



# NAB Business - SME Insights

## What is Australian Business expecting in 2025?

The cost of doing business in 2025 is weighing on SMEs, with 3 in 4 expecting further increases. But many also plan to be proactive with a focus on technology to aid cost-reduction and revenue-generation to continue to thrive, grow and adapt.

January 2025

## How does Australian business see the year ahead?

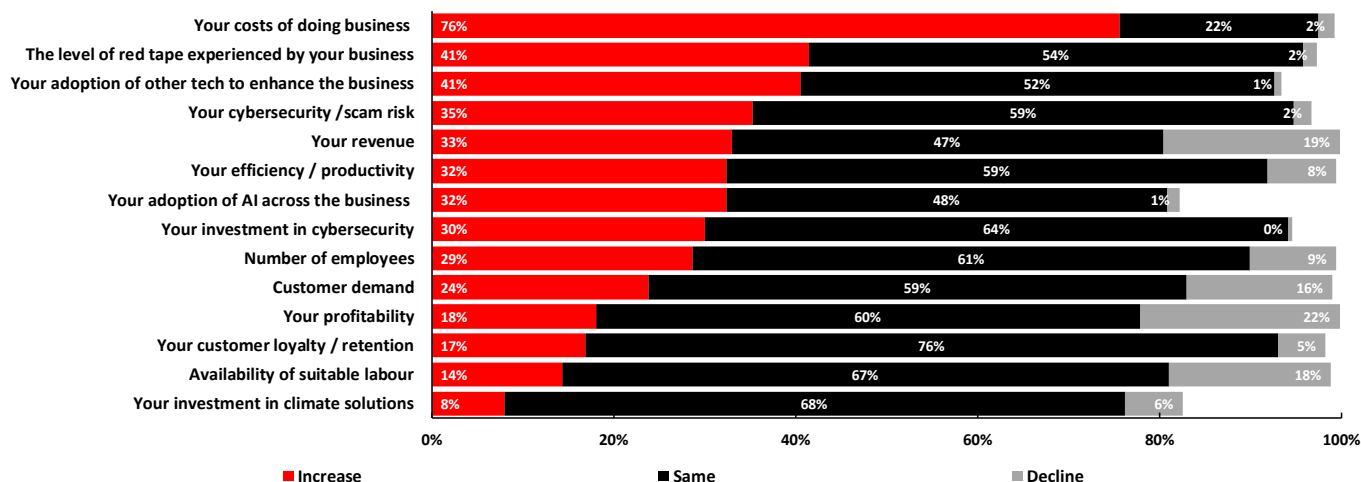
This new NAB Business report reveals the key expectations of small to medium sized businesses over the next 12 months. Against a backdrop of recent tax cuts and the potential for interest rate declines in the coming months, we asked over 600 SMEs to bring out their crystal ball and take a look at what they believe lies ahead for their business. Business owners and managers addressed many of the biggest forces likely to shape their outlook including any changes in the costs of doing business, adoption of AI and other technologies, availability of suitable labour, profitability, revenue, efficiency & productivity, cybersecurity & scam risks, and their expected investment to mitigate them, level of red tape, investment in climate solutions, customer loyalty & retention, customer demand and number of employees over the next 12 months. The findings suggest that while SMEs see ongoing challenges ahead, they also see opportunities and many plan to be proactive about cost-reduction and revenue-generation to continue to thrive, grow and adapt. And there are reasons for optimism. In particular, the likelihood of a first rate cut some around mid-year is expected to have an important impact on the psyche of consumers, as well as business people alike. NAB's latest Consumer Sentiment Survey (Q4 2024) revealed 4 in 10 Australians still expect interest rates to rise in 2025, providing plenty of room for an uplift in sentiment should there be rate cuts as the year progresses.

There are some significant differences in expectations by state and industry. For example concerns around costs of doing business and red tape are notably lower in QLD and highest in NSW, while expectations for profitability and revenue are much weaker in VIC and strongest in SA. By industry, the Construction sector is most optimistic about the need to increase the number of employees, while the Finance sector is most likely to increase investment in AI.

