

MYOB Business Monitor:

Small and Medium Size Enterprise (SME) Performance Indicator





About Impact Economics and Policy

Impact Economics and Policy brings together a group of expert economists and policy specialists with experience working for government, non-for-profits and big four consulting. Established at the start of 2022, our mission is to partner with clients for impact through providing robust evidence, fresh analysis, and strategic communication to tackle Australia's biggest public policy challenges.

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Foreword

For more than 30 years, MYOB has been a dedicated champion for Australia's 2.5+ million small and medium sized enterprises (SMEs).

Touted as the engine room of the economy, small businesses alone employ 5.1 million and contribute more than a third of the nation's gross domestic product (GDP).

In this edition of the new MYOB Business Monitor: SME Performance Indicator, millions of anonymised and aggregated data points from Australian small businesses (with 1-19 employees) have been analysed to study the impact this sector has on the overall economic performance of the country.

The new SME Performance Indicator leverages the real time data of small businesses across Australia, calibrated against historical economic trends.

The calibration against these markers offers a direct insight into the performance of small businesses, as well as enabling a prediction of what can be expected from all the businesses that make up our economy.

The close monitoring of sectors comprising many small businesses, such as construction and retail, also highlight the changes that foreshadow the economy.



The data can be broken down by state and industry, providing vital, focused areas to examine.

The SME Performance Indicator is a powerful new resource for decision makers, from local small business owners through to large private sector organisations, as well as government and industry.

We are leveraging big data to inform readers about our small business sector today and the broader economy tomorrow.

At MYOB our purpose is to help more businesses to start, survive and succeed. This data provides an invaluable insight into the performance of small businesses and a look ahead to their likely impact on the economy.

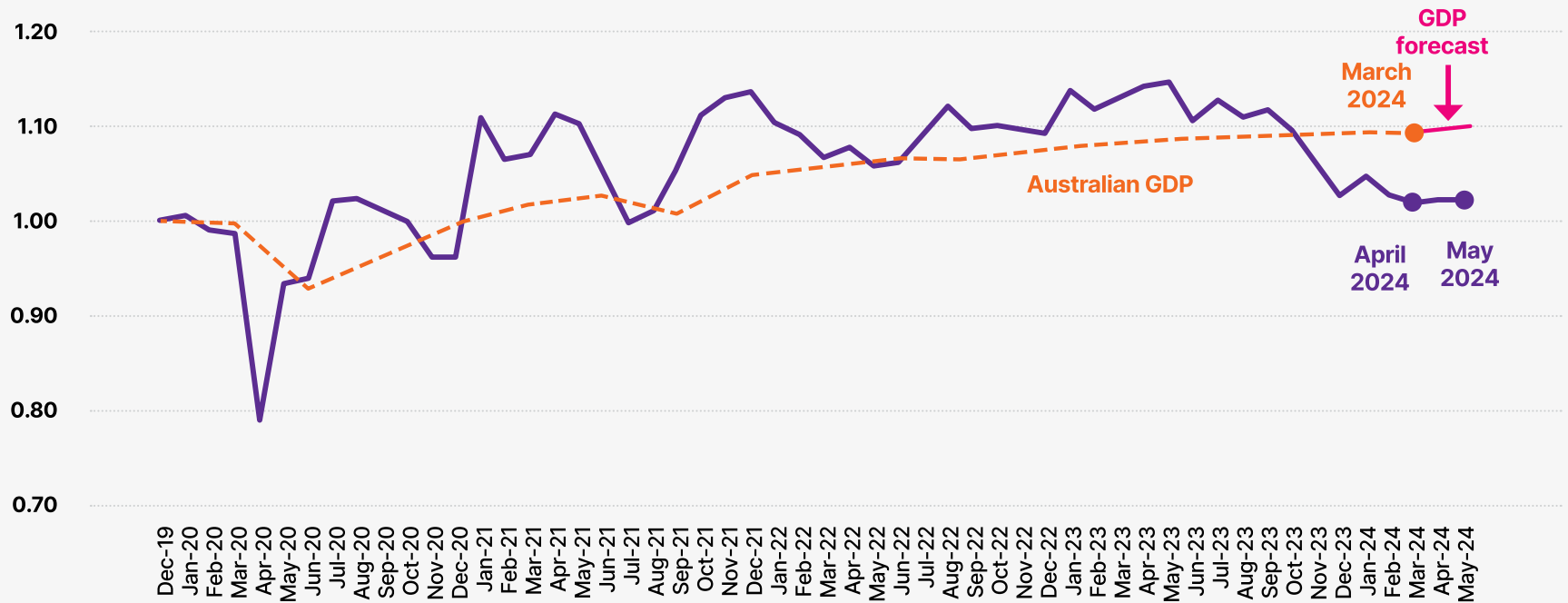
The data contained is a robust record of the contribution of this crucial sector, and the unquestionable necessity of its success.

Paul Robson

CHIEF EXECUTIVE OFFICER / MYOB

MYOB Business Monitor: SME Performance Indicator – May 2024

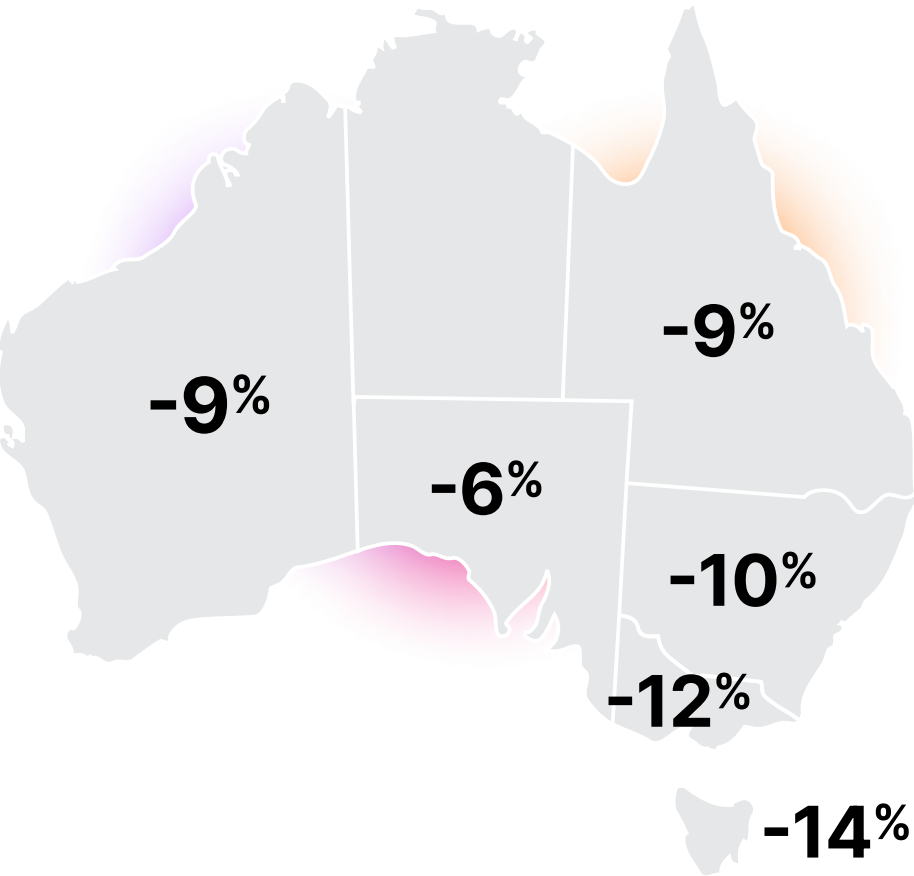
Increased by 0.5% from the April outcome, but remained 4% lower than at the end of 2023



