Xero Small Business Index Australia Update
October - December 2023

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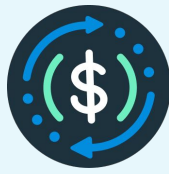
Tough December for small businesses

Average results for three months to December

Index	Sales	Jobs	Wages	Time to be paid
115 pts	+5.1% y/y	+3.5% y/y	+3.0 % y/y	22.7 days

The latest Xero Small Business Insights (XSBI) data for Australia shows that after coping reasonably well for much of 2023, amid challenging macroeconomic conditions, small businesses came under pressure in December. The combination of multiple interest rate rises and ongoing higher-than-usual inflation appears to have reached a tipping point in the final month of the year, with the Xero Small Business Index falling 37 points in December to its lowest level since September 2020.

In the December quarter the Xero Small Business Index averaged 115 points, down 10 points compared to the September quarter result. But this quarterly result masks a significant shift in the final month of the year, when the Index fell 37 points to 89 points in December. This is the largest single month decline since April 2020, when the economy was essentially closed down by the pandemic. The Index fell below the 100 level for the first time in a year and reached its lowest level since September 2020. The fall in the Index was due to two metrics - sales and wages.

Sales recorded an average rise of 5.1% y/y in the three months to December. However, this was largely due to a 10.1% y/y rise in October. November (+4.3% y/y) and December (+0.9% y/y) were both much softer. The December result is the smallest rise in sales since January 2021.

Wages growth, when looked at in quarters, appears little changed. It averaged 2.8% y/y in the September quarter and 3.0% y/y in the December quarter. Like sales, the softness was largely in December - when wages rose just 2.5% y/y. In contrast, economy-wide data from the Australian Bureau of Statistics shows wages (as measured by the private sector Wage Price Index) rose 4.2% y/y in the December quarter. This suggests small business owners are not currently able to compete with larger businesses when it comes to pay increases.

The drag on the Index from sales and wages was partially offset by a modest pick-up in jobs growth in the final few months of the year. Jobs rose an average of 3.5% y/y in the three months to December, compared to 2.7% y/y in the September quarter.

Payment times were the same in the December quarter as the September quarter - time to be paid averaged 22.7 days and late payments averaged 6.3 days.

Looking ahead, conditions are likely to remain challenging for small businesses as interest rates stay high and inflation is still above the central bank's target. In its latest statement the Reserve Bank of Australia noted that *"while there are encouraging signs, the economic outlook is uncertain and the Board remains highly attentive to inflation risks."*

For small business owners and their advisors, this data highlights how important it is to do as much as possible to attract increasingly scarce customers. It also shows that maintaining profitability in the face of slowing sales and rising costs means there needs to be a focus on non-wage related ways of attracting and retaining staff.

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Australia Small Business Index

Index, average = 100, standard deviation = 15

Source: Xero Small Business Insights
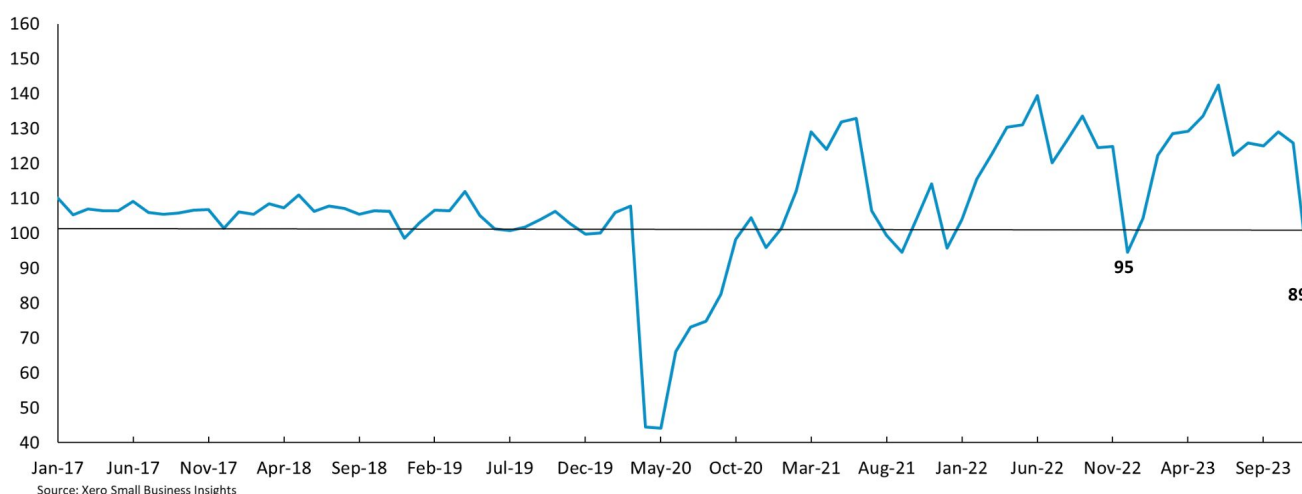
Smallest rise in sales in almost 3 years

