



Business Monitor Report

June 2020

myob



When MYOB started Business Monitor 10 years ago, Australia was emerging from a position of strength, having successfully avoided a GFC-inspired recession. Our banking system was heralded as withstanding the shock other nations failed to navigate.

The decade started with Kevin Rudd as Prime Minister (for the first time) but another four Prime Ministers would be in power over the following 10 years. Unemployment was steady at 5.3%, the Reserve Bank of Australia had a cash rate of 3.75%, inflation was at 0.5% quarterly (1.0% annually) and the economy was growing 0.5% quarter-on-quarter, 2.7% on an annualised basis.

What we see today couldn't be a sharper contrast. The Australian economy experienced its first quarter of negative growth (-0.3%) in almost three decades in the March 2020 quarter, a precursor to what is expected to be a more concerning number in June.

While interest rates have never been lower (0.25%) and inflation isn't far from where it started the decade, unemployment was sitting at 7.4% in June 2020. It was at a staggering 16.4% for the 15-24 year old age bracket.

During the last decade, the MYOB Business Monitor report has taken a deep-dive into five key areas: a) Economy, b) Revenue of the SME sector, c) Profitability of the SME sector, d) Business Pressure Points and e) Business Investment.

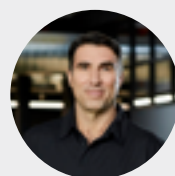
This research snapshot demonstrates the impact 2020 has had on Australia's 2.4 million small and medium sized enterprises (SMEs). The trajectory of the pandemic will shape the future of business in Australia. It's essential they are well supported as they navigate through this period and future recovery.

The latest edition of the report will also consider the latest findings in a more longitudinal context of the last decade, with commentary from MYOB Economist Jon Manning.

The Government should be congratulated for the measured and targeted support programs it has delivered that have largely kept many businesses afloat, giving them the best possible chance of emerging from the crisis.

Australian small businesses find themselves - through no fault of their own - on a precipice. It has been heartening to see the aligned and concerted effort between governments, the broader business community, and SME owners that has marked the first phase of this economic and health crisis.

As we move into a period of recovery, MYOB will continue to play our role in this recovery, and our Business Monitor will provide important data to help us understand how we're progressing.



Greg Ellis
CEO, MYOB

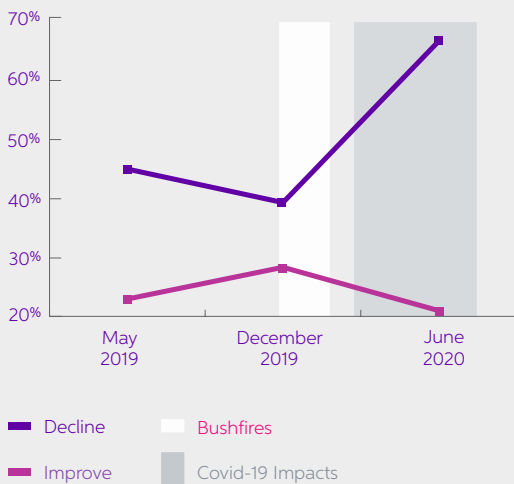
The Economy

This year perceptions of the Australian economy have been uniquely impacted by bushfires and the coronavirus pandemic looming large in everyone's minds.

[Covid-19 Special Report >](#)

Thirty-six percent of respondents say the coronavirus pandemic and its economic effects will last for six to twelve months and 26% predict it will have an impact for another year or two, possibly longer. This suggests that the recovery won't be V-shaped across the entire economy.

In the next 12 months, will Australia's economy decline or improve?

