

Media Release

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Business confidence: SMEs feeling optimistic despite rising costs

- *The Westpac-Melbourne Institute SME Index has reached 100.7 in Q3, breaking above the neutral 100 mark for the first time in 2017.*
- *SMEs are feeling optimistic with a strong Future Conditions Index of 110.1 despite challenging current conditions.*
- *Businesses that spend less than 10 per cent of their time on HR administration tasks have significantly greater confidence.*

The *Westpac-Melbourne Institute SME Index* (the Index), which examines the economic health of Australian small and medium sized enterprises (SMEs), shows business confidence rose by 3.2 per cent in the third quarter of the year. The Index shifted above the 100 neutral mark for the first time this year, rising from 97.6 in Q2 2017 to 100.7 in Q3 2017¹.

Business confidence continues to be anchored by a positive outlook for future conditions, as SMEs reported weak current conditions, dropping 3.2 per cent since last quarter. The detailed survey responses suggest the slight decline in sentiment towards current conditions reflects continued pressure on profitability and increases in overheads and costs.

Despite another challenging quarter, SMEs are strongly optimistic about future conditions as they approach the holiday season. As expected, consumer-facing industries such as Wholesale & Retail Trade and Hospitality & Recreation Services were among the most optimistic. However, other sectors such as Manufacturing and Health & Aged Care Services also reported higher levels of confidence.

Westpac Senior Economist, Matthew Hassan said: "It's pleasing to see uplift in business confidence, regardless of difficult current conditions.

"Australian businesses appear to still be optimistic and planning for the year ahead. SME owners expect to see the number of staff in their business grow within the next 12 months, and the Index found a large number of SMEs are continuing to increase their levels of investment."

¹ 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.

This quarter saw particularly strong gains in sentiment across two major states, with an increase of 25.7 per cent in Victoria (101.4) and 8.3 per cent in New South Wales (109.1). Falls in confidence were reported in Queensland (down 11.2 per cent to 93.9), Western Australia (down 18.8 per cent to 90.1) and South Australia (down 17 per cent), which recorded the lowest Index reading of 84.1.

“The state results continue to show a very uneven profile with the wedge between strong and weak widening materially over the last quarter. Some of this likely reflects developments in the housing sector, with fears of a hard landing in NSW and Victoria easing somewhat, and conditions in Queensland and Western Australia failing to meet earlier expectations of a recovery,” said Mr Hassan.

“Pressure from rising overheads and costs is also a common theme across all SMEs. The state detail here suggests the underlying concern is around recent sharp increases in energy costs with SMEs in South Australia – the state being most heavily impacted by energy concerns – reporting particularly high levels of concern.”

Across industries, the SME Index was strongest for the Professional Services sector which rose 10.7 per cent (115.3), Manufacturing (112.3) and Wholesale & Retail Trade (104.7), with each sector expecting business conditions to improve over the coming months.

The Index found a significant dip in confidence in the Agriculture, Forestry and Fishing sector, dropping 15.1 per cent, most likely due to warmer seasonal temperatures across Australia and low rainfall. In addition, other factors such as increases in overheads and costs (82.6 per cent) and declining profits (13.4 per cent).

“Cost pressures appear to have been a bigger factor for the agricultural sector. Falling rural commodity prices and a warm, dry winter may also have weighed on sentiment, reversing some of the positives from above average rainfall earlier in the year,” Hassan added.

When asked about HR administration, the Index revealed SMEs using automated tools (such as software or apps) have an average SME Index score of 111.8, significantly higher than SMEs managing HR administration manually (average Index of 94.9).

Interestingly, the Index found businesses that spend less than 10 per cent of their time on HR administration have significantly higher levels of business confidence, approximately 20 per cent higher, than SMEs spending more time on these tasks.

Westpac recently partnered with innovative HR platform, [FlareHR](#) to help businesses gain back valuable time and energy spent on HR administration by streamlining processes and payroll. FlareHR helps businesses of all sizes manage onboarding, payroll, employee wellbeing through an intuitive all in one platform.

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About the Westpac-Melbourne Institute Small Business Index

The September 2017 Westpac-Melbourne Institute SME Index was commissioned by Westpac Banking Corporation (WBC) (ABN 33 007 457 141) and conducted by the Melbourne Institute between 8 August and 17 August 2017.

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.