Sales rose only 0.9% y/y in December - the smallest rise since January 2021. Sales growth has been on a gradual downward trend for the past two-and-a half years, but this sharply accelerated in the final month of 2023.

Using the monthly CPI as a proxy for prices, the volume of goods and services sold was flat in November, compared to a year ago, and fell 2.5% y/y in December. This fall in volumes (only the second this cycle) happened despite strong population growth in Australia over the past year and at a time when retailers and hospitality businesses, in particular, expect to be busy.

The industry data reveals significant differences in sales experiences. Interest-rate sensitive industries such as retail (+1.2% y/y) and wholesale trade (-0.1% y/y) were the softest during the December quarter. Agriculture was also a drag on sales, especially in December (-13.1% y/y). This industry had a bumper year in 2022/23 but the official government agricultural forecaster recently foreshadowed a slowdown in sales in 2023/24, which has been evident in the XSBI data for the past six months.

Some industries, however, recorded strong sales in the quarter, led by health care (+13.0% y/y) and education & training (+11.1%).

All States and Territories recorded a sharp decline in sales growth in December - consistent with the national results. This ranged from a 1.9% point decline in Queensland (4.1% y/y to 2.2% y/y) to a 7.4% point decline in South Australia (7.3% y/y to -0.1% y/y).
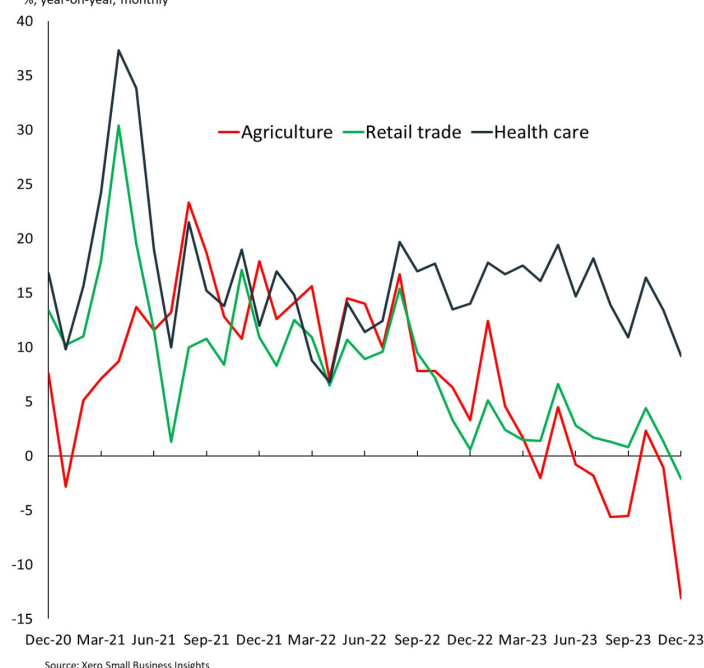
Small business sales

