

# NAB Quarterly SME Survey

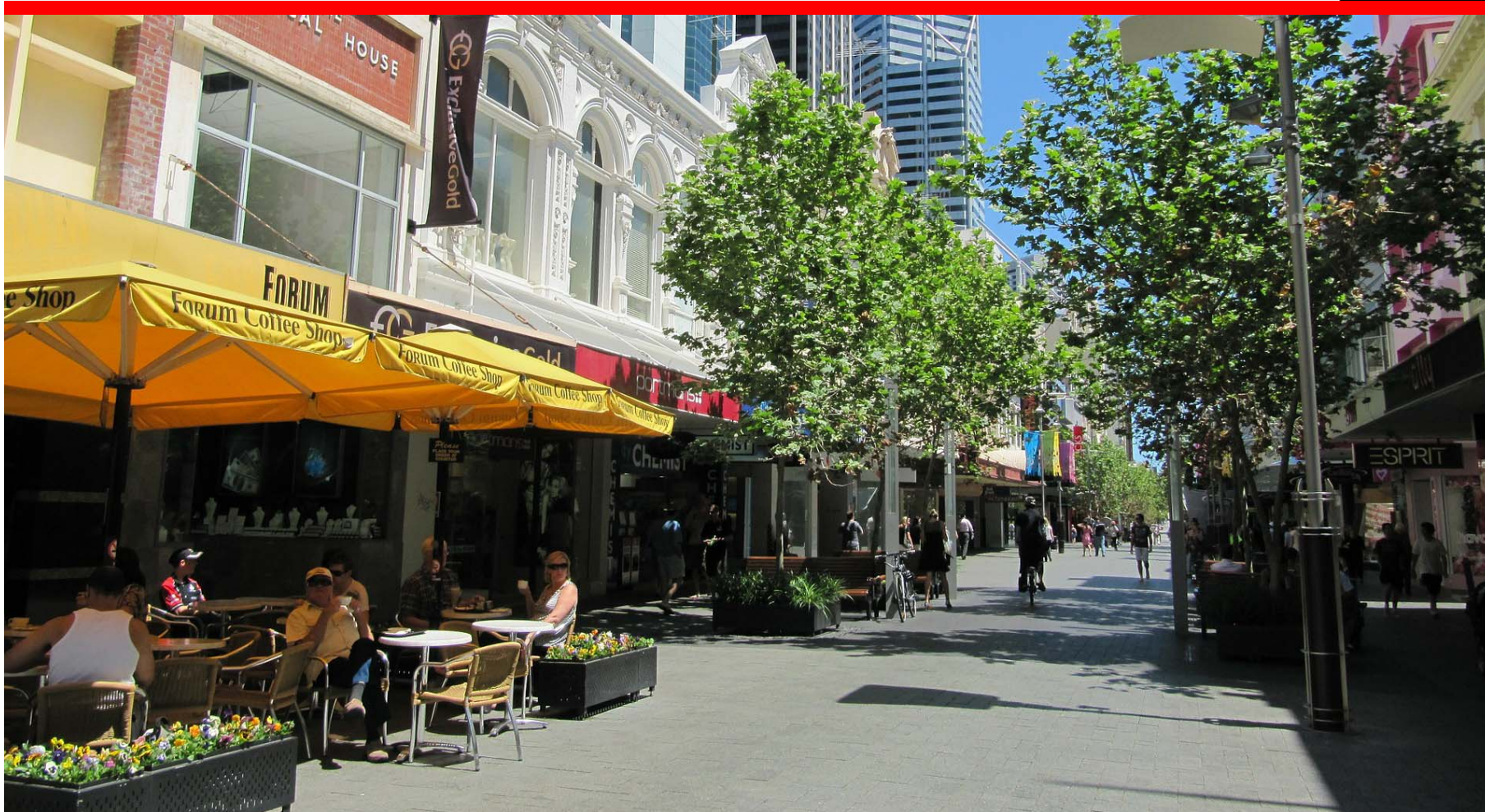
by NAB Group Economics

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March Quarter 2015



National  
Australia  
Bank



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# Key Points:

- SMEs' quarterly business conditions remained largely stable in the first quarter of 2015 at +2 index points (rounded), with firms from all tiers: low, mid and high showing broadly similar conditions from the previous quarter. At the sub-component level, SME trading and profitability conditions have deteriorated, but this is offset by improved employment conditions overall.
- Analysis by the size of SME businesses continues to highlight the divergent trends in the performance of low-tiered firms relative to their larger counterparts. Low tiered SME firms with \$2-3m revenue turnover have fared the worst consistently across all measures of business conditions and confidence, with significantly poorer cash flows and profitability indices particularly concerning. The rule that performance typically improves with firm size applied in most cases, except that mid-tier firms fared better in employment conditions relative to the largest SME firms in the quarter.
- Conditions were mixed across industries in the quarter. Property services and finance firms continued to do well, despite a notable weakening of the former in the quarter, while accommodations, cafés and restaurants recorded a sharp rebound back into positive territory. Wholesale and transport recorded the weakest business conditions after a marked deterioration in the quarter, while retail businesses continued to be mired in negative territory. Conditions in manufacturing improved notably to be around the neutral mark.
- Similar to business conditions, SME business confidence was also stable in the first quarter of 2015. Confidence by SMEs was slightly higher than general businesses as measured by the NAB Quarterly Business Survey (QBS). Among different industries, property and manufacturing firms were the most confident, while health firms slid further down the scale to be the least confident sector at -20 index points. Transport firms experienced the sharpest decline of 13 points to -4. Rising property prices and a stable AUD at a lower level have benefited the confidence of SME property and manufacturing firms, but the recent rebound in oil prices and uncertainty surrounding government funding have plagued the confidence of transport and health sectors respectively.
- Conditions across states were generally lower in the quarter, with the exception being Victoria, which enjoyed a surge in both conditions and confidence and emerged as the top in both measures. NSW also recorded positive confidence and conditions in the quarter, despite a slight fall in the latter indicator. On the contrary, conditions and confidence in WA have deteriorated further to be the weakest of all states in both measures, followed by Queensland.
- Forward orders fell into negative territory in the quarter, reflecting by consistent falls across differently sized firms. SMEs' capacity utilisation mirrored the trends in confidence and conditions to stabilise around 79% , but remained below its long-term average of 80%.