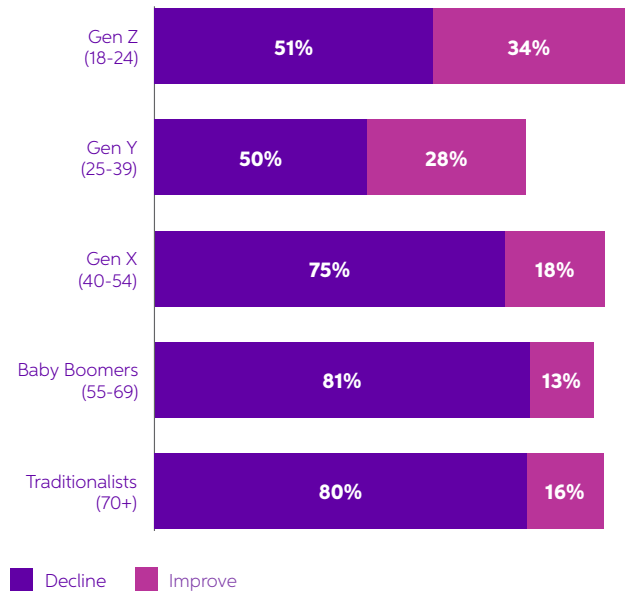


By Generation

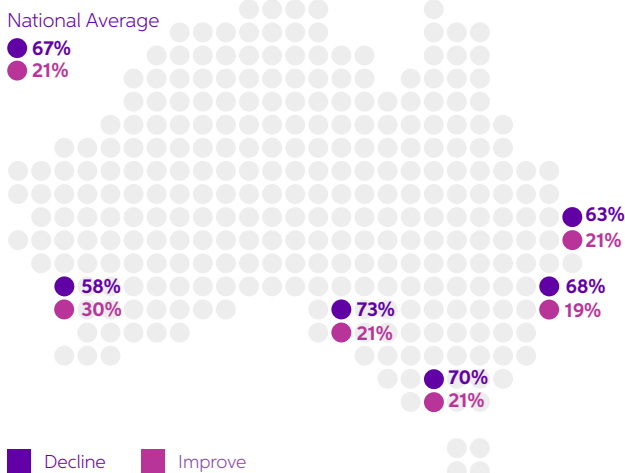
Positivity appears to decline as the age of the business owner increases, with 80% of Traditionalists (aged 70+) believing the economy will decline, versus 51% of Generation Z (aged 18-24). Equally, Generation Z is most likely to expect the economy to improve in the coming year at 34%.

On average, the percentage of respondents who expected the economy to decline has doubled between December 2019 and May 2020. So while Traditionalists were the most negative in both surveys (46% in December vs 80% now), Gen Z have more than tripled their negative sentiment (15% in December compared to 51% now).

June 2020



By State



Where business owners live has a bearing on whether they expect the economy to improve. Respondents from WA are more likely to expect the economy to improve (30%) with the other states closer to the national average of 21%. One possible explanation for WA topping this particular league table could be the popularity of its Premier Mark McGowan, who with an 89% approval rating in a May 2020 Newspoll is the most popular leader in the country.



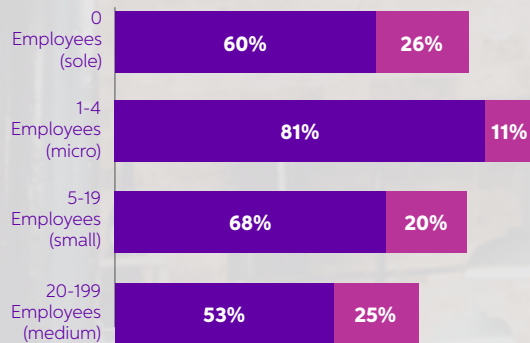
JON MANNING, ECONOMIST, MYOB

By Business Size

The segment of the market most concerned about the economic outlook for the next 12 months are companies with 1-4 employees, with 81% of them expecting the economy to decline.

Businesses employing 20-199 employees are slightly more optimistic with 53% expecting a decline.

June 2020



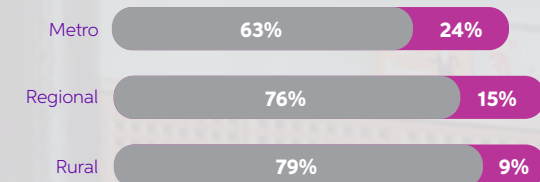
■ Decline ■ Improve

By Location

The effect of the year's business interruptions can also be felt in location density. Businesses in rural locations are most likely to expect the economy to decline at 79% and regional at 76%, compared to 49% and 44% respectively in December 2019.

Metro based businesses are less likely to anticipate an economy decline at 63%, still a significant jump from 36% last year.

June 2020



■ Decline ■ Improve

When will the Australian economy recover?



Those who expected slight or significant decline in the Australian economy over the next 12 months fell from 45% in October 15 to 33% in May 18. That pessimism increased following a leadership change in August 2018 and continued as Australia headed into the 2019 election.

