Mid-Market 2024 Pre-Budget Survey

April 2024

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Foreword

There is a strong sense of continuity from last year when looking at the results of the 2024 KPMG Enterprise Mid-Market Pre-Budget Pulse Check.

Similar to 12 months ago, there is a mood of cautious optimism among the 100 mid-tier business leaders surveyed. More than a half are, once again, treading carefully and suggesting growth of around 2–3% over the next 12 months, but with a doubling of that figure over the following two years. Significantly, a sizeable minority were more bullish, eyeing growth of up to 10% in the next three years.

A minority (17%) was pessimistic, however, forecasting growth of 2% or lower.

Wages predictions were also cautious, with most forecasting growth of 2–4% over the next 12 months, but again a minority are concerned that their companies would see growth of 4–8%. Only 13% said wages growth would be less than 2%.

The widespread wariness is understandable – three-quarters say issues over the cost of living are affecting their companies by suppressing demand and damaging growth, with 23% describing the impact as 'significant'. In addition, cost and margin pressures was, once again, the top concern stated by mid-tier business leaders.

Recruitment and retention of sufficient skilled staff was again the second highest concern, with unemployment still at historic low levels.

So what would help them emerge from the clouds?

By far the most popular answer was lower interest rates (61%), with just over a quarter nominating the revised stage 3 tax cuts and lower energy costs.

Interest rates, of course, are the sole preserve of the Reserve Bank as it keeps a careful eye on inflation. As a recent KPMG paper assessing the use of macroeconomic policies during the pandemic identified, it will be important for monetary and fiscal policies to be better coordinated going forward to manage inflation. Further, increased government spending sustained post-pandemic may mean that interest rates stay higher than our survey respondents would like.

Tax reform may have slipped off the public policy agenda, but it is still the issue which the mid-tier would most like to see in the Budget, in order to boost growth. Again, similar to last year, the top three Budget wish list was completed by greater investment in training and skills, to combat the talent shortage. Topically, re-establishing critical manufacturing in Australia was third (38%), although this was a slip from top place a year ago.

One tax move which has not proved popular with our survey respondents was the recent increase to taxation of super balances over $3 million. Nearly half (46%) rejected it, while a further 48% said they disapproved of the contentious proposal to tax unrealised gains.

If extra revenue was needed by government to finance the stage 3 tax cuts, then an increase in GST and more targeted anti-avoidance were the most-nominated revenue-raisers. The GST point is a consistent finding over the years KPMG Enterprise has carried out this survey, despite its lack of political support. There is little appetite for raising direct taxes given our tax system's over-reliance on income taxes.

This year we also looked at some wider issues outside the Budget and economic concerns.

On remote working, one-third of respondents indicated they would be looking to toughen their current stance over the next two years by requiring a set number of days in the office, while a further 8% said they would drop home working altogether in that timeframe. 59% envisaged no change to the current hybrid working arrangements.

But hardly any were copying the example of some larger companies and using incentives to entice staff back into the office. It will be interesting to see how this issue develops over the next two to three years.

On artificial intelligence, no mid-market respondents had yet adopted it widely, but 41% were using it for specific areas, while a further 40% planned to introduce it over the next two years. A minority (18%) had no plans for its use at all.

Higher efficiency and productivity by automating routine operations and faster data analysis were the main attractions of AI, while lack of technical capability and security concerns were seen as the biggest drawbacks. Again, it will be intriguing to see how much AI continues to develop in Australia's mid-tier companies in the near-medium term.

Generally, this year's findings have a sense of companies treading water; waiting for the upturn which is widely expected but has not yet arrived. Costs are clearly still a major challenge, and the scarcity of talent has not gone away as a major issue.

But it is still encouraging that the majority of mid-tier businesses, the heartbeat of the national economy, are still predicting steady growth, with a sizeable minority confident this will be up to 10% over the next three years. Overall, the results show an ongoing resilience which characterises the sector.

