

NAB SME BUSINESS SURVEY

December Quarter 2016 *(Embargoed until 11.30am Thursday 16th Feb)*

By Group Economics



Key points:

- The Q4 results from the NAB SME Business Survey show a sharp rebound in business conditions, while confidence eased marginally. Business conditions for SMEs jumped by 5 points to +10 index points, to be at the highest level since the pre-GFC period. Despite a slight fall, business confidence, at +5, remains well above its long-run average of +2.
- All three components that make up business conditions – trading, employment and profitability conditions – recorded strong improvements in the quarter. Trading and profitability conditions have returned to levels last seen in 2008 and 2009 respectively, while employment conditions are the strongest since 2010. Firms of all size categories also reported mostly positive results for the components of business conditions in the quarter.
- By industry, all sectors except for manufacturing reported positive business conditions in the quarter, and all industries have reported neutral to positive confidence levels.
- Leading indicators are generally resilient, pointing to a moderate expansion in SME activity in the near term. Overall, SME input and final price indicators remain subdued and are consistent with contained price pressures.

	2015	2016	2016
	Q4	Q3	Q4
Business Conditions	3	5	10
Low-tier firms	-7	3	8
Mid-tier firms	1	6	9
High-tier firms	8	6	10
Business Confidence	3	6	5
Low-tier firms	1	2	2
Mid-tier firms	7	7	2
High-tier firms	1	7	9
Trading Conditions	10	12	17
Low-tier firms	-3	5	17
Mid-tier firms	11	10	13
High-tier firms	14	18	17
Profitability	1	4	8
Low-tier firms	-11	6	8
Mid-tier firms	-1	4	8
High-tier firms	8	4	9
Employment	-3	-1	4
Low-tier firms	-6	-4	0
Mid-tier firms	-5	5	7
High-tier firms	0	-5	3

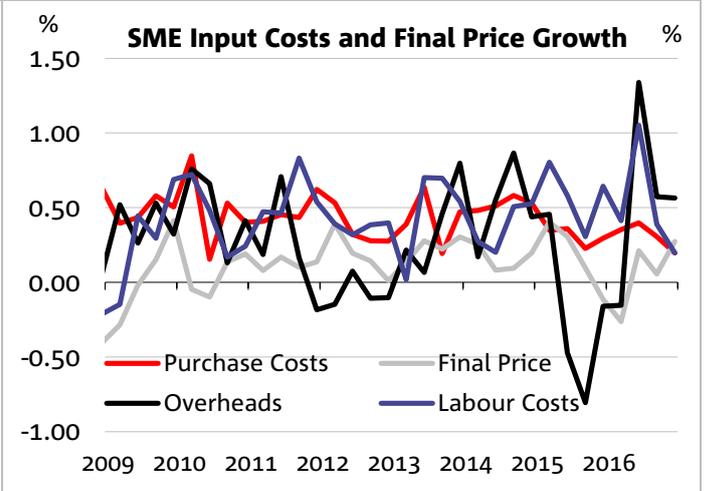
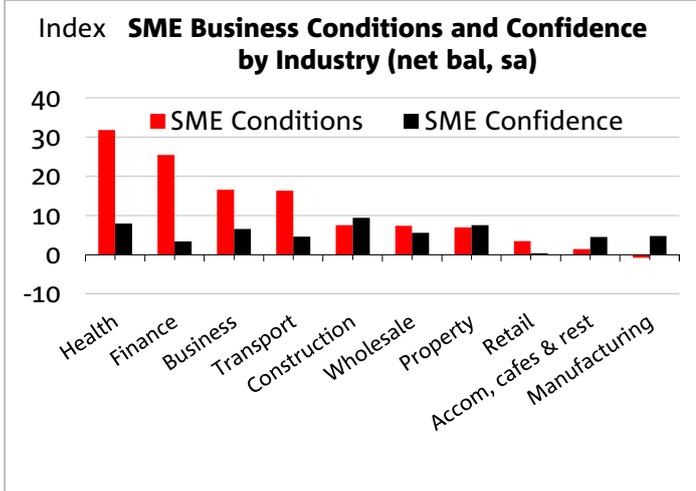
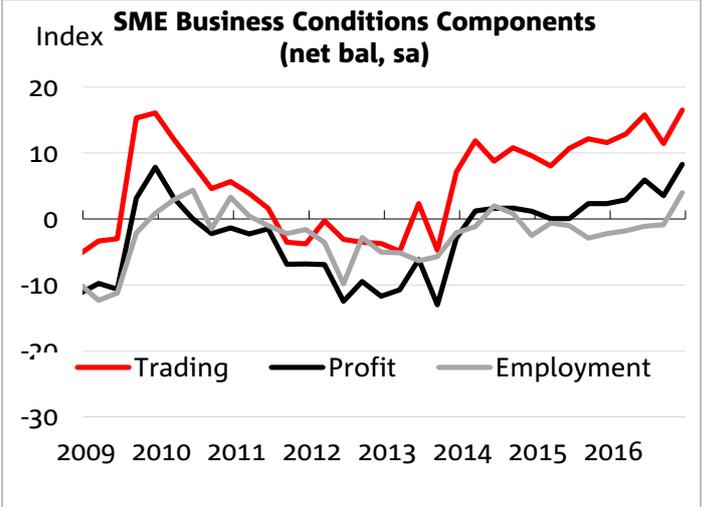
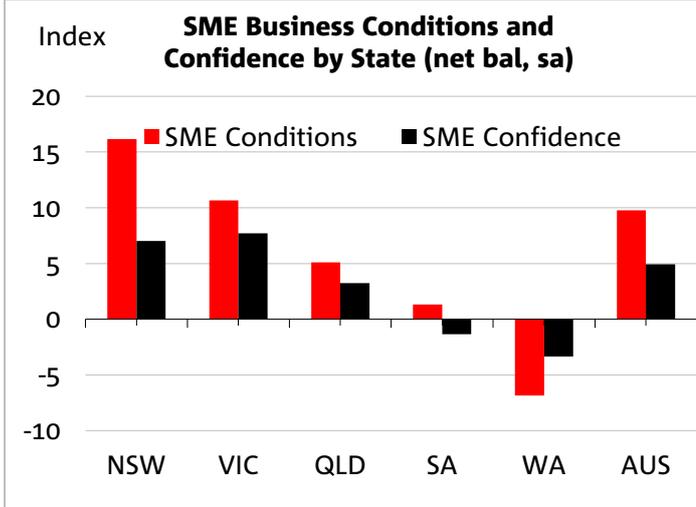
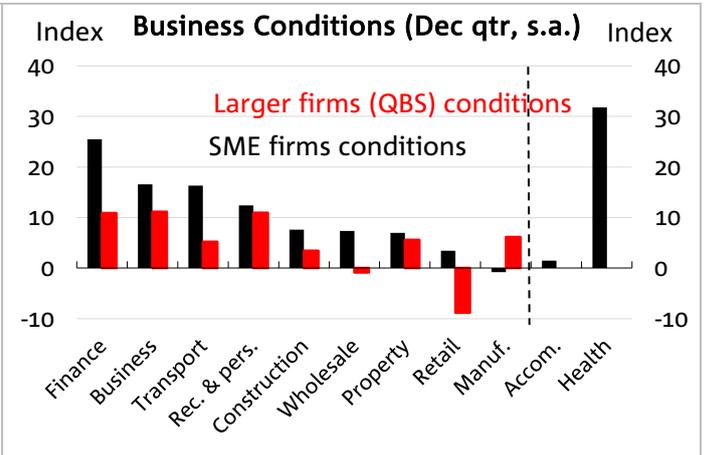
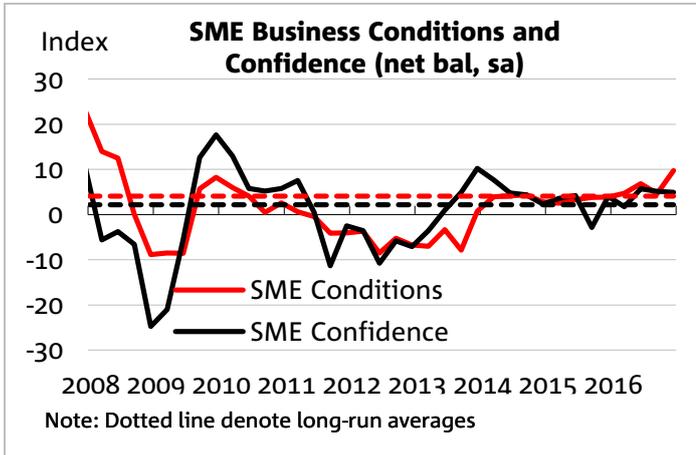
Low-tier SMEs' business conditions now comparable to that of their mid-tier and high-tier counterparts