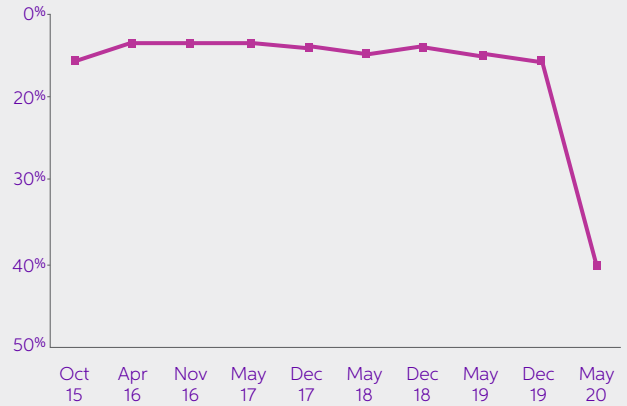
There were already signs of a slowing economy in 2019. Retail trade was flat-lining, mortgage and rent stress was on the rise and household debt-to-income ratio was one of the highest in the world.

The 2019 bushfire season had barely ended when COVID-19 struck, bringing significant implications for the economy, reflected in the responses of SMEs. In June, 66% of MYOB Business Monitor respondents expect decline in the Australian economy over the next 12 months, 40% of those expect it to be significant.



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Respondents expecting a significant decline in the Australian economy next 12 months

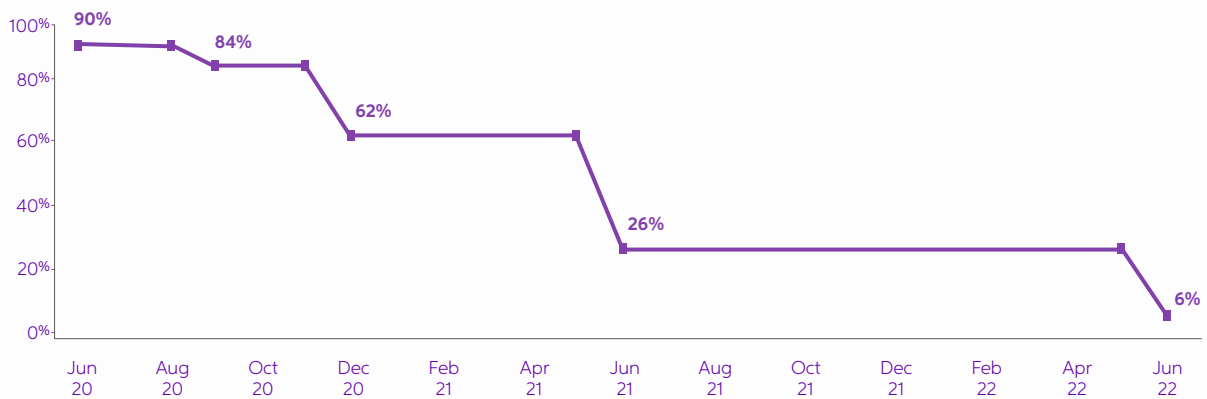


Expected Business Recovery Time

Nationally only 6% expect disruption from the COVID-19 pandemic to end within three months. Fifty-eight per cent expect disruption to last 3-12 months, and a quarter (26%) expect to be feeling the pain for the next one to two years or more.

Forecast for Business Recovery

% of Business Monitor Respondents and Expectations around Period of Disruption



10% of businesses either haven't been impacted by COVID-19 (7%) or answered 'don't know' (3%). Assuming the remaining 90% of respondents are feeling an immediate impact on their business, we can use their responses to plot a curve of the expected disruption. This shows that 84% of businesses still expect to be affected by September

2020 (less those expecting a three month or less impact). By December 2020 this will have dropped to 62% still feeling an impact and by June 2021 just over a quarter (26%) of businesses are still feeling an impact. This goes into single digits (6%) by June 2022.



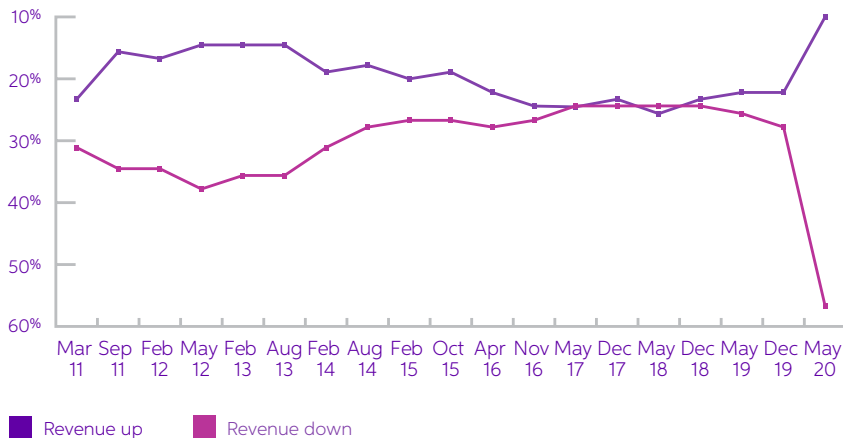
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Revenue

