

# Media Release

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## **SME sentiment lifts on strong conditions but outlook less positive**

- *The Westpac-Melbourne Institute SME Index sits at 101.8 in Q4 2017, up 1.1% from last quarter.*
- *SMEs are feeling less optimistic about future business conditions than three months ago.*
- *Almost 44 per cent of SMEs intend to focus on social media as a customer service tool in 2018.*

The *Westpac-Melbourne Institute SME Index* (the Index), which examines the economic health of Australian small and medium sized enterprises (SMEs), shows business confidence is in slight positive territory heading into the holiday season. The Index rose from 100.7 in Q3 2017 to 101.8 in Q4 2017<sup>1</sup>.

The uplift in confidence is being supported by a solid improvement in business conditions, with the Current Conditions Index increasing 11.9% on last quarter. The detailed survey responses suggest the considerable increase in sentiment towards current conditions reflects improvements in sales and profits. This is the first time Australian SMEs have reported positive business conditions since March 2016.

Looking ahead, SMEs are feeling less optimistic about future business conditions than three months ago; the Future Conditions Index recording a decrease of 7.9%. However, it remains in positive territory (101.4) and despite the fall, one in three SMEs have invested more into their businesses and nine out of 10 have retained or hired more staff in the past year.

Interestingly, overall optimism (Current and Future Conditions) in the Construction industry jumped 16.4% over the quarter, with an increase in the volume of non-residential building offsetting a small decline in residential work. Other sectors such as Manufacturing and Professional Services also reported high levels of overall confidence.

Westpac General Manager of SME Business Banking, Ganesh Chandrasekhar, said: “There is a steady level of optimism amongst Australian businesses this quarter, driven by positive sales and profitability. Though performance is buoying business confidence, SMEs have a less optimistic outlook for the year ahead.”

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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’ minus 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 last quarter of the year saw significantly strong gains in sentiment across two major states, with an increase of 28.4% in Western Australia (115.6) and 28.2% in South Australia (107.9). Victoria also saw an increase in sentiment of 9.2% (110.7). The only major state to report a drop in confidence was New South Wales (down 13.7% to 94.2).

Westpac Senior Economist, Matthew Hassan, said: “While the headline Index is a welcome positive read from SMEs, clearly there is a lot going on in the sector with doubts about the extent to which the strengthening in conditions will be sustained and a highly uneven picture across states and industries. For now positives are outweighing negatives but the year ahead looks more uncertain.”

Across industries, the SME Index was strongest for the Professional Services sector which rose 4.9% (120.9), Construction (113.8), Manufacturing (107.9) and Health & Aged Care Services (103.7), with each sector experiencing gains in sales and expecting business conditions to improve over the coming months.

Surprisingly, the Index found significant dips in confidence in the Wholesale & Retail Trade and Hospitality & Recreation Services sectors, dropping 19.0% and 13.1% respectively. This is most likely due to substantial decreases in real business activity (14.9% and 10.7%) and declining profits (27.4% and 10.4%).

“The mixed sectoral performance speaks to some key themes in the wider economy. Much of the strength is coming directly and indirectly from elevated construction activity and rapid growth in demand for health services. Weakness looks to be concentrated in consumer-related sectors. The uncertain outlook for the Construction sector and concerns that the surprise softening in consumer demand seem to be the main factors dampening SME optimism,” Hassan added.

When asked about customer service, the Index revealed that SMEs believe the greatest barriers stopping them from delivering great customer service are limited staff and resources (39.9%), and bureaucracy such as approval levels (37.8%).

Chandrasekhar concluded: “SMEs need to rediscover where consumers are and think outside the box to better communicate with them, to build customer loyalty and understanding.

“We are seeing a shift in perceptions and the way businesses connect with their customers. With the growing presence of online businesses, emergence of robotics and artificial intelligence, and the Internet of Things; it’s not surprising that consumers expect businesses to change tack.



“Australian SMEs are responding to this shift. Our customers are telling us that the ease of access and speed of support is an extremely important driver in providing good customer service. Our Index showed that 58% of businesses believe social media is an important tool for customer service, so it’s clear that this channel plays an important role in engaging customers and providing a tailored and prompt service.”

According to the SME Index, 43.8% of businesses are looking to increase their focus or invest more on social media as a tool for customer service in 2018.

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**About the Westpac-Melbourne Institute SME Index**

The December 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 10 and 23 November 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.