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

	2014q1	2014q4	2015q1		2014q1	2014q4	2015q1
	<i>Net balance</i>				<i>Net balance</i>		
SME business confidence	7	2	<b>2</b>	SME trading conditions	10	9	<b>5</b>
Low	9	-2	-6	Low	12	-2	<b>-3</b>
Mid	9	3	<b>6</b>	Mid	16	8	<b>4</b>
High	5	4	<b>3</b>	High	6	14	<b>11</b>
SME business conditions	4	2	<b>2</b>	SME profitability	1	1	<b>-1</b>
Low	5	-5	<b>-6</b>	Low	0	-5	<b>-9</b>
Mid	5	3	<b>2</b>	Mid	5	2	<b>-1</b>
High	2	6	<b>5</b>	High	-1	4	<b>3</b>
SME cash flows (n.s.a.)	2	9	<b>1</b>	SME employment	-1	-3	<b>0</b>
Low	-2	-4	<b>-6</b>	Low	1	-8	<b>-8</b>
Mid	2	9	<b>0</b>	Mid	-7	0	<b>1</b>
High	4	15	<b>6</b>	High	1	-1	<b>0</b>

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

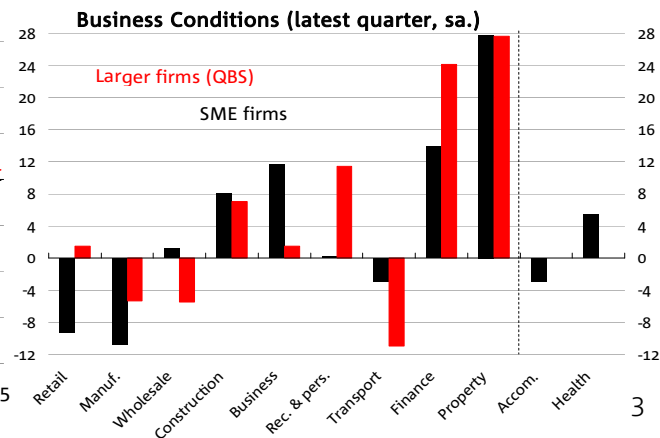
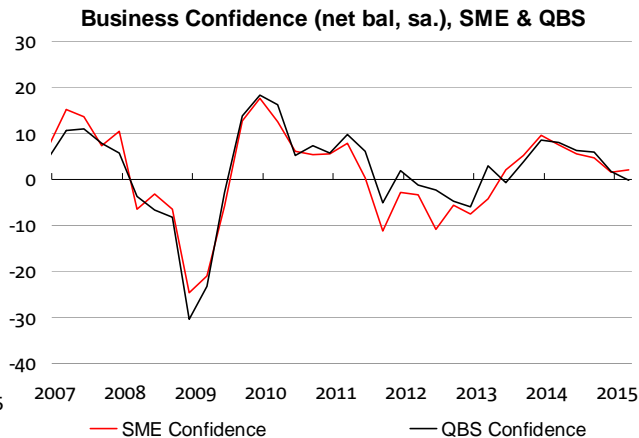
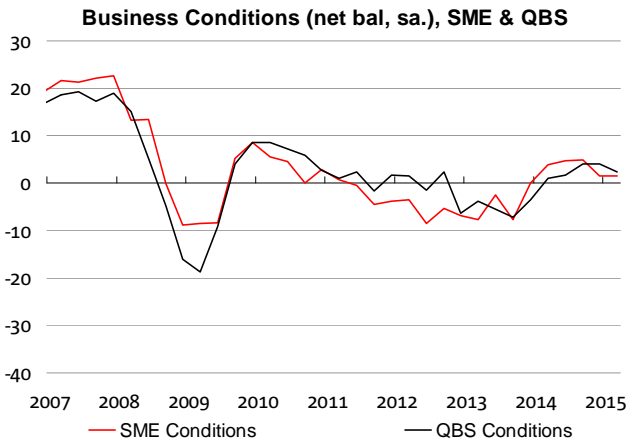
\*\* Data are seasonally adjusted by NAB, except SME cash flow (insufficient time series available). All data are net balance indices. Fieldwork for this Survey conducted from 12 February to 23 March 2015 covering around 714 SME (non-farm) firms.

## Contents

<a href="#">Key points</a>	2
<a href="#">Analysis</a>	3
<a href="#">Key indicators</a>	4
<a href="#">SME Investment</a>	5
<a href="#">Business strategy</a>	6
<a href="#">Constraints on output and profitability</a>	7
<a href="#">Significant long-term constraints</a>	8
<a href="#">More details (industry, state, size)</a>	9-12

# Analysis

- SME business conditions remained unchanged at around +2 index points, with the recovery over 2014 seemingly running out of steam. The index currently sits marginally below that of general businesses (also +2 index points after rounding) indicated by NAB Quarterly Business Survey (QBS). In terms of the sub components that make up business conditions ( trading, profitability and employment conditions), falls were recorded in trading (from +9 to +5 index points) and profitability conditions ( from +1 to -1) , while employment conditions rose by 3 points to the neutral point.
- Across industries, business conditions for finance rose markedly in the quarter to be at +17 index points, the highest in level terms across all industries. This is followed by business services and property sectors, which also recorded robust conditions readings despite the latter having fallen by 13 points in the quarter. These sectors have largely benefited from a loose monetary setting and rising equity market, combined with an improving demand for housing credit driven by the continuous strength in the Sydney and Melbourne housing markets.
- On the flip side, wholesale, transport, construction and retail were the main under-performers. Manufacturing, which has been amongst the weakest sectors in the last few quarters, jumped by 11 points in Q1 to be around the neutral point. Compared to the larger businesses in the QBS, significantly poorer business conditions were reported in SME retail, manufacturing, recreational and personal services, as well as finance sectors. Against that, relatively better performances were reported by SMEs in construction, business services and wholesale.
- Within the SME space, low-tiered firms continued to report significantly weaker conditions relative to the mid and high-tiered SMEs firms across all measures : cash flows, capacity utilisation, employment, trading conditions , forward orders and profitability etc. This highlights the enduring size-specific challenges that these SME firms have to confront on a long-term basis.
- SME confidence remains marginally positive and unchanged from the previous quarter, after a falling trajectory over 2014. A fractured global outlook with slowing external demand for Australian exports, combined with a lacklustre domestic demand, as well as political uncertainty associated with policy setbacks at the Federal Government level, appear to have weighed on confidence in the SME space.
- Consistent with significantly weaker conditions in the quarter, SME businesses in the transport sector also reported softer confidence, to be the second least confident sector after health. The health sector has been amongst the least confident for some time despite robust business conditions, perhaps an indication of the uncertainty surrounding the changes in health policies at present. Meanwhile, the property and manufacturing sectors were the most confident. Retail confidence, which has been negative for some time, broke into positive territory in Q1 on the back of tentative recovery in retail activity.
- Analysis by the size of SME firms suggest that mid-tier firms now outperform the large-tier firms in terms of confidence, but the low-tiered firms remained the least confident of all categories.