Looking at the changes in revenue over the previous 12 months, there are three clearly defined periods during the decade. From March 2011 through to (circa) August 2014, there was a significant gap between respondents who said their revenue was down vs

those who said their revenue was up. Mid-decade these percentages were much closer. As Australia headed into COVID-19, 60% of respondents said their revenue was down on the previous 12 months, while only 13% of respondents were growing revenue.

Changes in revenue - previous 12 months



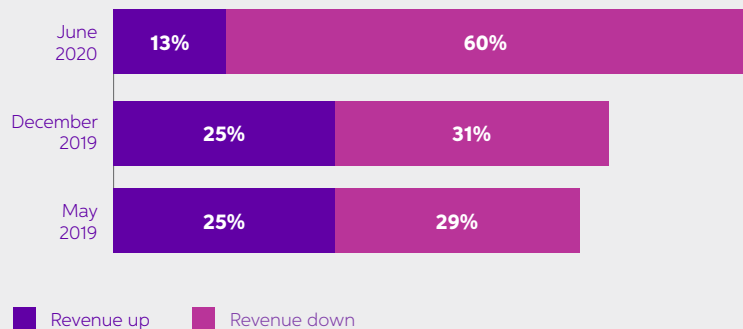
Top 3 most impacted industries

- Retail and hospitality** have been hardest impacted with 74% of respondents experiencing a downturn in revenue compared to last year.
- 66% of **Manufacturing and wholesale** reported a decline in revenue.
- Business, professional and property** are the third hardest hit with 60% having a downturn in revenue.

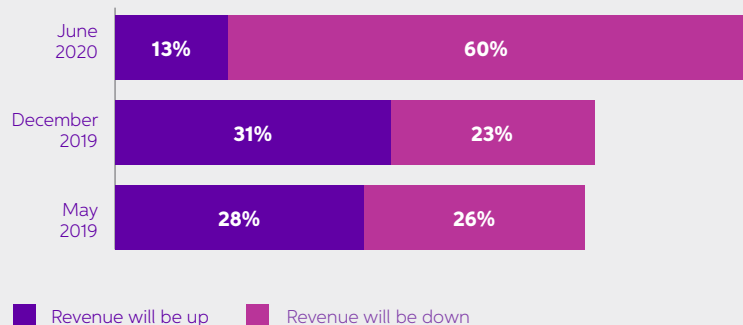
With economic forecasts in turmoil this year, 60% of respondents have reported their revenue is down, compared to only 13% reporting an increase in revenue across the last 6 months. These proportions were similar across city, metro and regional markets, with slightly more resilience in rural markets, where revenue was down in only 52% of instances.

These forecasts contrast with what was a relatively steady environment for business operators across the past few years, where revenue expectations sat relatively stable with regards to revenue up compared to revenue down.

Is your revenue up or down on a year ago?

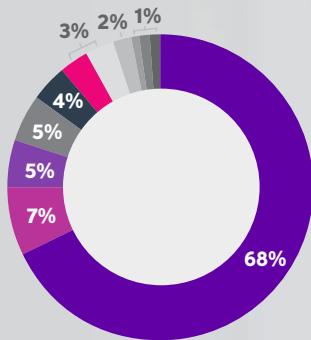


How do you expect revenue to perform in 12 months time compared to now?



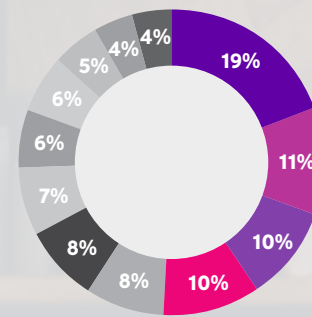
Increasing customer demand and better customer relationships were key drivers for revenue increase this wave, while the coronavirus pandemic was most responsible for revenue downturn.

Why has revenue decreased this year?



Impact of the covid-19 pandemic	68%
Current economic climate	7%
Decreased consumer demand	5%
External events	5%
Loss of key customer(s)	4%
Reduction in product/service	3%
Reduced physical presence	3%
Competitor activity	2%
Decreased prices of products/service	1%
Reduced marketing investment	1%
Other	1%

Why has revenue increased this year?

