

# NAB Quarterly SME Survey

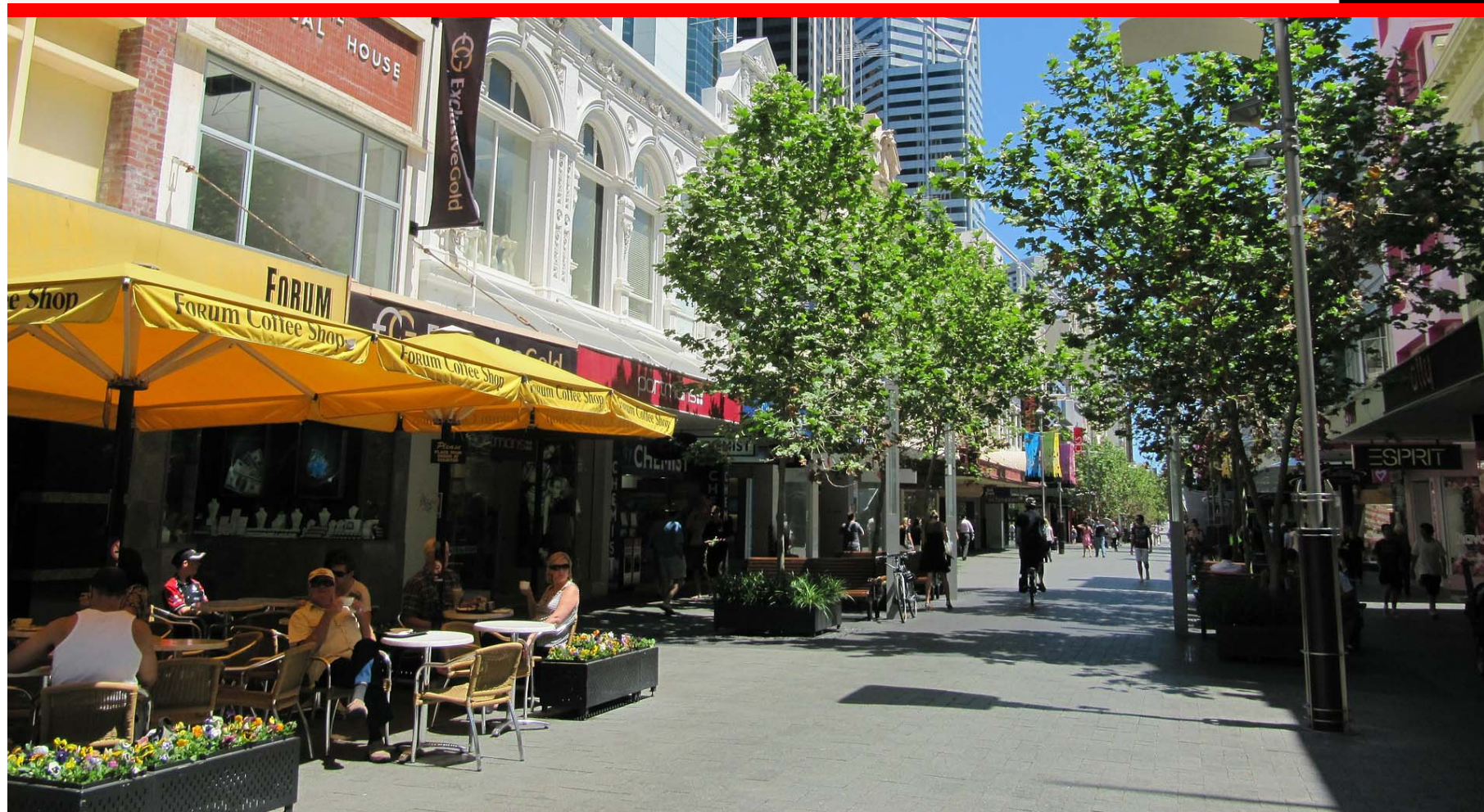
by NAB Group Economics

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September Quarter 2014



National  
Australia  
Bank



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## Key Points:

- SME business confidence eased slightly, continuing the trend decline from the peaks seen around last year's Federal election. While this result is consistent with the ongoing sluggishness of demand in the domestic economy (excluding exports), the steady improvement in business conditions seen over the same period has prevented a much sharper deterioration in confidence. These trends are consistent with what has been experienced in the broader economy, according to the NAB Quarterly Business Survey (QBS). SME confidence is gaining most support from enthusiastic property and construction firms. How long confidence levels can be sustained will largely hinge on when (and if) strength in property markets translates into improvements elsewhere in the economy and generates sufficient momentum to snap the spending restraint exhibited by consumers to date. This will be a difficult task given elevated unemployment, low wages growth and ongoing concerns held by consumers over the rising cost of living, which is constraining their discretionary spending (NAB Consumer Anxiety survey). Finance, retail and health firms are least confident, the first recording a sharp drop in confidence during the quarter.
- SME business conditions rose again in Q3, lifting above the series average to its highest levels since 2009, but still will below the pre-GFC highs for business activity. The improvement mostly stemmed from a rise in trading conditions, while profitability was unchanged and employment fell following a series of rises. Conditions improved for high-tier firms, while low and mid-tier firms declined. SME's are outperforming their larger counterparts.
- Conditions were mixed across industries in the quarter, but trends are broadly consistent with confidence. Property services and construction firms are performing well, as are finance firms (despite weak confidence) – SME construction firms are solidly outperforming their larger counterparts (QBS). In contrast, manufacturing and retail are particularly (but unsurprisingly) weak. Conditions improved in all states but Victoria, and are highest in WA.
- Forward orders eased, but still suggest a moderate lift in SME activity. Capacity utilisation continues to show a solid improvement (albeit still at soft levels) in response to the upward trend in trading and employment conditions (although the latter remains relatively soft).
- Responses to a special question suggest that in the past twelve months more than half of SMEs developed or improved their websites to improve competitiveness and/or looked to develop new products. Meanwhile, price discounting has fallen in popularity as a strategy, suggesting that competitive pricing may be reaching its limits.

