MYOB Business Monitor

Small and Medium Size Enterprise (SME) Performance Indicator

December 2024

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About Impact Economics and Policy

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Foreword

The December 2024 Edition of the MYOB Business Monitor: SME Performance Indicator reveals that the small business sector may have reached a turning point in its economic recovery.

This turning point, despite challenging conditions, can be attributed to the resiliency and adaptability of Australia's small businesses.

However, significant differences in performance across key industries signal the need to remain vigilant to small and medium sized enterprise (SME) operational concerns, particularly in this federal election year.

Some sectors continue to perform strongly. Industries including the professional, scientific and technical services and agriculture are demonstrating positive momentum. Rural production and incomes are expected to increase sharply in FY2024-25, which will provide further support to small businesses in rural and regional areas.

On the other hand, industries such as retail and hospitality remain under pressure due to ongoing household budget constraints, with consumers scaling back on non-essential spending.

This third edition of the MYOB Business Monitor: SME Performance Indicator draws on millions of anonymised data points from small businesses (1-19 employees) across Australia, analysed against broader economic trends. This provides valuable insights into the health of the small business sector and its influence on the national economy, at a key time in Australia's economic recovery.

With small businesses making up almost 98% of Australian businesses and contributing a third of our GDP, all eyes will be on support for core SME sectors as Australians approach the polling stations in the coming months.

Paul Robson
Chief Executive Officer, MYOB

Overview

The MYOB SME Performance Indicator draws on more than 17 million observations of 200,000 businesses (with 1-19 employees) at an anonymised level, aggregated for the whole Australian small business sector. The Indicator can be interpreted as a component of Australia's Gross Domestic Product (or GDP), which is the primary measure of the overall level of economic activity for the Australian economy.

The December 2024 MYOB SME Performance Indicator is 5% lower than at the end of 2023, however the latest results are showing marginal signs of progress when compared to August 2024, with an increase of 2% achieved over the last quarter.

Overall, the most recent results indicate the level of economic activity for Australia's small business sector may have reached the lowest point – ahead of a tentative recovery. However, variation in performance remains across industries most impacted by cost-of-living pressures.

The latest edition shows the overall level of economic activity for Australia's small business sector (purple line in chart 1) as a monthly series.

Chart 1 also shows the level of Australia's real GDP (transformed from a quarterly series into a monthly series). The section of the GDP line (pink) after September 2024 is based on forecasts produced by the Reserve Bank of Australia (Statement of Monetary Policy, November 2024).

The December outcome suggests the small business sector may make only a small contribution to Australian GDP growth in the December quarter, and that December quarter GDP growth will be modest.

The prolonged period of softness evident in Indicator highlights the challenging conditions that small businesses have been facing for an extended period.

Cost pressures on business remain elevated. Utility prices are a major source of pressure for small business, with average prices for both gas and electricity higher at the end of 2024 compared with the end of the previous year. The January 2025 MYOB Bi-Annual Business Monitor found the cost of utilities was the highest-ranking cause of pressure for SMEs at 35%.

While fuel prices fell in the second half of 2024, recent rises have all but returned prices to their mid-2024 levels. Business interest rates and wage growth are both elevated. However, in some industries, wages have returned to around historical rates.

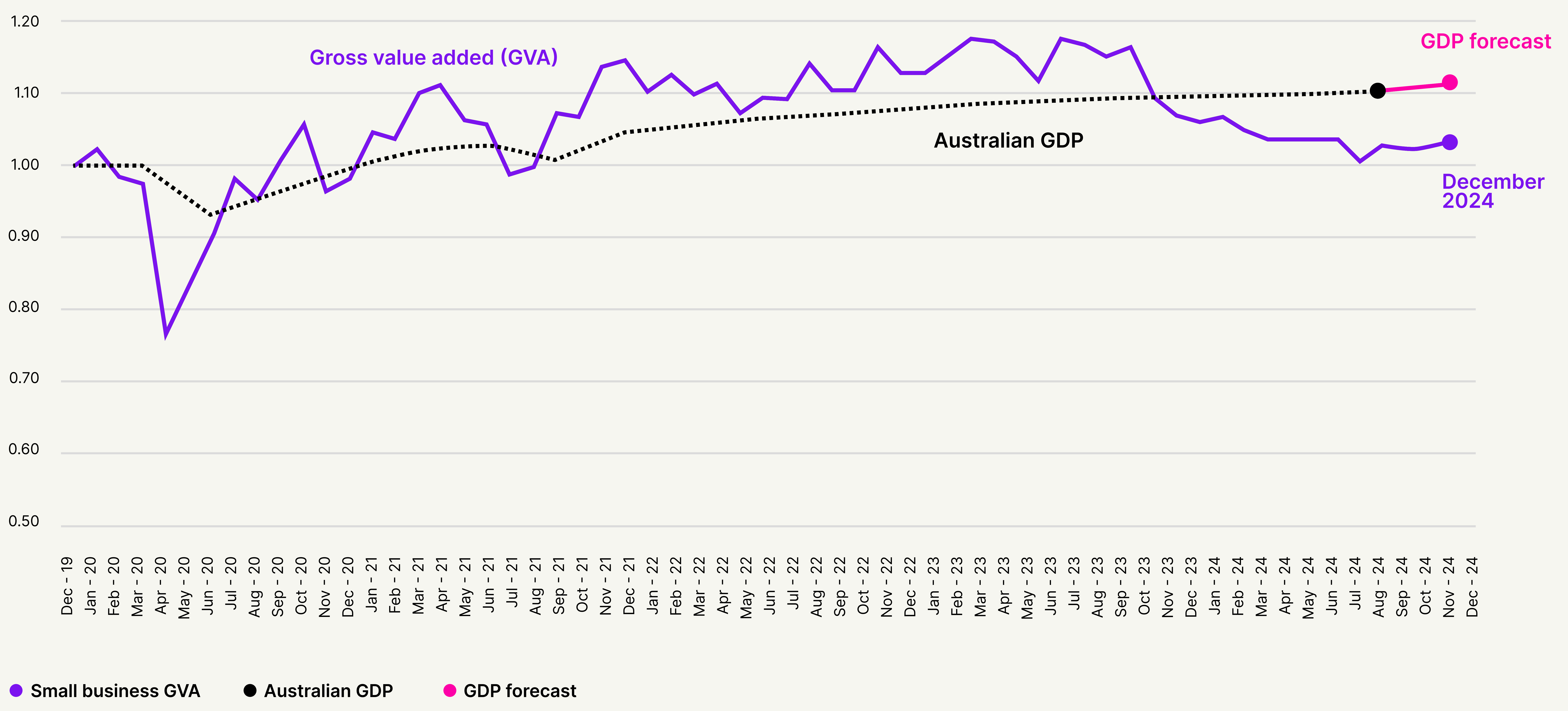
Consumer price inflation is moderating, but persistent cost-of-living pressures coupled with high interest rates mean household budgets continue to apply pressure. This means many households continue to hold back spending on non-essential goods and services. This continues to affect the retail and hospitality the most.

