



Small & Medium Enterprise Sentiment Tracker

Wave 82 – December 2025



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 both the Australian and global economies recovered slightly in December



Revenue and profit indicators were both weaker than in December 2024



37% of SMEs are planning for growth over the next 12 months up from 34% in November



Only 9% of SMEs are currently hiring down from 19% in October

Tighter Margins and Softer Hiring to Kick off 2026

SME confidence softened further in December as weaker trading conditions, ongoing cost pressures and heightened political and global uncertainty weighed on sentiment. While revenues were broadly in line with November, performance was weaker than December 2024. Declining cost recovery continues to place pressure on margins, with fewer SMEs able to pass rising input costs through to customers, reflecting increasingly competitive conditions.

Profitability remains under pressure, and expectations for staff numbers have continued their negative trend since October, now sitting well below 2024 levels. Hiring activity has fallen to a 12-month low, with fewer SMEs actively filling roles. Despite this slowdown, recruitment challenges persist, driven by a lack of applications from suitably skilled candidates indicating a reluctance among candidates to change jobs in this environment.

Growth aspirations, however, remain relatively resilient. More than a third of SMEs are still looking to expand over the next 12 months, in line with December 2024 and an improvement on November. Growth sentiment has rebounded across both employee size cohorts, with larger SMEs recording their strongest growth outlook since February 2025, highlighting a growing divergence by business size.

Demand for finance increased through December as SMEs navigate the quieter period, particularly among Hospitality, Construction and Distribution businesses. Encouragingly, loan stress remains low and stable, sitting below 10% for the third consecutive month and well below 2024 levels.

SMEs finish 2025 facing a challenging operating environment characterised by margin pressure, softer hiring conditions and elevated uncertainty. However, contained financial stress and steady growth ambitions, particularly among larger businesses, suggest many SMEs are entering 2026 in a position of cautious optimism.



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Key Performance Indicators

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People

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Business Sentiment

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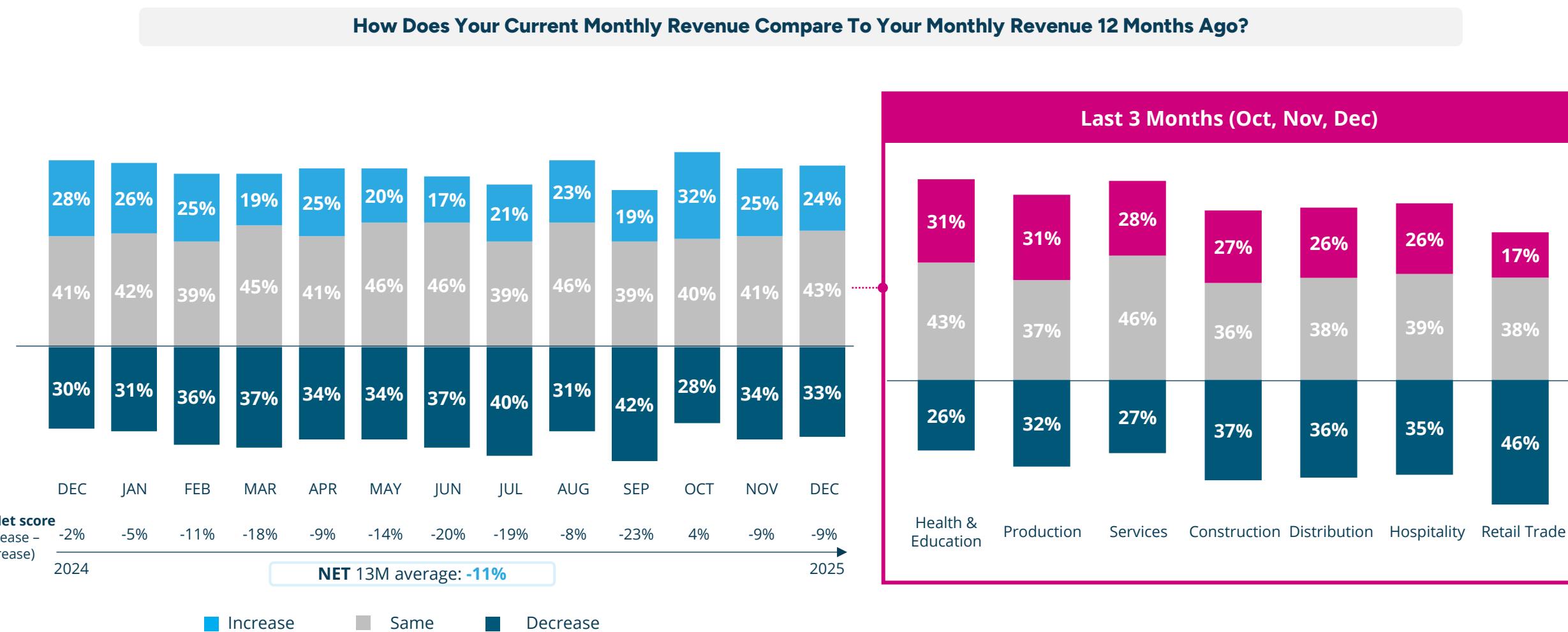
Business Investment

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Methodology & Sample

Key Performance Indicators | Revenue

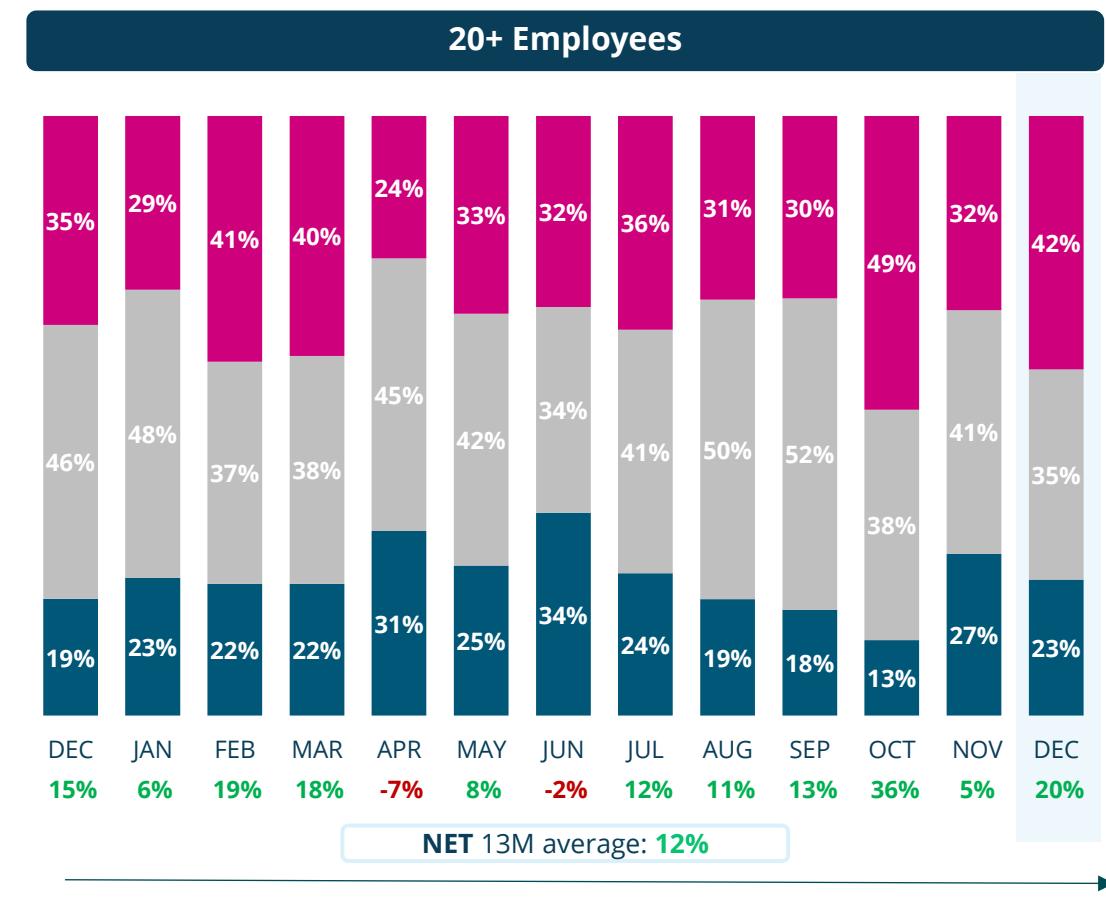
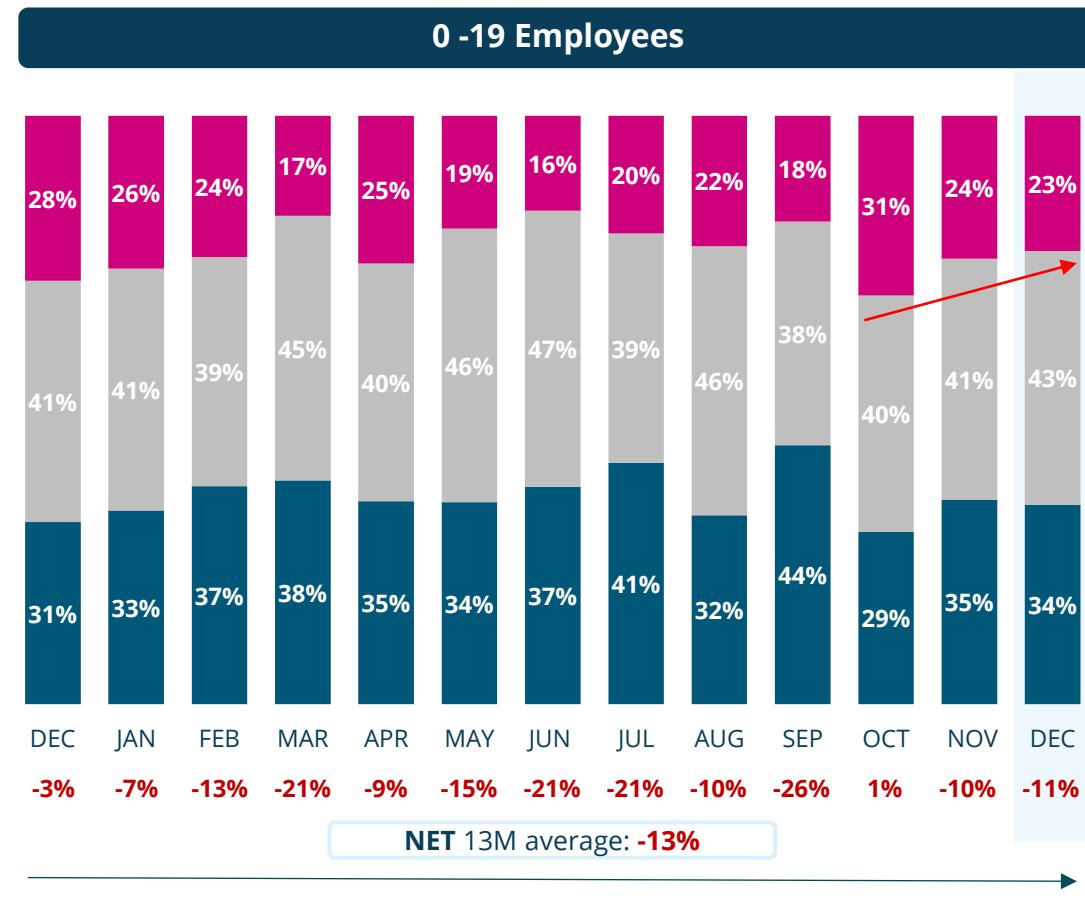
SME revenues in December were broadly in line with November but weaker than December 2024 levels.