**Table 1: Key quarterly business statistics\***

	<i>Net balance</i>				<i>Net balance</i>		
SME business confidence	5	5	<b>4</b>	SME trading conditions	-2	9	<b>15</b>
Low	5	3	<b>1</b>	Low	-14	6	<b>6</b>
Mid	7	7	<b>6</b>	Mid	-6	12	<b>13</b>
High	3	5	<b>4</b>	High	5	8	<b>17</b>
SME business conditions	-7	5	<b>6</b>	SME profitability	-12	2	<b>2</b>
Low	-14	2	<b>1</b>	Low	-19	0	<b>-2</b>
Mid	-10	8	<b>5</b>	Mid	-15	6	<b>1</b>
High	-2	3	<b>8</b>	High	-7	-1	<b>5</b>
SME cash flows (n.s.a.)	-8	-4	<b>2</b>	SME employment	-6	3	<b>1</b>
Low	-20	-7	<b>-7</b>	Low	-8	0	<b>0</b>
Mid	-12	-4	<b>1</b>	Mid	-6	9	<b>2</b>
High	1	-2	<b>7</b>	High	-4	1	<b>0</b>

Low: \$2-3m p.a. Mid: \$3-5m p.a. High: \$5-10m p.a.

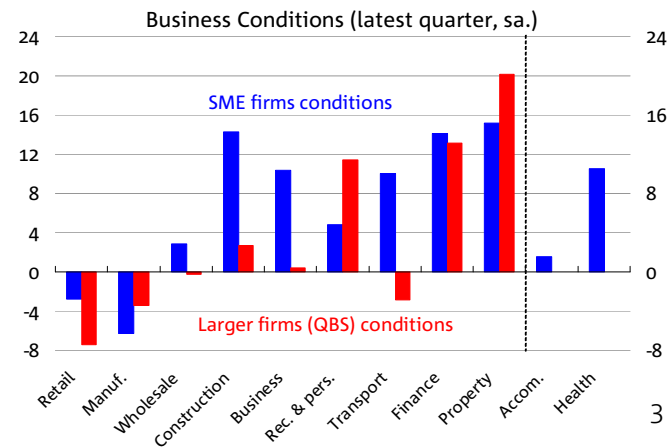
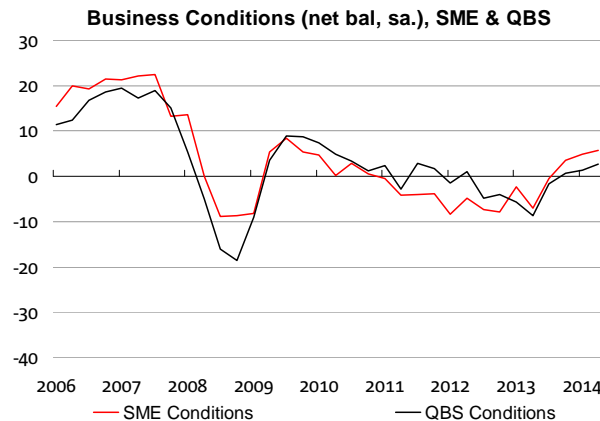
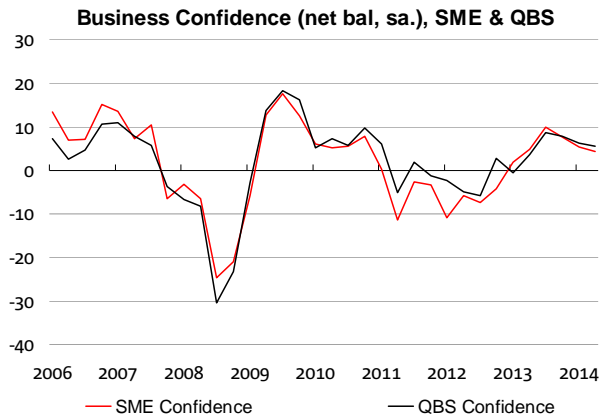
\*\* Data are seasonally adjusted by NAB, except SME cash flow (insufficient time series available). All data are net balance indices. Fieldwork for this Survey conducted from 25 August to 10 September 2014 covering around 730 SME (non-farm) firms.

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# Analysis

- SME business confidence eased further, but is managing to hold up at reasonable levels, supported by a steady improvement in business conditions. The confidence index fell 1 point to a level of +4 index points, which is still above the series average of +2 points since mid-2006. With improvements in activity largely confined to pockets of the economy, particularly those relating to residential property markets, SME confidence varies considerably across industries. Property services and construction firms were most confident in the September quarter, followed by transport – despite ongoing soft conditions in retail and wholesale. Confidence is weakest in finance and retail, consistent with soft credit growth, zero real wage growth and elevated levels of consumer anxiety. Confidence of firms economy wide – from the Quarterly Business Survey (QBS) – has shown a similar trend to SMEs, and both are around similar levels. Mid-tier firms appear to have been the most confident in the quarter, but all tiers of firms record a fall.
- SME business conditions ticked up again in the June quarter (up 1 to +6 points), its highest since late 2009, even as activity in the domestic economy remains mixed. This pushes SME conditions above the long run average levels for the series and surpassed the level of confidence for the first time since December 2012. The situation is still quite mixed across industries. Retail improved the most, although conditions are still soft. In levels terms, conditions facing finance, property services and construction are the most positive, while manufacturing and retail are the main under-performers. Conditions facing SMEs are better than those of the broader economy (QBS survey), especially in construction, business services, transport and retail, although not in SME manufacturing and recreation services.

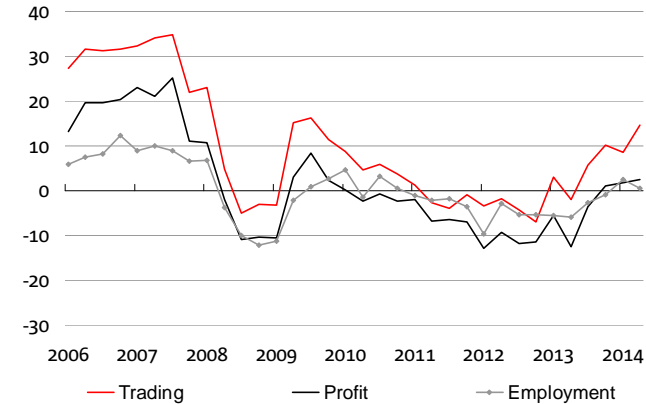


# Key indicators

- The quarterly rise in business conditions reflected a solid increase in trading conditions. In contrast, profitability was unchanged, while employment conditions eased. SME cash flows (not seasonally adjusted) jumped in the quarter, to be close to multi-year highs (albeit still at low levels).
- Forward orders of SMEs eased a little in the quarter, but the positive index suggests moderate activity growth will continue in the near term – orders are down 2 points to +1 points, although this is still well above the series average. The fall in the orders index relatively broad-based, but was largest in finance (down 8). Orders are now strongest in the construction industry (+10 points) and property services (+8 points), consistent with the pipeline of residential construction that has accumulated and activity in housing markets. Orders are weakest in manufacturing (-4) and accommodation (-4), although both industries may see a boost to competitiveness from the recent AUD depreciation.
- The SME stocks index was up 1 point to +3 index point in the September quarter, a slightly higher level of stock building than that from larger firms over the same period. The positive reading for SME stocks implies a moderate build-up in inventories in the quarter, which could signal expectations for more stable demand (despite orders easing). The stocks index is close to a four year high.

