

## why small business confidence matters

If the economy is to continue to improve, small business investment is one key area that must pick up. Because confidence is a key factor in driving people to invest, all businesses will be keeping an eye on small business confidence over the next few months. This confidence will flow from consumer confidence in the pre Christmas period.

Australia is heading into uncharted waters in a number of ways that impact on small business confidence at the moment. We have a challenging situation in parliament, a recent interest rate rise and the highest dollar we've had since the Australian dollar was floated in 1983. All this and we are still recovering from a major financial crisis.

The Sensis Business Index has been tracking confidence levels in Australia's small and medium enterprises quarterly since 1993. According to the most recent Sensis report, SME's perceptions of the economy improved marginally and Small to Medium Enterprises were more optimistic about future economic directions. New South Wales recorded the lowest level of business confidence this quarter. Expectations for the next quarter rose across all the indicators measured, however, with the recent interest rate rises we may well see a change in those expectations.

The latest business survey by National Australia Bank, which unlike Sensis does not focus entirely on SME's, shows that overall business confidence fell in October, down two points from September. The report notes the economy's pace of expansion continued to slow even as the Reserve Bank of Australia decided to raise rates. Alan Oster, chief economist for NAB, commented "Retailing remains under intense pressure and construction worsened in October, although builders appear optimistic about a rebound.

Rate rises tend to repress small business confidence. Retailers particularly will be feeling quite concerned about consumer spending this Christmas. Christmas expenditure will tell us whether there has been a change in small business confidence or not, and whether we can expect a challenging or improving economy in the New Year.

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