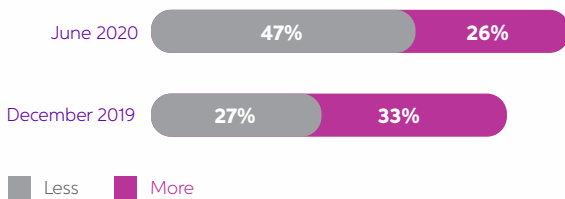


Increased consumer demand	19%
Impact of the covid-19 pandemic	11%
Better customer relationships	10%
Improving product/service	10%
Increased prices of products/service	8%
New product/service	8%
More competitive offering	7%
More online investment	6%
Investment in marketing	6%
Expansion to new location	5%
Current economic climate	4%
Other	4%

Profitability

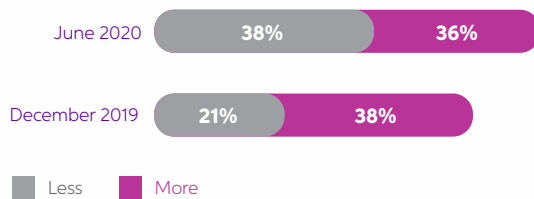
In line with revenue performance, profitability has declined for many businesses. 47% of respondents stated they made less last year, while 26% made more profit.

How has profitability changed the last 12 months?

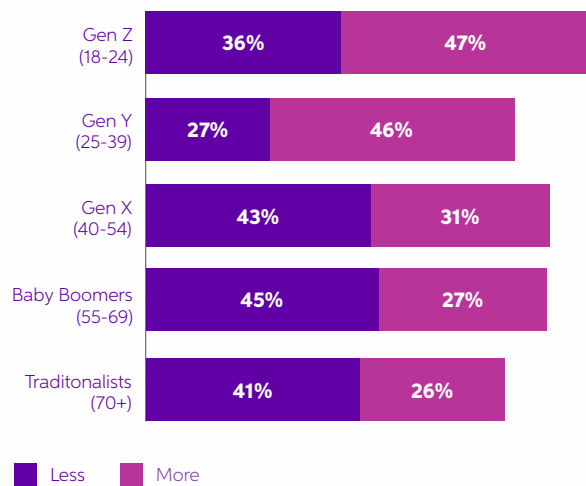


Shifting their focus to the next 12 months, 36% of respondents said they expected profitability to increase (down only two percentage points since December 2019), however 38% said they anticipated profit to decline, significantly more than the 21% who expected less profits last year.

How do you expect profitability to change in the next 12 months?

