



Australian Banking
Association

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SME Lending Report

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Executive summary

Small and medium sized enterprises (SMEs) are the lifeblood of Australian communities and play a critical role in our regions, towns and cities making up 98 per cent of the nation's businesses.

Right across Australia businesses such as gyms, florists, hairdressers, real estate agents, butchers, mechanics, and restaurants create jobs and stimulate economic growth. In the past few years SMEs have shown resilience through COVID-19 and despite today's challenging economic conditions, there is cautious optimism about the future.

To support our re-emerging economy, banks and government are collectively working to provide resources and support to SMEs. Lending is critical to economic recovery and banks have continued to provide finance to SMEs as they navigate these uncertain economic conditions.

Borrowing funds allow businesses to grow, employ staff, replace equipment and expand into new markets. However, few SMEs report intentions to borrow, with between 9 and 17 per cent reporting such intentions in any given month. Despite this, the average value of loans made between August 2021 and July 2022 grew by 15 per cent per cent for small businesses and 18 per cent for medium businesses compared to those made between August 2020 and July 2021. There was an increase in those seeking finance for plant and equipment and a drop in the number of SMEs taking out loans for cashflow purposes.

While SMEs face an environment of rising interest rates, these have come off an historically low base. Keeping with the trends of the past few years, around 80 per cent of SMEs are not reporting difficulties in meeting their financial obligations, with around 20 per cent reporting difficulty.

Despite a tight labour market that has impacted businesses of all sizes, energy costs and supply chain issues are of far greater concern for the SME sector. SMEs have been working around the delays, turning to local manufacturing after decades of offshoring, and fortunately, there are some early signs of supply chain difficulties easing.

The cautious optimism coincides with a reported increase in SME revenues when compared with their revenue prior to the pandemic. Consumer confidence remains weak, but consumer behaviour tells a different story with retail spending continuing to grow, despite increasing inflation.

Heading into 2023 we expect SMEs to grow progressively confident. The sector will play an increasingly important role in the health of the Australian economy as it grows and creates employment opportunities for more and more Australians. In recognition of this, banks and government will continue to provide support to SMEs through lending and other measures to help improve the broader economic environment.

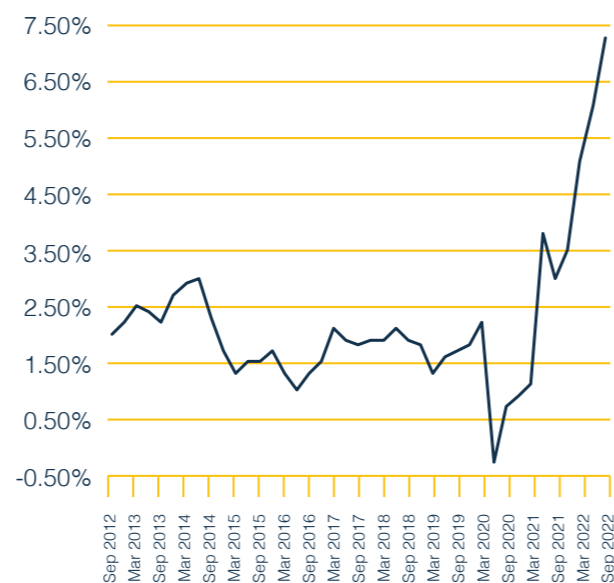


The economic environment

As the Australian economy moves out of pandemic-induced economic contraction, small and medium enterprises (SMEs) are navigating a complex economic landscape. 2022 saw an increase in the cost of goods and services reflected in rising inflation (Figure 1a) combined with low unemployment (Figure 1b). In an effort to combat inflation and a return to a 'normal' monetary policy setting, we saw increasing interest rates (Figure 2a). Yet retail spending has grown at a faster rate since the beginning of the pandemic than it has in any previous period, with inflation yet to have any constraining effect.

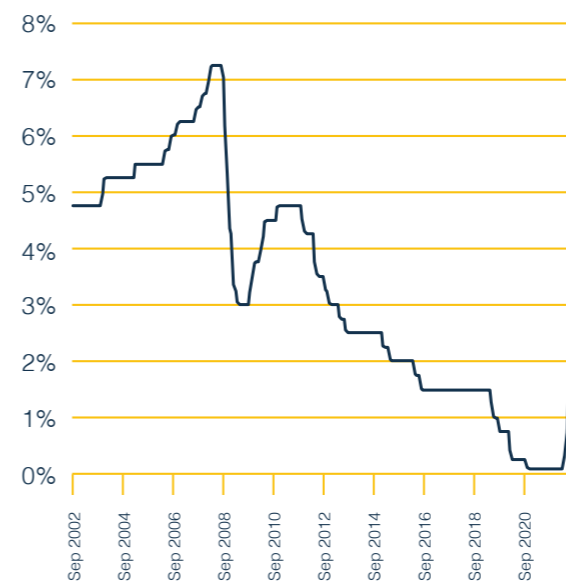
In this context, the experience of SMEs has been mixed. Some businesses are thriving, while others wait for a period of stability following this period of economic uncertainty. Consumer confidence remains deflated, with the Westpac Consumer Sentiment index at a level only experienced during major economic crises (Figure 3a). At the same time, small business confidence has not mirrored this same pessimism (Figure 3b).

Figure 1a: Change in CPI, %, September 2012 – September 2022



Source: ABS, Consumer Price Index, Australia. Tables 1 & 2

Figure 2a: Cash Rate Target, Monthly average, %, September 2002 – September 2022



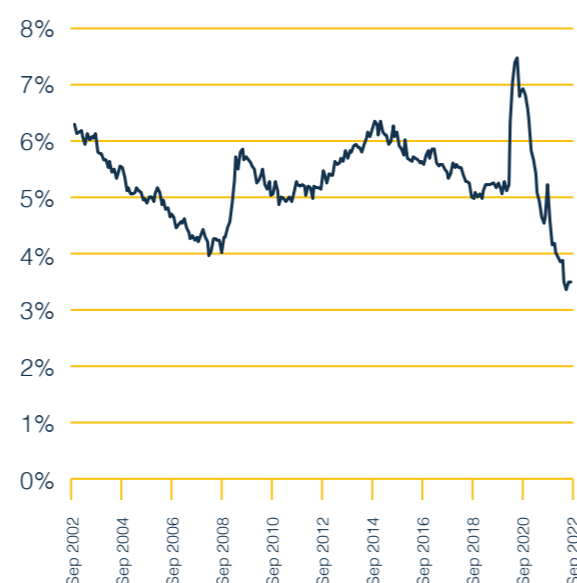
Source: RBA, F1.1 Interest Rates and Yields

Figure 3a: Westpac Consumer Sentiment Index, September 2006 – September 2022



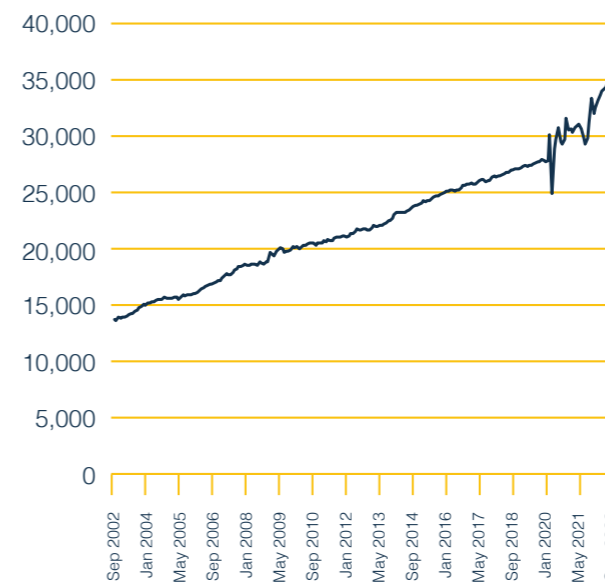
Source: Westpac Consumer Sentiment

Figure 1b: Australian unemployment rate, %, September 2002 – September 2022



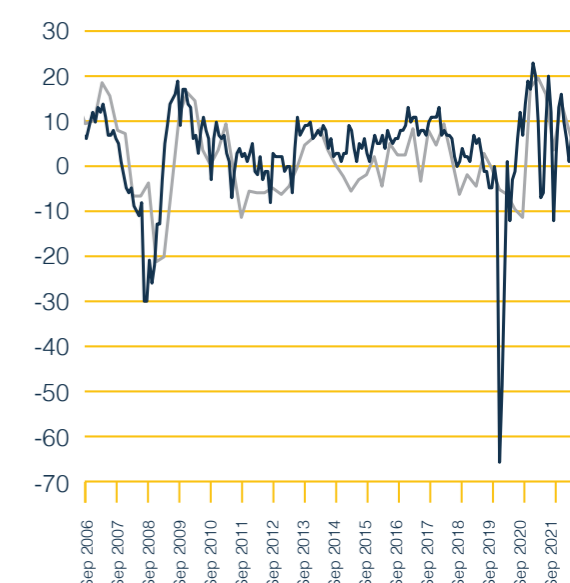
Source: ABS, Labour Force, Australia. Labour Force status, Table 1

Figure 2b: Retail trade, \$m, September 2002 – September 2022



Source: ABS, Retail Trade, Australia

Figure 3b: NAB Small Business Confidence, Net balance, September 2006 – September 2022



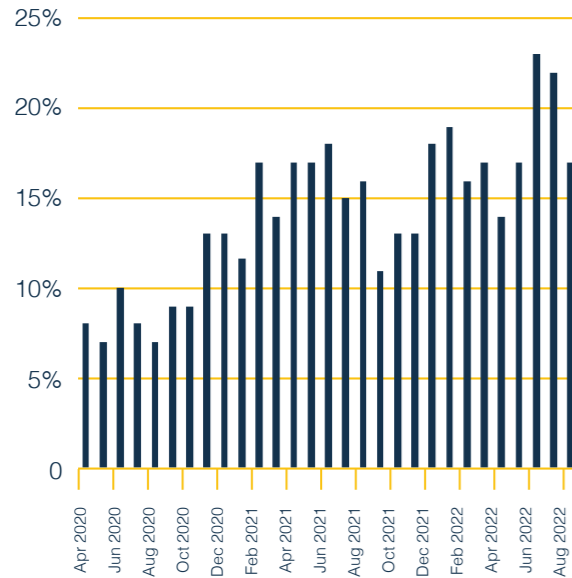
Source: NAB Quarterly small business sentiment; NAB Business Confidence





