

CPI crunches small business margins: COSBOA

BUSINESS

Inflation result means sector profits will suffer and caution is the watchword, says small business body.

By [Philip King](#) • 12 January 2023 • 6 minute read

Higher-than-expected inflation of 7.3 per cent is crunching small business margins, killing profits and forcing a cautious approach to 2023, the Council of Small Business Associations says.

The latest ABS figure for annual CPI to November showed prices rising at the highest level for more than three decades and up from 6.9 per cent for the year to October.

COSBOA chair Matthew Addison said the figure – which came in above forecasts – revealed the increasing cost of doing business and it was hurting the small business bottom line.

“What we're seeing is not so much the increased activity level but increased prices of doing those activities,” he said.

“But what's really crunching small business is the amount they're making out of this alleged increase in revenue. So the margins are tighter now than they have been for a substantial period of time.

“We're making less gross margin, and we are certainly making less profit as a result with the increased costs.”

Mr Addison said competition meant small businesses had little room to increase prices and profitability had not recovered to pre-pandemic levels.

“Competitive pressures mean there's always a restraint on increasing your price. So taking into account the fact that your cost of supply and your cost of doing business have increased, there's always a bit of a lag here.

“And small businesses suffering from that compressed margins. The competitive space means you may not actually be able to increase your prices to make the margins that you did back in 2022, or pre-COVID 2019-20.”

ABS head of prices statistics Michelle Marquardt said the most significant contributors to the annual rise in November were housing, food and non-alcoholic beverages and transport.

“The housing group was the main contributor to the annual increase in the November monthly CPI indicator,” Ms Marquardt said. “High labour and material costs contributed to the annual rise in new dwelling prices (up 17.9 per cent) although the rate of price growth for new dwellings has eased compared to the 20.4 per cent annual rise seen in October.”

Master Builders Australia CEO Denita Wawn said more needed to be done to tackle the supply side bottlenecks hitting material, labour and housing supply.

“We acknowledge that the RBA has a difficult balancing approach to take in curbing inflation ... however, the most sustainable solution to the inflationary problem lies on the supply side, through bringing down the cost of doing business,” she said.

“Housing continues to be the inflationary canary in the coal mine with figures reflecting huge increases in the cost of building materials, as well as continued shortages of key construction trade workers.”

“Labour shortages can best be addressed over the short and medium term by making it easier for migrants to work in Australia. The bottlenecks in our migration system need to be addressed as a matter of priority.”

She said rents were also accelerating and being exacerbated by persistently low building volumes in the higher density part of the housing market.

Small businesses need to be very cautious about the future, they need to be realistic, that their prices are going to continue to increase. And therefore they need to be realistic about putting their prices up so that they can maintain their business and maintain their own personal remuneration as a result.”

“We would call on government to be very aware of the pressures on small business across the board. So those pressures include considering how much change they are putting into the business environment, how much reform they are doing, and how that impacts small business. So while they may be looking at initiatives that really are aimed at the big end of town, we are looking for that real consideration that the small end of town is a different environment with different resources and different capability to change.”

Mr Addison said the economic headwinds meant small business was taking a cautious approach to the new year and would benefit from support.

“The 2023 environment for small business is one of absolute caution and wisdom in the way that they're conducting their businesses, the costs that they are able to consume and the prices they should be charging for it,” he said.

“With decent management, and some good advice being provided to them, some realistic advice being provided to small business, I think we will survive 2023 admirably.

“One of the calls on government for some time as the to initiate programs with small business can spend more time with their trusted advisers to do realistic assessments of how their business is performing, and how it could perform going forward - the danger points, the risk points and the opportunities for small business. Again, we'd call on government to look at small business advice programs where they can rely on their trusted advisers.”