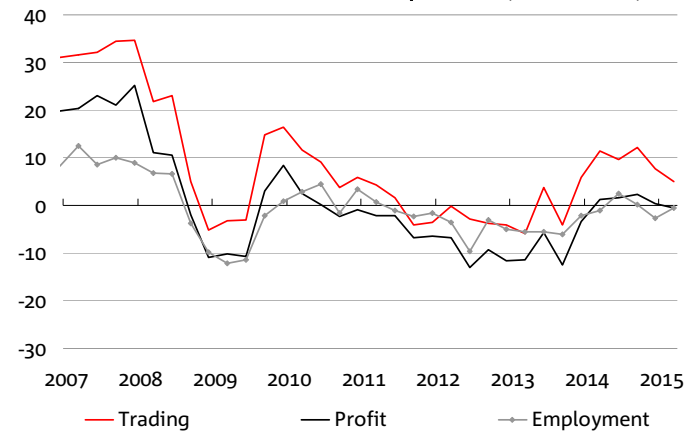


# Key indicators

- SME business conditions were largely unchanged in Q1 from the quarter before given the broadly stable readings of the components that make up the index: employment, trading and profitability. All three components (seasonally adjusted) remain below their long-run averages. SME cash flows (not seasonally adjusted) reversed all of its gains in the previous quarter but remains positive.
- Forward orders of SMEs fell notably in the quarter to be in negative territory and below that of general businesses indicated by the QBS, indicating sub-trend activity growth in the near-term. Orders were the strongest in health (+3 points), followed by accommodation, cafes and restaurants (+2 points), as well as finance (+2 points) but all three categories registered falls in the quarter. On the contrary, wholesale (-14) and property services (-8) reported the weakest forward orders conditions.
- The SME stocks index rose slightly in the March quarter to be at a similar level of stock building as larger firms over the same period. Generally flat conditions and confidence provided very little incentive for businesses in general to undertake substantial restocking, with businesses preferring to maintain a normal level of stocks unless there are signals to suggest future demand is likely to change greatly in the near term.

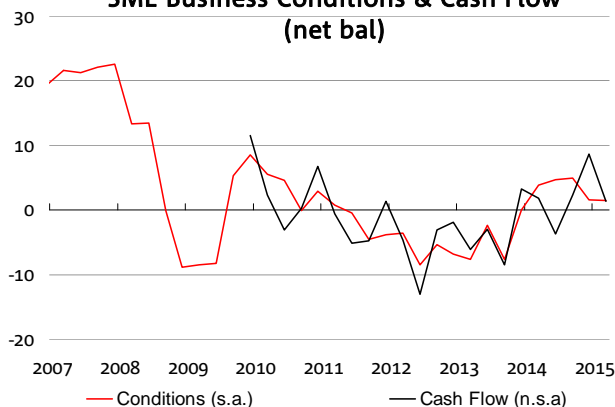
**Trading conditions was the key driver for overall conditions, employment and profitability still soft**

**SME Business Conditions Components (net bal, sa.)**



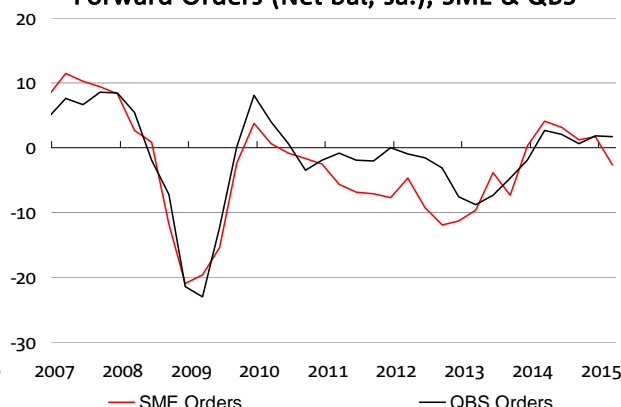
**Cash flow index fell notably in the quarter but stayed positive**

**SME Business Conditions & Cash Flow (net bal)**



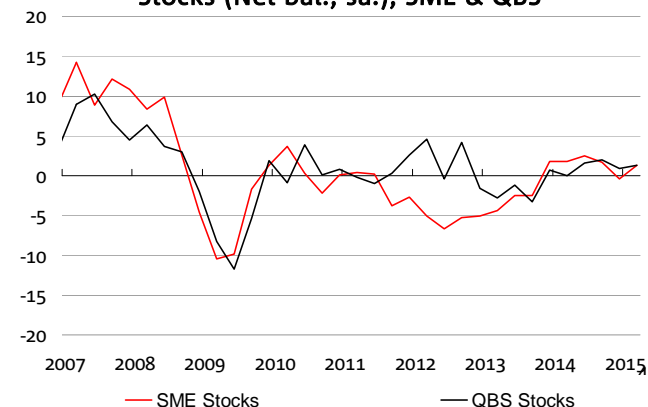
**SME forward orders fell back to negative territory**

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



**Flat conditions and confidence provided no impetus for inventory restocking**

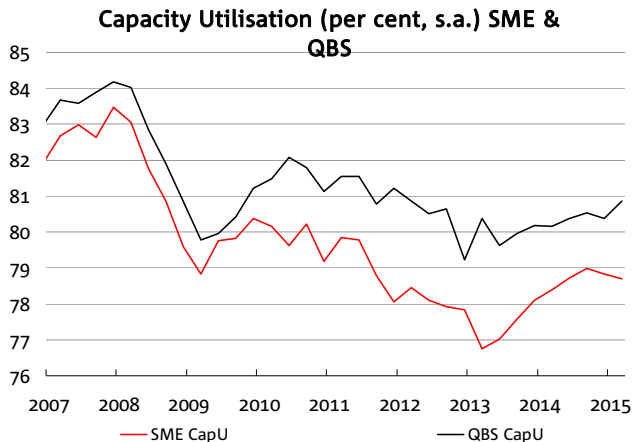
**Stocks (Net bal., sa.), SME & QBS**



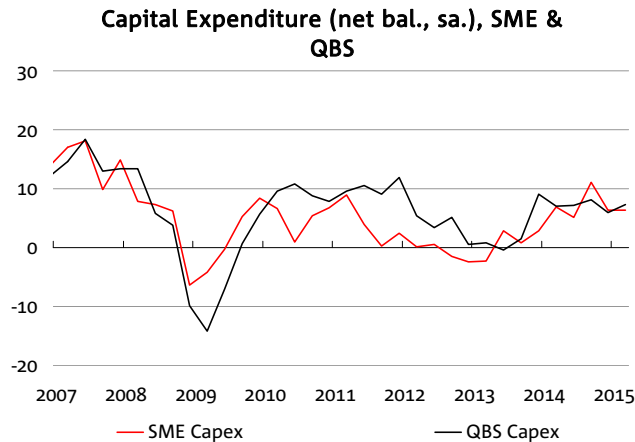
# SME Investment

- SME capacity utilisation fell only marginally to 78.7% in the March quarter, which was in line with generally stable conditions and confidence in the quarter. SME capacity utilisation has been trailing behind that of larger businesses consistently since the inception of the series in 2006, and stayed below its long-term average of 79.7%. In the quarter, falls in capacity utilisation of mid-tiered (down 1ppts to 78.1%) and high-tiered firms (unchanged at 80.0%) were only partly offset by increases in utilised capacity of low-tiered firms (up 0.4 ppts to 76.9%). Across industries, capacity utilisation remained the highest in health services (88.7%) , business services (82.9%) and finance services (82.0%), while it was very low in accommodation (74.1%) and manufacturing (75.8%). Capacity utilisation in health and property services exceeded their long-run average in the quarter.
- Capital expenditure (capex) by SMEs have also stayed largely unchanged to be slightly below the capex reading for larger businesses as indicated by the QBS. The fall in capacity utilisation rate in the quarter could be a limiting factor for lifting capital investments extensively by firms. However, positive readings for both SME and QBS Capex indicate that firms are operating in an expansionary mode, with low interest rates and a loose labour market working in their favour.
- By industry, capex were the strongest in the finance sector (+20 points), followed by property services (+14 points) and transport services (+12), while construction (-2 points) was the main detractor for the index. In the near term, SME businesses were more optimistic about their capex plans. This is evidenced by a pick-up in the index reflecting expectations for the next 3 months to +7 points, relative to +6 points in the previous quarter. However, longer-term capex intentions have weakened, with 12-month capex expectations retreating to +9 in the first quarter from +14 the same quarter last year.

