



NAB QUARTERLY SME SURVEY 2018 Q2

SME BUSINESS CONDITIONS EASE SLIGHTLY IN MID 2018

NAB Australian Economics

SME business conditions eased in 2018 Q2 but remain relatively high. Confidence edged lower but remains around the level observed over recent years. Leading indicators of future activity in the survey generally remained positive, though some measures eased a little. SME conditions in WA remain the weakest across the states.

HIGHLIGHTS

- Small and Medium Enterprise (SME) **business conditions** fell 2pts in Q2 2018 to +11. Despite easing in the second quarter, conditions remain at a relatively high level when compared to the historical average of +5 (survey started in mid-2006). By component, trading conditions were flat in the quarter while profitability and employment each edged lower (-1pt); all three components remain above average.
- SME **business confidence** edged 1pt lower to +6pts in Q2. Confidence remains above average despite the downward trend over the last three quarters.
- **Large businesses** (as measured by the NAB Quarterly Business Survey, QBS) continued to outperform the **SME sector** with around a 4-5pt gap in the conditions index persisting in Q2 – though both the SME and QBS saw easing conditions in Q2. Among SMEs, low-tier firms recorded an improvement in the quarter to close the gap with high-tier firms (where conditions deteriorated slightly). Mid-tier firms continue to underperform and indeed edged lower in Q2. Confidence was at a similar level between small/medium and large businesses.
- By **industry**, *health* continued to report the strongest business conditions, followed by *finance* and then *property*. The weakest industry was *cafes & restaurants*, followed by retail (which has lagged the other industries for some time). Business confidence is lowest in *retail* and *property services*. *Finance* was the only other industry to record negative confidence in Q2. Confidence is highest in *transport & storage* and *manufacturing*.
- Across the mainland **states**, SME business conditions improved in VIC, SA and WA in Q1, while NSW and QLD weakened. Overall, conditions for SMEs remained strongest in VIC, followed by QLD and SA (following a sharp improvement in the quarter). Conditions remain weakest in WA – currently the only state recording negative conditions. Confidence remains highest in the eastern states – led by VIC – with SA and WA only just positive in the second quarter. Business confidence deteriorated sharply in WA and fell in SA in the June quarter. NSW edged down, while QLD and VIC saw marginal improvements.
- **Leading indicators** continue to suggest robust outcomes in the SME sector. Indicators were again mixed in Q2 but generally remained at high levels. Expectations for Capex and business conditions over the next 12 months were lower though both remain elevated. In the shorter-term, expectations for Capex and employment rose slightly. Capacity utilisation rose again in Q2 and after increasing significantly in recent years, it is currently at the highest level since the GFC.
- The major **constraint on output** identified by SMEs were sales and orders (i.e. demand), though this eased slightly in the quarter. Difficulty finding suitable labour was the second largest constraint in Q2 after trending higher in recent quarters.
- This quarter we asked businesses about their life cycle stage. Businesses in the expansion or business as usual phase typically experienced stronger conditions (including across subcomponents) and higher confidence than firms undergoing transitions or experiencing difficulty. Capex plans for the next 12 months are greatest for firms in the expansion phase while firms facing difficulty/uncertainty are more likely to cut back expenditure plans. Capacity utilisation across all stages of the business lifecycle was fairly similar. For more details please see page 2.

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

	2017	2018	2018
	q4	q1	q2
Business Confidence	8	7	6
Low-tier firms	5	9	2
Mid-tier firms	9	6	5
High-tier firms	8	6	10
Business Conditions	13	13	11
Low-tier firms	9	10	13
Mid-tier firms	13	9	8
High-tier firms	14	16	13

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

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

	2017q4	2018q1	2018q2
Trading Conditions	21	20	20
Low-tier firms	17	20	18
Mid-tier firms	22	15	14
High-tier firms	21	24	23
Profitability	12	15	14
Low-tier firms	9	12	18
Mid-tier firms	10	9	7
High-tier firms	14	20	15
Employment	6	4	3
Low-tier firms	4	-1	3
Mid-tier firms	9	4	4
High-tier firms	7	6	2

