

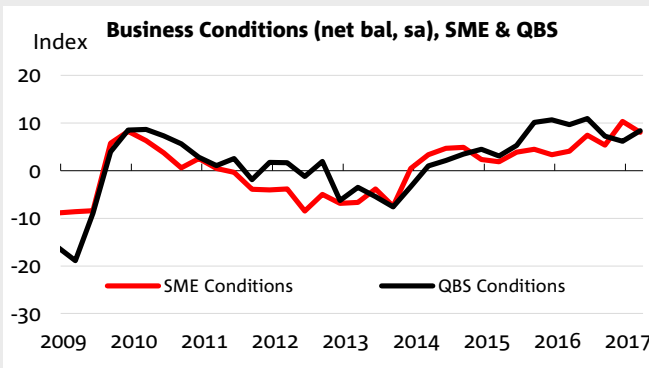
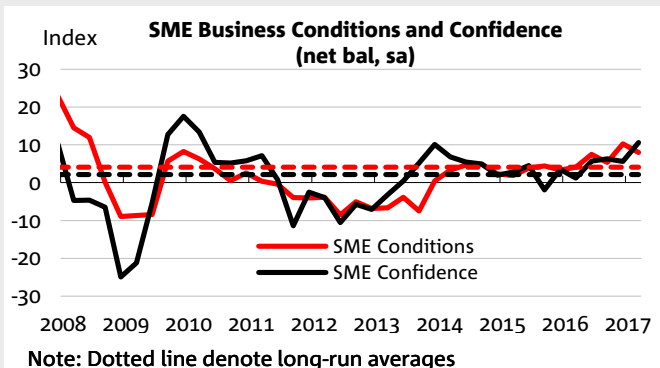
# NAB QUARTERLY SME SURVEY

MARCH 2017



## Key points:

- The NAB Small and Medium Enterprises (SME) Business Survey saw business conditions pull back slightly in the March quarter 2017, while confidence surged again. Both indicators remained above their average since 2006 and point to continuing improvement in the SME sector.
- After lagging behind for an extended period, business conditions for SMEs have now been above or in line with larger businesses (as reported in the Quarterly NAB Business Survey (QBS)) for two consecutive quarters. The divergence between low, mid and high-tier SMEs has also reduced significantly in recent quarters, with the largest improvement in conditions for low-tier SMEs with turnover of \$2-3 million. Business confidence meanwhile has improved strongly across all SME categories.
- By component, trading conditions, profits and employment conditions all fell slightly in the quarter, but remained higher than long-term averages. Compared to larger businesses in the QBS, trading conditions were generally better for SMEs, profitability was in line with the QBS and employment conditions were weaker for SMEs. Capacity utilisation rates for SMEs however remained below that for larger businesses. Capital expenditure for Q1 was also reported to be weak, although 12 month intentions were upbeat and improved further.
- SME business conditions were strongest in the more diversified economies of NSW and VIC, supported by sound economic fundamentals and population growth (page 2). The improvement in WA business conditions, despite remaining negative, was encouraging. Both WA and Queensland enjoyed a rebound in business confidence, likely on the back of higher commodity prices. However the survey was conducted prior to Cyclone Debbie, which will likely impact Queensland conditions in the next one or two quarters. Conditions in SA slipped into negative again, perhaps related to the imminent closure of the Holden plant in Elizabeth.
- By industry, conditions remained strong in essential services including health, property, finance, transport and business services, while manufacturing as well as hospitality and retail again lagged behind, consistent with subdued household income and consumption growth (page 2).



	2016	2016	2017
	q1	q4	q1
<b>Business Conditions</b>	4	10	8
Low-tier firms	-5	8	6
Mid-tier firms	5	10	8
High-tier firms	7	11	10
<b>Business Confidence</b>	1	6	11
Low-tier firms	-3	1	9
Mid-tier firms	3	2	10
High-tier firms	0	10	11
<b>Trading Conditions</b>	12	17	14
Low-tier firms	-4	18	9
Mid-tier firms	13	15	16
High-tier firms	17	19	16
<b>Profitability</b>	2	9	8
Low-tier firms	-4	9	8
Mid-tier firms	2	9	7
High-tier firms	4	10	8
<b>Employment</b>	-2	4	2
Low-tier firms	-5	0	0
Mid-tier firms	-1	7	-1
High-tier firms	-2	3	4

Note:

