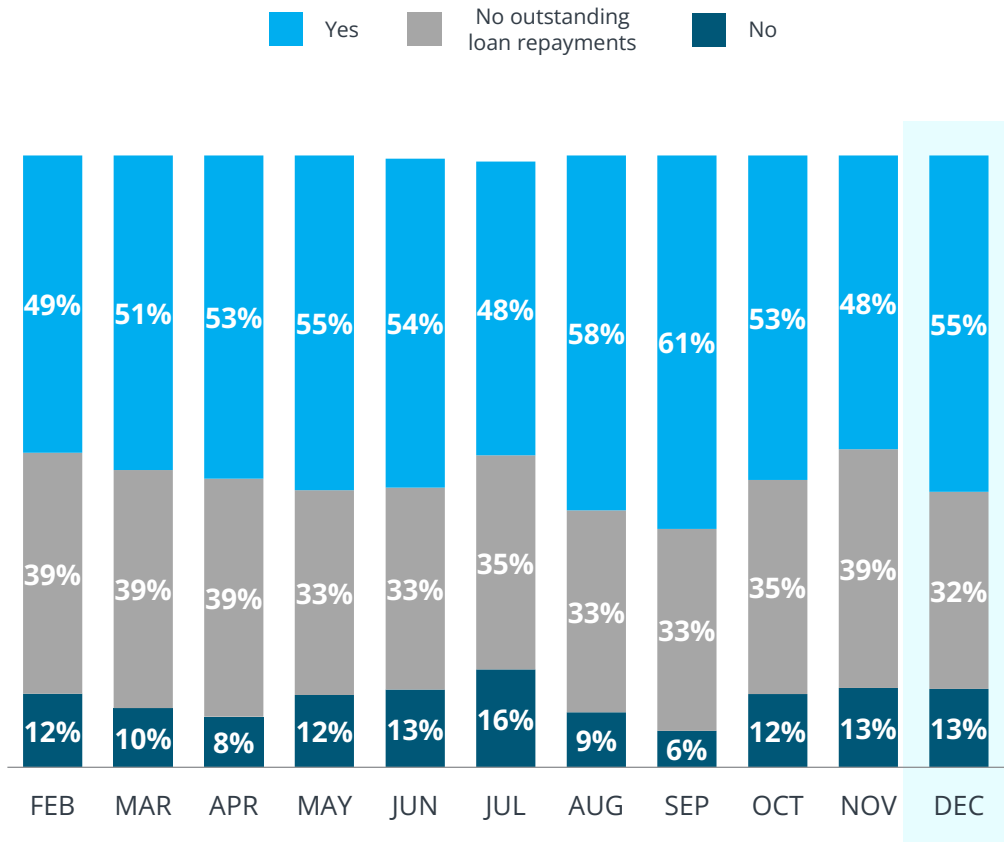


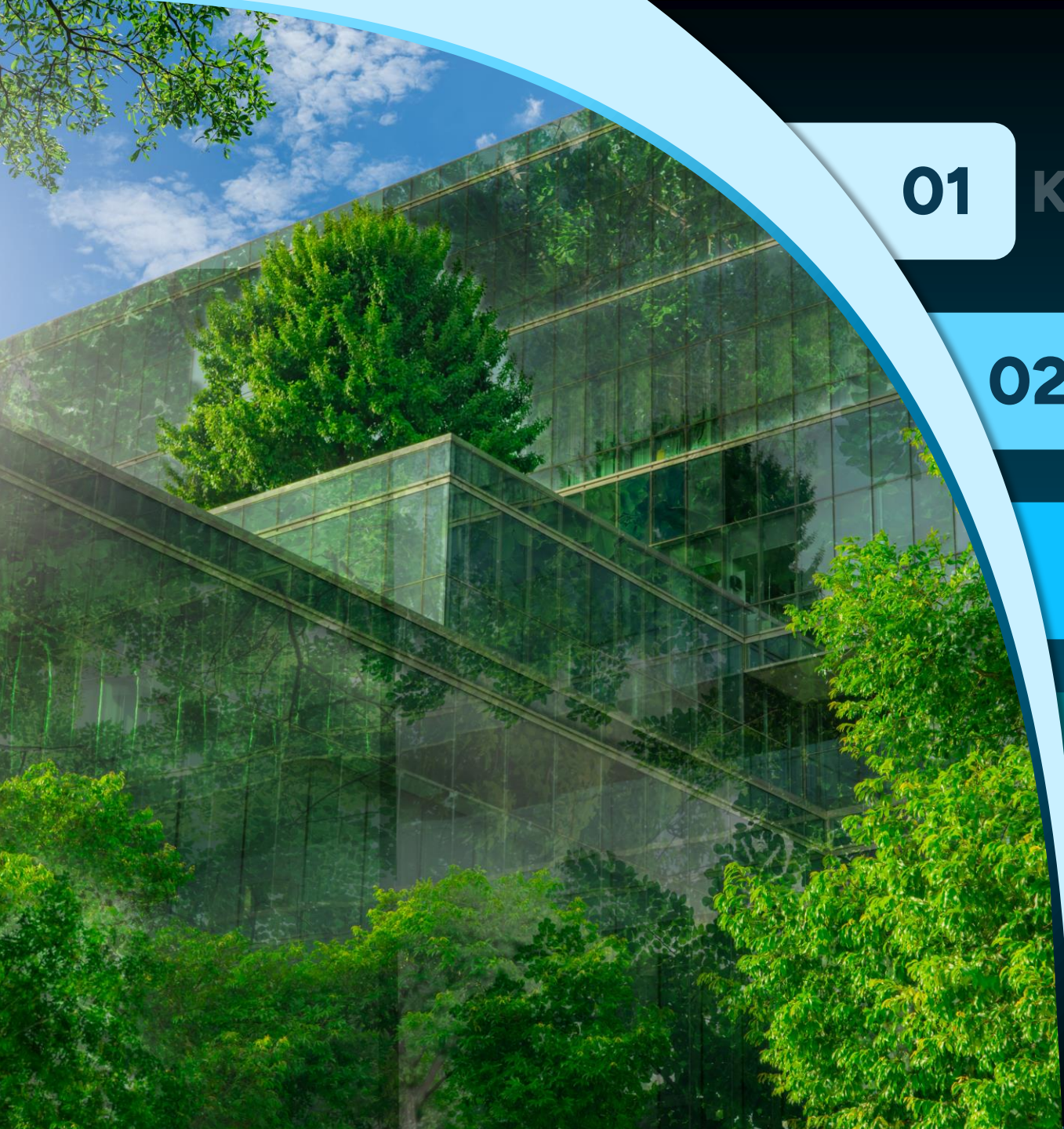
Q2 FY24 INDUSTRY GROUPS



Confidence regarding loan payments has increased, but concerning loan stress remains higher in the retail sector.

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





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Key Performance Indicators

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**Methodology &
Sample**

The SME Tracker was first launched w/e **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