The latest official inflation statistics report headline inflation has fallen to 2.4% for the year to December 2024, while annual underlying inflation has decreased to 3.2%. Additionally, this week marks the first cash rate cut in more than four years to 4.10, reduced by 25 basis points. These outcomes, and the prospect of ongoing moderation, increases the likelihood the Reserve Bank will reduce policy interest rates further in the future - flowing through to mortgage and business interest rates.

In this edition of the MYOB SME Performance Indicator, we take a closer look at the construction sector (Page 10). Construction GVA has softened over the past 18 months. However, the key constraints that have weighed on the sector during this period (material prices and labour shortages) are easing. This, coupled with a backlog of construction work, suggests a pick-up in construction activity is likely for the small business sector (and construction GVA) into 2025.

MYOB SME Performance Indicator

Chart 1: MYOB SME Performance Indicator.



SME Performance Score

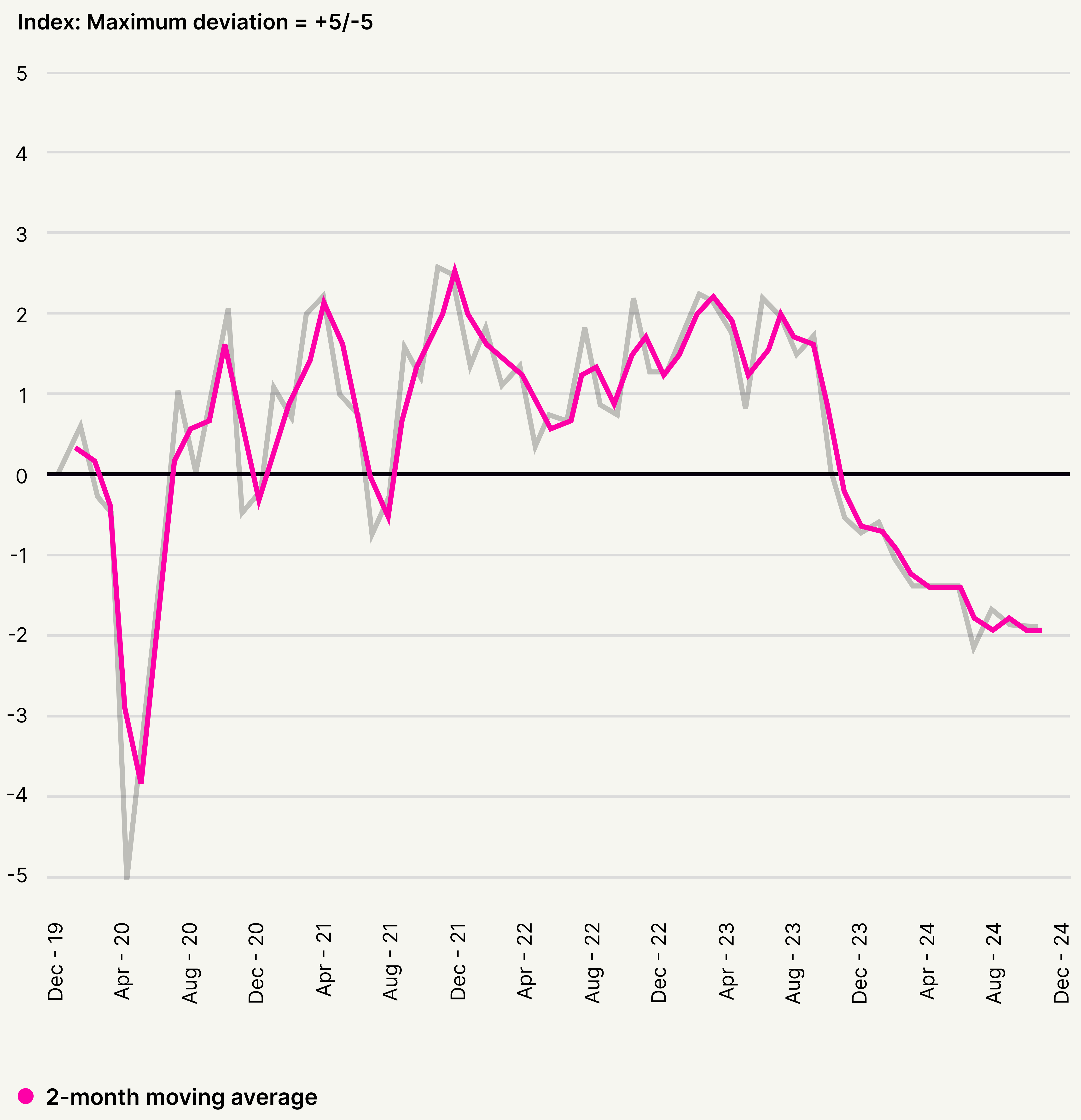
The deviation of the MYOB SME Performance Indicator from Australian real GDP provides the SME Performance Score. This measure illustrates how the small business sector is performing compared with the overall Australian economy, where the maximum deviation is benchmarked at +5/-5 (Chart 2).

For December 2024, the SME Performance score sits at -2.0.
This is a slight uplift compared to the reading for August 2024 (-2.2).

Note the reading for August has been revised from the previous edition of the MYOB SME Performance Indicator based on additional data inputs (the August reading was initially -2.3).

The series is changeable, which reflects the relatively high degree of volatility of small business GVA compared with Australia's GDP, and the impacts of seasonal variations.

Chart 2: MYOB SME Performance Indicator – SME Performance Score.



Sector Findings

Each quarter, we calculate the gross value added (GVA) for key sectors. In each chart, the level of GDP is also included (black dotted line). For each of the key sectors, there is some degree of revision to recent estimates, reflecting the lodgement of additional data by small businesses.

Sector Findings

Agriculture:

GVA picked up strongly during the first half of FY2024-25, after retreating over the preceding six months. This is consistent with current agricultural conditions and the broader outlook for the sector. Across a range of crops, production for FY2024-25 is expected to rise – supported by favourable conditions across much of Australia's winter cropping regions.