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

## CONTACTS

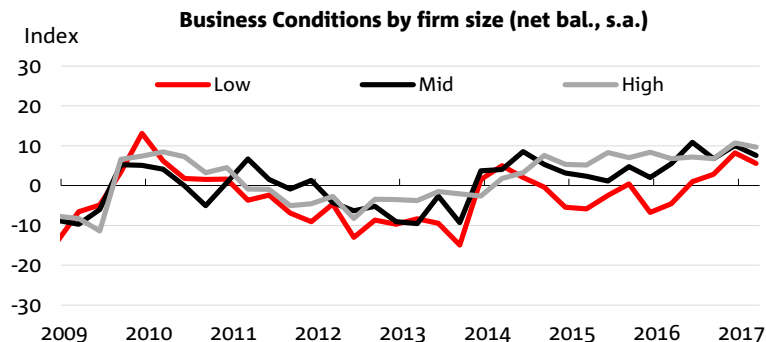
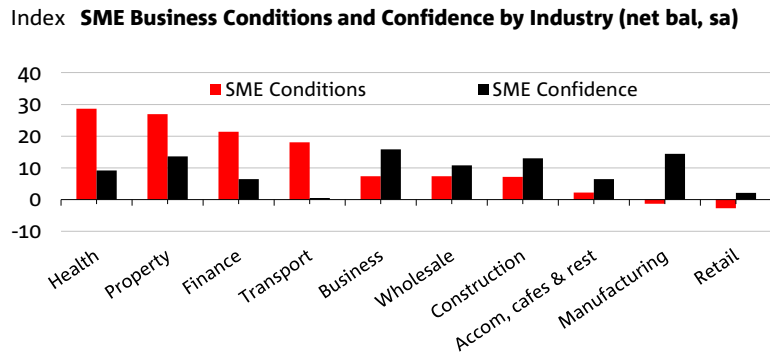
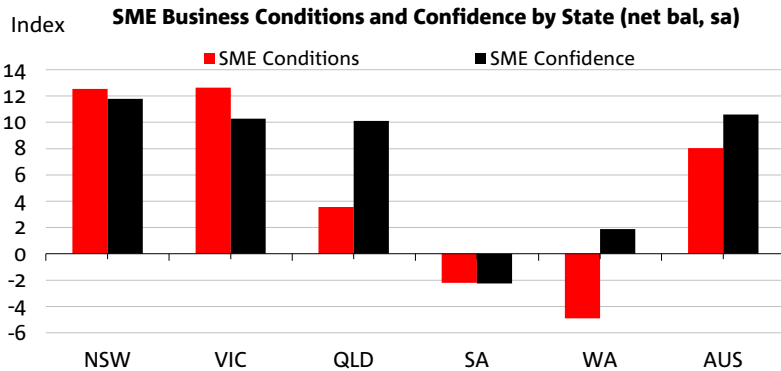
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# SME BUSINESS CONDITIONS AND CONFIDENCE

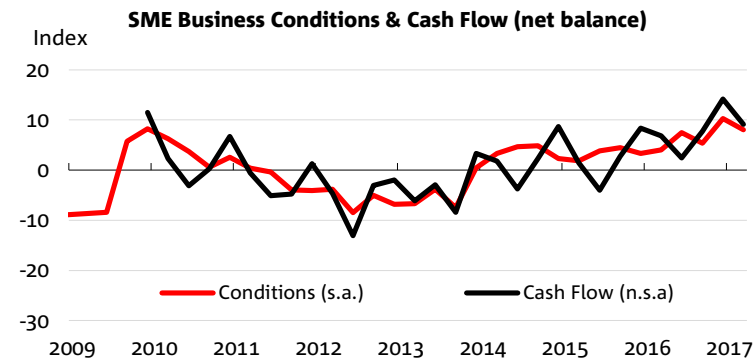
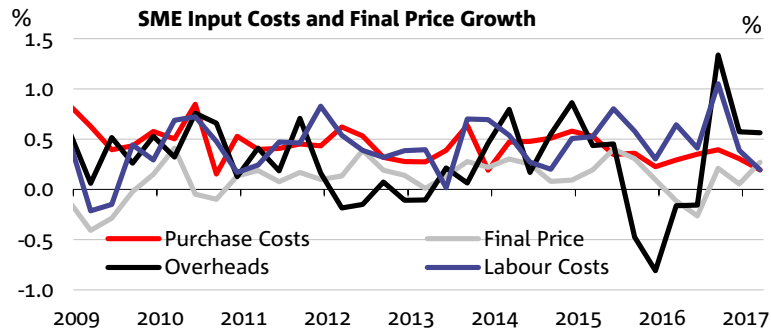
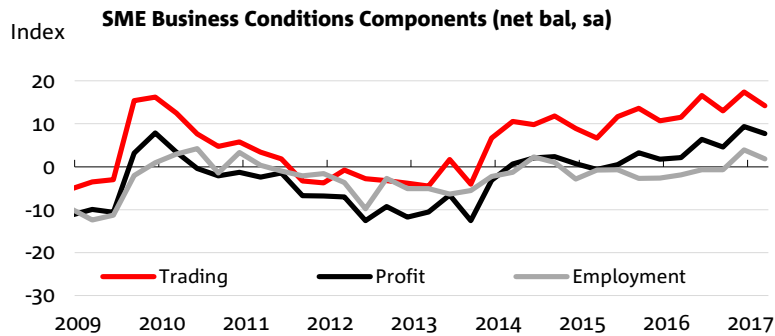
## *Outperformance by larger SMEs in services industries in the Eastern states*



