SME Growth Index

April 2025

ScotPac
Business Finance

Research completed in partnership with East & Partners, surveying Business Owners and Decision Makers in Australia.

OVER 10 YEARS OF RESEARCH

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Executive Summary

SMEs Walking a Fine Line Between Hope and Hardship

Rising costs. Inflation pressures. Policy uncertainty. If you're running a small or medium business in Australia right now, these aren't just headlines – they're your daily reality.

Welcome to the 22nd consecutive edition of ScotPac's SME Growth Index (SMEGI) Report – Australia's definitive SME pulse check. This year's findings couldn't come at a more critical time.

With a federal election on May 3, and the world economy adjusting to US tariffs, it is a challenging and uncertain time for Australian SMEs – the unsung heroes of our economy. Times are tight, and nobody seems sure of what will happen next.

But there are rays of sunshine emerging from the clouds. Inflation has moderated in recent months. There has been one interest rate cut and guarded pointers to more in the months ahead. And discretionary spending is once again ticking up.

So, how are SMEs feeling about the health of their business in 2025? And what do they want to hear from policymakers in the lead-up to the election?

Growth Picture Brightens for more SMEs

Despite swirling economic headwinds, almost 60% of Australian SMEs are forecasting positive six-month revenue growth - up from a sluggish 53% last year - by a record average of 9.7%. Queensland SMEs topped the list as the most positive overall, while Victoria was the only State to project negative growth across its SME sector.

At the other end of the spectrum, struggling SMEs have never done it tougher. Negative revenue growth projections stretched to -30%, while those in outright contraction phase have increased threefold since 2019.

Market wide, Australian SMEs are forecasting a 1.4% increase in revenue to August 2025, a long way short of previous average growth projections.

Wage & Super Rises Impact All

While revenue growth projections are deeply divided, there was near-unanimous agreement that legislated increases in employment costs are negatively impacting cash flow.

In response, SMEs are actively exploring alternatives to taking on new employees. Almost half are increasing the use of contractors to combat higher wages, and a further 15% have turned to outsourcing more services. Almost 20% of SMEs have trimmed their capex plans to fund the higher costs, while around 13% have been more direct, reducing employee hours or FTE headcount.

With further employee-related costs rising from July, the working capital reserves of SMEs in labour-intensive industries are set to be severely tested.

Sharp Decline in Bank Lending

On the subject of financial management, there was a further rise in the preference for non-bank lenders to fund new business investment - up 7% annually to 55%. However, the clearest indicator of the shift in SME behaviour is the 29% year-on-year decline in those intending to access bank borrowing, which fell to just 30% of the market.

With growing awareness of the speed and ease of non-bank finance solutions, it is hard to see this slide being arrested without significant changes to prudential regulations.

Insolvency fears Grow

Insolvency levels skyrocketed in the second half of 2024, driven by a 47% increase in business-to-business payment defaults and determined ATO debt collection activities. And there are indicators that things could get worse.

Almost 1 in 5 SMEs believe the loss of a key client or supplier would tip their business into failure, while three-quarters said they would suffer an average 22% revenue hit. It will be interesting to see how SMEs tackle the challenge of diversifying their client list and supply chain in the next six months to guard against business interruptions.

Undecided SME Count Doubles as Election Nears

SME owners and operators are scratching their heads over the upcoming Federal election. A whopping 20% remain undecided about which party is best for their business - double the number of fence-sitters we saw before the 2022 election. It's a bit like watching a political dating show where nobody's quite sure if they want to swipe right.

Conclusion

The economic landscape in 2025 presents both obstacles and opportunities for our SME community, wrapped up in a good deal of uncertainty that is outside of their control.

We trust the insights in this Report will be of interest and value to businesses, brokers, policy makers and anyone else engaged with our SME sector.

Jon Sutton
CEO ScotPac

Round 22 SME Growth Index Highlights

59% are forecasting half-year revenue growth averaging **9.7%**

33% anticipate a revenue contraction over the next six months of up to **30%**

55% plan to fund new investment with non-bank lending vs **30%** with banks

95% have suffered negative impacts from rising wages and super payments

45% are increasing contractor use to combat higher wages

22% said relaxing labour laws is top of their policy wish list

17% say their business would not survive the loss of one major client

21% of SME leaders identify as swing voters – up from **10%** in 2022

Average employee headcount has reduced from 88 to 55 since 2014

SME Revenue Forecasts Hit Record Volatility Levels

Queensland takes mantle as the most positive SME market

Overview

The gap between the most positive and negative six-month revenue forecasts for Australian SMEs now stretches to an alarming 48 percentage points. This represents a 25% year-on-year increase and is easily the largest business confidence divide in the 11-year history of the SME Growth Index.