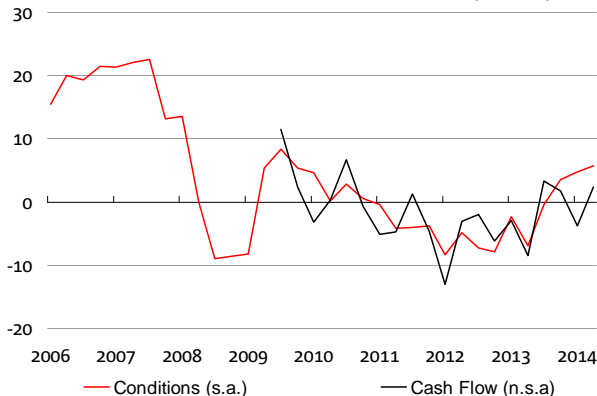
## Trading conditions the key driver, employment still soft

SME Business Conditions Components (net bal, sa.)



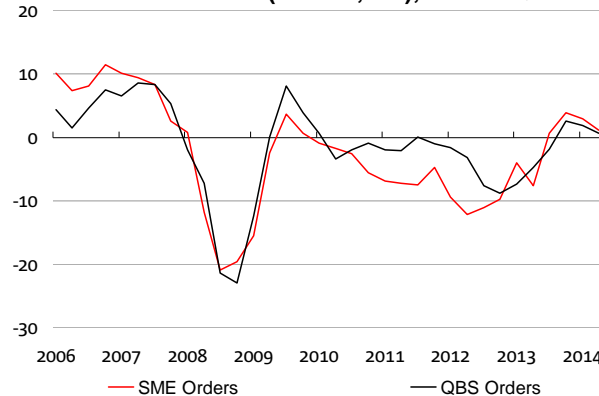
## Cash flows bounce back, close to previous multi-year high

SME Business Conditions & Cash Flow (net bal)



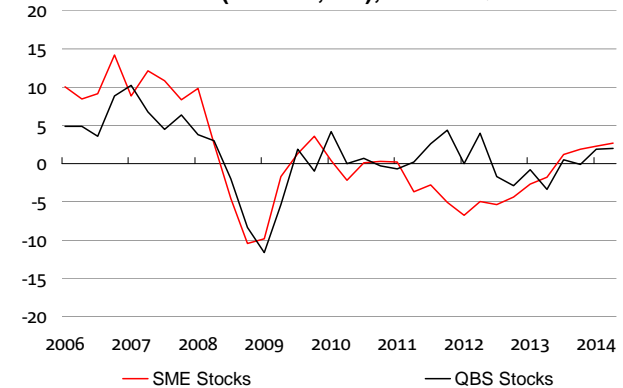
## Orders recovery stalls, at moderate levels

Forward Orders (Net bal, sa.), SME & QBS



## Solid trading conditions encouraging some re-stocking

Stocks (Net bal., sa.), SME & QBS

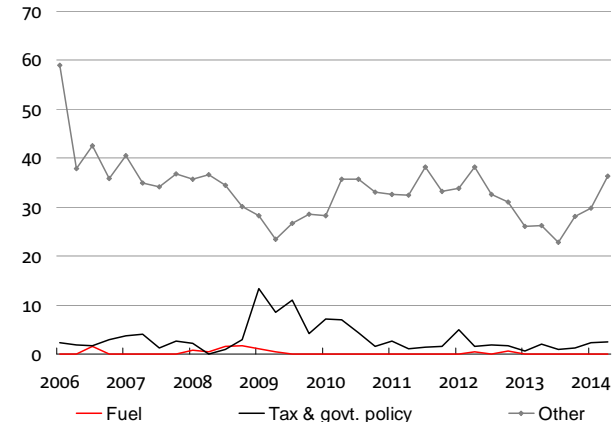
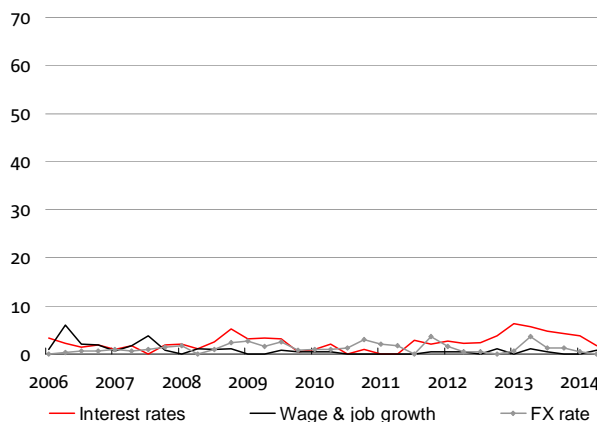
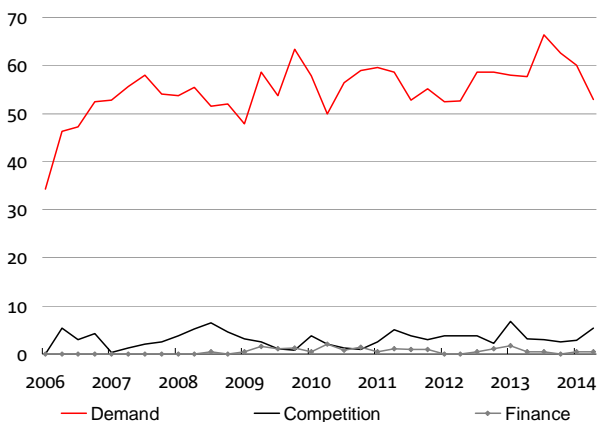


# Reason for change in trading conditions



- Trading performance lifted in the September quarter, despite SMEs reporting a little less assistance from demand. In contrast, more firms indicate that “Other” factors are contributing positively to trading outcomes – largely reflecting seasonal and company specific factors – and lifted to its highest level in two years. Access to finance, fuel costs and wages & jobs growth remained relatively insignificant, as did tax and government policy.