All data seasonally adjusted, except purchase costs and exports. Fieldwork for this Survey was conducted from 23 May to 13 June 2018, covering around 650 firms across the non-farm business sector. **Next release date is 25 October 2018.**

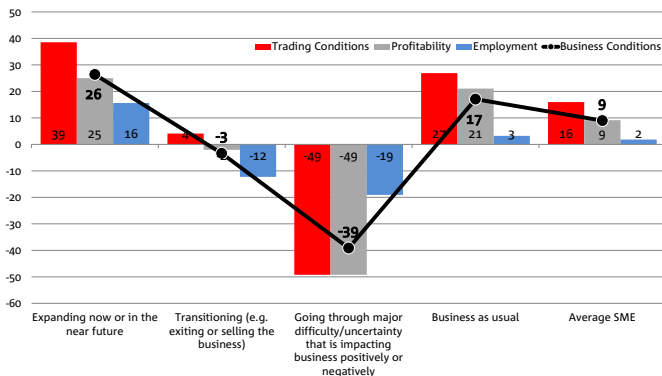
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QUARTERLY FOCUS: SME BUSINESS JOURNEY

For the first time we looked at performance of SMEs at different phases of their ‘business journey’. While it is under-weight in relation to start-ups, almost two-thirds of businesses currently identify themselves as being in a ‘business as usual’ phase, nearly 1 in 5 are expanding now or in the near future, and 1 in 10 are transitioning (for example exiting or selling the business) or currently going through major difficulty or uncertainty. Firms in the expansion phase are out-performing on all survey measures of business conditions and confidence, while those undergoing difficulty/uncertainty (and to a much lesser extent transitioning) are under-performing.

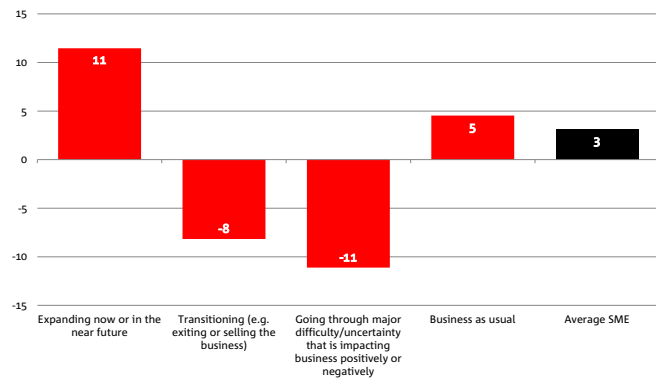
CHART 1: NAB BUSINESS CONDITIONS – SME



Business conditions for SMEs in the ‘expansion’ phase are much stronger than the SME average...

- Business conditions for SMEs in the expansion (+26) and business as usual (+17) phase are much higher than the SME average (+9).
- Conditions are much weaker for firms transitioning (-3) or facing difficulty/uncertainty (-39).
- Firms in the expansion phase are also out-performing on all index components - trading conditions (+39), profitability (+25) and employment (+16).
- Those experiencing difficulty/uncertainty are under-performing & negative for all index components.

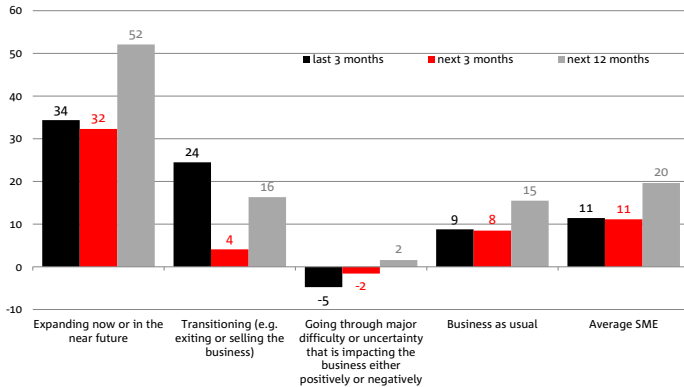
CHART 2: NAB BUSINESS CONFIDENCE – SME



Business confidence is also highest among firms in the expansion phase and lowest for those experiencing difficulty/uncertainty...