Introduction

About this report

KPMG conducted a pulse check survey targeted at mid-market clients to gauge economic sentiment and salient issues to their business before the 2024 Federal Budget is announced. Australia's mid-market is often referred to as the 'engine room of the nation's economy'. This annual survey uniquely captures the perspectives of decision-makers from a variety of industries. Results are a valuable indicator of mid-market clients' opinions concerning the current business and Budget environment.

Methodology

The survey design included mandatory questions that were replicated from a 2022 KPMG survey to provide trended themes on mid-market economic and business sentiment, plus optional questions were added to this year's survey to better understand the mid-market working environment and attitudes and usage of AI.

C-suite, Directors and decision-makers of mid-market businesses were invited to participate in the survey. A total of 135 started the survey, 114 provided business profiling information, 103 completed the mandatory questions and 74 went on to do the optional survey questions.

The survey was hosted and distributed by KPMG to 5,000 CEOs and CFOs via EDM (email) and via external sources; traffic from Tax-Now newsletter, posts on LinkedIn through PostBeyond platform and Send Now email (partner personal email sharing of templated CRM email *(Figure 1)*.

As was found in 2023, the majority of decision-makers who completed the mandatory questions were from family businesses within the Corporates sector *(Figure 2)*.

		CLIENT PROPORTIONS	# INDIVIDUAL RESPONDENTS
	Total Responses	**100**	**135**
SOURCE	KPMG Clients: EDM mail out	49%	66
	Other external sources	23%	31
	Not classified	28%	28

Figure 1. Profile of survey sources and client status.

		CLIENT PROPORTIONS	# INDIVIDUAL RESPONDENTS
	Total Responses	**100**	**114**
BUSINESS TYPE	Private Company – Family Business	29%	33
	Private Company – Non-Family Business	32%	36
	Not-for-profit	14%	16
	Startup	4%	4
	Publicly Listed Company (ASX)	22%	25
INDUSTRY	Corporates	45%	51
	EMP*	20%	23
	Financial Services	26%	30
	Not classified	9%	10

Figure 2. Profile of business segments who completed to the survey.

**Sample of less than 30 means the results need to be interpreted as indicative only of these types of client segments*

Executive summary

The survey themes highlight the shift in perceptions and the current and future challenges and opportunities faced by mid-market businesses in Australia, including economic conditions, business growth forecasts, wage expectations, the impact of cost of living, tax reforms, AI implementation, work environment changes, and regulatory compliance.

Key shifts in perception since 2022/23

Mid-market business forecasting and growth: Optimism about business growth has remained relatively stable among mid-market businesses, with 80% forecasting growth over the next few years. The level of pessimism has remained stable in the last 12 months with 17% of businesses who are not forecasting any growth for this year and the near future.

Wage growth expectations: There has been a continued decrease in expected wage growth above 4% in the last two years. Most businesses are expecting a moderate increase in wages of 2–4%.

Challenges for mid-market businesses: The two top challenges for mid-market businesses in the next one to three years remains (like prior years) as cost and margin pressures, and the recruitment and retention of skilled staff. There are significant sector differences in the challenges that are most impacting businesses.

Current and emerging perceptions in 2024

Impact of cost of living: The majority of mid-market businesses believe the cost of living is challenging their ability to grow the business and generate demand. More than half feel it is having a moderate impact, while for nearly a quarter, it is having a significant impact.

Tax reforms and labour training: Nearly half of mid-market businesses believe sector growth can be boosted by major tax reforms and greater investment in labour training programs.

Work environment changes: Most businesses (59%) do not anticipate any change in working arrangements while 41% will look to increase presence in the office, especially for publicly listed companies with some planning to mandate a minimum number of days in the office.

Artificial intelligence (AI) implementation: The widespread rise of AI is evident in mid-market businesses, with 42% of businesses having implemented AI in their business for specific applications. Among those who have yet to implement AI, there is a plan by two-fifths to do so in the next two years.

