



# SMALL & MEDIUM ENTERPRISE SENTIMENT TRACKER

Wave 59 – January 2024





**71% report better or similar revenues compared to the same period last year**



**Confidence in the local and global economies continues to trend higher as inflation falls.**



**37% are focused on growth with capex, marketing, and team numbers on the up.**



**16% require additional finance over the next 3 months.**

## Lower inflation driving SME confidence.

The slowdown in the annual inflation rate to 4.1% is alleviating concerns about escalating costs and interest rates, leading to a more optimistic outlook on economic conditions both globally and in Australia among the 2.5 million Australian SMEs.

Despite ongoing fluctuations in profitability, revenue trends have maintained an upward trajectory since the last interest rate hike in July 2023, with 71% of businesses reporting revenues that are either improved or comparable to those in the same period last year.

While 40% of SMEs recognise that the economic outlook and cost pressures will pose a major challenge in 2024, concerns regarding energy prices (72%), fuel (75%), and the cost of credit (71%) have decreased to their lowest levels in the past 12 months.

Even though 25% of SMEs are streamlining their business operations, employment figures continue to be strong. With 17% of SMEs planning to expand their workforce in the next three months and 27% actively seeking to fill vacancies, the job market remains dynamic. Furthermore, finding qualified talent is becoming less challenging, as only 21% of SMEs in the process of hiring report significant difficulties in recruitment. This percentage is the lowest observed in the past 12 months, with skilled candidates now more accessible.

With 37% of SMEs forecasting revenue growth in 2024, there's a noticeable uptick in their investment intentions, particularly in areas like plant and equipment (26%), light commercial vehicles (18%), and agricultural, construction, and earthmoving equipment (13%). This trend underscores a growing confidence among SMEs to make investments now that inflation appears to be under control.

Despite the fall in inflation, there has been a notable decline in satisfaction levels with the Federal Government over the past month. This downturn in sentiment appears to be largely influenced by recent amendments to the stage 3 tax cuts. Interestingly, the government seems to be receiving little recognition or credit for the role it may have played in reducing inflation.

Despite the backdrop of geopolitical tensions, new supply chain challenges and ongoing economic issues the sentiment amongst SMEs continues to trend higher now that inflation and interest rate pressures appear to be under control. Accordingly, investment intentions are growing with many SMEs increasing their capex, marketing and team numbers over the next 3 months.



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** People

**03** Business Sentiment

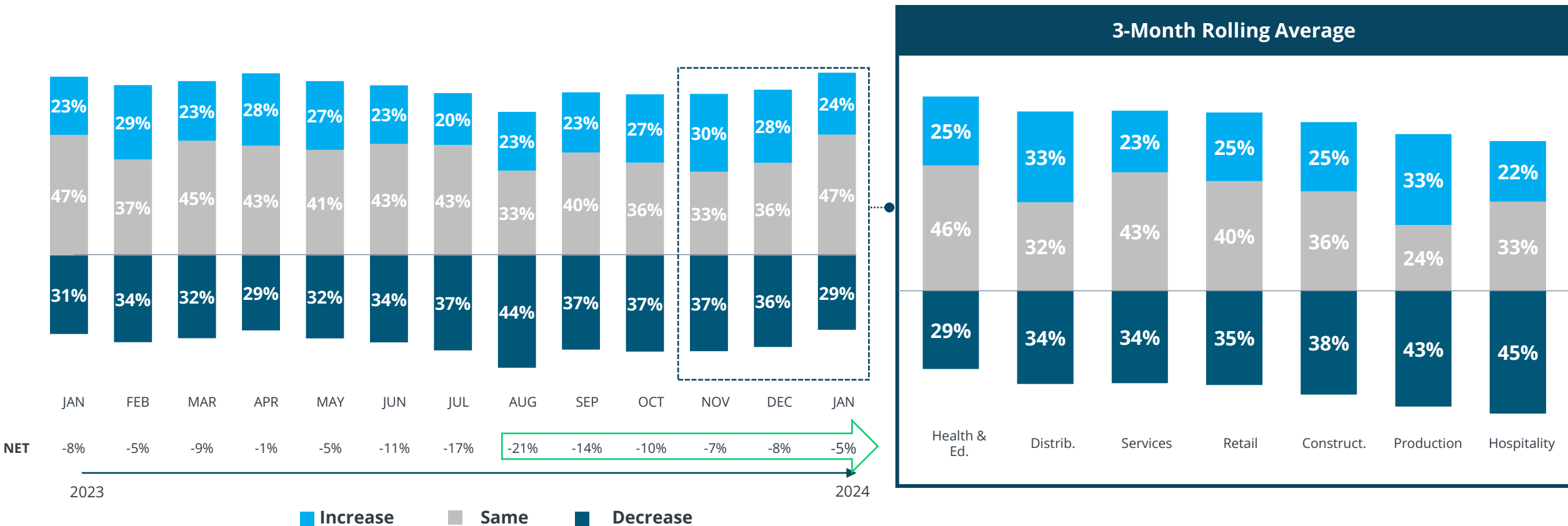
**04** Business Investment

**05** Methodology & Sample

# Key Performance Indicators | Revenue

The upward trend in revenue that started in August has continued into 2024, evidenced by a decline in the percentage of businesses experiencing a decrease in revenue, dropping from 44% to 29%.

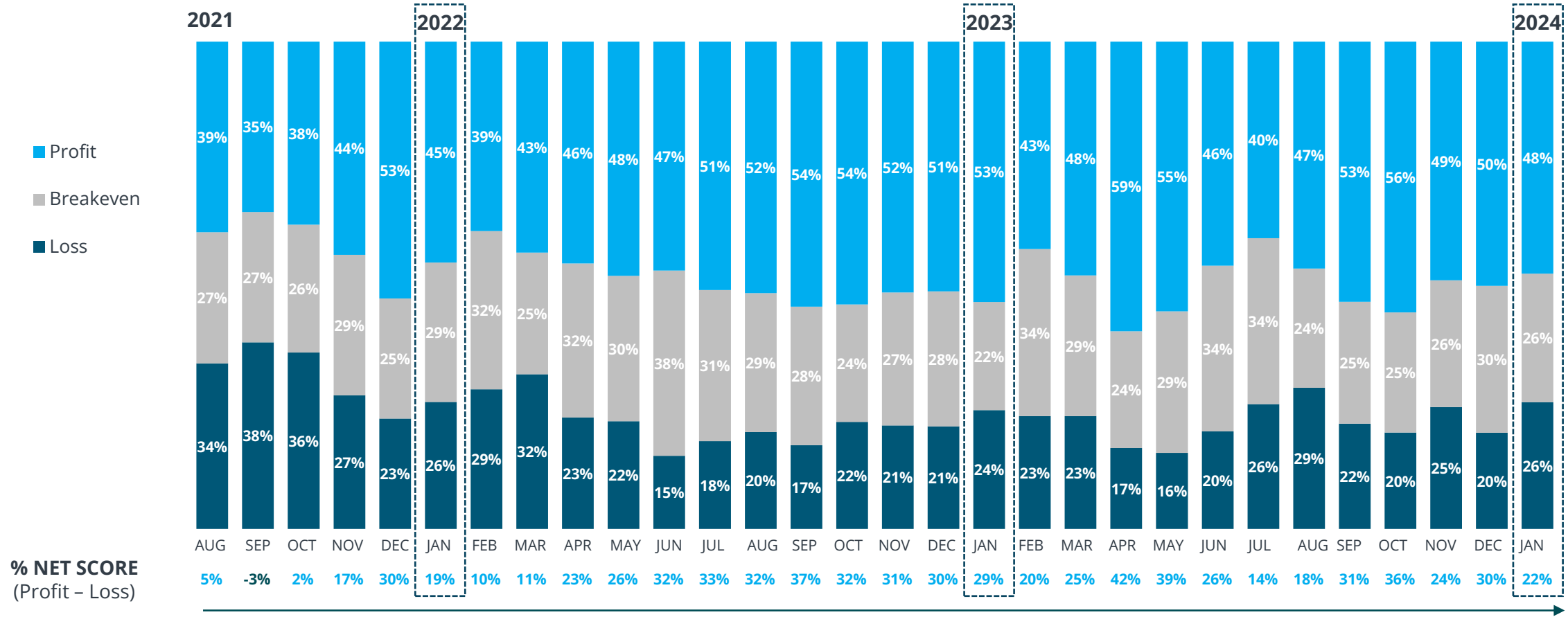
## HOW DOES YOUR CURRENT MONTHLY REVENUE COMPARE TO YOUR MONTHLY REVENUE 12 MONTHS AGO?



# Key Performance Indicators | Profit

Despite the positive revenue trend, profitability remains inconsistent due to ongoing challenges associated with the cost of doing business.

## WHAT WAS YOUR PROFIT MARGIN LAST MONTH (DECEMBER)?



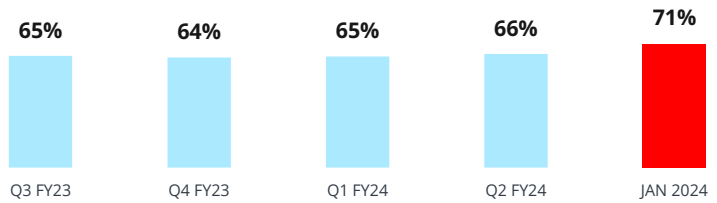
# Key Performance Indicators | Business Concerns

Nevertheless, there is a sense of optimism for a more favorable cost environment as concerns about cost pressures are diminishing, following the significant decrease in inflation reported in January.

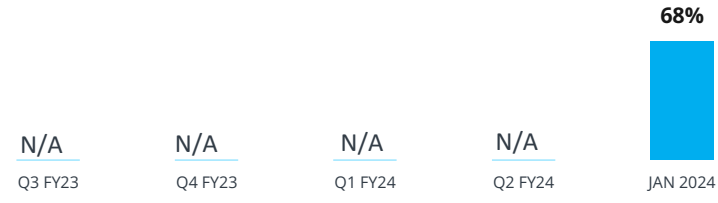
## HOW CONCERNED ARE YOU ABOUT THE IMPACT OF THE FOLLOWING ISSUES ON YOUR BUSINESS?



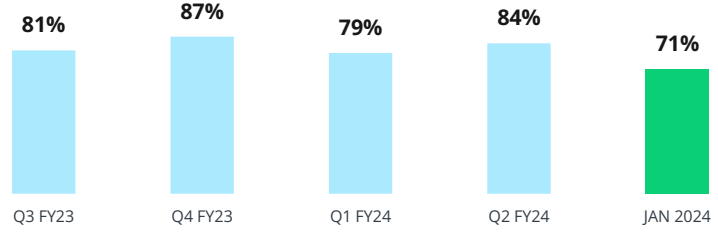
Wage costs



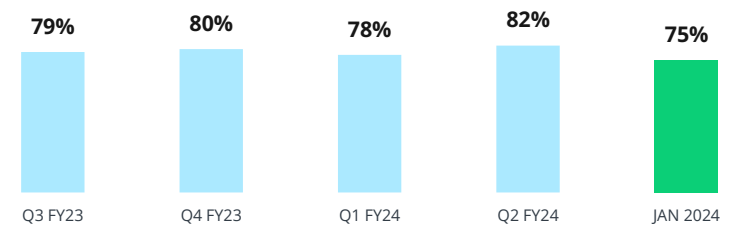
Cost of raw materials



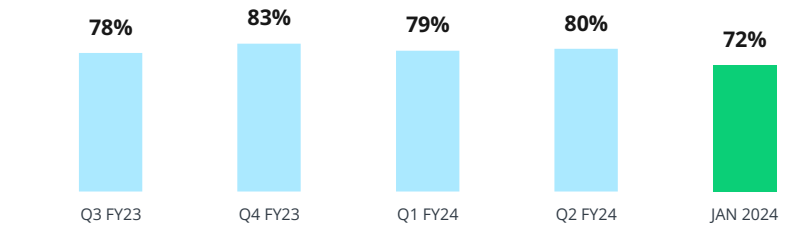
Rising interest rates / cost of credit



Fuel costs



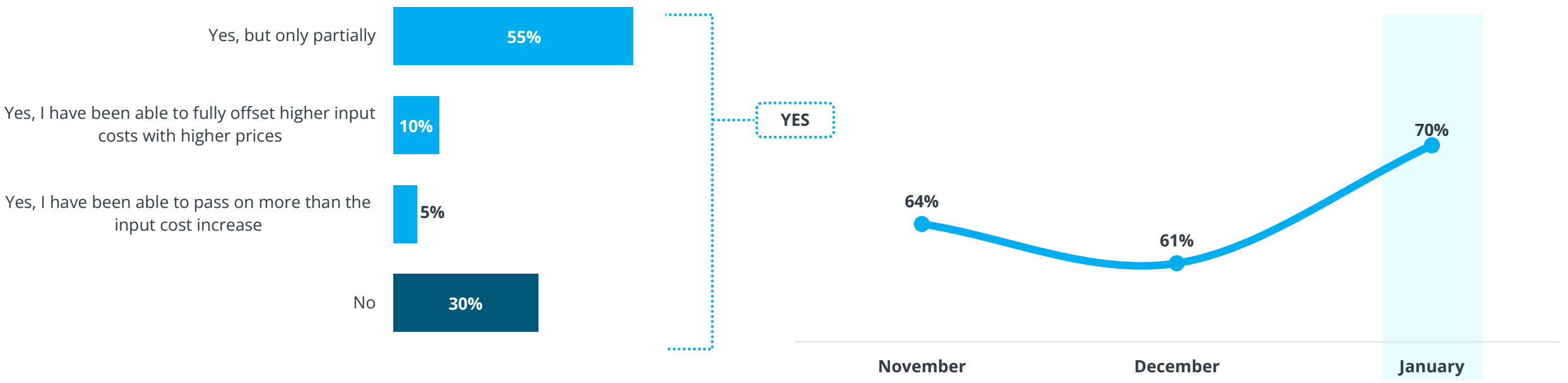
Energy costs



Total concerned

Cost recovery has taken a higher priority in 2024, with 70% of SMEs now transferring at least a portion of their increased input costs to customers.

