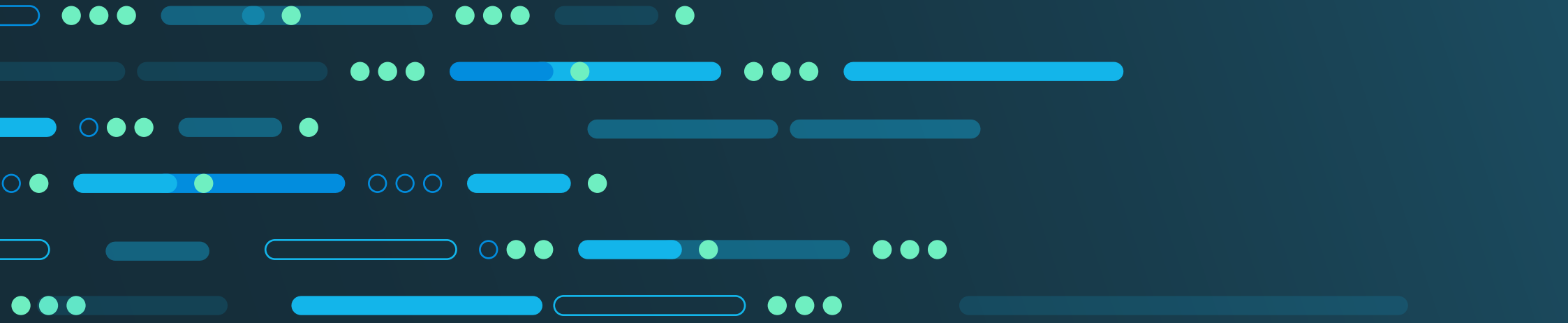




SMALL BUSINESS INSIGHTS

AUGUST 2020

Xero Small Business Insights: Australia Monthly Update



Flat national results despite the drag from Victoria

Weaker outcomes in Victoria were offset by stronger results in the other seven states and territories to leave overall national results little changed in August.

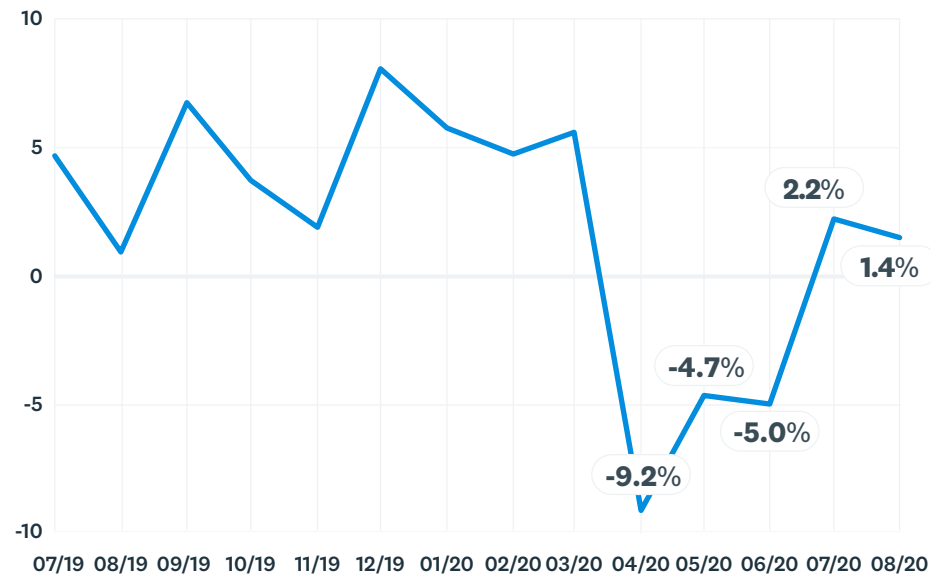
Small business revenue grew 1.4% year-on-year in August, following a 2.2% (revised) rise in revenue year-on-year in July. This means Australian small businesses have recorded two months of positive annual revenue growth, after revenue fell to be 9.2% below year ago levels in April.