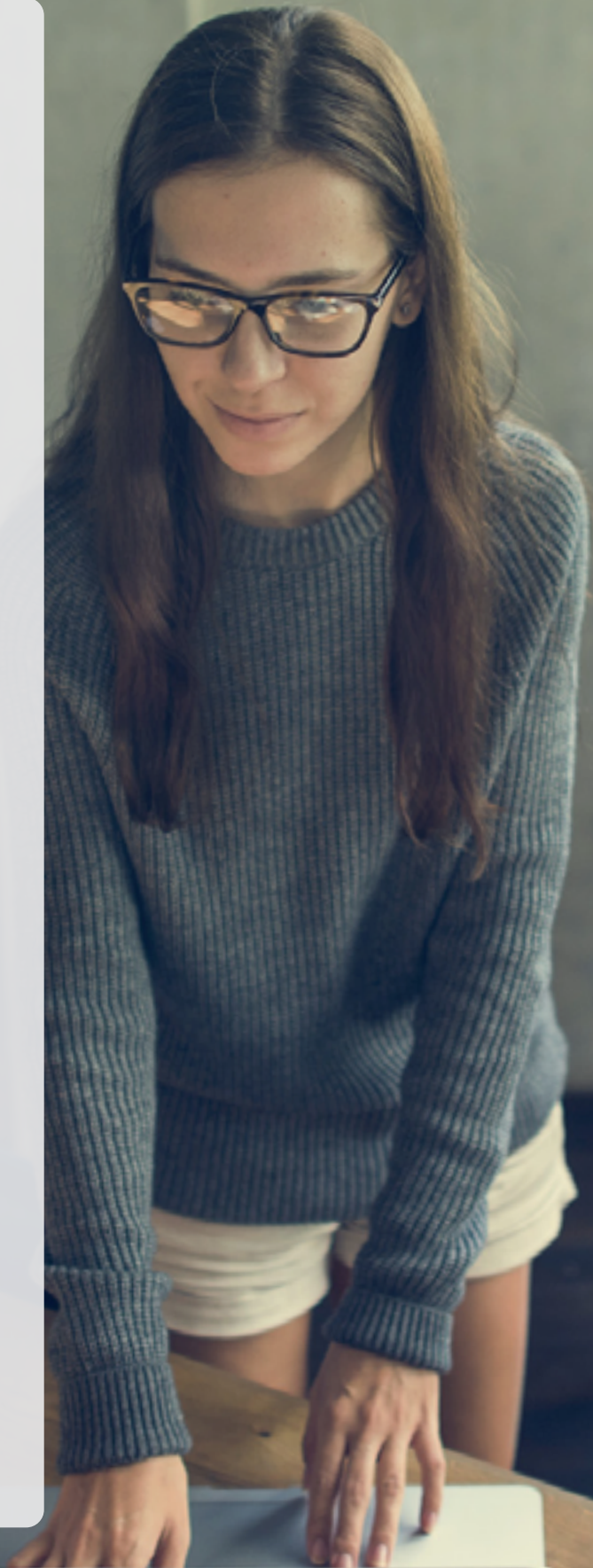
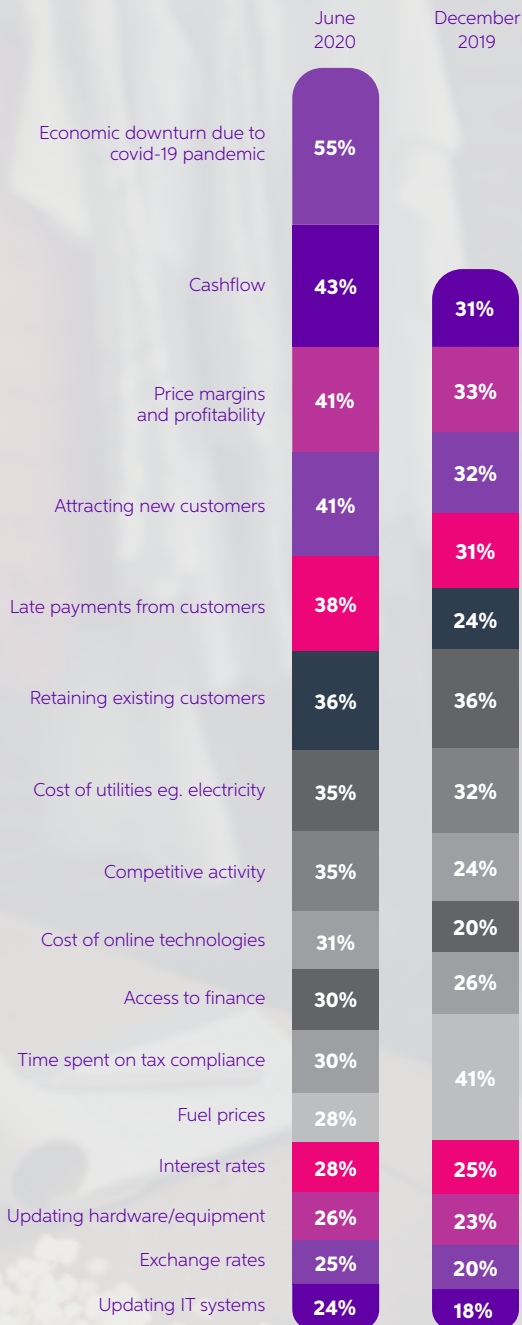


The anticipation of more profit declines with each generation. Generation Z has a more optimistic outlook into the year ahead and are the most likely to expect more profits this year at 47%.



Business Pressure Points

Cashflow, retaining existing customers and access to finance presented the biggest increase in challenges for respondents compared to the previous wave of research. As the country locked down, fuel prices were the only pressure to decrease significantly, down 13 percentage points. With the roads empty, petrol station price boards showed sub \$1.00 per litre prices during the pandemic not seen for years, with oil prices going negative in April.



Business Investment

Sales of products and services online, followed by customer retention strategies are poised for the biggest increase in investment, unsurprisingly at the expense of offline product sales (which will see a 21% reduction in investment). Online and offline marketing spend will both be decreased by 22%, there is a chance business owners are unsure of how to navigate marketing in the 'new normal'.

