NAB SME BUSINESS SURVEY PRESS RELEASE

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By Group Economics

SME business conditions eased in Q2 while leading indicators remained mixed

Small businesses reported both lower business conditions and confidence in the Q2 NAB Small and Medium Enterprises (SME) Business Survey, pulling back most of the gains since the second half of last year. This is in contrast to larger businesses in the Quarterly NAB Business Survey (QBS).

The NAB SME Survey is the leading survey of small businesses in Australia, and complements the comprehensive Quarterly NAB Business Survey which covers larger businesses. The SME survey offers a rich repertoire of insights into factors affecting smaller firms' conditions by state, industry and size, as well as an assessment of their outlook for investment and output.

	2016 q2	2017 q1	2017 q2
usiness Confidence	**5**	**11**	**5**
›w-tier firms	4	9	-3
iid-tier irms	7	10	6
igh-tier firms	5	12	8
usiness Conditions	**6**	**9**	**7**
›w-tier firms	1	6	3
iid-tier irms	10	9	8
igh-tier firms	6	11	9
Trading Conditions	14	16	14
Low-tier firms	5	9	5
Mid-tier irms	18	18	16
High-tier firms	17	18	19
Profitability	6	8	6
Low-tier firms	2	7	3
Mid-tier irms	9	8	6
High-tier firms	5	9	7
Employment	-1	2	2
Low-tier firms	-5	0	1
Mid-tier irms	3	-1	1
High-tier firms	-1	5	5

Note: Low-tier firm: turnover \$2 – 3m p.a.; Mid-tier: \$3 – 5m p.a.; High-tier: \$5 – 10m p.a.

According to NAB Group Chief Economist Alan Oster, "It was disappointing to see SMEs unwind the strong gains since late last year and underperform compared to larger businesses. While the weakness was broad based across industries and firm sizes, it is not completely bad news. The leading indicators are mixed. Rising capacity utilisation and capital spending intentions were encouraging, while on the other hand, we saw lower forward orders and cash flows. We will continue to monitor the conditions faced by the SMEs, as they are essential to job creation and our economic recovery."

Regarding the labour market, Mr Oster said "employment conditions held up at a level slightly above the average since 2006, despite weaker trading conditions and profitability. It was particularly encouraging to see the smallest SMEs improve their hiring intentions in recent quarters." Small businesses play an essential role in our economy and account for the largest share of total employment in Australia by firm size.

Across states, conditions fell in all three major eastern states, while improving strongly in South Australia and Western Australia. Business confidence fell across all states.

The business environment our SMEs operate in was not without challenges. Trading conditions declined the most at the smallest SME firms (with turnover \$2-3m), while mid-sized SMEs (turnover \$3-5m) reported a slight deterioration and the largest SMEs (turnover \$5-10m) continued to experience improving trading conditions. The results highlight the challenges faced by the smallest SME firms, who often have a less diversified business model and may be constrained to a single location or product offering. "It is important we continue to support these businesses and understand their concerns to better service them."

Firms continued to cite a lack of demand and new orders as a constraint on their business performance. Our survey also showed lower profitability across all firm sizes, as SMEs' margins were squeezed between low final product price growth and higher overheads growth.

For further details, please see attached main survey.

