

17 September 2020

COSBOA Communique

SME ECONOMIC RECOVERY RATES LIKELY TO BE MIXED AND VICTORIA REMAINS A PRIORITY

SYNOPSIS

COSBOA's COVID-19 Roundtable seeks to engage SME representative industry bodies and related stakeholders in a discussion about current issues being experienced by SMEs in the wake of the COVID-19 economic downturn and the potential initiatives that could be progressed to support economic recovery and support job creation in the future. This latest meeting was conducted on **Friday, 11 September 2020** - at a time when Metropolitan Melbourne was still operating under Stage 4 lockdown restrictions and Stage 3 lockdown restrictions continued to apply in Regional Victoria.

The meeting was addressed by Mr Chris Richardson (Director, Deloitte Access Economics) who discussed some likely characteristics of the macro-economic climate that SMEs will be required to navigate over the short to medium term.

The meeting also discussed the need for the Victorian Government to immediately work with the business community to minimise the scale of the inevitable business and employment destruction that will likely be brought about by the sole reliance on health indicia as a basis for determining when the current lockdown arrangements can ultimately be relaxed.

A brief summary of these two themes is provided below.

KEY THEMES

- 1. The Australian economy is delicately poised as we prepare for the federal budget, with some economic indicators suggesting that the economy is emerging from COVID-19 in a better state than had been originally envisaged in terms of retail sales and employment growth.**
 - While much is being made of the substantial increase in Federal Government debt to finance economic recovery actions, the consequences of this borrowing for the national economy is somewhat cushioned by the current (and likely foreseeable future) low cost of funds.
 - Indicators such as retail spending and job recovery outside of Victoria are both surprising and welcome, suggesting that some segments of the economy are recovering well. But continued lockdown restrictions in Victoria, low numbers of workers returning to capital city CBDs, and border restrictions constraining tourist movements suggests that business recovery will be highly variable. Business recovery rates are likely to vary by industry sub-sector, geographic location and the capacity of individual businesses to reposition their services for digital commerce.

- The current economic pain can be classified into two discrete components. The first, described by Chris Richardson as “lockdown pain”, relates to the short-term impact of the Victorian lockdown and East Coast border restrictions. This pain is temporary and will likely be relieved as restrictions are lifted and customers return to businesses. The second, described as “recession pain” will likely be experienced for some time in the form of increased unemployment and lower production. The quantum of the latter will be dependant upon decisions made by the Federal Government in the upcoming 2020-21 federal budget.
 - One of the biggest issues that is yet to be addressed relates to the likely fallout from the ultimate removal of the temporary ‘safe harbour’ provisions that have been provided under bankruptcy and insolvency law. There will be a need to explore a mechanism that sorts the ‘wheat from the chaff’ in terms of allowing those businesses that are technically ‘insolvent’ but likely to be able to trade out of their situation with concessions, to be able to do so – and to establish orderly mechanisms for those businesses forced to close to do so whilst minimising unnecessary collateral damage to the personal financial position of the SME owner.
- 2. The Victorian Government continues to demonstrate a ‘tin ear’ when it comes to supporting SMEs as they strive to survive the extended lockdown, with some business assistance measures being largely ‘token’ and reopening targets creating continued uncertainty about reopening arrangements.**
- Roundtable participants noted that the Victorian Government had announced additional assistance for SMEs impacted by the continued lockdown, with an extension of the Small Business Grants Scheme. Within this context, however, the new eligibility requirements for sole traders means that the vast majority of sole trader businesses in Victoria will continue to be excluded from any meaningful support. Within this context, COSBOA notes Victorian Government statements that the new sole trader provisions are expected to support around 33,000 of the more than 290,000 sole trader businesses that operate in the state of Victoria.
 - The utilisation of health indicia as a basis for reopening of business in Victoria carries an inherent level of uncertainty on the actual timing of reopening. Such a decision, albeit support by nominal reopening dates, makes it virtually impossible for small business owners to plan for reopening in terms of ordering stock and scheduling staff rosters.
 - The continued uncertainty about the timing of reopening arrangements for SMEs, coming at a time when major events typically occur and businesses would normally be preparing for the busy October and November trading periods, will inevitably result in many business owners simply making a decision to wind up their business - with consequent and severe impacts on future state economic output and employment over the short to medium term.

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