%, year-on-year, monthly

Source: Xero Small Business Insights
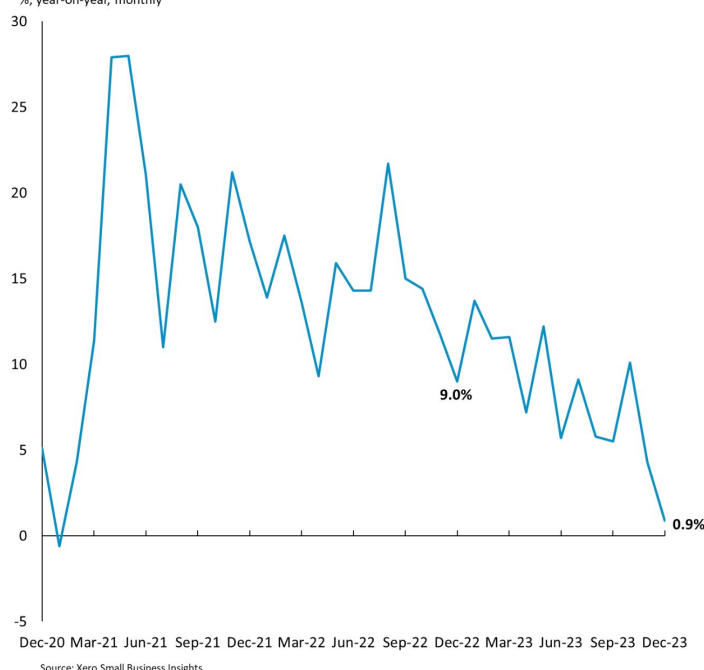
Small business sales - by industry

%, year-on-year, monthly

Source: Xero Small Business Insights

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Wages growth dips in December

Wages rose 3.0% y/y in the December quarter, similar to the 2.8% rise in the September quarter. There was a distinct slowdown in the month of December, however, with wages rising just 2.5% y/y. This is below the 3.0% pre-COVID average for this series and indicates that the trend seen at the national level, of still rising wages growth, is not being reflected in small businesses as they try to contain costs.

Across industries, wage rises in the December quarter range from 2.3% y/y in health care to 4.0% y/y in hospitality. The latter consistently recorded the largest wage increases across industries during 2023.

South Australia (+3.5% y/y) and Tasmania (+3.4% y/y) led the wage gains in the December quarter. The ACT recorded the smallest increase (+2.3% y/y).

Small businesses continue to add jobs

Jobs rose 3.5% in the December quarter, above the pre-COVID average for this series (+3.0% y/y).

There were substantial differences across industries. The hospitality workforce has fallen for the past 5 months and was down 1.2% y/y in the December quarter. This most likely reflects a rebalancing after very strong jobs growth in 2022, when newly returned international students and skilled workers were finding roles. In contrast, health care (+9.5% y/y) and education & training (+6.6% y/y) both had fast growing staff levels.

There were considerable differences in jobs performance across regions. Tasmania, where jobs fell for the previous two quarters, only managed average jobs gains of 0.2% in the three months to December. ACT job gains have also been slower, averaging only 1.8% y/y in the December quarter. Western Australia, on the other hand, recorded 6.3% y/y job gains in the December quarter after a 6.2% y/y average rise in the three months to September.
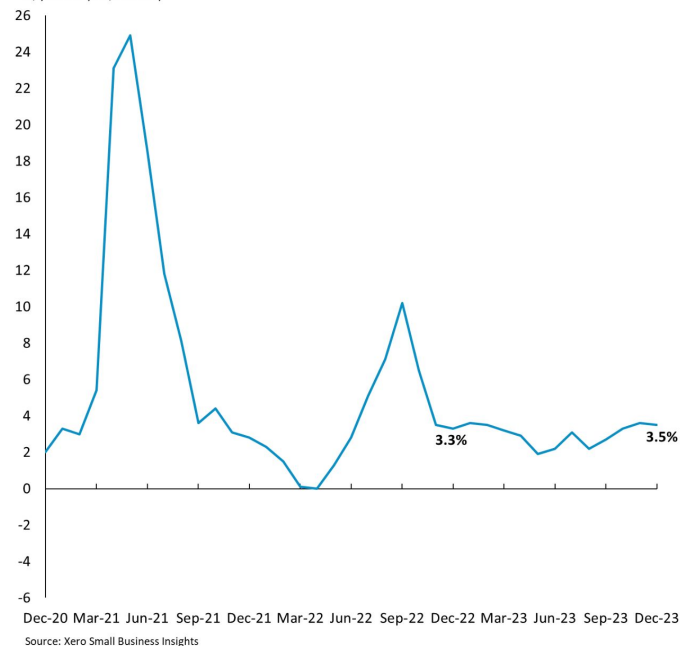
Employee hourly earnings
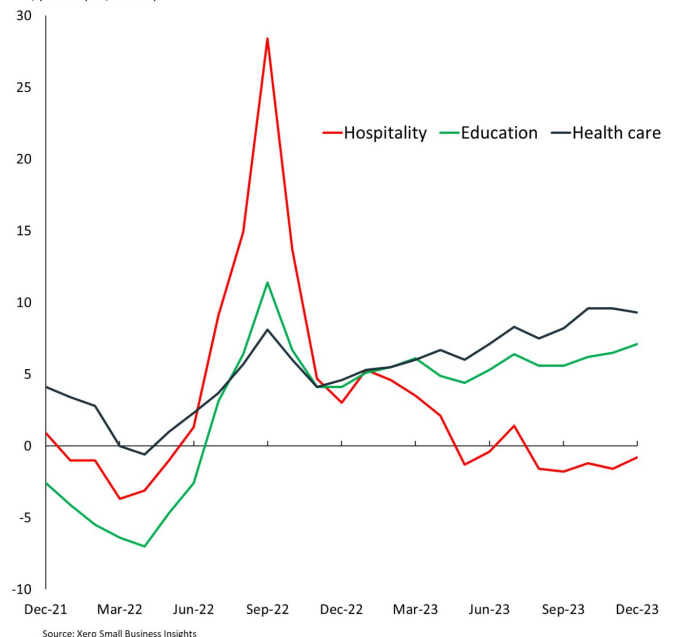%, year-on-year, monthly