## Main reason for improvement in trading performance (net balance)



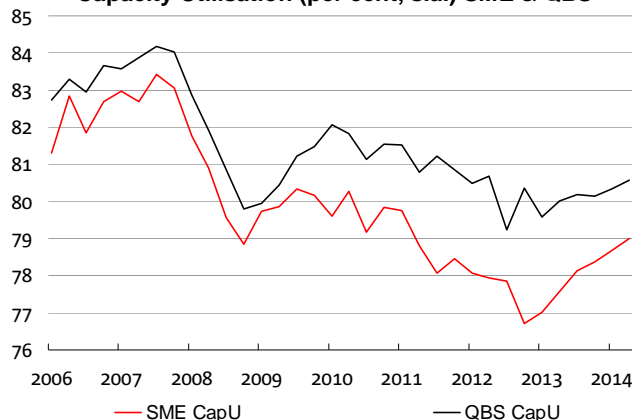


# SME Investment

- Capacity utilisation rose to 79.0% in the September quarter, up from 78.7%. Utilisation has been trending steadily higher over recent quarters in line with more positive trading conditions, but it is still slightly below the series average of 80.0% since mid-2006, and further below the level of utilised capacity of larger firms (80.6%). In the quarter, falls in capacity utilisation of mid-tier firms (down 0.4 ppts to 78.4%) were more than offset by increases in utilised capacity of higher-tier firms (up 0.6 ppts to 80.1%) and low-tier firms (up 0.1 ppts to 76.9%). Across industries, capacity utilisation was very high in health services (89.0%), as well as construction and business services (both 82.7%), while it was very low in manufacturing (73.9%) and accommodation (75.3%).
- Capital expenditure jumped to its strongest level since 2007. While this is consistent with the steady improvement in trading conditions and capacity utilisation rates, utilisation rates were significantly higher when the capital expenditure index was last at this level. Nevertheless, as the mining investment boom winds down, the scope for additional non-mining investment should improve – particularly with interest rates expected to remain low.

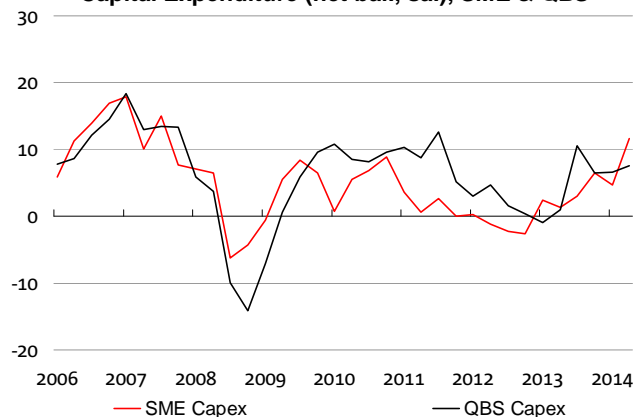
## Capacity utilisation low, despite upward trend – limiting capex and inflation pressures

Capacity Utilisation (per cent, s.a.) SME & QBS



## Capex intentions suggests a return of non-mining investment

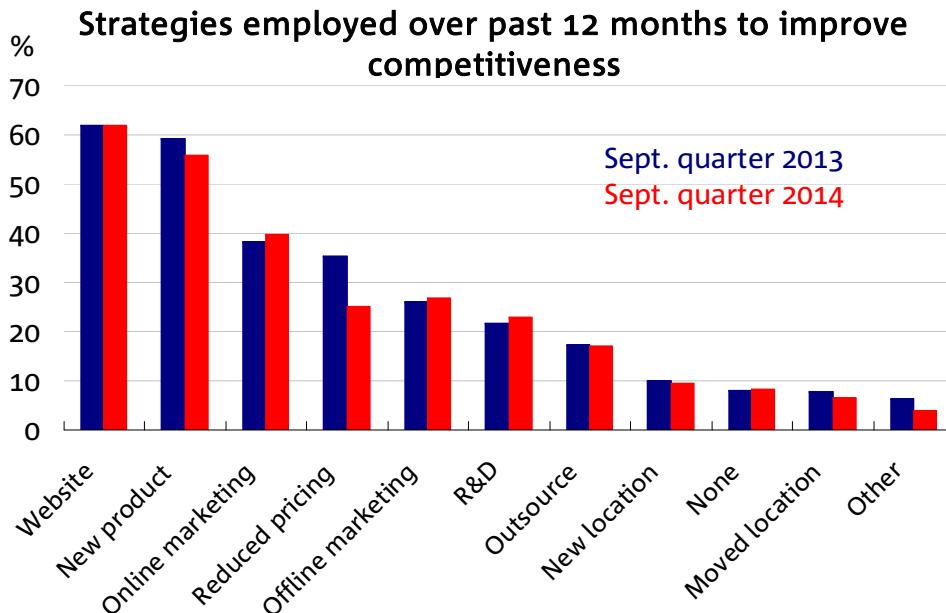
Capital Expenditure (net bal., sa.), SME & QBS



# SME business strategy

- In the September quarter SME Survey, we again asked firms whether they had employed any new strategies over the past 12 months in an attempt to improve competitiveness in the market. There were very few changes to the responses, which suggest a degree of consistency in how firms are reacting to competitive pressures. Reduced pricing has become noticeably less common, while there was a slight increase in online marketing and research & development. The heavy focus on creating an online presence is consistent with firms preference for less disruptive (and sometimes costly and risky) strategies.