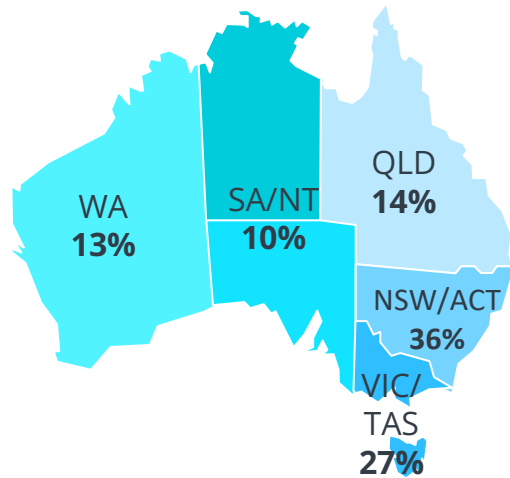


Data is **weighted** by industry, state and number of employees to reflect the national distribution of businesses across the country

Our Sample

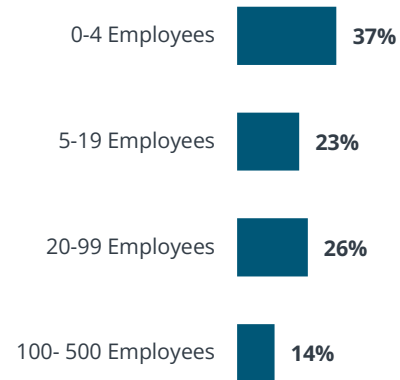
Key decision makers and influencers at SMEs across all states and territories responded to the survey. We target SMEs across all sizes and industry sectors. Data is weighted to reflect the actual distribution by industry, number of employees and state.