- By state**, the two largest eastern states of NSW and Victoria were leading again both in terms of business conditions and business confidence, supported by their stronger economic fundamentals and population growth. Conditions pulled back slightly in all states except for WA (still negative, but improved for the second quarter). Conditions in SA slipped into negative territory again, as the state battles with the announced closure of the Holden factory in Elizabeth, the last of all car manufacturers to shut down in Australia. This may have dragged down SA confidence too, while all other states reported better confidence in Q1 (except for VIC). Queensland enjoyed a particularly large rebound in business confidence in Q1, possibly boosted by higher commodity prices. However the survey was conducted prior to Cyclone Debbie, which could see confidence and conditions in Queensland impacted in the next one or two quarters. For more state details, see page 7.
- By industry**, conditions remained robust in essential services including health, property, finance, transport and business services, while manufacturing again lagged behind, as did hospitality and retail, consistent with subdued household income and consumption growth. With a strong business conditions reading at +29, the health industry consolidated its lead since beginning of 2016. Business conditions in property had the biggest surge in Q1, up 17 points to +27, rising on strong dwelling investment and housing market activity. At the other end of the spectrum, both manufacturing and retail SME business conditions have been struggling to break into positive territory, although manufacturing business confidence has been more upbeat.
- By firm size**, business conditions and confidence tended to improve with firm size, with the best conditions reported by the largest SMEs, i.e. those with turnover between five and ten million dollars. The largest SMEs reported the highest trading, profitability and employment conditions. Although business conditions for the smallest SMEs fell back this quarter, they had seen the biggest improvement compared to a year ago. More broadly, the divergence in conditions and confidence between SME firms of different sizes has narrowed noticeably in recent quarters (page 3).

# COMPONENTS OF BUSINESS CONDITIONS

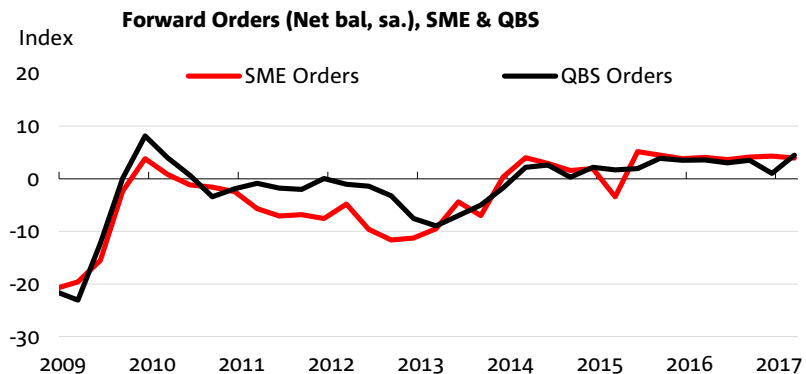
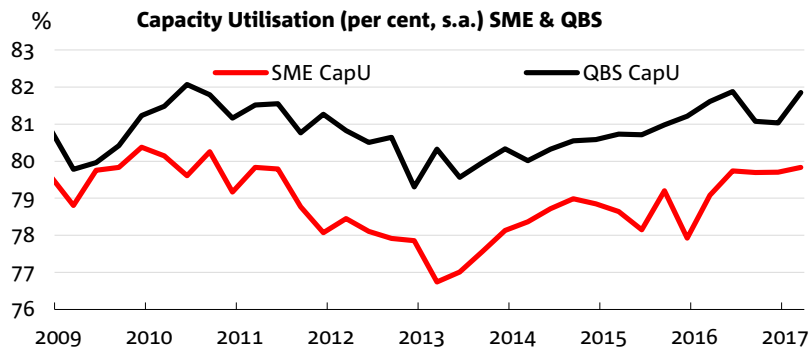
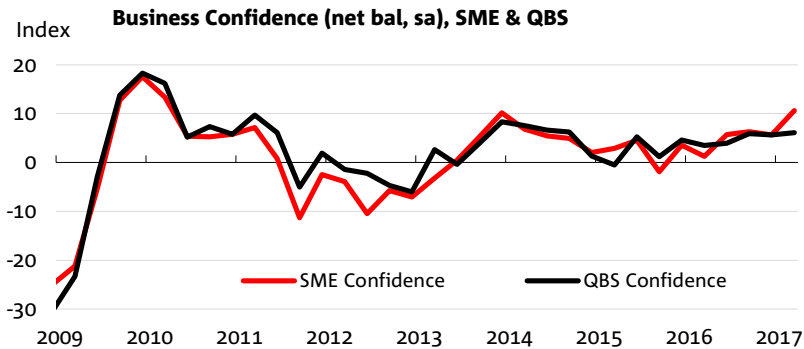
*Trading conditions remained robust while price growth subdued*



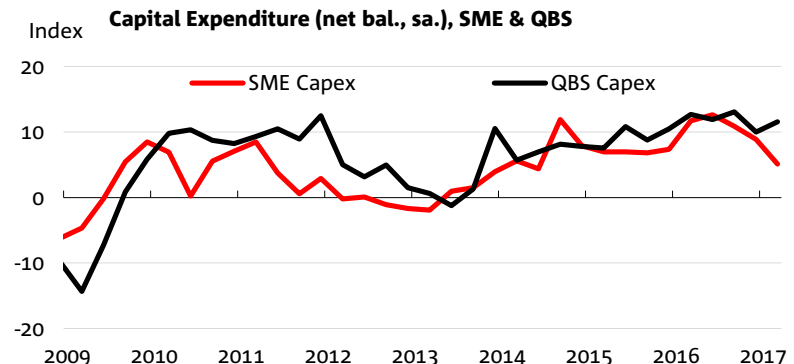
- Although pulling back somewhat in Q1, business conditions for SMEs remained higher than in previous years (see Chart 1 on page 1). At +8 points, conditions were well above the long-run average of +4. Business confidence continued to improve, now at +11 points, compared to the long-run average of +2 points. Confidence levels were up across the states, except for in SA, where the imminent closure of car manufacturing weighed on business sentiment.
- **By component**, trading, profitability and employment conditions all fell slightly in the quarter, but were higher than average levels since the survey started in 2006. Compared to the main NAB quarterly survey which covers larger businesses, trading conditions were generally better for SMEs, while profitability was in line with the main survey and employment conditions weaker at the SMEs. Among the SMEs, the smallest firms tended to report the weakest trading, profitability and employment conditions, with employment particularly weak. Medium sized firms reported similar conditions to the largest firms, but have had a pullback in employment and trading conditions since Q3 2016, but have recovered somewhat. Despite the sometimes large differences in trading and employment conditions, profitability across the three types of SMEs have been more in line with each other.
- The survey continues to point to **subdued inflationary pressures**, consistent with results from the Quarterly Business Survey. Final product price growth remained weak at 0.3%, slightly higher than the purchase costs growth at 0.2%. Both labour costs and overheads eased significantly, from high levels reported in Q3 2016.
- **Cashflow** continued to track overall SME conditions. Although down slightly in Q1, it remained above the average since 2006. Other forward indicators including stocks and orders also remained at higher than average levels.