Profile of SMEs

Figure 4a: Increase in current monthly revenue, %, April 2020 – August 2022



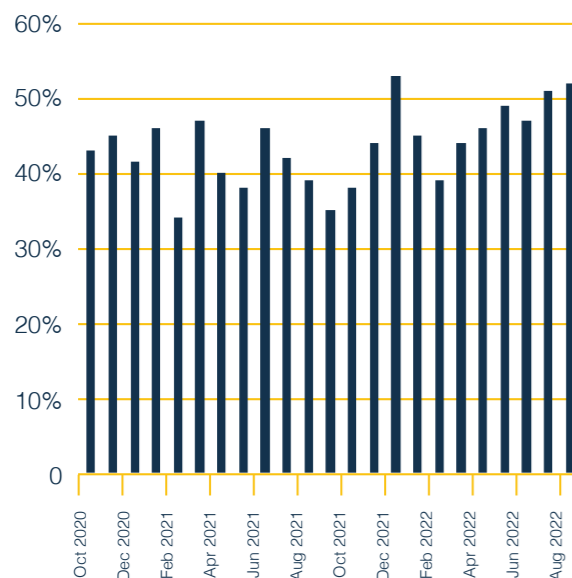
Source: ACA Research, Question 'How does your current monthly revenue compare to your monthly revenue prior to the pandemic?'
 Note: Original data for January 2021 was unavailable and was derived from an average of the values of the three preceding months

The optimism of SMEs might be due to the nature of their revenues and profits throughout 2022. Despite high inflation and an increasing interest rate environment, which should be associated with constrained spending, in recent months more SMEs are reporting an increase in revenue compared to their revenue prior to the pandemic.

In the months leading up to August 2022, between 15 per cent and 23 per cent reported an increase in current monthly revenue compared with the month prior to the pandemic. SMEs reporting significant and/or slight profit margins increased from around 40 per cent in late 2020 to around 50 per cent in mid-2022.

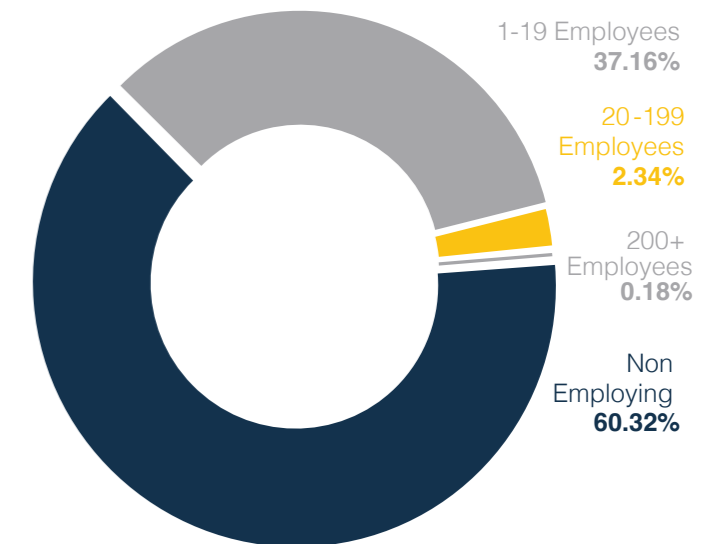


Figure 4b: Monthly profit margins, %, October 2020 – August 2022



Source: ACA Research, Question 'How was your profit margin?'
 Note: Original data for December 2020 was unavailable and was derived from an average of the values of the three preceding months

Figure 5: Australian businesses operating at the end of the quarter, by business size, %, June 2022



Source: ABS, Counts of Australian Businesses, Table 5

Of the 2.6 million businesses operating in Australia on June 30, 2022, SMEs accounted for 98 per cent, when measured by the number of staff employed. Micro businesses were the largest proportion of all Australian business, with 1.55 million (60 per cent) of businesses employing no staff. A further 955,000 businesses (37 per cent) employed 1-19 staff (Figure 5).

Despite the difficult economic conditions resulting from a global pandemic and a contraction in economic activity during the 2021 and 2022 financial years, the number of SMEs operating in Australia expanded. The rate of growth across all business sizes during the 2022 financial year was larger than the growth experienced in the years leading up to pandemic.

The number of micro businesses grew 10 per cent from 1.41 million in June 2021 to 1.55 million in June 2022. Small businesses grew 3 per cent from 931,791 in June 2021 to 955,861. This comes after an extraordinary period of growth during the 2021 financial year, jumping 15 per cent from 812,734 to 931,791.

There are more SMEs operating in New South Wales than in any other state or territory. A third (816,085) of all SMEs are in New South Wales. Victoria (654,149) accounts for just over a quarter of all SMEs in Australia. While this is somewhat reflective of the distribution of population between Australian states, there are slightly more SMEs in New South Wales and Victoria relative to the proportion of the population located in both states.

The construction industry accounts for the largest proportion of micro and small businesses (17 per cent), followed by professional, scientific and technical services (13 per cent) and rental, hiring and real estate services (12 per cent). This can be explained by the large number of individual contractors set up as sole traders in these industries. The most common industry for medium sized businesses are accommodation and food services (14 per cent).

Table 1: Total Australian businesses operating, by business size, N, June 2017 – June 2022

Business Size	Jun 17	Jun 18	Jun 19	Jun 20	Jun 21	Jun 22
Micro	1,273,094	1,333,723	1,386,743	1,441,105	1,410,049	1,550,151
Small	808,580	815,917	821,173	812,734	931,791	955,861
Medium	52,229	54,747	56,824	56,252	56,046	59,355
Large	3,893	4,060	4,258	4,357	4,368	4,533
Total	2,137,796	2,208,447	2,268,998	2,314,448	2,402,254	2,569,900

Source: ABS, Counts of Australian Businesses, Table 13a

SME finance

Figure 6: State, SMEs, N, June 2021

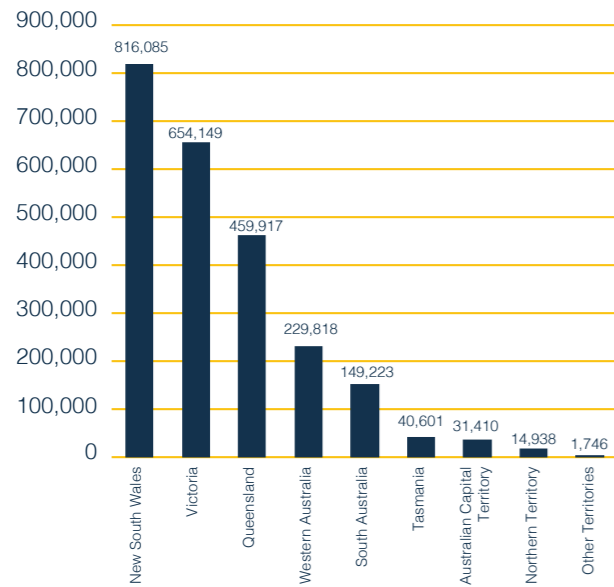
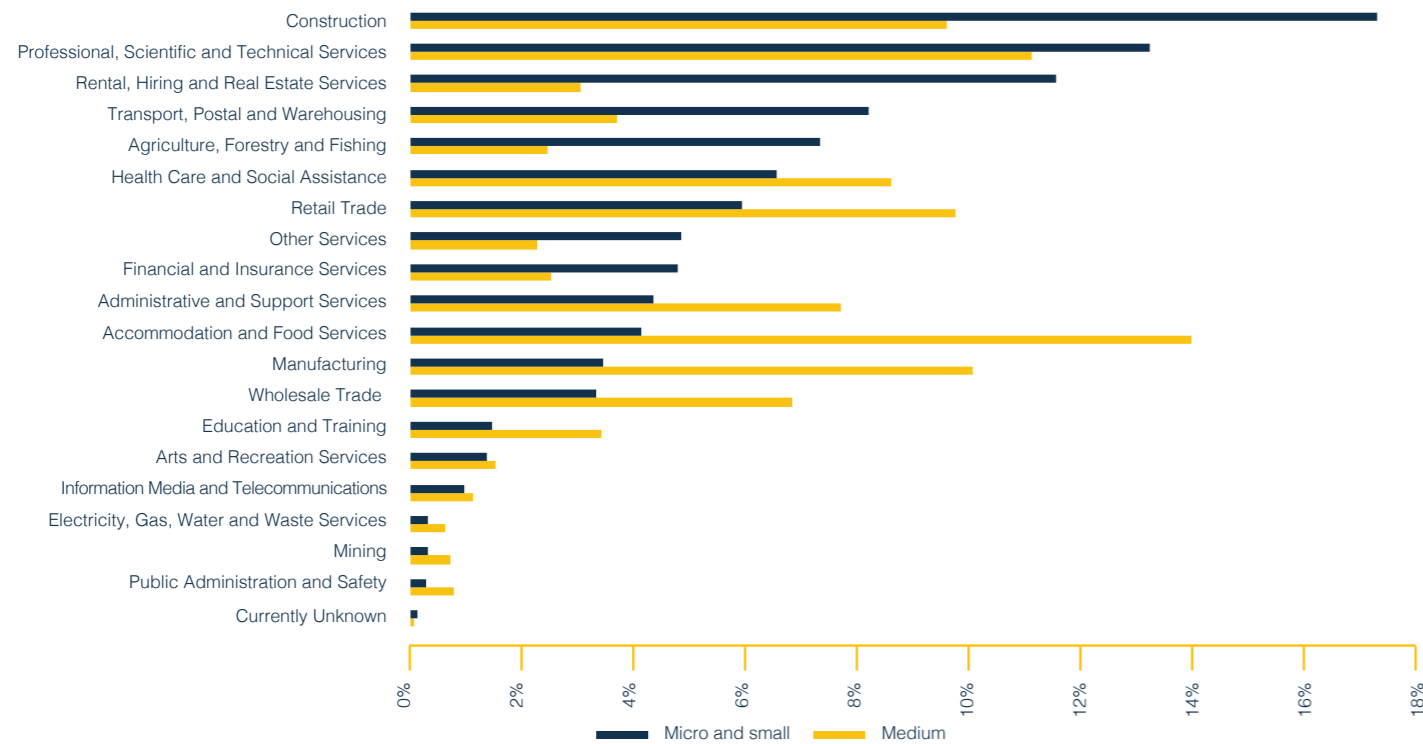