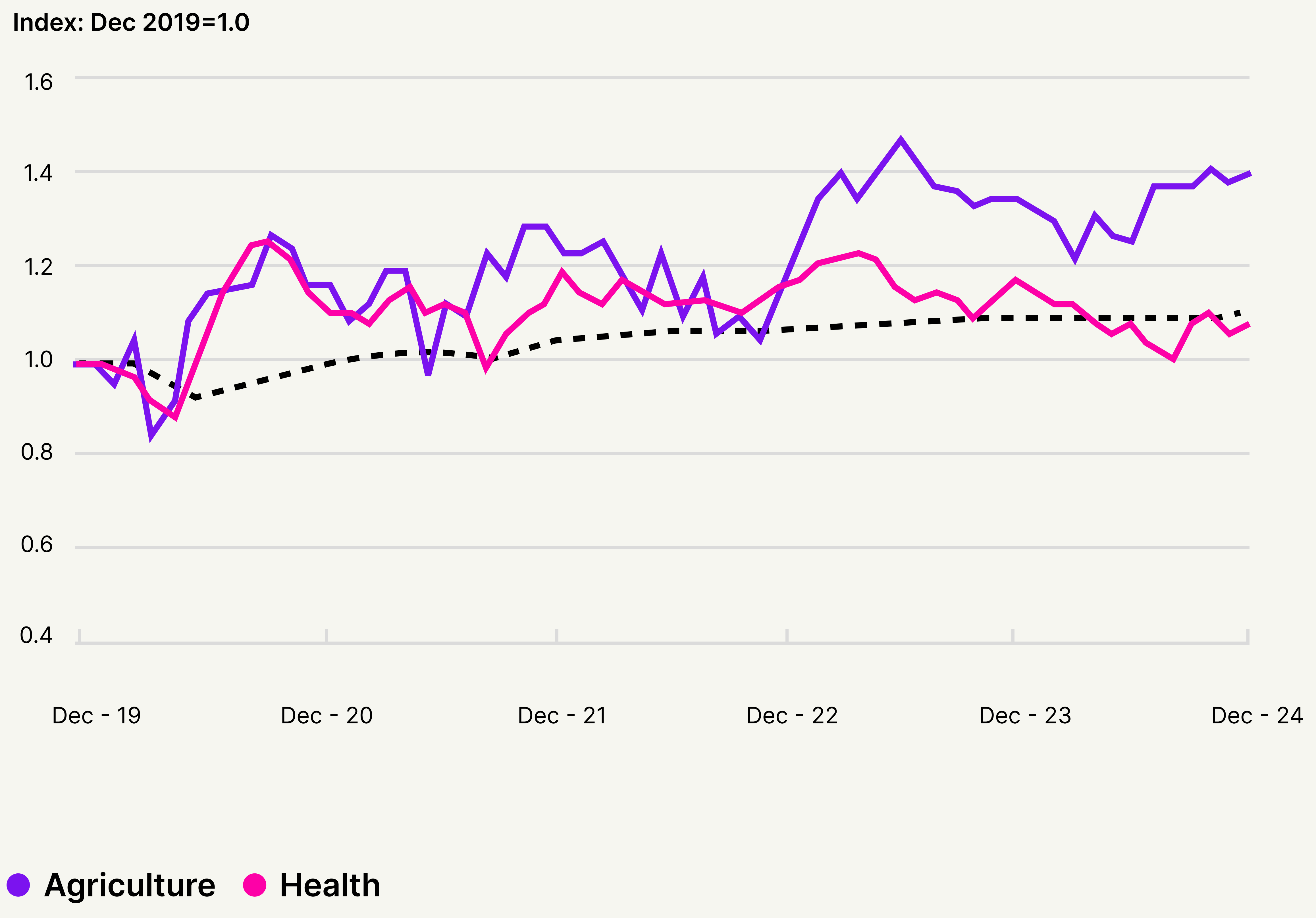
Production of livestock and livestock products is also rebounding from the lows of FY2023-24. Overall, aggregate Australian agricultural production is expected to reach near-record levels in FY2024-25.[1] Agricultural GVA in the small business sector is expected to track at high levels over FY2024-25, although month-to-month outcomes will be volatile.

Health:

GVA has trended sideways over the past six months, although month-to-month outcomes have been in flux. This trend reflects the impacts of two opposing factors. On the one hand, demand for a broad range of health services has been supported by strong population growth. Since December 2021 Australia's population has risen at an annualised rate of 2.2%, compared with the 50-year average of 1.4%.[2]

On the other hand, the prolonged pressure on household finances has curbed growth in health-related spending. While households have generally pulled-back on non-essential health spending, some households under acute financial stress will have forgone more essential healthcare. The current period of subdued GVA growth stands in contrast to the height of the COVID-19 pandemic when demand for (a relatively narrow range of) health services surged.

Chart 3: SME gross value added by industry.



[1] ABARES, Agricultural Commodities Report, December 2024.
[2] ABS, National, State and Territory Population, June 2024

Sector Findings

Information, media and telecommunications (IMT):

GVA for the IMT industry continues to soften. Since September 2023 GVA has trended down, following a prolonged period when the IMT industry experienced a very strong expansion. Consumer demand for IMT goods and services rose during the COVID-19 pandemic, as households switched to home-based entertainment. More recently, while cost-of-living pressures have forced households to pull back on spending generally, their IMT-related spending has been relatively resilient.

Business spending on IMT goods and services surged in the post-pandemic period (across FY2021-22 and FY2022-23) as firms made IMT investments to boost productivity. This bring-forward of investment, coupled with the more recent challenging business conditions, has caused business to reduce their IMT spending.[3]

Professional, scientific and technical (PST) services:

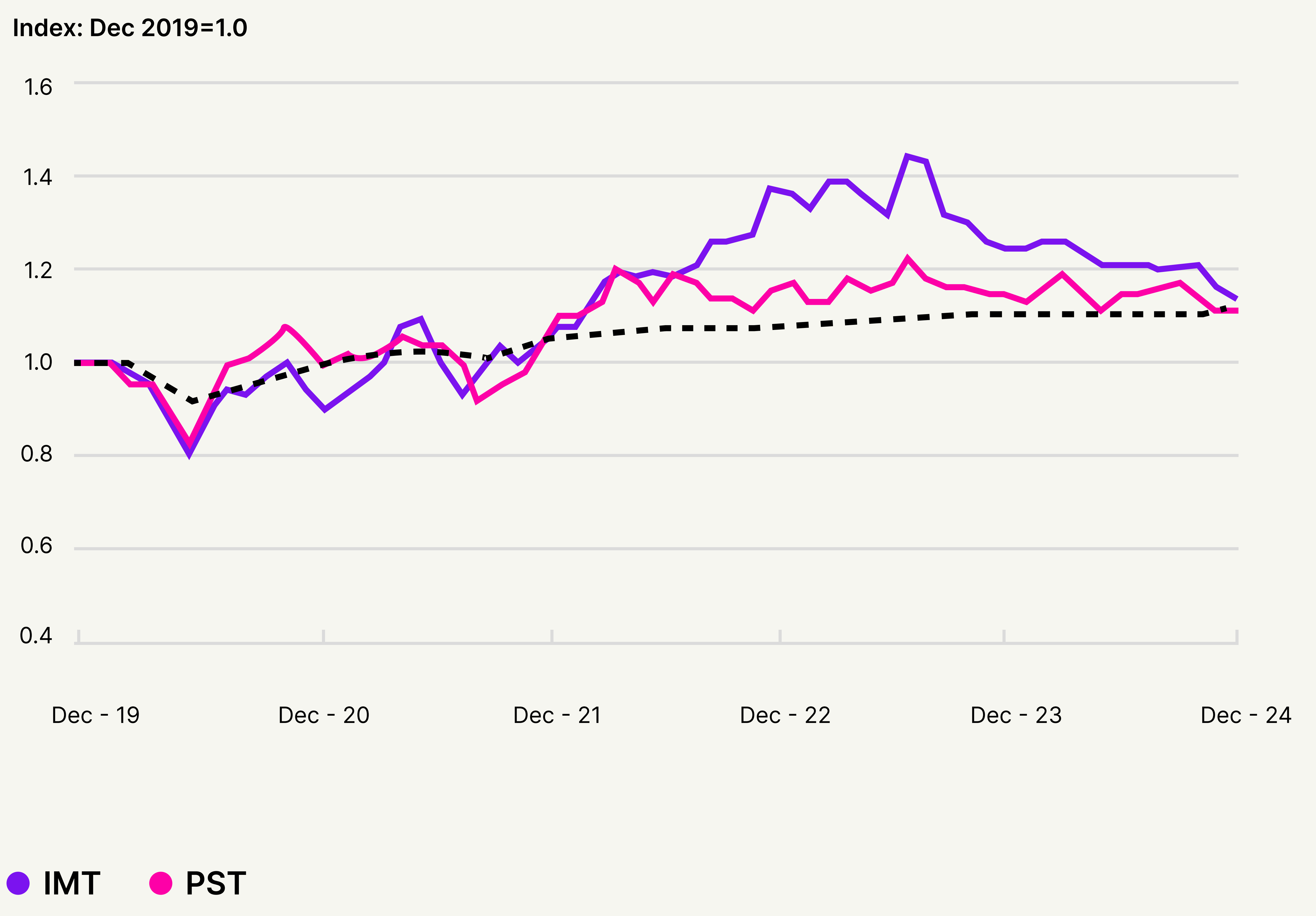
GVA has been fairly resilient over the past three years compared with the GVA of many other industries within the broader small business sector. That said, GVA in the PST industry appears to have softened a little in recent months.

