

EMBARGOED UNTIL: 11:30AM AEST, 26 APRIL 2018

NAB QUARTERLY SME SURVEY 2018 Q1

SME BUSINESS CONDITIONS STEADY AT THE START OF 2018

NAB Australian Economics



SME business conditions were unchanged in 2018 Q1, remaining at a post GFC high. While confidence declined, it remained within the range experienced in recent years. Leading indicators of future activity in the survey remained positive despite somewhat mixed results in the quarter. The difficulty of finding suitable labour again increased, adding to the evidence of a tightening labour market.

HIGHLIGHTS

- Small and Medium Enterprise (SME) **business conditions** were unchanged in Q1 2018, remaining at its highest level since 2008 and well above its historical average level of +5 (survey started in mid-2006). By component, declines in employment and trading conditions (sales) were offset by an increase in profitability; all three components remain above average.
- SME **business confidence** also remains above average, despite declining 2pts in Q1 to +6pts, and remains within the range experienced from 2016 Q2.
- There was a **widening in the performance gap between small/medium and large businesses** (as measured by the NAB Quarterly Business Survey, QBS) as conditions for the latter improved in Q1. Similarly, among SMEs conditions improved for high-tier firms widening the gap to mid-tier (which experienced a decline in conditions) and low-tier (unchanged conditions) firms. In contrast, low-tier firm confidence improved and is now higher than that for mid and high-tier firms.
- Across **industries**, health again reported the strongest business conditions, followed by transport & storage, which experienced a significant improvement, and finance. Retail was again at the bottom – since 2008 Q2, conditions in this sector have been above zero in only two quarters. There was also a large fall in property services conditions, although they remained just in positive territory, likely reflecting the cooling in housing markets. Business confidence is also lowest in retail, with finance confidence also negative. Confidence is highest in construction, possibly reflecting the still elevated residential construction pipeline, infrastructure construction and the still high level of non-residential building approvals.
- Across the mainland **states**, SME business conditions were strongest in Victoria, followed by Queensland and NSW. Conditions remain weakest in WA, despite some improvement in Q1, while SA is moving in the opposite direction, turning negative for the first time since 2016 Q3. While still negative, Q1 conditions in WA were at their second highest level over the last 3½ years, which may help explain why SME business confidence in WA is now the highest of all the states, followed by Victoria and NSW.
- **Leading indicators** remained generally positive, although compared to 2017 Q4 the results were mixed. Forward orders gave up the gains made over the previous two quarters, although at +2pts they remain above average. Expectations for capital expenditure, employment and forward orders over the next three months were flat or eased, but this does not appear to signal a permanent downshift as expectations for business conditions and capital expenditure over the next twelve months moved to their highest level for many years.
- The major **constraint on output** identified by SMEs were sales and orders (i.e. demand), although it remains within the range experienced in recent years. The difficulty of finding suitable labour is the second major constraint, just behind demand, and it rose again in Q1, continuing the upwards trend that started in mid-2015. A considerably smaller share of SMEs identify premises & plant and the availability of materials as constraints on output, but while there was a small decline in the material constraint in Q1, they have been moved higher over the last 1-2 years.
- The results of a special question included in this quarter's survey on **corporate taxes** are broadly similar for large (QBS) and SME businesses. That said, in net terms, more SMEs see a tax cut as potentially beneficial than do large businesses (possibly in part because a greater proportion of the latter do not pay tax in Australia). For SMEs, as with the QBS survey, the major initial impact if there were a tax cut is likely to be on business investment.

TAB:E 1: SME BUSINESS CONDITIONS & CONFIDENCE (NET BAL., S.A.)

	2017	2017	2018
	q3	q4	q1
Business Confidence	9	8	6
Low-tier firms	8	5	8
Mid-tier firms	8	9	5
High-tier firms	10	8	5
Business Conditions	10	12	12
Low-tier firms	2	9	9
Mid-tier firms	9	13	8
High-tier firms	13	14	16

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

All data seasonally adjusted, except purchase costs and exports. Fieldwork for this Survey was conducted from 16 February to 8 March 2018, covering almost 700 firms across the non-farm business sector. **Next release date is 26 July 2018.**

TABLE 2: SME BUSINESS CONDITIONS BY COMPONENT (NET BAL., S.A.)

	2017q3	2017q4	2018a1
Trading Conditions	17	19	17
Low-tier firms	9	15	17
Mid-tier firms	19	20	12
High-tier firms	20	20	22
Profitability	9	11	13
Low-tier firms	2	9	10
Mid-tier firms	8	10	7
High-tier firms	13	13	18
Employment	2	6	4
Low-tier firms	-6	4	-1
Mid-tier firms	0	9	3
High-tier firms	7	6	6