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



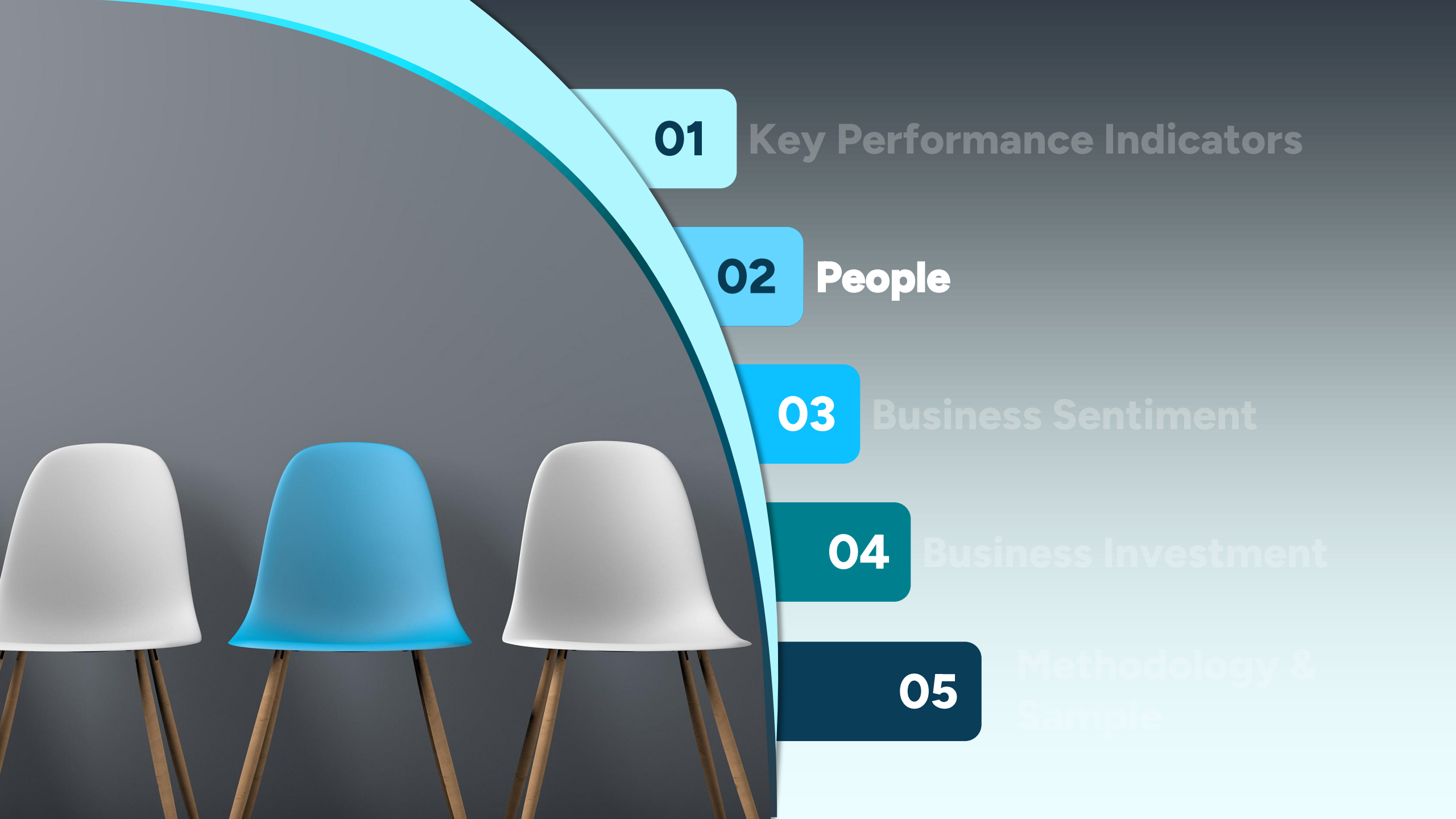


# Key Performance Indicators | Cost Recovery

In addition to increasing prices, SMEs are tightening cost controls by streamlining business operations and phasing out unprofitable products or services. It's also noteworthy that 7% of SMEs are downsizing their workforce, which includes 28% of businesses with 100-500 employees.

## HOW IS YOUR BUSINESS RESPONDING TO THE CHALLENGES POSED BY ONGOING INFLATION AND INCREASING COSTS?

		Highest in row			
		0-4	5-19	20-99	100-500
Streamlining business operations	25%	22%	28%	37%	38%
Discontinuing products/services that are not profitable	25%	25%	21%	34%	9%
Renegotiating supplier contracts or seeking new supply sources	21%	21%	21%	24%	26%
Reassessing current projects and significant investments for viability and impact	20%	18%	24%	37%	14%
Maximising staff productivity through better training and optimization	18%	11%	33%	34%	41%
Expanding the range of products/services to generate new revenue streams	18%	13%	31%	28%	14%
Adopting new technologies	17%	16%	15%	27%	35%
Delegating non-essential functions to external providers	12%	8%	18%	13%	44%
Shifting towards the use of renewable energy sources	12%	7%	18%	30%	26%
Refining inventory management practices for better efficiency	11%	10%	12%	18%	27%
Undertaking debt restructuring to reduce financial burdens	10%	9%	10%	18%	30%
Implementing workforce reductions, such as layoffs or hiring freezes	7%	6%	9%	16%	28%



**01**

Key Performance Indicators

**02**

People

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Business Sentiment

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Business Investment

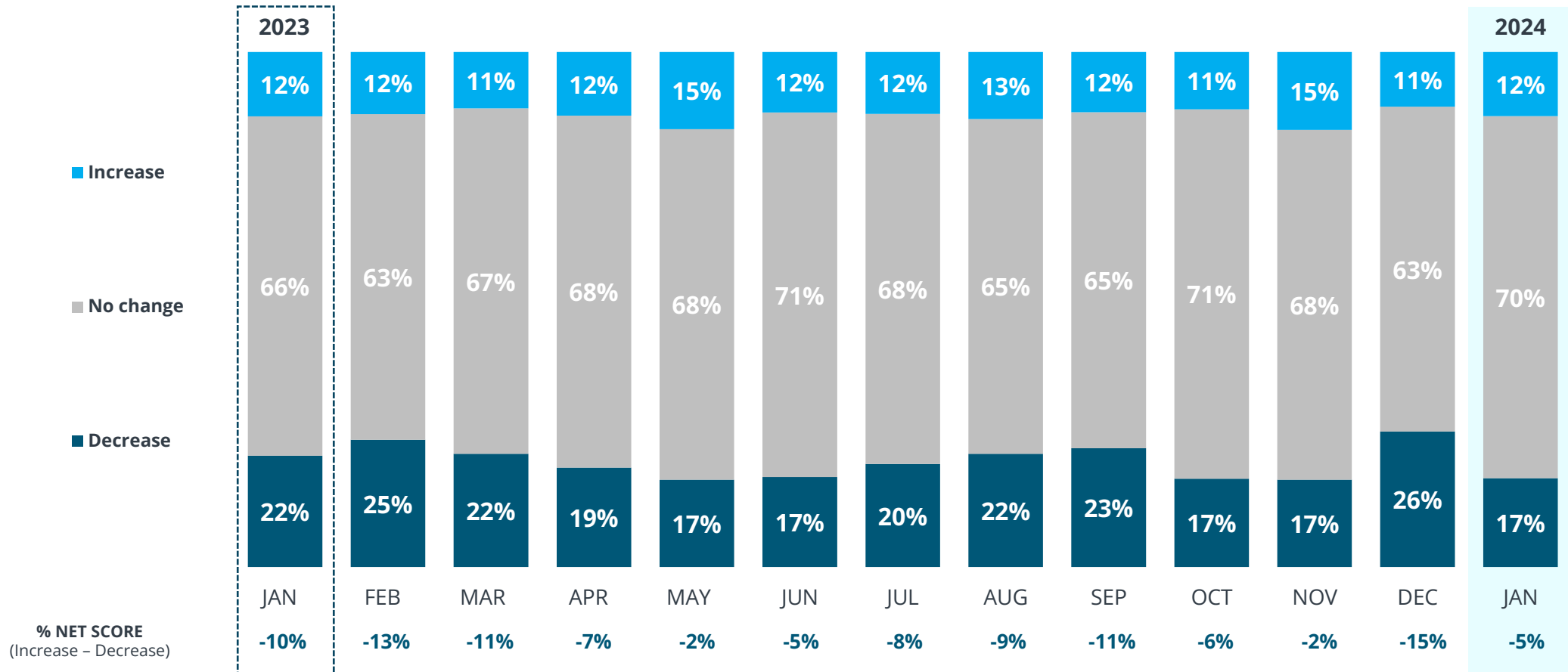
**05**

Methodology & Sample

# Key Performance Indicators | People

Despite ongoing efforts to optimise cost management and streamline operations, employment data is more positive than reported in December and when compared to the January data reported in 2023.

## CHANGE IN NUMBER OF EMPLOYEES OVER THE LAST 12 MONTHS



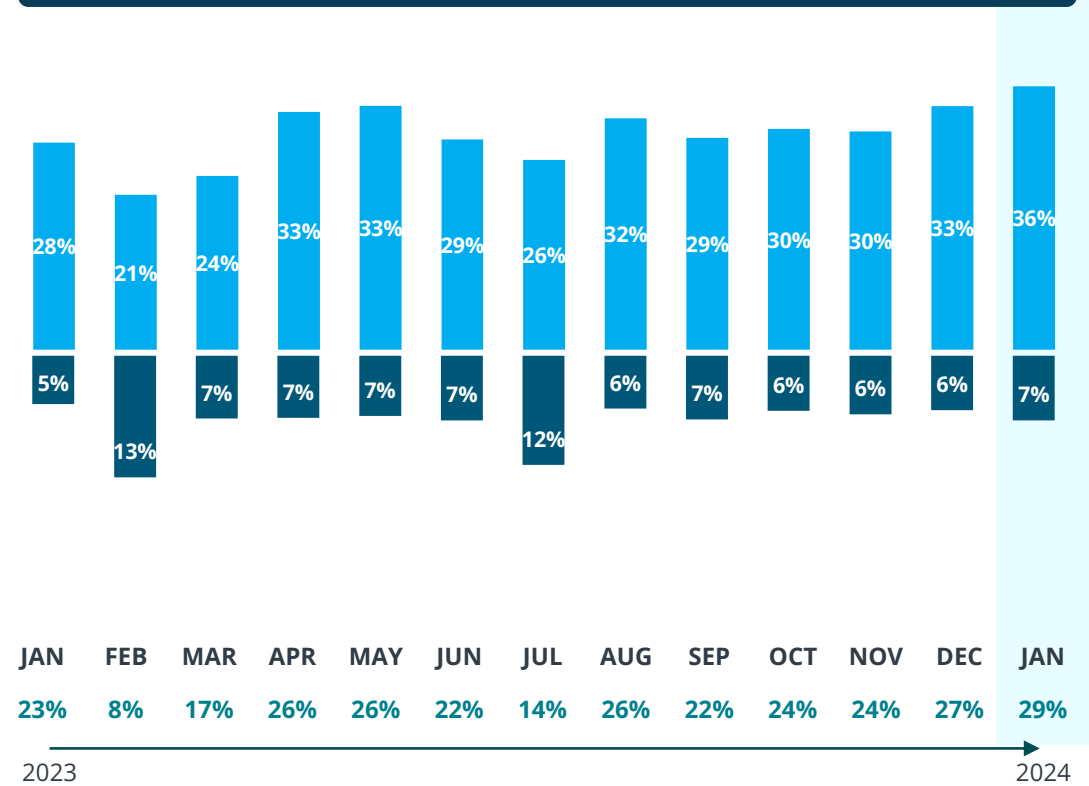
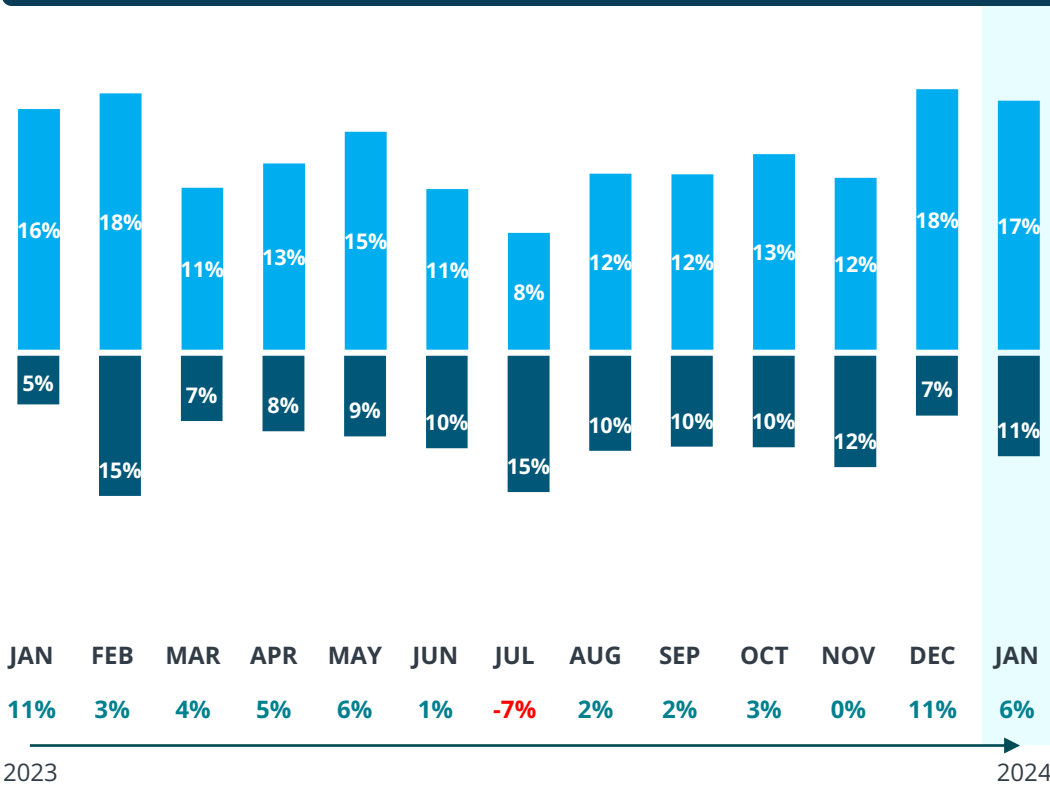
# Key Performance Indicators | People