PST services comprise a broad range of service categories, some of which are:

- Accounting and legal services
- Architecture and engineering services
- Advertising and market research
- Scientific research

In the aggregate, PST services are largely business-to-business. The recent softening of GVA suggests that the challenging conditions facing the broader business sector is causing firms to cut back spending on PST services. Looking ahead, business-to-business provision of IT services will be the key determinant of the trajectory of the sector's GVA.

Chart 4: SME gross value added by industry.



[3] BS, National Accounts, September 2024.

Sector Findings

Retail:

GVA for the retail industry continues to decline. The outcome for December 2024 is around 20% lower than the end of 2021, when retail GVA stared to fall. The trading conditions faced by the retail sector remain challenging. This largely reflects the elevated, persistent pressures on household budgets – where the combined effects of mortgage rate rises and elevated inflation have reduced household disposable income over the last two years or so.[4] This has forced many households to pull back spending on non-essential goods and services, which has particularly affected retailers in the small business sector.

Looking ahead, pressures on household budgets are expected to ease. Growth in consumer prices continues to moderate from 2022 peaks, with headline inflation at 2.4% for the year to December 2024, and annual underlying inflation down to almost 3.0%.[5] These outcomes – and the prospect of ongoing moderation – increases the likelihood that the Reserve Bank will reduce policy interest rates in the near future, which flow through to mortgage interest rates.

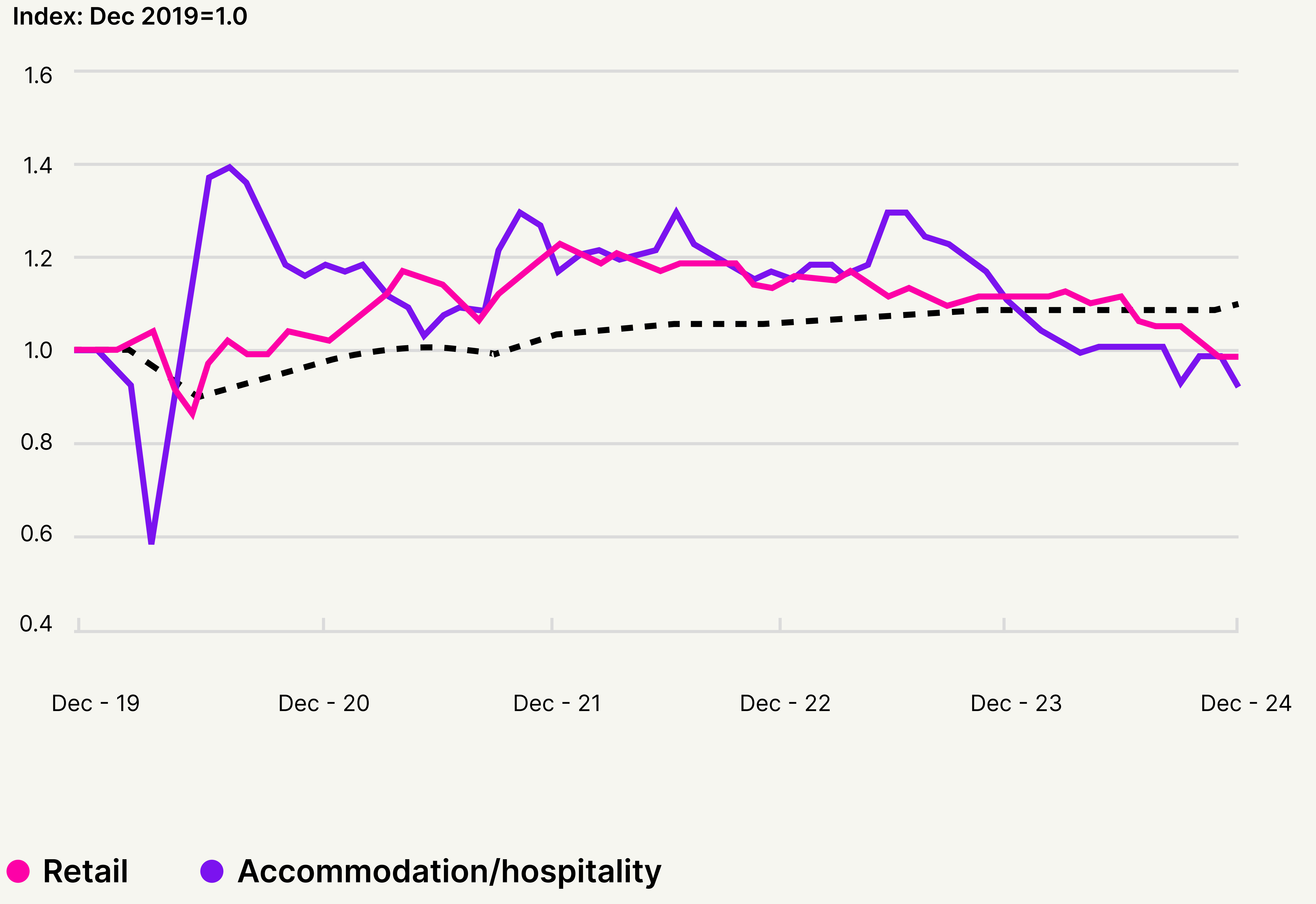
Accommodation and hospitality:

GVA has continued to fall since the August edition of the MYOB SME Performance Indicator. The accommodation and hospitality industry – which largely services households rather than businesses – has been particularly affected by the challenging budgetary conditions facing households.