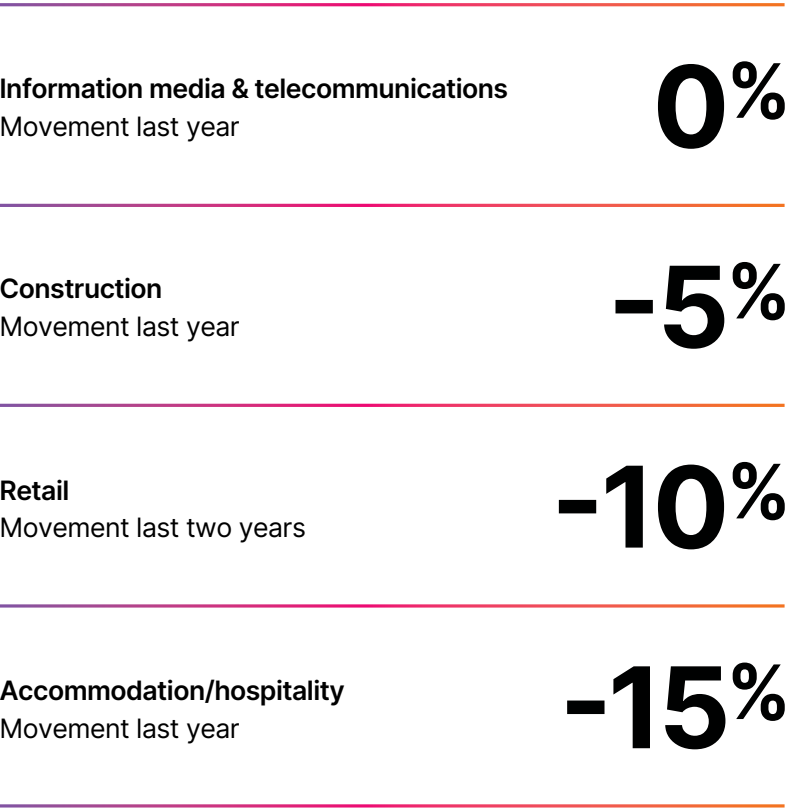
Source: Impact Economics analysis.

State Performance

Last 12 Months



Selected Industry Performance



Why Small Businesses?

97% of Australia's businesses are small businesses¹.

This edition of the SME Performance Indicator focuses on the small business sector. These 2.5 million businesses employ 42 per cent of private-sector workers – the largest share of any business type – and represent nearly one-quarter of total economic activity in Australia every year.

Excluding sole traders, there are almost 1 million businesses in Australia that have between 1 and 19 employees.

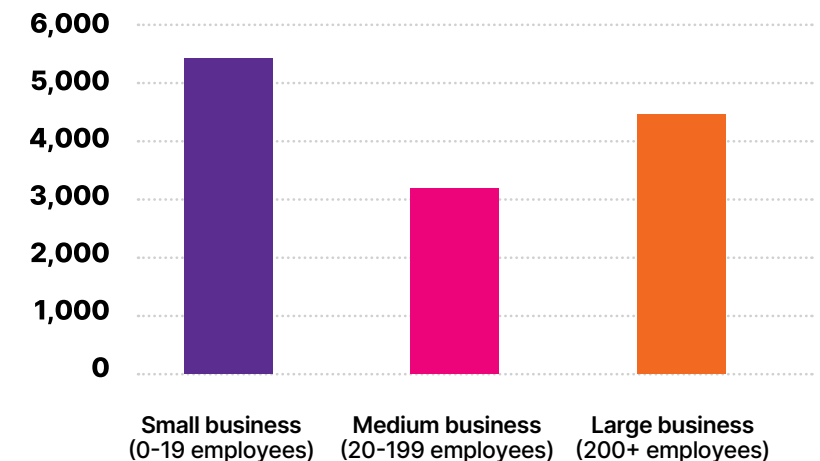
Because small businesses are more sensitive to the business cycle and

quicker to respond to changing economic circumstances than other business types, they have the capacity to provide early insights into broader economic trends.²

Small business: the big employer

Small businesses employ 5.4 million out of the 12.9 million people employed in the private sector in Australia. By contrast, large businesses employ 4.4 million workers and medium-sized businesses 3.2 million.

Chart 1 Small businesses employ more people than medium or large businesses. Employed people by business size ('000)



1. 0 to 19 employees.

2. National Bureau of Economic Research (2013). How Firms Respond to Business Cycles: The Role of Firm Age and Firm Size.

Source: Australian Small Business and Family Enterprise Ombudsman (2023). Small Business Data Portal. **Notes:** Small businesses are businesses that employ 1-19 workers, medium businesses employ 20-199 workers, and large businesses employ 200+ workers.

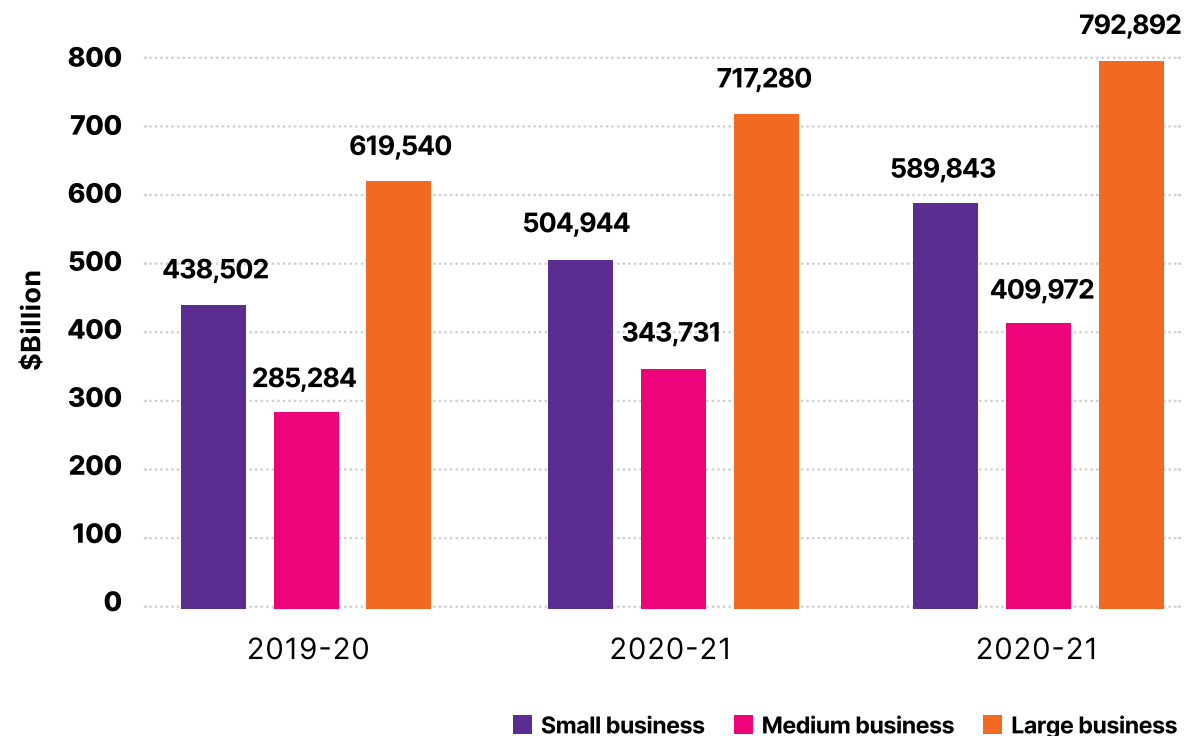


Creating a stronger, more prosperous economy

Small businesses generate around one-quarter of Australia's economic value - or GDP - each year. This includes employing small businesses as well as sole traders.