Figure 7: Industry, SMEs, %, June 2021



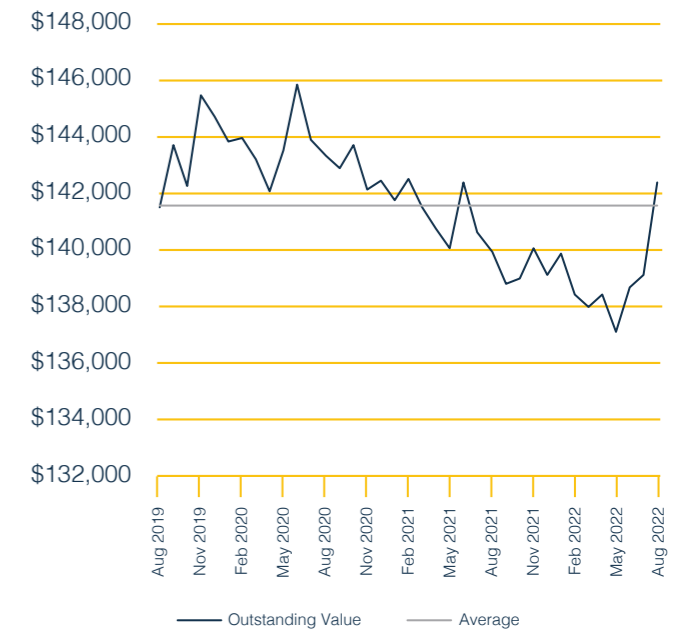
Source: ABS, Counts of Australian Businesses, Data cube 8

The appetite for finance remains subdued amongst small businesses, but is growing amongst medium businesses. The total value of outstanding finance to small businesses returned to the longer-term average, with \$142 billion in outstanding loans at August 2022. On the other hand, lending to medium businesses has increased by 16 per cent, from \$281 billion in August 2019 to \$326 billion in August 2022.

While total lending remains low, data received from ABA member banks shows that the average value of loans made to small and medium businesses has been increasing (Figures 8a and 8b). The average value of loans made to small businesses by ABA member banks between August 2020 and July 2021 compared to the average value between August 2021 and July 2022 grew 15 per cent for small businesses (from \$2.9 million to \$3.4 million) while for medium businesses it grew by 2 per cent (from \$12.7 million to \$13.1 million).

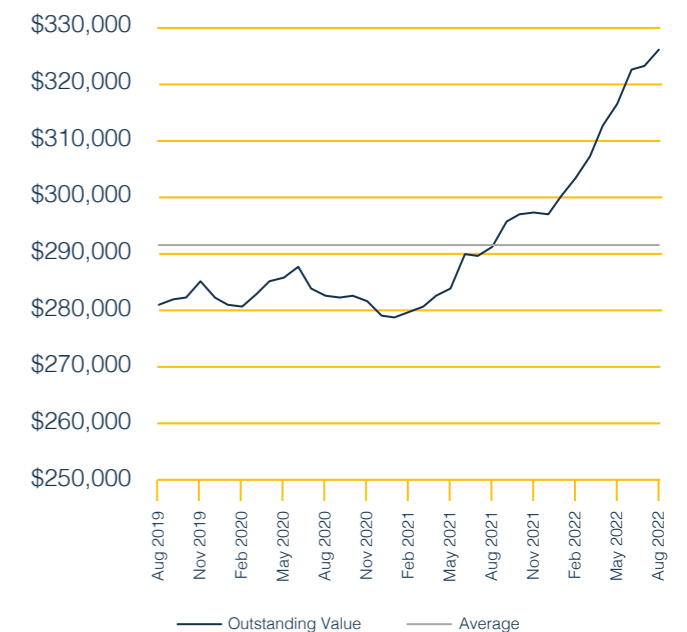
Most small and medium businesses reported expecting it 'easy', 'very easy', or 'neither difficult nor easy' to meet their financial commitments over the coming three months. Around two in five businesses reported finding it easy while around one in five reported finding it difficult.

Figure 8a: Outstanding Finance by all lenders, Small businesses, \$m, August 2019 – August 2022



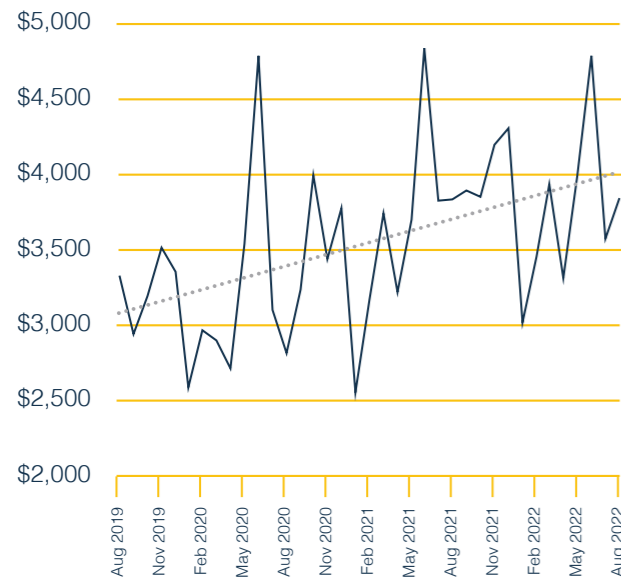
Source: RBA, D14 Lending to Business

Figure 8b: Outstanding Finance by all lenders, Medium businesses, \$m, August 2019 – August 2022



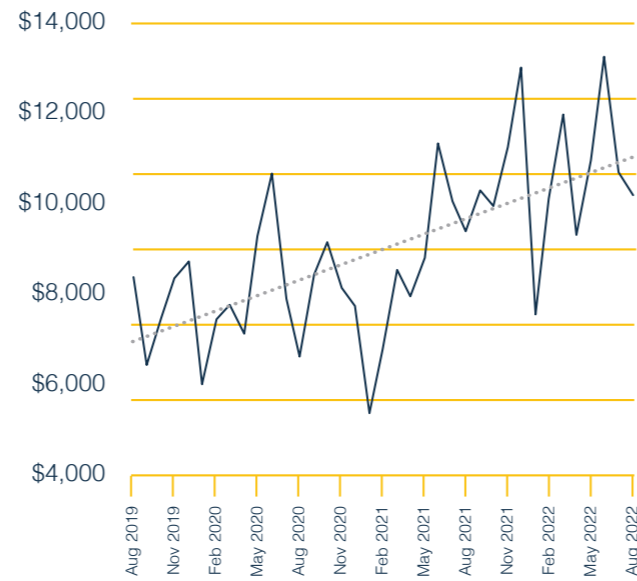
Source: RBA, D14 Lending to Business

Figure 9a: New Lending (including refinancing), Small business, \$m, August 2019 – August 2022



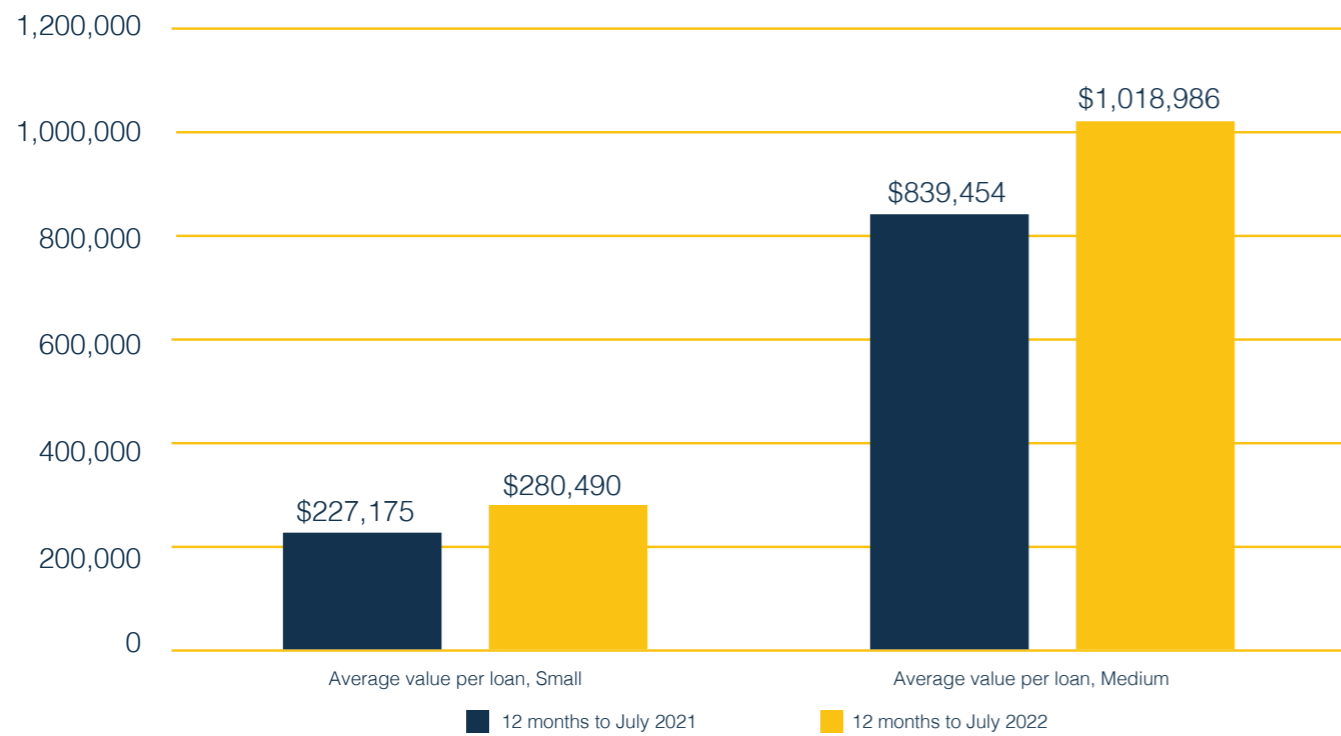
Source: ABS, Lending Indicators, Table 31