# COMPARISON WITH LARGER BUSINESSES

*SME conditions and confidence both outperformed larger businesses*



- Comparing the SME survey with the NAB Quarterly Business Survey (QBS) which focusses on larger businesses, SME business conditions caught up with the larger firms in the last two quarters, after three years of more subdued conditions. For business confidence, SME and QBS were almost completely in line with each other, except for the latest reading where SME confidence bounced. The state results were largely similar to QBS results, with NSW and VIC leading and WA lagging behind but improving. Results in QLD and SA were different though. SMEs in QLD reported modest conditions but more upbeat confidence than larger businesses. SMEs in SA reported both negative conditions and confidence, whereas larger firms in SA reported decent conditions and very upbeat confidence. Industry results were largely similar across SME and QBS, with services leading and manufacturing and retail lagging behind. Wholesale was an exception with larger wholesalers reporting strong conditions and confidence, which was not seen at wholesale SMEs.
- However, the SME **capacity utilisation** rate at 80% remained below the rate larger firms of 82%. This signals there is still spare capacity in the sector. Property services reported the biggest improvement in utilisation rates, up to 85% in Q1 from a low of 78% in Q1 2016, consistent with the strong surge in business conditions in that industry. Health services again had the highest capacity utilisation rate, consistent with its outperformance, while manufacturing had the lowest at 77%.
- **Forward orders** received by SMEs have been steady at around +4 points, indicating a gradual increase in orders over time. Reported **capital expenditure** by SMEs fell for the third consecutive quarter, to be below QBS levels. At +5 points, it is now below the average since 2006 of +6. All industries reported weaker capex expenditure over the quarter, except for Finance and Property Services. The 12-month capex intentions, however, were more upbeat, rising strongly to +19 from +16, consistent with higher business confidence readings.





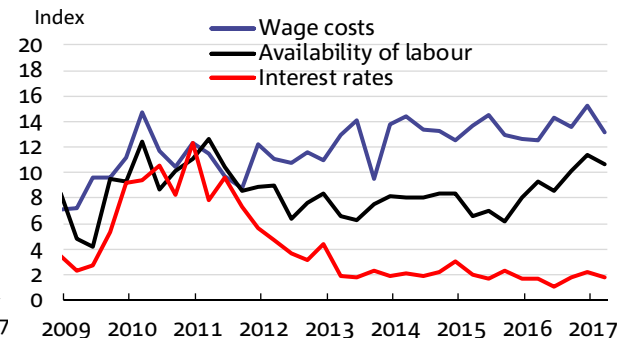
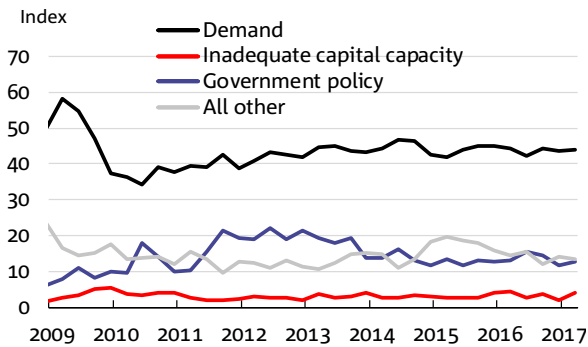
# SIGNIFICANT CONSTRAINTS

*Demand the biggest constraint while wage costs concerns eased*

What do you consider will be the one most constraining factor on your profitability over the next 12 months?

	% of responses
Demand	44.0
Wage costs	13.2
Government policy	12.9
Availability of suitable labour	10.6
Inadequate capital capacity	4.0
Interest rates	1.8
Others	13.5