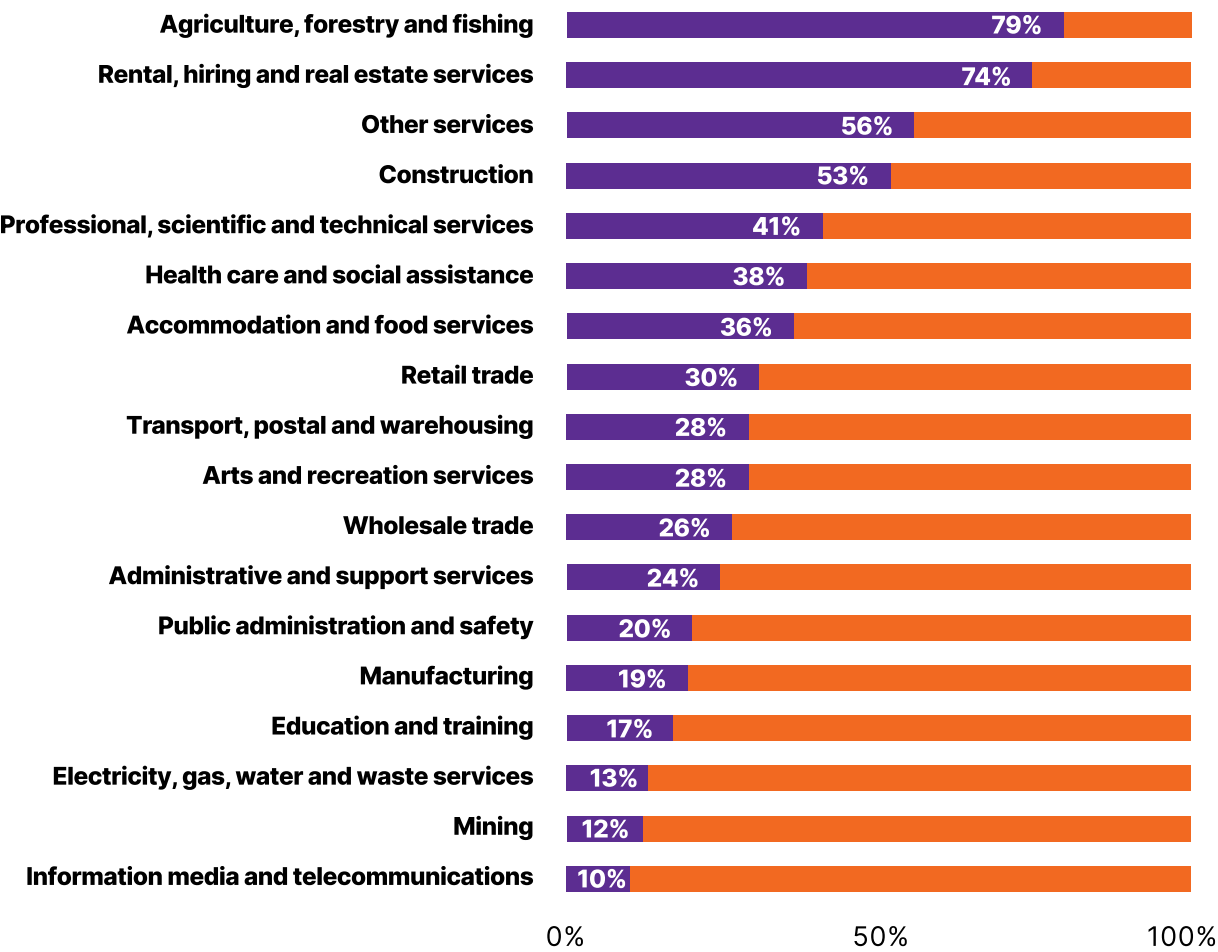
In 2022-23, the small business sector contributed around \$590 billion in value to the Australian economy, compared with \$410 billion for medium-sized businesses and \$793 billion for large businesses.

Chart 2 Contribution to Australian GDP by business size.



Source: Australian Small Business and Family Enterprise Ombudsman (2024).

Chart 3 Small business economic contribution by industry.



The significant economic contribution small businesses make varies significantly across different industries. From 79 per cent of economic value in agriculture, forestry and fishing, to 74 per cent in rental, hiring, and real estate services, and 53 per cent in construction.

- Small business
- Medium and large business

Source: Australian Small Business and Family Enterprise Ombudsman (2023).

Case Study — 01

Posy & Flute Adapting Post-COVID

Posy & Flute, an online florist based in Adelaide, succeeded during the COVID-19 pandemic by offering same-day delivery of flowers, gifts, and hampers. Owned by Sue, the business capitalised on increased demand for thoughtful gifting experiences during COVID isolation and restrictions.

Since COVID-19 restrictions lifted, Posy & Flute has encountered more competition for less discretionary spending by customers, which has impacted their average order. In 2021, typical orders were around \$150, presently a typical order is less than \$100, showing a shift towards more conservative spending patterns.

Rising stock and delivery costs have added to operating pressures for Posy & Flute.

The business has strategically leveraged its customer service strength to navigate the changing market.

Recognising an opportunity, Posy & Flute expanded its offering to cater to businesses that want to enhance their client relationships through personalised gifts.



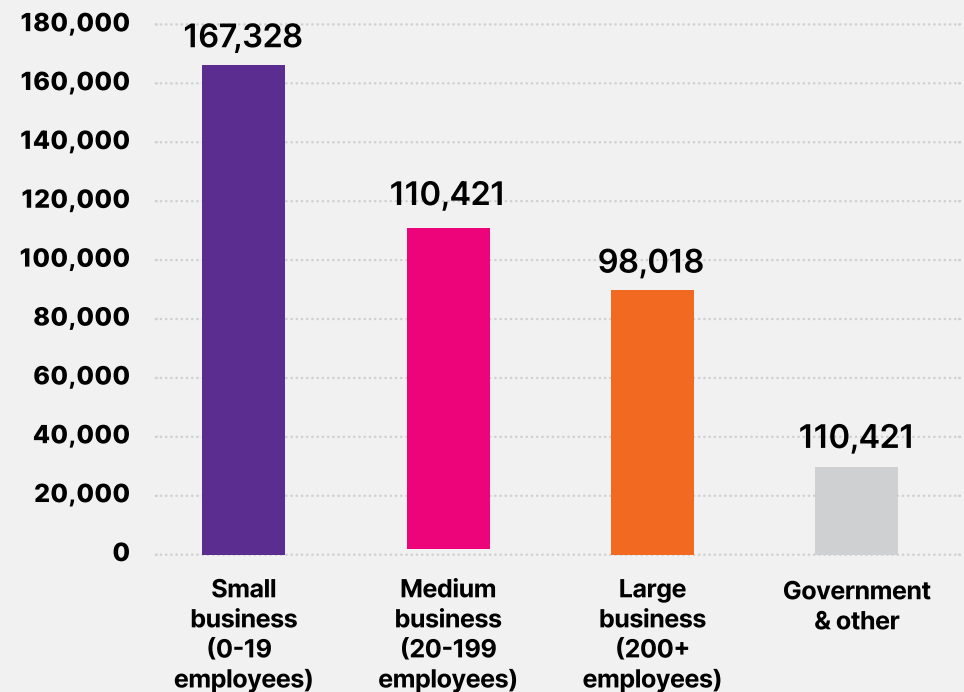
Training the next generation of workers

More apprentices are trained in small businesses than in any other business type.

