

NAB SME BUSINESS SURVEY PRESS RELEASE

September Quarter 2017 (Embargoed until 11.30am Thursday 26th October)

By Group Economics



SME business conditions and confidence both improved in Q3

- **The NAB Small and Medium Enterprises (SME) Business Survey showed a pickup in both business conditions and confidence in Q3. Business conditions recovered from the small dip in Q2, while confidence bounced back strongly although remained below its high in Q1 2017.**
- **Both business conditions and business confidence are above their averages since the survey started in 2006.**
- **Conditions continue to vary across firm size, with high tier SME firms reporting broad-based improvement but smaller firms reporting weaker profitability and employment conditions in Q3 despite more positive trading conditions.**

	2017	2017	2017
	q1	q2	q3
Business	11	5	8
Low-tier firms	10	-4	8
Mid-tier firms	10	6	5
High-tier firms	12	9	10
Business	9	8	9
Low-tier firms	6	3	1
Mid-tier firms	9	9	8
High-tier firms	12	10	14
Trading	17	15	17
Low-tier firms	10	5	7
Mid-tier firms	19	18	18
High-tier firms	19	19	20
Profitability	9	6	9
Low-tier firms	8	3	1
Mid-tier firms	8	7	7
High-tier firms	9	8	14
Employment	2	2	1
Low-tier firms	0	0	-5
Mid-tier firms	-1	1	-1
High-tier firms	5	5	5

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

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.

According to NAB Group Chief Economist Alan Oster, "It was encouraging to see SME conditions and confidence both rise after declining in the previous quarter. The result was consistent with the improvement in conditions we are also seeing for larger businesses in the Quarterly NAB Business Survey. In particular SME business conditions at +9 index points are well above the series average of +4 index points since 2006."

Not all SMEs enjoyed the same healthy business conditions though, with the smallest firms doing it tougher. "We saw healthy levels of trading, profitability and employment conditions for the top tier SME firms with turnover of \$5-10 million p.a; however the low tier firms with turnover of \$2-3 million p.a. were reporting weaker profitability and employment despite positive trading conditions." said Mr Oster. Employment conditions at the smallest SMEs, especially, have been depressed for some time. "Given that SMEs account for the largest share of total employment in Australia by firm size, we'd like to see an improvement in employment at these firms".

Nonetheless, the smallest SMEs remained upbeat, with a strong increase in business confidence. "It was encouraging to see they remained upbeat about the outlook", said Mr Oster.

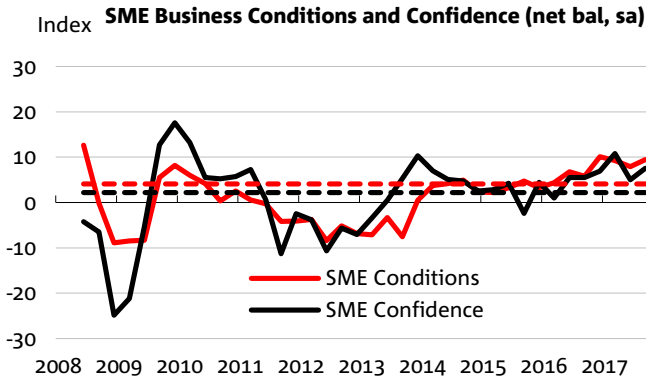
An increasing proportion of firms identified the availability of suitable labour as a concern, consistent with the improvement in labour market conditions and the decline in the unemployment rate. "Perhaps firms are finding it more difficult to find the right skills, which could explain some rise in labour cost growth. We are also seeing somewhat stronger growth for other input costs, including overheads and purchase costs. This happened at a time when final prices are not growing as fast. As a result, firms are feeling the squeeze on profitability and margins."