ATO compliance activity: The ATO has increased its compliance activity in recent years with a focus on targeting the use of trusts and tax planning. This is a concern for a third of businesses, but most businesses are not concerned or do not have a trust.

Superannuation legislation: More than half (54%) of mid-market businesses are in support of this legislation, to a certain extent, that will result in an additional 15% tax on the earnings of superannuation balances above $3 million. However, 46% are unsupportive, and of those that support in part, 48% do not support taxing unrealised gains in superannuation.

Detailed findings

Growth perceptions

1. Business growth

Around a half of all mid-market businesses (52%) are conservatively forecasting growth of 5% in the next two to three years. In trend terms, there has been an increase in the sector feeling more optimistic about their business growth, forecasting up to 10% (compared to 23% in 2023). The level of pessimism has remained stable in the last 12 months with 17% of businesses who are not forecasting any growth for this year and the near future *(Figure 1)*.

Figure 1:

Q11. How do you feel about the prospects for your organisation for the rest of 2024 and for the next 2-3 years? Single response. Base n=92 2024, n=161 2023, n=83 2022

	Mar 2024	Mar 2023	Mar 2022
Pessimistic both for this year and near future – no growth is forecasted	17%	16%	13%
Slightly optimistic – I see slow growth this year of around 2-3%, but up to 5% in the next 2-3 years	52%	61%*	54%*
Moderately optimistic – I forecast growth of up to 10% in the next 3 years	30%	23%	33%

**Note: Differences in question framing and code options from 2024, with 2023/2022 including 2 codes 'Slightly optimistic' and 'Neutral – I don't feel particularly pessimistic or optimistic'. The codes were combined to allow for comparability.*

2. Wage growth

In trend terms, there has been a continued decrease in expected wage growth above 4% in the next 12 months, with a quarter of businesses (23%) expecting an increase of up to 4-8% or more, compared to nearly half (44%) in 2022 *(Figure 2)*. Over two-thirds of businesses (63%) are expecting a moderate increase in wages of 2–4%. Most businesses in the Financial Services Industry (74%) expect this increase. While 13% expect wages to remain flat, this proportion is higher for private family businesses (24%).

Figure 2:

Q13. Unemployment rates are at historically low levels and there are still skill shortages across various areas of the economy. Nominal wages are going up, but still currently below inflation. What are you expecting for your organisation in the next 12 months in terms of wages growth? Single response. Base n=90 2024, n=161 2023, n=103 2022

	Mar 2024	Mar 2023	Mar 2022
To be relatively flat (e.g. 0% to 2%)	13%	16%	13%
To moderately increase (e.g. 2% to 4%)	63%	54%↓	44%
To significantly increase (4% to 8%)	21%	28%↓	38%
To increase at an even greater level (above 8%)	2%	2%	6%

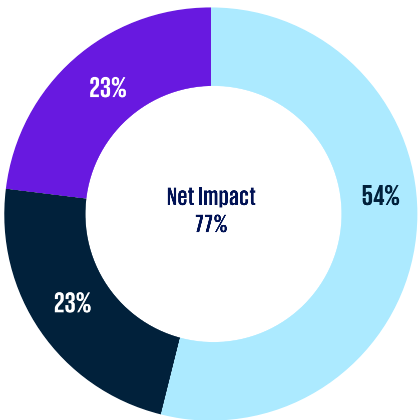
↑↓ = *Significant positive or negative shifts between 2024 vs 2023/2 (95% Confidence Interval).*

3. Economic impacts on growth: cost of living

While investment slowed in the 2023 December quarter following three quarters of growth, domestic demand also continued to slow as households cut back on discretionary spending (Source: Australian Bureau of Statistics Release, March 2024). The majority of mid-market businesses (77%) believe the cost of living is providing challenges to their ability to grow the business and generate demand *(Figure 3)*. More than a half of businesses feel the cost of living is having a moderate impact (54%), while for nearly a quarter of businesses (23%) it is having a significant impact. Over a third (35%) of businesses in the Corporates sector and Private Family Businesses (37%) said it was already having a significant impact. This equates to 23% of respondents overall.