As a component of discretionary consumption, households have tended to pull-back on accommodation and hospitality spending relative to other more essential goods and services.

In aggregate, spending on accommodation and hospitality has fallen by 2% (in real terms) over the year to September 2024, while total consumer spending has risen by 0.4%.[6] Looking ahead, the accommodation and hospitality sector is likely to continue to experience challenging trading conditions until the pressure on household budgets eases.

Chart 5: SME gross value added by industry.



[4] RBA, Statement on Monetary Policy, November 2024.
[5] ABS, Consumer Price Index, December 2024.
[6] ABS, National Accounts, September 2024.

In Depth:

Construction Sector

Sector Findings

Construction GVA has tracked sideways over the past six months or so, following a trend decline over the preceding year (Chart 6). There are signs of a tentative pick-up into 2025.

The recent outcomes for construction GVA largely reflect the associated softening of total construction activity in the dwelling sector (Chart 7). Since mid-2023, new dwelling construction has increased by 0.3%, while renovation activity has fallen by 3.8%, for a combined fall of 0.6%. Looking further into the past, the COVID-19 pandemic had a marked, persistent impact on dwelling construction – with households favouring renovations (to their current home) over new builds. New dwelling construction fell as projects were put on hold or cancelled. In contrast, renovation activity surged to record highs.[7]

Small businesses also provide a range of construction-related services for non-residential building projects – although small businesses are less prevalent in non-residential construction compared with dwelling construction. Overall, the non-residential sector has been more resilient than the dwelling sector. Since mid-2023, non-residential building construction has risen by 2%. The level of non-residential investment is now around 5% higher than pre-COVID. [8]

Looking ahead, the key determinant of construction activity – and the trajectory for GVA – will be the degree to which construction-related constraints will ease. Over the past 2 years or so, construction activity across Australia has been hindered by elevated material prices and labour shortages.

[7] ABS, National Accounts, September 2024.
[8] ABS, National Accounts, September 2024.

Chart 6: SME gross value added by industry.

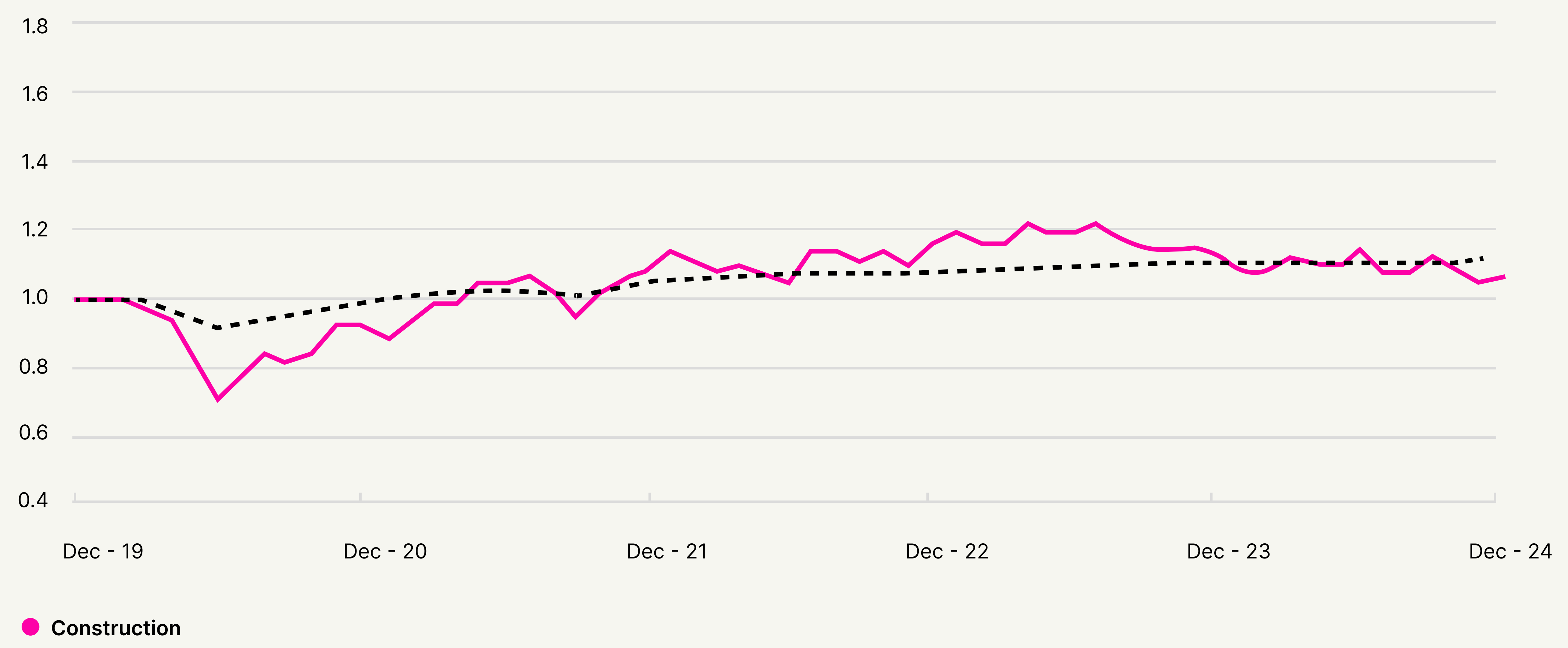
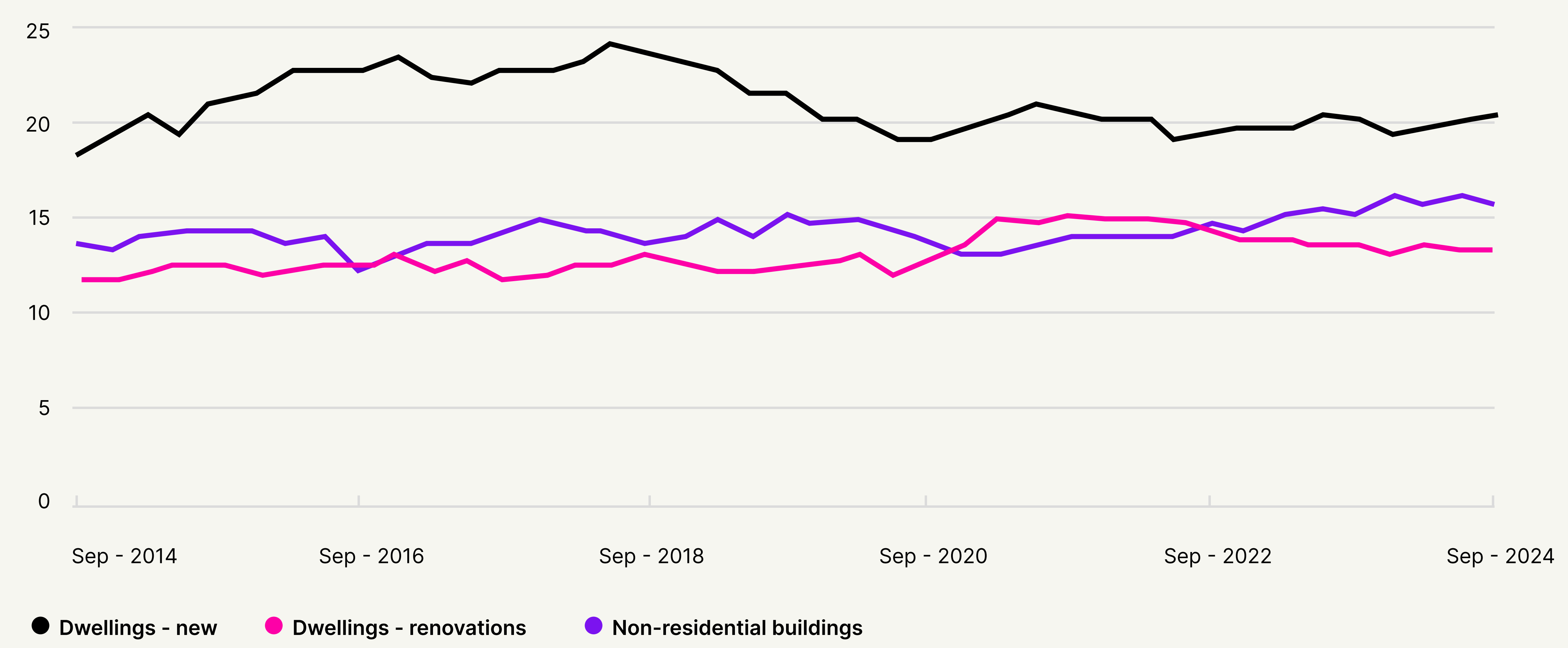