The result, while positive compared to the early months of the crisis, still places annual revenue growth below the average annual growth of 4.3% seen in the last six months of 2019.

Jobs rose just 0.3% in August and have been broadly flat since the 7.7% rise between mid-May and the end of June. Jobs are still 5.3% lower than they were in early March when the pandemic began.

Small Business Revenue Growth

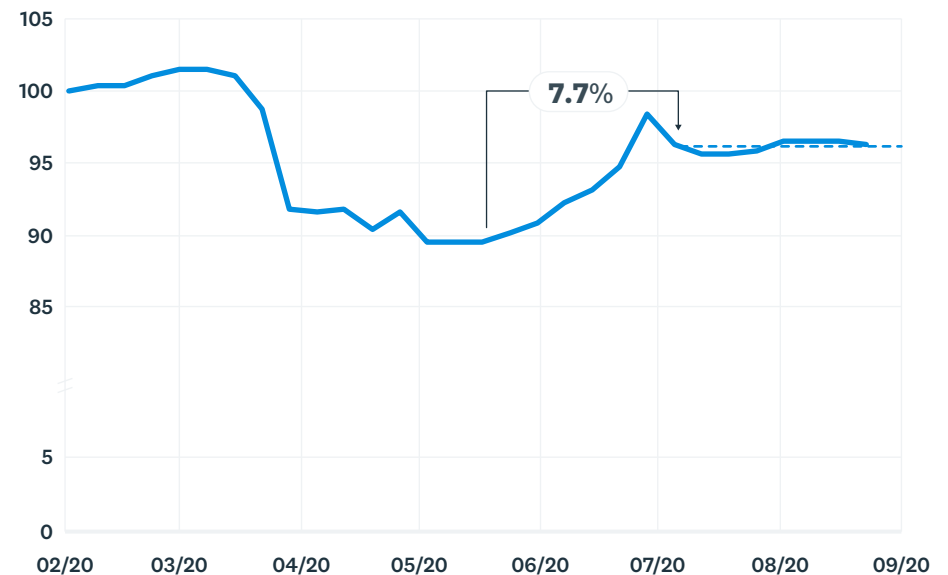
% year on year, monthly



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.

Number of jobs in small businesses

Indexed levels, week ending 2 February = 100; not seasonally adjusted; observations are for week ending that Sunday



Source: Xero SBI, AlphaBeta analysis. Notes: For weekly estimates, we restrict analysis to weekly payslips (which account for -54% of employees in Xero). Payslips are assigned to weeks (which run from Monday to Sunday) based on when the pay period ends. Our method abstracts from firm entry and exit; this means that changes in Xero's subscriber base do not directly affect estimates of jobs growth.

