



**200 years**  
proudly supporting Australia

# Media Release

---

Under embargo until 12.01am 6 September 2018

## **Business pressures contribute to sharp fall in SME confidence**

- *The Westpac-Melbourne Institute SME Index falls to the lowest level since June 2016*
- *40 per cent of SMEs reported a decline in profits– the weakest result since September 2016*
- *Housing market moderation and downturn in dwelling construction cycle key contributors*
- *Margin pressures continuing to hit profits in many sectors, retail and hospitality in particular*
- *Small manufacturers and health services outperforming*
- *Despite challenges, SMEs remain positive about future conditions with 29 per cent planning to expand current business, or expand and open a new business over the next year*

The Westpac-Melbourne Institute SME Index (the Index), which examines the economic health of Australian small and medium sized enterprises (SMEs), has fallen over the past year showing that SMEs are facing pressures on many fronts.

Sentiment for the quarter was heavily impacted by a sharp 12 per cent drop in the Current Conditions Index, which outweighed the Future Conditions Index which rose by 4 per cent. The deterioration has had a direct impact on bottom lines with 40 per cent of SMEs reporting a decline in profits over the past 12 months. Pressure is expected to continue with two thirds of SMEs forecasting revenue to be unchanged or lower over the next year.

A downturn in dwelling construction means SMEs in related sectors have reported a significant deterioration in conditions.

The Construction, Financial and Real Estate Services sectors reported the biggest sentiment declines this quarter with falls of 30 and 21 per cent respectively. SMEs in these sectors are also more downbeat about the outlook with 75-80 per cent expecting revenue to be the same or worse over the next year.

Westpac Senior Economist, Matthew Hassan, said: “The housing cycle has turned and is clearly starting to bear down more heavily on exposed SMEs. Meanwhile much of the wider SME sector continues to face intense pressure on profitability. This is most evident in retail where SMEs see significant declines in profit despite a modest lift in sales. The results suggest they are struggling to adapt to intense competition, new entrants, market ‘disruptors’ leveraging new technologies, red tape and regulation and energy costs.

“Notably, the SMEs that look to be struggling the most are those that have been in business the longest and those with a higher turnover. This suggests the most established small businesses are finding the changing landscape more challenging.”



**200 years**  
proudly supporting Australia

Ganesh Chandrasekhar, General Manager, Westpac Small Business Banking said despite the challenging picture, there are bright spots with many businesses looking to expand their operations which is good news for jobs and the economy.

“We are hearing from our customers that they are finding current conditions tough. But despite this, over a quarter of small businesses are planning to expand their operations including enhancing their products and services and breaking into new markets. This is really positive and there needs to be more support from government, industry and big businesses to help the ambitions of small business owners.”

The Index found specific sectors, including those that have been facing declines are seeing an increase in activity and sales.

“Small manufacturers and the health services sector are the outperforming sectors with around 45 per cent expecting revenue to improve further in the year ahead. A net of 35 per cent of SMEs in the manufacturing industry reported an increase in real business activity in the past 12 months and a net of 40 per cent reported an increase in sales.

“We’re seeing a re-emergence in the manufacturing sector moving away from big production lines towards other activities in the value chain like designing, recycling and packaging. In fact 90 per cent of this sector is looking to enhance or create new products and services. This is another positive sign.”

Over half of customers have taken steps to future-proof their business, with many investing in strategy and planning (57 per cent), implementing operational efficiencies to boost productivity (57 per cent) and training up staff (55 per cent).

“It’s optimistic to see many small businesses are investing in their future. With the right support and knowledge, I believe all small businesses can continue to adapt, thrive and drive our nation forward,” Mr Chandrasekhar said.

- Ends -

### **Five ways to future-proof your business**

*Ganesh Chandrasekhar, General Manager, Westpac Small Business Banking*

#### Utilise automation

- Adopting this technology will help make processes more cost-efficient, streamlined and save time.

#### Get into the cloud

- If you shift your accounting into the cloud, you can keep track and manage your finances anywhere, anytime from any mobile device. The cloud gives you access to a huge range of technologies that integrate with your financial software so you can manage everything from stock, to online payments, point of sale transactions and payroll.

#### Embrace your agility

- Small businesses are uniquely positioned to compete with much larger competitors because of their ability to be agile. If you quickly respond to changing customer needs and wants, this may help improve profit margins.



**200 years**  
proudly supporting Australia

#### Diversify and access new markets

- Service businesses have a real opportunity to expand by exploring overseas markets and suppliers for potential growth. For example there's a growing demand in China where AsiaLink reports that Australian service businesses could support up to one million jobs.

#### Be prepared for disruption

- A great way to plan for possible disruptions is to keep yourself informed. Knowing what's happening within your business, in your local community, the region, within your industry will help you consider if new products and services or entering new markets are viable options to grow your business.

For further information

Fleur Maxwell-Garrett

M. 0451 225 839

E. [fleur.maxwellgarrett@mapandpage.com.au](mailto:fleur.maxwellgarrett@mapandpage.com.au)

Sarah Scott

M. 0499 727242

E. [sarah.scott@westpac.com.au](mailto:sarah.scott@westpac.com.au)

#### **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 13-20 August 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.