Net employment growth is expected over the next 3 months, but wage growth is a constant challenge.

## EXPECTATIONS OVER THE NEXT 3 MONTHS REGARDING STAFF

### THE NUMBER OF STAFF YOU EMPLOY

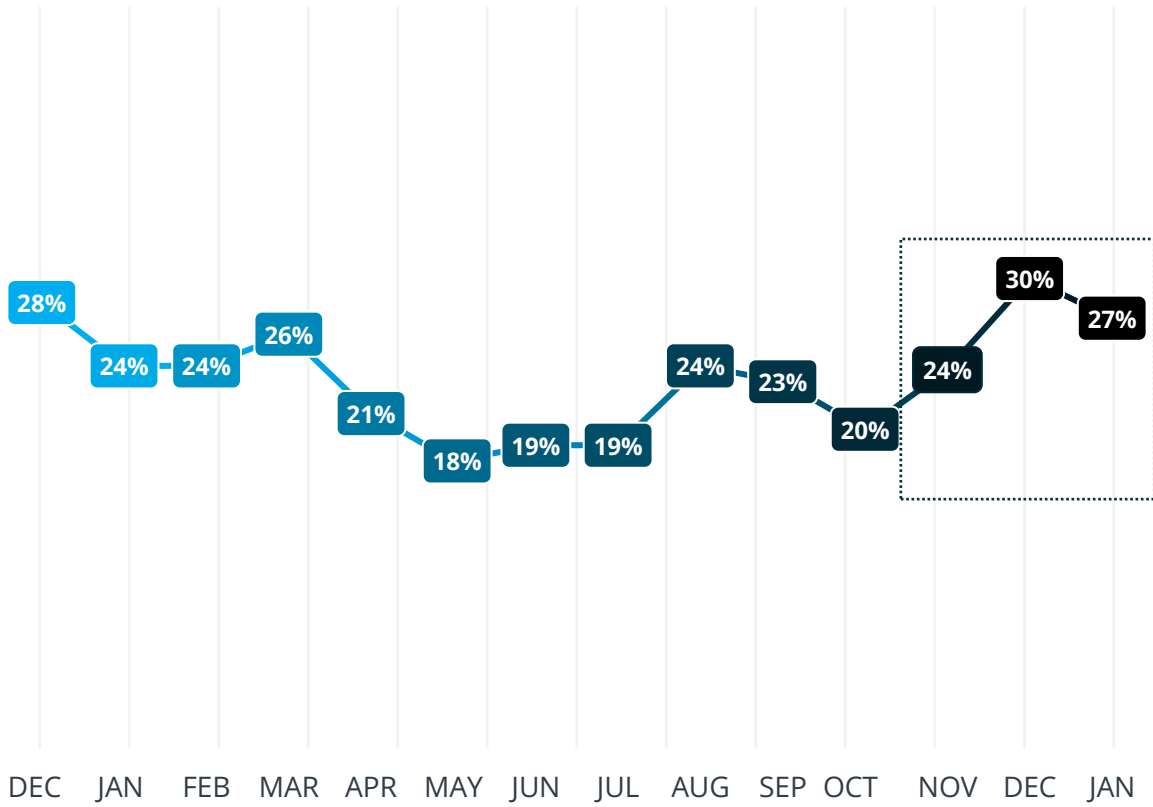
### THE WAGES YOU PAY



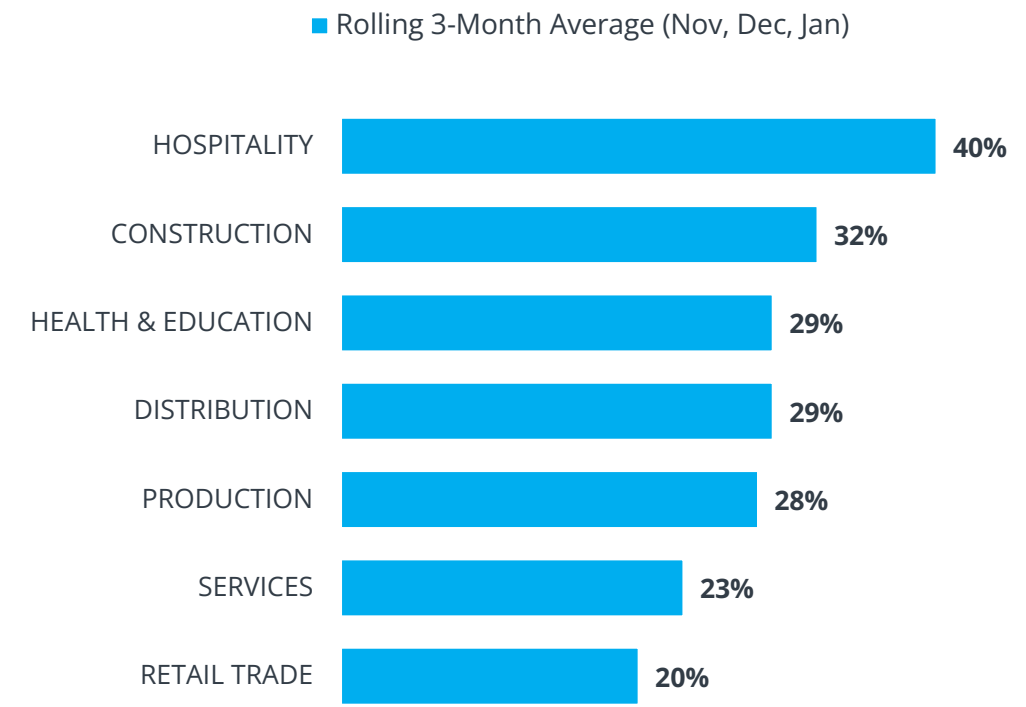
# Key Performance Indicators | People

Recruitment activity remains robust, with 27% of SMEs seeking to fill positions in January. This aligns with the seasonal hiring trends observed during the same period in the previous year.

## SMEs THAT CURRENTLY HAVE JOB ROLES THEY ARE TRYING TO FILL



## CURRENT JOB VACCANCIES BY INDUSTRY

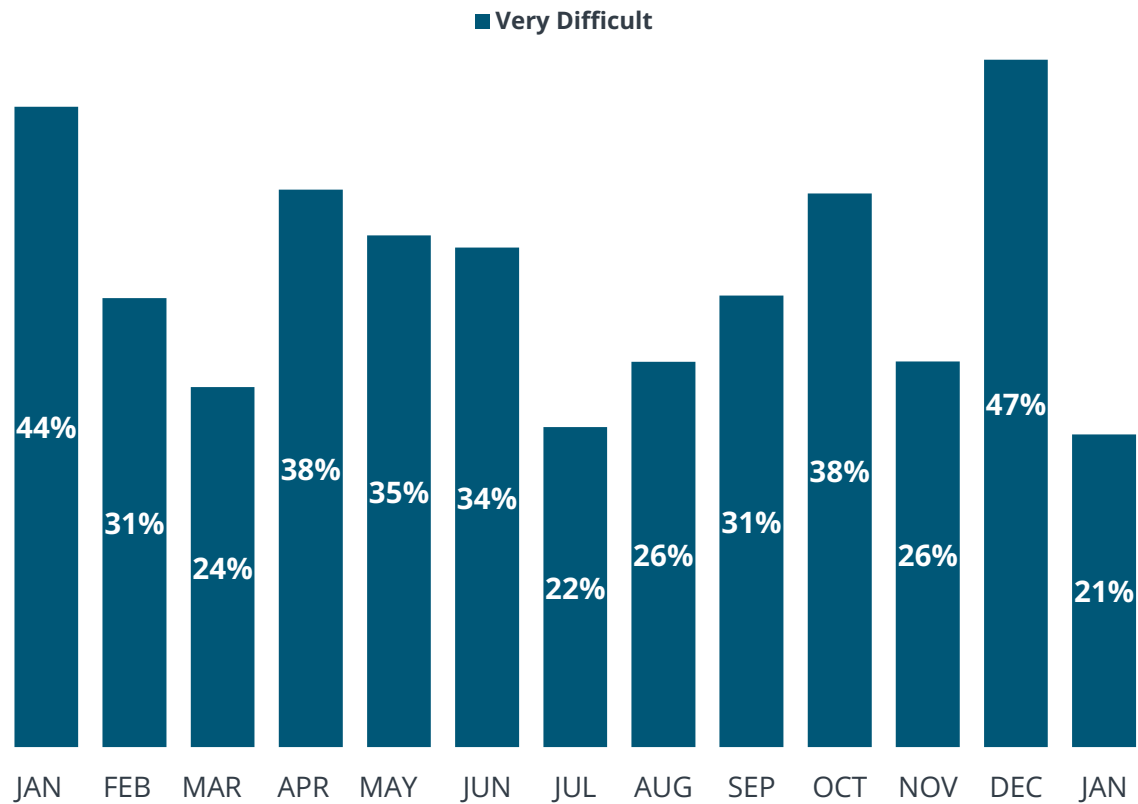


2022 → 2024

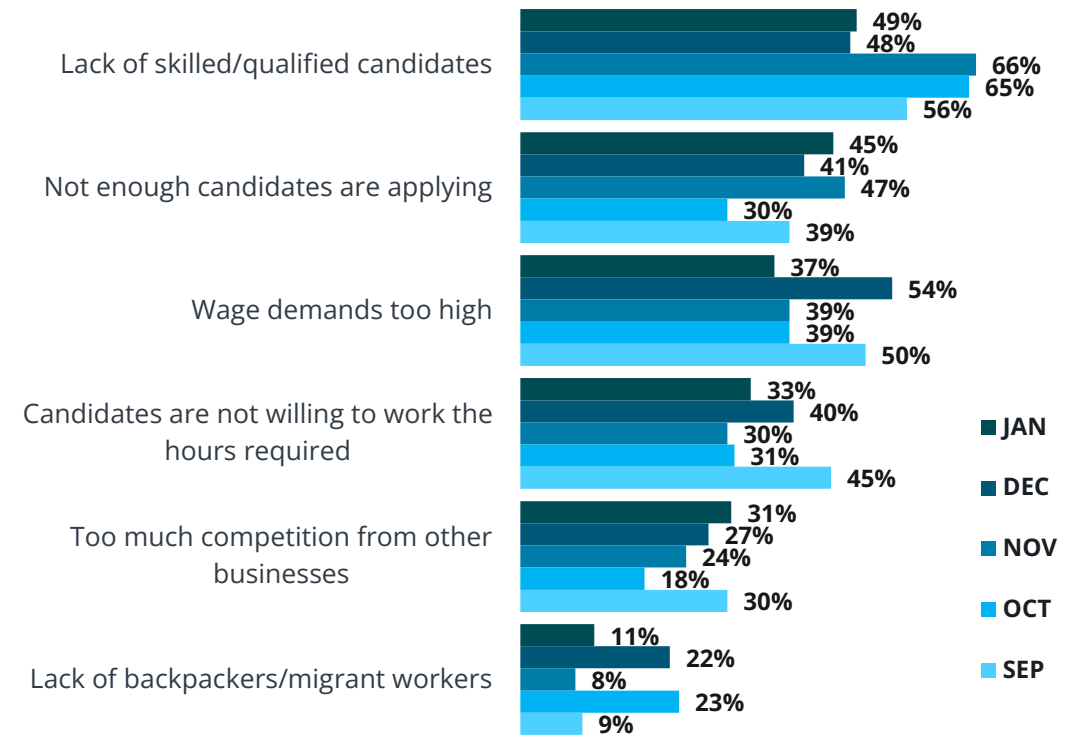
# Key Performance Indicators | People

The recruitment landscape is showing signs of improvement, with just 21% of businesses indicating that hiring was very difficult in January. This figure is the lowest reported in the last 12 months, with skilled candidates now more accessible.