**Firms remain focussed on less disruptive (and sometimes costly and/or risky) strategies to improve competitiveness**



\* Multiple responses allowed; will not sum to 100%

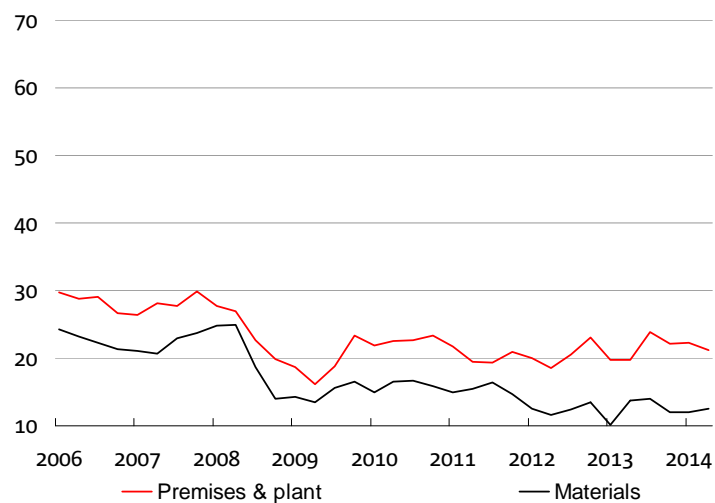
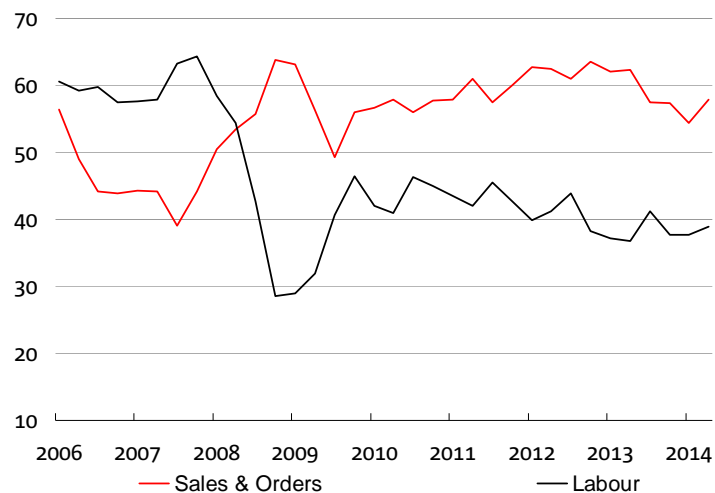
Source: NAB Quarterly SME Survey



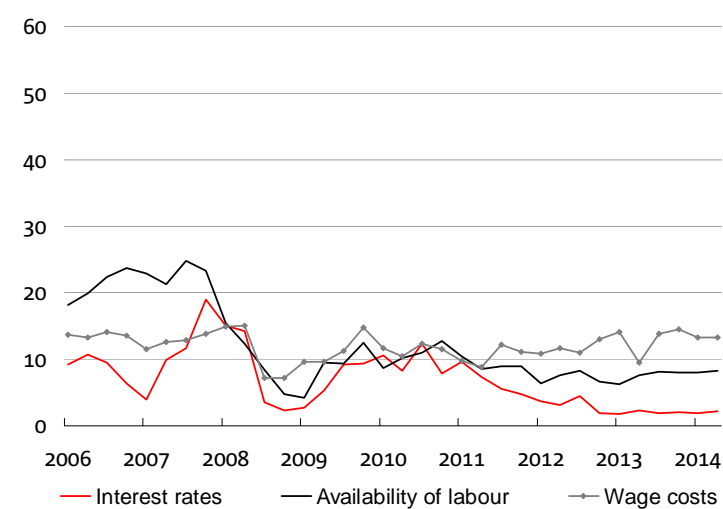
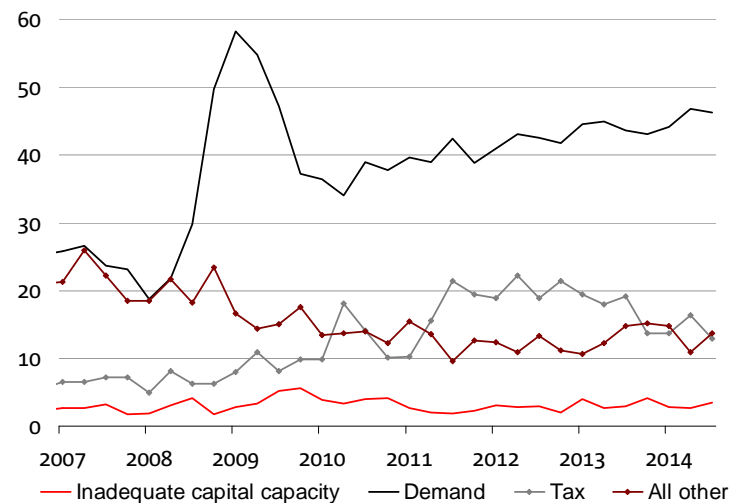


# Constraints facing SME's

## Constraint on output (% of firms)



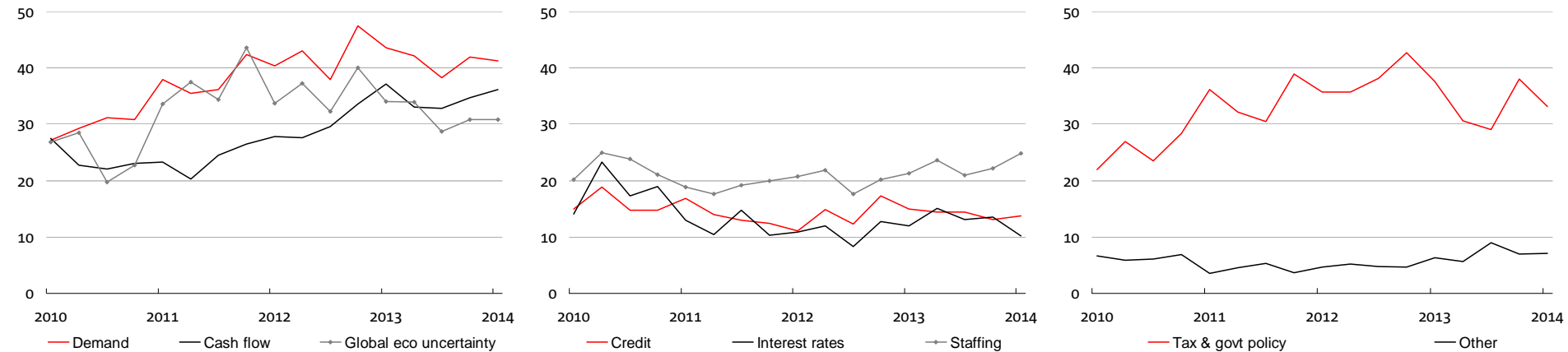
## Constraint on profitability (% of firms)