On the positive side, 58.6% of SMEs are forecasting positive revenue growth to August 2025, by a record average of 9.7%. That figure is trending towards the all-time high of 62.6% in 2014. Further, the share of businesses that identify as being in a growth phase is also at a nine-year high of 43.5%.

On the flip side, 33% of SMEs expect a downturn in revenue in the next six months. While that is consistent with August 2024 results, the average forecast decline of -13.4% has now doubled since the onset of the pandemic.

Queensland has raced ahead to be the most positive market in the country. The average growth projection for its SMEs is nearing 10%, comfortably clear of Western Australia and New South Wales. Victoria remains the only SME market in the country with a negative average growth forecast of -9%.

SMEs in mining, Australia's most profitable sector, topped the most optimistic list with an average revenue growth forecast of 6.3%. Construction was the most pessimistic sector with average revenue decline expectations of -8.3%.

59%

of SMEs are projecting revenue growth in the next six months while a third expect to lose ground.

1.4%

is the average revenue growth forecast across the SME market, compared with 5% in 2014

33%

of SMEs are predicting revenue to decline by an average of 13.4% to August 2025

Top takeouts for SMEs and brokers

In a deeply divided outlook for Australian SMEs, it is significant that more businesses are in a growth phase and expect revenue gains in the next six months than at any time since February 2016.

To support and accelerate revenue growth, SMEs should explore customised finance options that help them to optimise cash flow, invest more readily, and mitigate challenges. These include known cost pressures like wages, insurance and energy bills, and unforeseen issues like supply chain disruptions.

For brokers, there is good reason to be positive about the growth potential for their own businesses in 2025. Despite heightened levels of insolvency in 2024, the number of actively trading businesses in Australia increased by more 70,000, consistent with annual trends since the start of the SME Growth Index in 2014.

Brokers are set to play an increasingly vital role in helping SMEs cut through the noise and find the right finance solution to meet their needs.

For over 35 years, ScotPac has partnered with brokers to provide tailored finance to thousands of SMEs across Australia and New Zealand. Today, we serve more than 8,500 businesses, offering comprehensive business lending services and innovative ways to unlock working capital.

Swing Voting SMEs Emerge as Pivotal Group in Tight Election Picture

Labour laws and company tax relief top SME policy wish lists

Overview

With a May 3 Federal election looming, one in five SME owners and operators remain undecided about which party's policies will best support their business. The figure represents a notable shift from the lead-up to the 2022 election when just 10% of SMEs were sitting on the fence, and it places the sector firmly in the swing voting category.

There was far more clarity when SMEs were asked what policies the next elected Government should prioritise to give them the best chance of success.

22% of SMEs - split evenly between those in business growth and contraction phases - said scaling back restrictive employee regulations would benefit their business most.

Company tax cuts and relief from Australian Tax Office (ATO) collections topped the list for 20% of SMEs. That figure is up from 14% in 2021, likely prompted by the ATO ramping up enforcement to recoup $53 billion in collectable debt.

Simplifying the Business Activity Statement (BAS) and other regulatory requirements was high on the agenda, with 15% of SMEs declaring it their biggest pain point.

Just under 10% of SMEs said the Government's top priority should be reducing inflation and easing cost-of-living pressures that have recently been a handbrake on discretionary spending.

21%

of SMEs are yet to decide which political party is best for their business, up from 10% in 2022

22%

of SMEs rated new labour laws as their most pressing policy concern

20%

of SMEs want company tax cuts and relief from ATO collection activity

Top takeouts for SMEs and brokers

The vast majority of Australia's 2.66 million businesses are SMEs. Since the last Federal election, they have endured an uncertain economic environment where sustained inflation and 13 interest rate rises have ramped up cost-of-living pressures and impacted demand for goods and services.