## HOW DIFFICULT IS IT TO FILL THESE ROLES?



## WHY IS IT DIFFICULT TO FILL THESE ROLES?





01

Key Performance Indicators

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People

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Business Sentiment

04

Business Investment

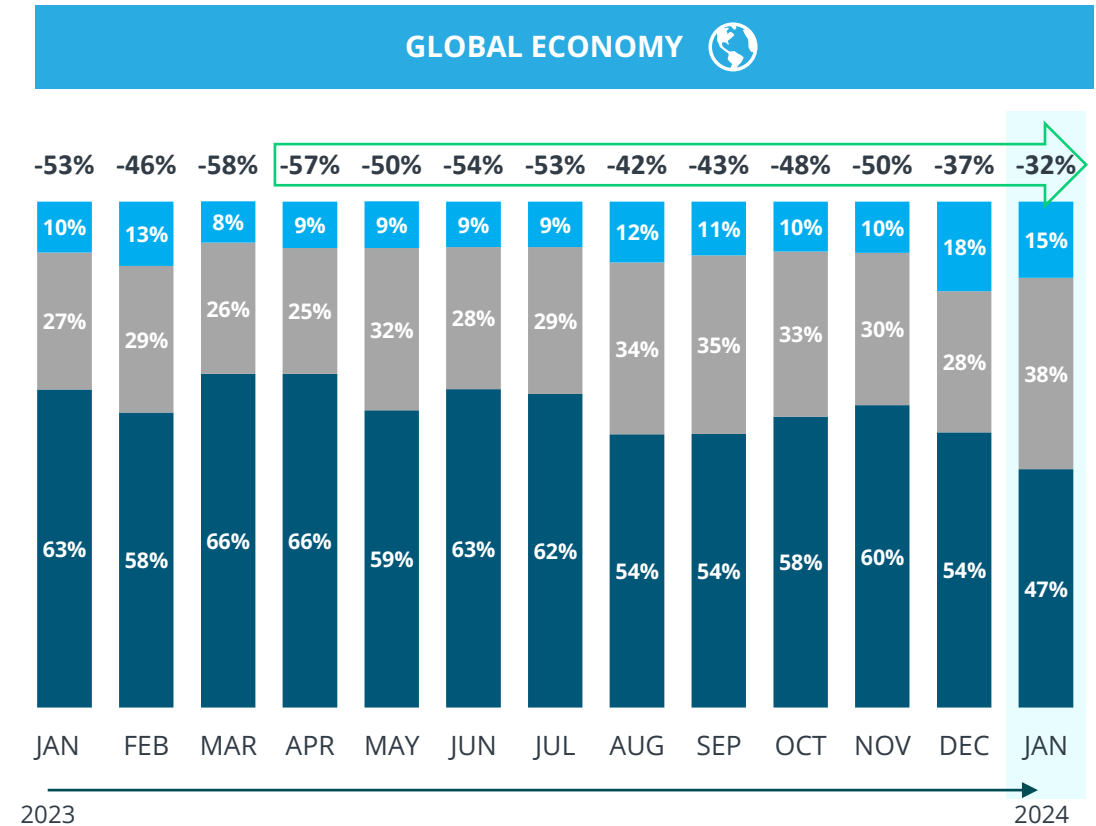
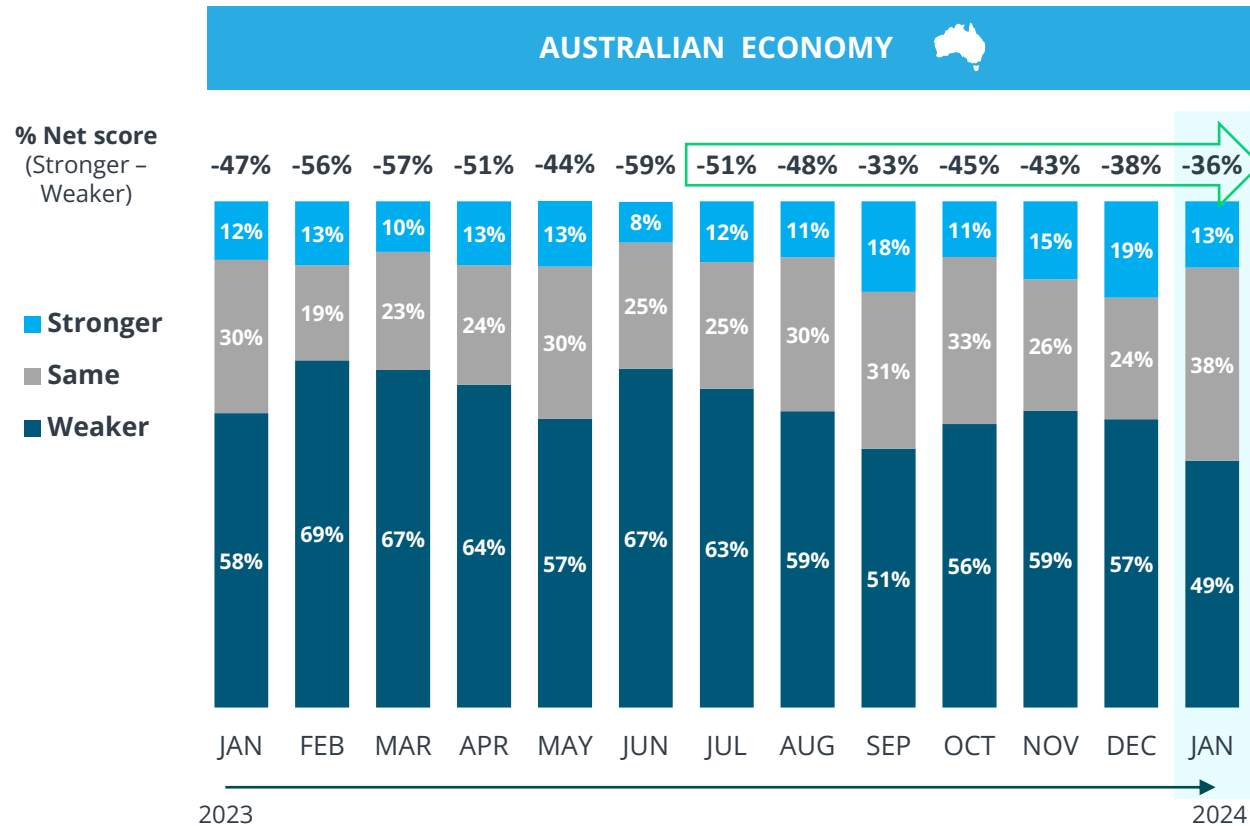
05

Methodology & Sample

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

While the overall sentiment remains negative, business expectations for both the Global and Australian economies continue to improve.

## EXPECTATIONS OVER THE NEXT 3 MONTHS REGARDING ECONOMIC CONDITIONS

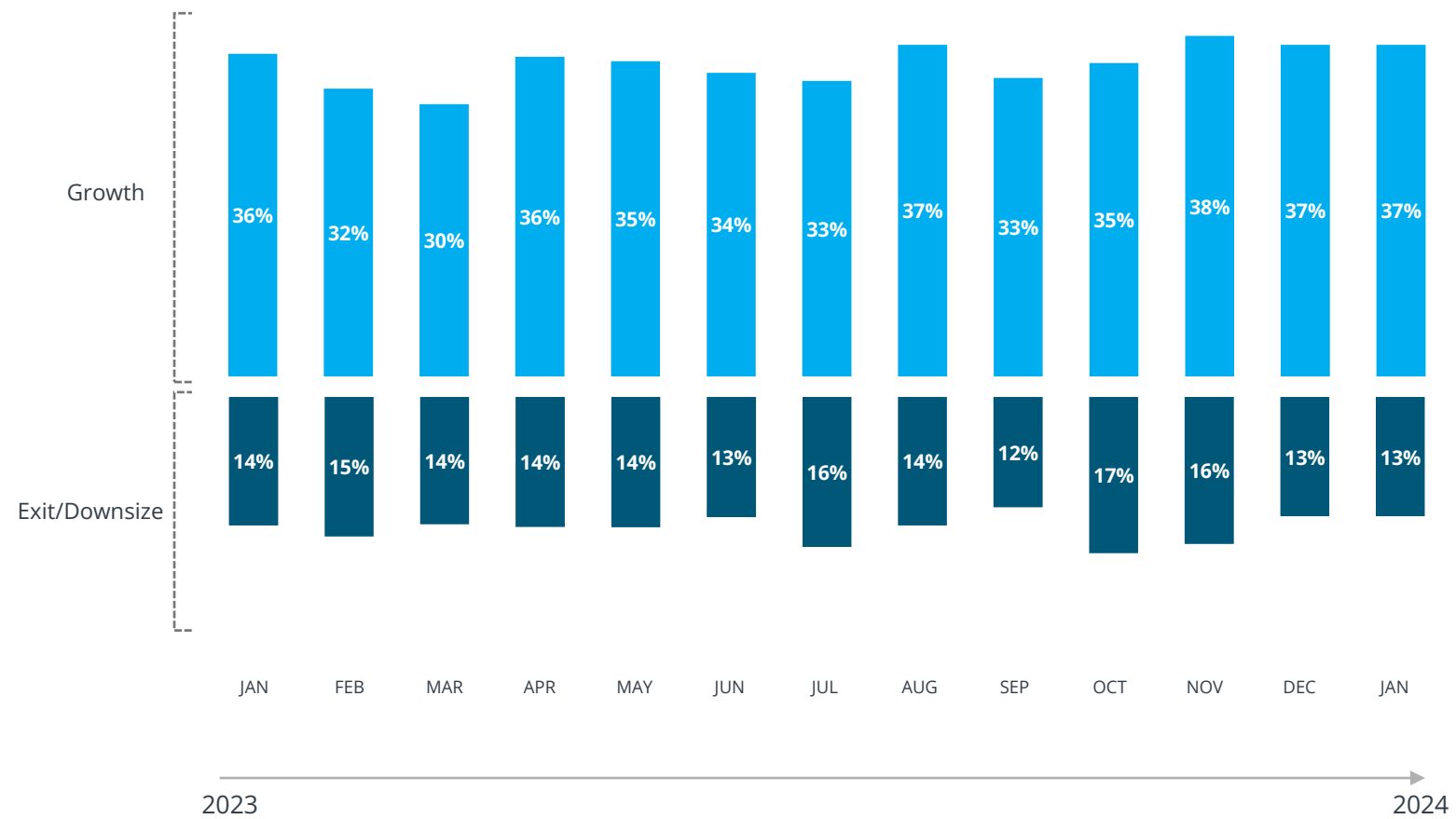
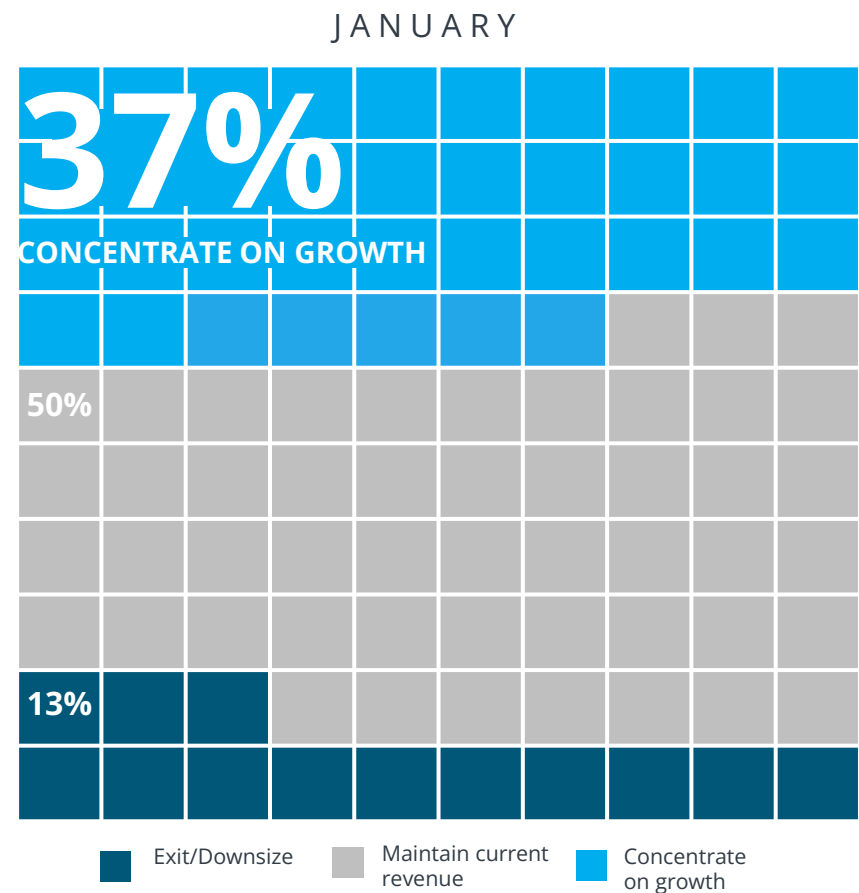




# Business Sentiment | Growth Expectations (Next 12 months)

Accordingly, growth expectations remain steady with 37% SMEs looking to expand their revenues in 2024.