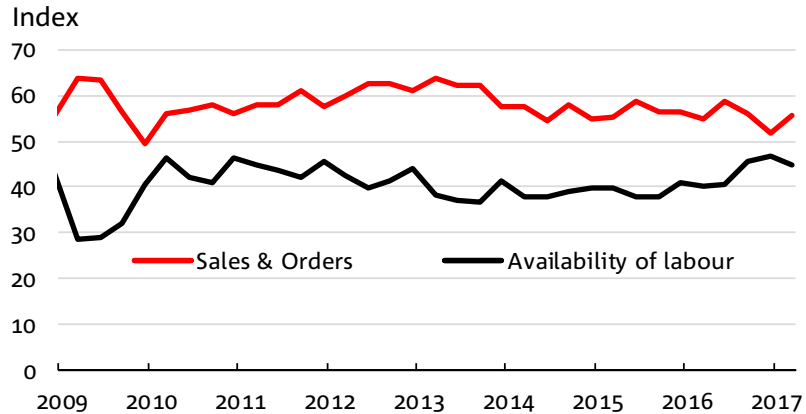
- When asked which factor will likely **impact their profitability** the most over the next 12 months, SME firms continued to identify demand as the number one constraining factor, while interest rates didn't seem to concern them much, with only under 2% of respondents seeing it as the biggest constraint on profitability.
- Concerns around wage costs and labour availability eased this quarter, although they had been rising since mid 2015 and are now at levels last seen around 2010/2011, when unemployment rate was at the post GFC trough. The recently announced changes to employer sponsored working visas might also adversely impact the SMEs, many of whom operate in hospitality and other services industries.



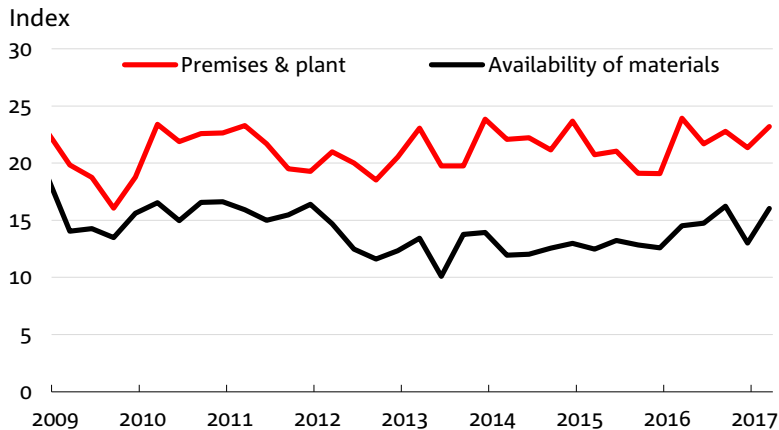
# CONSTRAINTS ON OUTPUTS AND STRATEGIES

*Sales & orders biggest constraint on output, while websites remained popular*

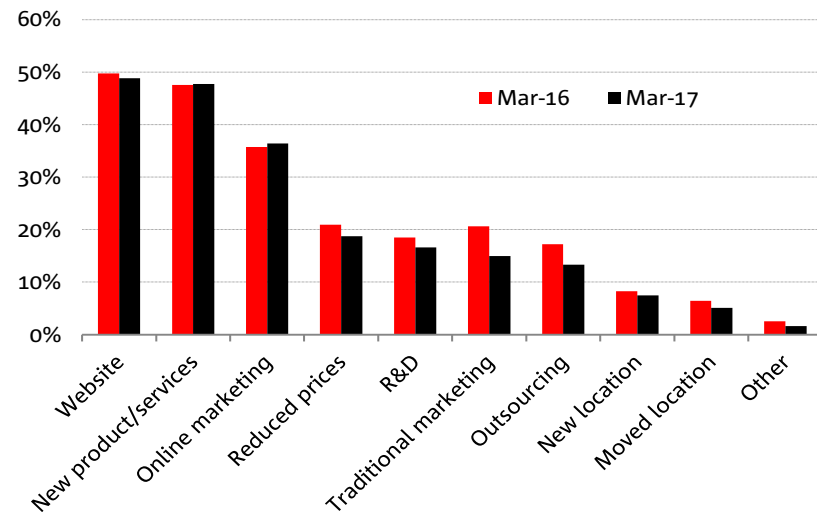
Factor constraining output



- When asked which factors were currently **constraining output**, sales & orders were again the biggest constraining factor, while the availability of labour had also been rising as a concern, a similar trend noted on the previous page, although that constraint eased slightly in Q1 2017. On the other hand, the availability of premises & plant and materials increased slightly as constraints on output.
- On the **strategies** the firms employed to improve competitiveness in the past year, nearly 50% respondents used websites, a similar percentage compared to a year ago. A similarly large percentage of firms also introduced new products or services. Overall the strategies employed remained largely unchanged over the past year, however the use of traditional marketing and outsourcing have decreased slightly in popularity.