## SME capacity utilisation diverged from that of general businesses'



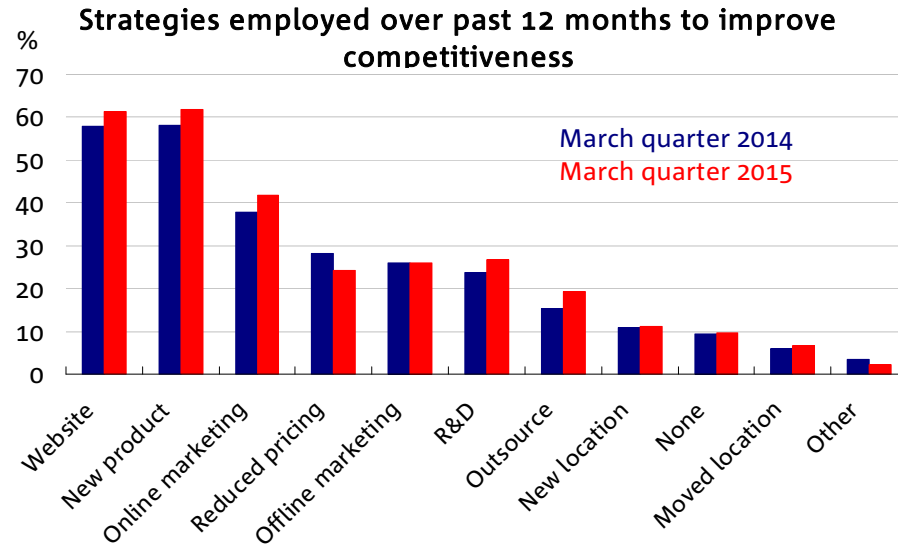
## Capex intentions pointed to moderate expansion in near-term activity



# SME business strategy

- In the March quarter SME Survey, we again asked firms whether they had employed any new strategies over the past 12 months to improve their competitiveness in the market. On the whole, the results were largely similar to those of the previous quarter, which were skewed heavily to less-disruptive, lower-cost options.
- On balance, there had been marginal increases in most categories in Q1 relative to the same quarter last year, suggesting that SME firms have become more active in engaging in competitive strategies, although price reduction/discounting was adopted more moderately. This potentially signals an improvement in underlying demand conditions over the last twelve months which requires a lesser need to engage in competitive pricing.
- Nonetheless, there appeared to be a ramping up in non-price competition given the more intensive deployment of strategies such as website, new product and online marketing.

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

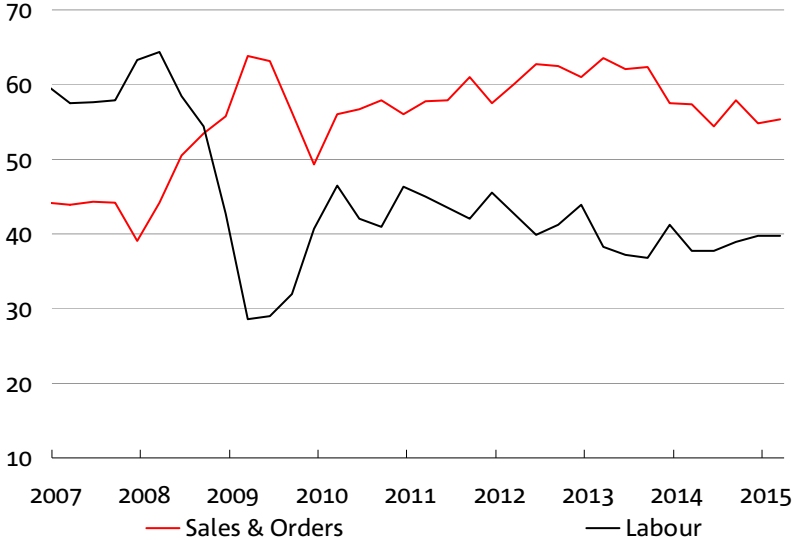


\* Multiple responses allowed; will not sum to 100%  
Source: NAB Quarterly SME Survey

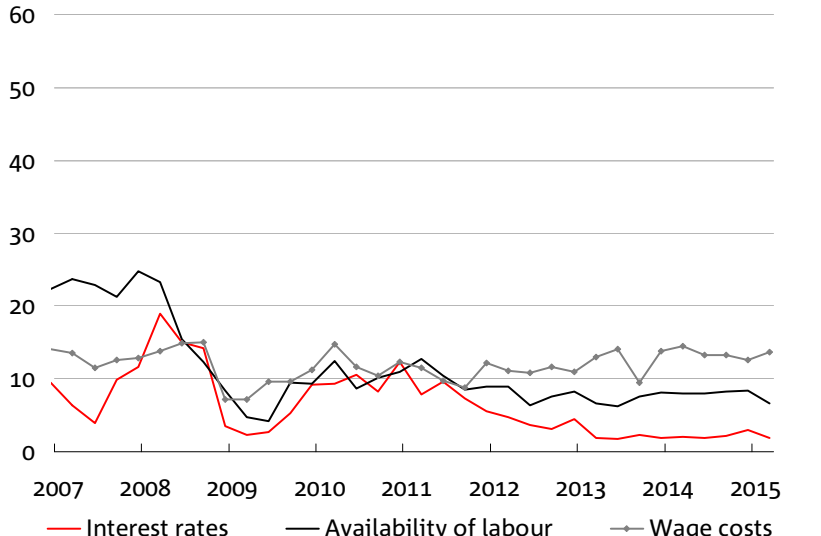
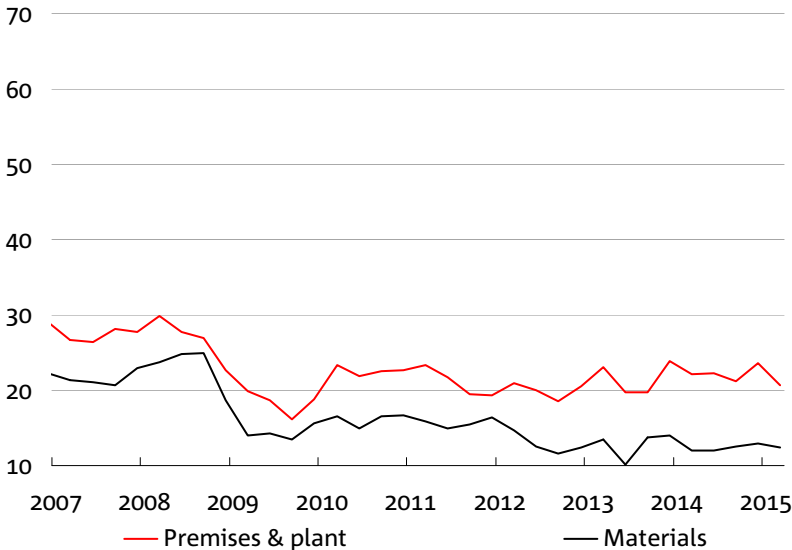
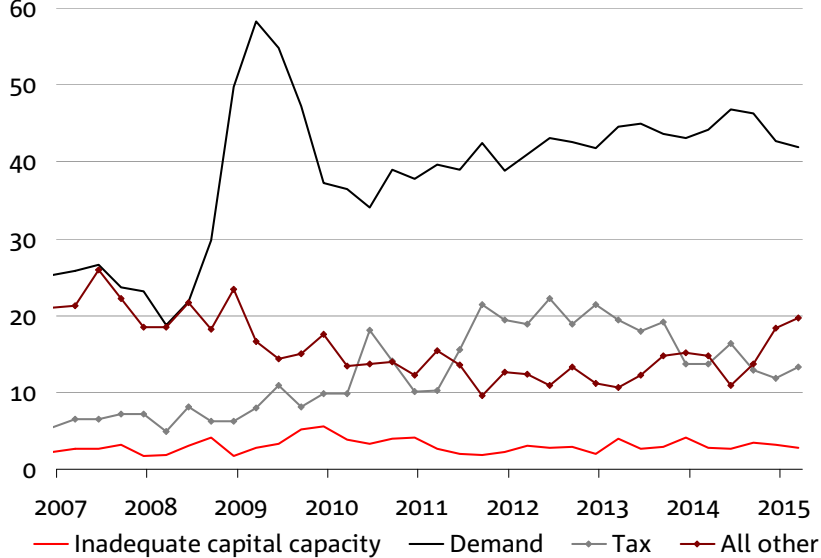