Figure 9b: New Lending (including refinancing), Medium business, \$m, August 2019 – August 2022



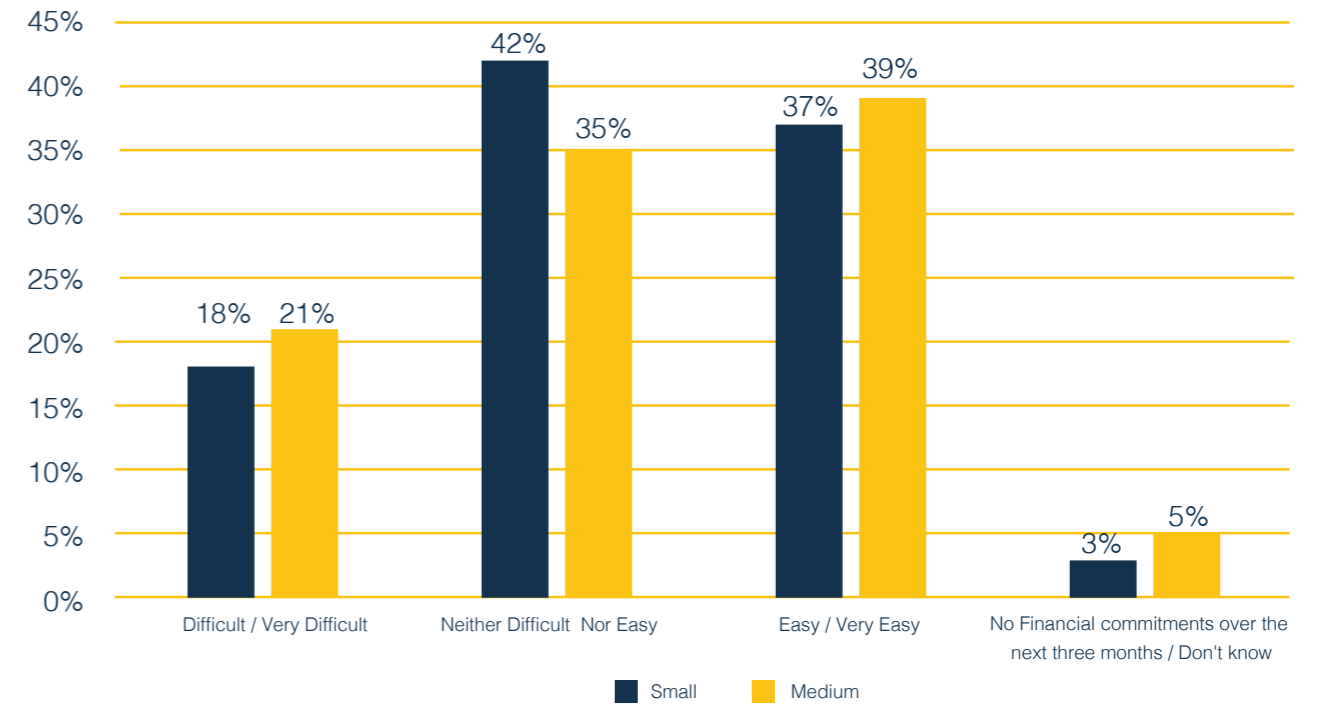
Source: ABS, Lending Indicators, Table 33

Figure 10: Total average value of new monthly loans, Small & medium businesses, \$m, August 2020 – July 2022



Source: Confidential Bank Data (ANZ, Bendigo Bank, CBA, Macquarie Bank, NAB Rabobank, Suncorp and Westpac)

Figure 11: Businesses' ability to meet financial commitments over next 3 months, By business size, %, 2022



Source: ABS, Business conditions and sentiments, Table 7



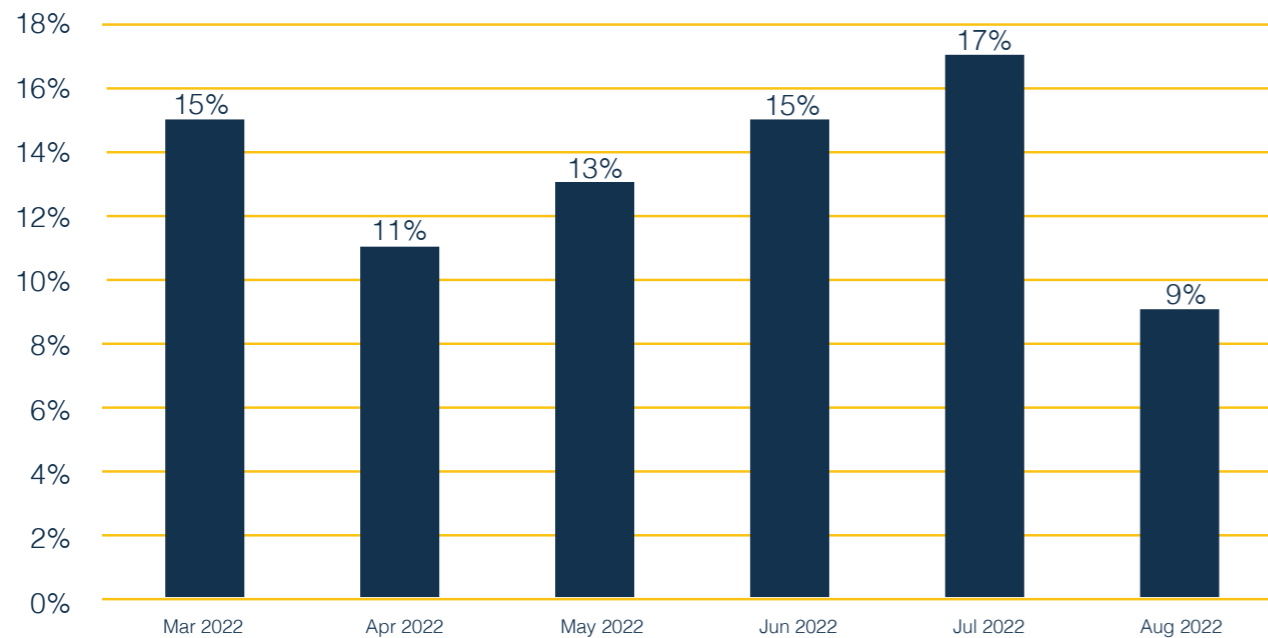
Future borrowing intentions

In the six months to August 2022, no more than 17 per cent of SMEs reported anticipating requiring additional finance in the following three months. The low levels of finance seeking by SMEs is in keeping with findings from previous ABA SME lending reports. In August 2022 just 9 per cent of SMEs reported anticipating that they will require additional finance over the next 3-months. This is much lower than at any time in the preceding 6 months. Of those SMEs that intend to take out additional finance, the main reported reason for doing so was for cashflow or working capital (54 per cent), down from 65 per cent in August 2021, suggesting that cashflow problems are less of a concern than they were a year ago. A further 27 per cent of SMEs intend to take out finance to purchase plant, machinery, or equipment, compared with 23 per cent in August 2021.

Borrowing for expansionary purposes appears to have dropped in comparison to August 2021, with 15 per cent of SMEs reporting borrowing intentions to fund growth in Australia, 9 per cent to fund growth in new markets and 6 per cent for trade finance to fund import/export activity in August 2022 compared with 24 per cent, 13 per cent and 11 per cent, respectively in August 2021.

While SMEs report they may need finance for cashflow, in actuality not as many take it out for this purpose, (Table 3). The top reasons SMEs reported for applying for their most recent borrowing product included buying equipment (24 per cent) and liquidity (18 per cent).

Figure 12: Whether require additional finance over the next 3 months, SMEs %, March 2022 – August 2022



Source: ACA, SME Sentiment tracker

Table 2: Purpose for additional finance, SMEs, %, August 2021 & August 2022

	Aug 2021	Aug 2022
Cashflow / working capital	65%	54%
Purchase plant, machinery, or equipment	23%	27%
Fund merger / acquisition	19%	19%
Fund growth in Australia	24%	15%
Fund growth into new markets	13%	9%
Trade finance to fund import / export activity	11%	6%

Source: ACA, SME Sentiment tracker

Note: Numbers add to greater than 100% as respondents were able to provide multiple responses

Table 3: Primary reason why SMEs took out their most recent financing, %, September 2022

Buying equipment	24%
Maintaining cashflow	18%
Business expansion	13%
Purchase inventory	13%
Paying invoices	12%
Financing working capital needs (e.g. importing, exporting, or financing goods purchases)	9%
Consolidating borrowing (e.g. refinancing existing loans/ borrowing at a lower interest rate)	5%
Purchase real estate	4%

Source: RFI SME Cashflow Study

Base: SMEs that have applied for a borrowing product (n = 593)





Case Study: From Wheels to Wings

“When COVID hit and I had to wrap up my business, my bank supported me all the way through.”

Jim grew up in rural Queensland and always had a love of all things transport. He bought his first truck early on and didn't stop there, eventually growing his trucking company to employ a team of people.

But when COVID-19 hit Jim was in Victoria unable to travel to Queensland for 12 months due to the lockdowns. As a result, Jim was forced to close.

“The trucks were in Goondiwindi which also had flooding, so I wasn't able to pick them up. I had to sell business equipment to pay off loans, struggled to pay my rent and my loan repayments.”

“I thought I'd have to file for bankruptcy, I just couldn't see a way out, I was pretty down.”

With few other options available to him, Jim requested hardship assistance on his loans while he put business equipment on the market. With the support of his bank, all the loans were put on hold until Jim was able to use the

proceeds of the business to pay them out and close the loans.

Jim was able to make a payment of \$14,000 to clear arrears in July this year and is now in the process to pay out and close the loans while he waits on a payment as a result of selling a truck.

“It took longer to sell the equipment and business than I had initially thought because I couldn't get back to Queensland due to the lockdowns, but the bank stuck around. I'm actually surprised and grateful they stuck around so long.”

While it was a challenging time for Jim, it allowed him to reassess his life and make a career change.