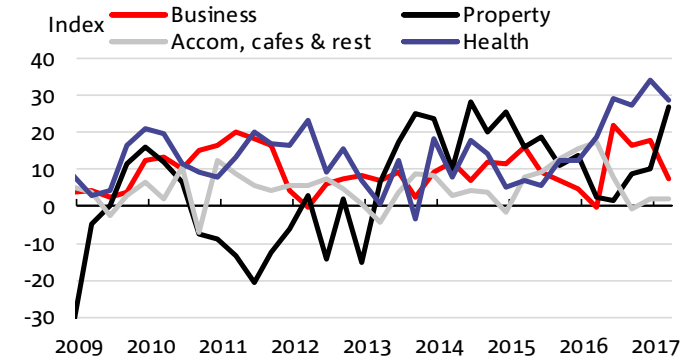
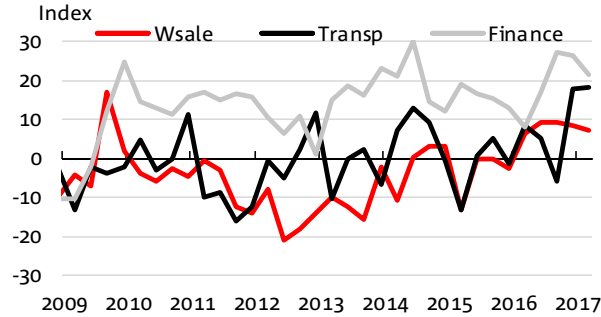
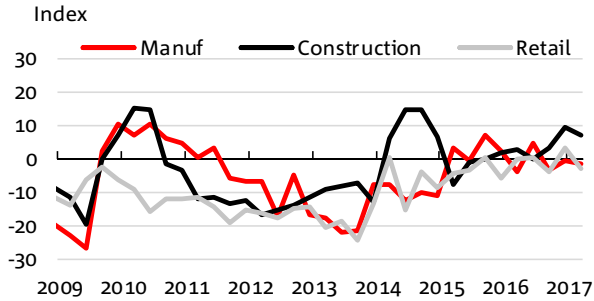


Strategies employed to improve competitiveness

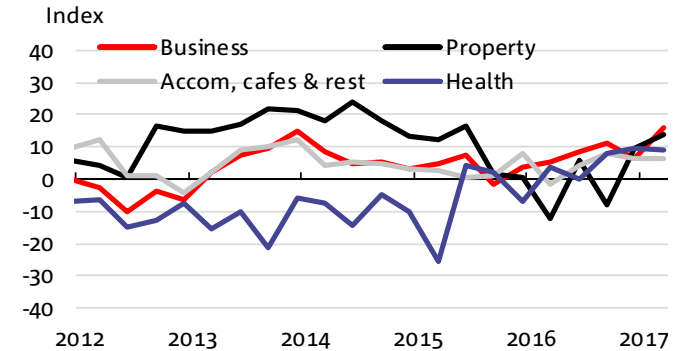
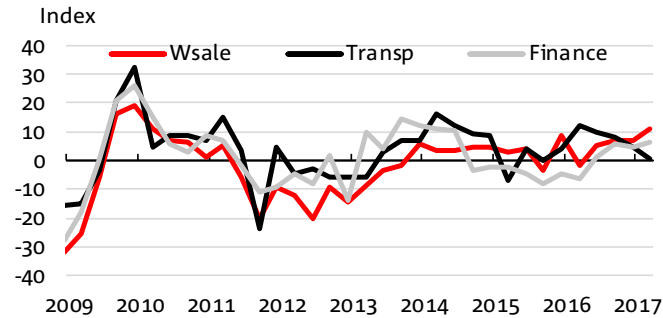
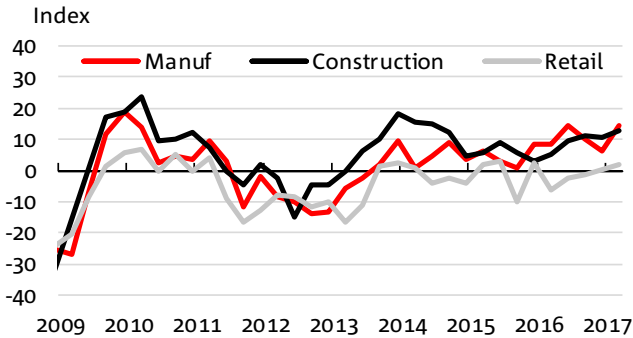


# INDUSTRY

## BUSINESS CONDITIONS BY INDUSTRY

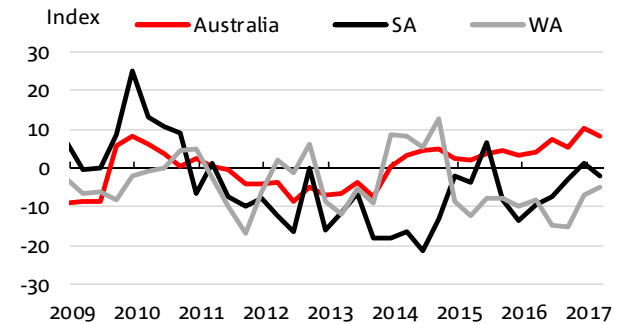
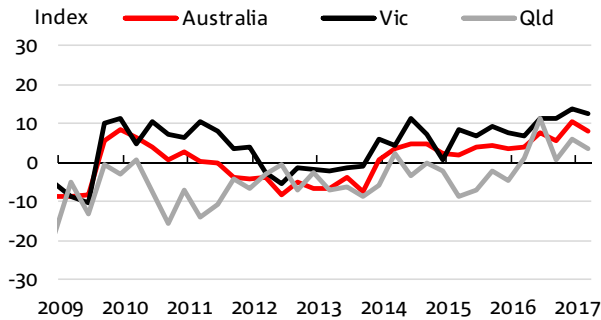
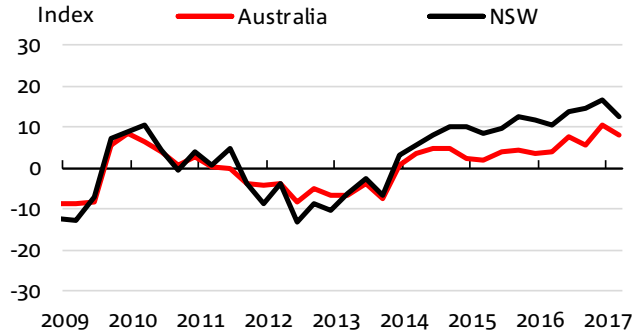