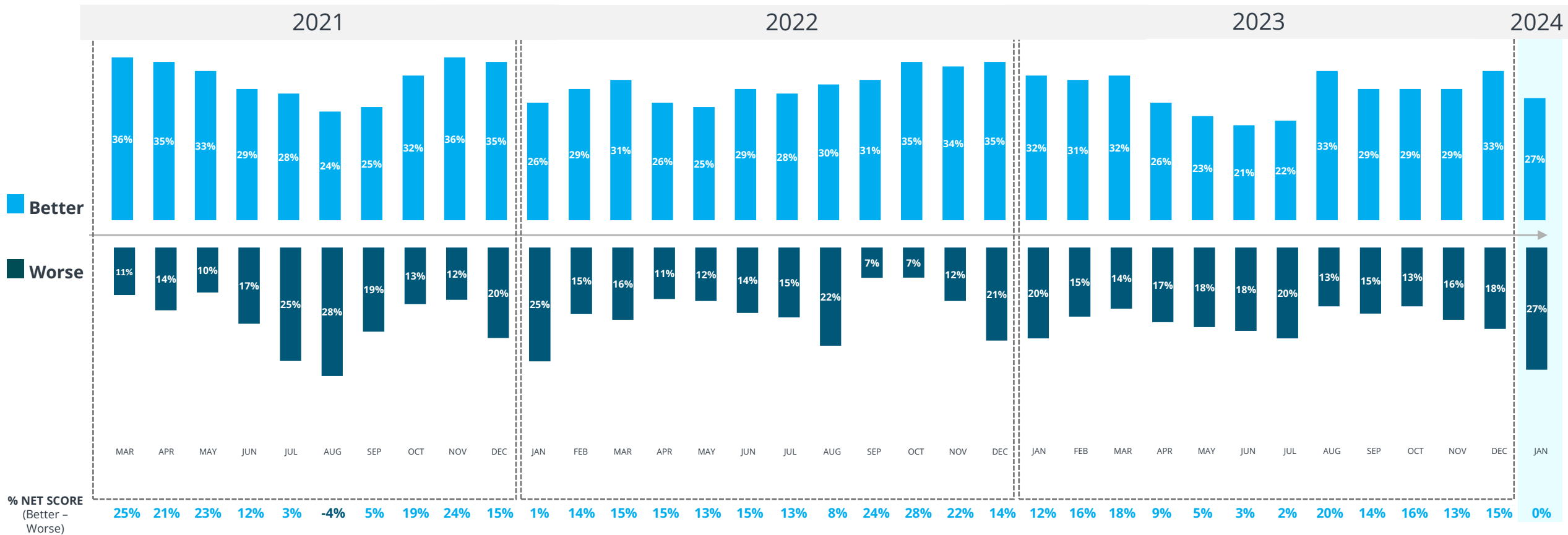
## OVERALL, WHAT BEST DESCRIBES YOUR APPROACH TO BUSINESS OVER THE NEXT 12 MONTHS?



# Business Sentiment | Revenue Expectations (Next 4 weeks)

Nonetheless, a decline in short-term revenue expectations indicates potential softness in forward orders that may impact growth objectives.

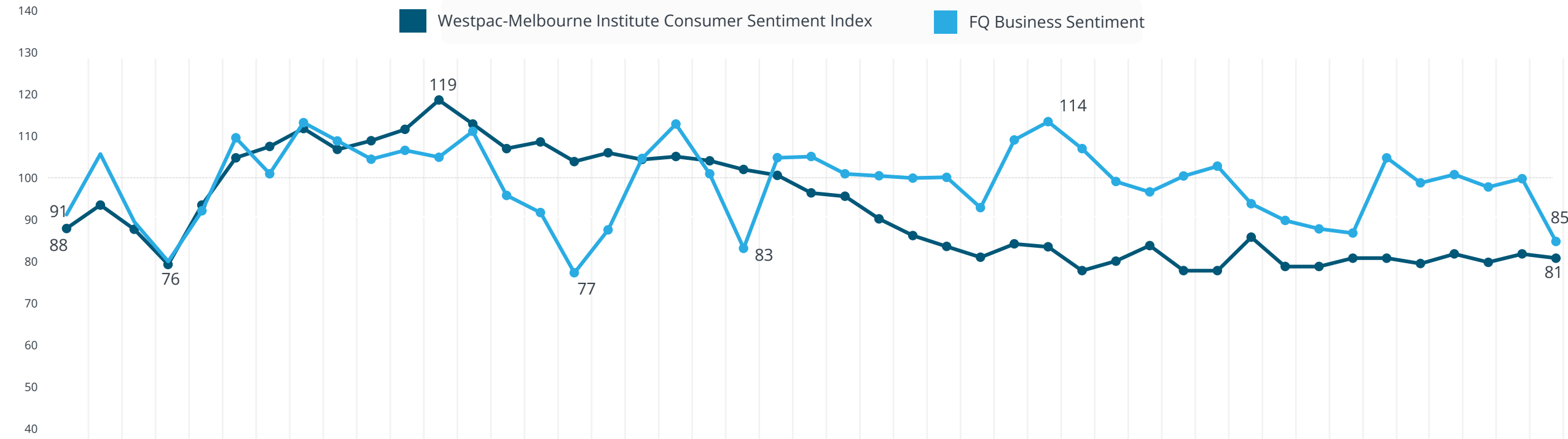
## WHERE DO YOU EXPECT YOUR REVENUE TO BE IN 4 WEEKS COMPARED TO TODAY?



# Business Sentiment | Sentiment 2020-2023

Consequently, the Fifth Quadrant Business Sentiment Index has decreased to 85, only marginally higher than consumer sentiment.

## BUSINESS AND CONSUMER SENTIMENT



May-20 Jun-20 Jul-20 Aug-20 Sep-20 Oct-20 Nov-20 Dec-20 Jan-21 Feb-21 Mar-21 Apr-21 May-21 Jun-21 Jul-21 Aug-21 Sep-21 Oct-21 Nov-21 Dec-21 Jan-22 Feb-22 Mar-22 Apr-22 May-22 Jun-22 Jul-22 Aug-22 Sep-22 Oct-22 Nov-22 Dec-22 Jan-23 Feb-23 Mar-23 Apr-23 May-23 Jun-23 Jul-23 Aug-23 Sep-23 Oct-23 Nov-23 Dec-23 Jan-24

- 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

Ongoing cost pressures and changing customer behaviours and preferences are the two most anticipated challenges of 2024. Smaller businesses are most concerned about cost pressures, while larger organisations express concern towards a wider range of business challenges.

## WHICH OF THESE ISSUES DO YOU ANTICIPATE WILL POSE THE MOST SIGNIFICANT CHALLENGES TO YOUR BUSINESS IN 2024?

		Highest in row			
		0-4	5-19	20-99	100-500
Addressing the difficult economic outlook and ongoing cost pressures.	40%	44%	31%	35%	42%
Keeping pace with changing customer behaviours and preferences.	31%	28%	38%	34%	20%
Strengthening supply chain operations for improved efficiency and resilience.	18%	14%	24%	34%	19%
Navigating regulatory, compliance, and governance challenges.	17%	12%	30%	24%	39%
Acquiring, training, and upskilling talent in a competitive market.	15%	10%	28%	35%	14%
Identifying and implementing measures to boost workforce efficiency and productivity.	15%	11%	23%	30%	26%
Overcoming difficulties in securing necessary financing.	15%	15%	13%	23%	23%
Managing risks and uncertainties in the geopolitical landscape.	14%	13%	14%	28%	24%
Managing the continuous adoption of new technologies and digital transformation processes.	14%	7%	27%	27%	29%
Strengthening defences against cyber threats and ensuring data privacy.	12%	10%	14%	27%	25%
Implementing strategies to address sustainability issues and climate change impacts.	7%	6%	9%	11%	13%
Prioritising investment in research and development to drive innovation.	7%	4%	9%	25%	34%



**01**

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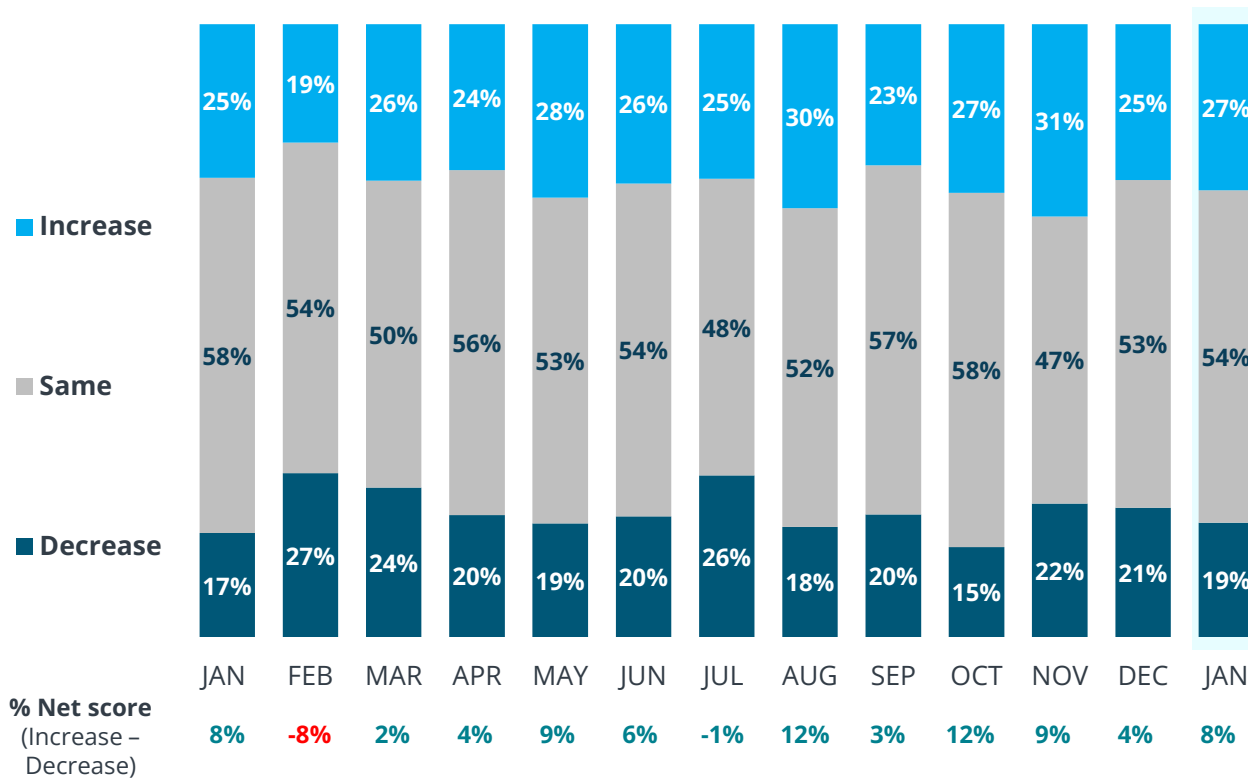
**Methodology &  
Sample**

# Business Investment | Next Three Months

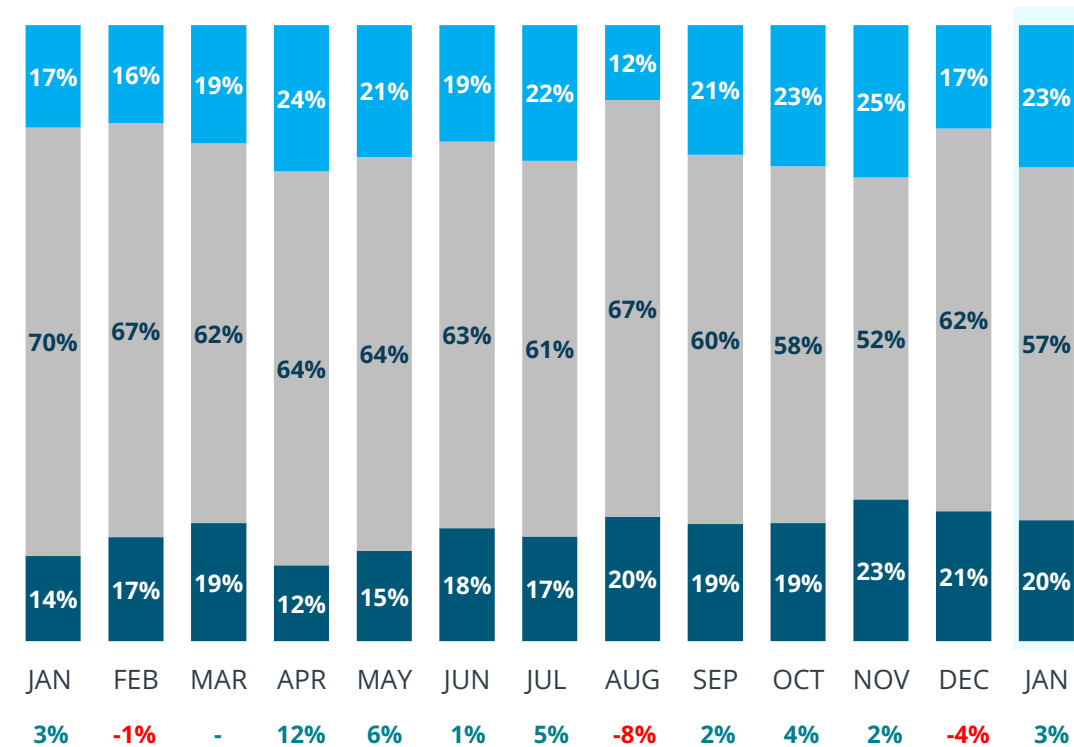
Capital expenditure and marketing investment plans align with the levels reported in January 2023.