Figure 3:

Q9. Is the cost of living providing challenges to your organisation, such as suppressing demand and damaging growth? Single response. Base n=96



- Yes – to a significant degree
- Yes – to a moderate degree
- No – it is having no impact

4. Federal Budget tax initiatives to boost growth

Nearly half of mid-market businesses (47%) think sector growth can be boosted by major tax reforms and greater investment in labour training programs (40%) *(Figure 4)*. A similar proportion of non-Family (53%) and Publicly Listed businesses (48%) endorse tax reform. In trend terms, tax reform has remained a priority for the sector (March 2023: 52%, March 2022: 61%).

Specific suggestions from businesses for tax reform included:

"Lower personal taxation across the board. Increase the GST and make it broad based."

– PRIVATE COMPANY, NON-FAMILY BUSINESS

"Tax Reform should put everything on the table. From GST, NG, Eliminate Franking Credit refunds, Flat Rate of Tax on Trusts, Remove HECS, etc."

– PRIVATE COMPANY, NON-FAMILY BUSINESS

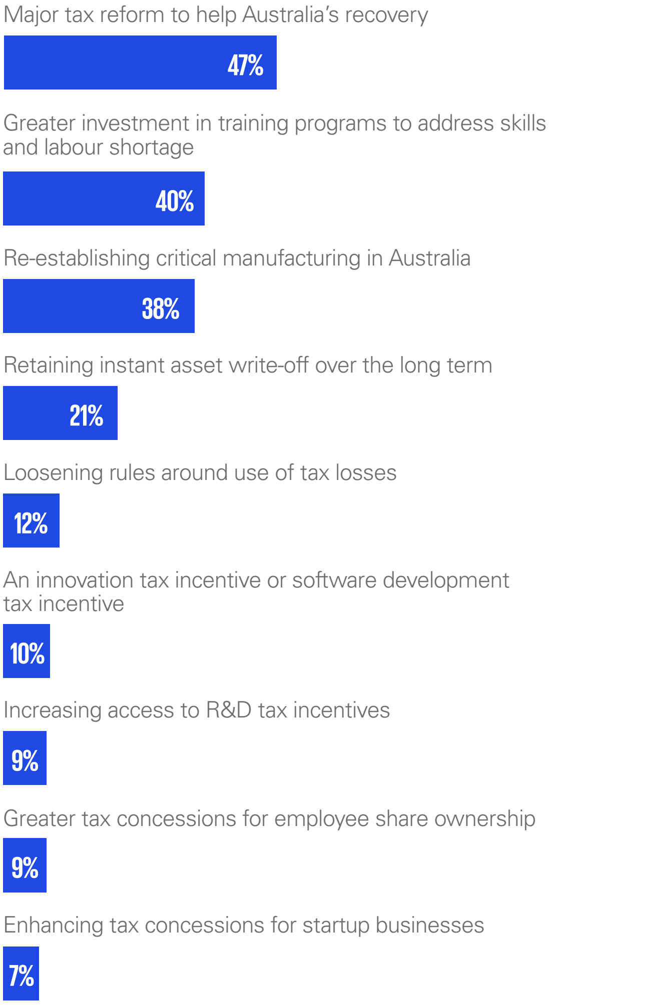
In 2022-23 market sector labour productivity fell 2.9%, manufacturing industry earnings fell -1.3% (Source: Australian Bureau of Statistics Release, March 2024). As such last year's 2023 survey found that re-establishment of critical manufacturing in Australia was the number one initiative desired by mid-market businesses (52%), while in 2024 this initiative has lessened in importance, shifting to third place (38%).