Chart 7: Construction investment (total private sector).



Sector Findings

The impact of these constraints on construction activity is reflected in the elevated backlog of construction work (Chart 8).

This includes the value of work that is yet-to-be completed on current projects, plus the value of projects that are yet to commence. As work is completed (by small business operators), it will be reflected in construction GVA for the small business sector (Chart 6).[9]

Material costs for the construction industry surged through FY2021-22 and FY2022-23, largely due to acute global supply-chain constraints (Chart 9). Steep price rises for a range of materials rendered many new projects unviable and contributed to construction business bankruptcies.

In average terms, the level of building material prices is now around 20% higher than if prices had instead risen by historical rates. However, price growth appears to have returned to around historical rates – on average, material prices rose by 1.6% over the past year.[10]

Chart 8: Pipeline for dwelling construction.

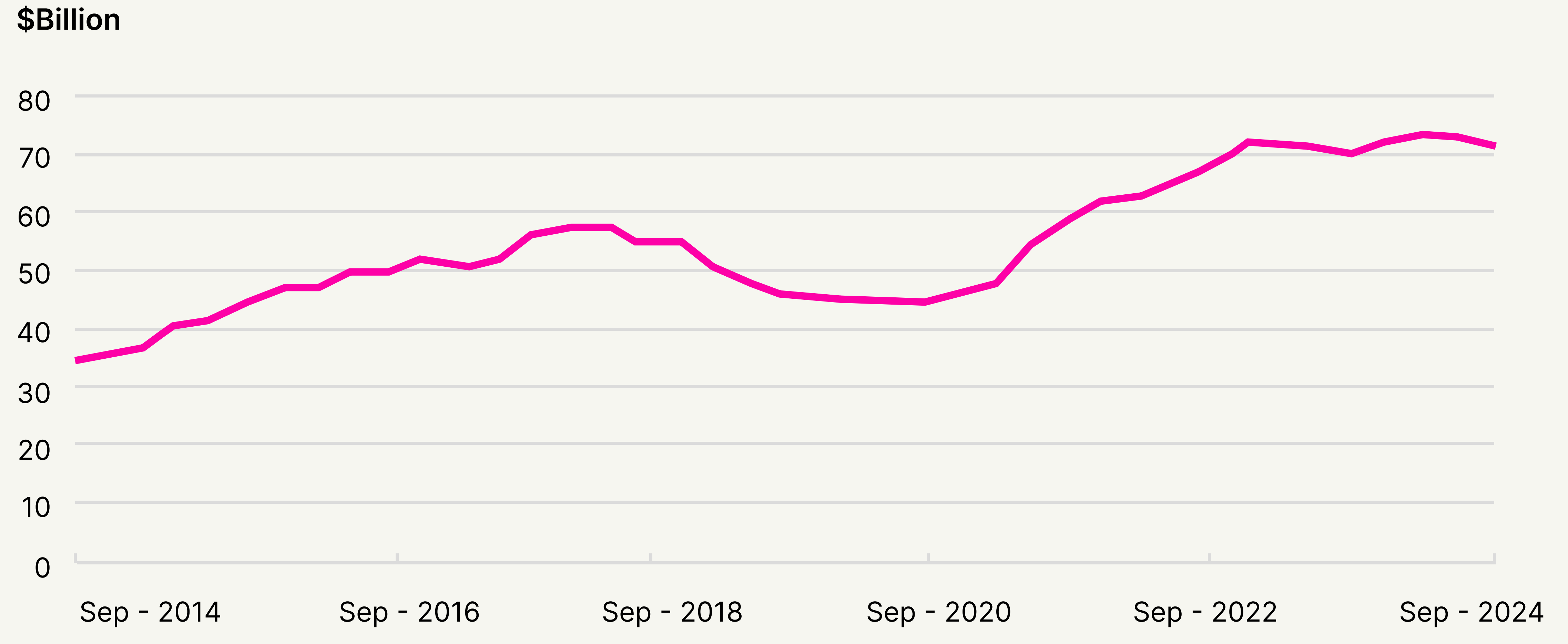
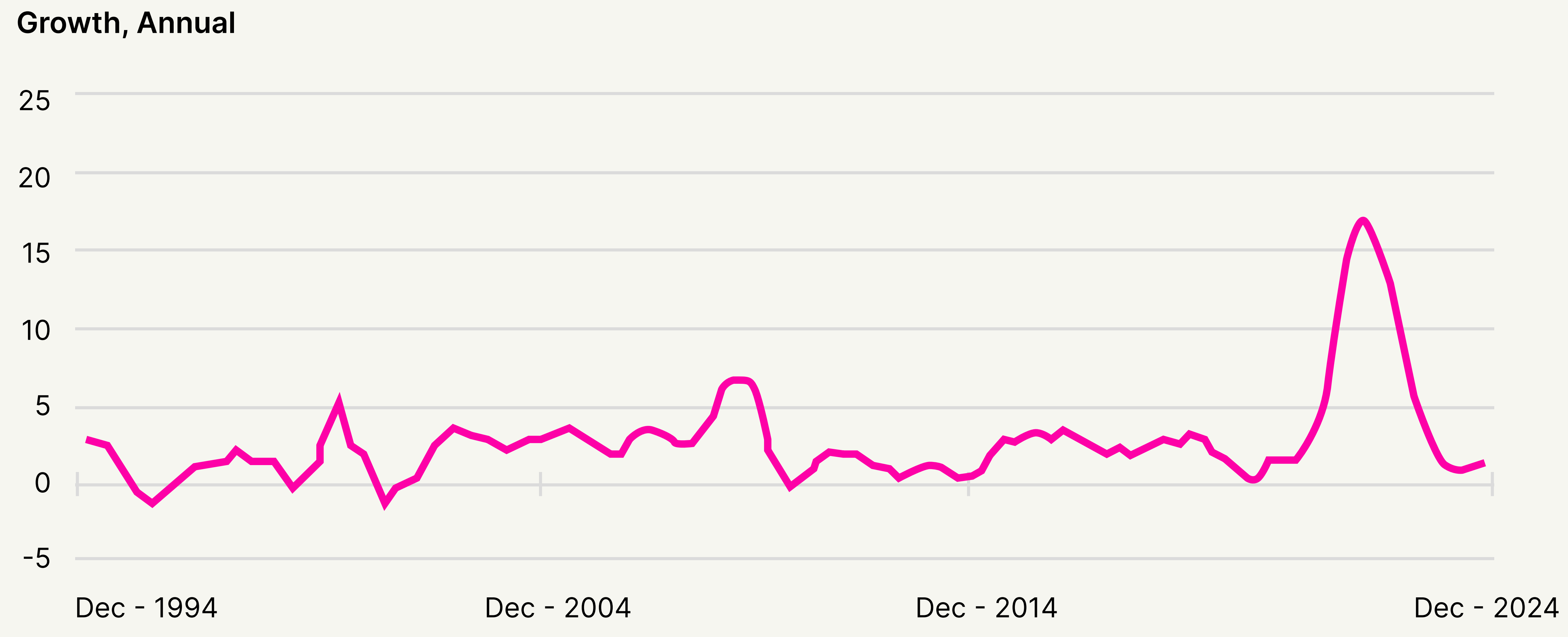


