

Media Release

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SME confidence softens as Federal Budget impact disappoints

- *The Westpac-Melbourne Institute SME Index sits at 97.6 for Q2 2017, down 2.3 per cent from last quarter but still up strongly on the 83.0 read this time last year*
- *Most SMEs expect no business impact from the Federal Budget*
- *SMEs in the Agriculture sector are the most optimistic*

The *Westpac-Melbourne Institute SME Index* (the Index), which examines the economic health of Australian small and medium sized enterprises (SMEs), shows confidence in the sector largely holding its ground, despite some softening since the start of the year. At 97.6 the Index is down 2.3 per cent since March but is still up strongly (+17 per cent) from the very weak read this time last year. Confidence continues to be anchored by a positive outlook for future conditions.

Responses to additional questions suggest SMEs' positive forward view has been unaffected by the recent Federal Budget. Of those with a view, well over half (62 per cent) expect the Federal Budget to have no impact on their business performance over the next 12 months. Amongst those expecting an impact, views were evenly divided between those expecting the budget to impact positively and negatively.

Westpac Senior Economist, Matthew Hassan, said: "The muted response to the Federal Budget is somewhat disappointing, particularly given several measures specifically aimed at boosting SMEs."

Among the Budget measures proposed by the Government, SMEs stated the most beneficial to business performance is the planned reduction in the corporate tax rate to 27.5 per cent (31.1 per cent) and 12-month extension to the \$20,000 instant asset write-off scheme (12.4 per cent). Other measures such as the \$300 million funding to reduce red tape and new \$1.5 billion nation skills fund are not expected to greatly impact the performance of Australian SMEs.

Compared to the previous quarter, the Index revealed a slight dip in business confidence among SMEs, dropping 2.3 per cent, from 99.9 in Q1 2017 to 97.6 in Q2 2017¹.

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.

The slight decline in the SME Index indicates businesses have had a softer than expected start to the year and have pared back the positive expectations for future business conditions seen at the start of the year. The Future Conditions Index is now sitting just above the neutral 100 mark (100.8). Other survey detail shows that while sales and real business activity are still up on a year ago, gains were less widespread than a quarter ago, with most SMEs continuing to report profit declines versus a year ago.

Looking at sentiment among the major states, SMEs in Western Australia were the most optimistic, increasing by 37.9 per cent to 110.9.

“This is a surprising and encouraging result. Western Australia has been the state hit hardest by the mining downturn. The rise in confidence over the last quarter could reflect a long awaited improvement in business activity. Although sales, activity, profits and employment are all still reportedly down on a year ago, declines are becoming less widespread than in previous quarters,” said Hassan.

This quarter also saw reasonable increases in the SME Index in other major states including Queensland (rising 7.5 per cent to 105.7) and South Australia (rising 7.6 per cent 101.4). New South Wales reported a marginal 0.1 per cent decrease to 100.7. Victoria recorded the lowest SME Index reading at 80.6, dropping 23.9 per cent since the previous quarter.

“Evidently, something has rattled SMEs in Victoria with expectations for future conditions markedly weaker than in other states. Victorian SMEs reported markedly weaker reads on sales and profits compared to their peers in the other major eastern states,” Hassan added.

Across industries, the SME Index was strongest for Agriculture, Forestry and Fishing (107.9), Professional Services (104.1) and Wholesale & Retail Trade (92.4), with each sector showing improvements in business conditions in the last 12 months.

The survey found a dip in confidence in the Construction sector, reporting a decrease in the volume of residential and non-residential development, resulting in a steady decline in profits (16.5 per cent), sales (13.9 per cent) and employment (6 per cent).

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About the Westpac-Melbourne Institute Small Business Index

The June 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 11 May and 24 May 2017.



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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.