Economic insights: COVID-19 and SMEs

Nathan Cloutman – Senior Industry Analyst
Agenda:

- Macroeconomic update
- Examining some of the most affected SMEs:
  - Retail
  - Tourism
  - Hospitality
  - Aged Care
- The government’s stimulus packages
Macroeconomic update
Household disposable income

• 2019-20: 0.3% decline
• 2020-21: 0.7% decline

• Likely to be worse than the GFC and earlier recessions.

• The rise in unemployment is going to decrease incomes.
Household discretionary income

- 2019-20: **2.5% decline**
- 2020-21: **3.1% decline**
- Healthcare and insurance costs rising.
- Weak wage growth was already limiting consumer spending power.
Per capita discretionary income

- Per capita income falling.
- Usually a 4-6 year recovery in per-capita incomes.
- Likely to be a slow recovery in per-capita incomes.
- Decline in spending power putting pressure on SMEs.
Consumer sentiment index

- 2019-20: **89.9** index points
- 2020-21: **91.8** index points

- Record decline in sentiment, reaching **75.6** in April.

- COVID-19 likely to lower sentiment down to GFC-levels.
Business Confidence

- 2019-20: **-16.6** index points
- 2020-21: **-17.5** index points

- Fell to a record -66 index points in March.

- Business confidence tends to rebound quickly from economic downturns.
SME Sectors
SMEs in Australia

- SMEs accounted for 98.4% of total businesses in 2018-19
- Key Sectors:
  - Agriculture
  - Real Estate
  - Construction
  - Professional Services
  - Hospitality
  - Retail
- SMEs account for 70% of total workforce
- Firms in the retail and hospitality sectors have had to lay off many casual/part-time staff during COVID-19.

<table>
<thead>
<tr>
<th>Turnover</th>
<th>Zero to less than $50k</th>
<th>$50k to less than $100k</th>
<th>$100k to less than $200k</th>
<th>$200k to less than $500k</th>
<th>$500k to less than $2m</th>
<th>$2m to less than $5m</th>
<th>$5m to less than $10m</th>
<th>$10m of more</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total All Industries</strong></td>
<td>592,896</td>
<td>379,146</td>
<td>431,324</td>
<td>459,120</td>
<td>347,128</td>
<td>95,032</td>
<td>33,643</td>
<td>37,464</td>
<td>2,375,753</td>
</tr>
<tr>
<td><strong>Share</strong></td>
<td>25.0%</td>
<td>16.0%</td>
<td>18.2%</td>
<td>19.3%</td>
<td>14.6%</td>
<td>4.0%</td>
<td>1.4%</td>
<td>1.6%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>
• Bricks-and-mortar retail stores are feeling the pressure.

• SME retailers are likely to be highly impacted by the virus outbreak.

• Ecommerce penetration is set to sharply rise during the outbreak.

• The SME Clothing Retailing industry is expected to decrease by 28.3% in 2019-20.
Tourism

- SMEs in the tourism sector suffering due to travel restrictions.

- Accommodation providers are facing significant declines in demand.

- Bushfires previously put pressure on regional operators.

- The SME Hotels and Resorts industry is expected to decrease by 37.1% in 2019-20.
Hospitality

- SMEs in the hospitality sector suffering due to government restrictions.
- Many food-services establishments are likely to close for the duration of the crisis.
- Many establishments now offer takeaway services.
- The SME Cafes and Coffee Shops industry is projected to decline by **18.7%** in 2019-20.
COVID-19 represents a risk to the Aged Care sector.

Disruption to supply chains has lowered access to medical supplies.

Quarantine measures have reduced workforce.

Some Capital City facilities have had several outbreaks.

The SME Aged Care Residential Services industry is projected to decline by 6.9% in 2019-20.
Federal Government’s Stimulus Packages
Stimulus Packages

• $320 billion available in stimulus packages
• Representing 16.4% of GDP.

• Key policies for SMEs:
  • JobKeeper Payment
  • Code of Conduct for commercial tenancies
  • Cash flow support
  • Financial relief
  • SME Guarantee Scheme
  • Instant asset write-off threshold increase
  • Sector-specific assistance

• States and territory governments providing extra stimulus to SMEs.
JobKeeper Payment

- **$130 billion** available across 2019-20 and 2020-21

- SMEs with significantly reduced turnover would be eligible.

- Companies to receive $1,500 per retained employee every fortnight.

- Peak unemployment of **9.5%**

- Without JobKeeper scheme the peak likely to have been **15%**.
Code of Conduct for commercial tenancies

- A mandatory code of conduct outlines a set of good faith leasing principles for commercial tenancies.