Victoria slips behind rest of Australia

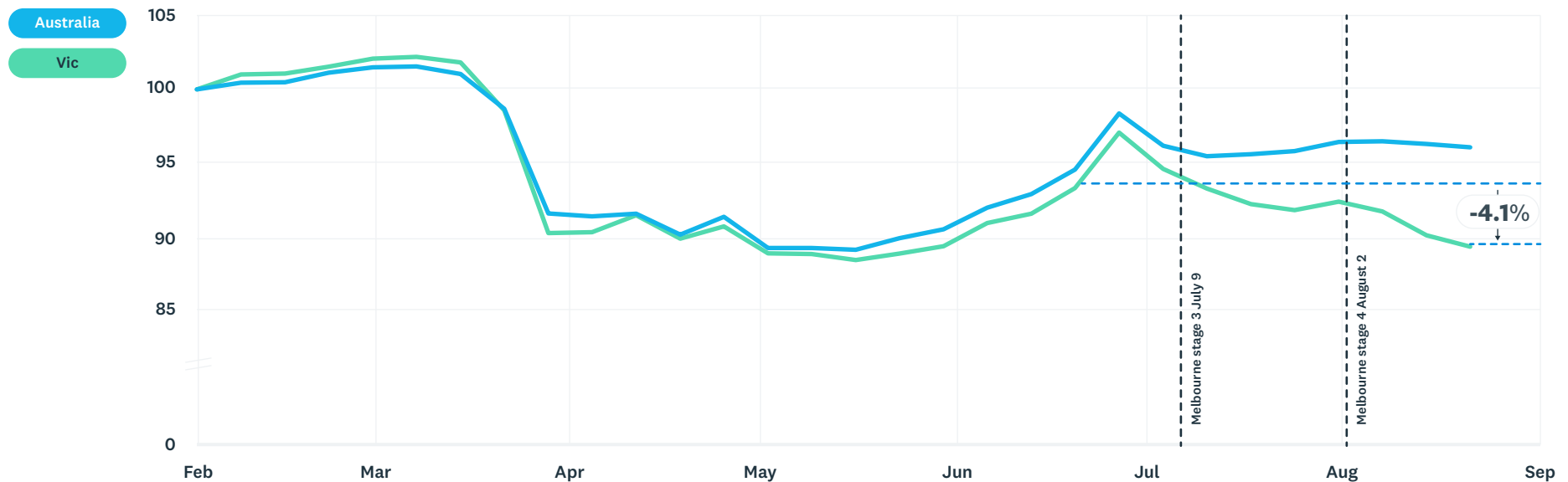
During the nation-wide lockdown in April and May the performance disparities of small business were along sector lines. Those businesses in industries that had to fully close, such as cafes and gyms, performed worse than office-based operations that could largely switch to working from home. Since July, however, a disparity has emerged along geographic lines. Victoria's return to lockdown provides a stark contrast to all the other states and territories which, apart from closed internal borders, are largely operating under 'COVID-normal' conditions.

The national results would have been stronger had it not been for jobs and revenue declines in Victoria. In early August Melbourne entered Stage 4 lockdown and the rest of the Victoria moved to Stage 3 restrictions.

Revenue growth was down 3.8% year-on-year during August in Victoria, with falls led by hospitality (-36% y/y) and arts & recreation (-36% y/y). This has seen a 5.3ppt gap open up between Victoria and the national revenue growth results.

Number of jobs in small businesses

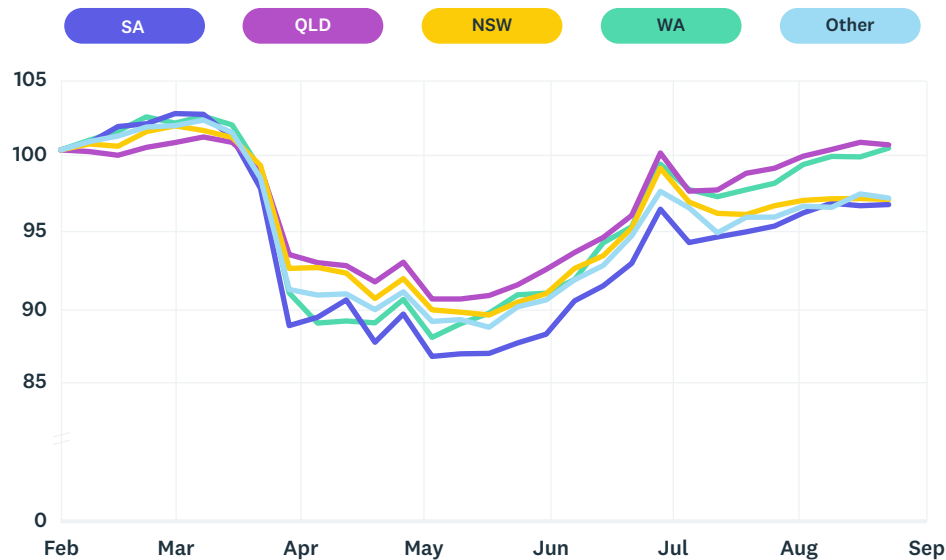
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The strongest revenue growth was recorded in Western Australia (+8% y/y) followed by South Australia (+5% y/y) and Queensland (+5% y/y). NSW, at +2% y/y growth was closer to the national average.

Small business jobs also fell in Victoria, down 2.6% in August. Jobs are now 4.1% lower than they were when the second round of lockdowns began in early July.