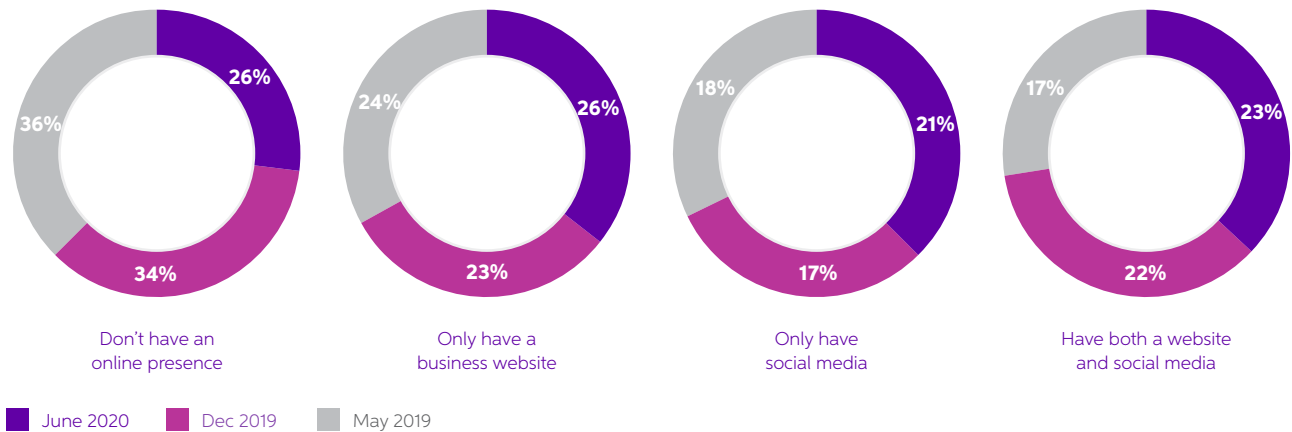
How do you expect these investments to change in the coming 12 months?

	Decrease		Stay the same		Increase	
	June 2020	Dec 2019	June 2020	Dec 2019	June 2020	Dec 2019
Number of full-time employees	17%	9%	63%	69%	14%	12%
Number of part-time/casual employees	19%	9%	55%	64%	15%	16%
Amount employees are paid	18%	7%	57%	60%	16%	23%
Variety of products/services offered	16%	7%	56%	64%	22%	22%
Working with business advisers (e.g. Accountant)	17%	9%	56%	64%	20%	18%
Sale of products/services online	16%	9%	48%	55%	26%	21%
Sale of products/services offline	21%	12%	50%	57%	19%	19%
Prices and margins on products/services	21%	14%	51%	54%	21%	25%
Customer retention strategies	16%	6%	49%	59%	25%	24%
Customer acquisition strategies	15%	7%	50%	55%	22%	21%
IT system investment	19%	11%	54%	59%	17%	20%
Spend on online marketing	22%	12%	49%	57%	21%	20%
Spend on offline marketing (e.g. radio, print)	22%	13%	50%	60%	19%	16%

Online Presence

With the implementation of social distancing requirements and business hibernation measures, online retail and ecommerce opportunities have become even more critical to business survival. As a result, having no online presence continues the downward trend, dropping 8 points from 34% to 26%.

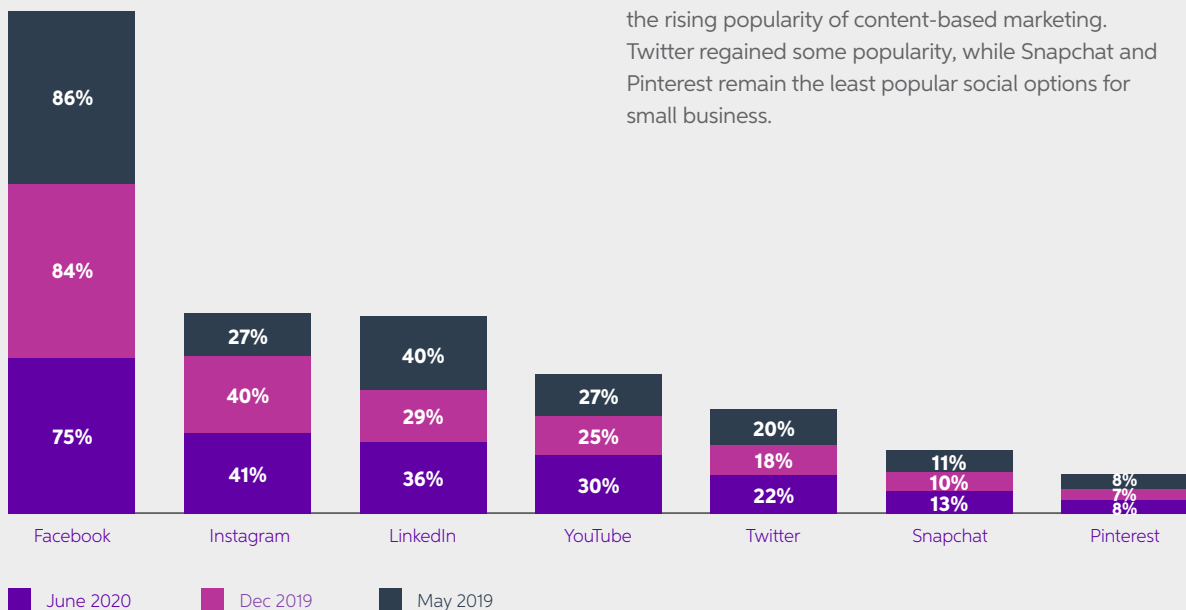
Which best describes your business' online presence?