NAB SME Business Survey

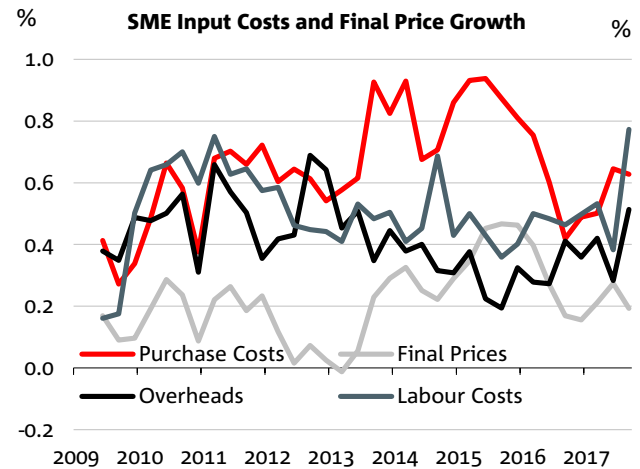
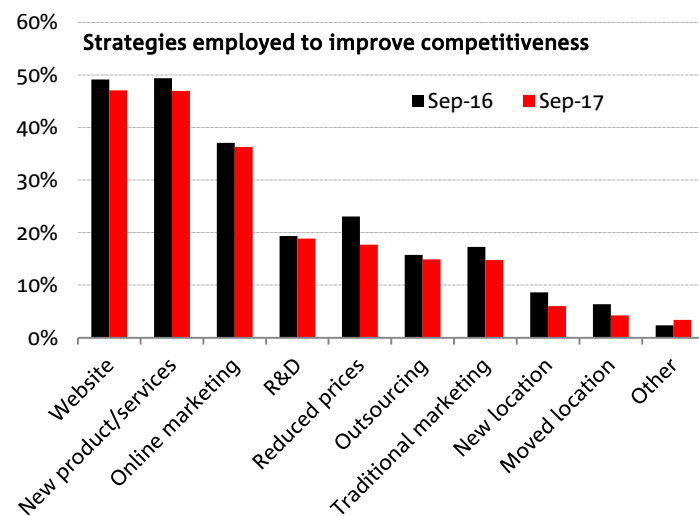
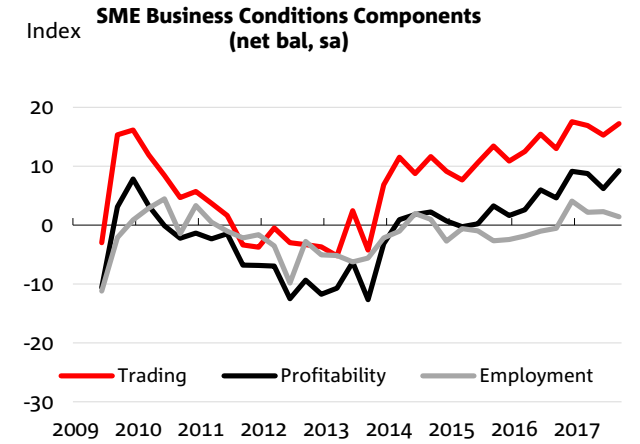
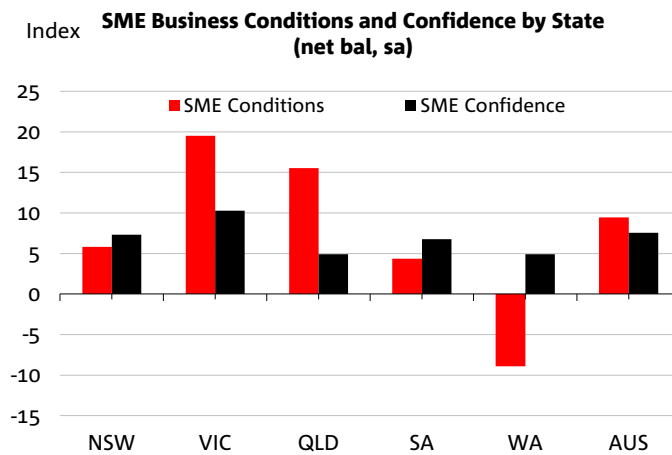
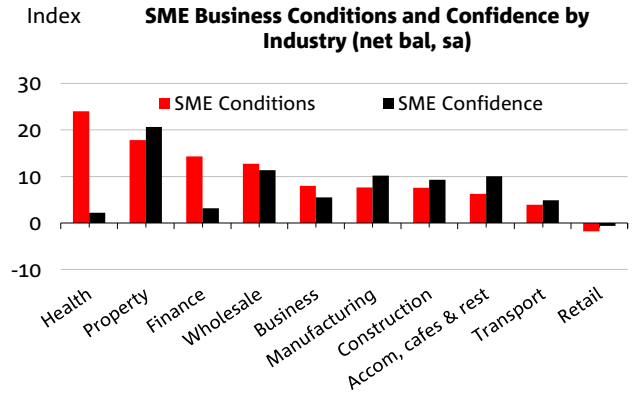
Victoria was our best performer across the states. Business conditions improved the most in QLD during the quarter while they fell in NSW, SA and WA. “More encouragingly, business confidence rose across the board”, said Mr Oster. “WA has been reporting improving business confidence and it will be interesting to see when and if that will translate into improvements in WA business conditions.”

The health sector again reported the strongest business conditions across industries. At the bottom end of the scale was the retail industry, which has been struggling with depressed business conditions for some years. The resilience of manufacturing conditions meanwhile was somewhat surprising, in the face of car plant closures and an elevated AUD, a result similarly observed in the QBS.

For further details, please see attached main survey document.



Note: Dotted line denote long-run averages



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