Employee costs and tax debts have emerged as a key and growing areas of SME concern since 2022. Any business with an ATO payment plan is set to face a further cash flow headache from July 1 as interest payments on these plans cease to be tax deductible, making them a very expensive form of debt.

It is no surprise against this backdrop that the share of business owners who are torn over who to support at the ballot box has doubled in just three years.

Running a ruler over the election commitments of each party against what would boost your business is a useful exercise. However, the best time commitment any SME owner can make is to sit down with their broker and find the right finance option for their business's needs.

ScotPac has the broadest range of SME working capital solutions in the market. Our experts can help you find simple ways to better manage your cash flow and free up the funding you need to grow - no matter what's happening in Canberra.

Non-bank Lending Surges Again in Evolving SME Market

Bank funding intentions for new investment drop by almost a third

Overview

Almost 3 in every 5 Australian SMEs plan to invest in their business over the next six months, primarily driven by the spending intentions of 92% of businesses that identify as growth SMEs.

The level of non-bank lending demand to fund new business investment has surged to a new high of 55%, a 7% year-on-year increase. The result is a far cry from 2014 when just 7% of SMEs were considering non-bank lenders for their financing needs.

By contrast, the share of SMEs that plan to use bank lenders dropped sharply from 42% to just 30% in the past 12 months. That was split by 21% who intend to stick with their main relationship bank, and 9% who will look to a secondary banking lender.

The level of SMEs who prefer to use their own equity to fund all or part of new business investment remained very high at 94%. At the other end of the scale, just 5% of SMEs were unsure about which funding method they would use.

A growing number of SMEs have expressed interest in using private credit to raise equity or fund new investment. While its definition is somewhat opaque, 1 in 4 SMEs reported using private credit to fund an average of 10% of total business investment.

59%

of SMEs plan to invest in their business in the next six months

55%

of SMEs intend to fund new business investment with non-bank lending

30%

of SMEs intend to use bank lending, down 29% year-on-year

Top takeouts for SMEs and brokers

The pronounced shift away from bank lending for new business investment has accelerated in the past six months, coinciding with increasing cost pressures for SMEs. Approval times, interest rates, and security requirements are all contributing factors, in addition to the more flexible lending criteria that non-banks can offer.

SMEs looking to test the market for the right lending solution have never had more choices. For SME owners planning to use their own funds for new investments, conducting a financial health check to see if different financing options can make more funds available is a wise practice.

The message for brokers is clear: more businesses are seeking fast and flexible finance. This means your expertise in guiding clients to the right finance options is in high demand. Brokers who can cultivate strong relationships with both borrowers and lenders are well-positioned to expand their operations.

From simple to complex, large or small, ScotPac offers the broadest range of finance products to unlock the potential in any business. Whether purchasing stock or equipment, expanding capacity, or refinancing debt, ScotPac can tailor a package to suit individual needs.

Wage and Super Rises Spark SME Contractor Growth

One in five SMEs shelve capital expenditure plans due to cash flow constraints

Overview

Almost half of Australia's SMEs are engaging permanent contractors in preference to adding new employees to their books in direct response to increased minimum wages and the rising superannuation guarantee payment.

Other actions SME owners are taking that will have implications for our national unemployment picture in the months ahead include:

- 30% have cut back on hiring new staff.
- 14% are increasing their use of outsourcing, which presumably includes cheaper overseas services.
- 13% are cutting employee hours or total headcount.
- 5% said they intended to sell or close their business.

Under the superannuation guarantee, employers must make a regular contribution for any employee who is over 18 or who works 30 or more hours a week. The rate, which has increased from 9.5% to 11.5% of ordinary time earnings since July 2020, will rise again to 12% from 1 July 2025.

Looking ahead, 95% of SMEs said further wages and super rises will negatively (56%) or severely negatively (39%) impact their available working capital. Less than 2% of respondents stated the additional imposts would not impact their business, and just 1% said they welcomed the positive effect the changes would have on staff morale and commitment.

45%

of SMEs have responded to rising costs by increasing their use of contractors

13%

of SMEs have reduced total employee hours or cut the number of full-time employees

95%

of SMEs said further wage and the super rises would negatively impact cash flow

Top takeouts for SMEs and brokers

Australian SMEs collectively pay the wages of more than 7.5 million people. For the second straight SME Growth Index, more than 90% of SMEs agreed that minimum wage hikes and incremental rises in the super guarantee were key drivers of cash flow pressure.