As of 30 September 2022, small businesses employed 167,328 apprentices and trainees in-training (or 42% of all apprentices and trainees employed in Australia).

The proportion of apprentices employed by small businesses significantly higher than for medium and large businesses – which accounted for 27% and 24% respectively (as of 30 September 2022).

Chart 4 Apprentices and trainees by employer size.



Source: Australian Small Business and Family Enterprise Ombudsman (2023). Small Business Data Portal.

About the data

The data set for this edition of the MYOB SME Performance Indicator comprises a subset of around 200,000 businesses with 1 to 19 employees. This anonymised sample includes private-sector businesses that are either incorporated or unincorporated (excludes sole traders).

Data is on a monthly basis, starting at the beginning of 2020 – a total of over 17 million observations.

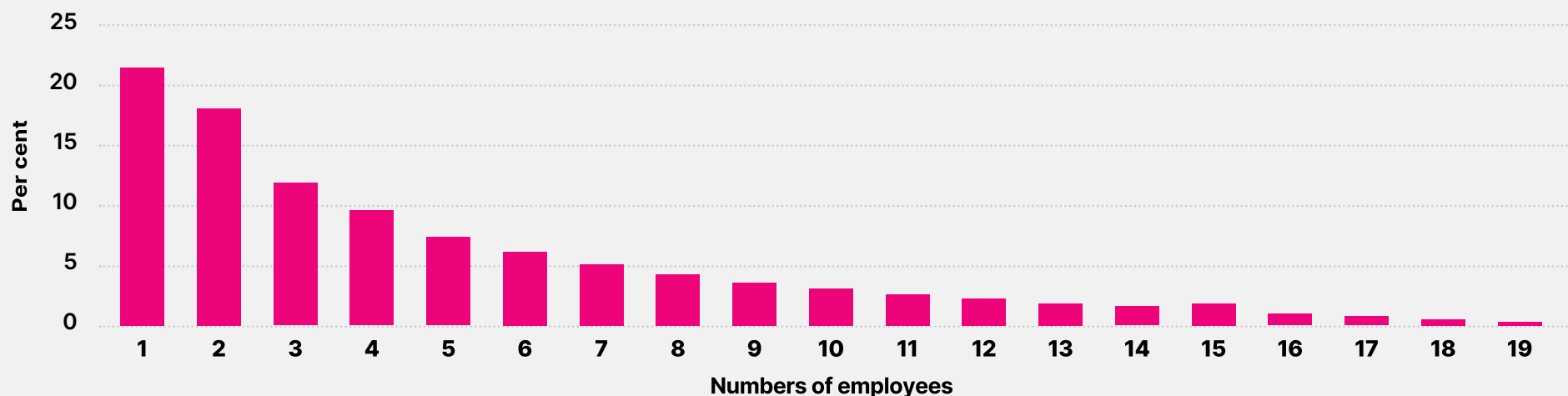
The data set incorporates anonymised firm-level figures for a range of balance-sheet and income-expense reportable categories.³

Most small businesses have 1 to 4 employees

In the data set, the distribution of small businesses by number of employees (Chart 5) shows that most businesses have a relatively small number of employees.

Approximately 60% of small businesses analysed have 1 to 4 employees on their payroll. This compares to official ABS data, where for Australia as a whole, around 75% of small businesses have 1 to 4 employees.

Chart 5 Distribution of small businesses, by number of employees.



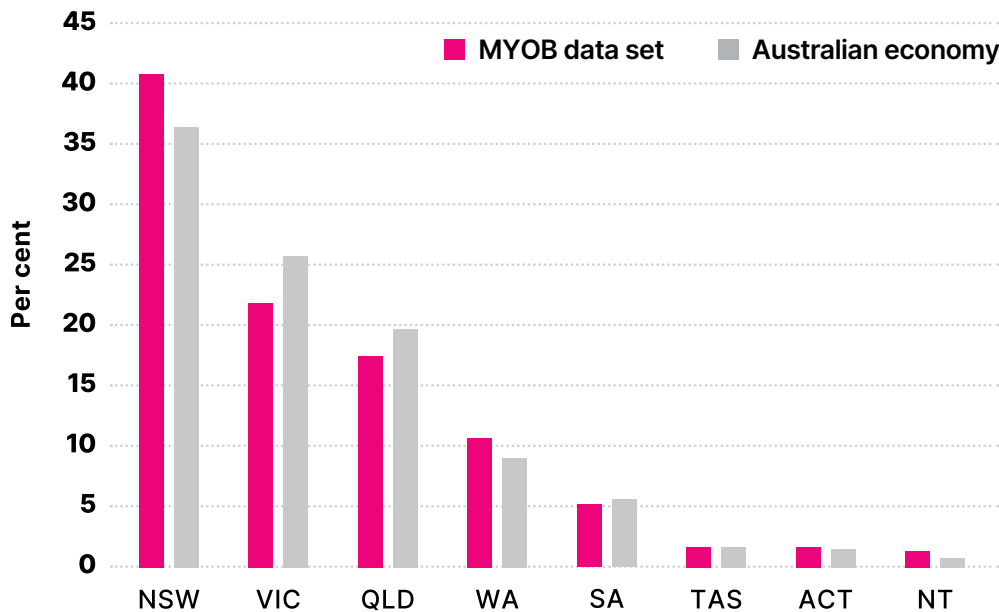
3. Regression estimation utilised data back to the beginning of 2017.

Distribution by state

Within the MYOB anonymised data set, from a subset of MYOB’s online products, the distribution of small businesses by the state in which they are registered is similar to the overall distribution of small businesses in the official ABS statistics for the Australian economy (Chart 6).

Around 80% of small businesses in the MYOB anonymised data set are in the east-coast states, compared with around 82% in the official statistics.

Chart 6 Distribution of small businesses, by state.



Source: ABS, Counts of Australian Businesses, including Entries and Exits.

Distribution by industry

Likewise, within the MYOB anonymised data set, the distribution of small businesses by industry is comparable to the overall distribution of small businesses for the Australian economy (Chart 7).

For both the MYOB anonymised data set and the Australian economy, the industries that account for the largest proportion of businesses are:

- Construction (18.6% and 19.2% respectively)
- Professional, Scientific & Technical Services (16.4% and 15.4%)
- Retail Trade (10.7% and 8.0%)