Source: Xero Small Business Insights
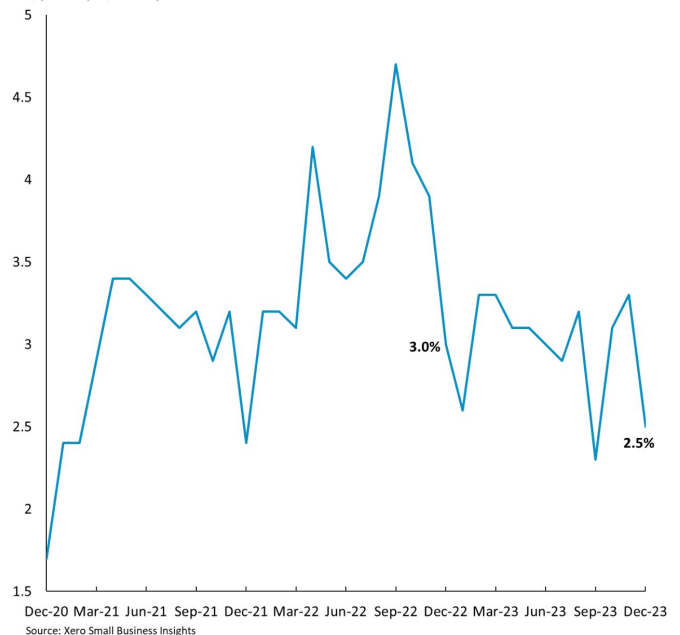
Small business jobs
%, year-on-year, monthly

Source: Xero Small Business Insights

Small business jobs - by industry
%, year-on-year, monthly

Source: Xero Small Business Insights

Payment times little changed over 2023

Setting aside the June time to be paid results[2], payment times were little changed in Australia over 2023. The **time small business waited to be paid** averaged 22.7 days in the three months to December, the same result as the September quarter and just 0.1 days longer than the first half of 2023 . On average payments were made 6.3 days **late** in both the December and September quarters and only slightly longer (6.6 days) in the first half of 2023.