The NAB SME Survey is the leading business survey of small businesses in Australia, and complements the comprehensive Quarterly NAB Business Survey. It 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.

According to NAB Group Chief Economist Alan Oster, "The Q4 survey contains further indications that the non-mining recovery has finally filtered through to the smaller businesses in the economy, and that the recovery across the SME sector is gaining traction." SME conditions rebounded sharply in the quarter, characterised by across-the-board improvements in the three components of trading, profitability and employment conditions, all of which are now at their multi-year highs. "It is encouraging to see that low-tier SMEs' business conditions have finally caught up to that of the mid-tier and high-tier ones, after a long period of lagging notably behind," said Mr Oster.

"Business conditions of most industry sectors are also looking favourable, with all but manufacturing reporting positive business conditions in the quarter. While an improvement in retail conditions is a welcome sign, the sector is still relatively weak by comparison, and warrants further monitoring given its importance to the consumption outlook. Meanwhile, we continue to witness superior conditions in tertiary services such as health, business and financial services," said Mr Oster. Meanwhile, SME business confidence eased marginally in the quarter to +5, but continues to exceed its long-term average of +2.

"It was encouraging to see that business conditions improved in all states in the quarter except for Victoria, where conditions were unchanged at a relatively solid reading of +11." "Reassuringly, SA business conditions edged into positive territory (at +1) for the first time since mid-2015," said Mr Oster. NSW and Victoria continue to outperform in terms of conditions (at +16 and +11 respectively), while WA remains the weakest and the only state with a negative index (at -7). Victoria and NSW also dominate in terms of business confidence (at +8 and +7 respectively) while WA is the most pessimistic (at -3). SA was the only other state to report negative confidence (at -1). "There appears to be very little pass-through from the higher commodity prices we saw in the second half of 2016 into stronger SME confidence in mining states such as WA, perhaps reflecting the small extent to which SMEs in Australia engage in commodity exporting," said Mr Oster. **For further details, please see detailed document.**



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