Key Performance Indicators | Revenue

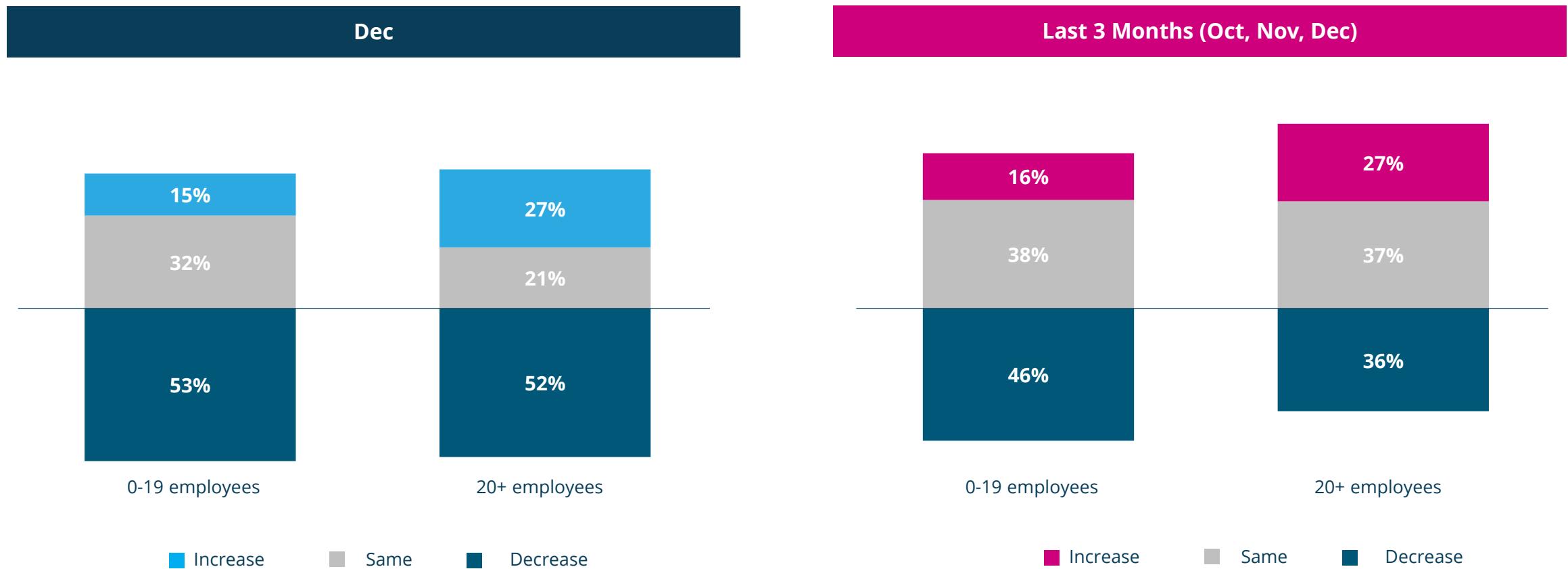
Larger SMEs (20+ employees) enjoyed a stronger December, while revenues amongst their smaller counterparts continue to trend lower.

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



The retail sector remains under pressure, with smaller employers (0-19 employees) finding the current economic environment particularly challenging over the past three months.

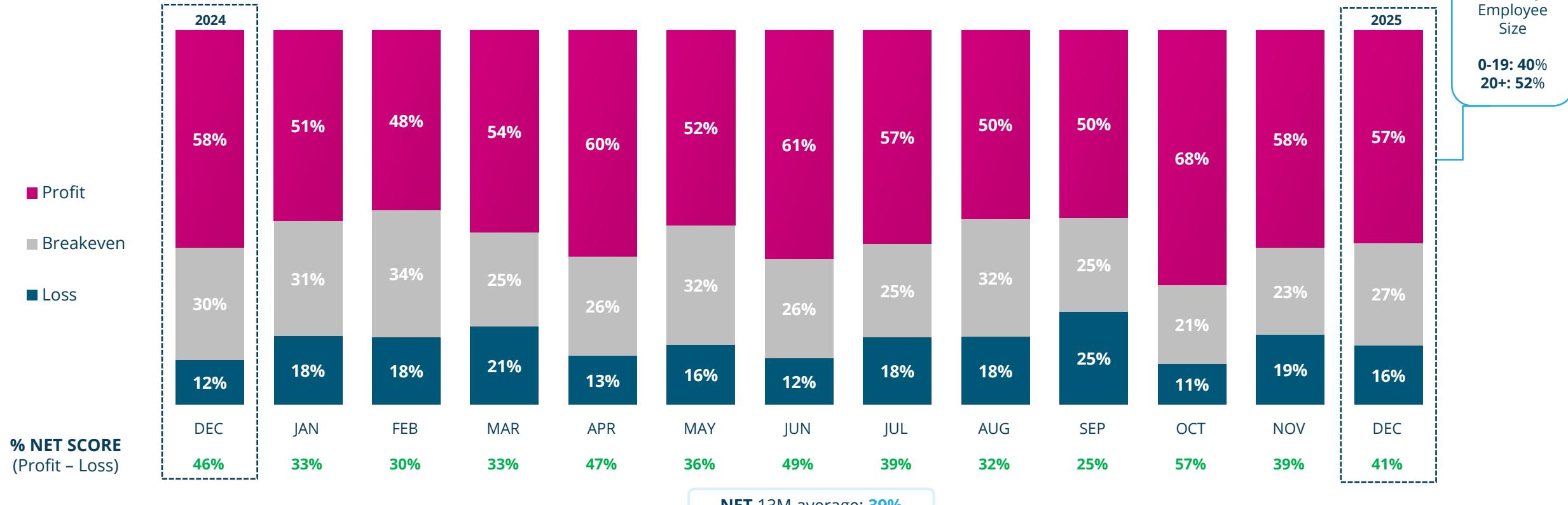
How Does Your Current Monthly Revenue Compare To Your Monthly Revenue 12 Months Ago?



Key Performance Indicators | Profit

In line with softer revenue, December profit performance has also eased from the October peak and are slightly weaker than December 2024.

What Was Your Profit Margin Last Month?



Product/service consolidation continues to be the key cost management initiative spiking to the highest levels recorded over the past 6 months.

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

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

Key Performance Indicators | Cost Recovery

Consistent with the decline in reported profits, cost recovery deteriorated sharply in December, falling to its lowest level since January, with fewer than two in three SMEs able to pass rising input costs on to customers.

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

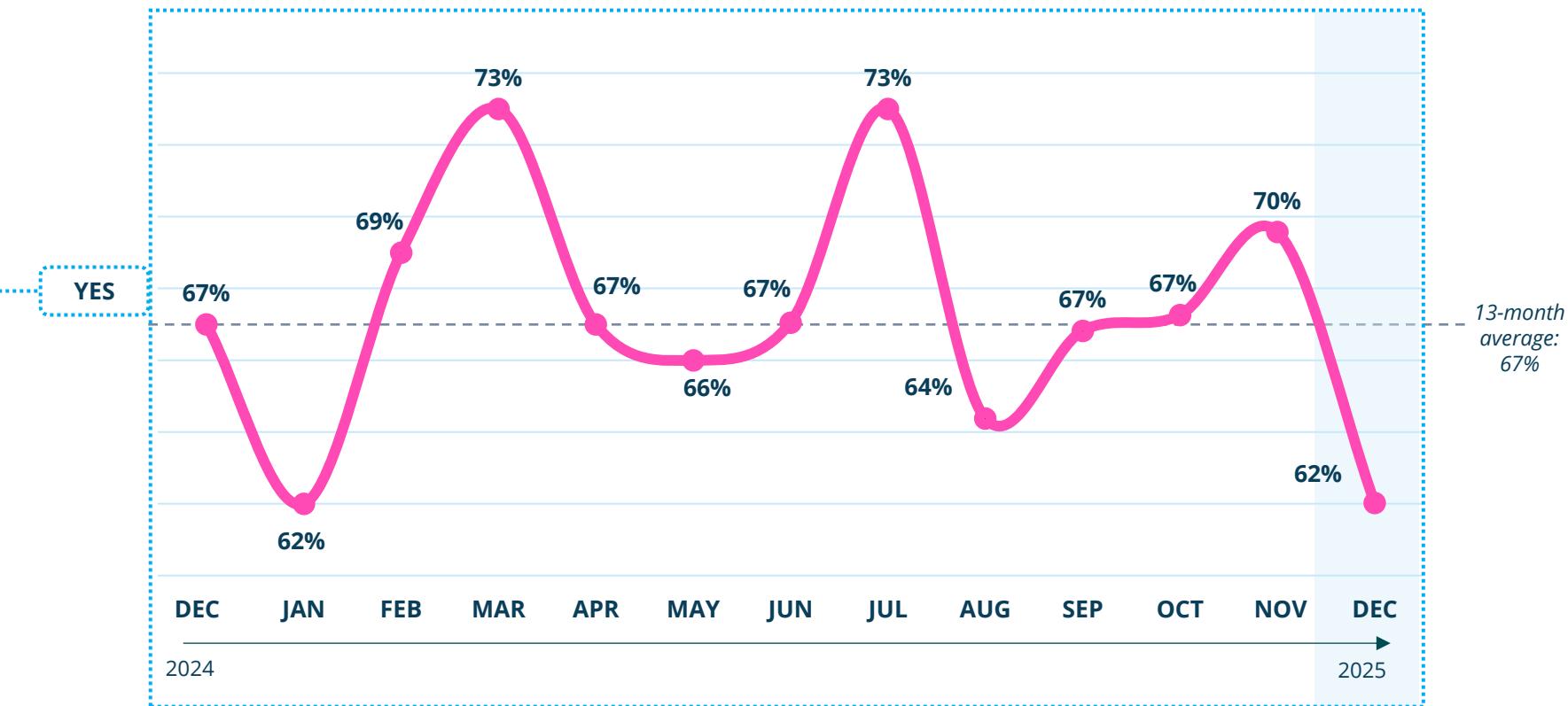
December

Yes, but only partially
50%

Yes, I have been able to fully offset higher input costs with higher prices
9%

Yes, I have been able to pass on more than the input cost increase
3%

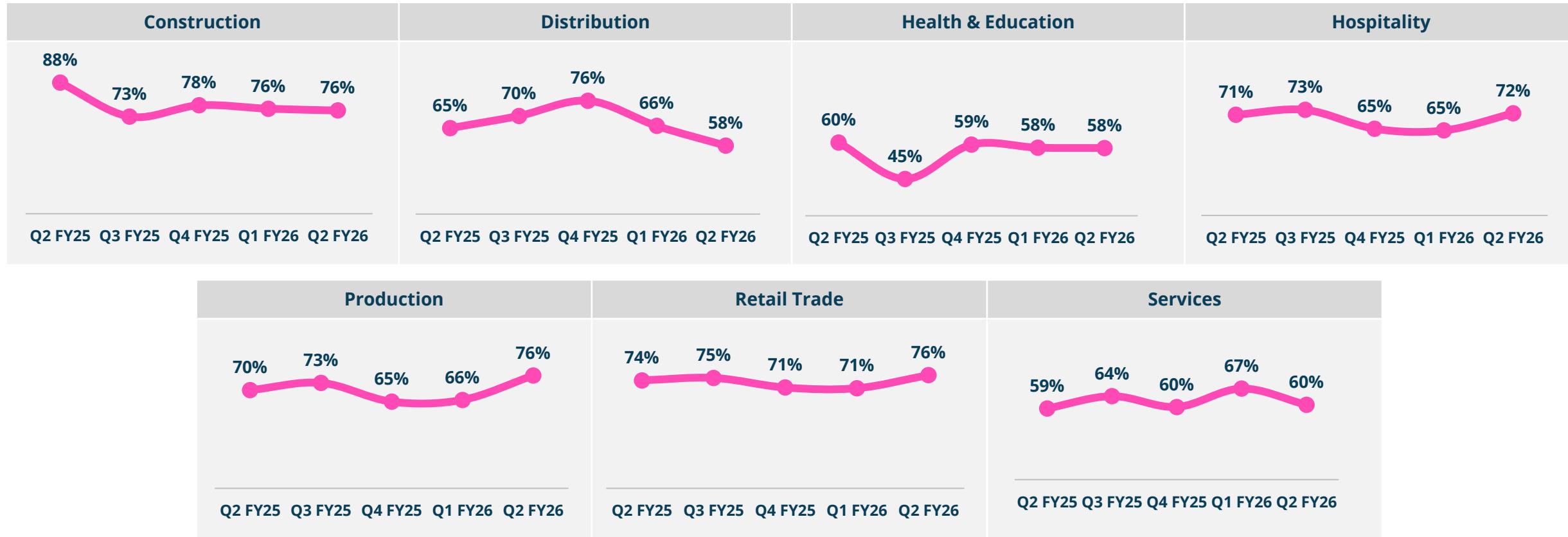
No
38%



Key Performance Indicators | Cost Recovery

Cost recovery in the Distribution sector has continued to decline over the past six months, underlining the highly competitive dynamics of the sector.