# Constraints facing SMEs' output and profitability

Constraint on output (% of firms)



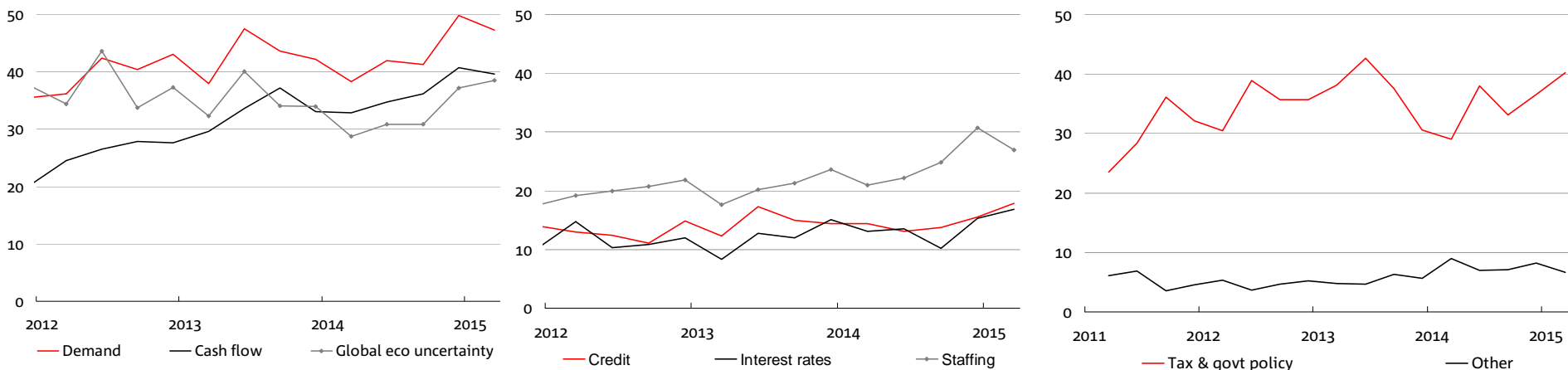
Constraint on profitability (% of firms)



# Significant constraints affecting SMEs' long-term decisions

- Over 2014, responses on significant constraints faced by SME's in their long-term decision making indicated a general rising trend, which suggested that SMEs faced an increasingly difficult business environment over the course of the year.
- The top three constraining factors which have shown the greatest extent of worsening over 2014 had been reported to be cash flow, demand and staffing. These coincided with a falling business confidence trajectory and plateauing business conditions. Meanwhile interest rate and credit showed very limited deterioration over the same period, which suggested that supply-side financial constraints were largely contained in the year from an accommodative monetary setting.
- In the March quarter, there was a moderation in the severity of a number of constraints, with demand, cash flow, staffing and "other" considered to be less limiting compared to the previous quarter. In the meantime, tax and government policy in particular has become a significantly more pronounced constraint in the quarter, with global uncertainty, interest rate and credit also showing signs of becoming more restrictive.

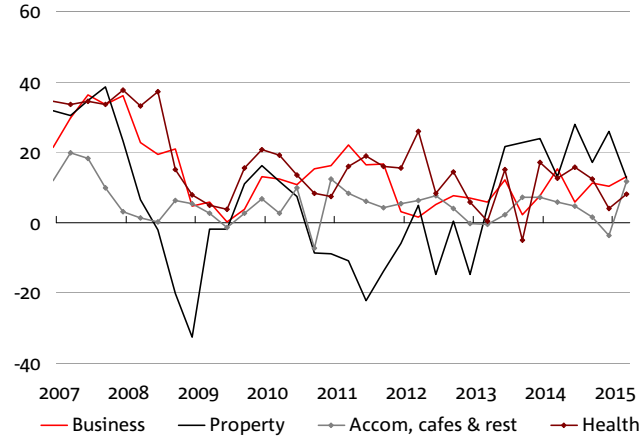
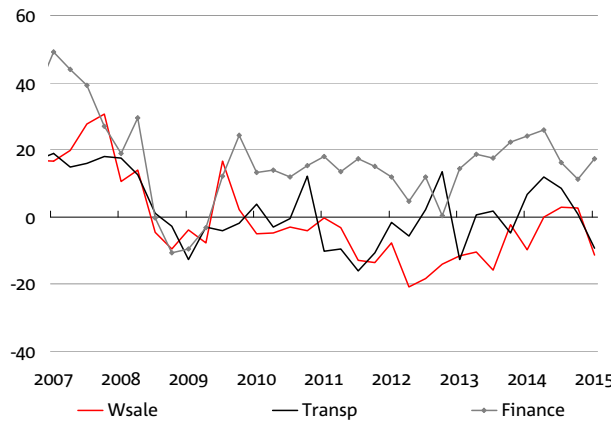
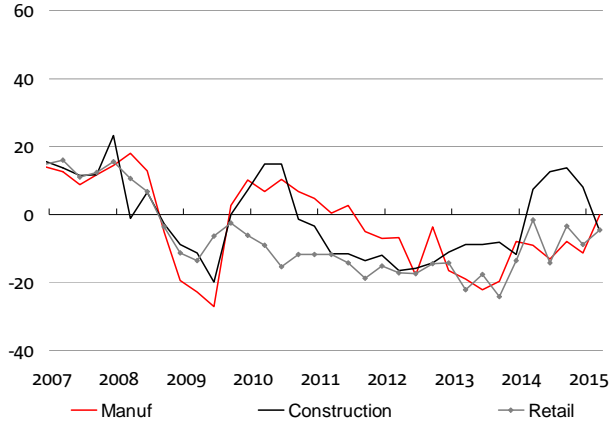
## Most significant constraining factors for SMEs (per cent, multiple responses)