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NAB QTLY SME SURVEY – SPECIAL QUESTION ON CORPORATE INCOME TAX

- In **A Special Report On Corporate Income Tax Cuts – From a Businesses Perspective** we reported the results from questions asked in the Quarterly Business Survey (QBS). The same questions were included in the Quarterly SME Survey and the results are presented here.
- The first question was to ask business what reduction, if any, would be necessary to improve their business prospects.
- On the size of corporate tax cuts (in percentage points) needed to better support business outcomes, 17% of SMEs said a tax cuts was not needed, 5% indicated that they did not pay tax, 20% didn't know and 58% suggested a tax cut would better secure their business prospects. Compared to the large businesses in the QBS, the main difference is that the proportion indicating that they do not pay corporate tax in Australia was much smaller, the share who considered a tax cut could improve prospects was somewhat higher, and the share saying a cut was not needed a little lower.
- Of those suggesting a tax cut would better secure their businesses prospects (58%) the average reduction suggested was 7.0 percentage points (or around 5.5 ppts including those who responded that they do not require a tax cut), a bit higher than the equivalent responses in the QBS.
- However, simple averages hide a wide range of views about what size tax cut would be required to improve businesses prospects. As with the QBS, for those business that specified a tax cut that would improve their prospects, the most common response was 5ppts, with 10ppts the next most common.
- The second question looked at how the cashflow generated by the tax cut would be used. This question was limited to those businesses that indicated a tax cut would improve their businesses outlook (i.e. 58% of the SME sample). Options given included: investment in your business; wages; employment; pay down debt and other. For each answer there was a scale from significant, moderate, somewhat, and nothing.
- Based on survey responses, the most significant impact would be on business investment.
- This was the same result seen for large firms in the QBS; indeed there was very little difference in the percentages indicating significant impacts on investment, wages and employment (although noting that this is only for businesses that think a tax cut would be beneficial, and more SMEs are in that camp). However, relatively more of the SMEs that considered they would benefit from a tax cut thought they would use it to make significant debt reduction (23% compared to 17%).
- Overall, the results of the corporate tax question are broadly similar for large and SME businesses. That said, in net terms (difference who see a tax cut as beneficial less those who say it is not needed), more SMEs see a tax cut as potentially beneficial than do large businesses (possibly in part because a greater proportion of the latter do not pay tax in Australia). For both SMEs and large businesses, the major initial impact if there were a tax cut is likely to be on business investment.

CHART 1: WOULD A TAX CUT IMPROVE PROSPECTS (% SHARE)

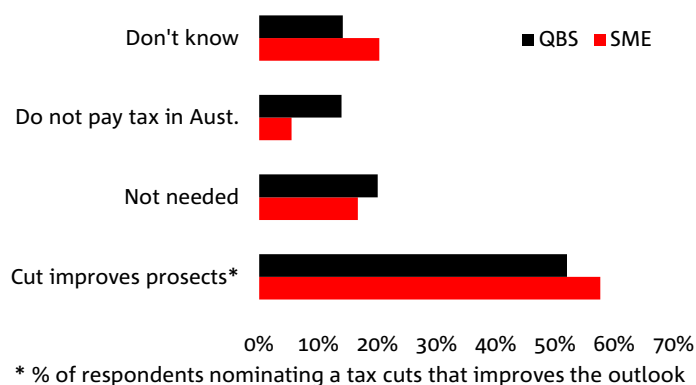


CHART 2: SIZE OF TAX CUT TO IMPROVE OUTLOOK – AVERAGE (PPTS)

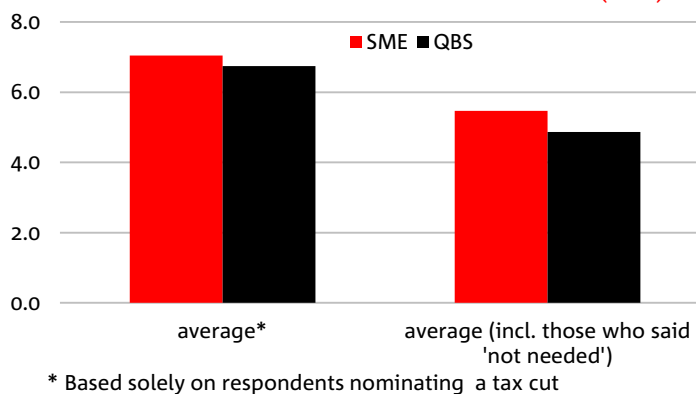


CHART 3: SIZE OF TAX CUT DESIRED TO IMPROVE OUTLOOK (PPTS)

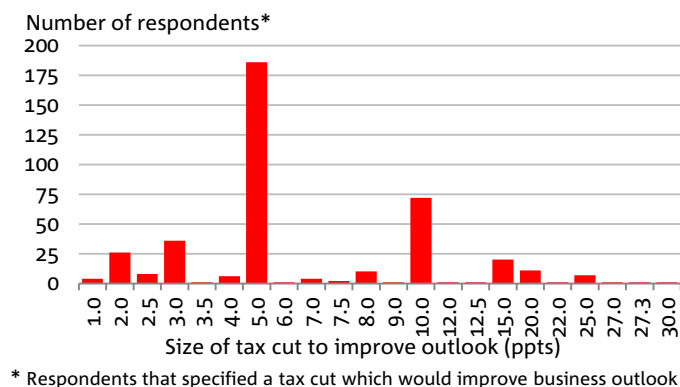
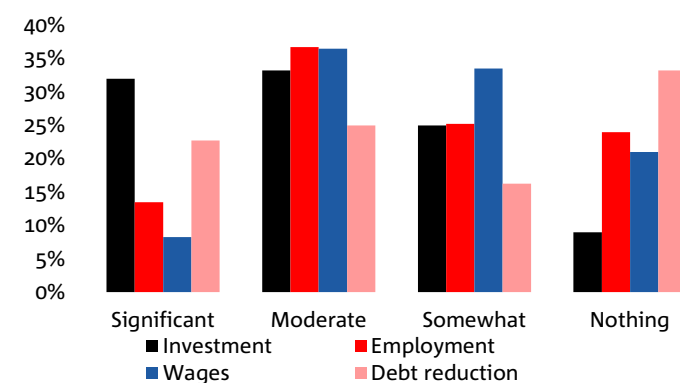


CHART 4: USES OF MONEY FROM A TAX CUTS (% SHARE)



NAB QUARTERLY SME SURVEY – CONDITIONS, CONFIDENCE & PRICES

CHART 5: SME BUSINESS CONDITIONS & CONFIDENCE (NET BAL., S.A.)