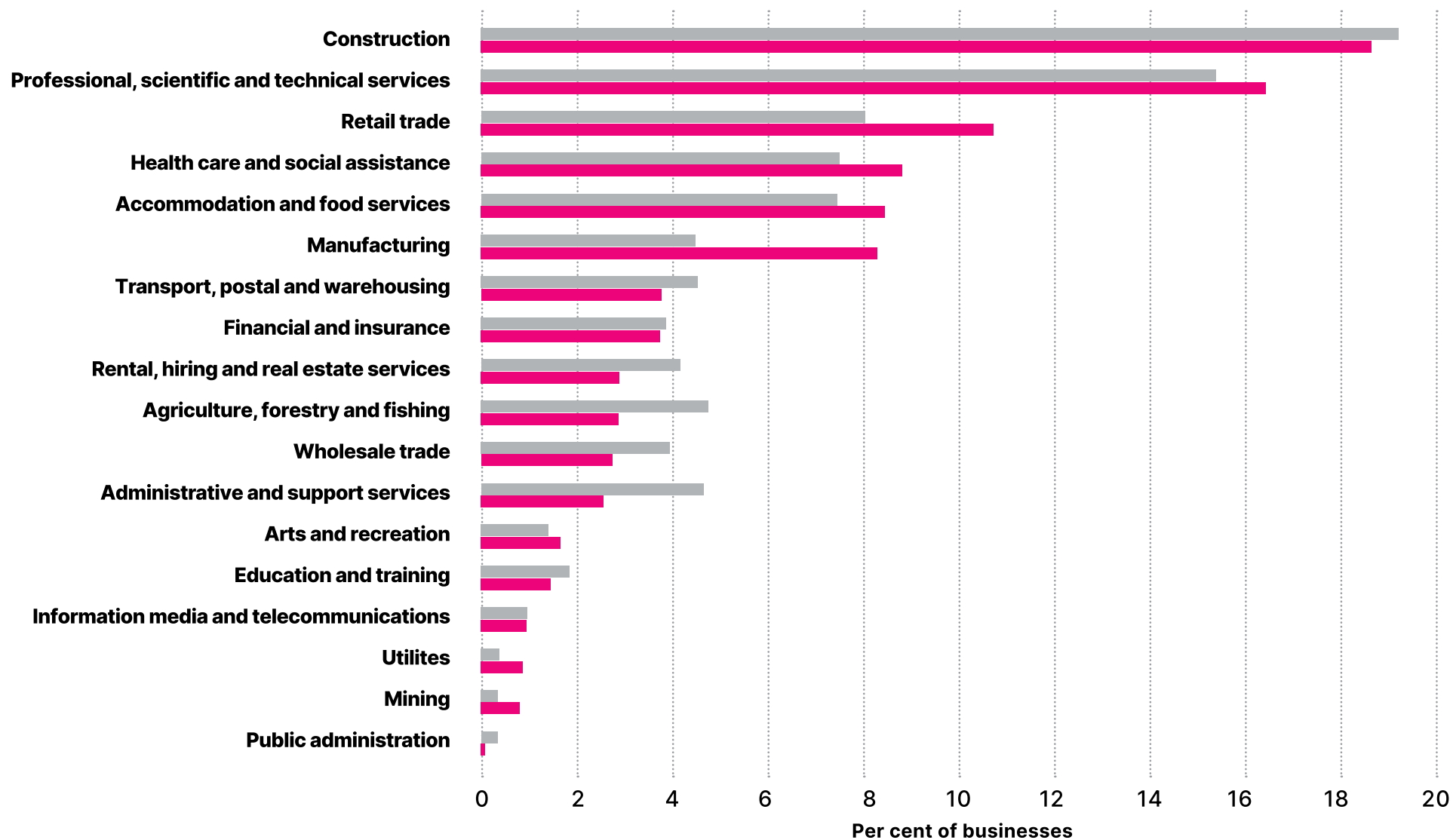
The largest differences in industry proportions between the MYOB anonymised data set and the Australian economy include:

- Manufacturing (3.8 percentage points)
- Retail Trade (2.7 percentage points)
- Administrative & Support Services (2.1 percentage points)

As discussed in the Appendix, differences in industry composition are adjusted for in the methodology for the MYOB SME Performance Indicator.

Chart 7 Distribution of small businesses, by industry.

MYOB data set Australian economy



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.

A full methodology is provided in the [Appendix](#).

MYOB SME Performance Indicator

May 2024



In May, the SME Performance Indicator increased by 0.5% from the April outcome, but remained 4% lower than at the end of 2023 (prior to the recent decline).

The MYOB Performance Indicator shows the overall level of economic activity for Australia's small business sector (purple line in Chart 8), as a monthly series.

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.

Chart 8 also shows the level of Australia's GDP (transformed from a quarterly series into a monthly series). Australian GDP provides a benchmark by which to assess the performance of Australia's small business sector – relative to the performance of the economy.

The section of the GDP line (red) after the March 2024 point is based on forecasts produced by the Reserve Bank of Australia (Statement of Monetary Policy – May 2024).

The recent period of softness exhibited in the MYOB SME Performance Indicator highlights the challenging conditions that small businesses have been facing for an extended period.

This is mirrored in the latest MYOB Bi-Annual Business Monitor, released in June 2024, which surveyed the

attitudes and performance of 1000 Australian small and medium sized enterprises.

Cost growth for business remains elevated. The Bi-Annual Business Monitor research found 81% of small businesses respondents with 1-19 employees saw their costs increase by at least 10% in the last 1-2 years. Of those who saw costs increase, 49% passed these onto their customers.

Higher interest rates and elevated cost-of-living pressures have prompted households to pull back spending on non-essential goods and services, which has particularly affected the retail sector (see Page 22). For small businesses themselves (1-19 employees), the Bi-Annual Business Monitor research revealed 35% expect to feel significant pressure from interest rates in the coming 12 months.

The rising cost of business borrowing has disproportionately affected small businesses, which tend to have thinner cash buffers than larger businesses. A quarter (28%) of respondents say cashflow will be a considerable pressure in the coming year.

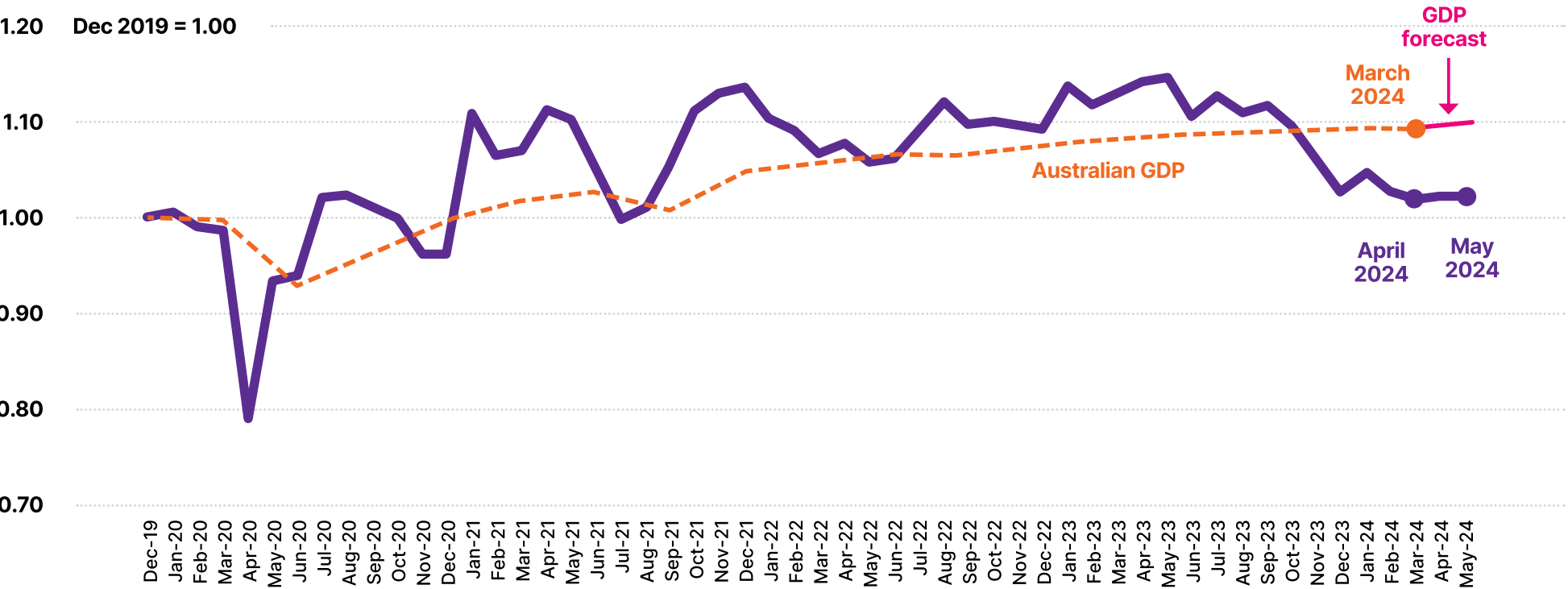
Looking ahead, a key insight from the SME Performance Indicator are the implications for Australia's GDP.