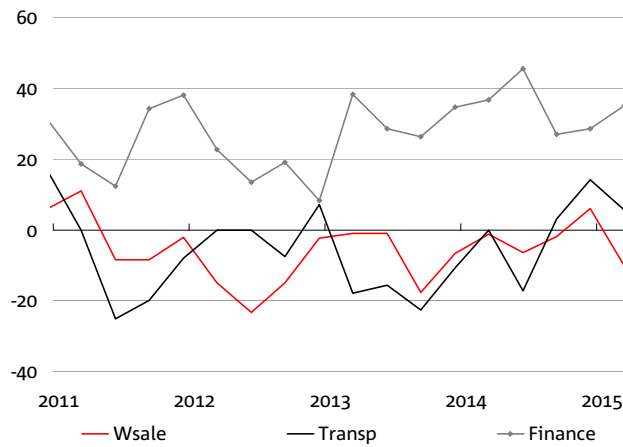
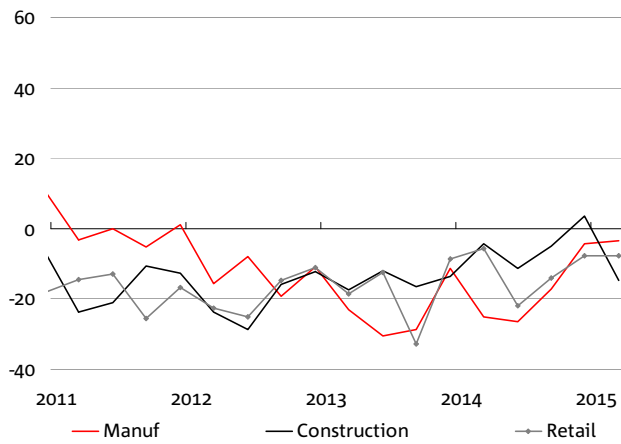


# More details on industries

## Business conditions by industry (net balance)

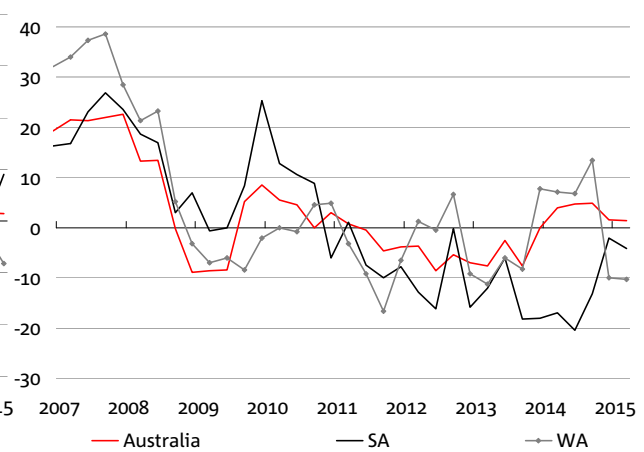
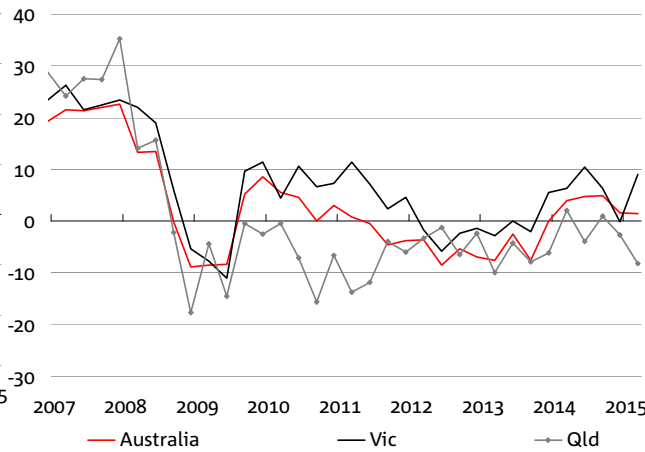
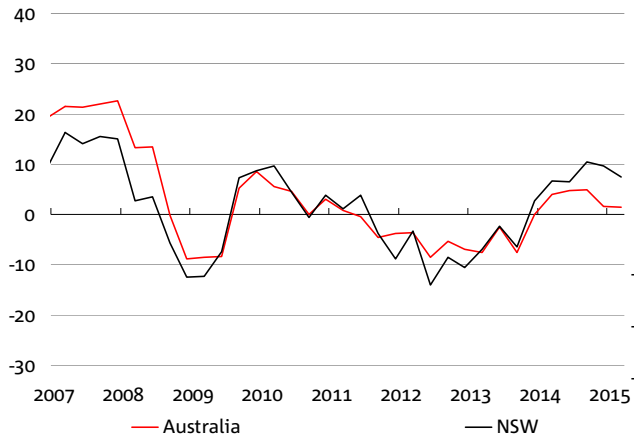


## Business confidence by industry (net balance)

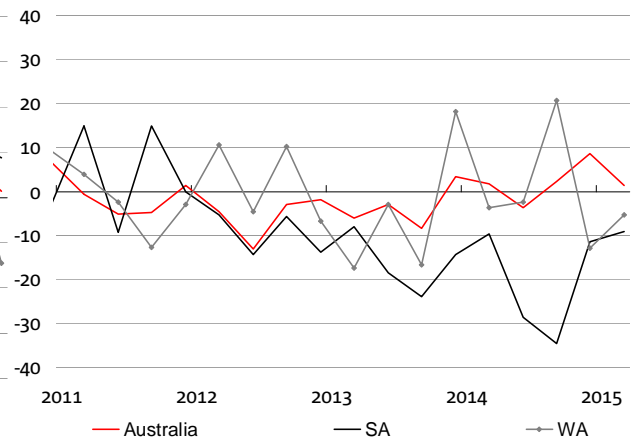
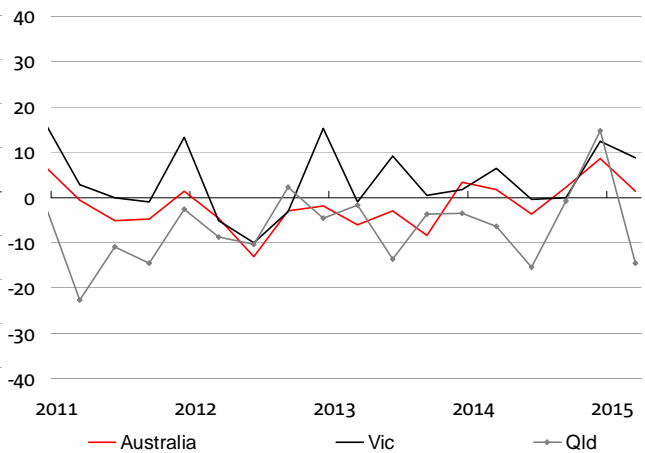
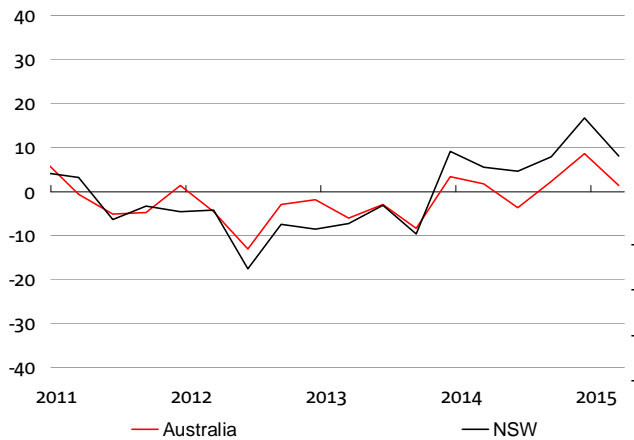