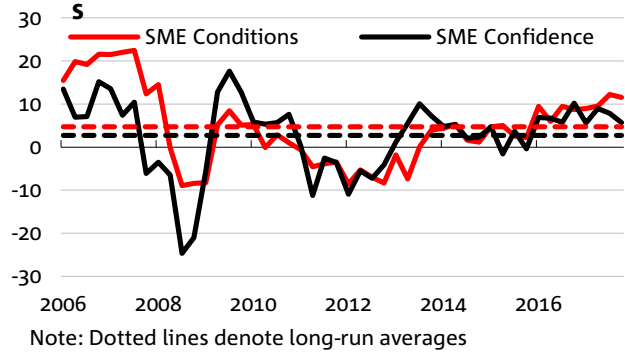


CHART 6: SME BUSINESS CONDITIONS COMPONENTS (NET BAL., S.A.)

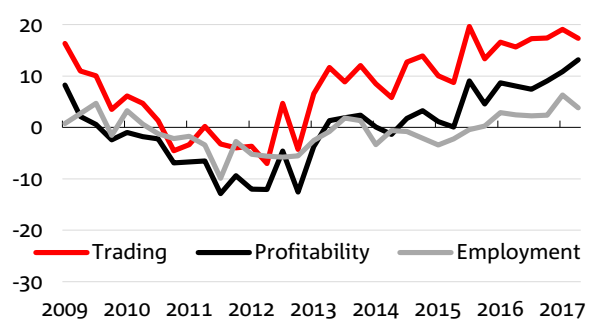


CHART 7: SME BUSINESS CONDITIONS & CASH FLOW (NET BAL, N.S.A.)

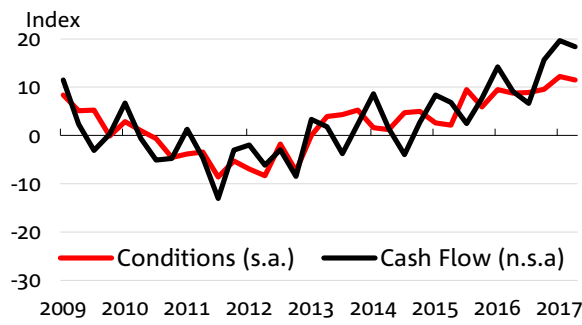
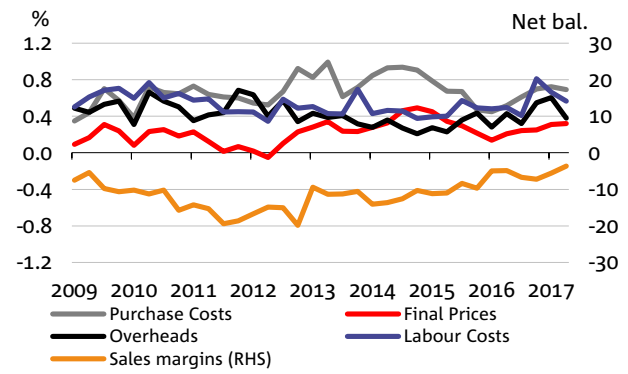


CHART 8: SME INPUT COSTS AND FINAL PRICE GROWTH (S.A.)