- Applies to businesses with an annual turnover of up to $50 million and who also apply for JobKeeper.

- Evictions will be put on hold over the next 6 months for commercial tenants under financial stress.

- Landlords must offer reductions in rent (as waivers or deferrals) based on the tenant’s reduction in trade during COVID-19.

<table>
<thead>
<tr>
<th>Code</th>
<th>Industries with high rent costs and SME proportions</th>
<th>Cost Structure Rent %</th>
</tr>
</thead>
<tbody>
<tr>
<td>G4259</td>
<td>Personal Accessory Retailing in Australia</td>
<td>16.0</td>
</tr>
<tr>
<td>G4252</td>
<td>Footwear Retailing in Australia</td>
<td>14.2</td>
</tr>
<tr>
<td>R9111</td>
<td>Gyms and Fitness Centres in Australia</td>
<td>13.7</td>
</tr>
<tr>
<td>R9113</td>
<td>Sports and Recreation Facilities Operation in Australia</td>
<td>13.7</td>
</tr>
<tr>
<td>S9511</td>
<td>Hairdressing and Beauty Services in Australia</td>
<td>13.6</td>
</tr>
<tr>
<td>G4251</td>
<td>Clothing Retailing in Australia</td>
<td>12.8</td>
</tr>
<tr>
<td>H4404</td>
<td>Serviced Apartments in Australia</td>
<td>11.4</td>
</tr>
<tr>
<td>H4511a</td>
<td>Restaurants in Australia</td>
<td>10.8</td>
</tr>
<tr>
<td>H4511b</td>
<td>Cafes and Coffee Shops in Australia</td>
<td>10.8</td>
</tr>
<tr>
<td>G4244</td>
<td>Newsagents and Book Retailers in Australia</td>
<td>10.6</td>
</tr>
<tr>
<td>G4243</td>
<td>Toy and Game Retailing in Australia</td>
<td>10.5</td>
</tr>
<tr>
<td>H4401</td>
<td>Hotels and Resorts in Australia</td>
<td>10.4</td>
</tr>
<tr>
<td>G4253</td>
<td>Watch and Jewellery Retailing in Australia</td>
<td>10.2</td>
</tr>
</tbody>
</table>
Other policies

• Cash flow support
• Financial relief
• SME Guarantee Scheme
• Wage subsidy for apprentices and trainees
• Instant asset write-off threshold increase
• Lowering of the cash rate
Industry-specific policies

• $50 million relief package for struggling regional media organisations.

• $110 million fund to restart seafood export trade.

• Early Childhood Education and Care Relief Package to assist child care centres.

• States providing additional support to specific industries.
### New SME titles over the coming months:

<table>
<thead>
<tr>
<th>ANZSIC</th>
<th>Industry Title</th>
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<th>Industry Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>SMEG4111</td>
<td>Supermarkets and Grocery Stores in Australia</td>
<td>SMEI5010</td>
<td>Scenic and Sightseeing Transport in Australia</td>
</tr>
<tr>
<td>SMEG4112</td>
<td>Convenience Stores in Australia</td>
<td>SMEI5102</td>
<td>Courier Pick-up and Delivery Services in Australia</td>
</tr>
<tr>
<td>SMEH4402</td>
<td>Motels in Australia</td>
<td>SMEL6611</td>
<td>Passenger Car Rental and Hiring in Australia</td>
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<tr>
<td>SMEH4404</td>
<td>Serviced Apartments in Australia</td>
<td>SMEN7220</td>
<td>Travel Agency and Tour Arrangement Services in Australia</td>
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<tr>
<td>SMEH4409</td>
<td>Caravan Parks, Holiday Houses and Other Accommodation in Australia</td>
<td>SMER9111</td>
<td>Gyms and Fitness Centres in Australia</td>
</tr>
<tr>
<td>SMEH4511a</td>
<td>Restaurants in Australia</td>
<td>SMER9112</td>
<td>Sports and Physical Recreation Clubs in Australia</td>
</tr>
<tr>
<td>SMEH4520</td>
<td>Pubs, Bars and Nightclubs in Australia</td>
<td>SMER9113</td>
<td>Sports and Recreation Facilities Operation in Australia</td>
</tr>
<tr>
<td>SMEI4626</td>
<td>Taxi and Limousine Transport in Australia</td>
<td>SMES9520</td>
<td>Funeral Directors, Crematoria and Cemeteries in Australia</td>
</tr>
</tbody>
</table>
Thank you!