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Media Release

Under embargo until 12.01am Thursday, 7 June 2018

SMEs cautious about future as profitability takes a hit

- *The Westpac- Melbourne Institute SME Index falls to 98.3, down 4.7 per cent from last quarter but up slightly from 97.6 June 2017*
- *The majority of SMEs expect no impact from the Federal Budget on their business*
- *Weakened Wholesale and Retail Trade sector has resulted in staff layoffs*

The Westpac-Melbourne Institute SME Index (the Index), which examines the economic health of Australian small and medium sized enterprises (SMEs), slipped into negative territory (down 4.7 per cent to 98.3) in June 2018, despite perceived improvements in current market conditions over the last three months¹.

The 2018-19 Federal Budget has also done little to inspire broader SME confidence, with 63.9 per cent of businesses stating they expect to see no impact on their performance over the next 12 months; compared to 55.6 per cent following the 2017-18 Federal Budget. Less than a third (30.2 per cent) of SMEs believe the Federal Budget will improve the Australian economy.

Westpac Senior Economist, Matthew Hassan, said: “Small business confidence in Australia has reverted back to 2017 levels. Despite an optimistic start to 2018 and some improvement in trading conditions, the pick-up has not been as strong as businesses expected. SMEs are also less positive about the near term outlook with the slightly negative mood overall considerably more downbeat than three months ago.”

Mr Hassan added: “While it looks to have been relatively well-received, the Federal Budget boost has not been enough to offset the disappointment around trading conditions and continued pressures on SME profitability.”

Among the proposed Budget measures, SMEs believe simplified Business Activity Statements (45.5 per cent) and the 12-month extension to the \$20,000 instant asset tax write-off scheme (35.4 per cent) will have the greatest impact on their business. However, the Government’s planned research and development incentive overhaul (6.7 per cent) and investment in SME Export Hubs to help businesses go global (5.9 per cent), are not expected to greatly impact the performance of Australian SMEs.

Compared to last year, the Index reveals a marginal uplift in business confidence among SMEs, increasing 0.7 per cent from 97.6 in June 2017 and a strong improvement since the 83.0 read in June 2016.

¹ Current Conditions Index increased by 9.2 per cent to 93.7 from 85.8 in March 2018



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The fall in the Future Conditions Index outweighed the improvements in the Current Conditions Index, causing the fall in business confidence from 103.2 in the March 2018 quarter to 98.3 in June 2018. A decline in profits (34.0 per cent) and harder access to credit and finance (21.7 per cent) appear to be the biggest challenges for SMEs.

Westpac General Manager of SME Business Banking, Ganesh Chandrasekhar, said: “We are seeing increased business activity across Australia however this doesn’t appear to be translating into real profit. With increased competitive pressures, particularly in the Wholesale & Retail Trade sectors, businesses are finding it difficult to maintain margins.”

Mr Chandrasekhar added: “In a continuation of themes from last year, we see SMEs focus on the bottom line, tightly managing expenses and variable cost, resulting in a greater portion of SMEs deciding to reduce rather than hire staff for the first time since June 2016. Despite the cautious outlook on future business conditions, we see businesses continue to make targeted investment in equipment and machinery.”

The latest reading of the Index shows that confidence in the Agriculture, Forestry & Fishing (88.8) is the lowest across industries, as SMEs in this sector remain pessimistic about future conditions. Meanwhile confidence in Construction (136.8) is the highest at the moment. This is in stark contrast to 12-months ago when confidence in the Agriculture, Forestry & Fishing Industry was high (107.9; a fall of 17.8 per cent) and the Construction SME Index was just below neutral (99.7; an increase of 37.1 per cent).

Looking at sentiment among the major states, current business conditions appear most favourable in Victoria², with 50 per cent of Victorian SMEs reporting an increase in real business activity and sales over the past 12-months. Despite this, Victorian SMEs are the least optimistic about future conditions (Victorian Future Conditions Index 94.7) while all other states have a positive outlook (New South Wales 108.4; Queensland 106.1; South Australia 100.3; Western Australia 103.1).

SMEs in the mining states (Queensland and Western Australia) stood out, with perceived business conditions deteriorating considerably over the last 12-months likely due to declining exports and a recovery level weaker than expected.

- Ends -

For further information

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About the Westpac-Melbourne Institute SME Index

The Westpac-Melbourne Institute SME Index was commissioned by Westpac Banking Corporation (WBC) (ABN 33 007 457 141) and conducted by the Melbourne Institute between 15 and 29 May 2018.

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.

² Victorian Current Conditions Index 117.1