This report demonstrates that businesses are responding by reducing their payroll exposure and increasing the discretionary use of contractors, particularly those that have not passed on additional costs to customers or clients. This aligns with the fact that the average SME headcount has declined from 88 in 2014 to 55 today.

With a further rise in the super guarantee slated to commence in July, SMEs should be modelling the cost impacts on their cash flow and developing a whole-of-business strategy in response. Staying informed about regulatory changes and planning ahead is key.

A significant and expanding opportunity exists for brokers who focus on assisting SMEs with ongoing expense management, especially SMEs reliant on large workforces which face substantial costs.

ScotPac has been helping Australian businesses optimise their cash flow and manage payroll-related cost pressures for over 35 years. Our Invoice Finance product funds almost $24 billion in invoices annually and is an established market leader in helping businesses improve their cash flow.

SME Insolvencies Set to Rise in Volatile Business Environment

Retail and hospitality sectors among the most vulnerable as consumers tighten their belts

Overview

Almost 1 in 5 Australian SMEs believe they would be out of business if one major client or supplier fell over, highlighting the risks associated with a failure or inability to diversify.

The alarming insight comes as ASIC data reveals there were 7,483 insolvency appointments in the six months to December 31 - a 47% year-on-year increase and just 500 shy of the entire 2023 financial year total. Some of the notable business failures in the period included well-known retailers Rivers, Booktopia and Catch.com.au, gourmet grocer The Essential Ingredient, and regional airline Rex.

Seventy-six percent of SMEs understandably reported that losing a key client would negatively impact them, with an estimated average revenue loss of 22%. Just 7% of SMEs said they were unsure of how their operations may be affected.

Hospitality businesses are particularly vulnerable. Restaurants and cafes are struggling with rising operational costs and lower consumer spending, fuelled by the wider cost-of-living crisis. Accordingly, one in 10 businesses in the food and beverage services sector became insolvent in the 12 months to January 2024, either closing voluntarily or being struck off by ASIC – a record high figure.

With almost 60% of declining growth SMEs in an outright contraction phase, further insolvency records look set to tumble in the near future.

47%

year-on-year increase of business failures in the six months to 31 December 2024

17%

of SMEs say they would be wiped out with the loss of one major client

59%

of declining growth SMEs are in an outright contraction phase, triple the number in 2019

Top takeouts for SMEs and brokers

The surge in business insolvencies in Australia in late 2024 was driven by a combination of factors, including a worsening in B2B payment defaults, assertive ATO collection activity and rising employee costs. These were exacerbated by a high inflation environment that escalated operating costs for SMEs while also weakening consumer demand.

In this context, it is understandable that a high proportion of SMEs fear their business may not survive the loss of a key relationship. But there are steps SMEs can take to try to weather volatility and mitigate the risk of failure.

SMEs should sit down with their brokers and advisors and conduct regular risk assessments. Where possible, businesses should seek to improve their market and financial stability by diversifying their supplier and client base.

Diversifying funding sources can boost a business's resilience against cash flow and supply chain fluctuations. Brokers with expertise in identifying flexible finance options that accommodate changes in cash flow are an invaluable resource.

ScotPac has assisted thousands of SMEs of all sizes and situations with flexible and sustainable business solutions. Our Cash Line and Boost Business Loan products are two examples that can help businesses that need cash on hand fast to manage costs.

Business Development Tools Top SME Innovation List

AI is yet to cut through with SMEs as a productivity spending priority

Overview

Sales tools to help generate new business (23%) have edged ahead of customer service aids (22%) as the largest category of innovation spending for SMEs to drive greater productivity. Investment in manufacturing or production improvements rounded out the top three, with a third of SMEs in a growth phase listing this as a priority.

Highlighting the all-consuming nature of managing the current economic cycle, a third of the total SME market have no immediate plans to invest in greater innovation, including almost two-thirds of declining growth SMEs.

If more financial support for innovation spending were available, 45% of SMEs said a combination of supply chain management and supply chain finance would be high priorities. Improved business forecasting tools was also a popular choice, favoured by 22% of SMEs.