## BUSINESS CONFIDENCE BY INDUSTRY

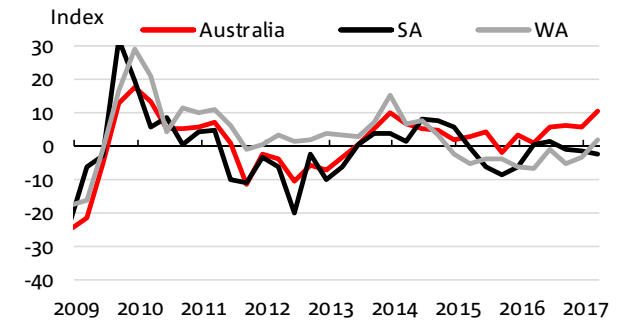
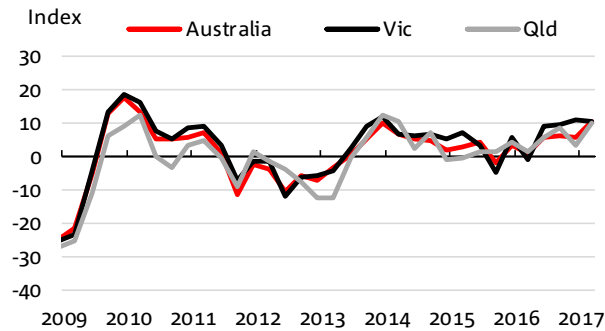
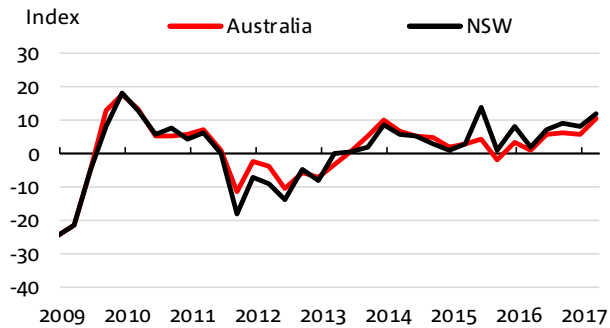


# STATE

## BUSINESS CONDITIONS BY STATE

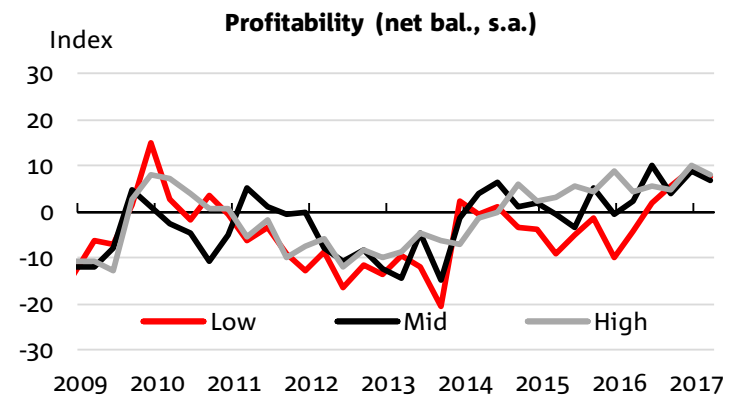
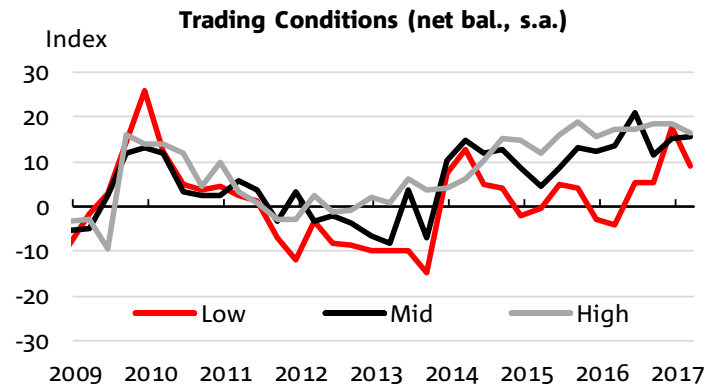
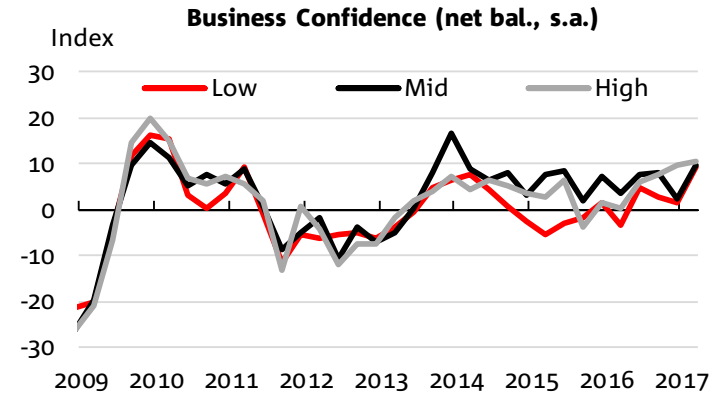
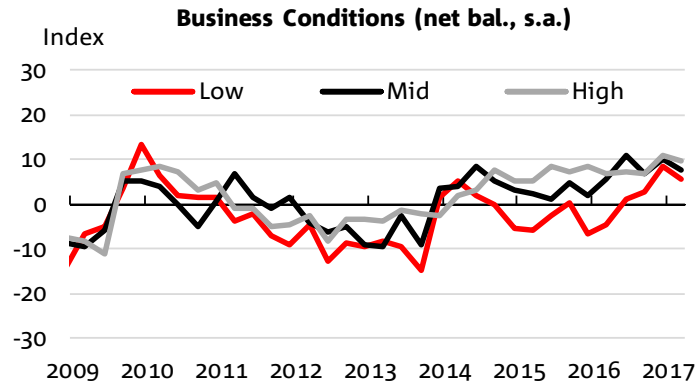