The recent downturn in economic activity, and the flattening of activity through April and May, suggests that the small business sector may not make a positive contribution to Australian GDP growth in the June quarter. The fact that pressures on small business are evident across several key sectors (see Page 22 - 23), underscores this risk.



Following a sharp deterioration around the end of 2023, the SME Performance Indicator flattened-out over April and May 2024.

Chart 8 MYOB SME Performance Indicator.



Source: Impact Economics analysis.

SME Performance Score

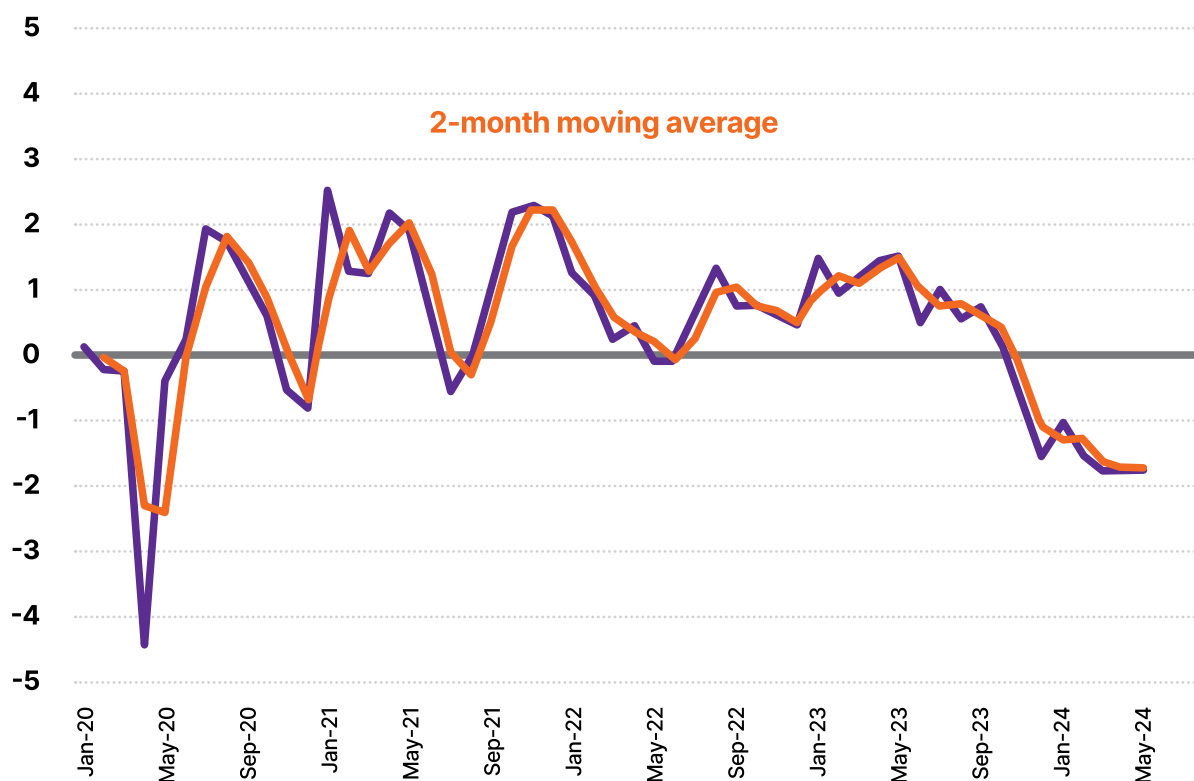
MYOB Business Monitor: SME Performance Indicator

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 to the overall Australian economy, where the maximum deviation is benchmarked at +5/-5.

For the month of May, the SME Performance score sits at -2.0, relatively unchanged from April, after being in negative since late 2023.

The series is volatile, which reflects the relatively high degree of volatility of small business GVA compared with Australia's GDP.

Chart 9 MYOB SME Performance Indicator – SME Performance Score.



Source: Impact Economics analysis.

Key Sectors

MYOB Business Monitor: SME Performance Indicator

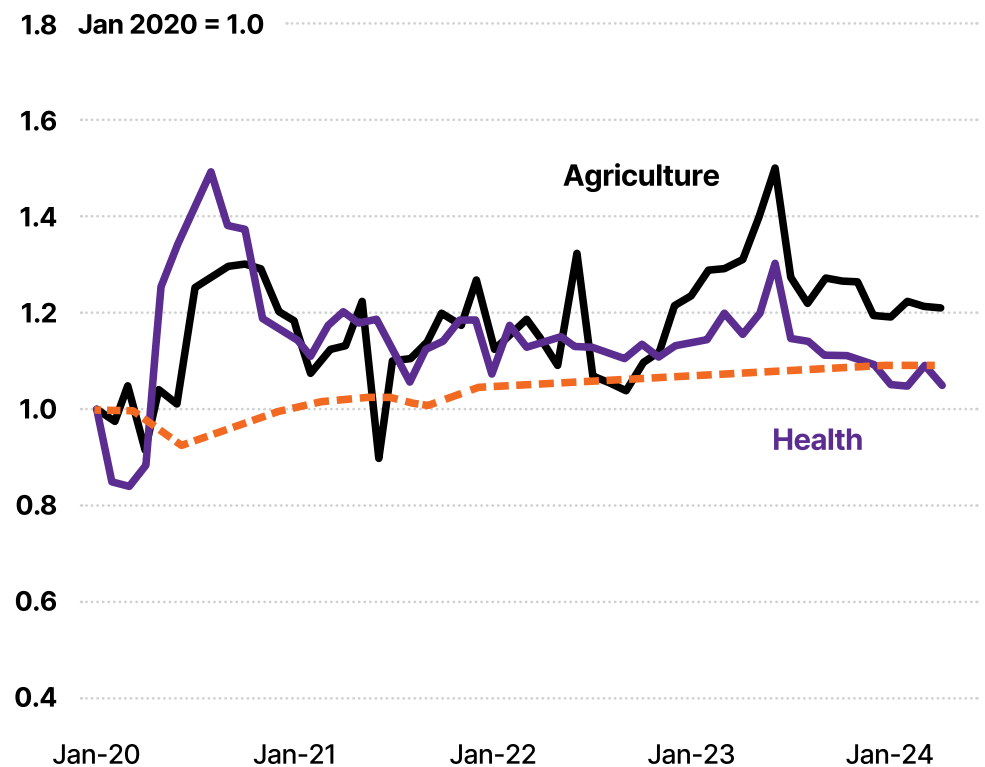
For key small business sectors, indicators of the level of real gross value-added (GVA) are below (Charts 10 to 12).

These are analogous to economy-wide measures of GVA. In each chart, the level of GDP is also included (orange line).

Agriculture: GVA rose sharply during FY2022-23, buoyed by record-high production across a range of crops and livestock. Expectations of near-record production for FY2024-25 should see GVA continue to track at high levels for the near future.

Health: GVA spiked during the height of the COVID-19 pandemic as demand for health services surged. As these were considered essential services they were also less likely to be affected by lockdowns and other restrictions. After retreating from those elevated levels, GVA has trended to track population – which has grown strongly since the end of 2021.