AI remained a long way down the list for new investment preference with just 7% of SMEs nominating it as a priority. That placed it behind other potential spending categories, including inventory management systems (8%), automation tools (9.5%), cloud CRM systems (16%), and embedded financing platforms (16%).

Around 30% of SMEs are uncertain where they would direct funding for productivity gains if it were to become available.

23%

of SMEs are directing business innovation spending to sales and business development tools

45%

of SMEs would prioritise supply chain management and finance if funds were available

33%

of growth SMEs are investing in manufacturing and production innovation

Top takeouts for SMEs and brokers

The fact that investment in business development tools has shot to the top of innovation spending for SMEs aligns with the uptick in positive revenue growth forecasts. SMEs that remain in good health despite the economic challenges of recent years have broadened their focus from retention to expansion.

Businesses looking to invest in new assets, equipment or technology should speak with their broker about available funding options to boost their purchasing power.

For example, Asset Finance can help to fund new purchases or unlock the value of owned assets. Trade Finance can help to close the cash flow gap between sales and the procurement of materials or stock. And Invoice Finance allows businesses to secure funding like a line of credit against unpaid sales invoices. In some cases, a hybrid solution may be the right fit.

Brokers who take the time to understand their clients' needs and stay on top of new products will be well placed to take advantage of the renewed appetite for investment in innovation.

As the largest non-bank lender in Australia, ScotPac works with a network of brokers and introducers to provide fast, flexible and easy finance solutions for thousands of SMEs. We specialise in helping to unlock working capital and accelerate the growth potential of the businesses we support.

Methodology

ScotPac's bi-annual SME Growth Index, is Australia's longest running research report on SME sentiment towards revenue growth prospects.

This is the 22nd consecutive round of ScotPac's SME Growth Index. Each index round includes a mix of core questions that are repeated biannually, and special questions which are refreshed in line with changes and challenges in the SME environment.

The Round 22 research was conducted by East & Partners who interviewed 724 SME enterprises with annual revenues of A$1-$20 million.

All interviews were conducted over the telephone or face-to-face by an accredited East interviewer, speaking with the company Owner/ CEO, CFO, Finance Director, Treasurer or other senior office holder.

The sample was framed in accordance with ANZSIC codes to provide a natural sample of the Australian enterprise population. 71% of interviewees were in Australian metropolitan centres, while 29% reside in regional areas.

SMEs surveyed have operated continuously for an average of 15.6 years and manage an average of 54.6 full-time equivalent employees.

Sectors represented in the survey included Property & Business Services (14%), Manufacturing (13%), Retail (11%), Wholesale (12%), Personal & Other Services (10%), Construction (10%), Transport & Storage (10%) and other industries including, Mining, Agriculture, Media & Telco, Hospitality, Finance & Insurance (non-bank) and Electricity, Gas & Water.

east&partners

East & Partners is a leading specialist business banking market research and analysis firm. The firm's core expertise is in the provision of analysis and advisory services tailored for the commercial, business and institutional banking markets across Asia Pacific, Australasia, Europe and North America. The delivery of accurate quantitative analysis on businesses' exploding demand for sophisticated transaction, FX, debt, treasury, investment and advisory banking services and products has been uniquely addressed by East's "bottom up" research methodologies since 1987, based on many thousands of customer interviews with CEOs, CFOs, treasurers and business.

ScotPac
Business Finance

About ScotPac

ScotPac is Australia and New Zealand's largest and longest-standing non-bank SME business lender, providing funding to small, medium and large businesses from start-ups to enterprises exceeding $1 billion revenues.

For over 35 years ScotPac has helped thousands of business owners succeed, offering fast and flexible funding. We currently support more than 8,500 businesses.

From simple to complex, small to large, start up, growth or turnaround – ScotPac can help with a range of funding solutions including Invoice Finance, Trade Finance, Asset Finance and Business Loans.

We continually evolve our product offering to meet the demands of SME businesses. In 2024, we introduced Cash Line, a quick and easy way for any business with a cloud accounting package to have cash on call for when opportunities arise. Cash Line operates like a flexible line of credit, but without the need for property security.

Invoice Finance
Unlock the value in your invoices

Trade Finance
Boost your purchasing power

Asset Finance
Fund new and pre-owned assets

Business Loans
Fast funding to fuel your business growth

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