The job weakness in Victoria is being led by arts and recreation, where jobs are down 39% compared to the first week of March. Hospitality jobs are down 36% over the same time period. These results are similar to the results since in late April during the first lockdown period.

In contrast, for Australia as a whole, arts and recreation jobs are down 18% between March and August and hospitality jobs are down 15% over the same period. These results are still well below pre-crisis levels but highlight that jobs in other states and territories in these sectors are slowly returning.

Jobs rose in other jurisdictions in August and in Western Australia and Queensland jobs are now back to where they were in early February 2020.

Support critical as Victorian businesses reopen

The XSBI data clearly highlights the performance gap opening up between businesses located in Victoria and those in the rest of Australia. The Treasurer has said that in the coming months there will be more Victorian employees still receiving JobKeeper than in all the other states and territories combined.

The Victorian Government has announced a roadmap out of the current restrictions which, depending on case numbers, will begin in late October for most Melbourne businesses. Regional areas began the process of reopening on September 17. Alongside this reopening plan, the Victorian government also announced another round of small business support, worth \$3 billion, to get as many businesses as possible through the re-opening stages to the end of 2020.

Payment times stay below pre-crisis levels

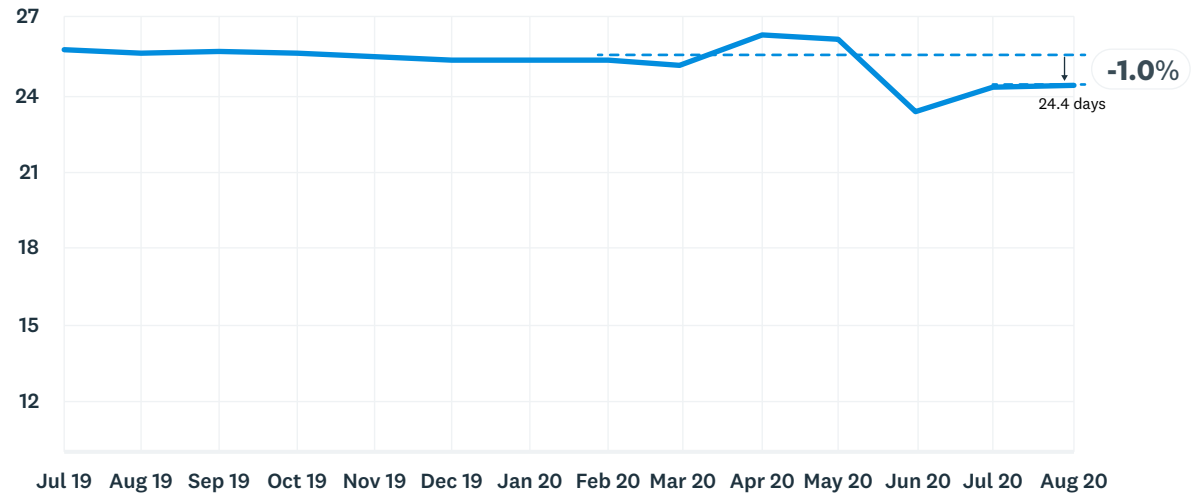
In August small businesses were waiting, on average, 24.4 days to be paid. This is 1.0 days faster than pre-crisis timeframes. The decline in the average time to be paid since February has occurred across the whole distribution of payment times.

Source: Xero SBI, AlphaBeta analysis

October's Federal Budget opportunity for jobs plan

Average days to be paid

Days, seasonally adjusted



The delayed Federal Budget will be handed down on October 6. This is an opportunity for the Australian Government to outline its plans to stimulate the economy out of recession and help small businesses rebuild.

A recent Xero commissioned survey¹ of small business showed the top five areas they are looking for the Budget to help with are:

- incentives to start new businesses,
- support for young entrepreneurs to grow their networks and experience,
- R&D tax incentives for small business,
- reduction in energy costs, and
- incentives to use more technology to run my business

¹ A survey of more than 500 Australian small businesses, conducted in early September 2020

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.



SMALL BUSINESS INSIGHTS