"The mid-market covers a relatively small number of businesses in Australia, while 96+% of all Australian businesses are small businesses and this is where the biggest leverage would be for structural reforms. Also, the mid-market is in manufacturing across multiple sectors. There are 1 million direct full-time jobs in manufacturing in Australia. Given the indirect to direct jobs ratio, this industry is currently generating over 20% of all the full-time jobs in the economy. This should also not be ignored."

– PRIVATE COMPANY, NON-FAMILY BUSINESS

Figure 4:

Q15. If finances allowed which of the below measures would you like to see in the 2024 Federal Budget to boost growth in the Mid-Market* sector? Please select up to three. *(For the purposes of this survey we define the Australian Mid-Market as businesses with an annual turnover between $10 million and $500 million.) – Multiple choice. Base n=85, 2024

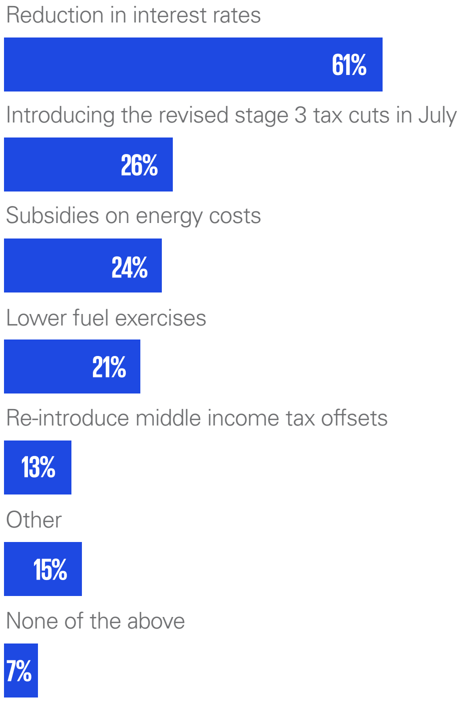


5. Desired initiatives to address economic impacts

The most popular initiatives desired by mid-market businesses, to address negative economic impacts on business growth, was lower interest rates (61%). While just over a quarter (26%) nominated the revised stage 3 tax cuts and subsidies on energy costs (24%).

Figure 5:

Q15. Which of these external factors such as economic and government developments or actions do you think would positively address negative impacts on your organisation? – Multiple choice. Base n=85, 2024



Summary: Businesses are forecasting a conservative growth of 5% in the next two to three years, with an increase in optimism. Most of these businesses are facing challenges due to the cost of living, with a third suggesting that sector growth can be boosted by major tax reforms and greater investment in labour training programs.

Government initiatives

1. ATO trust and tax planning targeting

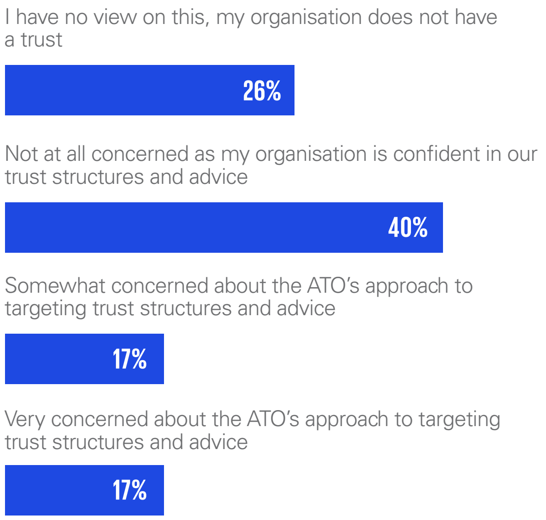
The ATO has increased its compliance activity in recent years with a heavy focus on targeting the use of trusts and tax planning. While this is a concern for a third of businesses (34%), most businesses are not concerned or do not have a trust (66%) *(Figure 6)*. More than a half of Private Company – Family Businesses (57%) have some level of concern about the ATO targeting activities.