CONSTRAINTS ON OUTPUT

CHART 9: FACTORS CONSTRAINING SME OUTPUT

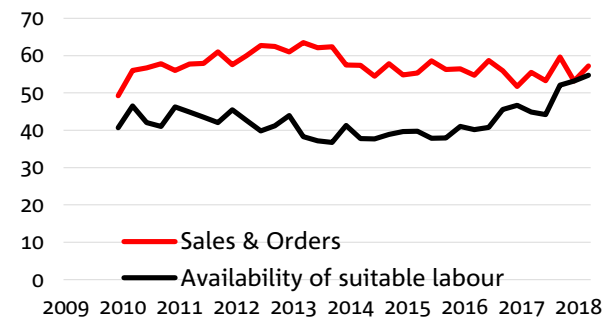
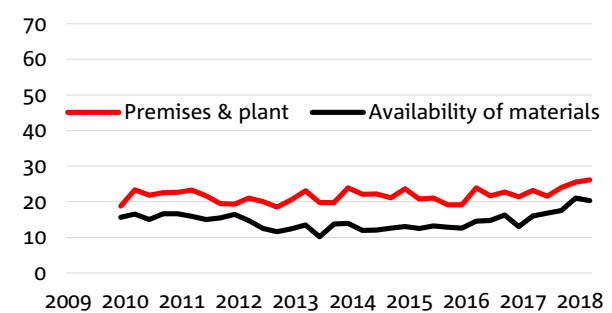
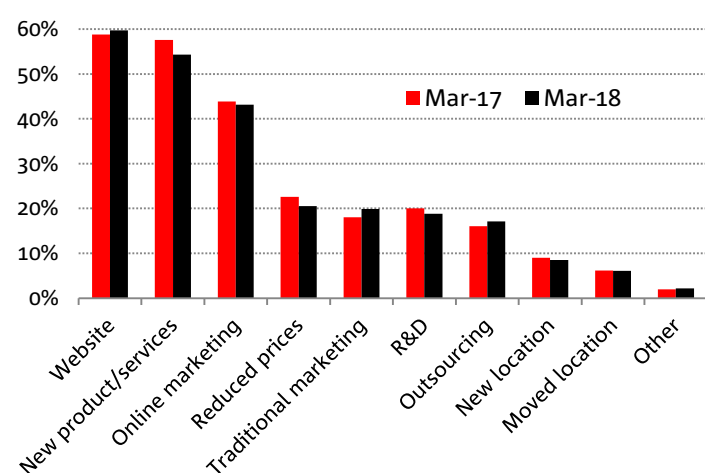


CHART 10: FACTORS CONSTRAINING SME OUTPUT



STRATEGIES

CHART 11: STRATEGIES EMPLOYED TO IMPROVE COMPETITIVENESS



NAB QUARTERLY SME SURVEY – CONDITIONS AND CONFIDENCE BY FIRM SIZE

CHART 12: BUSINESS CONDITIONS BY FIRM SIZE (NET BAL., S.A.)

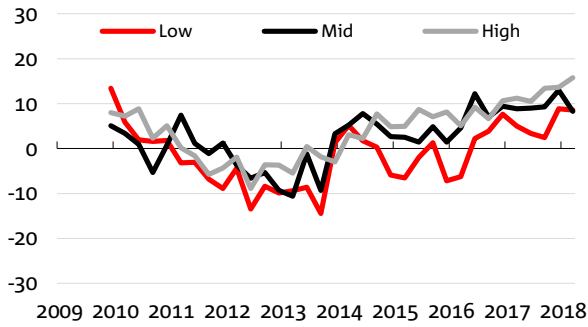


CHART 13: BUSINESS CONFIDENCE BY FIRM SIZE (NET BAL., S.A.)

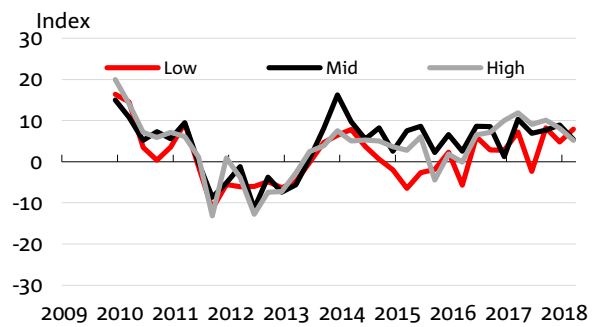


CHART 14: TRADING CONDITIONS BY FIRM SIZE (NET BAL., S.A.)

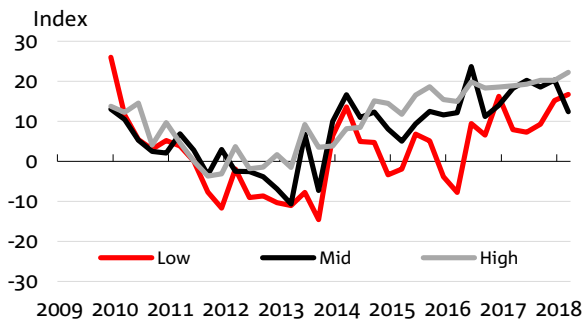


CHART 15: PROFITABILITY BY FIRM SIZE (NET BAL., S.A.)

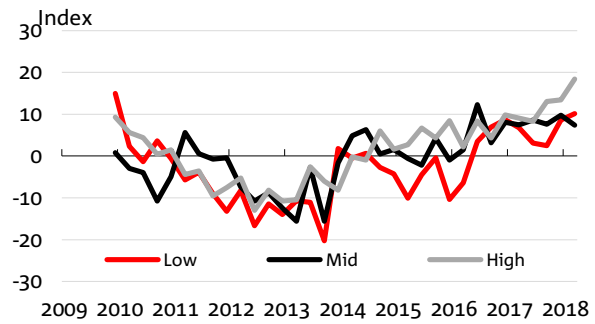


CHART 16: EMPLOYMENT BY FIRM SIZE (NET BAL., S.A.)

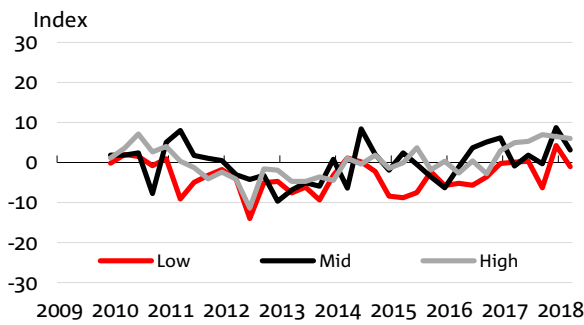


CHART 17: CASH FLOW BY FIRM SIZE (NET BAL., N.S.A.)