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





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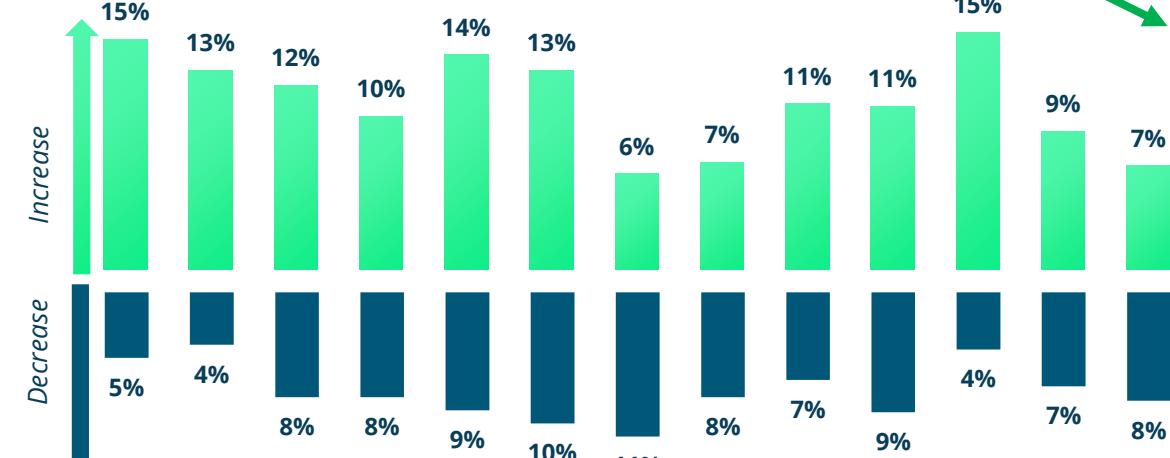
05 Methodology & Sample

Key Performance Indicators | People

Expectations for staff numbers over the next three months have continued their negative trend since October and are now significantly lower than in December 2024.

Expectations Over The Next 3 Months Regarding Staff

The Number Of Staff You Employ



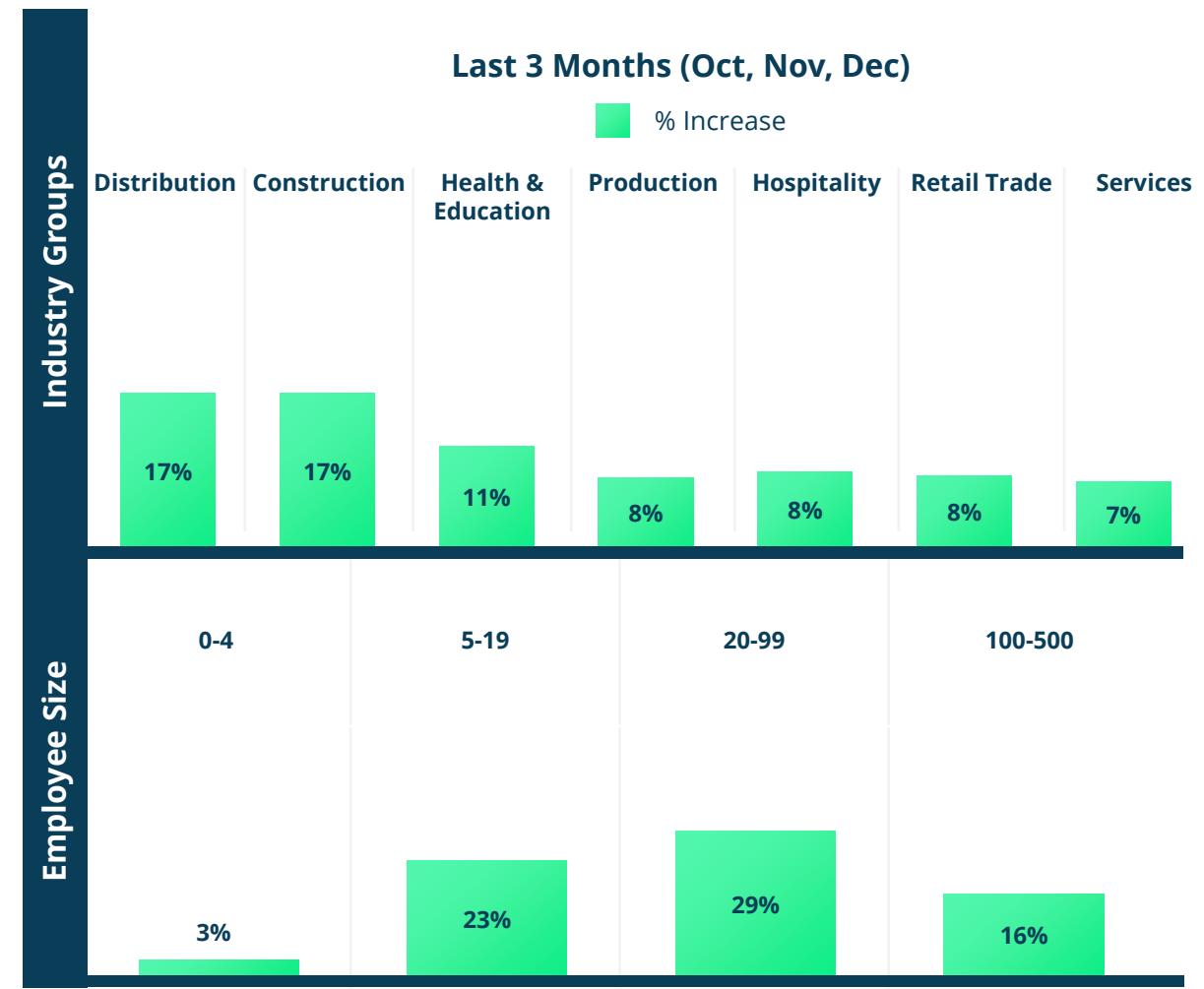
% Net score (Increase - Decrease)
 DEC -10%
 JAN 9%
 FEB 4%
 MAR 2%
 APR 5%
 MAY 3%
 JUN -5%
 JUL -1%
 AUG 4%
 SEP 4%
 OCT 11%
 NOV 2%
 DEC 1%

NET 13M average: 4%

2025

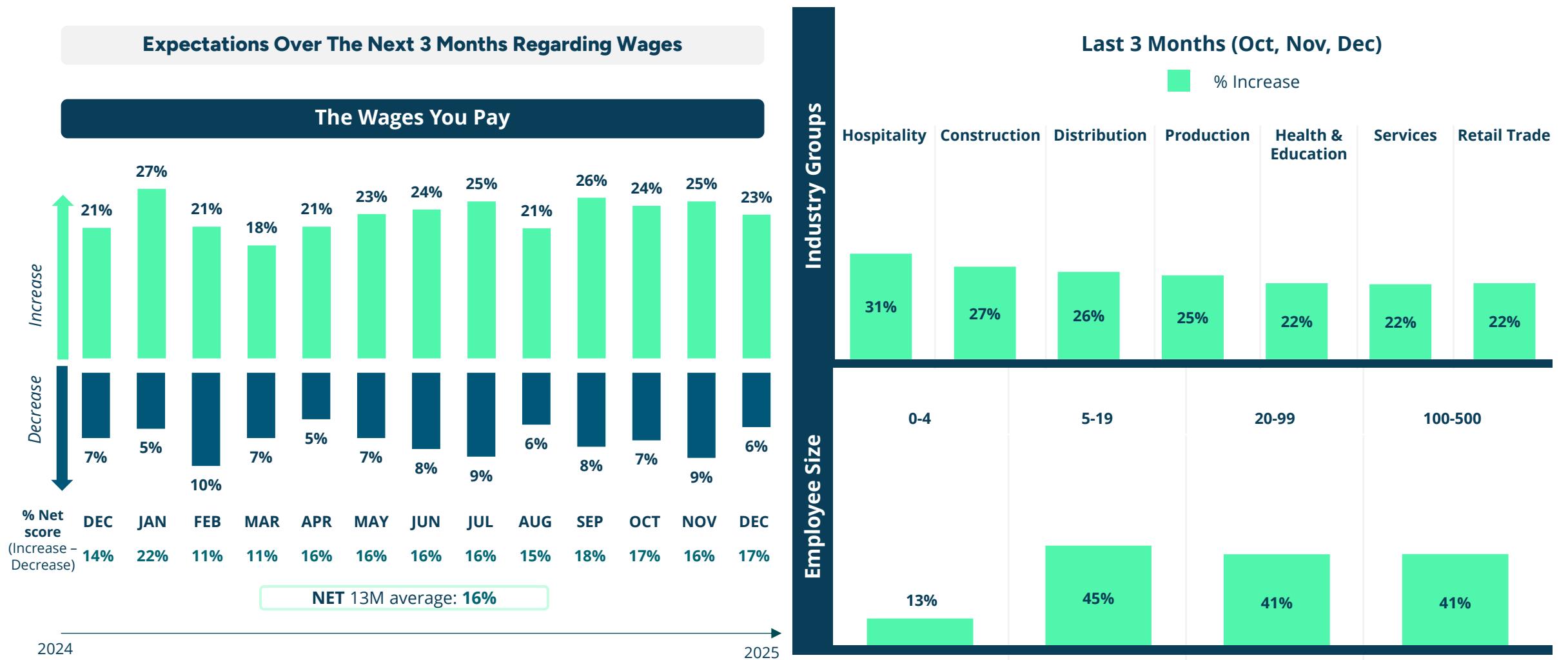
Last 3 Months (Oct, Nov, Dec)

% Increase



Key Performance Indicators | People

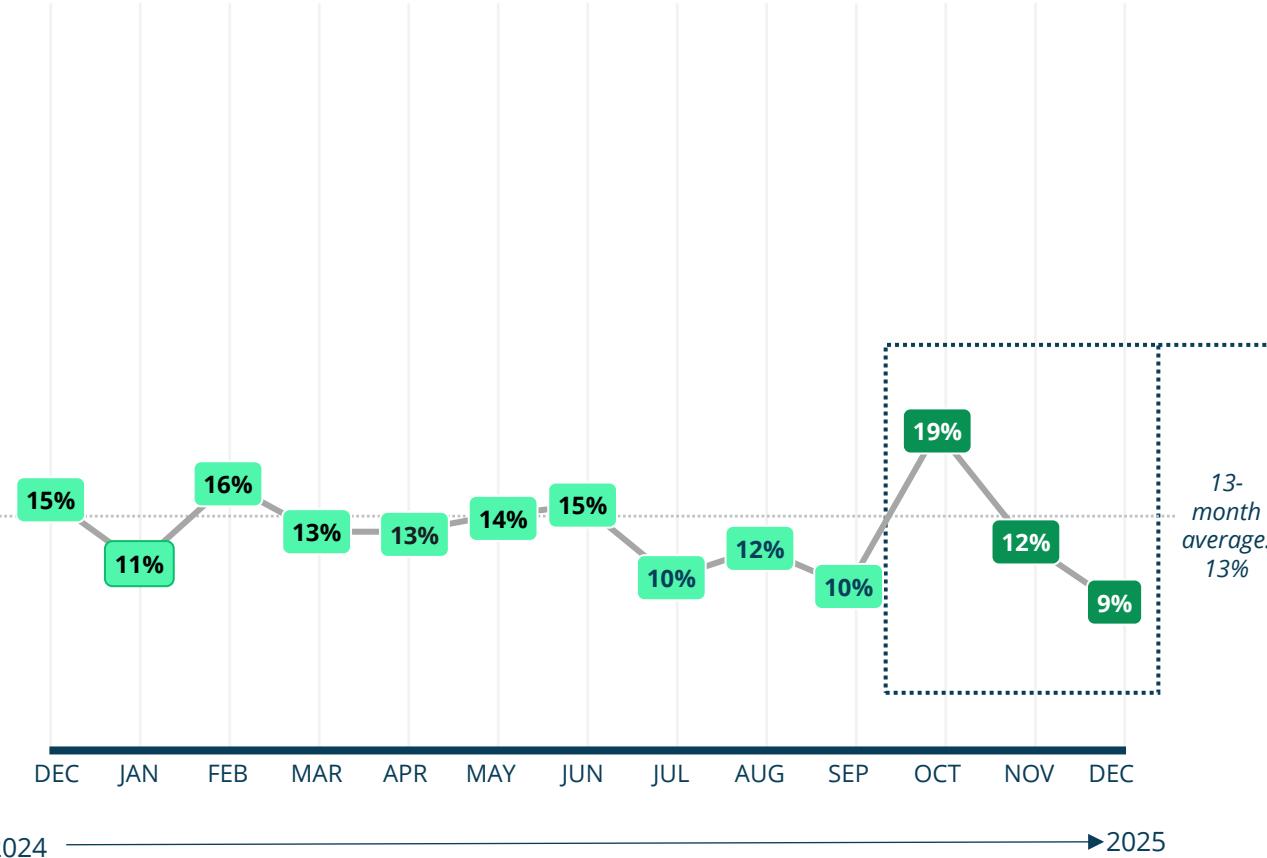
Expectations for wage increases over the next three months remain stable, consistent with both last month's results and the same period last year.



