

Media Release

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SMEs are upbeat about the future

- *The Westpac-Melbourne Institute SME Index sits at 103.2 in Q1 2018, up 1.3% from last quarter*
- *SMEs across four states are feeling considerably more optimistic about future business conditions, up 18.9% - however in Queensland sentiment dropped by 8.6%*
- *75.4% of SMEs believe they enjoyed raised awareness of business opportunities by increasing their professional networks*
- *SMEs feeling more optimistic about future conditions compared to a year ago, up 16.6%*

The *Westpac-Melbourne Institute SME Index* (the Index), which examines the economic health of Australian small and medium sized enterprises (SMEs), reveals business confidence remains positive for the third consecutive quarter; increasing slightly by 1.3% to 103.2 in Q1 2018 from 101.8 in Q4 2017¹.

The uplift in business confidence appears to be underpinned by a positive outlook for future conditions, jumping almost 19% in the first quarter of the year. Driven by this optimistic outlook, many SMEs have reported an increase in their level of investment (2 in 5), working hours (1 in 3) and employment (1 in 5) over the last 12 months.

Despite SMEs feeling upbeat about the future, they reported a 16.1% decline in current conditions; with an increased proportion reporting a decrease in sales and profits. However, the decline is likely partly a seasonal variation following the busy lead up to Christmas last quarter.

Interestingly, overall optimism (current and future conditions) for SMEs in the Manufacturing sector rose a further 6.9%, remaining in positive territory for the second consecutive quarter. A large number of SMEs in Manufacturing continued to report an increase in sales (by a net balance of 15.4%) and profits (by a net balance of 1.7%).

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' 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.



Westpac General Manager of SME Business Banking, Ganesh Chandrasekhar, said: “The Westpac SME Index shows that Australian businesses are continuing to gain confidence each consecutive quarter and in fact are very positive about future conditions, especially compared to year ago. As a result of this confidence, many have invested and employed more staff.

“Our customers are telling us that they are seeing changes in consumer behaviour driven by technology, and as a result are facing increased competition and margin pressures. However, businesses remain upbeat and see these changes as an opportunity to make investments in things like online marketing to take advantage of these trends. Overall, SMEs are better positioned despite flat consumer confidence, and local and global volatility.”

The first quarter of 2018 saw an increase in confidence across four out of five of the major states; News South Wales rose by 5.7% (99.6), Western Australia by 5.2% (121.6), South Australia by 2.4% (110.5) and Victoria by almost 1% (111.6). SMEs in Queensland are the least optimistic, with sentiment dropping by 8.6% (86.9).

Westpac Senior Economist, Matthew Hassan, said: “While the ‘cautiously optimistic’ read on the SME Index is positive, it still looks to be lagging behind the more upbeat reads from wider business surveys. That suggests conditions remain difficult for small businesses with the survey detail pointing to pressures coming across a range of sectors. With that said, SMEs in every sector expect the future to show an improvement as SMEs are backing their expectations with increased investment. The increasingly positive outlook is particularly notable given the shaky start to 2018 that has included renewed volatility in global financial markets. Westpac expects the economic backdrop to remain fairly lacklustre this year; but so far, SMEs appear to be sticking to a more positive view.”

Across industries, SMEs in Wholesale & Retail Trade (100.4) and Hospitality & Recreation Services (103.3) sectors reported a considerable increase in confidence, 18.4% and 17.9% respectively. The Index found dips in confidence in the Professional Services sector, dropping by 9.3% (109.7); and the Construction sector, dropping 7.5% (105.3). However, both sectors remain in positive territory above the 100 neutral mark.

When asked about the role of connectivity, 78.1% of Australian SMEs surveyed indicated connections and networks are important to their business. Further to this, the Index also found that building professional networks has both a tangible and positive effect on SMEs, with 72.6% indicating they had received more business, such as increased sales and customers, as well as new customers or markets (63.2%) and raised awareness of opportunities (75.4%).

The survey also found the power of personal connections outweighed marketing activities for SMEs that placed less emphasis on building connectivity, with 78.1% of these SMEs indicating they rely on referrals, and only 21.7% indicating they relied on marketing activity.



Chandrasekhar concluded: “The Westpac Businesses of Tomorrow program is driving a new wave of innovation that is focused on connectivity and peer-to-peer learning. As we saw from the successes of last year’s Businesses of Tomorrow cohort, the initiative is testament to SMEs that have a clear vision for tomorrow, as they take on the challenges of our evolving business landscape.”

Applications are now open for the 2018 Westpac Businesses of Tomorrow and close at midnight AEST on Sunday, 8 April 2018.

To nominate or apply for the 2018 program, please visit businessesoftomorrow.com.au

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Ganesh Chandrasekhar’s tips for SMEs:

1. Invest in marketing

As consumers’ preferences continue to change, SMEs must be prepared to market their products and services via the channels used by their customers. Only a third of businesses have a meaningful web presence, and e-businesses are on the rise, so it’s vital to invest in online marketing as well as having a digital and social media presence.

2. Expand and enter new markets

SMEs can look to scale their businesses by innovating and exporting as Australia has a good reputation in places like China for high quality products. Only 7% of SMEs take advantage of the Australia-China Free Trade Agreement. Businesses succeeding in exporting to China are utilising tools such as WeChat, a multi-purpose social media app used by close to a billion consumers.

3. Grow professional networks for sustainability and growth

SMEs can further build and utilise their connections and professional networks to drive business outcomes. The Westpac Businesses of Tomorrow program is an opportunity for Australian SMEs to connect, and learn from their peers and renowned global business leaders.

4. Cost efficiencies

Businesses can look at ways to cut costs to reduce margin pressures, and set up lower cost structures for the business’s sustainability. There are many digital platforms and online tools that free up valuable time. Debt collection platform Indebted can help process outstanding invoices; while Flare HR is an all-in-one onboarding, payroll and employee wellbeing platform.



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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 12 and 23 February 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.