- Business confidence in expanding firms (+11) is significantly above the SME average (+3).
- Firms in the business as usual phase are also slightly higher (+5).
- Not surprisingly, confidence in firms experiencing difficulty/uncertainty (-11) or transitioning (-8) is much lower and negative.

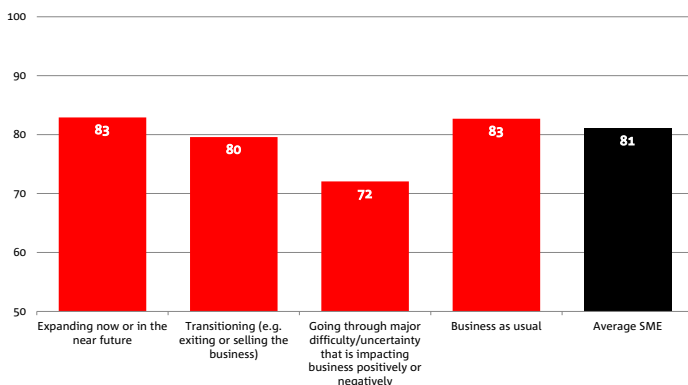
CHART 3: CAPITAL EXPENDITURE – SME



Significantly more firms in the expansion phase are expecting to increase their capital expenditure in the next 3 and 12 months...

- In net terms, noticeably more firms in the expansion (+34) and transition (+24) phases increased their capital expenditure in the last 3 months, while those experiencing difficulty/uncertainty (-5) cut back.
- Capital expenditure intentions over the next 3 and 12 months are also much stronger for firms that are expanding (+32 and +52 respectively).
- Firms that are transitioning also expect to raise their capital expenditure in the longer term (+16).
- Little change is expected in firms currently experiencing a difficulty/uncertainty phase (-2 and +2 respectively).

CHART 4: CAPACITY UTILISATION – SME



Much less variation was reported in capacity utilisation rates across business phases...

- Capacity utilisation rates are running at broadly similar rates for firms currently in the expansion (83%), business as usual (83%) and transitioning (80%) phase of business.
- They are also broadly in line with the SME average (81%).
- Capacity utilisation rates in firms experiencing difficulty/uncertainty (72%) are significantly lower.

Note: The data in the charts are not seasonally adjusted

NAB QUARTERLY SME SURVEY – CONDITIONS, CONFIDENCE & PRICES

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

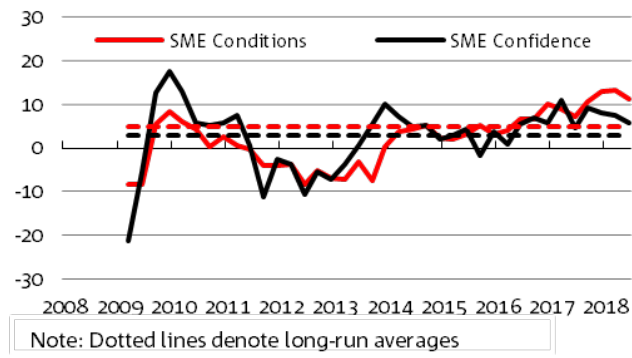


CHART 6: SME BUSINESS CONDITIONS COMPONENTS (NET BAL., S.A.)

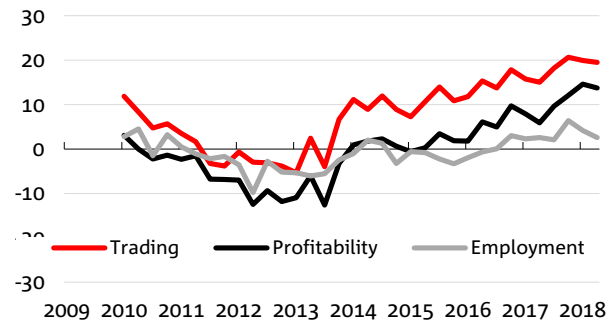


CHART 7: SME BUSINESS CONDITIONS & CASH FLOW (NET BAL., N.S.A.)