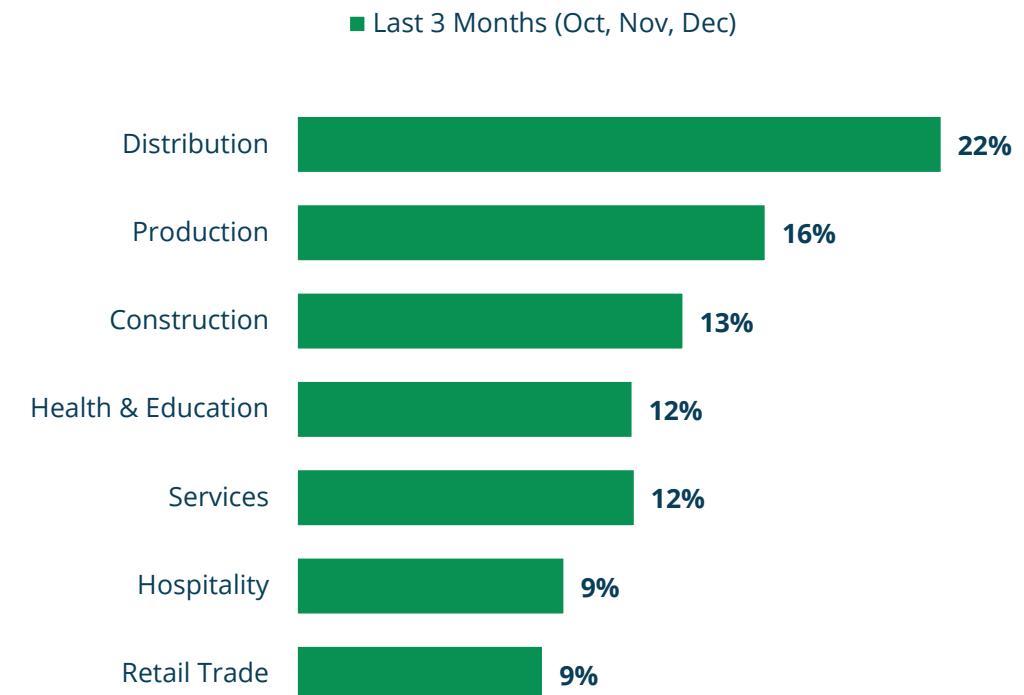
Key Performance Indicators | People

Consistent with hiring intention data, the proportion of SMEs currently filling roles has fallen to its lowest level in the past year, declining by 10 percentage points from 19% in October to 9% in December.

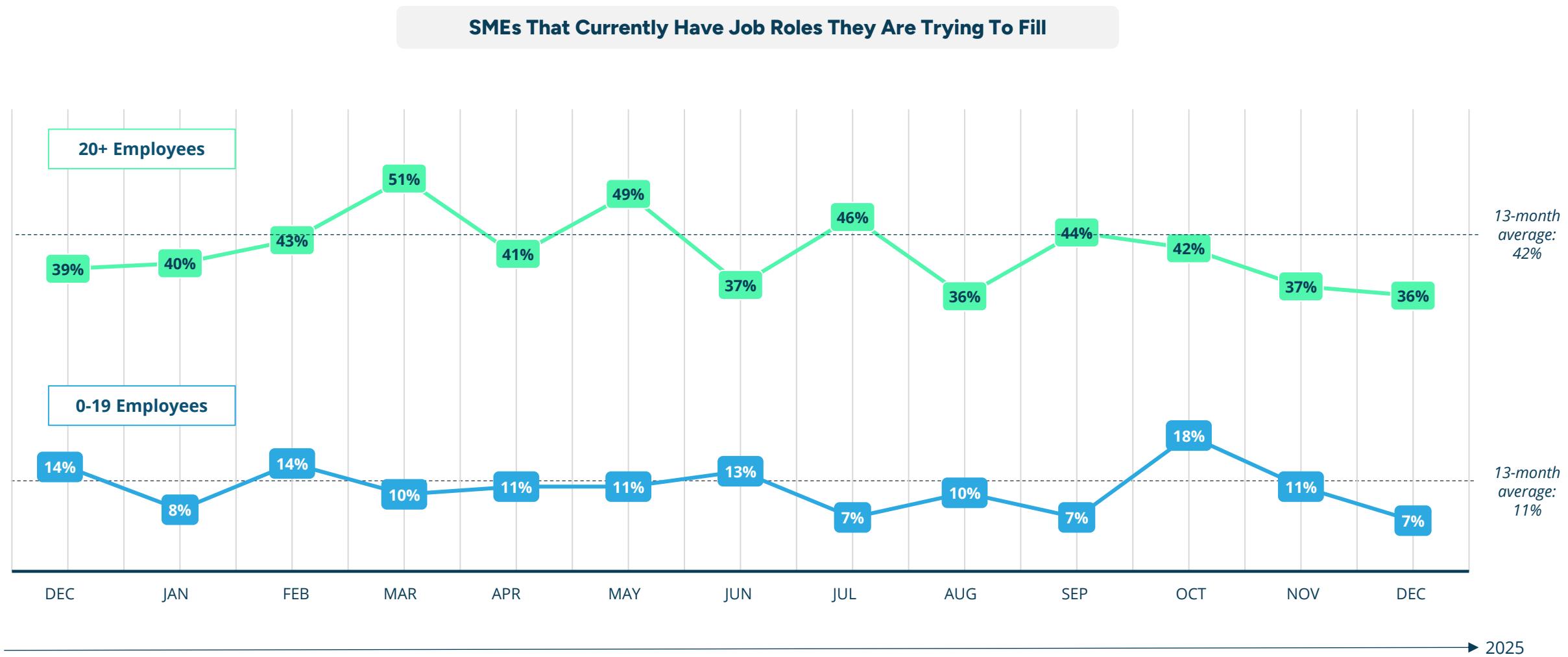
SMEs That Currently Have Job Roles They Are Trying To Fill



Current Job Vacancies By Industry



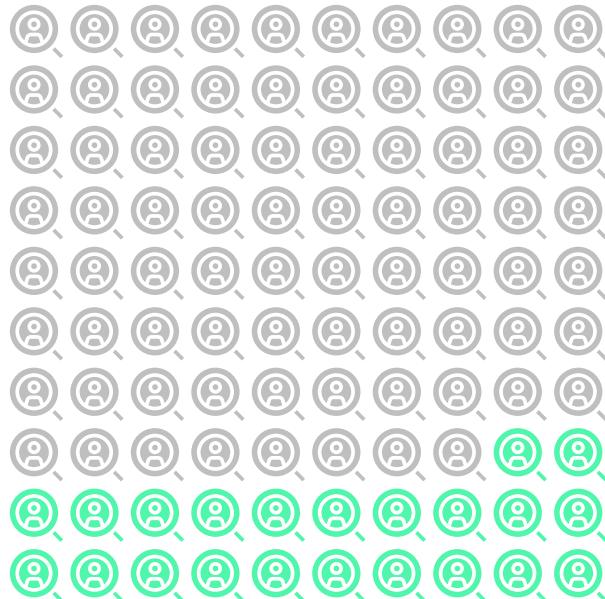
Hiring activity has continued to weaken across both employee cohorts, with both now tracking well below the annual average.



Recruitment activity in FY26 continues to track lower than the previous two years.

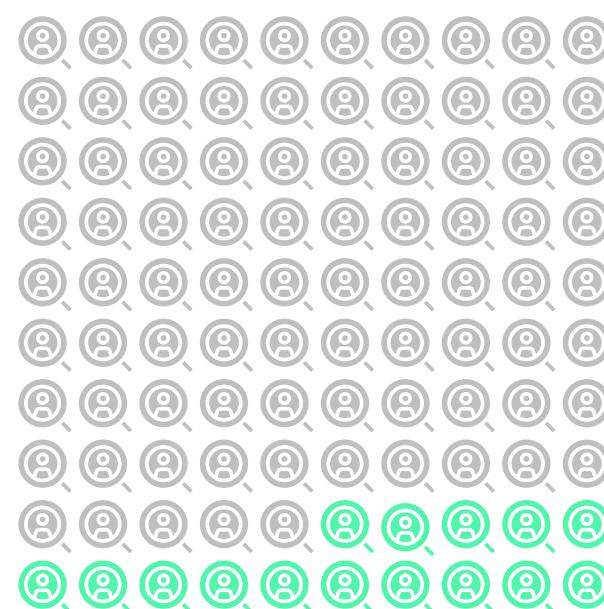
SMEs That Currently Have Job Roles They Are Trying To Fill

FY24



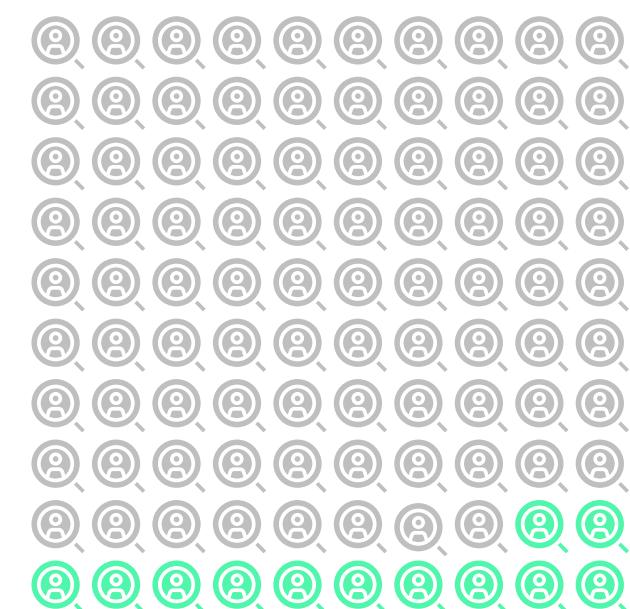
22% with job vacancies

FY25



15% with job vacancies

FY26



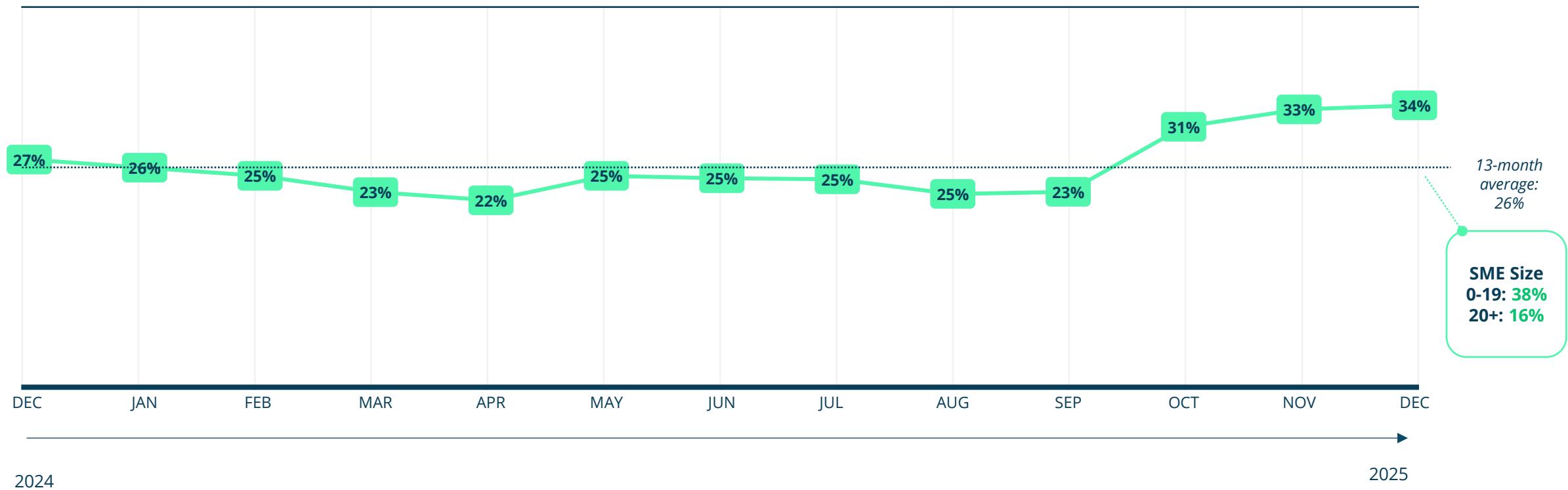
12% with job vacancies

Despite recruitment activity declining, hiring challenges persist, particularly for smaller SMEs

How Difficult Is It To Fill These Roles?