Average late payments
Days, seasonally adjusted

Source: Xero Small Business Insights

Time to be paid
Days, seasonally adjusted

Source: Xero Small Business Insights
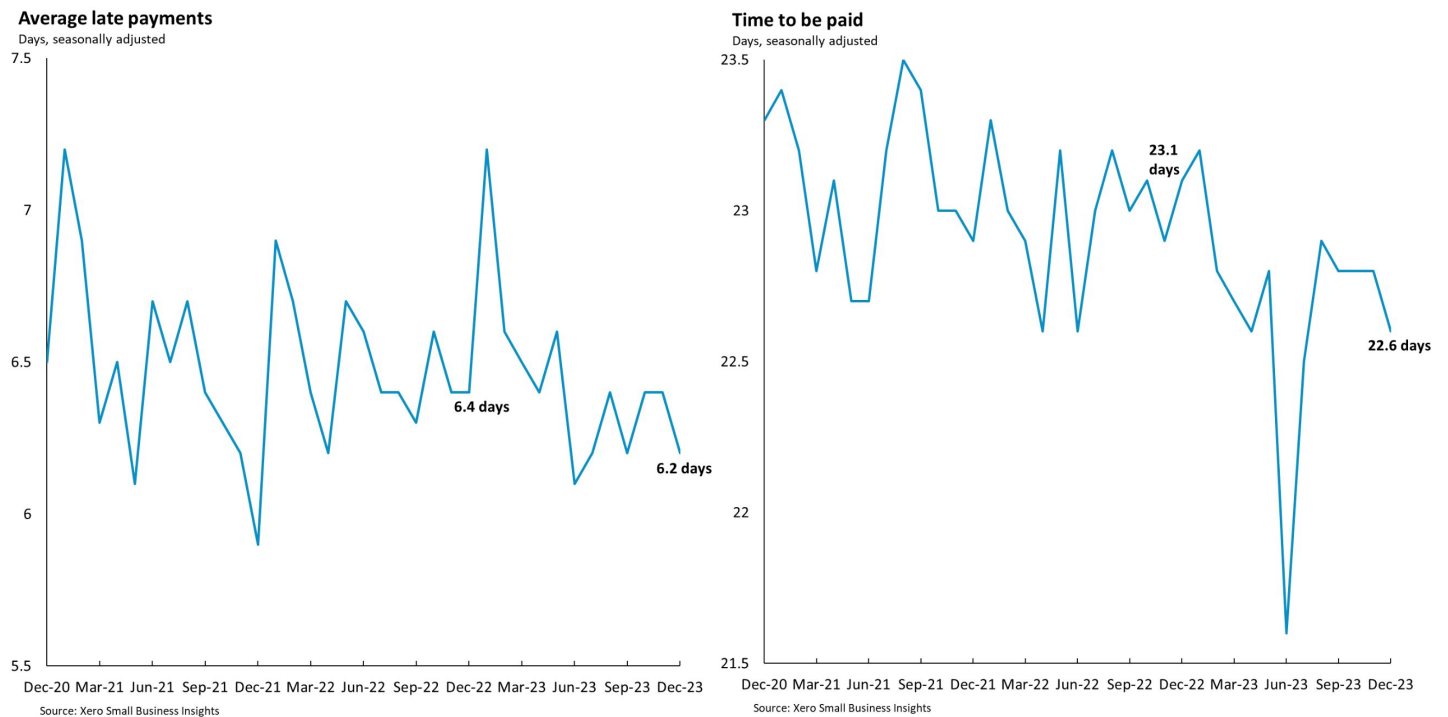
[2] In June the payment time measures were impacted by the end of financial year, which caused both to fall dramatically. This pattern is repeated each year and, as expected, the measure rebounded back to normal levels in subsequent months and has also been revised up from the initial reported time so that the fall is not so dramatic.

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Additional details about Xero Small Business Insights

About Xero

Xero is a global small business platform with 3.95 million subscribers which includes a core accounting solution, payroll, workforce management, expenses and projects. Xero also has an extensive ecosystem of connected apps and connections to banks and other financial institutions helping small businesses access a range of solutions from within Xero's open platform to help them run their business and manage their finances. Xero is a FIFA Women's Football partner.

About Xero Small Business Insights

The aim of Xero Small Business Insights is to create insights to help inform decision makers in support of the small business economy as a whole. The principal source of small business insights in this report is customer data from Xero - a small business platform that supports online accounting and a range of other applications. Xero is a responsible custodian of our customers sensitive data and does not release any data that could identify individual businesses. The data used is aggregated and anonymised to ensure the privacy of Xero subscribers, and their counterparts.

As part of the program, we publish regular blogs and research notes and deep-dive Special Reports on specific small business topics. These can all be found at xero.com/xerosbi.

Methodology

Full details of the methodology used to construct the Xero Small Business Index can be found **here.**

Disclaimer

This report was prepared using Xero Small Business Insights data and publicly available data for the purpose of informing and developing policies to support small businesses.

This report includes and is in parts based on assumptions or estimates. It contains general information only and should not be taken as taxation, financial, investment or legal advice. Xero recommends that readers always obtain specific and detailed professional advice about any business decision.

The insights in this report were created from the data that was available as at the date it was extracted. Data used was anonymised and aggregated to ensure individual businesses can not be identified.

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