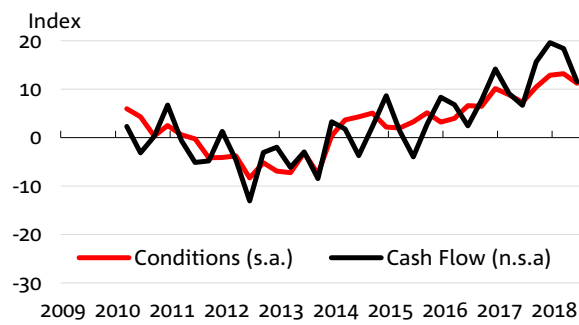
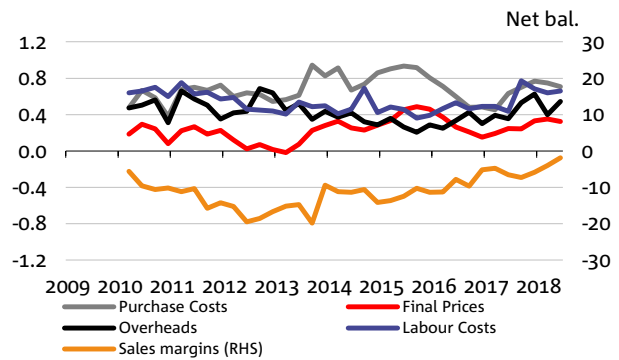


CHART 8: SME INPUT COSTS AND FINAL PRICE GROWTH (S.A.)



CONSTRAINTS ON OUTPUT

CHART 9: FACTORS CONSTRAINING SME OUTPUT

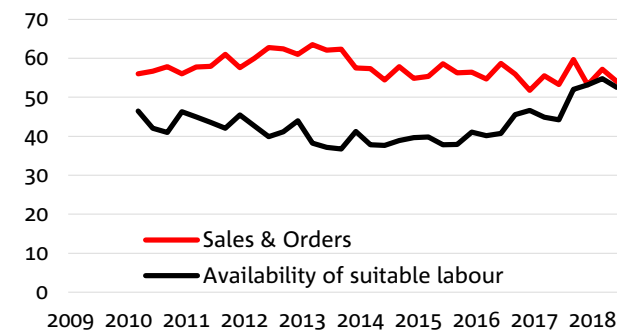
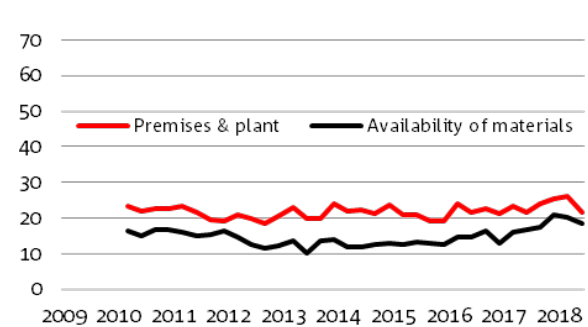
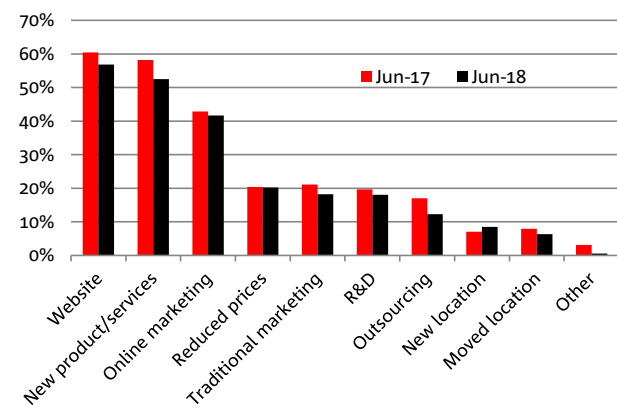


CHART 10: FACTORS CONSTRAINING SME OUTPUT



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.)

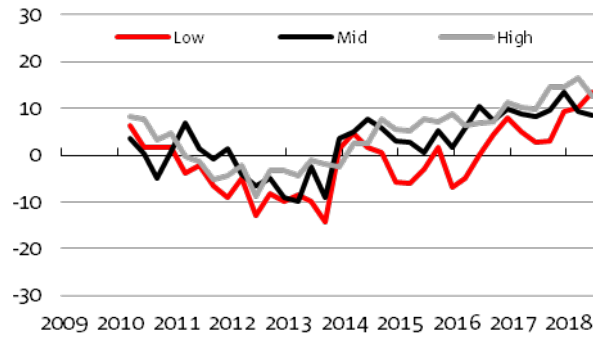


CHART 13: BUSINESS CONFIDENCE BY FIRM SIZE (NET BAL., S.A.)