# More details on states

## Business conditions by state (net balance)

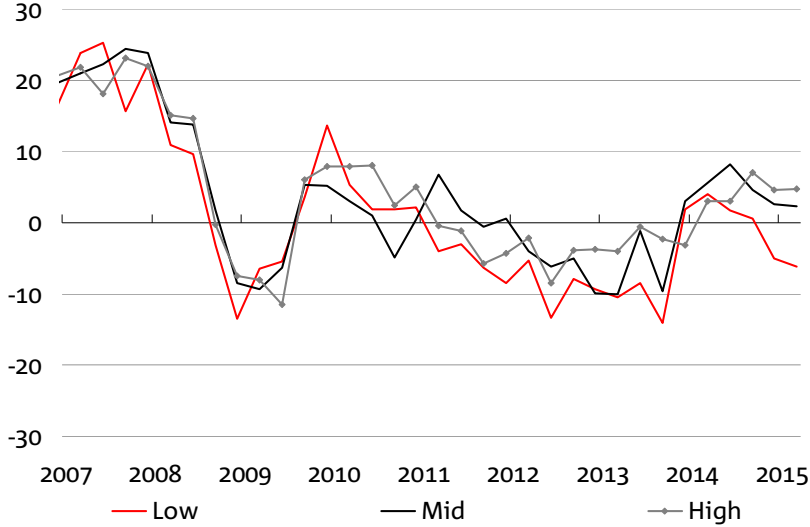


## Business confidence by state (net balance)

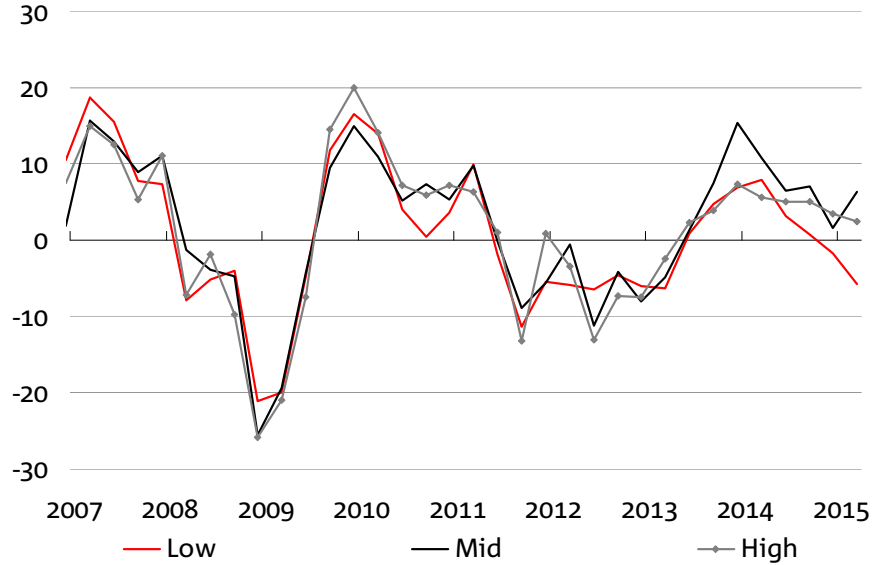


# More details by SME firm size

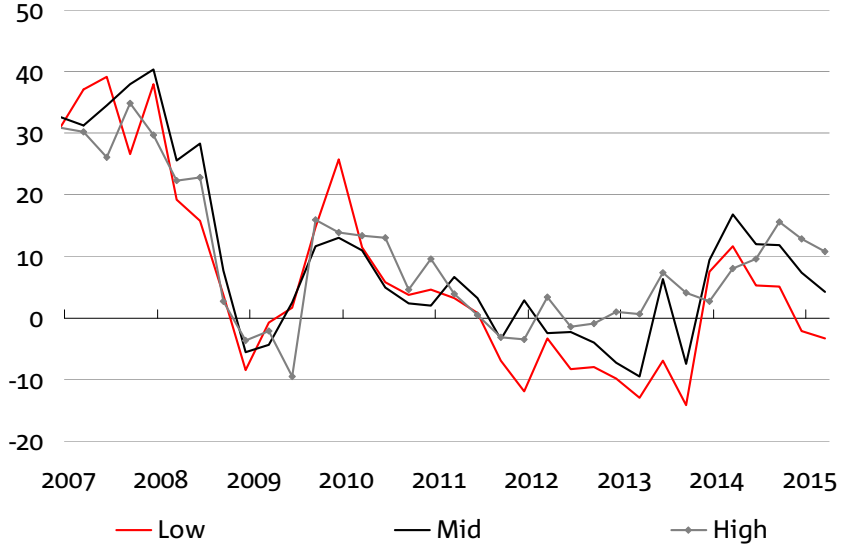
**Business Conditions (net bal., sa.)**



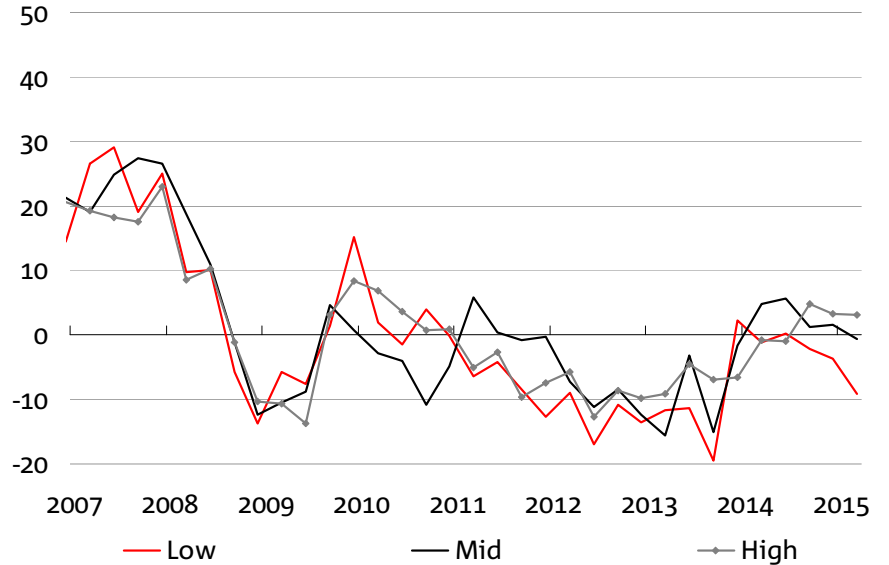
**Business Confidence (net bal., sa.)**



**Trading Conditions (net bal., sa.)**

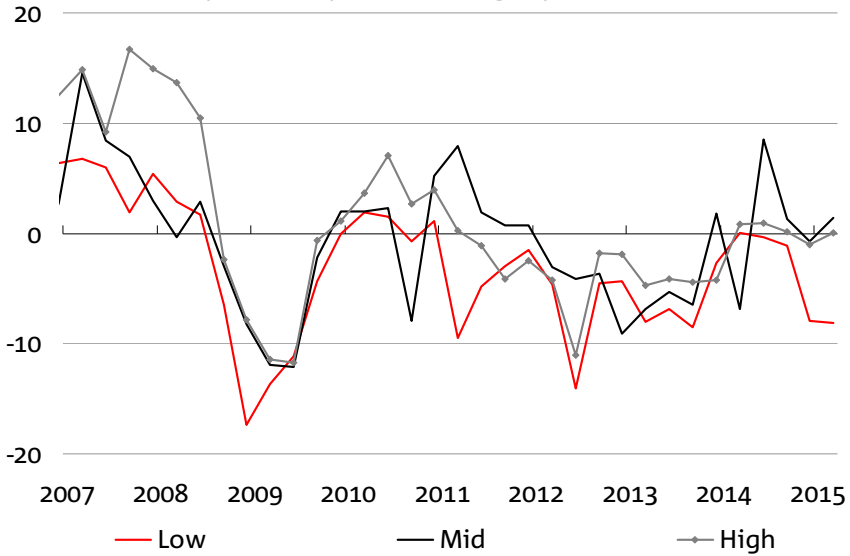