> **"I support the ATO's focus on artificial tax minimisation."**
>
> – PRIVATE COMPANY, NON-FAMILY BUSINESS

> **"They should introduce flat tax rate on Trusts of 30%."**
>
> – PRIVATE COMPANY, NON-FAMILY BUSINESS

Figure 6:

Q16. Which best describes your/your organisation's level of concerns on ATO targeting the use of trusts and tax planning? – Single Response. Base n=84 2024

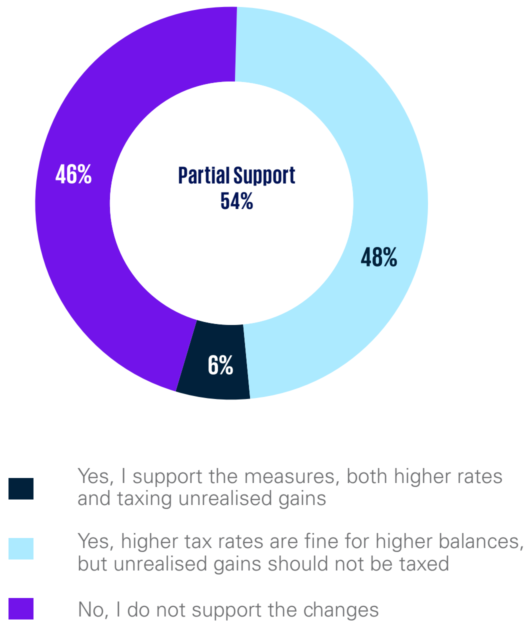


2. Additional tax on Self-Managed Superannuation Funds

The Federal Government intends to pass legislation that will result in what is an additional 15% tax on the earnings of superannuation balances above $3 million. More than half of mid-market businesses are in support of a higher tax rate on large balances (54%), while 46% do not support the changes and a further 48% do not believe unrealised gains should be taxed. *(Figure 7)*.

Figure 7:

Q17. Which best describes your/your organisation's support of the Government's proposed changes to Self-Managed Superannuation to tax members with balances above $3m both at higher rates and on unrealised growth in assets? – Single Response. Base n=84



Summary: The ATO targeting the use of trusts and tax planning, has raised concerns for a third of businesses. The Federal Government's plan for an additional 15% tax on superannuation balances above $3 million is supported to some extent by more than half of mid-market businesses (54%).

Future business predictions

1. Business challenges

In trend terms, the two top challenges for mid-market businesses in the next one to three years remains as cost and margin pressures (for 51% of businesses) and the recruitment and retention of skilled staff (for 45% of businesses) *(Figure 8)*. Cost and margin pressures have remained as acute as was found in the survey released two years ago (56% in March 2022).

> **"There is too much union involvement reducing output but increasing the costs of labour, plus work from home issues reducing productivity. We need to get people back into a working team environment where they can have a positive impact."**
>
> – PRIVATE COMPANY, NON-FAMILY BUSINESS

Figure 8:

Q12. Which of these are the biggest business challenges for your organisation currently and over the next 1-3 years? Please select up to 3. Multi response. Base n=104 2024, n=161 2023, n=103 2022

	MAR '24	MAR '23	MAR '22
	↑↓= Significant positive or negative shifts between 2024 vs 2023/2022 (95% CI)		
Cost and margin pressures	51%	58%	56%
Recruiting and retaining skilled staff – war for talent	45% ↓	55%	69% ↑
Cyber security risk	24%	-	-
Interest rates	17% ↓	34% ↑	-
Identifying future new markets and opportunities for growth	12%	-	-
Change in consumer habits and spending patterns	12%	25%	13%
Supply chain disruption	11% ↓	27%	41% ↑
Reduced revenue and demand	11%	24%	11%
Inflation rates	8% ↓	39% ↑	-
Climate risk and reporting	7%	-	-
Access to debt and investment capital to fund growth	6%↓	17%	5%
Reducing the workforce and redistributing the workload	4%	-	-
New competition	3%	9%	2%

