Media Release

15 June 2016

SME confidence in decline as EOFY approaches

- *Westpac-Melbourne Institute SME Index sits at 83.0 for Q2 2016, down 14.4 percent from Q1 2016 reading of 97.0*
- *31.4 per cent of SMEs reported an increase in working hours over the past year*
- *Nearly one in five SMEs (17.3 per cent) spend over 40 per cent of their time on admin*
- *84.6 per cent of SMEs managing majority of administration (e.g. bookkeeping, payroll) through software tools or apps*

Westpac

For further Information

Sarah Scott
Westpac
0499 727 242
sarah.scott@westpac.com.au

Georgina Thompson
Map and Page
0415 634 193
georgina.thompson@mapandpage.com.au

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 fallen in Q2 2016 to 83.0, down 14.4 percent from Q1. The reading of the Current Conditions Index is particularly low at 70.9, with a decline in profits appearing to be one of the main contributing factors (a net balance of -15.6 per cent). Despite the fall in the Current Conditions Index, the reading of the Future Conditions Index is less negative but at 95.1 is still under the neutral mark of 100.

Westpac's General Manager of SME, Julie Rynski said, "As SMEs are approaching the end of financial year, the findings of this quarter's survey show business activity, sales, profits and employment levels have declined. The vast majority of surveyed SMEs also reported a rise in overheads and costs (a net balance of 47.0).

"This time of year can bring a number of business pressures, yet SMEs are less negative in their assessment of future conditions than in their assessment of current conditions. In particular, female business owners and managers are more confident than their male counterparts about business conditions in the next three months, at 106.6 compared to 89.7 for male counterparts.

These pressures are more significant for some SMEs, with 31.4 per cent reporting an increase in working hours over the past three months. Meanwhile, nearly one in five (17.3 per cent) spend over 40 per cent of time on internal administration for their business each week, such as payroll, accounts and contracts. This is despite 84.6 per cent of SMEs saying they manage the majority of tasks such as book keeping and payroll through software tools or apps.

"The survey shows SMEs are working harder, and are increasingly looking to technology to reduce the burden of administration. Industries such as Professional Services and businesses under five years old are embracing technology at a faster rate than those older than five years, with 98.7 per cent and 91.1 per cent of SMEs respectively managing admin though new online tools and digital solutions," Ms Rynski said.

Despite remaining below the 100 neutral mark, the SME Index for Victoria has overtaken the SME Index for New South Wales to be the highest among major states, rising by 9.7 per cent. There was also a considerabe decline in the SME Index for New South Wales (down by 32.3 per cent). A net balance of 56.6 per cent of Queensland SMEs saw an increase in the cost of goods and services, the highest of all states.

Westpac Senior Economist, Matthew Hassan said there were a number of contibutors to the current subdued results in the Q2 2016 Index.

"The second quarter is typically a slower one for many Australian businesses but these results suggest SMEs are coming under even more intense pressure than usual. The ongoing downturn in the mining sector, cooling housing markets, and still subdued consumer spending look to be combining with a notable increase in competition. The latter may be of particular concern for many SMEs as shown in this quarter's survey while most SMEs are still seeing sales up on a year ago, a significantly larger majority are reporting lower profits. The implied contraction in margins is a clear sign of heightened competitive pressures."

When asked what factors may impact confidence over the next quarter, Mr Hassan explained, "Fortunately there is some relief ahead. While competitive pressures are likely to remain fierce, the RBA's May interest rate cut should give some support to demand. The Federal Budget also introduced a range of measures directly aimed at supporting SMEs, including a company tax cut from July 1. With the RBA expected to cut interest rates again in coming months, SMEs should see at least some improvement in their bottom lines. Whether that is enough to tip the balance sentiment-wise remains to be seen."

EOFY tips for SMEs

1. ***Consult your accountant***

Many businesses underestimate the added value their accountant or financial advisor can provide. This interaction should go beyond mere compliance and tax return submissions and include growth and cash-flow strategies.

2. ***Take advantage of the AU$20,000 asset write-off***

Businesses with annual revenue of up to AU$2 million can take part in the government write-off scheme for plant and equipment purchases. The accelerated depreciation measure applies to all asset purchases up to the value of $20,000 and can significantly reduce the amount of tax a business will pay. However, this only applies to acquisitions from May 2015 to June 30, 2017, after which the limit will revert to $1000.

3. Maximise any other deductions

Aside from the write-off scheme, businesses should take advantage of other legitimate deductions. This may include bringing forward expenses such as office supplies, repairs and maintenance into the current year, or prepaying monthly costs such as rent, utilities and wages before 30 June.

4. Write off bad debts

Ensure you write off any bad debts and prepare minutes documenting the debts and all efforts you have made to recover them, otherwise they cannot be claimed as deductions. This action also enables adjustments for any GST charged on the invoice.

5. Comply with your superannuation requirements

Getting organised on the superannuation front is a must. Super is not tax deductible until it has been paid, so it is important to ensure all super contributions for employees are completed by the end of the financial year.

6. Understand how to manage cash flow

Review your cash-management processes and adopt the most appropriate funding solutions. It's a good time of year to plan for the future and make sure that all appropriate steps are taken in terms of managing cash flow.

7. Check your trust obligations

It is important to understand your obligations when it comes to trust structures. There is a requirement for the trustee to sign off on the distribution of income to beneficiaries before 30 June. If a valid distribution does not occur before this time, there is a risk that the accumulated income will be taxed to the trustee at a penalty rate.

8. Consider any capital gains tax benefits

If your business has made a capital gain in the current financial year, the best approach is to assess the presence of any other capital losses that may offset those gains. For example, you could include selling assets that have incurred a capital loss.

Julie Rynski, General Manager SME, Westpac
http://www.westpac.com.au/business-banking/

[ENDS]

Media Enquiries:

Sarah Scott
Westpac
0499 727 242
sarah.scott@westpac.com.au

Georgina Thompson
Map and Page
0415 634 193
georgina.thompson@mapandpage.com.au

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) 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.

About the Westpac Customer Panel

The Westpac Customer Panel surveyed 200 small and medium enterprise business members of the Westpac Group customer community with a turnover under $5 million per annum. The driver and topic coding used is qualitative and directional only, based on the manual sampling of all relevant comments related to the question. Fieldwork was conducted between 13 – 30 May 2016.