Chart 10 SME gross value added by industry.



Information, media and telecommunications:

Business-to-business provision of IT services has buoyed GVA in the information, media and telecommunications sector. Elevated cost pressures may be providing the drive for businesses to upgrade their IT systems to lift productivity.

Retail: The impact of cost-of-living pressures is evident in the trajectory for retail GVA – which has declined since the end of 2021. The combined effects of mortgage rate rises and elevated inflation has forced households to pull back on non-essential spending. With trading conditions expected to remain challenging for some time, retail sector GVA will likely remain soft.

Chart 11 SME gross value added by industry.

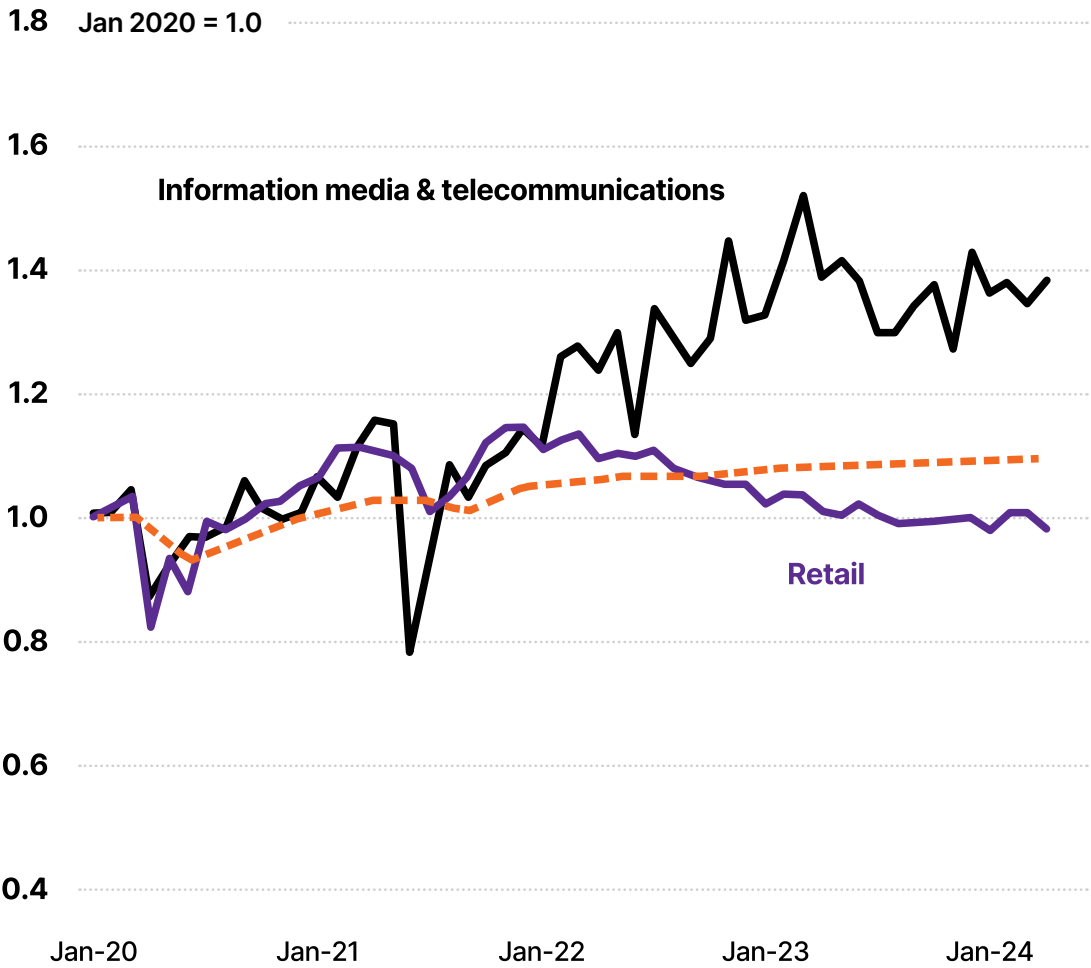
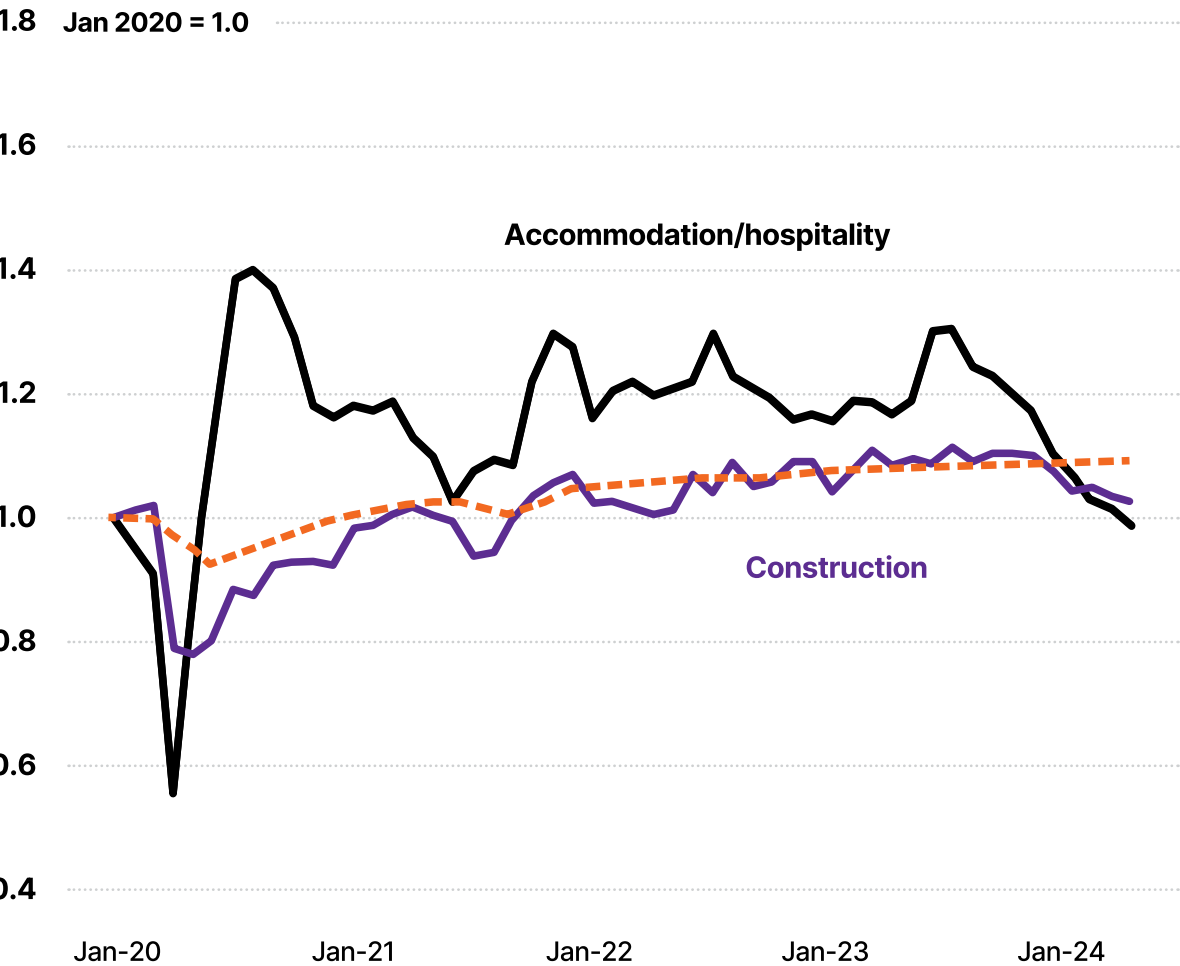


Chart 12 SME gross value added by industry.