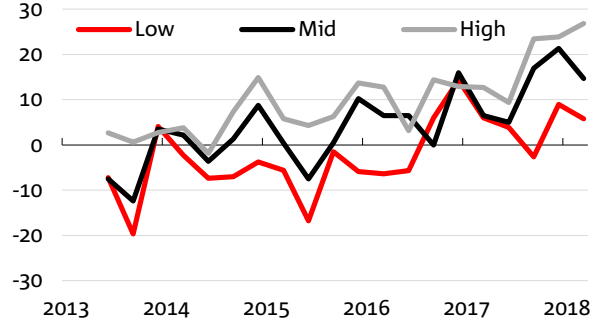


CHART 18: CAPACITY UTILISATION (% S.A.)

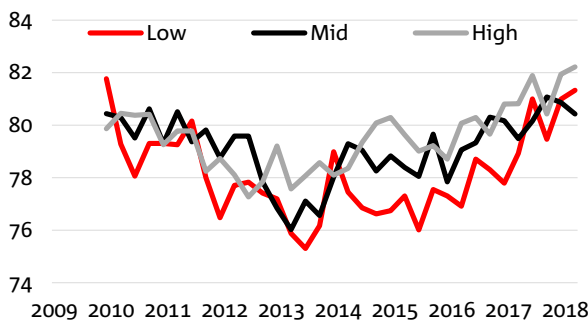
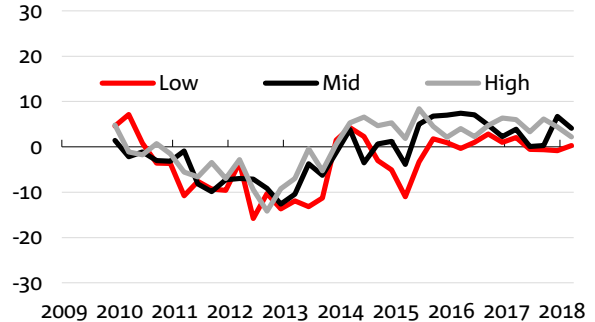


CHART 19: FORWARD ORDERS BY FIRM SIZE (NET BAL., S.A.)



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

NAB QUARTERLY SME SURVEY – CONDITIONS & CONFIDENCE BY STATE

CHART 20: BUSINESS COND. & CONFIDENCE BY STATE (NET BAL., S.A.)

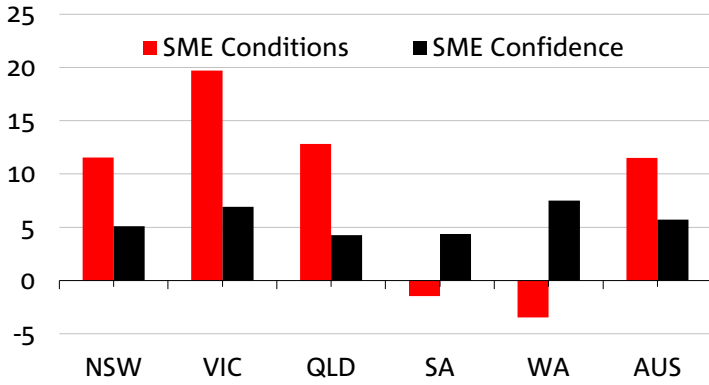


CHART 21: SME BUSINESS CONDITIONS BY STATE (NET BAL., S.A.)

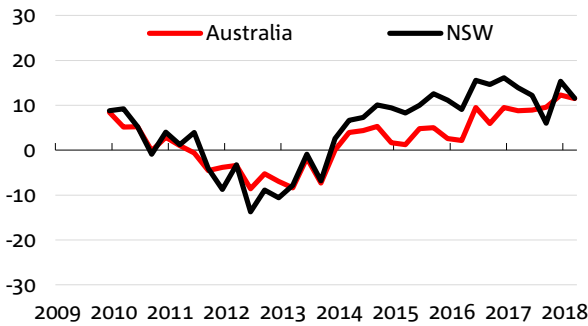


CHART 24: SME BUSINESS CONFIDENCE BY STATE (NET BAL., S.A.)

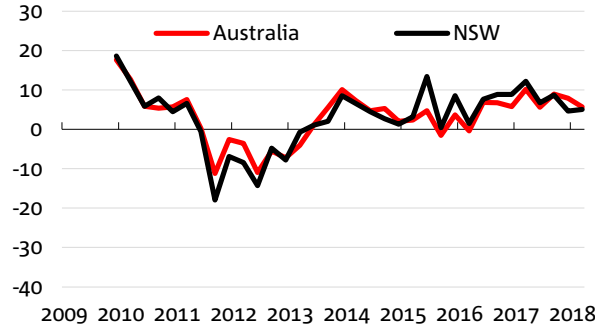


CHART 22: SME BUSINESS CONDITIONS BY STATE (NET BAL., S.A.)