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

● Very Difficult



Key Performance Indicators | People

A lack of applications from suitably skilled candidates remains the primary barrier to filling roles, suggesting that many potential candidates are reluctant to change jobs in the current environment.

Why Is It Difficult To Fill Job Roles?

	Dec	Q1 FY25	Q2 FY25	Q3 FY25	Q4 FY25	Q1 FY26	Q2 FY26
Lack of skilled/qualified candidates	 56%	58%	58%	55%	54%	66%	64%
Wage demands too high	 56%	34%	40%	47%	48%	42%	45%
Too much competition from other businesses	 37%	21%	28%	18%	26%	13%	19%
Candidates are not willing to work the hours required	 16%	30%	29%	32%	26%	24%	22%
Not enough candidates are applying	 13%	36%	42%	47%	34%	40%	34%
Lack of backpackers/migrant workers	 9%	7%	6%	7%	14%	12%	11%



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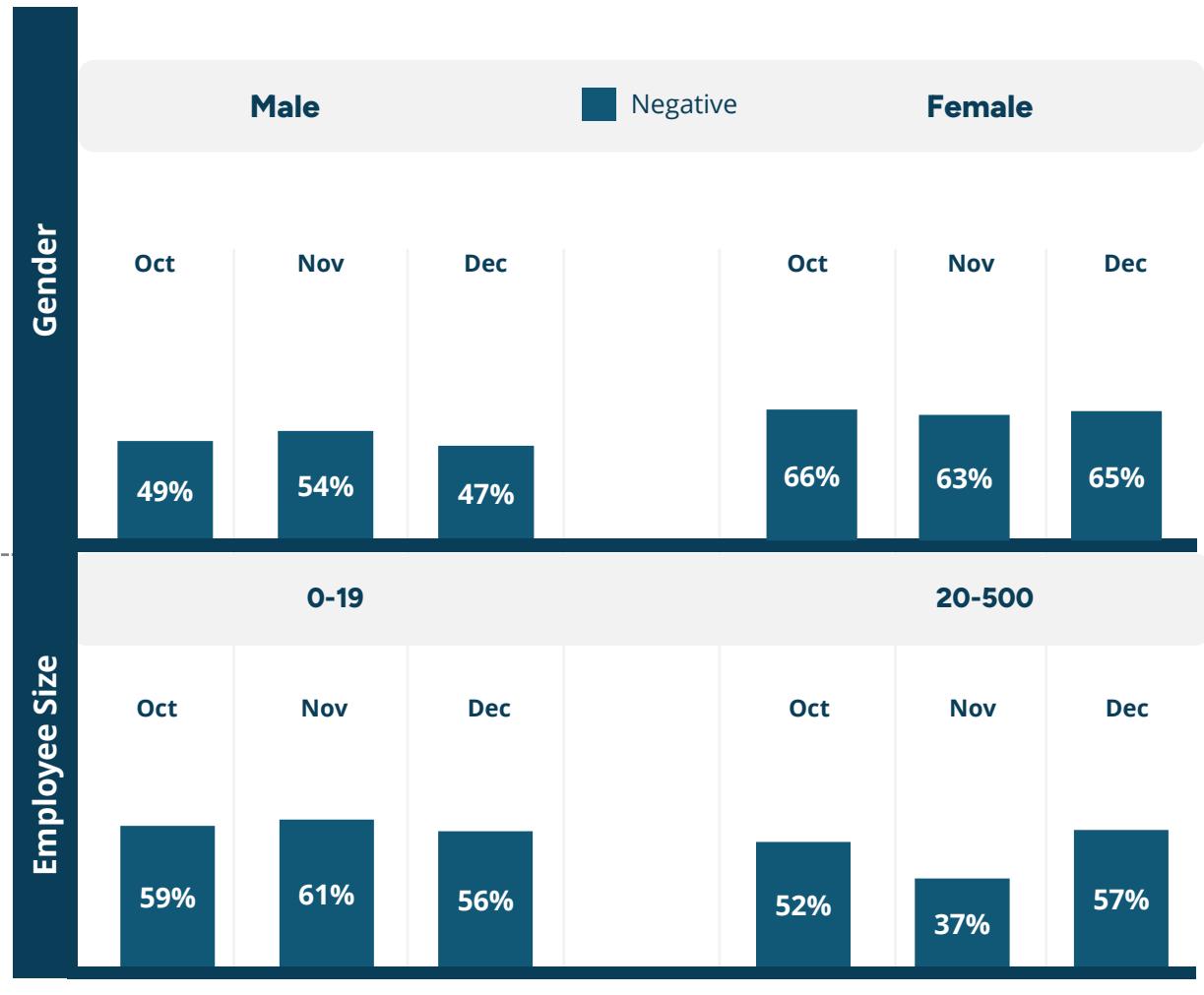
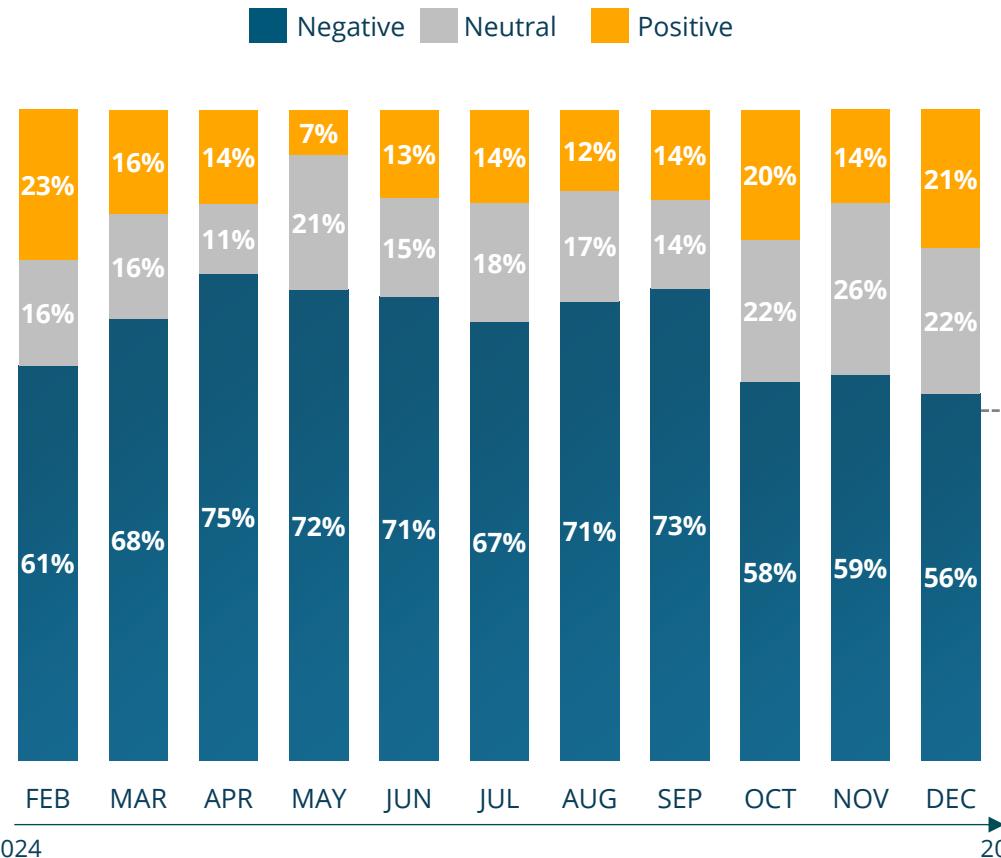
04 Business Investment

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Business Sentiment | Expectations Regarding Economic Conditions

Sentiment towards the Trump Administration continues to fluctuate in response to ongoing domestic and global policy initiatives, with this volatility likely to persist in the near term.

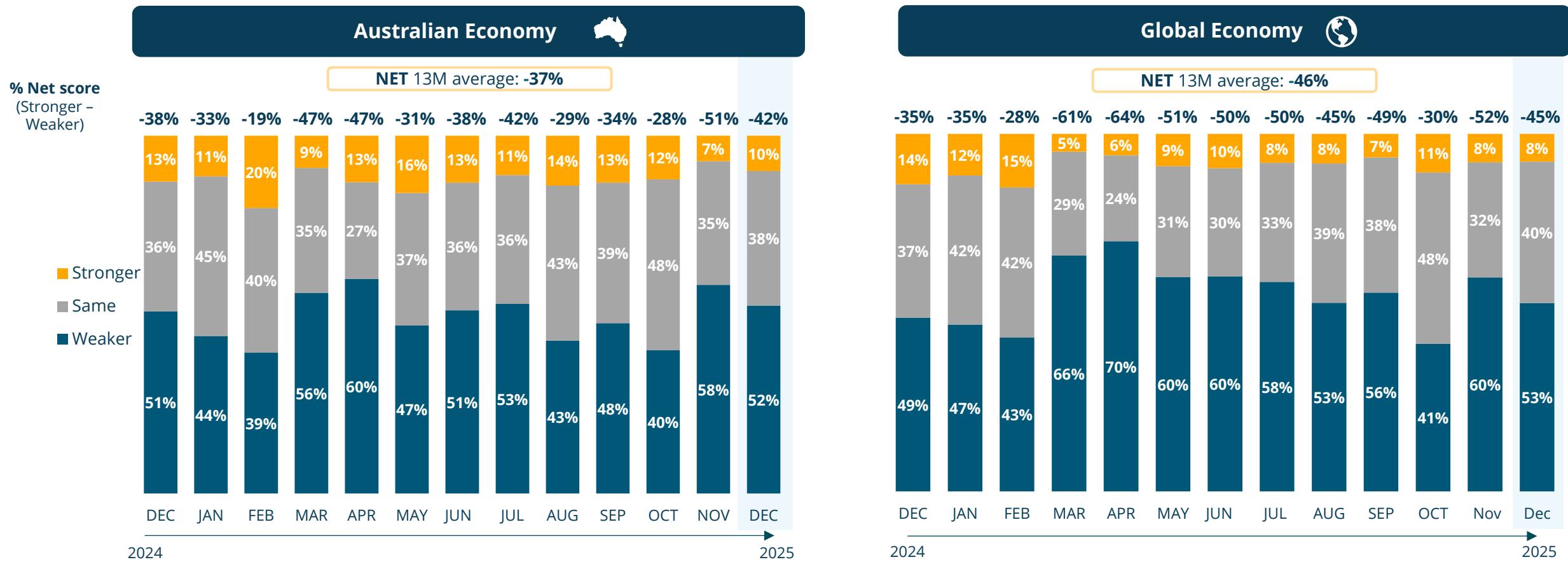
What impact will the Trump Administration have on the Australian economy?



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

Confidence in both the Australian and global economies recovered slightly in December, but both remain lower than the corresponding period last year.

Expectations Over The Next 3 Months Regarding Economic Conditions



Several key challenges intensified in December, pointing to a difficult start to 2026. While customer behaviour and broader economic pressures remain the dominant concerns, compliance, cyber threats, and supply chain resilience were also elevated in December.

