

# Media Release

## SMEs feeling optimistic going into 2017

- *The Westpac Melbourne Institute SME Index sits at 100.7 for Q4 2016*
- *The SME Index has surpassed the 100 neutral mark for the first time in 2016, demonstrating positive sentiment among Australian SMEs*



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The Westpac-Melbourne Institute SME Index (SME Index), which examines the economic health of Australian small and medium sized enterprises, has revealed a significant improvement in business confidence, shifting from 95.6 in Q3 2016 to 100.7 in Q4 2016<sup>1</sup>.

Westpac's General Manager of SME Business Bank, Julie Rynski said, "The strong increase in business sentiment is a burst of good news as 2016 draws to a close and we move into a new year.

"The holiday season can be a particularly challenging time for businesses. Our customers are telling us the top challenges they face over the holiday period are business activity slowing down, cash flow and the closure of suppliers.

"Interestingly, our SME Index found one in three SMEs with an end-of-year strategy are feeling more optimistic than those without. From those surveyed this quarter, more than half have no strategy in place for the holiday season, so now is a critical time for businesses to plan ahead and remain in control, to continue the upward trend in 2017," said Rynski.

This quarter saw reasonable increases in the SME Index across most states, with a rise of 11.2 per cent in New South Wales (110.4), 14.4 per cent in Queensland (100.2) and 37.1 per cent in South Australia (87.6).

In a surprise move, the Index has seen a dip in confidence in Victoria (83.7) which the survey found was partly due changes in overheads and costs (reported by a net balance of 69.5 in December versus 57.4 in September) and perceptions of changes in government regulation (reported by a net balance in December 42.1 verses 29.3 in September).

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<sup>1</sup> The SME Index is computed as the average of two sub-indexes based on responses to questions about "general business conditions over the last 3 months" and "expectations for business conditions in 3 months' time". Indexes are computed using the net balance approach, i.e. percentage reporting 'improve' less the percentage reporting 'deteriorate' plus 100). An Index value greater (less) than 100 indicates that there were more 'improve' ('deteriorate') responses in the sample.

Across industries, the SME Index was strongest for the Construction, and Financial and Real Estate Services sectors, 116.0 and 113.2 respectively, with each sector showing improvements in business conditions in the last 3 months.

Westpac Senior Economist, Matthew Hassan said the positive shift in sentiment was attributed to improvements in business activity.

“The overall lift in confidence over the last quarter is mostly coming from an improvement in current conditions - activity and sales are both up on a year ago. However, most SMEs are still reporting lower profitability, even those with an active business strategy for the period ahead. This suggests the main problem now is how to generate more profit from the pick-up. Retailers relying on aggressive discounting for example may be no better off if the cost of the discounts is bigger than the revenue gain from boost to sales,” said Hassan.

Ms Rynski said, “The SME Index survey found the top three business goals for SMEs in 2017 are enhancing products and services, hiring new staff and improving accounting systems. It’s clear that businesses are reviewing the past 12 months and making meaningful changes for the year ahead.

“SMEs are the engine room of the Australian economy, contributing a little over half of private sector economic activity. The development of this sector plays a huge part in the overall health of our nation, and Westpac is committed to providing support that helps SMEs grow and develop,” concluded Rynski.

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**About the Westpac-Melbourne Institute Small Business Index**

The December Westpac-Melbourne Institute SME Index was commissioned by Westpac Banking Corporation (WBC) (ABN 33 007 457 141) and conducted by the Melbourne Institute.

The Westpac-Melbourne Institute SME (Small to Medium Enterprise) Index aims to provide information about the economic health of Australian small and medium enterprises. The Report is a quarterly publication based on a representative survey of 400 businesses from all over the country. Survey data from this report provides measures of general business conditions and changes in many aspects of SME operations.

**About the Westpac Customer Panel**

The Westpac Customer Panel surveyed 196 small and medium enterprise business members of the Westpac Group customer community with a turnover under \$5 million per annum. The driver and



topic coding used is qualitative and directional only, based on the manual sampling of all relevant comments related to the question. Fieldwork was conducted between 15 – 24 November 2016.