Accommodation and hospitality:

The COVID-19 pandemic had a disruptive impact on the accommodation and hospitality sector. Periods when social restrictions were put in place led to marked falls in GVA – GVA rebounded as restrictions were lifted. The recent downturn reflects the impact of ongoing, elevated cost-of-living pressures on household spending.

Construction:

Until recently, GVA had been growing strongly – due largely to strong demand for new dwellings. The recent drop-off in GVA reflects the impact of cost pressures on builders and related business closures.

Case Study — 02

Multi Dwell Developments Navigating a Competitive Market

Multi Dwell Developments founded by Jason, a Licensed Builder, launched in Melbourne in 2021. Multi Dwell Developments specialises in residential and commercial construction. The business initially faced challenges during the COVID-19 pandemic because cautious consumer spending was impacting demand.

More recently a growing word-of-mouth network and targeted advertising campaigns have seen the business experience an uptick in work requests, particularly in commercial projects. Multi Dwell Developments operates within a challenging landscape where some building trade businesses have struggled with financial viability, evidenced by frequent defaults.

Focusing on reputation-building and diversifying project types, Multi Dwell Developments continues to perform well.



Key states

MYOB Business Monitor: SME Performance Indicator

For each of the major Australian states, indicators of GVA in the small business sector are in Chart 13.

The trajectory for total small business production in each state is similar. The general upward trend reflects – among other factors – the impact of growing population on demand for the goods and services produced by small businesses. Similarly, each indicator exhibits comparable patterns of volatility during the height of the COVID-19 pandemic – reflecting the impact of partially-synchronised social restrictions.

That said, over the last three years, the small business sector in Western Australia has performed better than its peers in the other major states.

This is largely due to the (indirect) impacts of elevated commodity prices on demand within the Western Australian economy – where higher incomes from commodity exports (iron ore in particular) supported both household consumption and public sector spending.

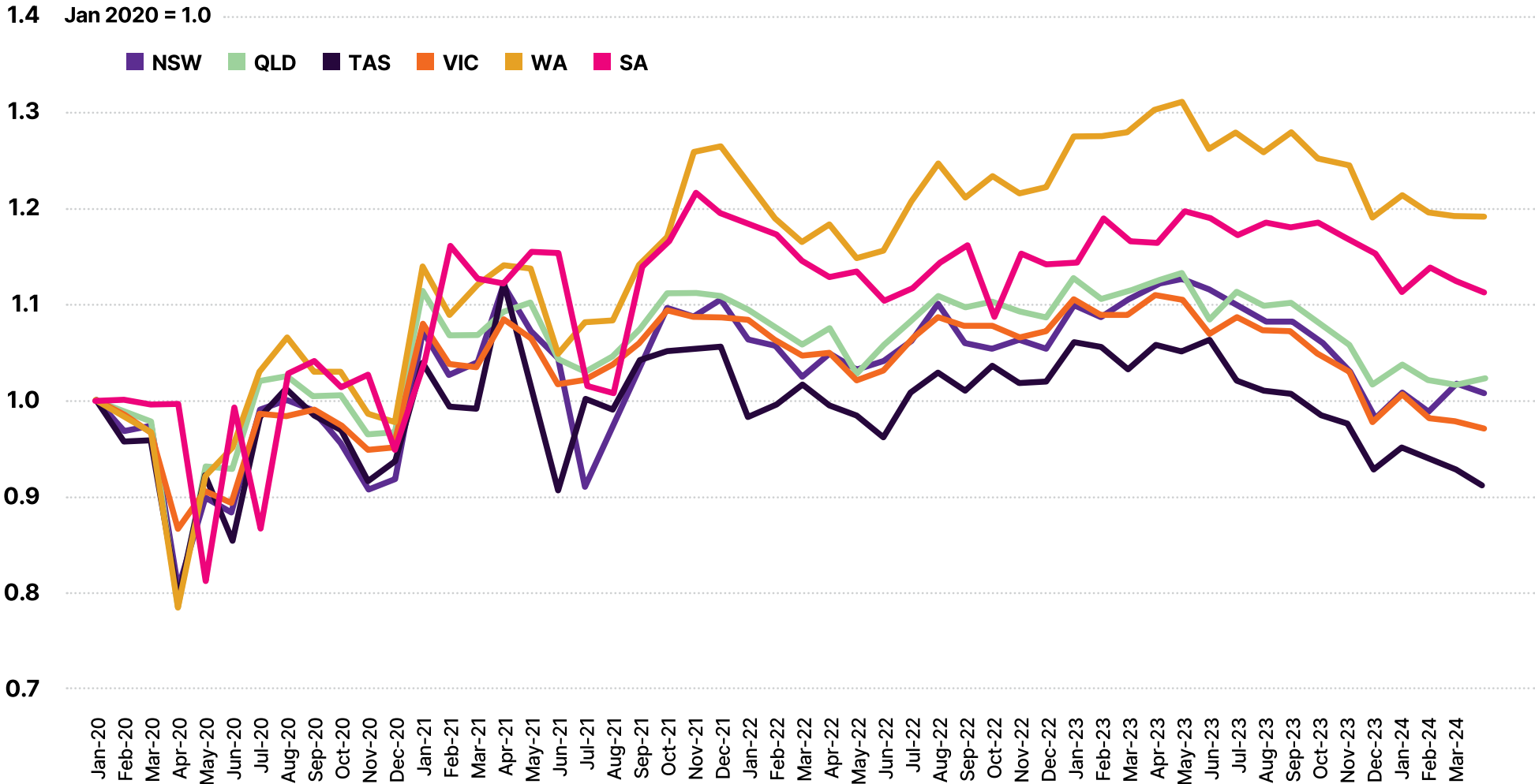
Since the end of 2019, household consumption in Western Australia has grown at double the pace than consumption in both New South Wales and Victoria (13% versus 7%).

In Western Australia, strong growth in consumer spending supported small businesses across the range of sectors, including retail. This is in stark contrast to the general performance of the small business retail sector (see page).

More recently, however, the challenging conditions faced by small businesses in other states are also affecting small businesses in Western Australia.

In addition, commodity prices have retreated from their peaks and are expected to continue to decline to their longer-term levels. As a result, the wedge between the indicators for Western Australia and the other major states is expected to narrow.

Chart 13 SME gross value-added by state.



Source: Impact Economics analysis.

Conclusion

The MYOB Business Monitor: SME Performance Indicator provides a valuable insight into how the Australian small business sector is performing against the broader Australian economy.

The SME Performance Indicator demonstrates the sensitivity of the small business sector to abrupt, significant changes in the economic environment - most notably, the impact of the COVID-19 pandemic - on operating conditions. Likewise, the industry-based indicators reveal some of the key challenges facing particular industries within in the broader small business sector.

The small business sector is a bellwether of the broader Australian business sector.

The impact of changes to the economic environment on operating conditions can affect small business earlier, and to a greater degree, than medium-sized and large business. As a near-term metric of small business health, the MYOB Business Monitor: SME Performance Indicator provides a leading indicator of conditions facing the broader economy.



Appendix

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)
- Taxes less subsidies, 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 subsidies 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 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 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.

Business Monitor:

Small and Medium Size Enterprise (SME) Performance Indicator



JULY 2024

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