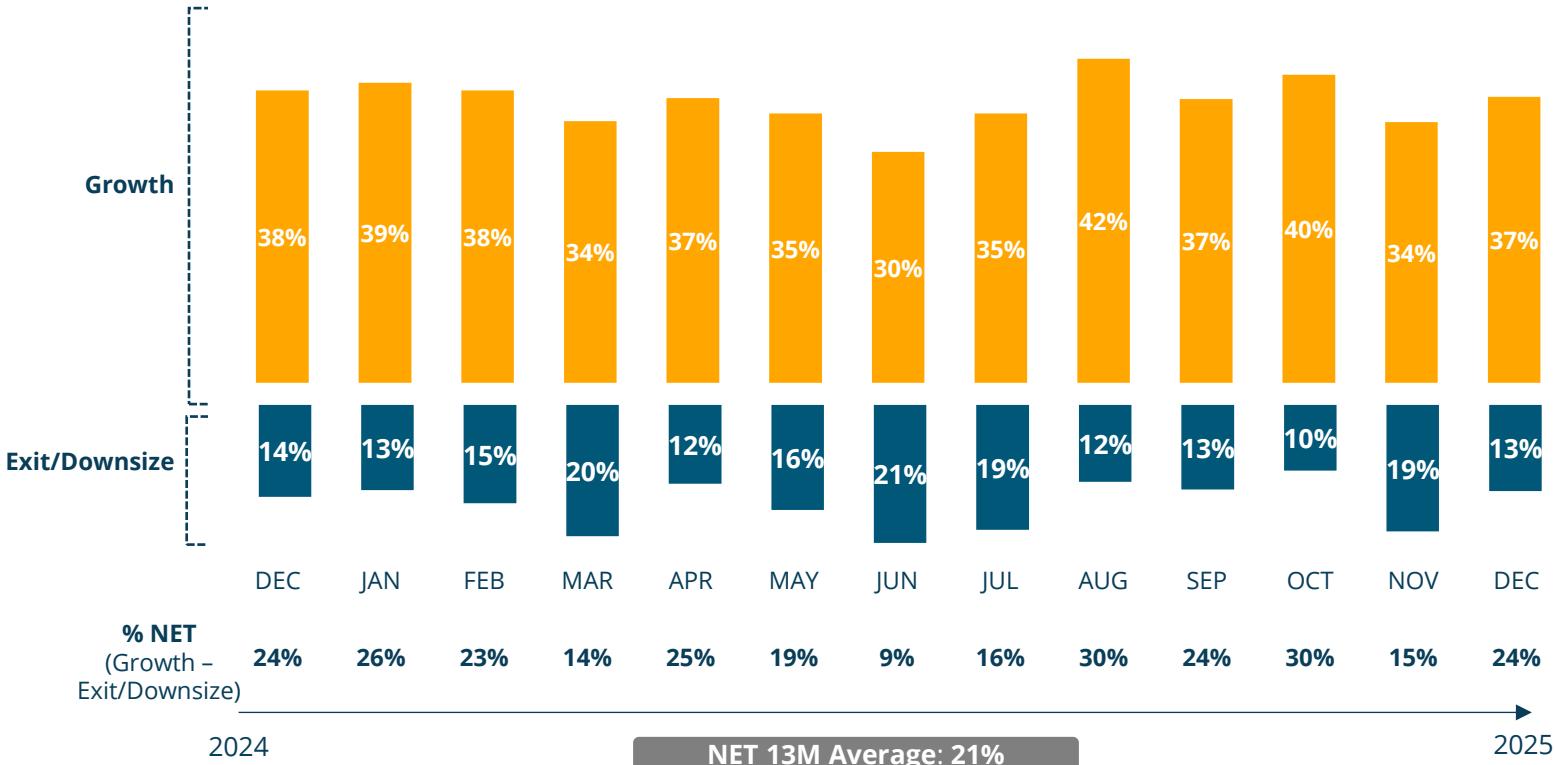
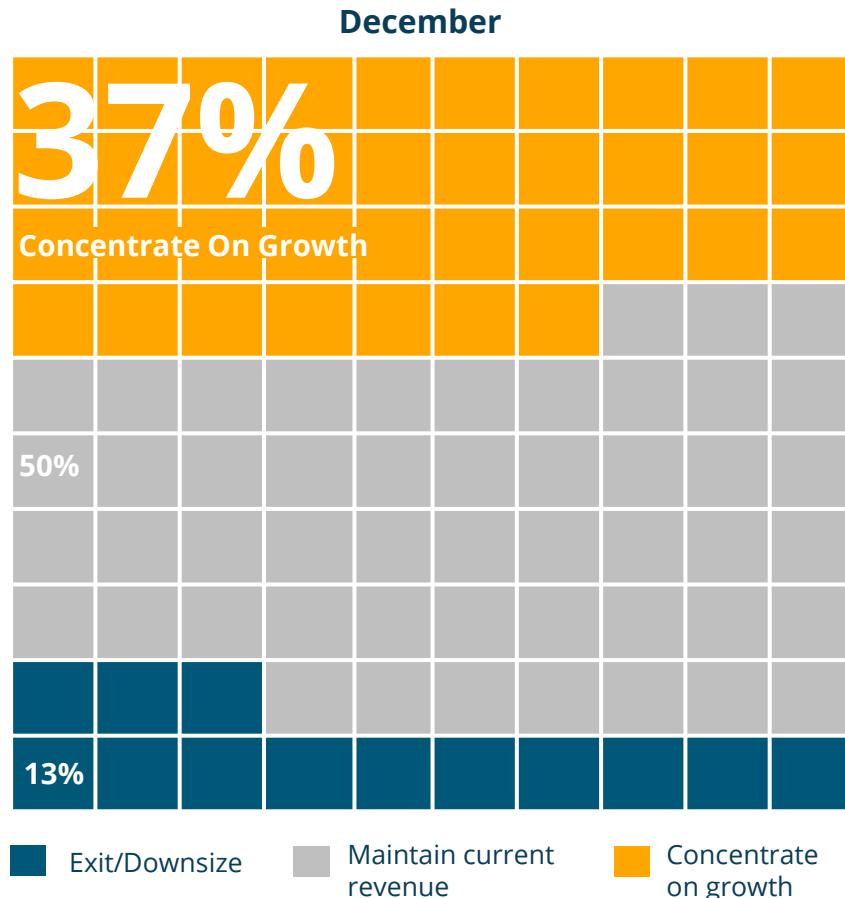
Which Of These Issues Do You Anticipate Will Pose The Most Significant Challenges To Your Business Over Next 3 Months

	December	July	August	September	October	November	December
Keeping pace with changing customer behaviours and preferences.	47%	43%	43%	44%	43%	42%	47%
Addressing the difficult economic outlook and ongoing cost pressures.	47%	37%	39%	45%	45%	42%	47%
Navigating regulatory, compliance, and governance challenges.	26%	17%	19%	21%	17%	22%	26%
Strengthening defences against cyber threats and ensuring data privacy.	21%	19%	15%	19%	19%	15%	21%
Identifying and implementing measures to boost workforce efficiency and productivity.	20%	18%	27%	23%	18%	21%	20%
Managing the continuous adoption of new technologies and digital transformation processes.	18%	20%	19%	16%	18%	17%	18%
Overcoming difficulties in securing necessary financing.	16%	17%	14%	15%	12%	15%	16%
Strengthening supply chain operations for improved efficiency and resilience.	15%	7%	5%	2%	8%	10%	15%
Acquiring, training, and upskilling talent in a competitive market.	15%	24%	27%	22%	24%	21%	15%
Managing risks and uncertainties in the geopolitical landscape.	14%	18%	17%	15%	12%	14%	14%
Implementing strategies to address sustainability issues and climate change impacts.	9%	13%	14%	15%	14%	14%	9%
Prioritising investment in research and development to drive innovation.	8%	6%	7%	9%	9%	10%	8%

Business Sentiment | Growth Expectations (Next 12 months)

Despite weaker results across most key performance indicators, growth aspirations remain reasonably steady, with 37% of SMEs looking to expand over the next 12 months. This is in line with December 2024 and more positive than the November reading.

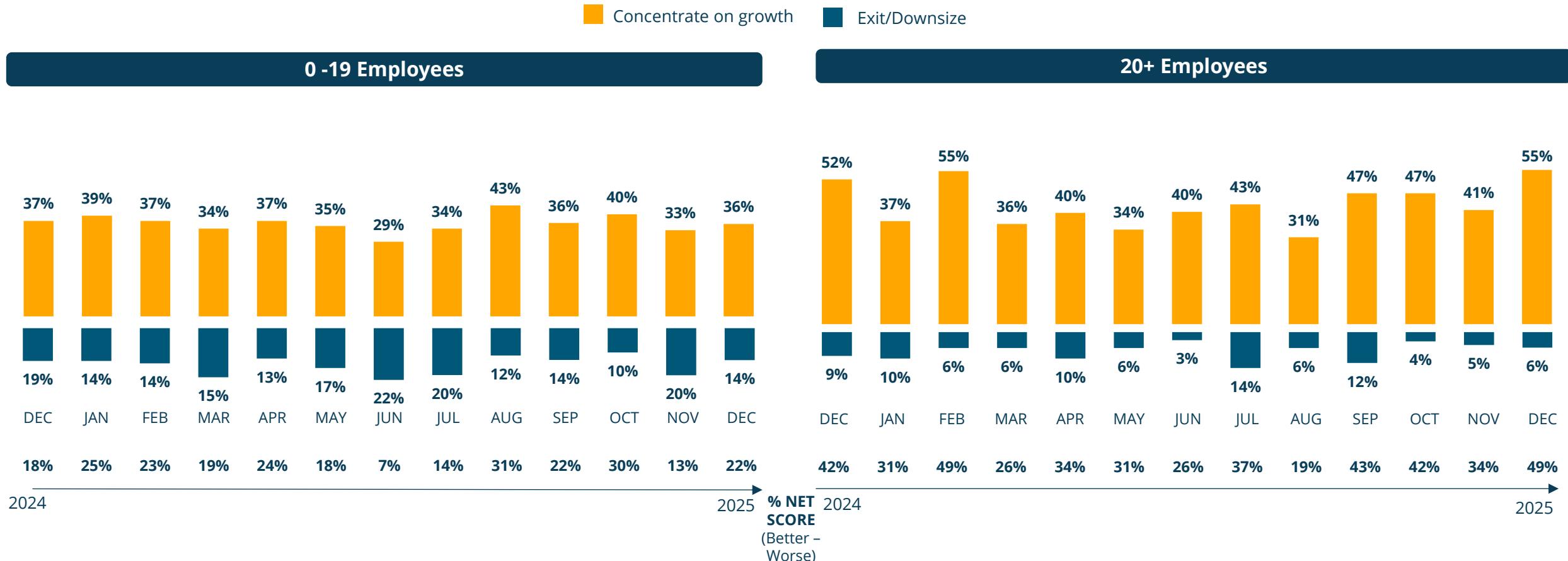
Overall, What Best Describes Your Approach To Business Over The Next 12 Months?



Business Sentiment | Growth Expectations (Next 12 months)

Growth sentiment rebounded across both employee size cohorts, with the recovery particularly encouraging among larger SMEs, which recorded their strongest growth reading since February 2025.

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



Business Sentiment | Revenue Expectations (Next Four Weeks)

Despite these growth aspirations, revenue expectations for the next four weeks remain weak, reflecting the typical seasonal slowdown in business activity over the January holiday period.