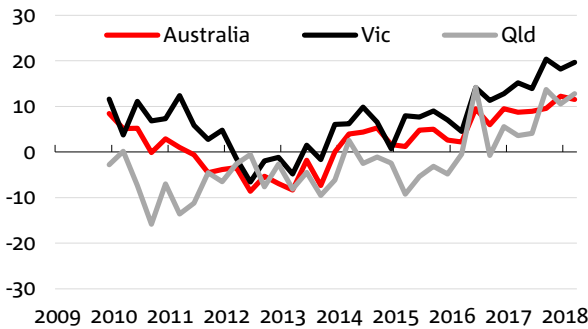


CHART 25: SME BUSINESS CONFIDENCE BY STATE (NET BAL., S.A.)

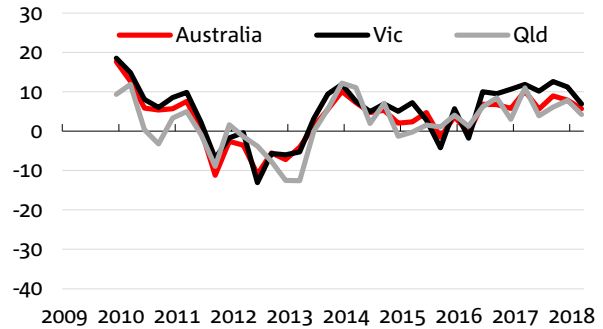


CHART 23: SME BUSINESS CONDITIONS BY STATE (NET BAL., S.A.)

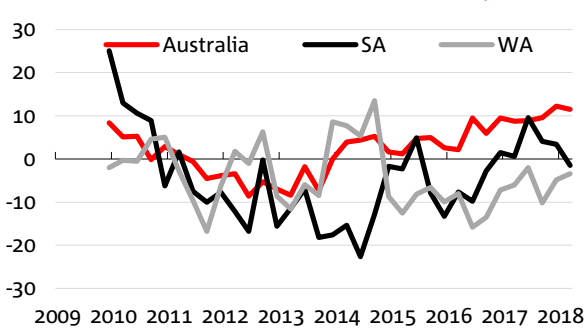
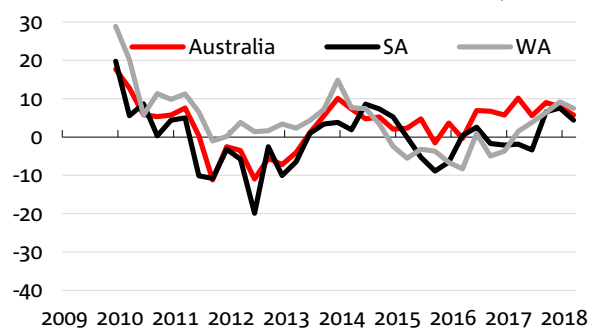


CHART 26: SME BUSINESS CONFIDENCE BY STATE (NET BAL., S.A.)



NAB QUARTERLY SME SURVEY – CONDITIONS & CONFIDENCE BY INDUSTRY

CHART 27: SME BUSINESS COND. & CONF. BY INDUSTRY (NET BAL. S.A.)

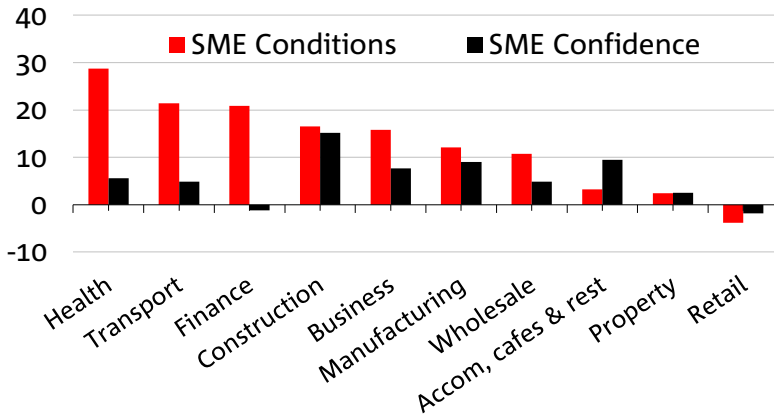


CHART 28: SME BUSINESS CONDITIONS BY INDUSTRY (NET BAL., S.A.)

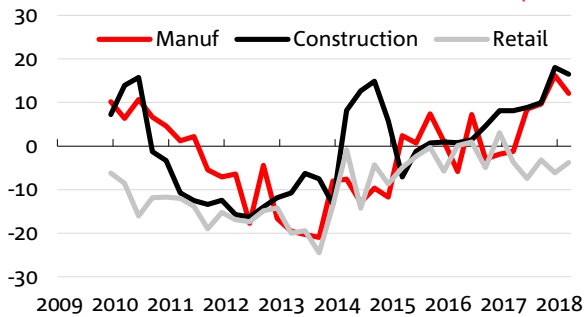


CHART 31: SME BUSINESS CONDITIONS BY INDUSTRY (NET BAL., S.A.)

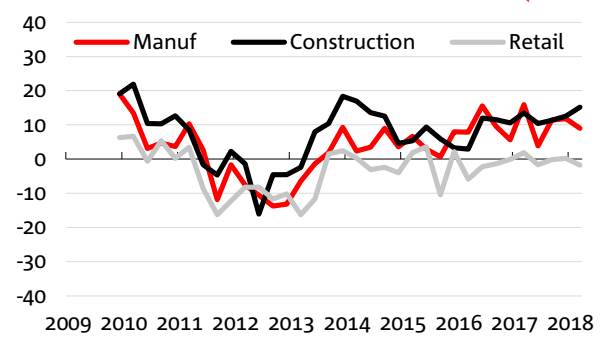


CHART 29: SME BUSINESS CONDITIONS BY INDUSTRY (NET BAL., S.A.)