### How key factors will change in the next 12 months in the eyes of Business

The costs of doing business in the next 12 months is weighing on most SMEs, with 3 in 4 (76%) expecting them to increase, and just 1 in 50 (2%) decrease. The cost-of-doing-business is a significant issue facing businesses across various states and industries. It refers to the rising rates businesses are having to contend with when simply trying to complete their daily operations. In response, 2025 is likely to see businesses focus more on areas such as streamlining operations, negotiating with suppliers, reducing energy consumption, and managing inventory more effectively. The operating environment is also expected to be harder for many, with 4 in 10 pointing to an increase in the level of red tape experienced by their business (41%) and 1 in 3 cybersecurity & scam risks (35%). Red tape can hamper the ability of firms to compete, grow, and create jobs, while scams, email attacks and malicious software can cost business a lot of time and money, and compromise sensitive data and reputation. A substantial number also see profitability (22%), revenue (19%), availability of suitable labour (18%) and customer demand (16%) decreasing over the next year (with expectations particularly pessimistic in Victoria). NAB's Business Survey also shows business confidence waning toward the end of last year despite conditions holding up reasonably well.

### How the following business factors will change in the next 12 months (%)



While SMEs are under no illusion there will be ongoing economic pressures, many plan to be proactive to best protect themselves from increasing costs and an uncertain market, with over 4 in 10 expecting to increase their adoption of technology to enhance their business (41%). Around 1 in 3 expect to improve their efficiency & productivity (32%), to increase their adoption of AI across the business (32%) and their cybersecurity investment (30%). New technologies can make it possible to automate repetitive tasks, eliminate time-consuming manual processes, reduce operational errors, speed up processes and improve communication with customers.

## How does Australian business see the year ahead?

Moreover, by investing in robust cybersecurity measures, businesses can mitigate risks, protect assets, and maintain trust and confidence. It is also positive that a similar number of SMEs predict higher revenue (33%) in 2025 and that they will increase their employee count (29%). Almost 1 in 4 also believe their customer demand will rise (24%), and hence for those business a need to ensure adequate stock levels.

### How the following business factors will change in the next 12 months: States (net balance)

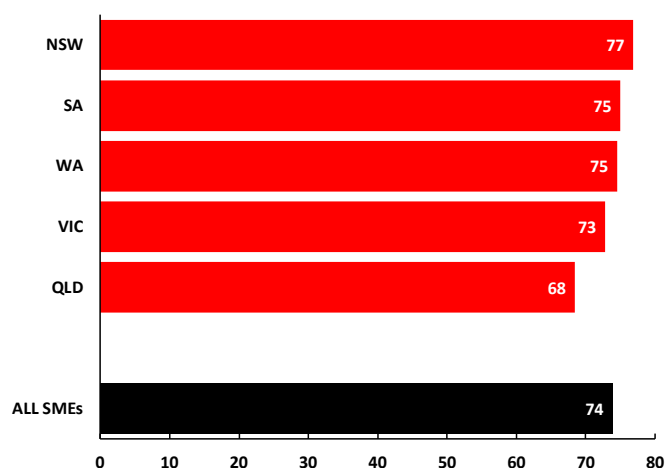
	ALL SMEs	NSW	QLD	SA	VIC	WA
Your costs of doing business	74	77	68	75	73	75
The level of red tape experienced by your business	40	40	33	45	41	43
Your adoption of other technologies to enhance the business	40	39	45	25	41	41
Your cybersecurity / scam risk	33	29	38	35	34	37
Your adoption of AI across the business	31	34	37	23	28	20
Your investment in cybersecurity	30	25	34	30	35	24
Your efficiency / productivity	25	26	25	35	25	16
Number of employees	19	17	28	20	15	24
Your revenue	14	18	17	23	2	20
Your customer loyalty / retention	12	16	6	15	10	8
Customer demand	8	3	21	18	-1	18
Your investment in climate solutions	2	-1	2	3	6	-4
Availability of suitable labour	-3	1	-5	0	-8	0
Your profitability	-4	-2	-3	5	-11	-4

The cost of doing business was highlighted as the key issue in all states in the next 12 months. That said, noticeably fewer SMEs in QLD saw business costs increasing. In net balance terms (difference between those who expect it to increase than decrease) was +68 in in QLD compared to +73 or higher in all other states. Some major differences were also noted for other factors.