2. Challenges differences by sector

There are some significant sector differences in the challenges that are most impacting businesses. The Corporates sector was significantly more likely to be impacted by cost and margin pressures (63%) and a change in consumer habits and spending patterns (24%) and are less impacted by talent shortages with only a third (31%) selecting it as a challenge. War for talent is the number one challenge impacting the Energy, Mining and Property (70%) and Financial Services industry. Over the last two years, supply chain disruption has significantly decreased in importance for the Energy, Mining and Property industry (March 2024: 22%, March 2022: 67%).

3. Changes to working environment

At the time of the survey (March 2023), the majority of mid-market businesses (58%) predominantly work on location (i.e. their offices and work sites). This is significantly more likely to be the case for Private Company – Family Businesses (86%), whereas Publicly Listed (ASX) companies companies, less so (36%).

In the next two years, Publicly Listed Company (ASX) companies expect their working environment to change, with two-fifths (43%) looking to mandate a minimum number of days in the office. These companies are more likely to be in the Financial Services Industry (47%).

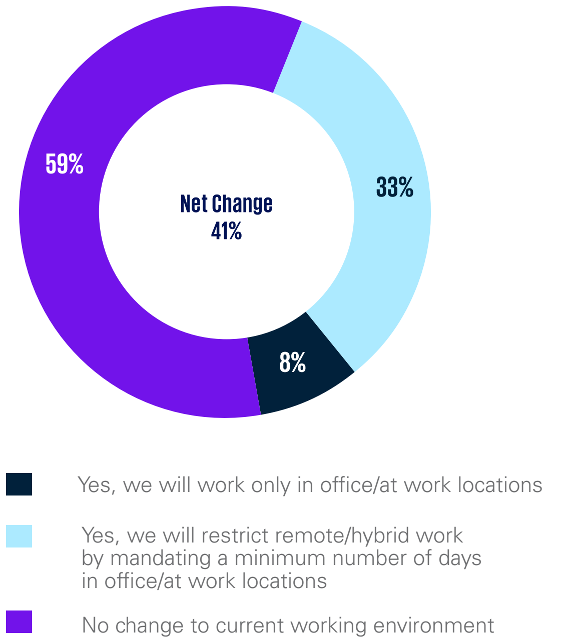
For the 7% of businesses who primarily work remotely and the 35% who have a formal hybrid approach, there are only 5% who currently provide an incentive to encourage employees into the office. The incentives mentioned were either mentioned as being in the form of bonuses or staff benefits.

> **"Food, coffee, fruit, drinks, functions"**
>
> – PRIVATE COMPANY, FAMILY BUSINESS

Looking ahead to the next two years, most businesses stated the working environment will not change (59%). Only a small proportion of businesses think the organisation will stop hybrid working (8%) *(Figure 9)*.

Figure 9:

Q5. Do you anticipate your organisation's working environment changing in next 2 years? Single response. Base n=73



In summary: The main challenges for mid-market businesses in the next one to three years are cost and margin pressures, and the recruitment and retention of skilled staff. Businesses with employees who primarily work remotely or who have a formal hybrid approach account for 41% of respondents. There are only 5% of all respondents who currently provide an incentive to encourage employees into the office. Most businesses anticipate no change in their working environment in the next two years.

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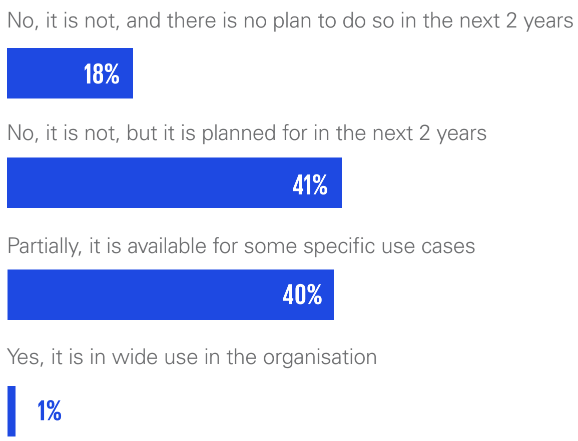
AI perceptions

The universal rise of AI is beginning in mid-market businesses, with 41% of businesses who have implemented AI in their business, either partially (40%) or throughout the business (1%) *(Figure 10)*.