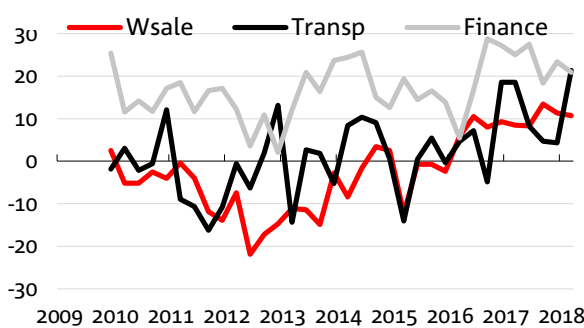


CHART 32: SME BUSINESS CONDITIONS BY INDUSTRY (NET BAL., S.A.)

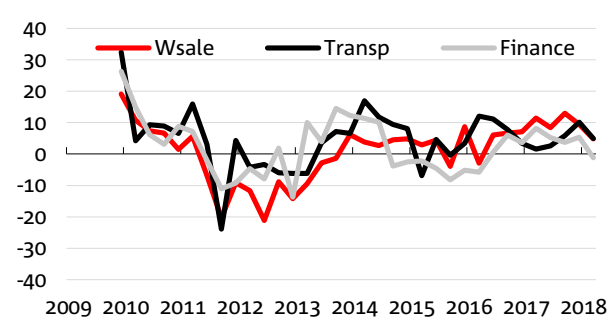


CHART 30: SME BUSINESS CONDITIONS BY INDUSTRY (NET BAL., S.A.)

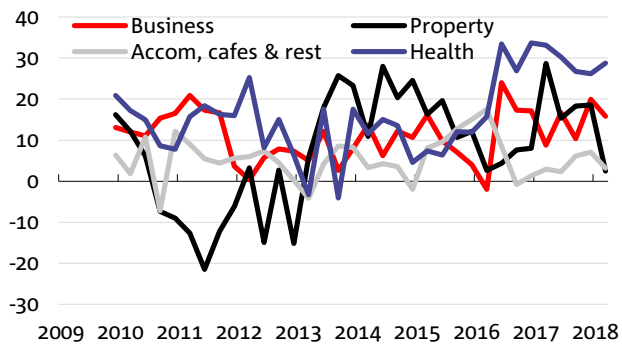
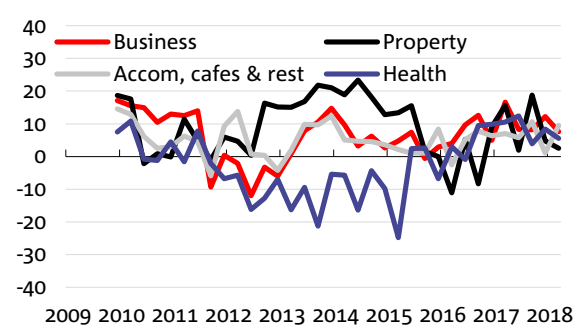


CHART 33: SME BUSINESS CONDITIONS BY INDUSTRY (NET BAL., S.A.)



NAB QUARTERLY SME SURVEY – COMPARISON WITH LARGER BUSINESSES

CHART 34: BUSINESS CONDITIONS – SME & QBS (NET BAL., S.A.)

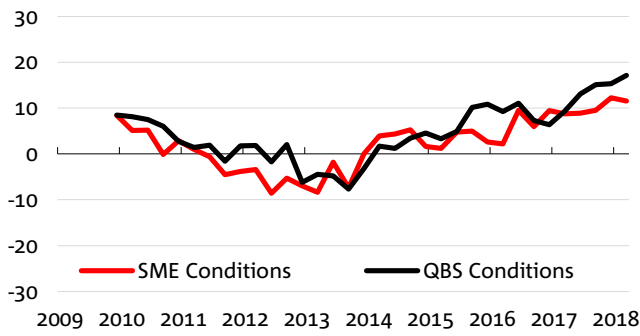


CHART 35: BUSINESS CONFIDENCE – SME & QBS (NET BAL., S.A.)

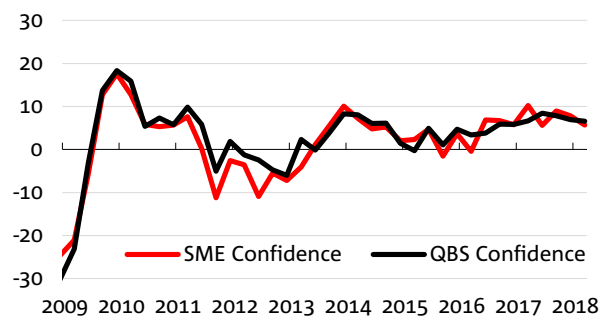


CHART 36: TRADING CONDITIONS – SME & QBS (NET BAL., S.A.)