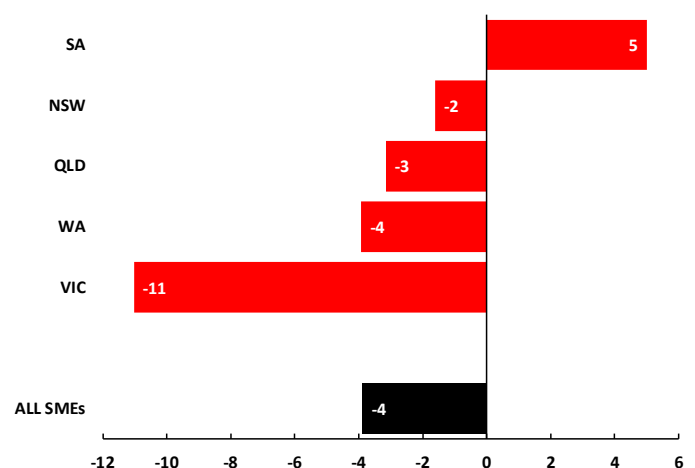
Far fewer SMEs in QLD also expect the level of red tape to increase than in other states (+33). In SA however, a noticeably lower number expect to adopt other technologies to enhance their business (+25), but a much higher number in this state also see efficiency & productivity (+35) and profitability (+5) increasing.

In NSW, far fewer expect cybersecurity & scam risk to increase (+29), while the net number expecting to adopt AI across their business was noticeably lower in WA (+20) and SA (+23). Far fewer SMEs in VIC (+15) and NSW (+17) expect an increase in the number of employees, while expectations for increased customer loyalty & retention were much lower in QLD (+6) and WA (+8) and customer demand in VIC (-1) and NSW (+3). More SMEs in VIC (-8) and QLD (-5) expect labour availability to decrease than increase. Significantly more SMEs in VIC also expect profitability to decrease than increase (-11) compared to other states, and we also counted a much lower number expecting revenue to increase (+2) particularly compared to SA (+23).

Your costs of doing business: States (next 12m)



Your profitability: States (next 12m)



## How does Australian business see the year ahead?

Expectations also vary widely across industries. While cost of doing business is seen as the key issue across most sectors, it ranges from +83 in Health and Hospitality to +59 in Financial Services. More SMEs in all industries also see the level of red tape increasing in the next 12 months but ranging from +55 in Finance & Insurance to +21 in Wholesale. Adoption of other technology to enhance business is highest in Health Services (+61) and lowest in Construction (+25). Cybersecurity & scam risk is expected to increase according to most in Hospitality (+50) and least in Wholesale (+20), while a lot more in Financial Services (+62) see an increase in adoption of AI in the next 12 months than in Transport & Storage (+13).

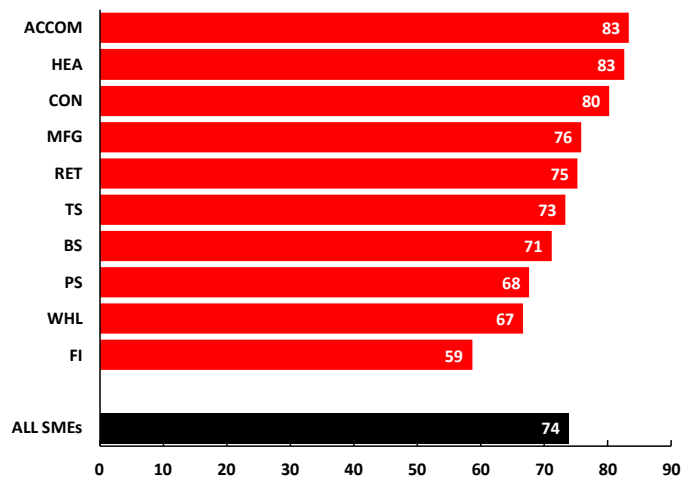
### How the following business factors will change in the next 12 months: Industry (net balance)