## BUSINESS CONFIDENCE BY STATE





# FIRM SIZE



**Note:**

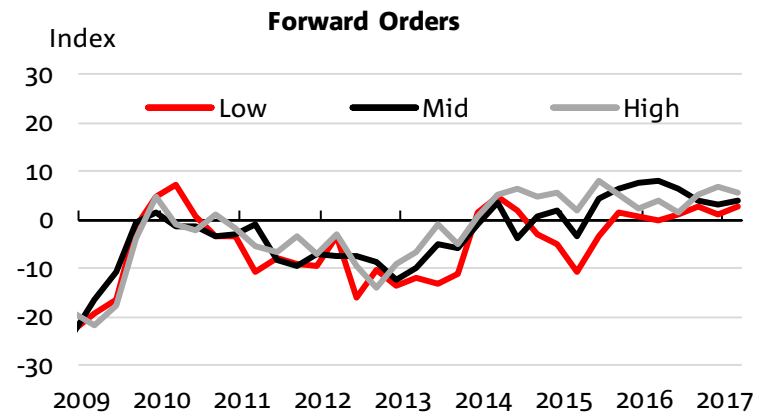
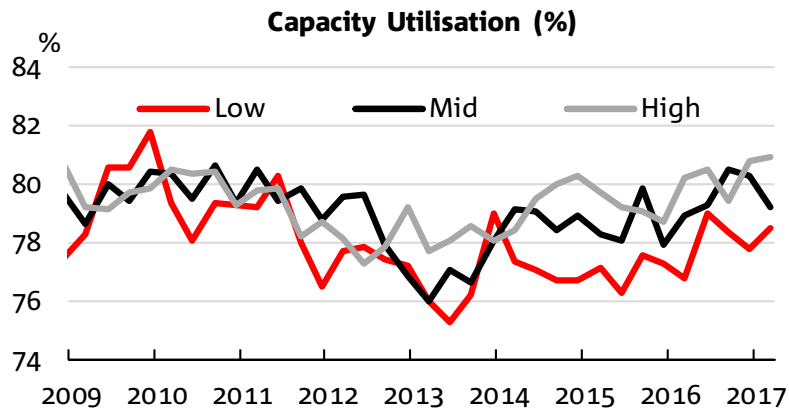
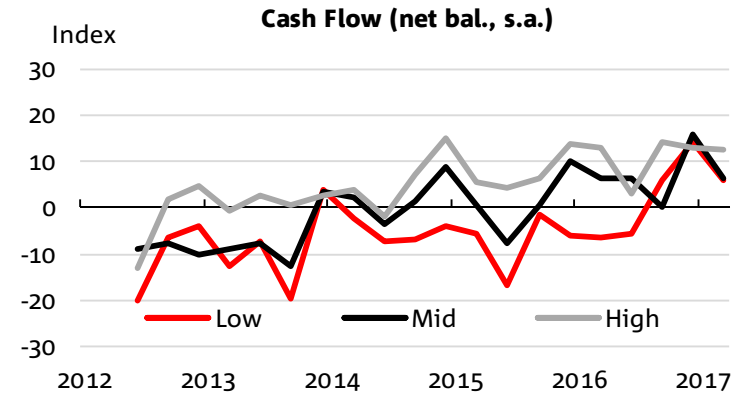
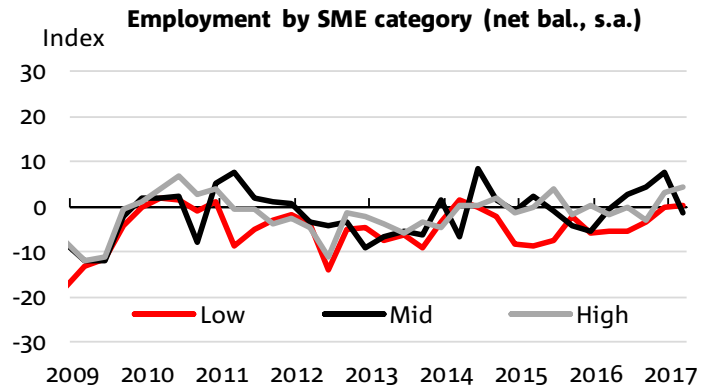
Firm sizes are determined by their annual gross sales.

Low-tier firms: \$2 million - \$3 million

Mid-tier firms: \$3 million - \$5 million

High-tier firms: \$5 million - \$10 million

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