HEAD OFFICE LOCATION

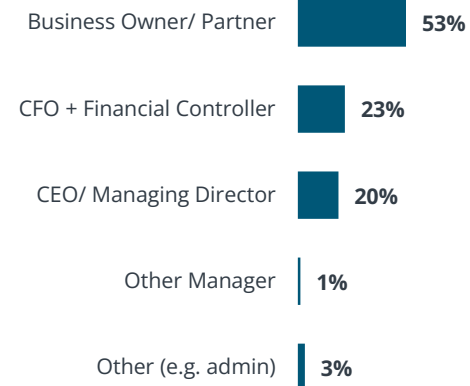


NOTE: CHARTS SHOW UNWEIGHTED DATA

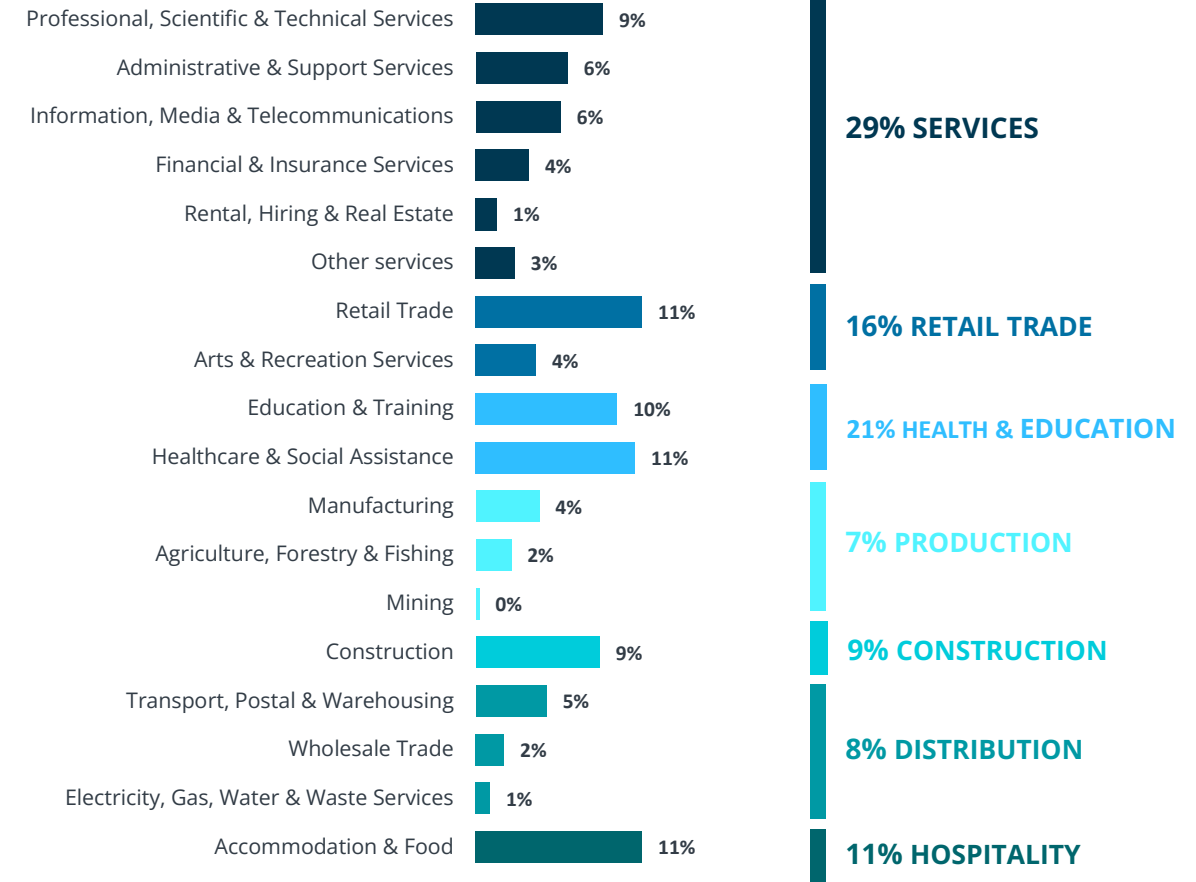
SIZE OF BUSINESS: EMPLOYEES



POSITION IN BUSINESS



INDUSTRY SECTOR



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