Having acquired his pilot's licence Jim has aspirations to gain a commercial pilot's licence. In the meantime, Jim is volunteering as a fire spotter pilot ahead of the upcoming fire season.



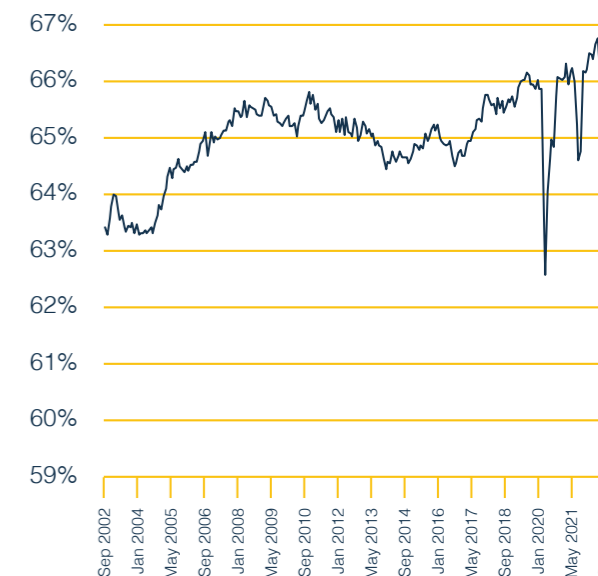
Issues experienced by SMEs

Labour shortages

In the current market, labour shortages are faced by many businesses in advanced economies, including SMEs. The difficulties facing SMEs in a tight labour market with a low unemployment rate are compounded by the high labour force participation rate (Figure 13a) and low levels of underemployment (Figure 13b). In the early 2000s the labour force participation rate was in the low 60s, where it had consistently remained since 1970s. At the same time, underemployment is at a rate not seen since 2008.

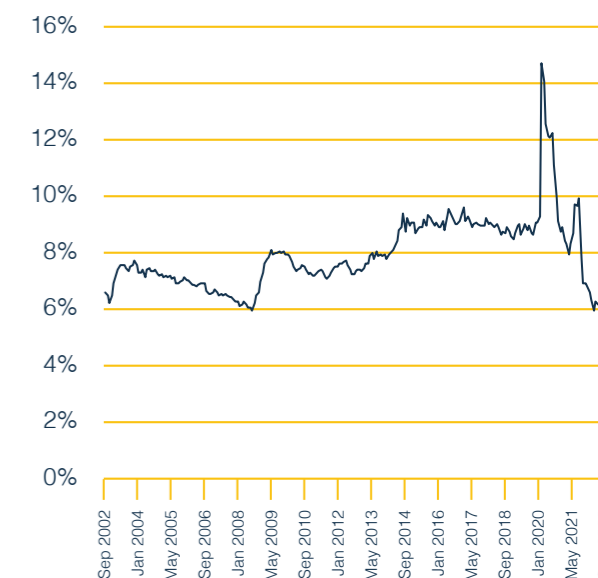
Around one in three SMEs report currently having job roles they are trying to fill. This is up from one in five in late 2021 (Figure 14a). At the same time, four in five SMEs report difficulty in filling roles, increasing from one in two in late 2021, (Figure 14b).

Figure 13a: Participation rate, %, September 2002 – September 2022



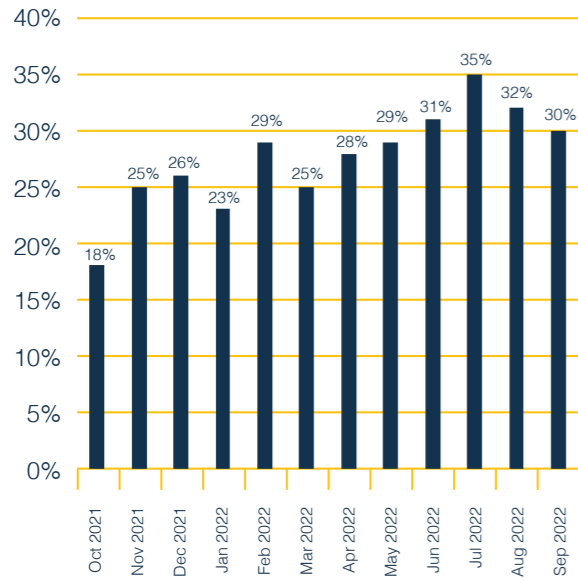
Source: ABS, Labour force, Australia, Table 1

Figure 13b: Underemployment, %, September 2002 – September 2022



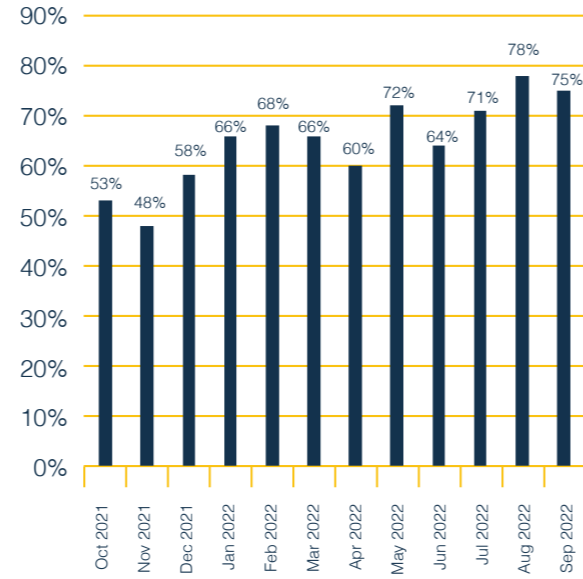
Source: ABS, Labour force, Australia, Table 22

Figure 14a: Whether have job roles trying to fill, SMEs, %, October 2021 – September 2022



Source: ACA Research, 'Do you have job roles you are trying to fill?'

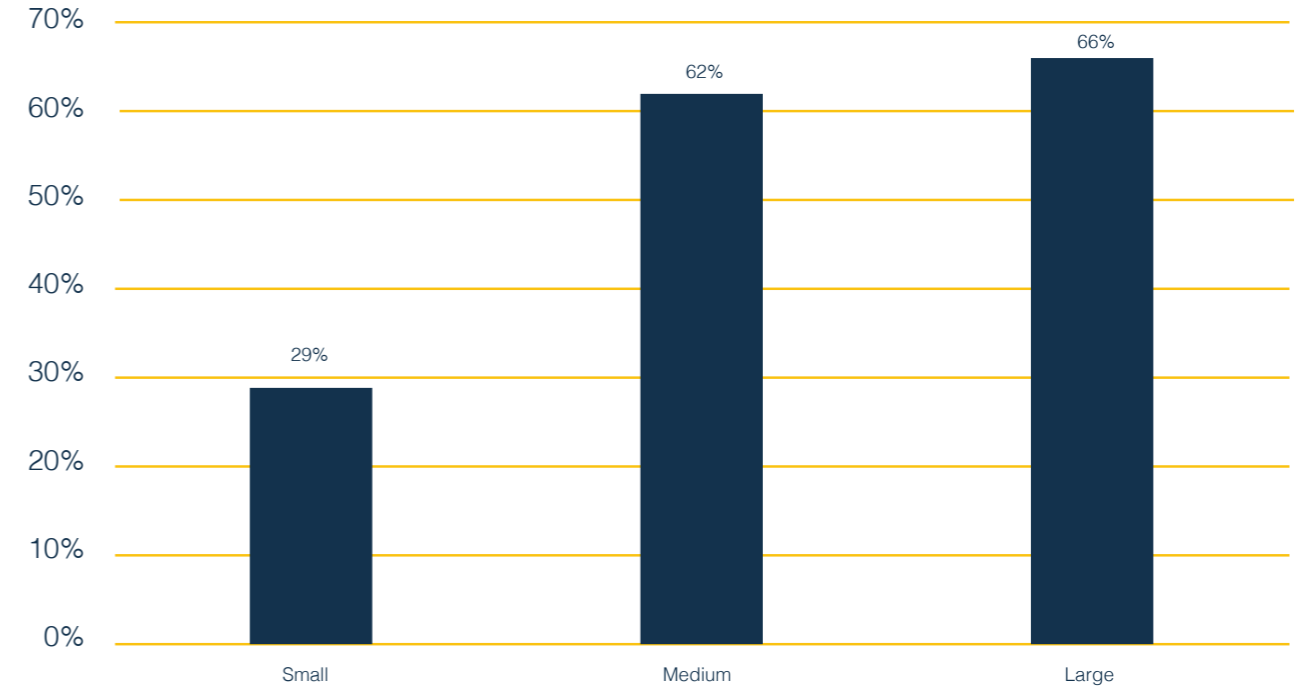
Figure 14b: Whether difficult to fill roles, More difficult, SMEs, %, October 2021 – September 2022



Source: ACA Research, Question 'Overall do you think it is more or less difficult to fill roles than before the Covid-19 pandemic?'

More large and medium sized businesses reported difficulty finding suitable staff than small businesses in June 2022. Around two thirds of medium and large businesses reported difficulty, compared with just over a quarter of small businesses (Figure 15).