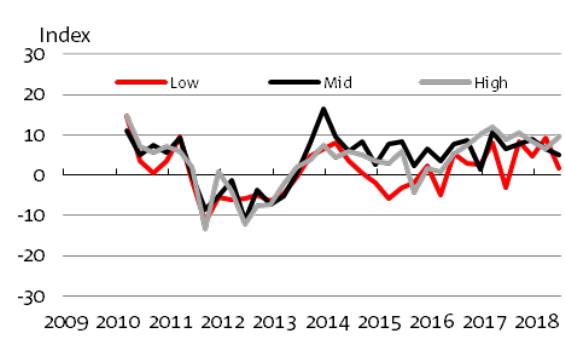


CHART 14: TRADING CONDITIONS BY FIRM SIZE (NET BAL., S.A.)

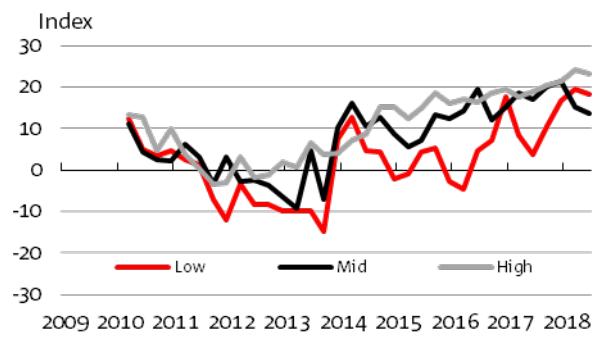


CHART 15: PROFITABILITY BY FIRM SIZE (NET BAL., S.A.)

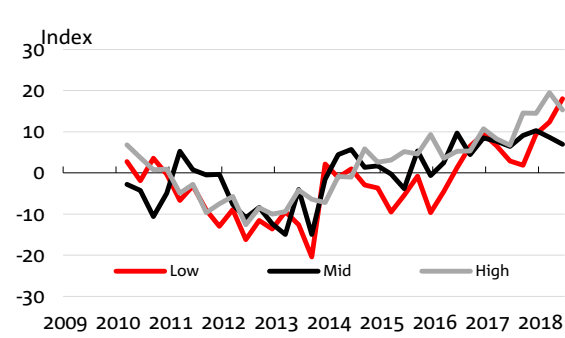


CHART 16: EMPLOYMENT BY FIRM SIZE (NET BAL., S.A.)

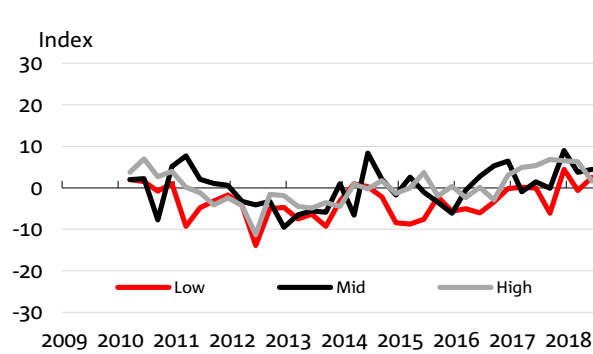


CHART 17: CASH FLOW BY FIRM SIZE (NET BAL., N.S.A.)

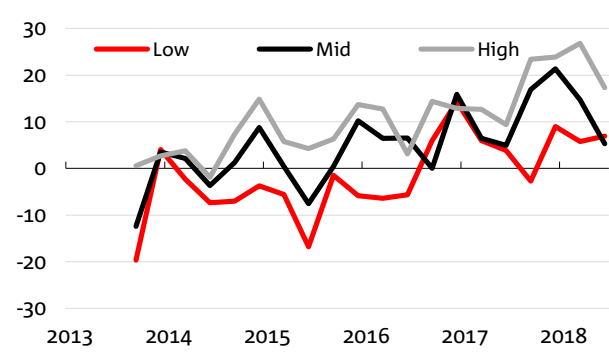


CHART 18: CAPACITY UTILISATION (% S.A.)