## EXPECTATIONS OVER THE NEXT 3 MONTHS REGARDING BUSINESS INVESTMENT

### BUSINESS SPENDING/ CAPITAL INVESTMENT

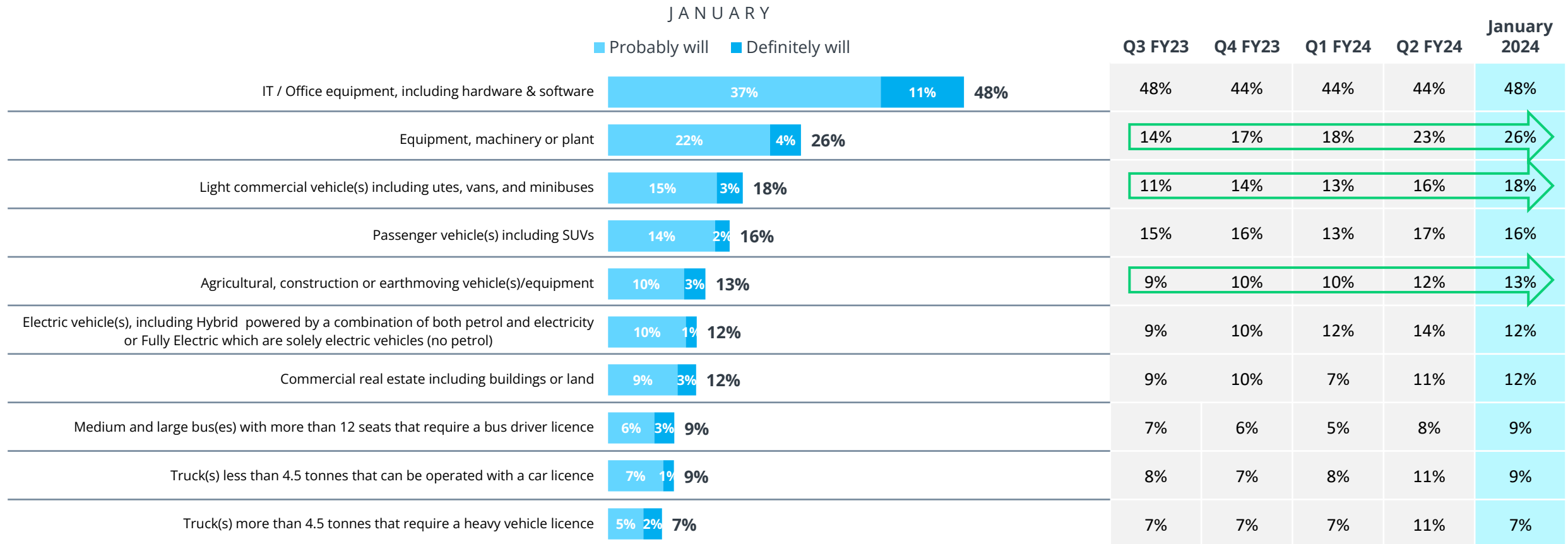


### MARKETING SPEND



Notable growth in investment intentions over the past 12 months for plant and equipment, heavy machinery and light commercial vehicles.

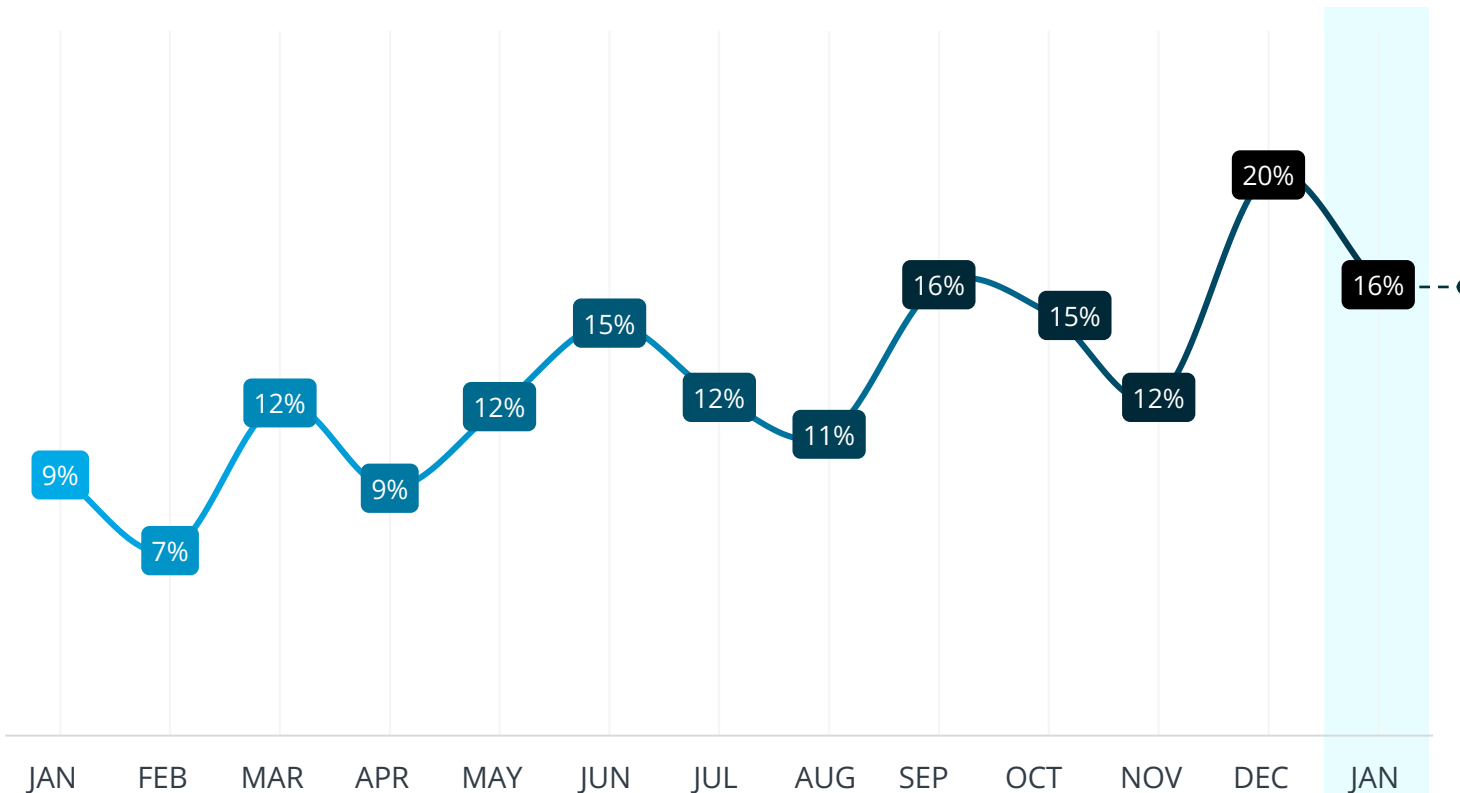
## WHICH OF THE FOLLOWING WILL YOU PURCHASE FOR YOUR BUSINESS OVER THE NEXT 3 MONTHS?



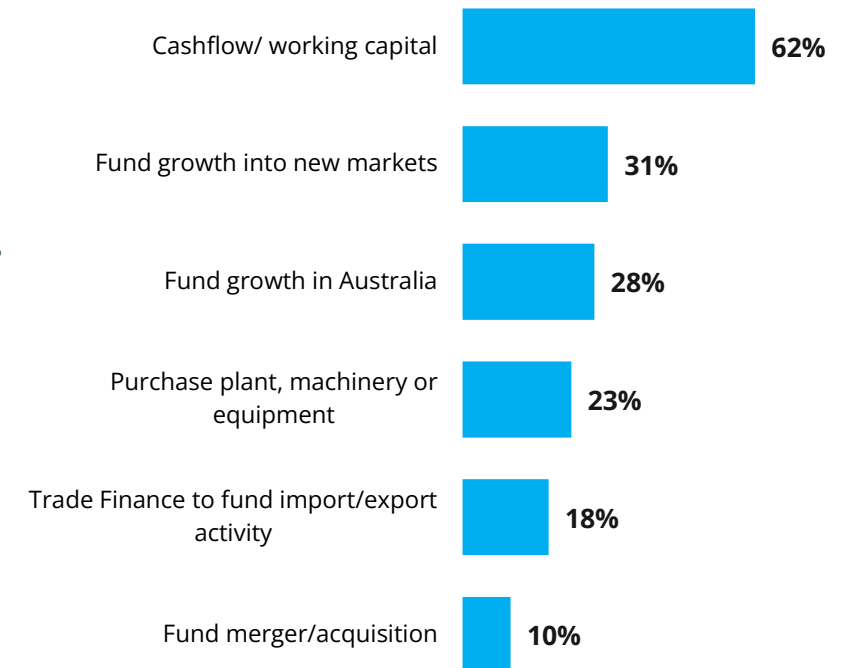
# Business Investment | Finance Needs (Next 3 months)

After a spike in December, the proportion of SMEs looking for additional finance has reverted to similar levels reported in the last quarter of 2023.

## SMEs THAT WILL REQUIRE ADDITIONAL FINANCE OVER THE NEXT 3 MONTHS



## AND WHAT IS THE PURPOSE OF THIS FINANCE?





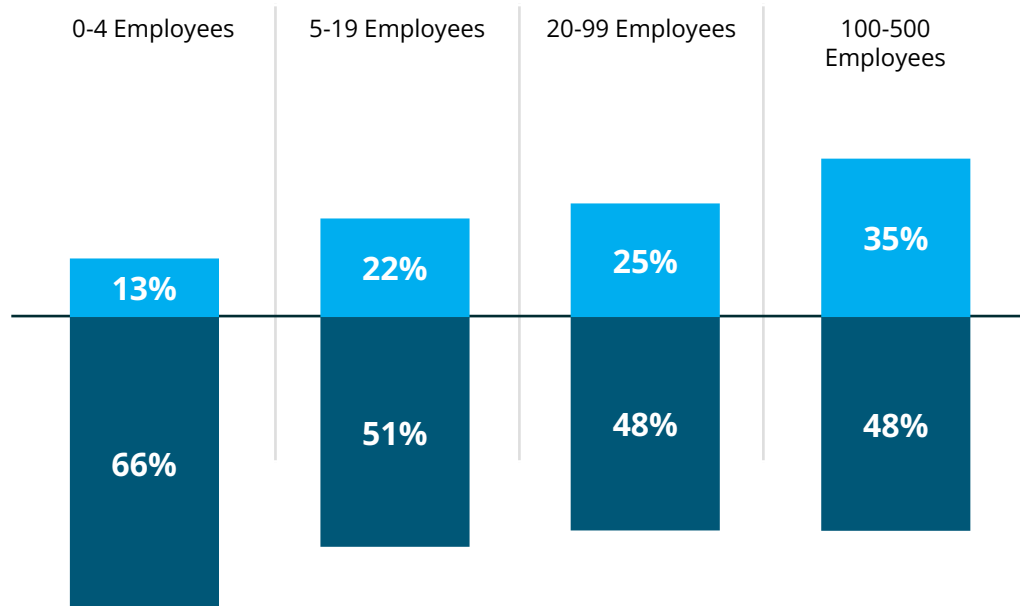
# Business Investment | Finance Needs (Next 3 months)

The largest SMEs and those in hospitality and production are most in need of additional finance.