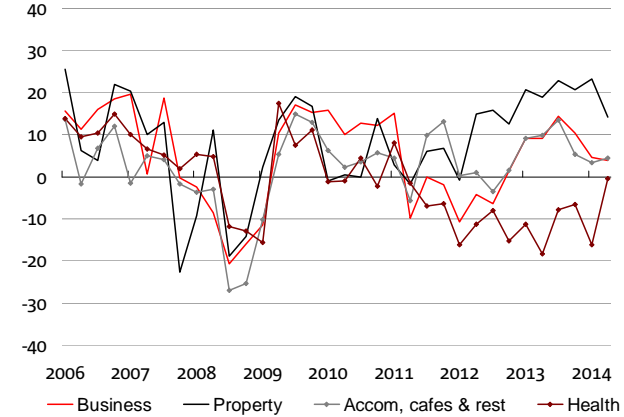
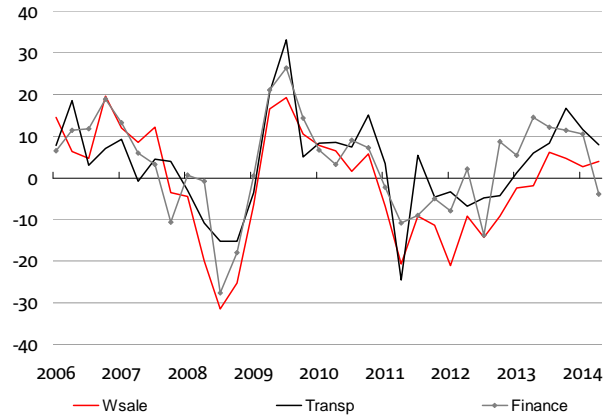
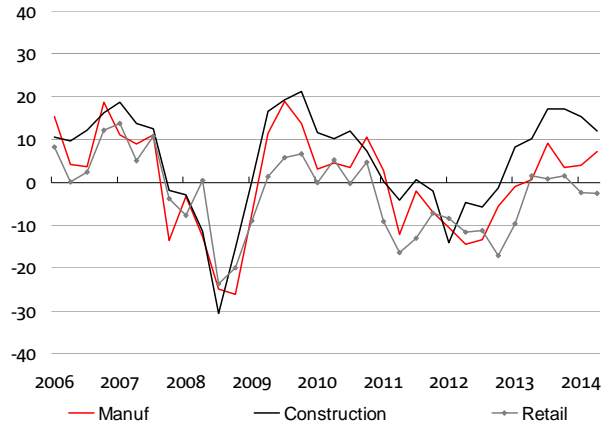
# Constraints affecting SME's long-term decisions

Most significant constraining factors for SMEs (per cent, multiple response)

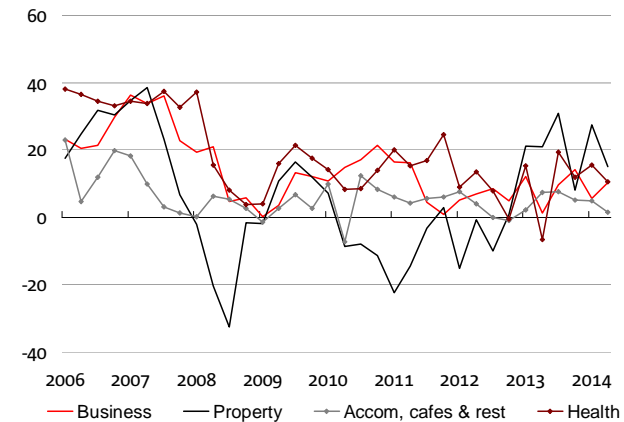
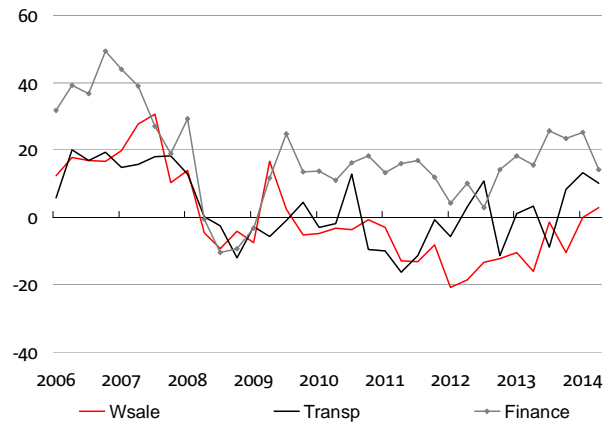
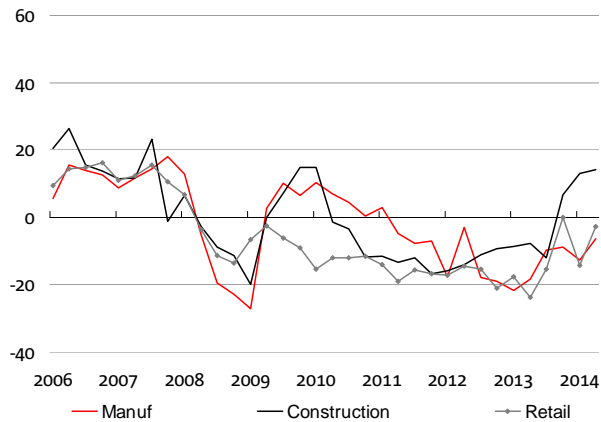


# More details on industries

## Business confidence by industry (net balance)

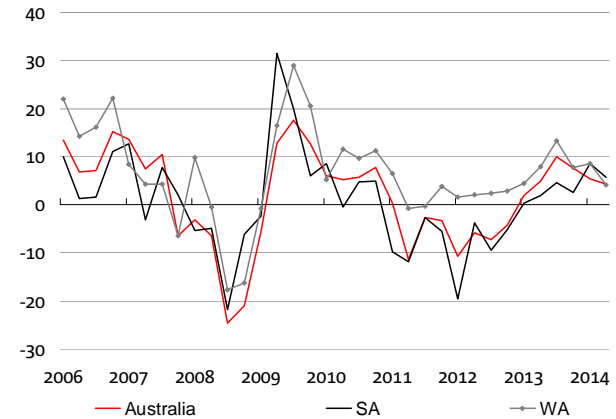
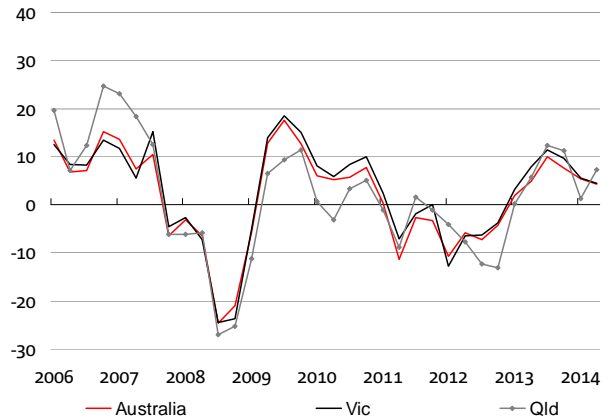
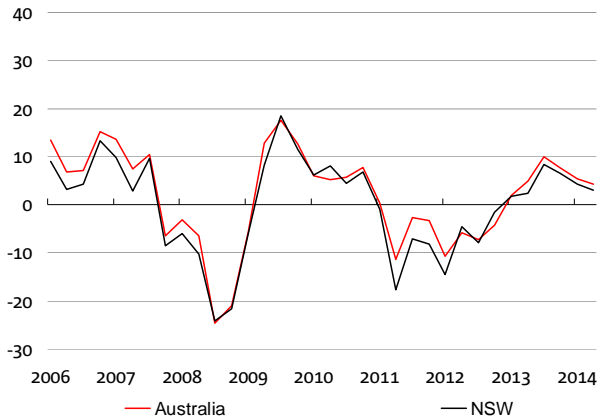


