Small business trends stabilise in August

Year-on-year small business revenue growth was generally little changed in August across Australia, New Zealand and the United Kingdom. The difference is that for Australia and New Zealand they have stabilised around low single digit year-on-year growth rates. In contrast, UK revenues have not materially recovered from the initial shock in May (down 24.5% y/y) and have been around 13% lower than a year ago for the past 3 months.

Revenue growth

Source: Xero SBI, AlphaBeta analysis. Note: Revenue growth for most recent month is adjusted based on historical revisions to adjust for reporting lag. Government stimulus payments (e.g. wage subsidy) may be included in revenue numbers if firms have classified these payments as revenue.
Small business jobs were little changed in Australia and the UK during August, but down 1.4% in the month in New Zealand. All three countries are still in a situation where jobs have not fully recovered the losses seen during the initial lockdowns. Australia and NZ have seen some recovery in jobs since May’s low points and are now 5.3% and 2.9% down on pre-crisis levels. But the UK is yet to show signs of a recovery and small business jobs have stagnated at 6.7% down on pre-crisis levels.

**Change in small business jobs**
Indexed levels, pre-crisis = 100

**Australia**
Weekly

**New Zealand**
Weekly

**United Kingdom**
Monthly

Source: Xero SBI, AlphaBeta analysis. Note:(1) Pre-crisis is first week of March for Australia and New Zealand (where weekly data are available); in the UK, it is month of March, as only monthly estimates are available due to data limitations
Australia and New Zealand impacted by return to lockdowns

The impact on small businesses of tightening and easing health restrictions has been a common theme of the Xero Small Business Insights (XSBI) program since the start of this pandemic. Both the Australian and New Zealand results would have been stronger had it not been for the return of local lockdowns that saw restrictions imposed on some businesses again in Victoria and Auckland.

Victoria’s lockdown was longer and stricter than Auckland’s and most businesses will not be able to re-open until late October. This means Victoria is likely to act as a drag on the national economy until November.

Auckland’s Alert Level 3 was over in a few weeks and many businesses could keep operating during the period. It moved to Alert Level 2 on August 31, with additional limits of 10 on gatherings remaining in place but all businesses now reopened. In its Weekly Economic Update, NZ Treasury noted that high-frequency indicators suggest that economic activity bounced back sharply after Auckland moved to Alert Level 2. This suggests Auckland is unlikely to be a drag on growth in future months.

Risks emerging in UK as virus case numbers rise

The UK virus case numbers are moving higher and winter is approaching. To date the UK has opted for local lockdowns only with some business closures (mainly non-essential indoor venues). Nationally the focus has been on re-introducing restrictions on group numbers and home visitors rather than imposing new widespread restrictions on businesses again. How long this approach can be sustained will depend on case numbers over the coming weeks.

1. Greater Melbourne entered Stage 3 restrictions on July 9 and Stage 4 on August 2 and is not due to see and easing on business-operating restrictions until October 26. Rest of Victoria entered Stage 3 on August 2 with restrictions expected to start easing before the end of Sept. Auckland was at Alert Level 3 from Aug 12 to Aug 30 and the rest of NZ moved to Alert Level 2. All NZ now at Alert Level 2.
2. NZ Treasury (Sept 2020) Weekly Economic Update
Methodology

About Xero Small Business Insights (XSBI)
The aim of Xero SBI is to create insights to help inform decision makers in support of the small business economy as a whole. These insights were produced by Xero and Alphabeta Australia (part of Accenture) for Xero SBI. 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 are responsible custodians of our customers sensitive data and do 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.

Job statistics
We measure jobs based on the number of unique employees paid by a firm in the relevant period. We only include employees who received non-zero payment for the relevant period. Xero data is firm-side, not household-side which means that, in aggregate, we measure ‘jobs’ (the number of filled positions) not employment – (the number of people who have a job). We re-weight the Xero sample to match the population distribution of firms by employment size, using official national data on the counts of small businesses by size. Our estimates are conservative because small businesses that have shut down are not included.

Revenue statistics
We use a stable set of firms to reduce the impact of sample changes. Revenue reported by Xero firms for the month is taken from the Xero “general ledger” – reconciled, accounting measure of revenue Xero data. Government stimulus payments (e.g. wage subsidy) may be included in revenue numbers if firms have classified these payments as revenue.

We exclude firms who do not have an advisor linked to their account (e.g. accountant or bookkeeper), trusts, clubs & societies and other unclassified organization classifications and firms that have not reported non-zero revenue in all of the past 12 months.

We calculate month-to-month growth in total revenue based on a set of firms that report in both current and previous month to prevent changes in sample composition having first order effects on growth; estimates are unweighted, but are robust to alternative sample weighting schemes.

Revenue growth for the most recent month is adjusted based on historical revisions to adjust for reporting lag. Our estimates are conservative because small businesses that have shut down are not included.

Payment time statistics
We measure the average time to be paid for invoices on trade credit for Xero subscribers. We calculate the average time to be paid, weighted by (1) invoice value (2) firm-level sample weights. We include only invoices that are fully paid and measure the time between issue and full payment.

Disclaimer
This report was prepared using Xero SBI 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 were anonymised and aggregated to ensure individual businesses can not be identified.