Chart 9: Material prices for building construction (growth).



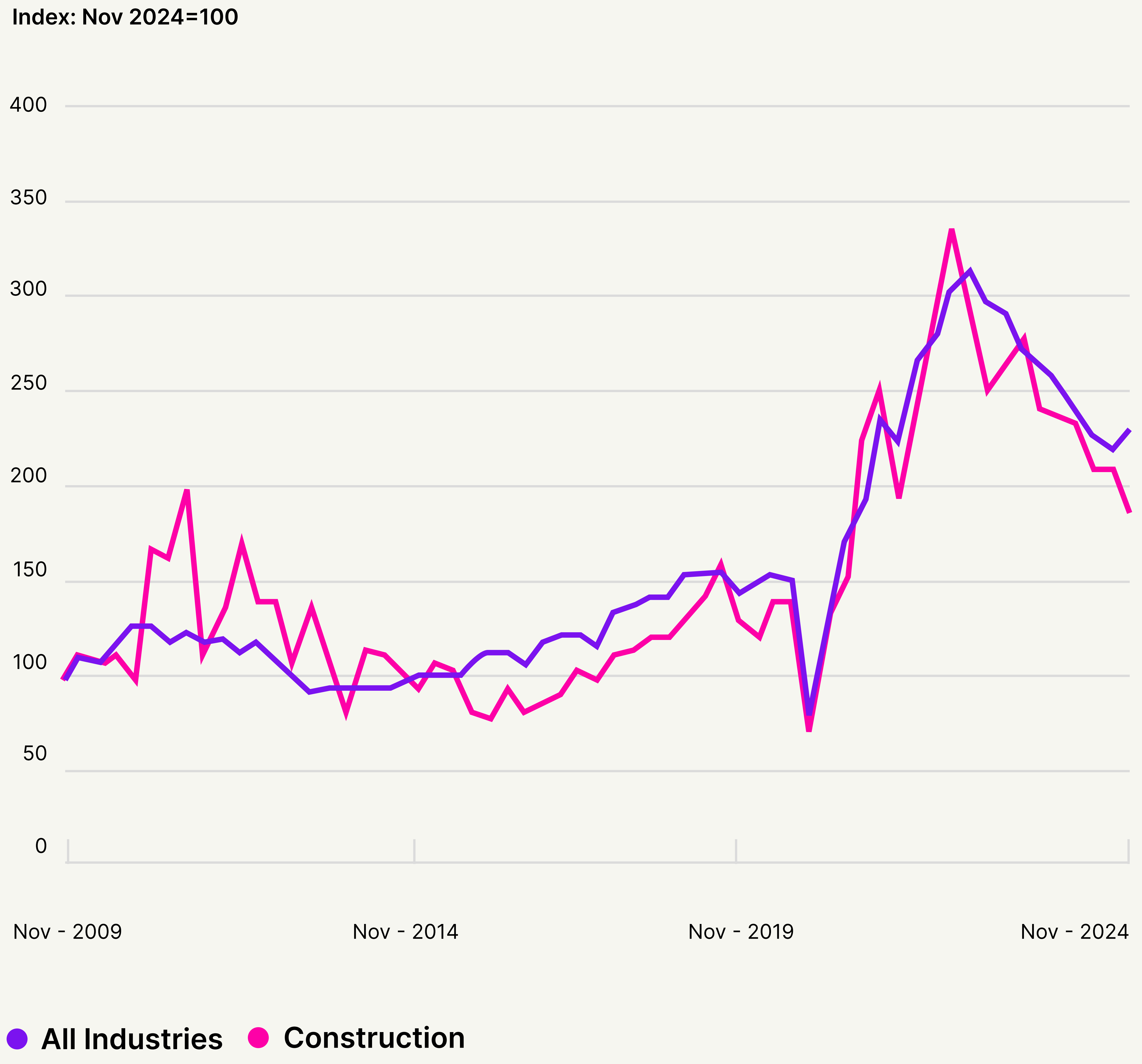
[9] ABS, Building Activity, September 2024
[10] ABS, Producer Price indexes, September 2024.

Sector Findings

Labour shortages, while still elevated, are becoming less acute (Chart 10).

Across Australia, general labour market tightness has eased over the past 18 months – with the unemployment rate currently at 4%. This change is reflected in data for the number of published job vacancies. For all industries combined, as well as for the construction industry, the number of job vacancies are well down from their mid-2022 peaks.[11]

Chart 10 Job vacancies (number).



