

This is what Small Business and Enterprise needs yesterday

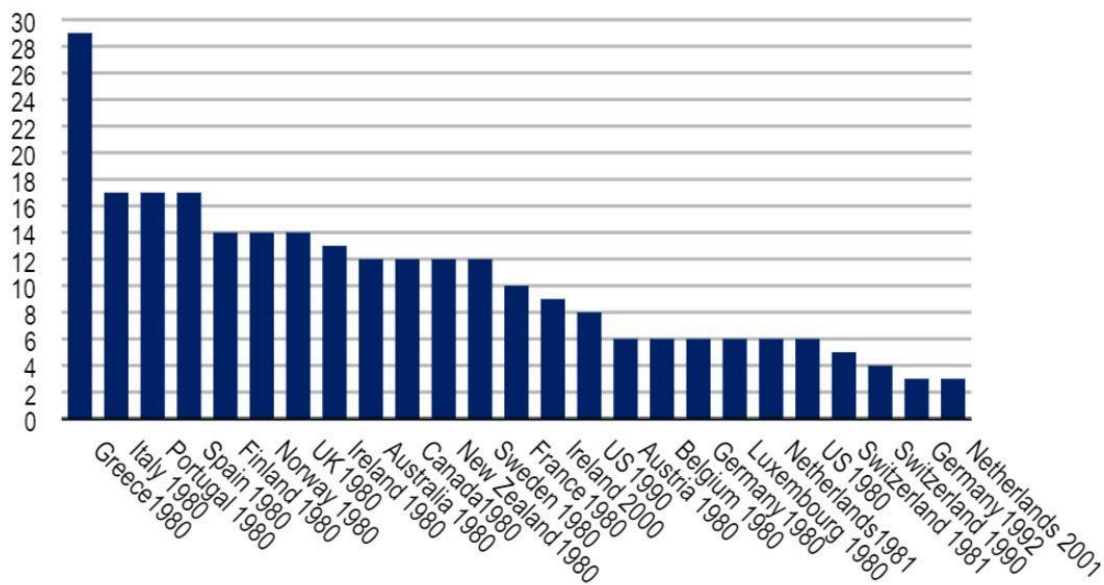
The Treasurer in his 2022-2023 Budget called inflation “public enemy number one” and rightly so, it is an insidious tax. The Budget had targeted cost of living measures providing affordable childcare and less expensive medicines but nothing on energy inflation. Much of the inflation, according to the Treasurer and Government ministers is from increasing energy costs linked to the war in Ukraine – which if the history books show with Iraq and Afghanistan may go on for decades.

There is a plan to reduce energy costs with renewable energy, but the transition will take years, trillions of dollars for infrastructure and worst case, maybe decades to achieve 80% or more renewables for household, industry and motor vehicles. So, is the promised return by the Treasurer to a 3% inflation rate by 2024 possible or pie in the sky?

Inflation and thus high interest rates here to stay

Exhibit 1: Cases of inflation above 5% in advanced economies 1980-2020, years to decline to 2%

Once inflation is above 5% in advanced economies, it takes on average 10 years to drop to 2%



Source: IMF and BofA Global Research.

If history is a guide and the Ukraine war runs for the rest of this decade we may be looking at inflation being high at a time when the world is in a recession. Persistent high inflation means persistent high interest rates. And for small business both of those are perilous.

Small business is bearing the brunt of inflation. First energy costs are driving up costs which drive up prices which reduces demand. Then for those businesses that borrowed on the bank of the RBA's prediction on virtually nil interest rates to 2024 (good forecasting), they are getting hammered by expensive interest rates as are their clients which reduces demand. Finally, the available small business workforce is shrinking as the Baby Boomers – all 5 million of them move from the workforce to retirement. Who is going to replace them? It is great for the government to offer affordable childcare but not all mothers or fathers want to go to work particularly after 26 weeks of paid parental leave.

Insolvencies are Up

We Love Group has a division that focuses on insolvency and businesses who are in financial trouble and turmoil. With the increased costs and borrowing pressures the business is booming but what will happen when small businesses and the dreams of their owners crater? What help is the government giving small business in the Budget?

A Better Way

The scourge of energy inflation saw inflation in Australia run over ten percent for almost a decade. The Treasurer and the Prime Minister said they are looking at regulating energy costs and suggest there is a better way which will help all Australia.

One idea we would like to put on the table is, until renewables deliver their full impact in the decades to come, that the Government mandate an Australian cap for electricity inputs sourced in Australia such as LNG while still allowing producers to sell into an inflated energy market impacted by the war in Ukraine.

It does not seem fair for Australians to have to pay international prices for energy inputs from our country. If we can deliver cheap energy, and Australia has an abundance of it, then small and medium businesses will have a competitive advantage meaning more jobs, more manufacturing and a stronger GDP. Many commodity countries look after their people first and then sell internationally second. Surely Australia should do the same.