

# NAB SME BUSINESS SURVEY PRESS RELEASE

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By Group Economics



## Strong improvement in SME business conditions in Q4 2017, while confidence retreated a touch.

- **The NAB Small and Medium Enterprises (SME) Business Survey showed business conditions increased 3 points to +12 to be at the highest level since 2008. The improvement was mostly driven by the smallest SMEs.**
- **While confidence eased back one point to +7, both conditions and confidence are now above their long-run averages since the survey started in 2006.**
- **The improvement in SME conditions saw a narrowing of the performance gap between small and large businesses.**

	2017	2017	2017
	q2	q3	q4
<b>Business Confidence</b>	5	8	7
Low-tier firms	-3	7	3
Mid-tier firms	7	7	8
High-tier firms	9	10	7
<b>Business Conditions</b>	9	9	12
Low-tier firms	4	2	8
Mid-tier firms	9	9	13
High-tier firms	11	13	12
<b>Trading Conditions</b>	17	17	19
Low-tier firms	7	9	12
Mid-tier firms	19	18	21
High-tier firms	20	20	19
<b>Profitability</b>	7	9	10
Low-tier firms	3	2	7
Mid-tier firms	8	8	9
High-tier firms	9	13	11
<b>Employment</b>	3	2	6
Low-tier firms	0	-6	4
Mid-tier firms	2	0	9
High-tier firms	6	7	6

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 and medium businesses in Australia, and complements the comprehensive Quarterly NAB Business Survey (QBS) 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 the performance gap between small and large businesses narrow during the quarter." While SMEs have been reporting similar trading conditions to their larger counterparts in recent times, their profitability and employment conditions have been more subdued in comparison. "That's why the pickup in SME employment conditions in the fourth quarter was particularly encouraging. At +6 points, it was the highest reading since the GFC and consistent with an expansion in SME employment."

According to Mr Oster, "better conditions at the low-tier firms also saw the size gap between the smallest SMEs and the high-tier SMEs narrow. This is encouraging, as the smallest SMEs have been underperforming for some time." Among the three components of business conditions, trading, profitability and employment, the pickup in small tier SME employment conditions was particularly pronounced this quarter.