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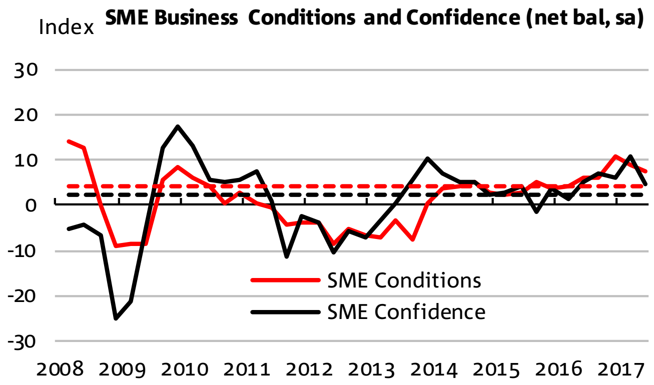
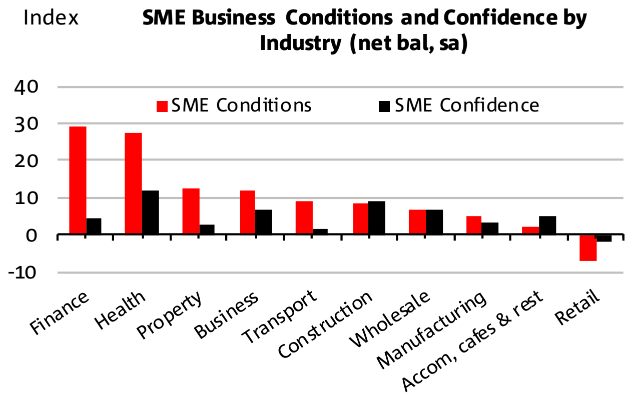
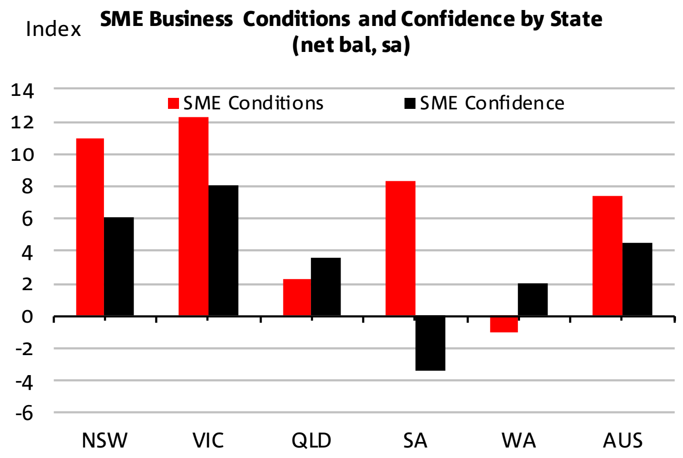
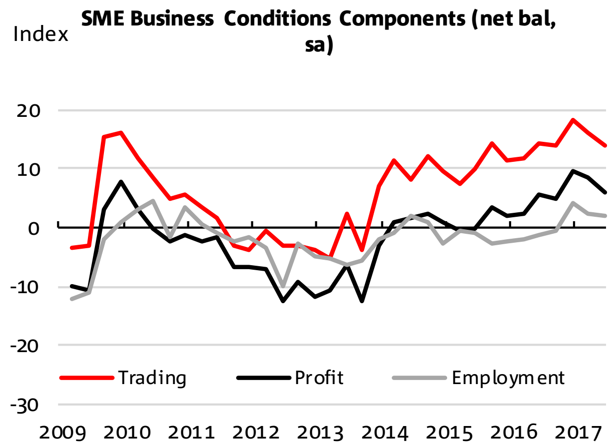
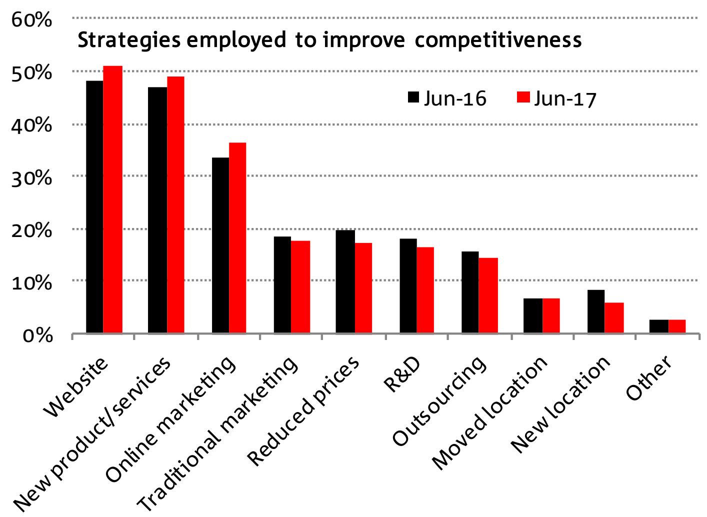


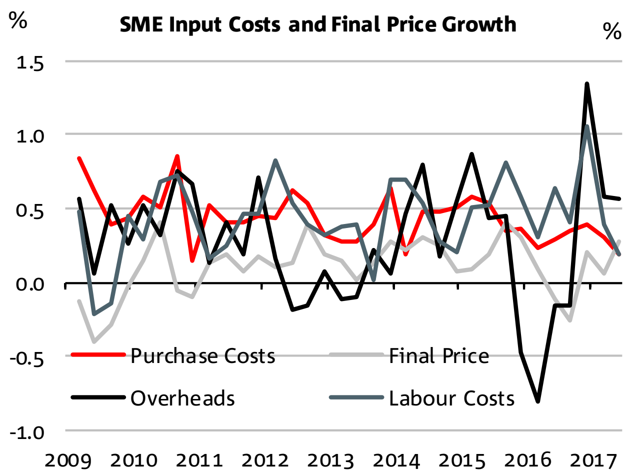
Note: Dotted line denote long-run averages











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