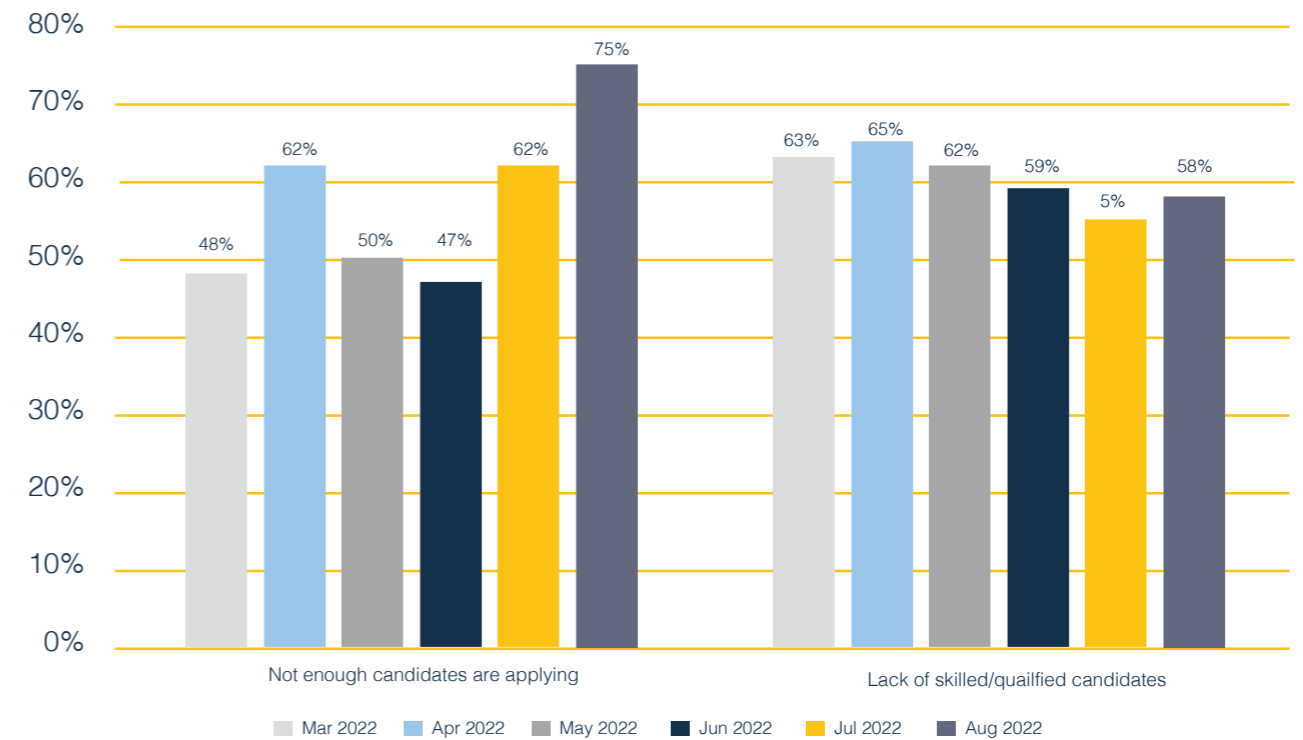
Figure 15: Whether businesses were having difficulty finding suitable staff, by business size, %, June 2022



Source: ABS, Business conditions and sentiments, Table 8

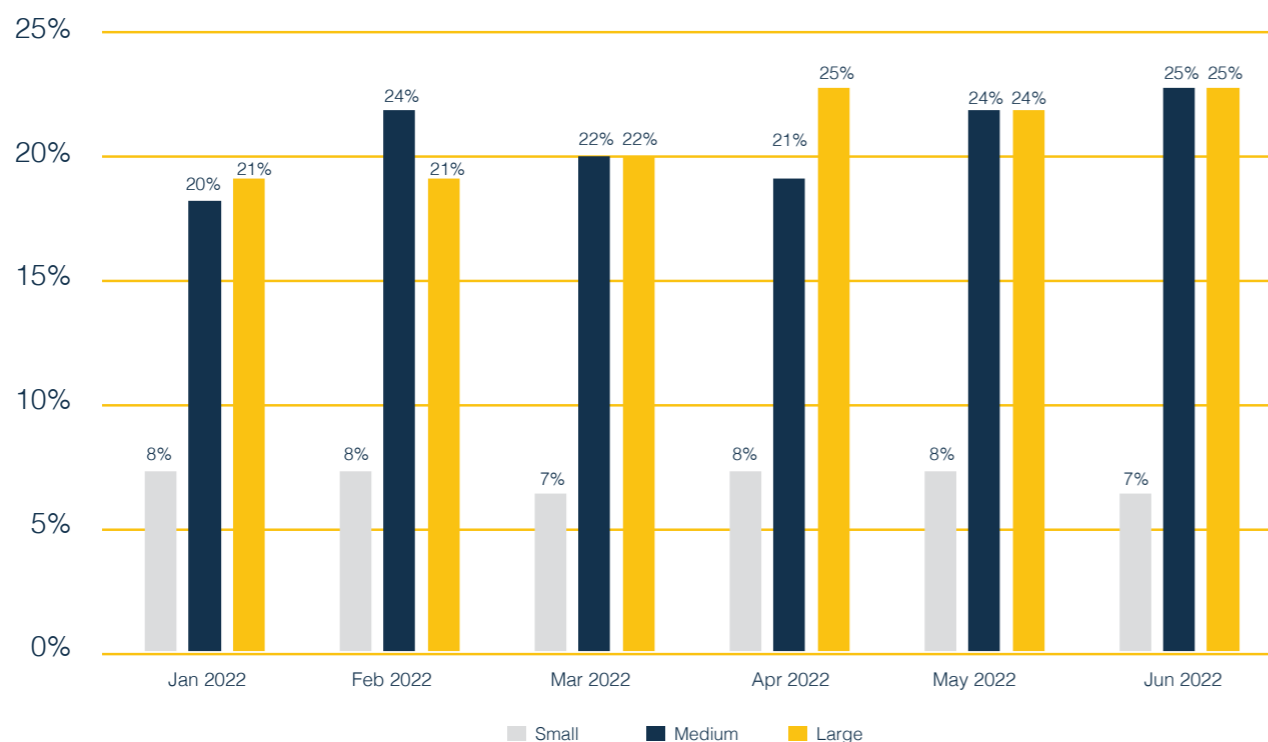


Figure 16: Why it is more difficult to fill roles, SMEs, %, March 2022 – August 2022



Source: ACA Research, Question 'Why is it difficult to fill these roles?', Amongst those finding it difficult

Figure 17: Increase in the number of employees over the last month, by business size, %, January 2022 – June 2022



Source: ABS, Business conditions and sentiments, Table 5

When asked why it's difficult to fill roles, the most common response by SMEs was not enough candidates applying. Over the past six months there has been an increase in the proportion of SMEs reporting this, growing from roughly half in March 2022 to around three quarters in August. On the other hand, SMEs reporting a lack of skilled or qualified candidates has remained steady. This supports the conclusion that SMEs are facing a shrinking pool of candidates, rather than other factors that may be impacting labour supply.

Despite difficulties in finding employees, all businesses across Australia, regardless of size, consistently reported an increase in employees in the six months between January and June 2022 (Figure 17). A smaller proportion of small businesses reported this increase (average 8 per cent over the six months) compared to medium and large businesses (averaging between 20–25 per cent during the six months).



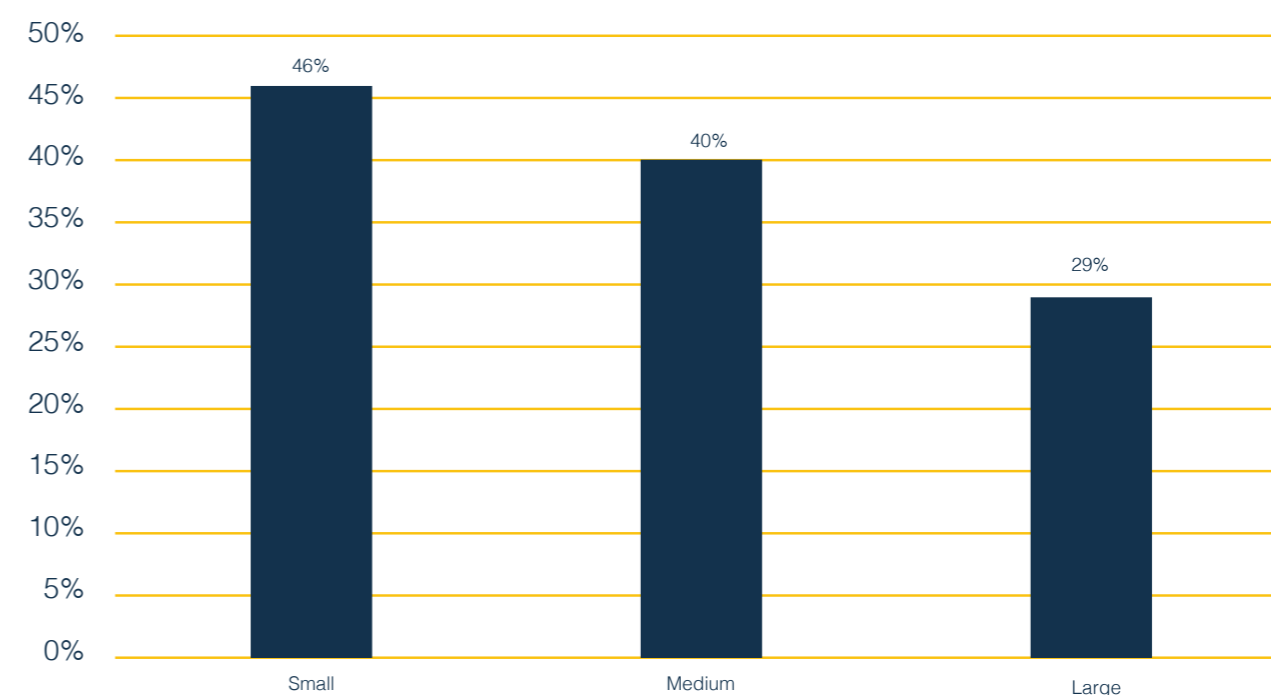
The need for suitable staff

Despite larger proportions of medium and large businesses seeking additional staff, reporting difficulty in obtaining additional staff, and ultimately increasing the number of employees, small businesses are more likely to report being negatively impacted by being unable to find suitable staff. Around half (46 per cent) of small businesses report being impacted to a great extent by difficulties finding suitable staff, compared to 40 per cent of medium

businesses and 29 per cent of large businesses.

Part of the reason small businesses may be more affected by inability to find suitable staff, and possibly the reason more medium and large businesses report increasing the number of staff relative to small businesses, is that larger businesses have more capacity to incentivise either staff to stay, or new employees to take on roles. Table 4 illustrates actions businesses can use to support staff during times of labour constraints are more available to medium and large businesses than to small businesses.