**Profitability (net bal., sa.)**

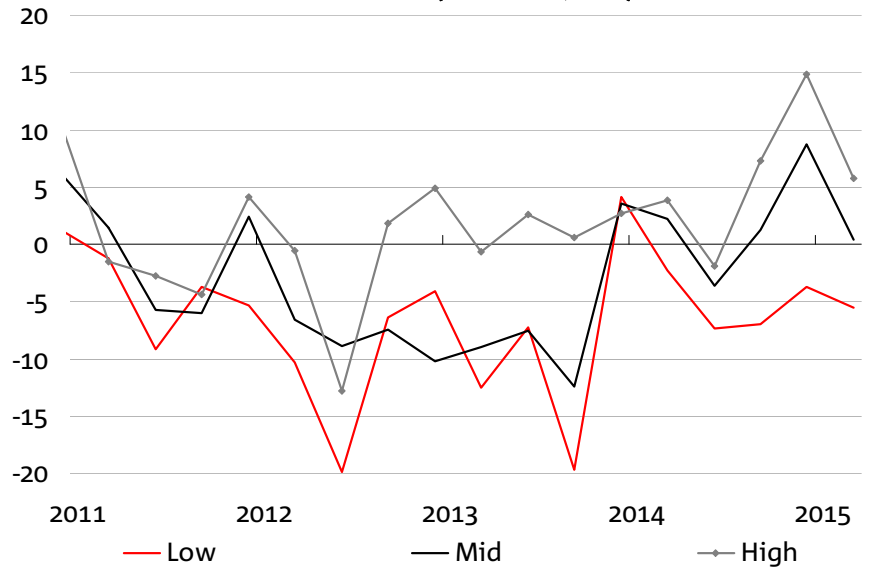


# More details by firm size (cont.)

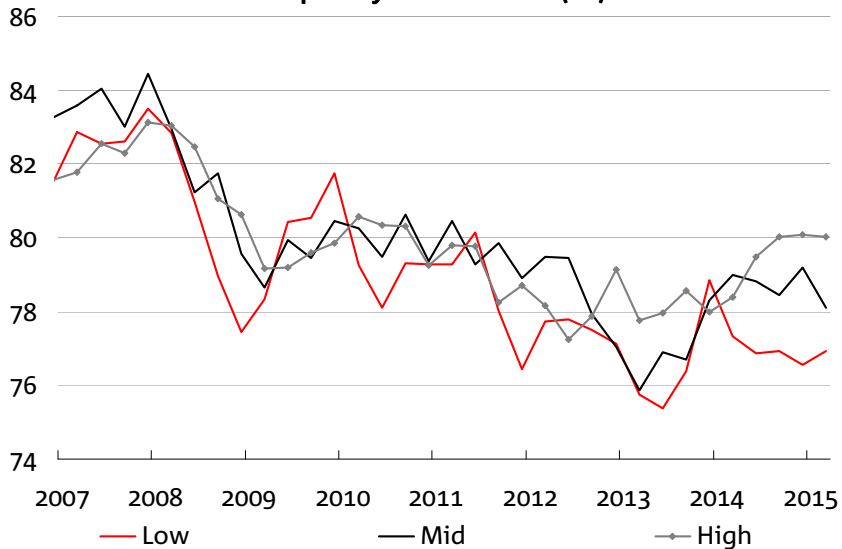
## Employment by SME category (net bal., sa.)



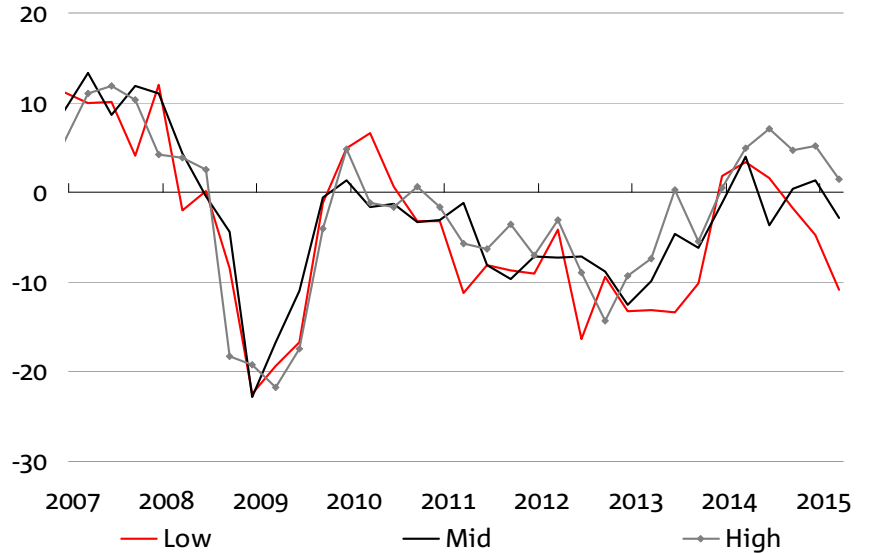
## Cash Flow (net bal., sa.)



## Capacity Utilisation (%)



## Forward Orders



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