## WILL YOU REQUIRE ANY ADDITIONAL FINANCE OVER THE NEXT 3 MONTHS?

3 - MONTH ROLLING AVERAGE

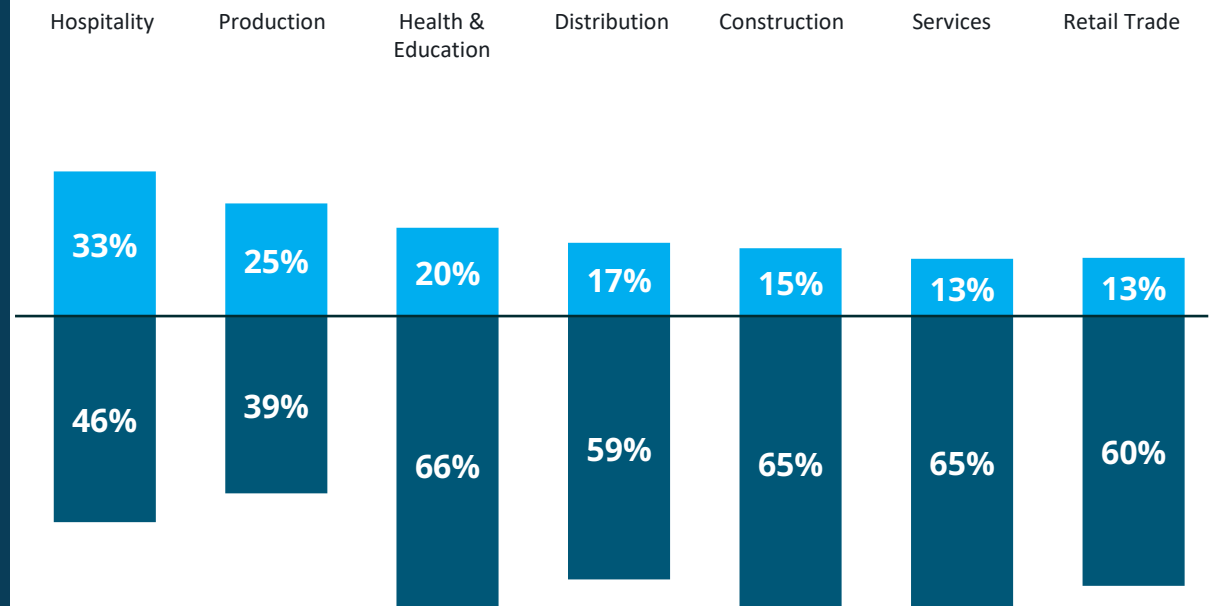
■ Yes ■ No



## DEMAND FOR FINANCE BY INDUSTRY

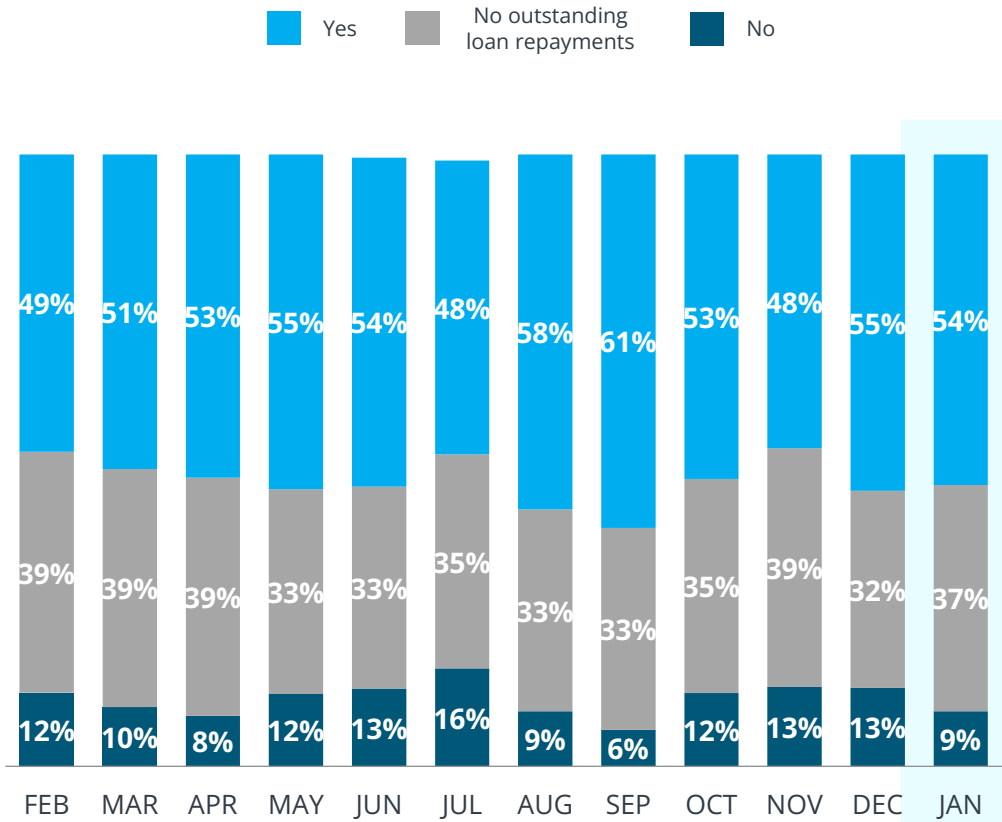
3 - MONTH ROLLING AVERAGE

■ Yes ■ No



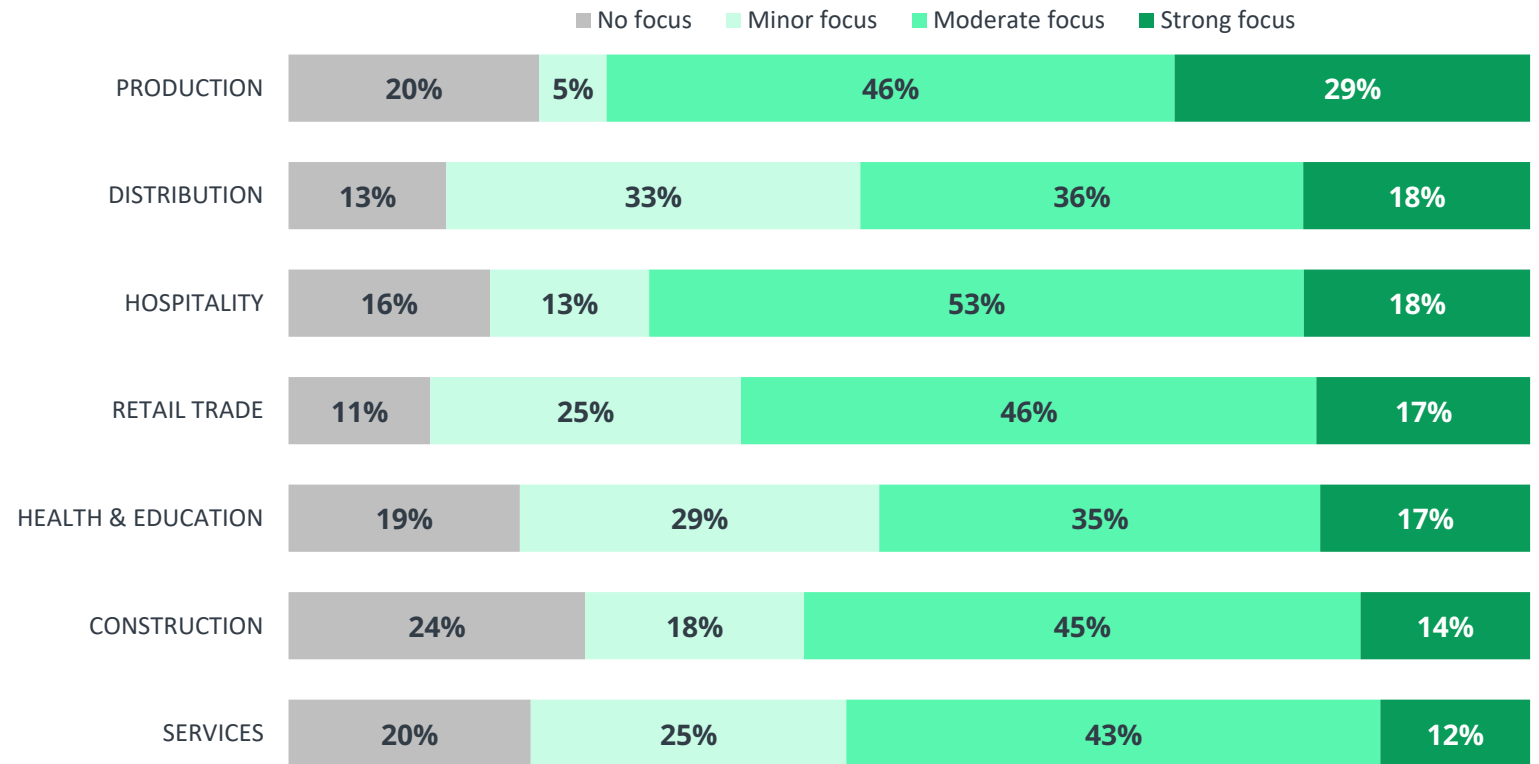
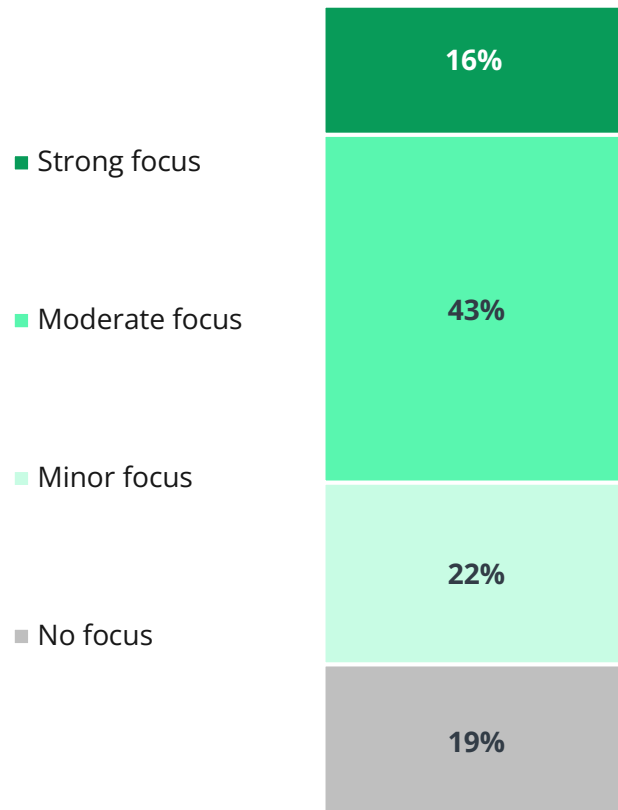
With a very low likelihood of further rate hikes, confidence in the ability to meet loan repayments has improved.

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



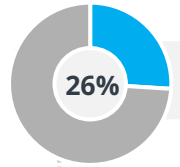
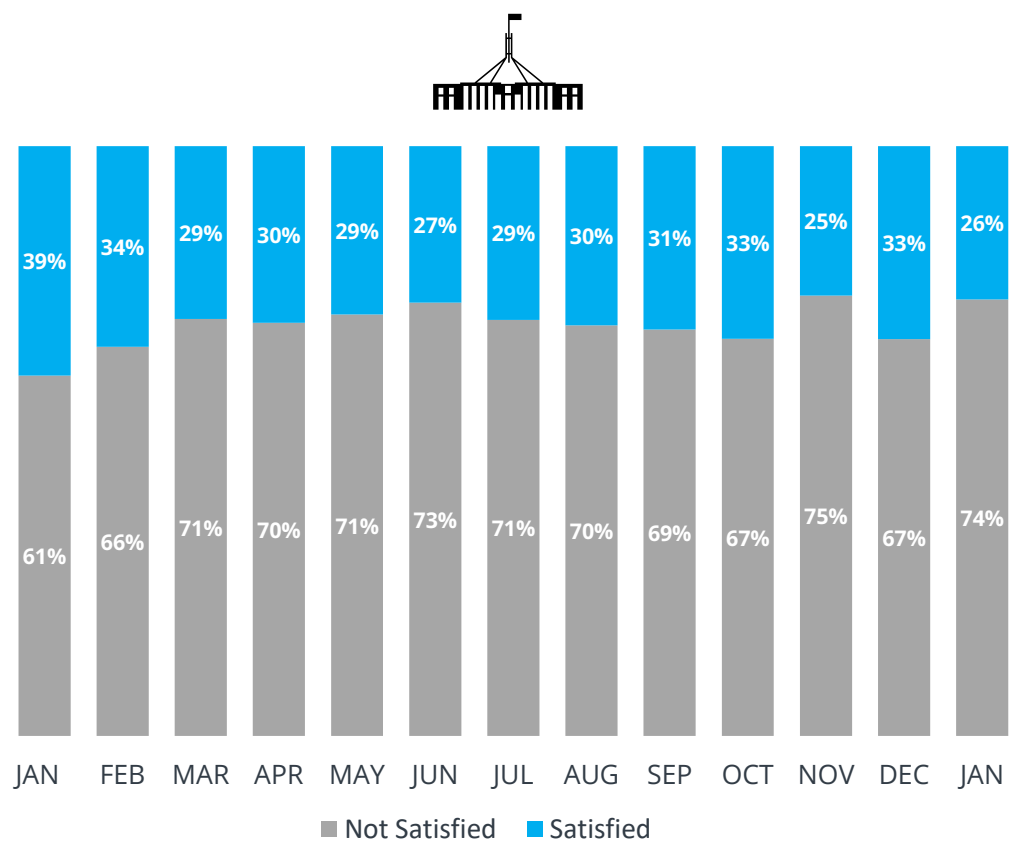
Only 16% of SMEs have a strong focus on sustainability, with the production sector having the highest amount with a strong focus.