Figure 18: Impacted to a great extent by difficulties finding suitable staff, by business size, %, June 2022



Source: ABS, Business conditions and sentiments, Table 9

Table 4: Planned workforce actions over the next three months, by business size, %, June 2022

	Increase staff numbers	Increase wages or salaries	Introduce new flexible working arrangements	Outsource work to a third party	Re-train existing staff	Rearrange job roles and responsibilities
Small	25%	29%	14%	10%	21%	20%
Medium	52%	49%	20%	18%	45%	36%
Large	57%	49%	25%	22%	48%	39%

Source: ABS, Business conditions and sentiments, Table 11

Increasing costs and supply chain impacts

Despite the concerns SMEs have in recruiting staff, this remains a lesser issue in comparison to inflation, increasing costs of fuel and energy, and supply chain issues. While around half of SMEs reported staff skill shortages to be a concern, around 80 per cent reported increasing energy and fuel costs, and nearly 70 per cent reported supply chain delays and associated cost increases.

Small and medium business all reported an increase in operating expenses between January and June 2022. The proportion of small businesses reporting an increase in operating expenses grew from 31 per cent in January 2022 to 45 per cent in June 2022. For medium businesses this increased from 31 per cent to 50 per cent.

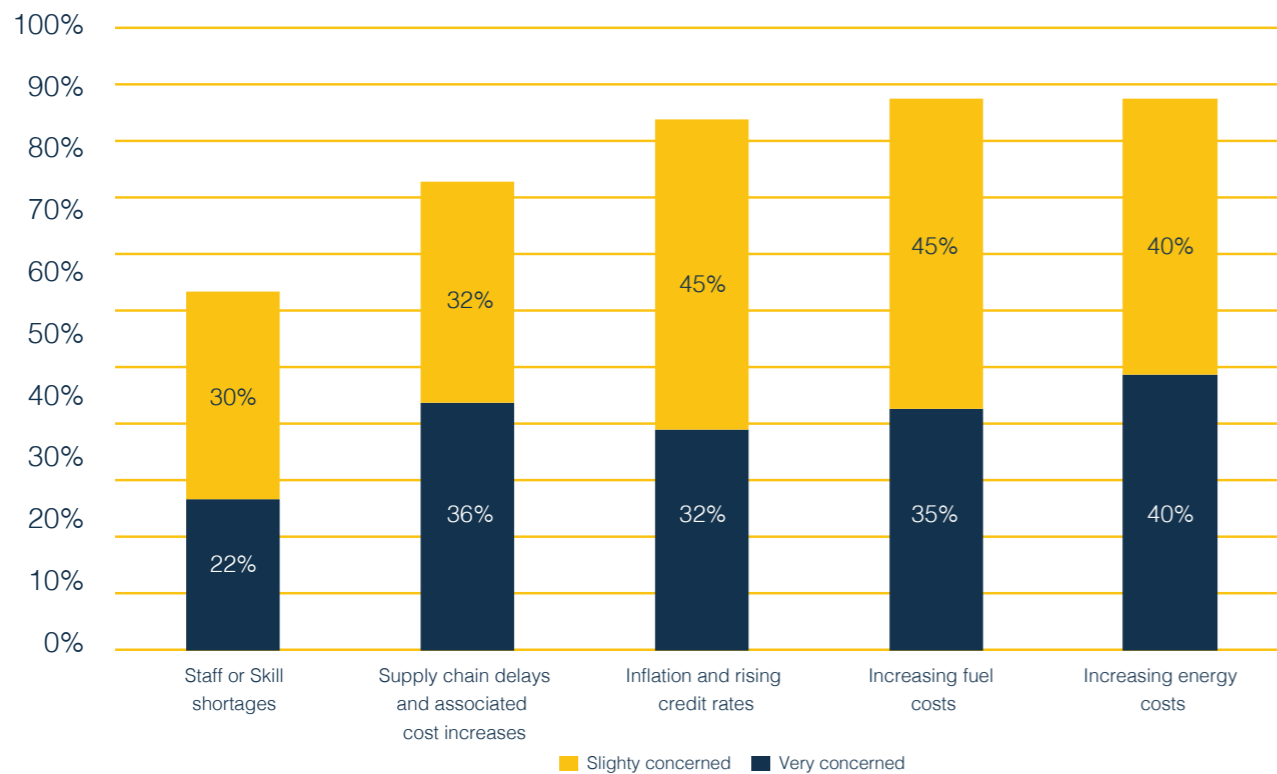
Supply chain issues are affecting many businesses, with 41 per cent of small, and 46 per cent of medium

businesses reporting supply chain issues in June 2022. There is some positive news, however, as this is down from 46 per cent for small businesses and 51 per cent for medium businesses in January 2022.

According to NAB Business Insights, in Q2 2022, 31 per cent of SMEs reported that supply chains were a significant concern for their business, up from 28 per cent in Q1. The industries more likely to be reporting experiencing supply chain issues were wholesale, manufacturing, retail and construction. Traditional service industries, such as accommodation, business and finance and insurance were less likely to report supply chain issues as a significant problem.

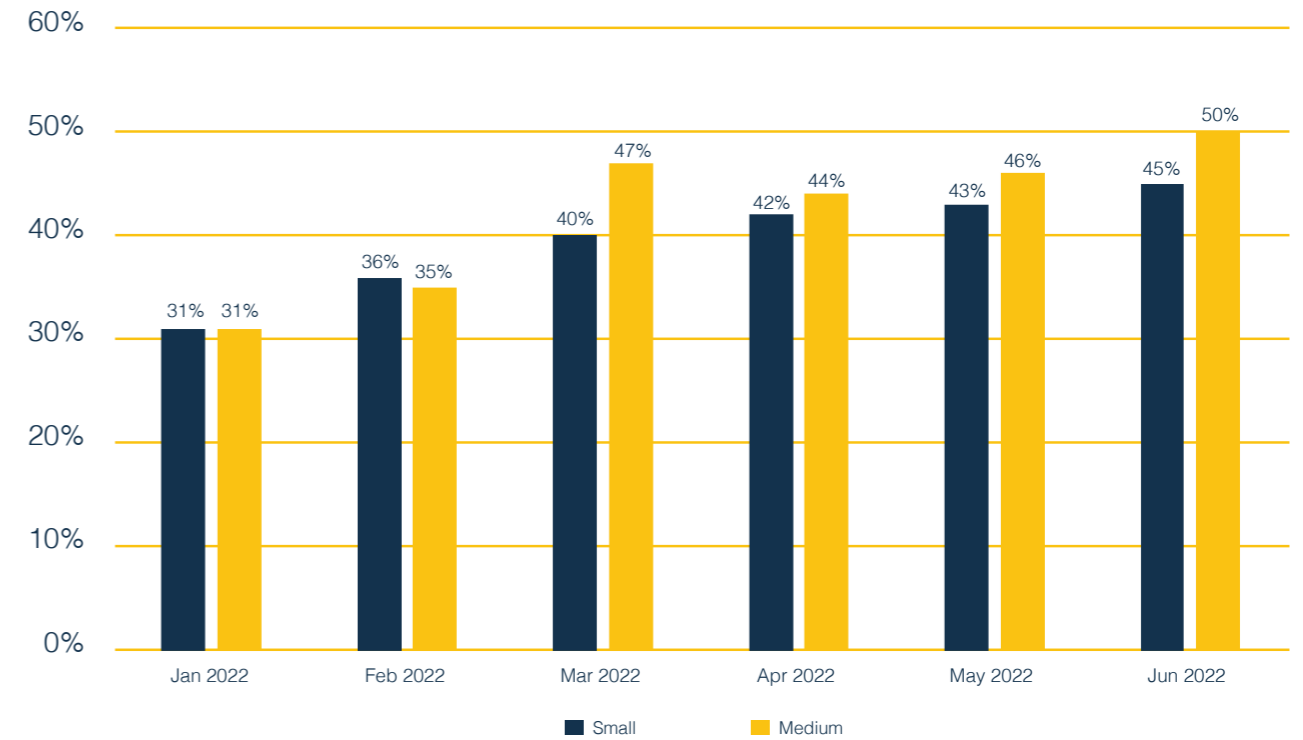
The most common solution SMEs report as resolving supply chain issues is to invest in local manufacturing facilities (41 per cent). This is consistent with broader sentiment towards onshoring manufacturing after a number of decades of globalisation.

Figure 19: Level of concern around the following issues, SMEs, %, August 2022



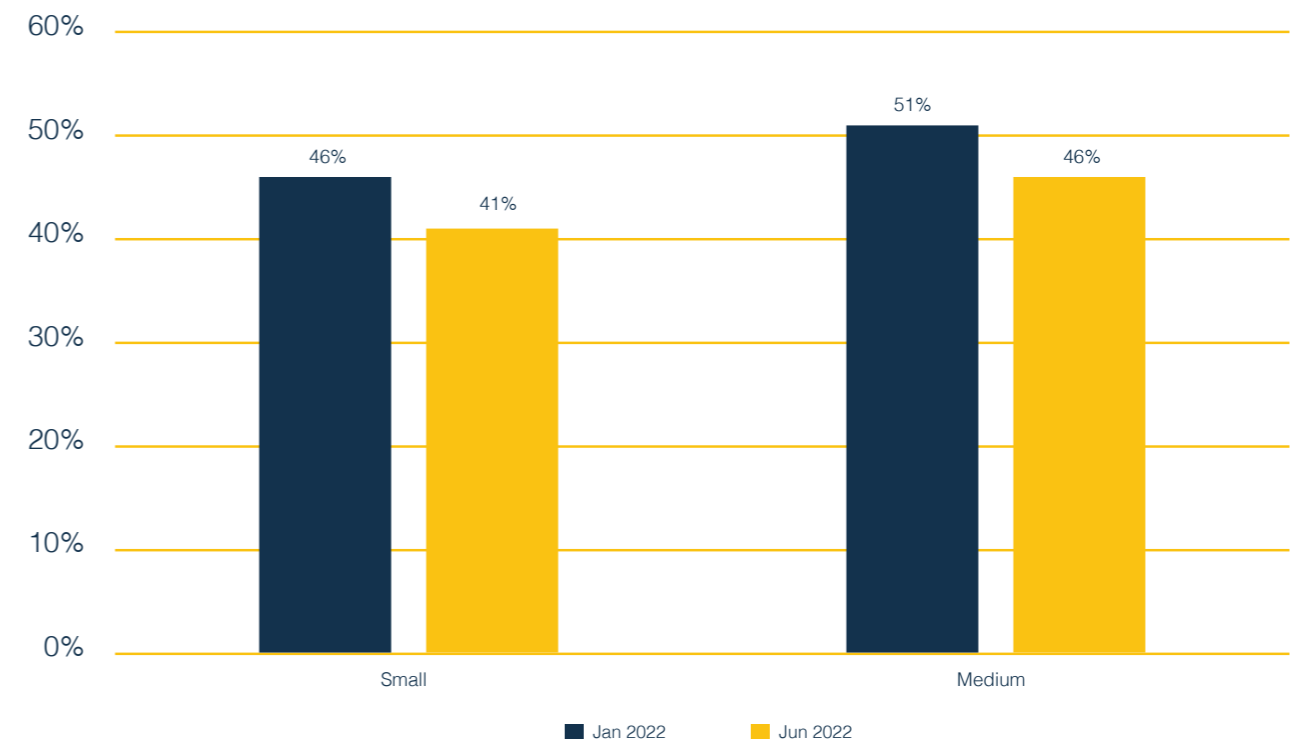
Source: ACA Research, Question 'How concerned are you about the following issues?'