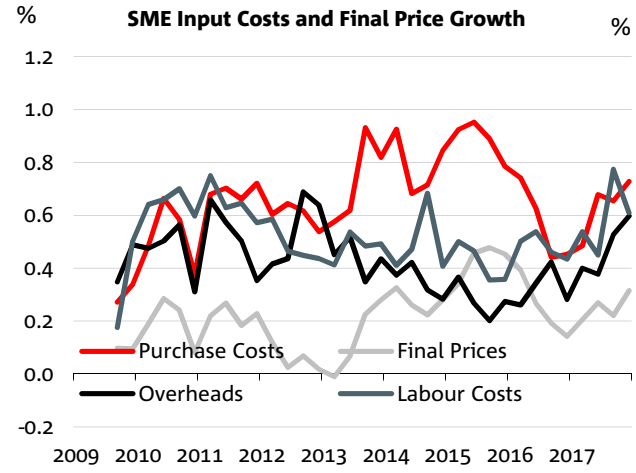
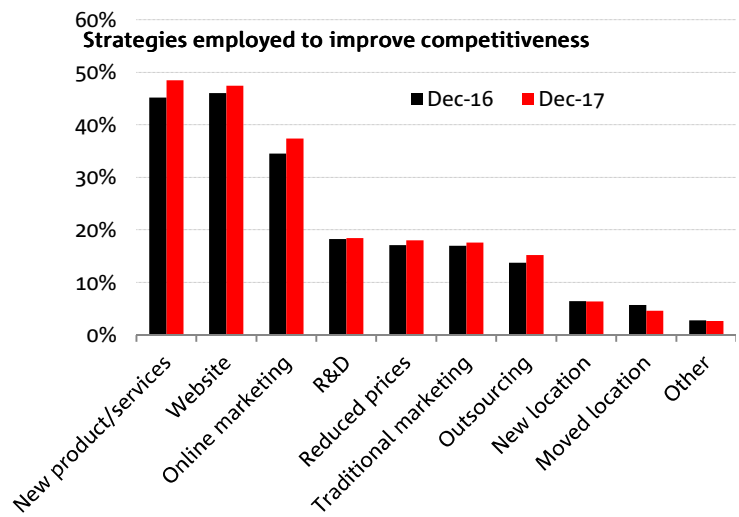
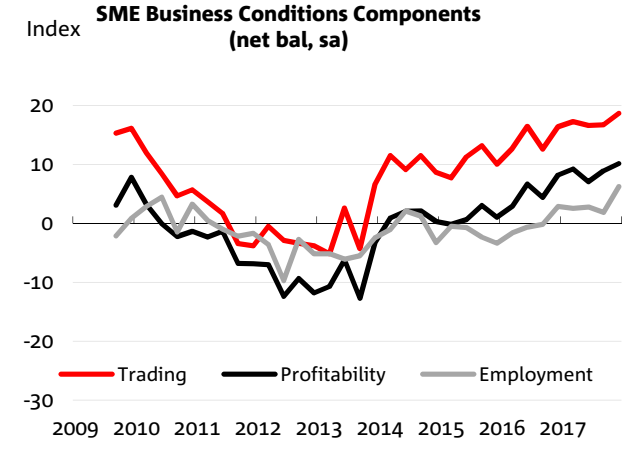
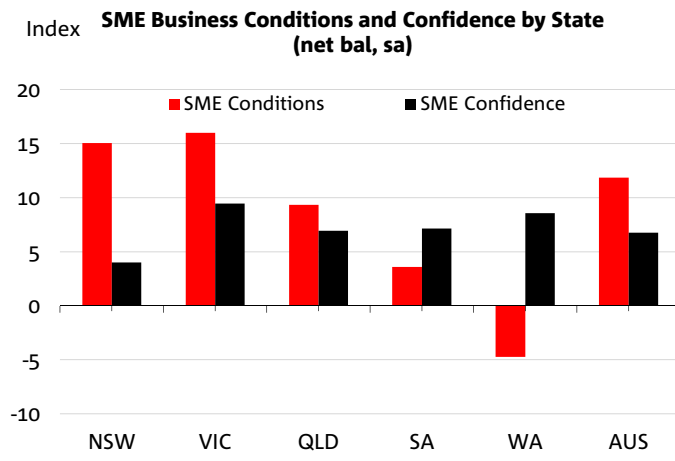
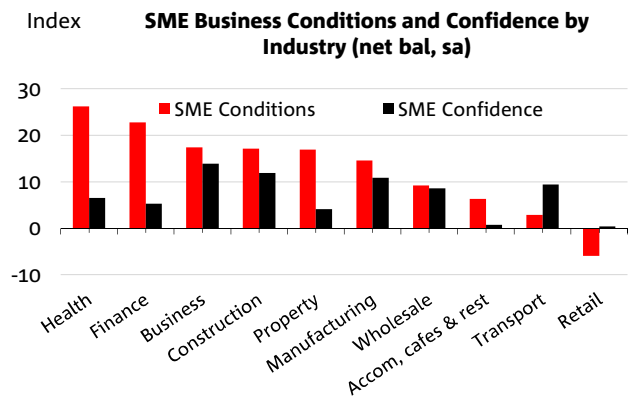
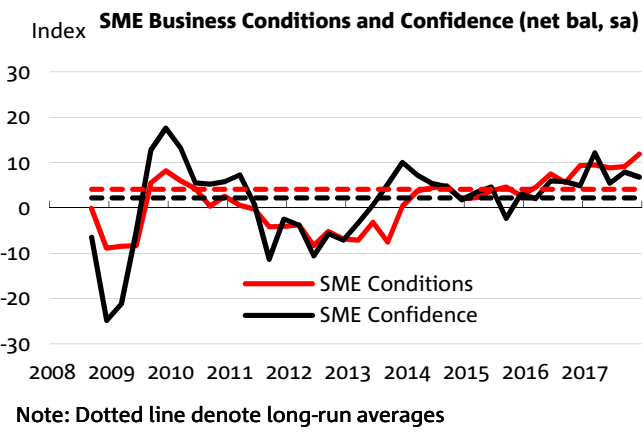
SME business confidence, however, retreated somewhat during the quarter. "It will be interesting to see if the continual improvement in business conditions can be sustained", said Mr Oster

The impact of a tighter labour market is being felt by the SMEs surveyed. "An increasing proportion of firms continued to identify the availability of labour as a major concern. In Q4 it ranked alongside sales & orders as the top constraint on output", said Mr Oster. "A similar sentiment was also observed in our Quarterly Business Survey of larger businesses, where more firms indicated it has become more difficult to find suitable labour in this current environment. As the labour market continues to improve, this could place upward pressure on wages."

“Across states, we saw Victoria again led the nation in terms of SME business conditions and confidence since overtaking NSW in 2016”, said Mr Oster. “We also saw NSW bounce back from the dip in business conditions seen in Q3 2017, which is now reporting the second highest conditions.” Despite this, business confidence was down in the two biggest states, dragging down the overall index and similar to the trend for larger businesses in the quarter.

Across industries, health again reported the strongest business conditions in Q4. Other services industries including finance, business services, construction and property also outperformed. Perhaps surprisingly, manufacturing showed the biggest improvement in business conditions over the past year. At the bottom end of the scale was retail, which has been struggling with negative business conditions for some years.

For further details, please see attached main survey document.



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