



Media Release

SMEs disappointed with current business conditions, but cautiously optimistic about the future

- *Westpac-Melbourne Institute SME Index sits at 97.0 for Q1 2016¹*
- *SMEs in Health and Aged Care Services sectors are the most optimistic*
- *Around 30 per cent of SMEs with a website have seen online sales boost in the last year*



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Embargoed until 10.00am 10 March, 2016. The *Westpac-Melbourne Institute SME Index* (SME Index), which aims to provide information about the economic health of Australian small and medium sized enterprises, has revealed that despite a pessimistic assessment of current business conditions (the Index is 88.6, which is below the neutral mark of 100), SMEs across Australia are positive about the future, with the Future Conditions Index sitting at 105.3 points.

Westpac's General Manager of SME, Julie Rynski said, "The latest findings from the Index shows the burst of confidence we experienced last year following the Federal Government's leadership change is tapering off. Rising costs appear to be a key negative factor for SMEs' with a net 48.5 per cent reporting increased costs and a net 46 per cent reporting rises in the price of goods and services.

"Not all industries reported a deterioration in current conditions with Health and Aged Care Services being more optimistic, with a positive reading of 112.5 points. The lowest readings of current conditions were for Wholesale and Retail Trade and Agriculture, Forestry and Fishing with respective readings of their Indexes at 71.9 and 66.3.

"The Health and Aged Care Services sector is also the most confident about future conditions. SMEs in the Professional Services, Agriculture, Forestry and Fishing and

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..



Hospitality & Recreational Services sectors were also positive about the near term outlook. This may reflect stronger economic conditions in the major south eastern states lifting professional services, better expectations around weather predictions for farmers and the lower AUD improving sentiment for hospitality and agriculture.”

Business Confidence varies by state. SMEs in New South Wales were the most optimistic about both recent economic conditions, sitting at 120.7 points, and future business conditions (over the next three months) at 132.5 points. SMEs in Victoria, Western Australia and Queensland were relatively pessimistic, especially those in Western Australia with WA SME Index sitting at around half of NSW’s at 64.2 points.

Westpac Senior Economist, Matthew Hassan, said: “Some of the softness in confidence may be due to the time of year with many sectors coming off seasonal highs over the Christmas holiday period. Indeed, when asked about conditions now versus the same time a year ago, a clear majority of SMEs reported improvements in real business activity (a net balance of +10%), sales (+18%), hours worked (around +27%) and investment (around +22%). Rising costs are impacting bottom lines – with the number of businesses reporting an increase in profits over the last year only just larger than those reporting declines (net balance of +1.5%). However the improved trading performance compared to last year may account for SMEs’ more upbeat expectations which has come despite a very rocky start to the year for global financial markets.”

When asked about what factors may impact confidence over the next quarter, Mr Hassan explained, “The May Budget looms large for SME sentiment. While Budgets are always important for small business, the situation this year looks to be even more critical given the relatively recent leadership change, the prospect of a general election some time in 2016 and speculation around potential policy changes , particularly around taxation. With the mining downturn continuing to weigh heavily on some parts of the economy, housing market slowing and consumer demand looking uneven, we are likely to see a more unsettled backdrop for confidence over the next few months.”

The survey found a clear majority of SMEs with a website were seeing growth in online sales. Just under 60 per cent of SMEs reported having an online presence – of these, about a third were reporting growth in online sales vs 10 per cent reporting declines.

Ms Rynski added, “It’s good news to see such a high portion of SMEs realising the rewards of e-commerce platforms. We know that when SME’s thrive, the broader economy benefits so capitalising on e-commerce is key.



“We’re also hearing this from our customers and have responded with our new Business Link offering which helps SME’s handle the supply chain process and makes tapping into international markets easier.”

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Notes to editors:

About the Westpac-Melbourne Institute Small Business Index

The March 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) Economic Trends Report 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.