## Business conditions by industry (net balance)

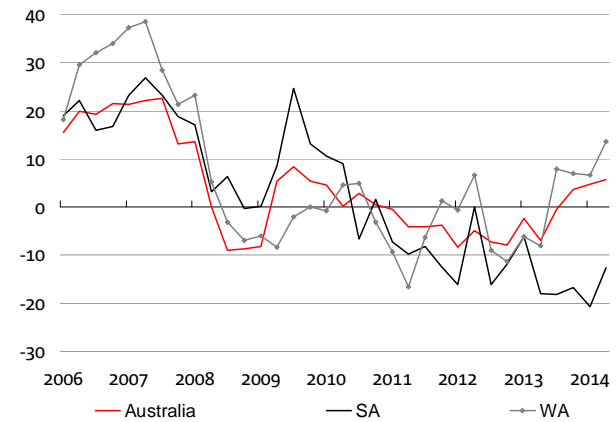
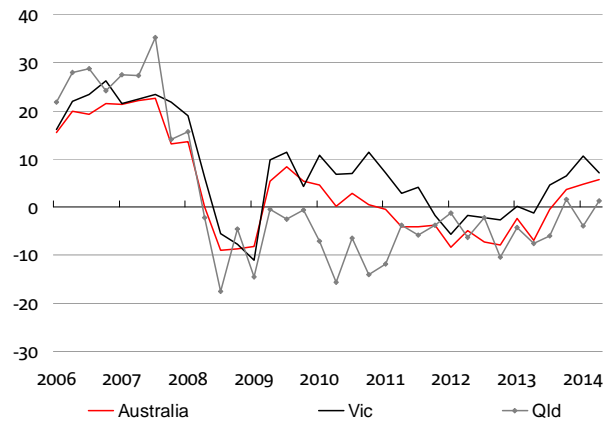
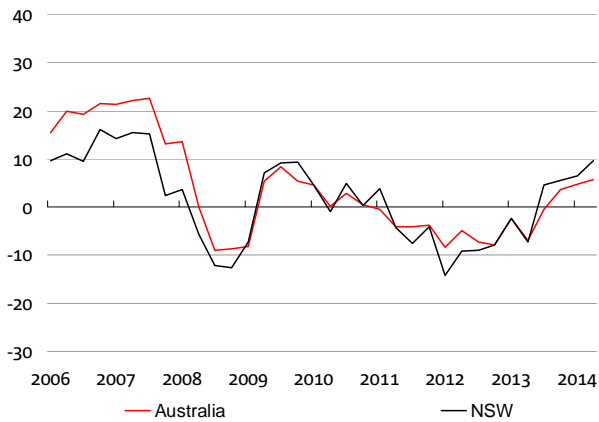


# More details on states

## Business confidence by state (net balance)



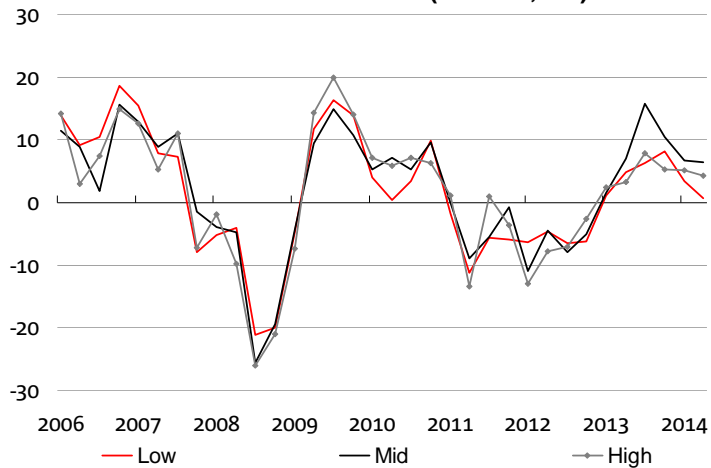
## Business conditions by state (net balance)



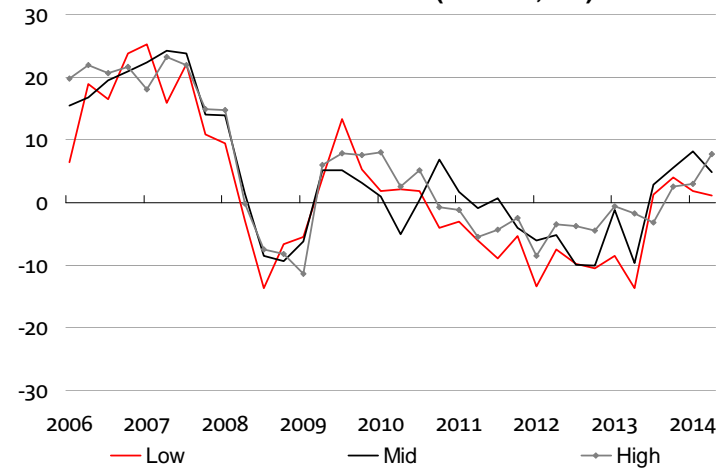


## More details by firm size

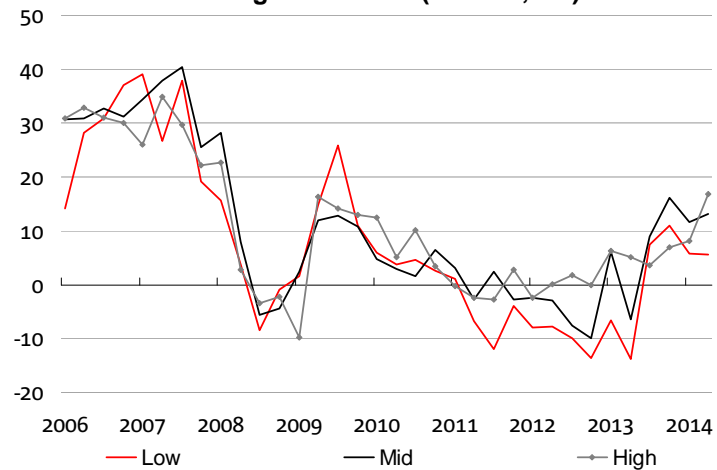
Business Confidence (net bal., sa.)