	ALL SMEs	MFG	CON	RET	WHL	TS	FI	BS	PS	ACCOM	HEA
Costs of doing business	74	76	80	75	67	73	59	71	68	83	83
Level of red tape experienced by your business	40	37	47	37	21	43	55	36	50	44	52
Adoption of other tech to enhance the business	40	45	25	33	37	40	59	58	44	39	61
Your cybersecurity / scam risk	33	23	31	35	20	40	41	47	41	50	39
Your adoption of AI across the business	31	24	25	20	24	13	62	60	47	33	39
Your investment in cybersecurity	30	18	21	27	20	30	55	56	41	39	39
Your efficiency / productivity	25	37	16	18	19	27	28	53	32	22	4
Number of employees	19	19	21	13	12	27	31	29	24	0	22
Your revenue	14	21	1	3	3	7	38	58	32	6	-4
Your customer loyalty / retention	12	8	8	16	4	17	21	27	12	6	-4
Customer demand	8	-2	1	-3	3	17	24	27	35	6	13
Your investment in climate solutions	2	-2	5	-2	-3	10	3	13	-12	11	0
Availability of suitable labour	-3	-6	-9	-5	-1	-10	3	7	12	-17	-4
Your profitability	-4	-6	-8	-10	-15	-10	31	24	12	-6	-30

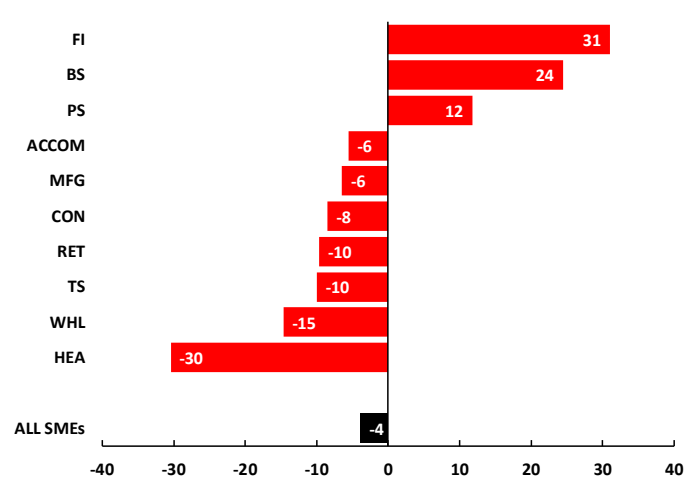
Expectations around increasing investment in cybersecurity range from +56 in Business and +55 in Financial Services to +18 in Construction, with a large gap in the net number of SMEs expecting increased efficiency & productivity between SMEs in Business Services (+53) and Health Services (+4). The Construction sector is most optimistic about increasing the number of employees (+31) while those in Hospitality on balance see no change (0). Expectations about revenues also vary widely, with +58 in Business Services expecting an increase, but more firms expecting revenues to decrease than increase in Health Services (-4). Most SMEs also expect an increase in customer loyalty & retention in Business Services (+27%) over the next 12 months, but a decrease in Health Services (-4).

Customer demand is expected to increase according to more firms in most sectors led by Property Services (+35), with Retail (-3) and Manufacturing (-2) the exceptions with more SMEs on balance expecting it to decrease. Business Services lead the way for investment in climate solutions (+13), whereas significantly more SMEs in Property Services (-12) see it decreasing. Availability of suitable labour is expected to be most problematic in Hospitality (-17), with SMEs in the Property (+12), Business (+3) and Financial Services (+2) sectors the only industries where number expecting labour availability to increase exceeds the number who expect it to decrease. SMEs in most industries on balance see profitability decreasing in the next 12 months, particularly in Health Services (-30). SMEs operating in the Financial (+31), Business (+24) and Property (+12) Services sectors are also the only groups expecting profitability to increase over the next year.

Your costs of doing business: Industry (next 12m)



Your profitability: Industry (next 12m)



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