Figure 20: Businesses who have had an increase in operating expenses over the last month, by business size, %, January 2022 - June 2022



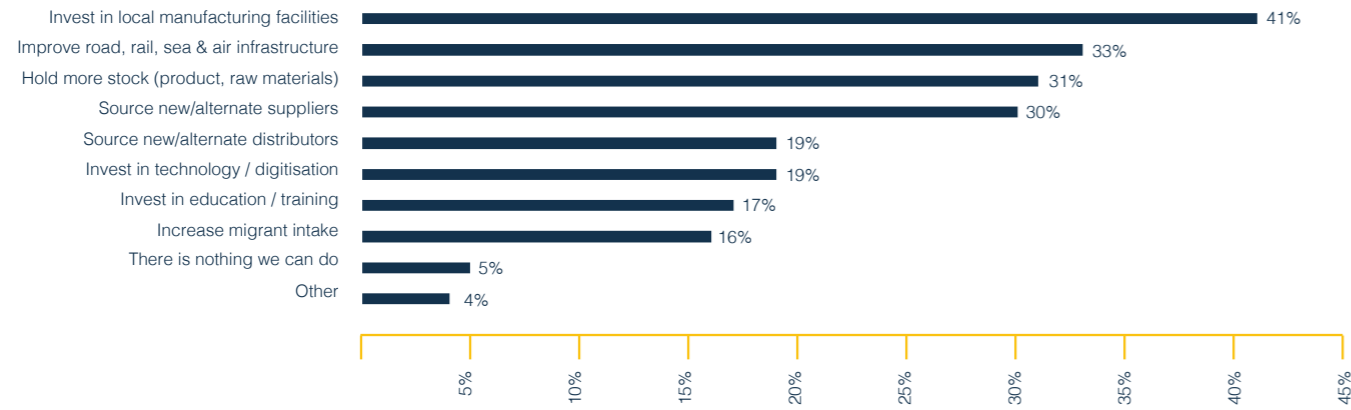
Source: ABS, Business conditions and sentiments, Table 3

Figure 21: Businesses experiencing supply chain issues, by business size, %, January & June 2022



Source: ABS, Business conditions and sentiments, Table 16

Figure 22: Belief in how supply chain issues could be solved, SMEs, %, June 2022

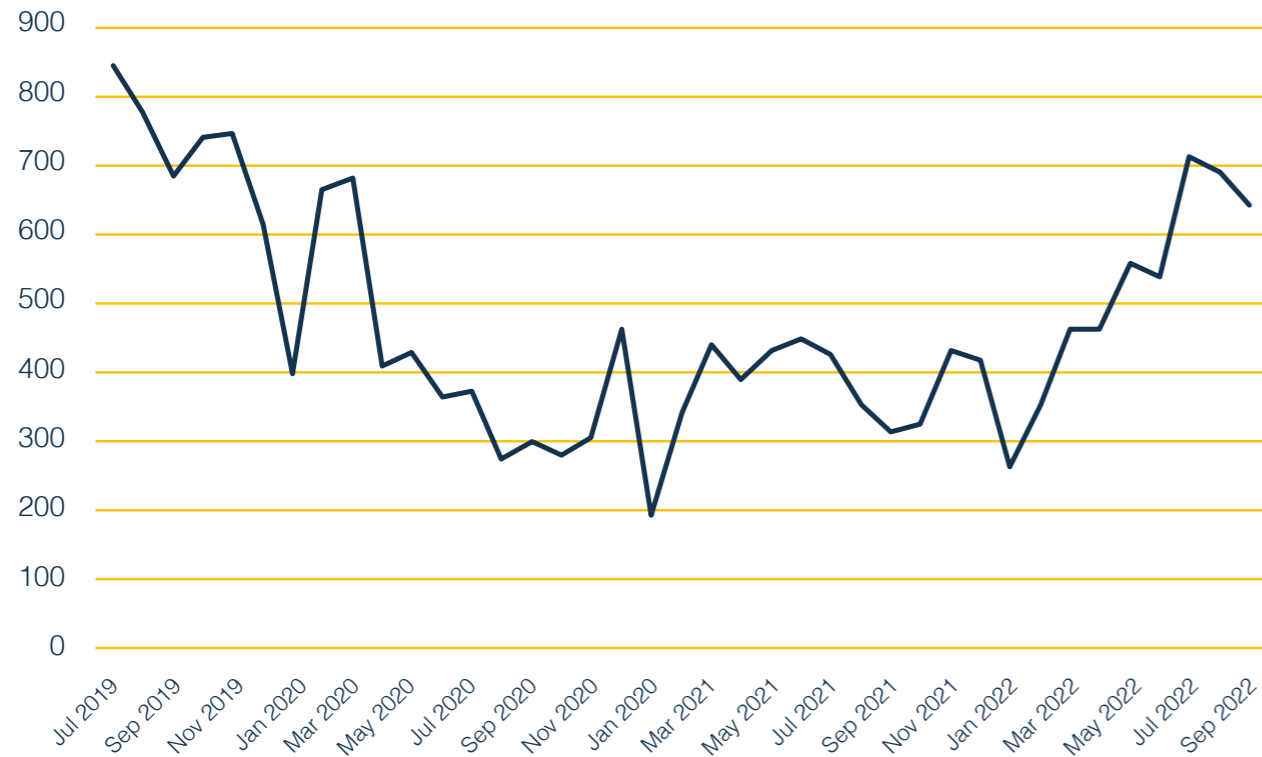


Source: NAB Business Insights

While business insolvencies trended down during COVID, they gradually returned to pre-COVID levels, reaching a three year high in July 2022, (Figure 23). However, during August and September these numbers have flattened out, suggesting we are returning to an economic environment similar to the pre-COVID period.

With so much of Australia’s economic activity relying on the resilience of SMEs, the Australian banking industry will continue to focus on the health and future of this critical sector.

Figure 23: The first time a company enters external administration or has a controller appointed, N, July 2019 – September 2022



Source: ASIC, Insolvency Statistics
 Note: This data consists of all Australian businesses, however the trends are likely to be reflective of trends for SMEs

Note on definition of business size

This report draws on data from a range of sources. Each source varies in how it defines small, medium and large enterprises.

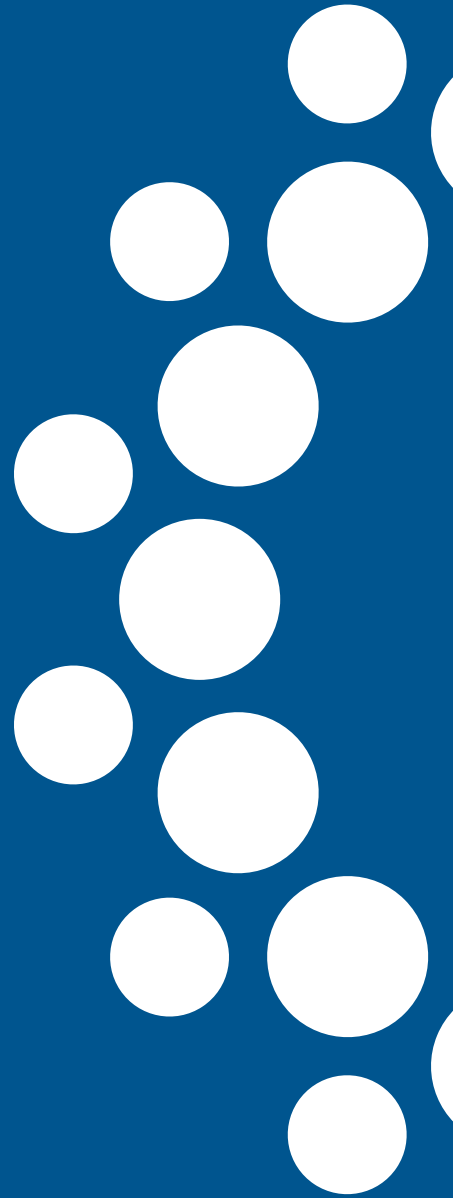
Data drawn from the Australian Bureau of Statistics (ABS) relies on numbers of employees to define business size.

A micro business has no employees, a small business has 1-19 employees, a medium business has 20-199 employees and a large business has 200+ employees. The ABS occasionally uses the category of ‘0-4 employees’, which is referred to in this report as a micro-small business.

ACA Research also relies on employment size to define the size of a business, however, the ranges differ to those of the ABS. Micro businesses have 1-4 employees, small businesses have 5-19 employees, medium businesses have 20-99 and large businesses have 100-500 employees.

Data drawn from RFI is based on a business’s annual turnover. RFI considers businesses that turnover less than \$10 million a small to medium enterprise.

Finally, data from the Reserve Bank of Australia uses a business size definition based on a business’s turnover and value of outstanding finance. The RBA classifies a business as small if the business has a total credit exposure with a single financial institution of less than \$1 million and an annual turnover of less than \$50 million. A medium business is classified as having a credit exposure of \$1 million or more in financing and a turnover of less than \$50 million. A large business is a business that has a turnover of more than \$50 million.



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