[11] ABS, Job Vacancies, September 2024

Concept Building & Construction

Adapting to a changing market and rising costs

Concept Building & Construction started out in 2013 doing medium-sized home renovations. Over time, they built such a good name for themselves that they moved up to designing and building high-end homes.

When the economy tightened, things changed. Homeowners became more careful with their money – some chose simpler designs or less expensive materials. With interest rates going up, fewer people were calling about new projects. Rising material costs have also presented problems. While material prices aren't as elevated as they were during COVID, they're still high.

Concept Buillding & Construction has adapted by being creative helping clients save money without ruining their dream designs. They also found new suppliers to keep costs down.

Cameron and his team haven't lowered their standards – they're still committed to doing great work efficiently. Times might be uncertain, particularly in relation to the cost of borrowing, but they are confident taking care of their clients and watching costs carefully will keep their business strong.

Conclusion

The December 2024 edition of the MYOB SME Performance Indicator highlights that, although small businesses in Australia are still facing challenging trading conditions, there are signs the economic environment may be turning a corner, signalling potential improvement ahead.

Since the previous edition in August 2024, the gap between the performance of small businesses and the wider Australian economy has remained relatively steady, further indicating that small business activity is beginning to stabilise.

However, performance across key industries still varies considerably, and notable risks remain that a downturn in business conditions could pose further challenges for the sector.

As a key indicator of broader economic trends, small businesses often feel the impact of economic changes sooner and more acutely than their medium and large counterparts. The MYOB SME Performance Indicator serves as an early indicator of the performance of Australia's broader business landscape and economy.

Ultimately, the December edition suggests that while the small business sector may not significantly contribute to GDP growth in the December quarter, it is showing signs of resilience as conditions improve.

Methodology Summary

The MYOB SME Performance Indicator analyses anonymised data from a subset of MYOB's online products to develop time-series indicators of aggregate economic activity in the small business sector.

The methodology underpinning the MYOB SME Performance Indicator is the National Accounts accounting framework. Firm-level figures for balance-sheet and income-expense categories are used to derive estimates for firm-level gross value added (GVA) per employee, and aggregated for the small business sector as a whole. Adjustments are made for seasonality and differences in industry composition between the MYOB anonymised data set and the official statistics on small businesses.

Aggregate employment in the small business sector is derived by benchmarking MYOB anonymised payroll data with official labour market statistics using flexible least-squares regression. Again, adjustments are made for seasonality and differences in industry composition.

GVA per employee and employment are combined to derive a time-series estimate for aggregate small business economic activity.

Appendix A – Full Methodology

The MYOB SME Performance Indicator is a time-series of aggregate economic activity that approximates gross value added (GVA) for the Australian small business sector. Sub-indexes comprise key small business industries and the aggregate small business sector in each Australian state. Each time series is monthly.

Anonymised data is analysed from a subset of MYOB's online products, and the Australian Bureau of Statistics (ABS). The MYOB anonymised data set is on a monthly basis. The methodology underpinning the SME Performance Indicator is based on the standard National Accounts accounting framework (as described below).

Methodology

Deriving the indicators comprises two key elements – estimation of GVA per employee and estimation of the number employees.

Gross value added (GVA) per employee

The key measure of the total economic output for a particular industry/ sector of the economy is its gross value added (GVA).
In per employee terms, the key aggregate components of GVA are:

- Gross operating surplus, per employee
- Compensation of employees, per employee (effectively, average wages)
- axes less subsides, per employee

With respect to the SME Performance Indicator, the first two of these components are derived directly from the MYOB anonymised data set. For each particular time period, firm-level data for balance and sheet/income-expense categories are aggregated to derive an estimate for aggregate GVA (per employee), and for aggregate compensation of employees (per employee).

In the process of aggregation, adjustments are made for differences in industry composition between the MYOB anonymised data set and official ABS statistics for the aggregate Australian small business sector (ABS, Counts of Australian Businesses).

Specifically, industry-based GVA components are derived, and weighted according to their shares within the Australian small business sector.

- The industry composition of the MYOB anonymised data set is similar to the composition of the overall small business sector. Any differences in proportions are adjusted accordingly.

Data from the ABS (ABS, National Accounts) is used to derive taxes and subsidies (for the total small business sector, and for key small business industries).

- The ABS publishes data on taxes and subsides for the whole economy, and for 17 industries (as per the ANZSIC classification). As well, the ABS publishes data on the distribution of COVID-19 related payments by industry (ABS, National Accounts).
- Taxes and subsidies for the whole economy and for the 17 industries are apportioned to the small business sector and key small business industries, based on the relative size of the small business sector in relation to the aggregate Australian economy and industries. State estimates are derived by weighting the industry-based estimates, based on industry weights for each state (ABS, Counts of Australian Businesses).

For each time period, key components of GVA per employee are aggregated to derive a time series for nominal GVA per employee for the small business sector as a whole, as well as for key small business industries and Australian states.

Estimates for real GVA per employee are derived by deflating estimates of nominal GVA. For each small business industry, the deflator that is utilised is the National Accounts implicit price deflator for the relevant Australian industry (ABS, National Accounts). For the small business sector as a whole, the deflator is derived by weighting the industry-based deflators by industry shares (ABS, Counts of Australian Businesses). The deflator used for each Australian state is derived by weighting the industry-based deflators according to their specific state-based proportions (ABS, Counts of Australian Businesses).

Number of Employees

The benchmark for the time series for the number of small business employees is derived from ABS data (ABS, Australian Industry). This data provides annual (end-June) figures for the number of employees in the small business sector, and for small business industries.

For the small business sector as a whole, a monthly series is derived by applying the growth rates from ABS small business payroll data (ABS, Weekly Payroll Jobs). This ABS series is an index of payroll jobs for businesses with an employee count of 1 to 19 (the series is adjusted for seasonality).

The MYOB anonymised data set includes data on the number of employees at the firm level. A monthly time series for the number of employees is derived for the small business sector as a whole. The series is adjusted for seasonality.

The release of new employee (monthly) data from the ABS lags the availability of new data from MYOB (in effect, a lag of around two months). A flexible least squares regression approach is used to regress the ABS-derived series on the MYOB series, and then to forecast employee numbers for the ABS series two months ahead. This provides a time series for employee numbers that matches the time series for GVA per employee.

With respect to industries and states, the MYOB anonymised data set is used to construct time series for the number of employees for each industry and state. The series are adjusted for seasonality. For each industry and state, a time series is derived for the number of employees relative to the number of employees for the small business sector as a whole. For each industry and state, this relative series is applied to the core employee series (above), to derive equivalent industry and state-based employee series.

Gross Value Added (GVA)

GVA time series for the small business sector as a whole, for key small-business industries, and for states, are derived by combining the relevant series for GVA per employee and for the number of employees.

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