Better
Worse

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



% NET SCORE
(Better - Worse)

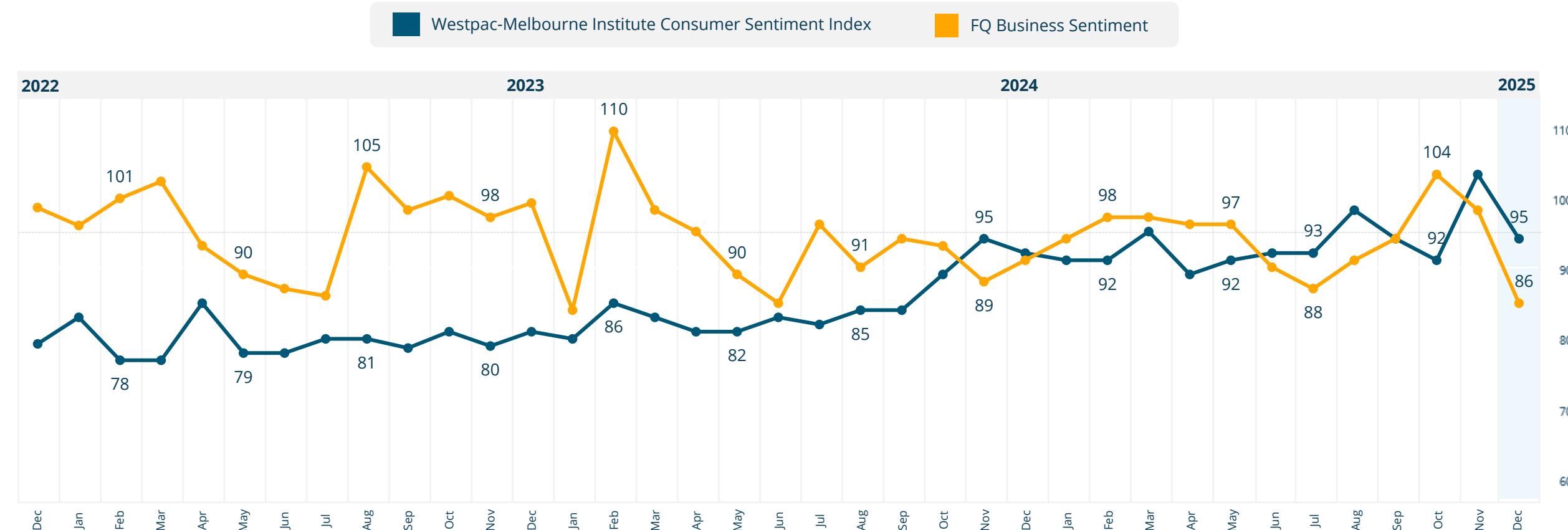
NET 25M average: 10%

15% - 25% 14% 11% 5% -1% 12% 6% 10% 9% 4% 7% 5% 13% 13% 12% 12% 6% 3% 7% 10% 19% 11% 8%

Business Sentiment | Sentiment Index

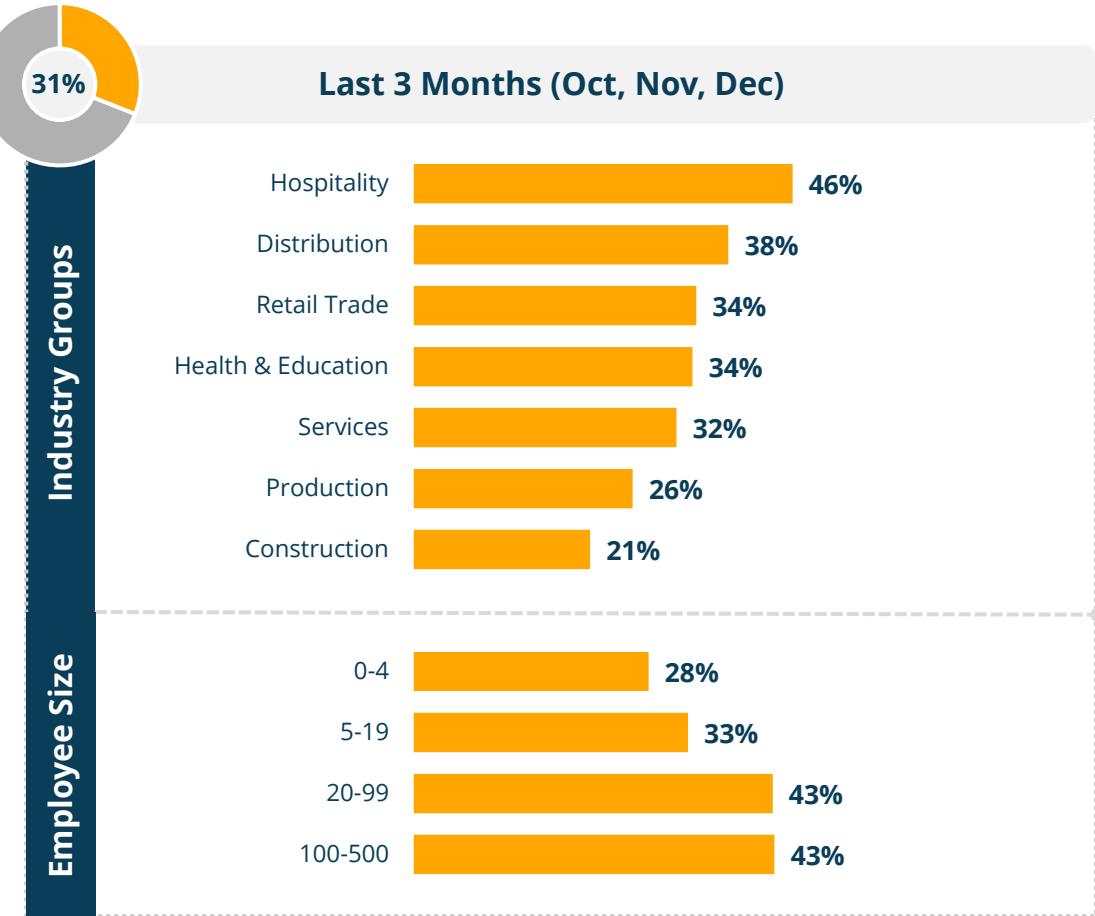
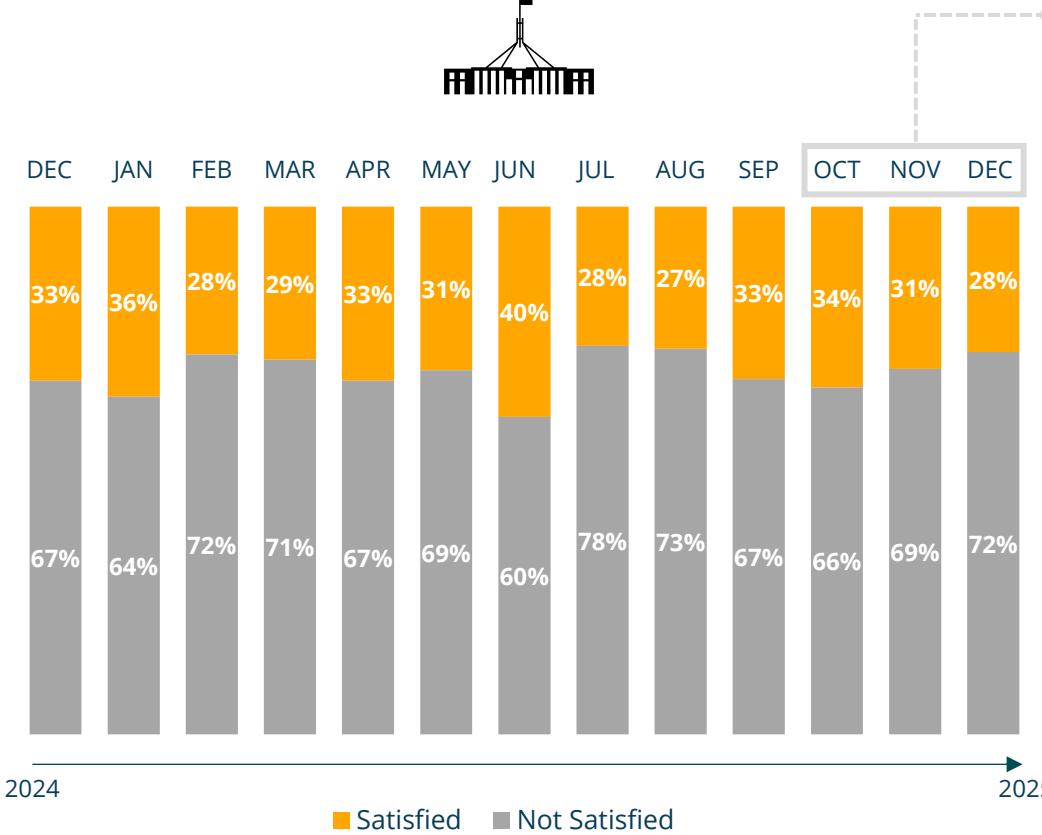
Both consumer and business sentiment declined in December, with business sentiment continuing to lag consumer confidence.

Business And Consumer Sentiment



Satisfaction with the Federal Government continues to trend downwards, likely reflecting heightened public anger following the Bondi attack, compounded by ongoing concerns about politicians' use of travel entitlements.

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





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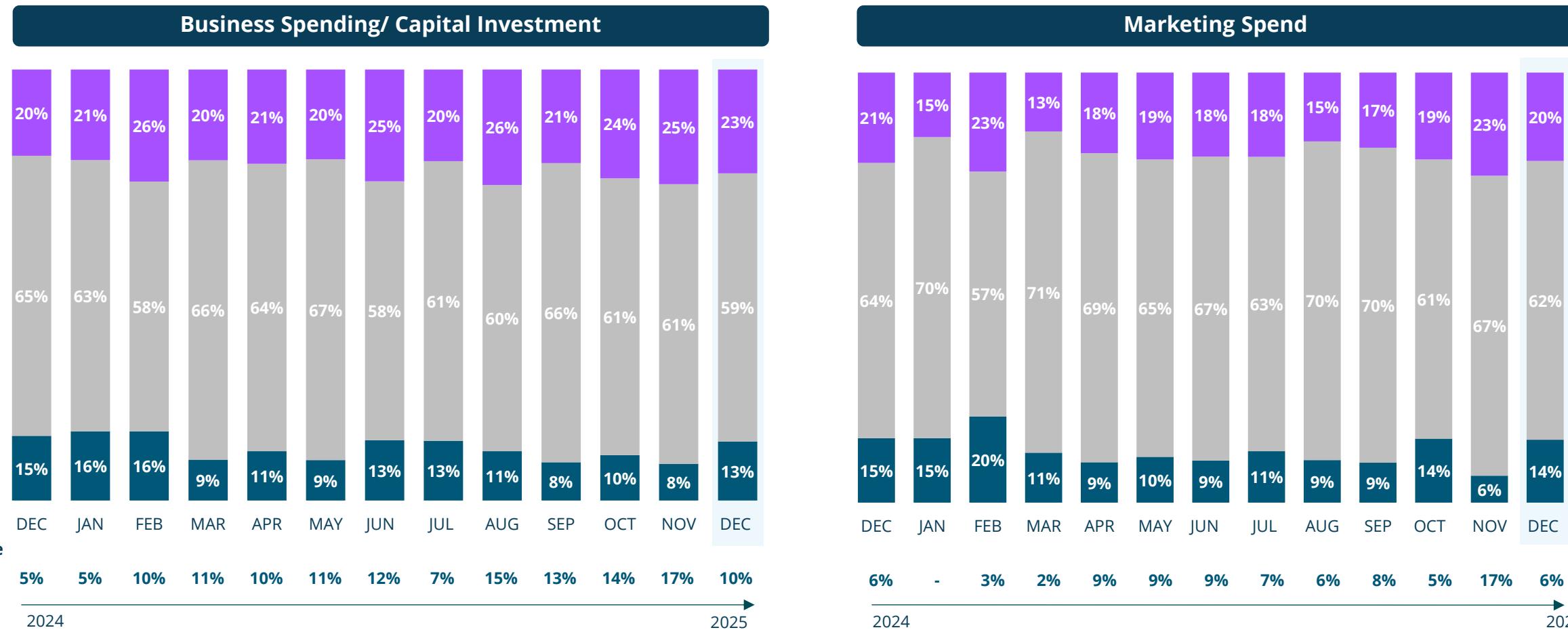
04 Business Investment

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Business Investment | Next Three Months

As expected, business investment and marketing spend intentions tend to dip in the third quarter of the financial year, reflecting elevated spending ahead of Christmas and reduced activity during the January holiday period.

Expectations Over The Next 3 Months Regarding Business Investment



Despite lower spending during this period, Investment intentions across all capex categories remains relatively consistent.

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

December

	Probably will		Definitely will		Oct	Nov	Dec
	38%	7%	45%				
IT / Office equipment, including hardware & software					46%	41%	45%
Equipment, machinery or plant	15%	3%	18%		24%	22%	18%
Passenger vehicle(s) including SUVs	12%	3%	15%		12%	12%	15%
Light commercial vehicle(s) including utes, vans, and minibuses	7%	4%	11%		13%	10%	11%
Commercial real estate including buildings or land	8%	2%	10%		9%	7%	10%
Electric vehicle(s), including Hybrid	8%	1%	9%		9%	10%	9%
Agricultural, construction or earthmoving vehicle(s)/equipment	6%	1%	7%		8%	7%	7%
Truck(s) less than 4.5 tonnes	5%	1%	7%		7%	4%	7%
Truck(s) more than 4.5 tonnes	5%	1%	6%		6%	6%	6%
Medium and large bus(es)	3%	1%	4%		7%	5%	4%

Business Investment | Capital Expenditure

Capex intentions across the two employee size cohorts are diverging, with investment in equipment, machinery and plant increasing among larger employers while declining among smaller SMEs.