## HOW MUCH FOCUS DO YOU HAVE ON SUSTAINABILITY IN YOUR BUSINESS?

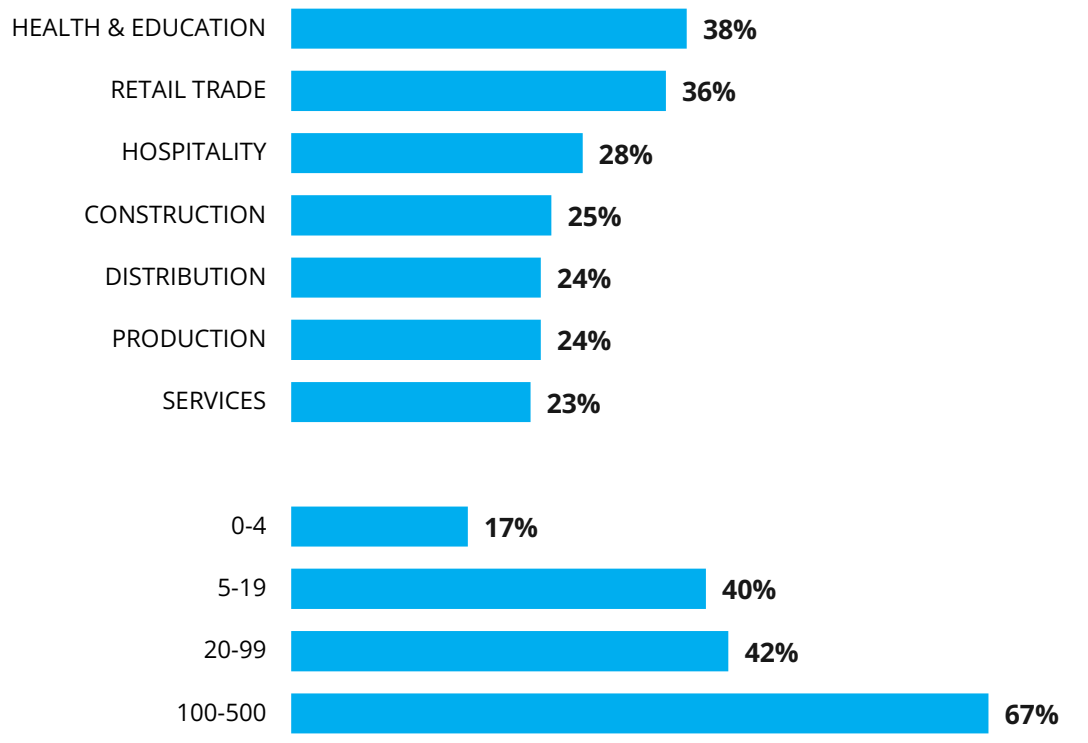


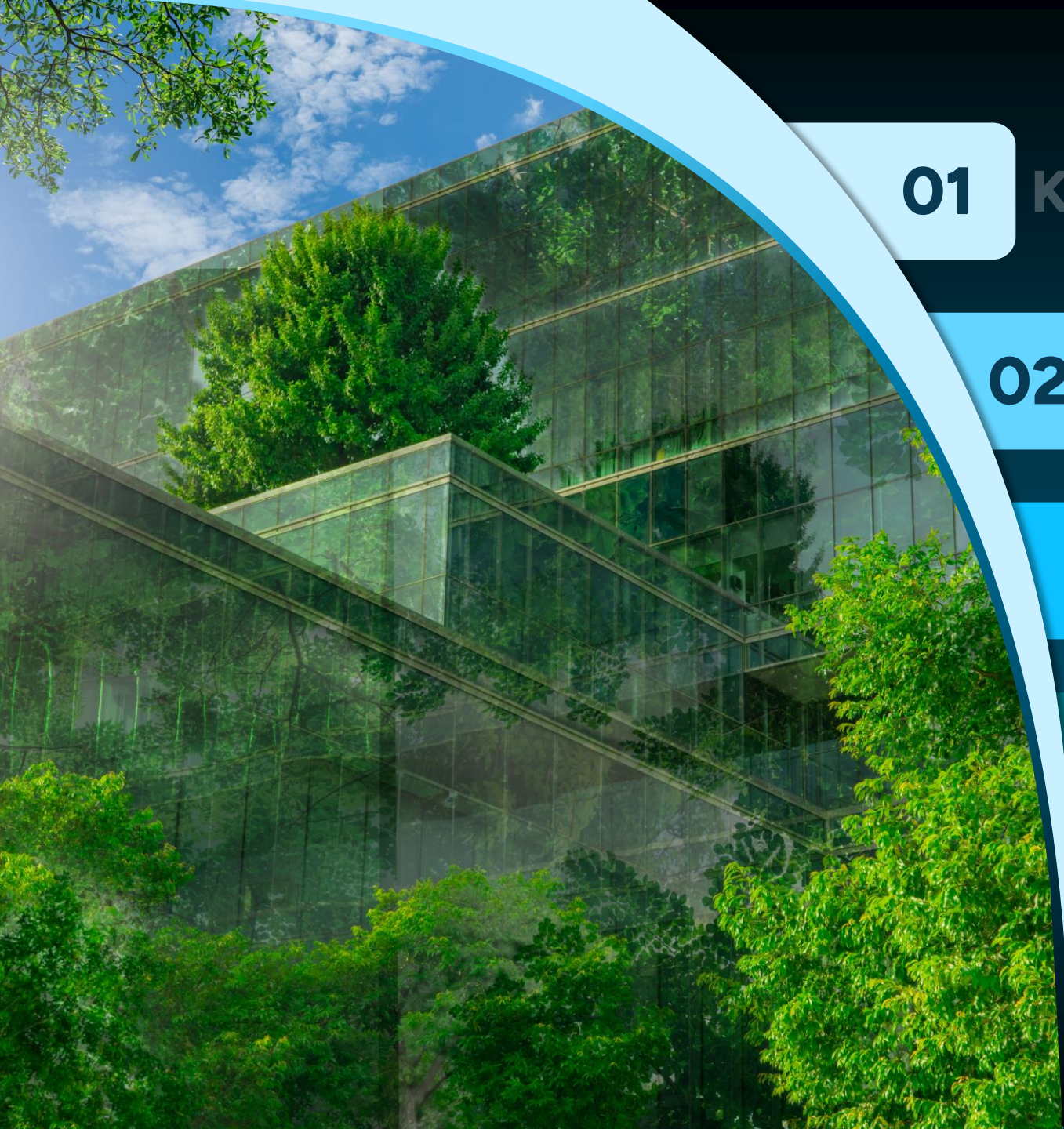
Satisfaction levels with the Federal Government have significantly declined, particularly among smaller businesses. This downturn seems to be influenced by the recent amendments to the stage 3 tax cuts.

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



### January 2024





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**Key Performance Indicators**

**02**

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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

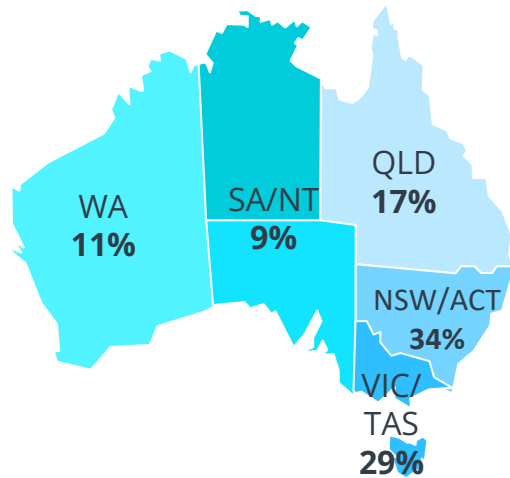


Data is **weighted** by industry, state and number of employees to reflect the national distribution of businesses across the country

# Our Sample

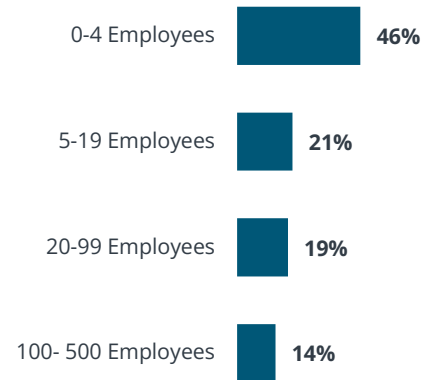
Key decision makers and influencers at SMEs across all states and territories responded to the survey. We target SMEs across all sizes and industry sectors. Data is weighted to reflect the actual distribution by industry, number of employees and state.

## HEAD OFFICE LOCATION

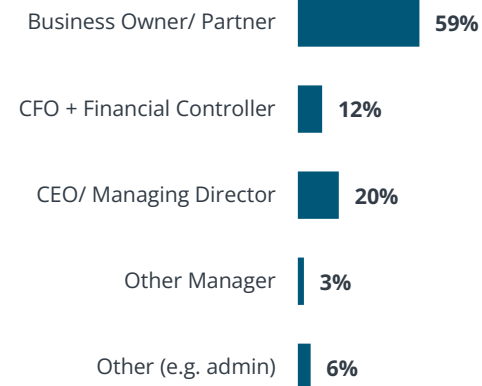


NOTE: CHARTS SHOW UNWEIGHTED DATA

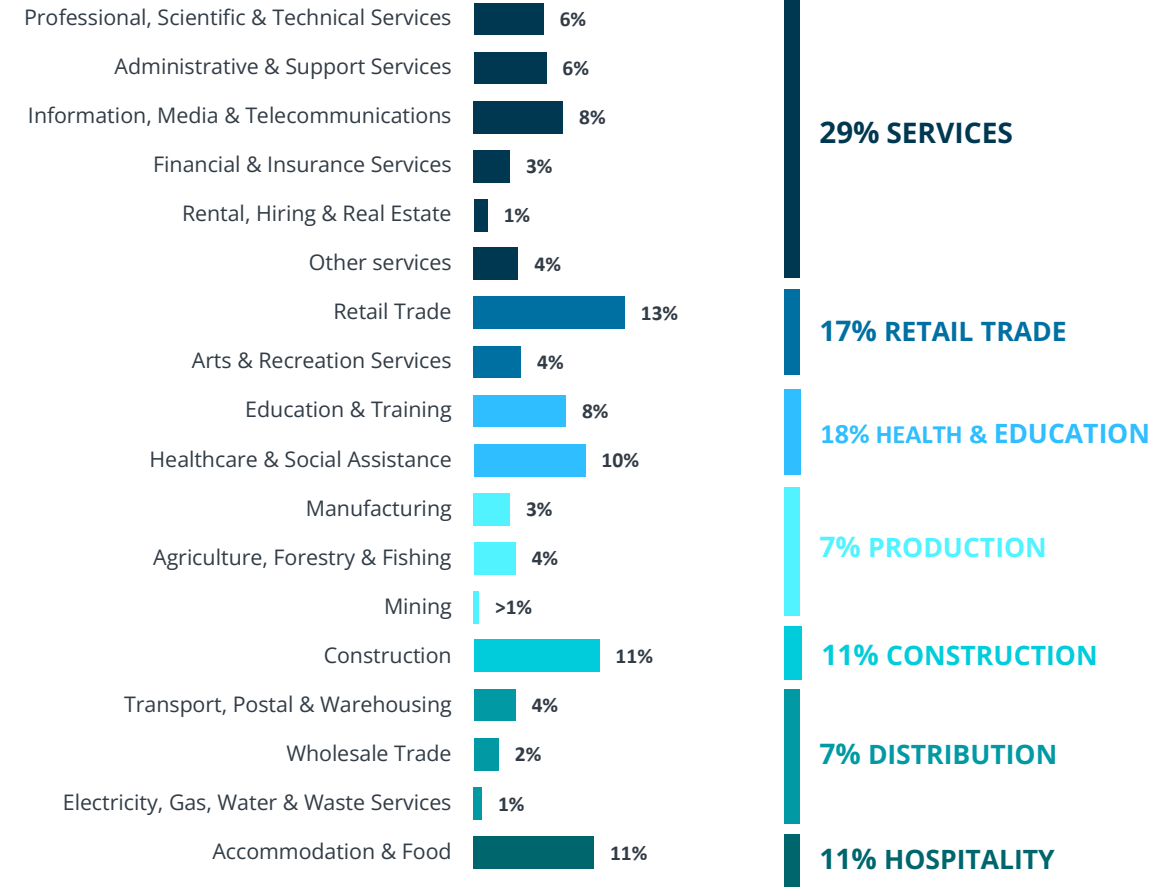
## SIZE OF BUSINESS: EMPLOYEES



## POSITION IN BUSINESS



## INDUSTRY SECTOR



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**Thank You**

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