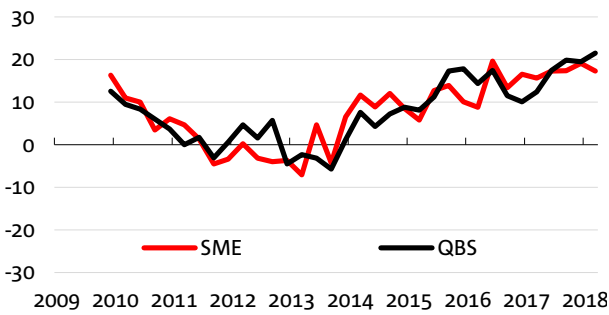


CHART 37: PROFITABILITY – SME & QBS (NET BAL., S.A.)

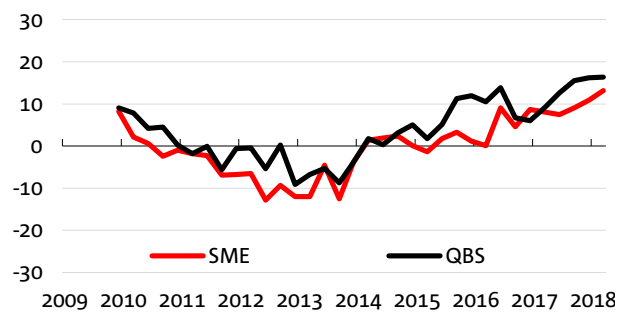


CHART 38: EMPLOYMENT – SME & QBS (NET BAL., S.A.)

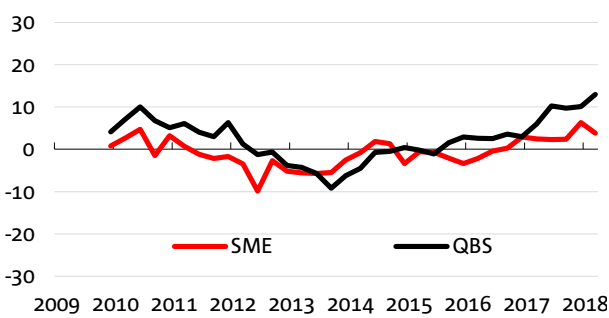


CHART 39: FORWARD ORDERS – SME & QBS (NET BAL., S.A.)

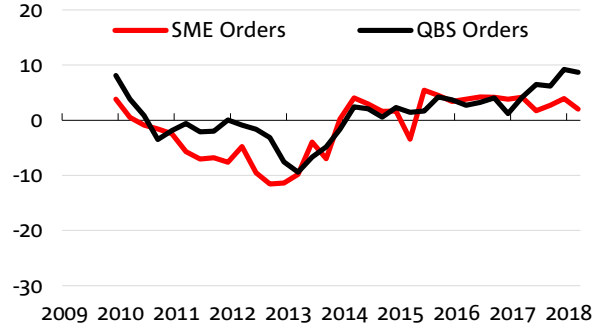


CHART 40: CAPACITY UTILISATION – SME & QBS (% S.A.)

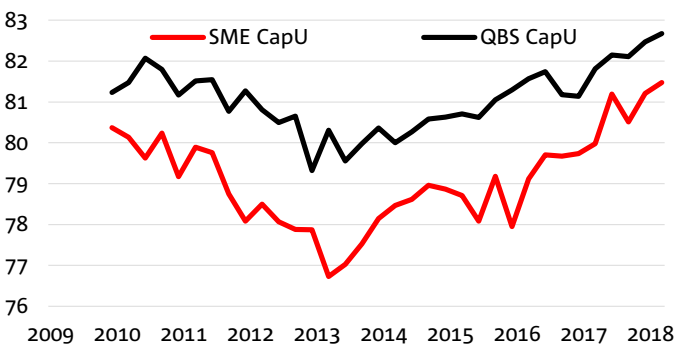


CHART 41: CAPITAL EXPENDITURE – SME & QBS (NET BAL., S.A.)

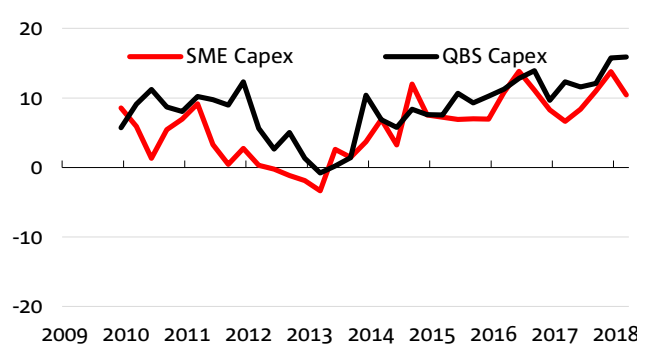
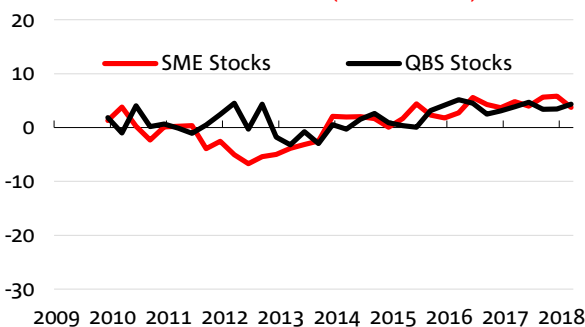


CHART 42: STOCKS – SME & QBS (NET BAL., S.A.)



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