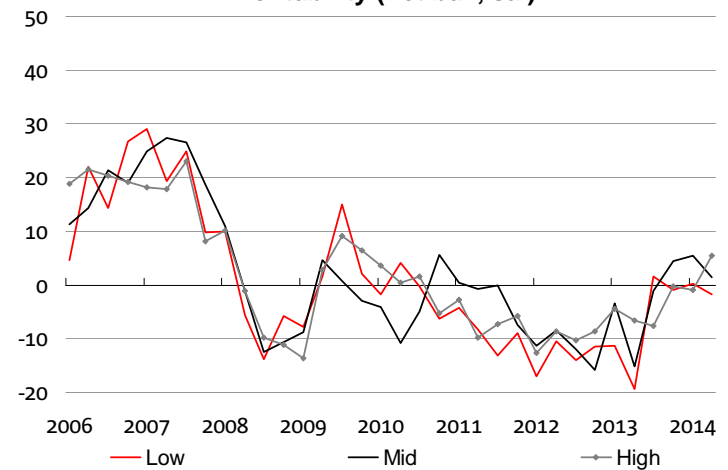
Business Conditions (net bal., sa.)



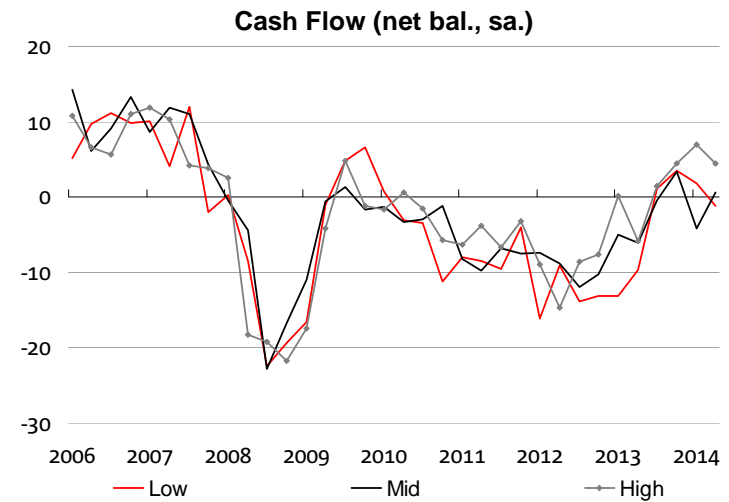
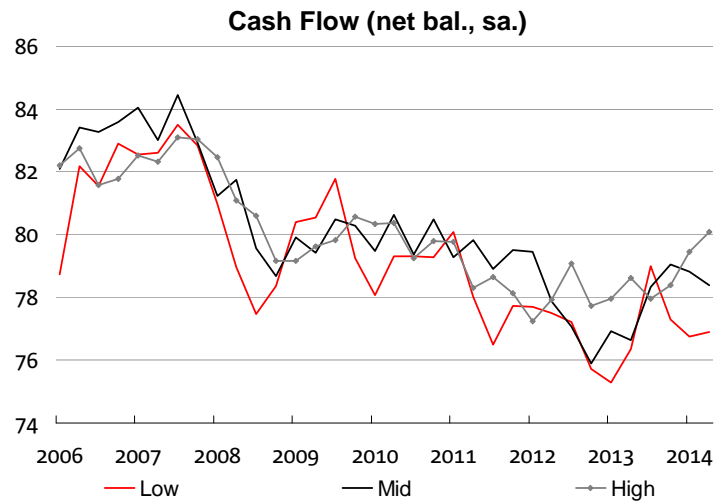
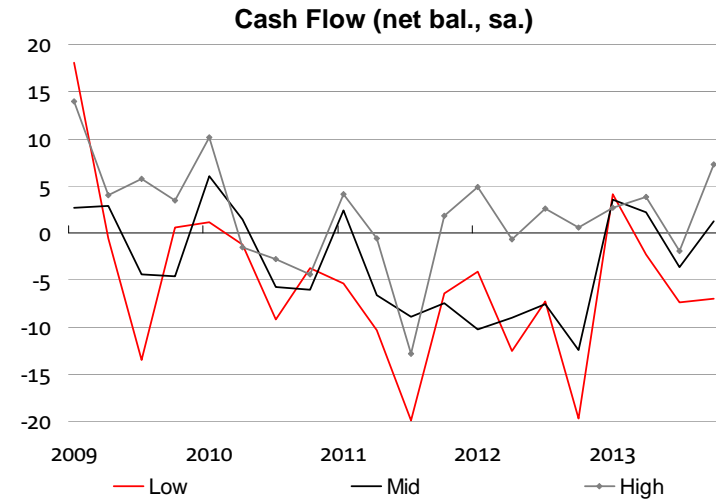
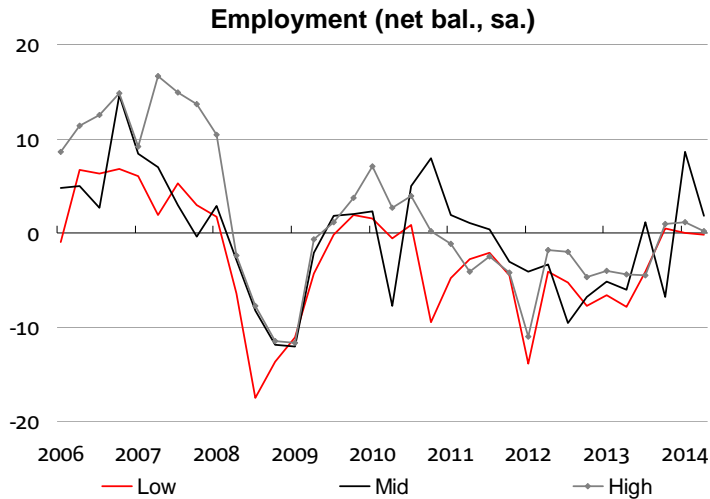
Trading Conditions (net bal., sa.)



Profitability (net bal., sa.)



## More details by firm size (cont.)



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