In addition to those businesses using AI, there is a plan by a further two-fifths (41%) to do so in the next two years, while around a fifth have no plan to do so (18%). Around a half of Private Family Businesses are not intending to implement AI in the next two years (52%).

Figure 10:

Q6. Has AI been implemented in your organisation and is it in operational use? Single response. Base n=73 2024



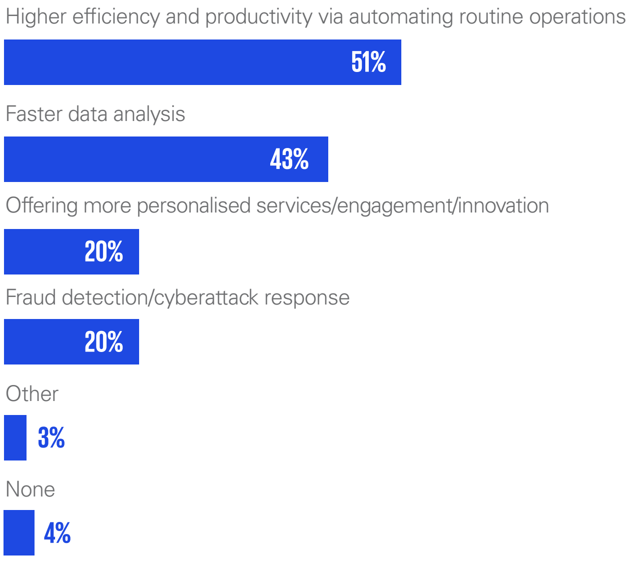
The view of the mid-market sector, regardless of AI implementation, is that the key benefits of operational use are: Higher efficiency and productivity via automating routine operations (51%), and Faster data analysis (40%) *(Figure 11)*.

"Advantages for us would be streamlining first drafts for new procedures, policies and regular communications."

- PRIVATE COMPANY, NON-FAMILY BUSINESS

Figure 11:

Q11. Which of these do you perceive as advantages of AI being implemented in your organisation and in operational use? Single Response. Base n=73 2024



Private Company – Family Businesses were proportionally more likely to claim there would be no advantages to the operational use of AI (9%) *(Figure 11).*

"There is an inadequate critique of AI produced document."

- PRIVATE COMPANY, FAMILY BUSINESS

The view of the mid-market sector, regardless of AI implementation, are that some potential disadvantages of operational use are: Security and compliance (27%) and Technical capability and skills needed for implementation (26%) (Figure 12).

"Staff will stop thinking and providing their own opinion and rely on AI, they will think it is the gospel. AI is good if used sensibly."

- PRIVATE COMPANY, NON-FAMILY BUSINESS

"AI is getting better and better, but staff in our organisation need all the technical skills necessary to implement and that can be very costly."

- PRIVATE COMPANY, NON-FAMILY BUSINESS

Figure 12:

Q12. Which of these do you perceive as the disadvantages of AI being implemented in your organisation and in operational use? – Single Choice Single Response. Base n=72 2024

In Summary: The survey themes highlighted the varying perspectives on AI implementation within businesses, with a focus on the potential benefits and challenges. Some businesses see the advantages of AI in streamlining the creation of efficiencies in BAU activities, such as first drafts for new procedures, policies, and regular communications. Some businesses express security and compliance concerns and the potential for staff to overly rely on AI, potentially stifling their own technical capability, critical thinking and opinions.

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