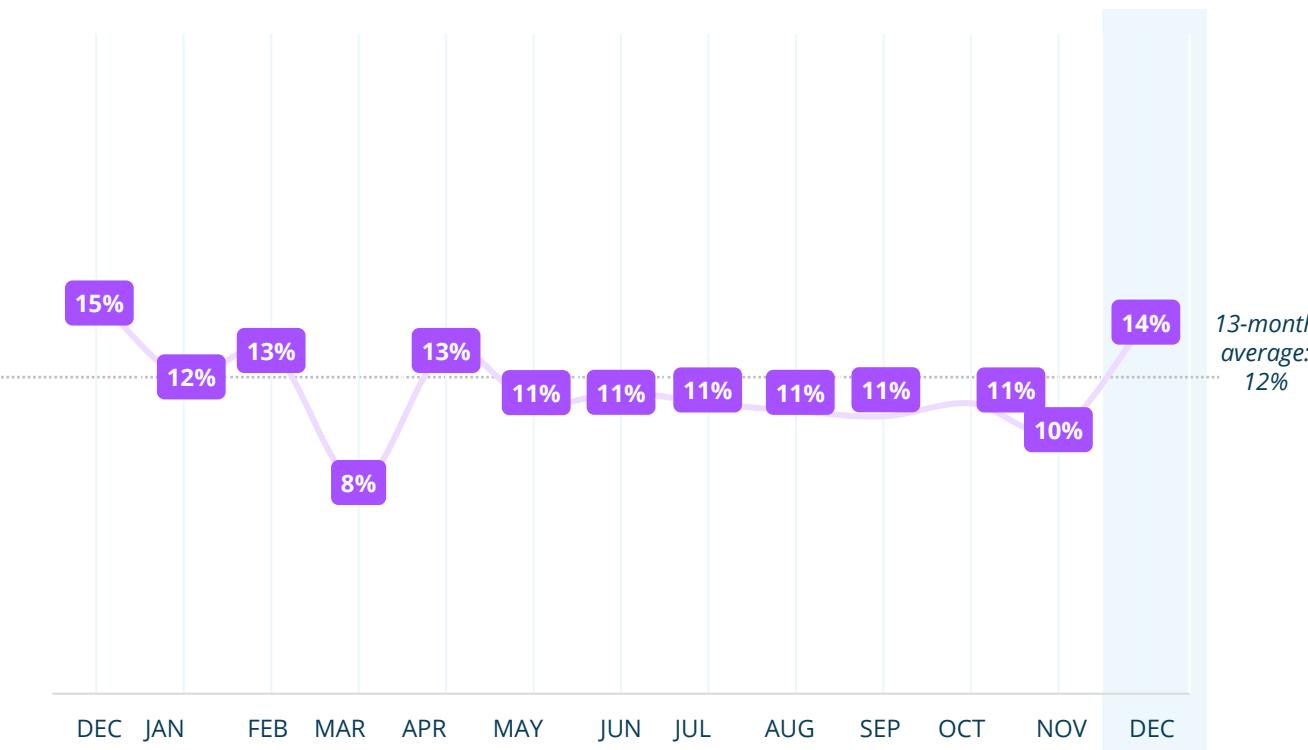
Which Of The Following Will You Purchase For Your Business Over The Next 3 Months? (Probably Will + Definitely Will)

	0-19 Employees			20+ Employees		
	Oct	Nov	Dec	Oct	Nov	Dec
IT / Office equipment, including hardware & software	45%	39%	43%	72%	64%	68%
Equipment, machinery or plant	24%	22%	16%	30%	30%	42%
Passenger vehicle(s) including SUVs	11%	11%	14%	30%	24%	29%
Light commercial vehicle(s) including utes, vans, and minibuses	12%	9%	9%	22%	20%	28%
Commercial real estate including buildings or land	8%	6%	9%	21%	15%	22%
Electric vehicle(s), including Hybrid	8%	9%	7%	30%	19%	28%
Agricultural, construction or earthmoving vehicle(s)/equipment	8%	6%	6%	18%	19%	13%
Truck(s) less than 4.5 tonnes	6%	3%	6%	24%	19%	18%
Truck(s) more than 4.5 tonnes	6%	5%	5%	14%	19%	16%
Medium and large bus(es)	6%	4%	4%	13%	13%	8%

Business Investment | Finance Needs (Next 3 months)

In line with December 2024, demand for finance has again spiked as SMEs need extra funds to navigate the quieter time of year.

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
Cashflow/ working capital	60%	54%	62%	57%	61%
Purchase plant, machinery or equipment	26%	18%	23%	25%	22%
Fund growth into new markets	13%	13%	17%	15%	21%
Fund growth in Australia	23%	26%	16%	16%	15%
Trade finance to fund import/export activity	9%	17%	12%	15%	8%
Fund merger/acquisition	7%	7%	8%	7%	9%

Business Investment | Finance Needs (Next 3 months)

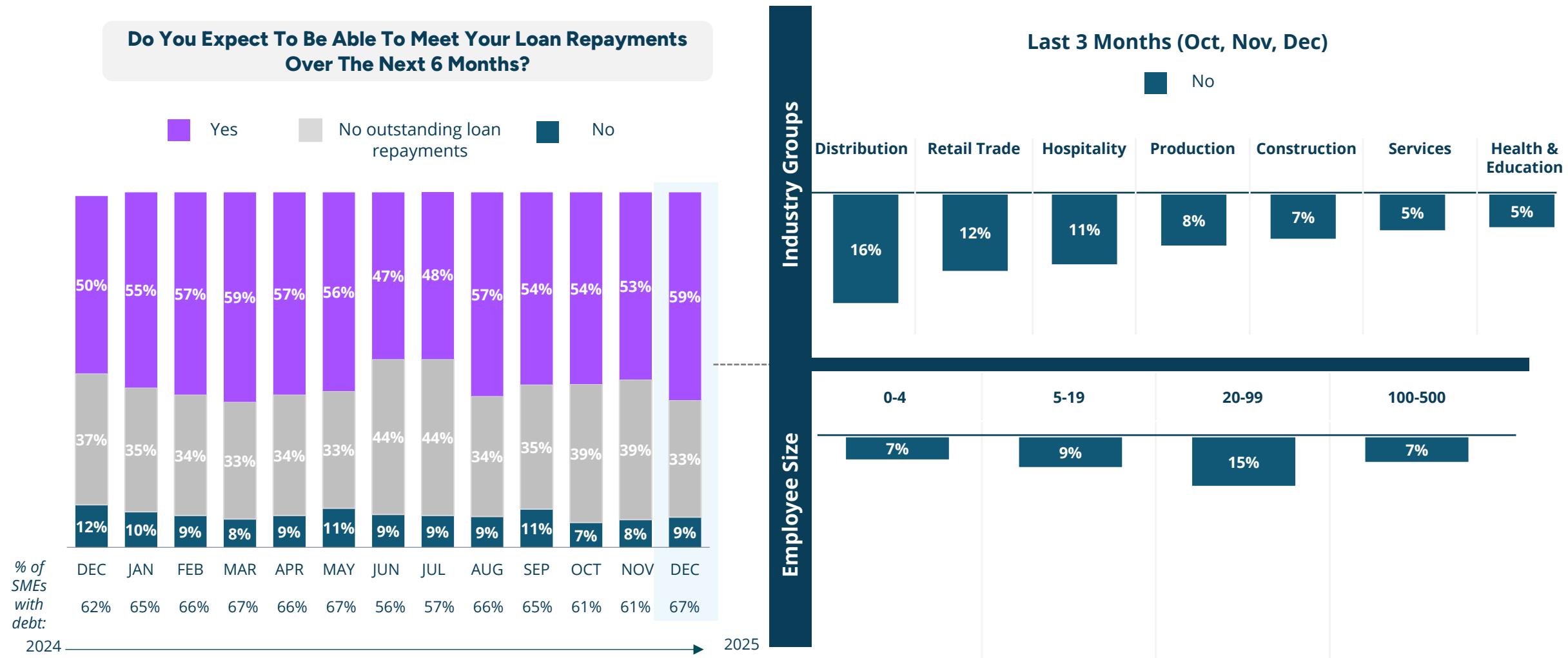
Demand for additional finance is most pronounced among Hospitality, Construction and Distribution businesses during the second quarter of the financial year.

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

	Q1 FY25	Q2 FY25	Q3 FY25	Q4 FY25	Q1 FY26	Q2 FY26
0-19 Employees	13%	14%	10%	11%	10%	11%
20+ Employees	26%	21%	24%	18%	17%	17%
Construction	14%	19%	9%	10%	11%	16%
Distribution	19%	16%	6%	21%	12%	18%
Health & Education	8%	8%	11%	11%	11%	10%
Hospitality	14%	17%	25%	10%	15%	18%
Production	16%	14%	12%	12%	11%	8%
Retail Trade	9%	9%	14%	12%	14%	13%
Services	13%	13%	11%	10%	9%	8%

Business Investment | Loan Stress

Loan stress remains steady at 9%, sitting below 10% for the third consecutive month and much more positive than the 12% reported in December 2024.





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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



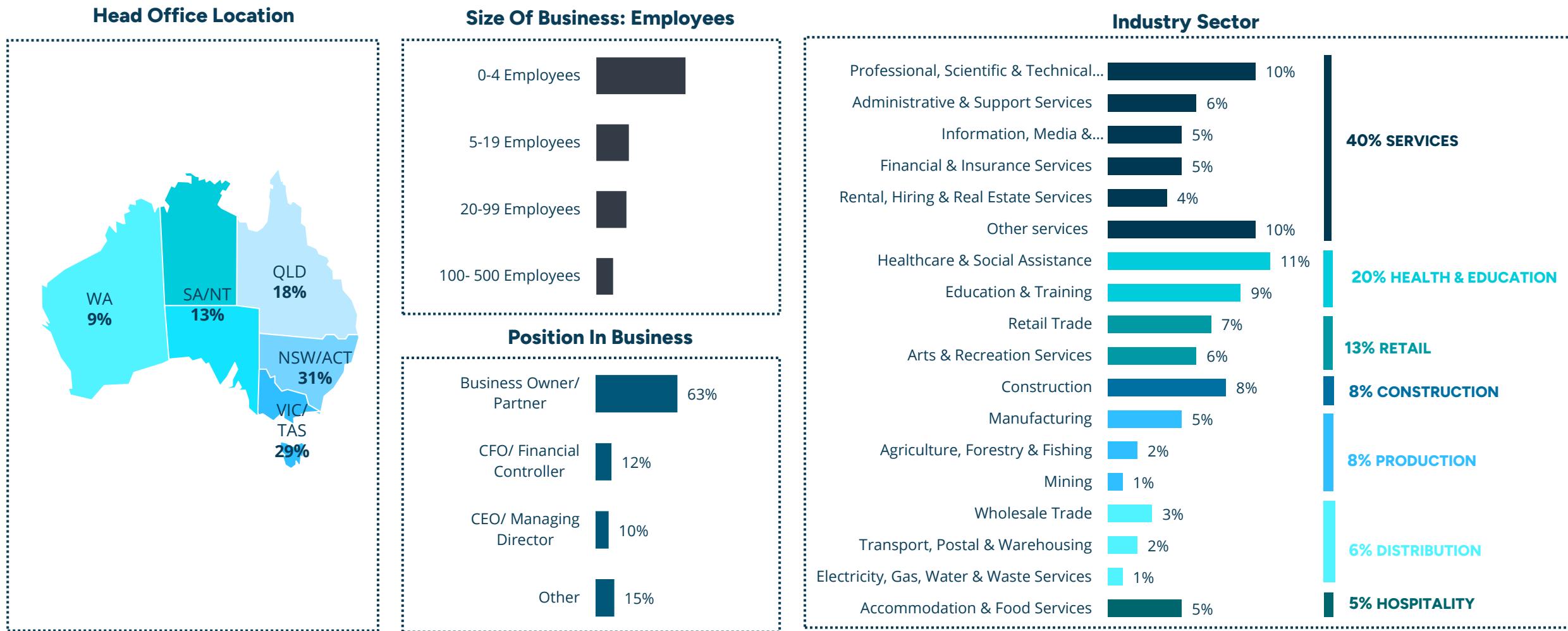
All **industry sectors** are represented, allowing for subgroup analysis



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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Thank You

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Creating Tomorrow Today