Having a business website was considered most beneficial for generating customer enquiries or leads (37%), having a more professional brand image (36%) and making it easier for customers to do business with you (34%).

When it comes to having a social media presence, opportunities for customer interaction was the key benefit identified by 41% of small business owners. Making it easier for customers to do business with you (37%) and customer enquiries and lead generation (36%) were the other main benefits identified.

Which social media sites do you use to connect with your customers?



Facebook remains the most popular social channel for small businesses overall (75%), but strong growth across LinkedIn (36%) and YouTube (30%) demonstrate the rising popularity of content-based marketing. Twitter regained some popularity, while Snapchat and Pinterest remain the least popular social options for small business.

What to expect from the second half of 2020

“ There’s no doubt that the first half of 2020 has been eventful, the latter half will bring a number of significant dates for Australians.

Few economists or commentators are talking much about inflation at the moment, but do not underestimate the pressure on prices that will become evident in the back half of 2020.

Businesses will get clearer visibility of their costs in the latter half of the year, as mortgage and rent repayments resume, new suppliers are found and staff return to work. Price increases will seek to cover these costs, as well as those associated with the past or forthcoming development of delivery services, websites or their upgrades and additional costs associated with cleaning and sanitisation.



JON MANNING, ECONOMIST, MYOB

Key Dates: 2020

July

- 16** Unemployment Figures Released
- 23** Economic & Fiscal Statement
- 29** Inflation Figures Released

August

- 13** Unemployment Figures Released

September

- 2** GDP Figures Released
- 17** Unemployment Figures Released
- 20** Mortgage Pausing by to end 745k loans deferred, 37.5% of households (1.42mil)
- 29** Ban on rental evictions scheduled to end

October

- 6** Federal Budget
- 15** Unemployment Figures Released
- 28** Inflation Figures Released

Nov

- 19** Unemployment Figures Released

Dec

- 31** Homebuilder Grants end
Provides \$25k grants, build or renovate, income tested

Here are a few key predictions we'd like to make for the second half of 2020.

1

Economic growth

It's looking more than likely Australia will be in recession in the second half of the year, but it won't be official until figures are released in September.

2

Unemployment

With JobSeeker and JobKeeper extended to March 2021 unemployment levels are likely to remain fairly consistent for the interim.

3

Business footprint

There is likely to be less demand for commercial office space, as companies realise staff can work effectively from home. There are significant cost savings associated with office rent, cleaning, utilities, printers, catering and security.

With more people working remotely there is less of a need for employees to live on a commuter belt – they can move to more rural locations as they don't have to live close to transport or highways.

Those who do stay in suburbia may avoid any public transport infrastructure and instead opt to cycle or drive to work.

About the MYOB Business Monitor Report

The MYOB Business Monitor is a national survey of 1,000+ Australian small and medium business owners and managers, from sole traders to mid-sized companies, representing the major industry sectors. The Business Monitor researches business performance and attitudes in areas such as profitability, cash flow, pipeline, technology usage and the government. It has run since 2009, commissioned to independent market research firm Colmar Brunton. This most recent survey ran in 17 April – 22 May 2020. The businesses participating in the online survey were both non-employing and employing businesses. All data has been weighted by industry type, location and number of employees, which are in line with the Australian Bureau of Statistics (ABS - Counts of Australian businesses, including entries & exits - 8165.0).

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