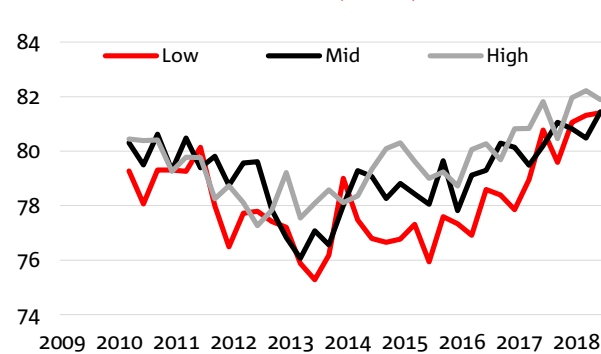
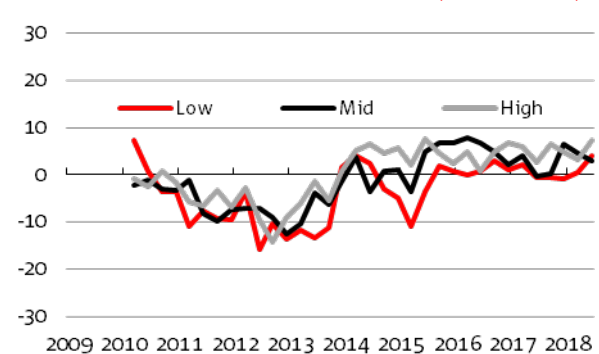


CHART 19: FORWARD ORDERS BY FIRM SIZE (NET BAL., S.A.)



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.)

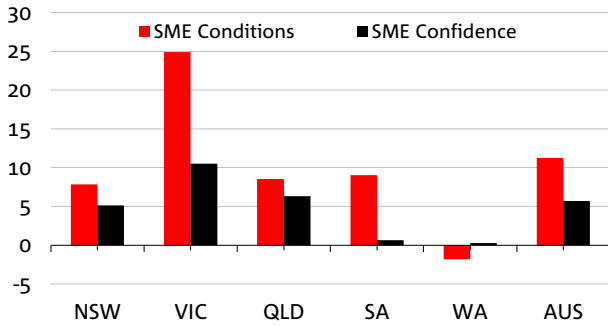


CHART 21: SME BUSINESS CONDITIONS BY STATE (NET BAL., S.A.)

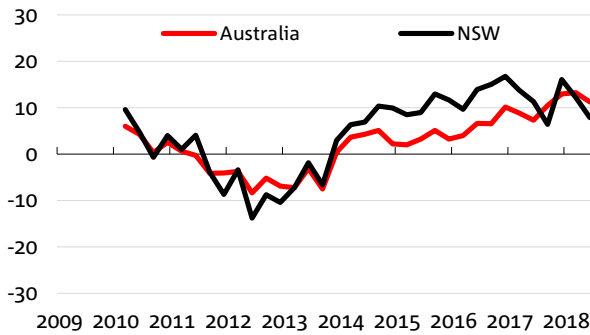


CHART 24: SME BUSINESS CONFIDENCE BY STATE (NET BAL., S.A.)

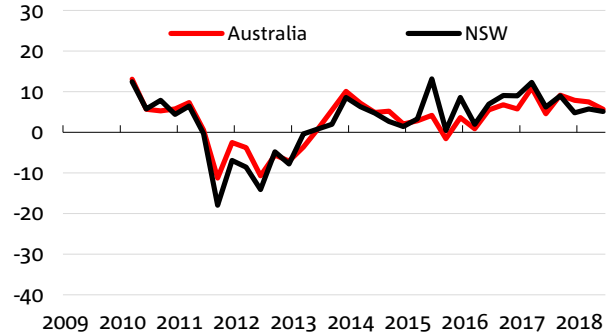


CHART 22: SME BUSINESS CONDITIONS BY STATE (NET BAL., S.A.)

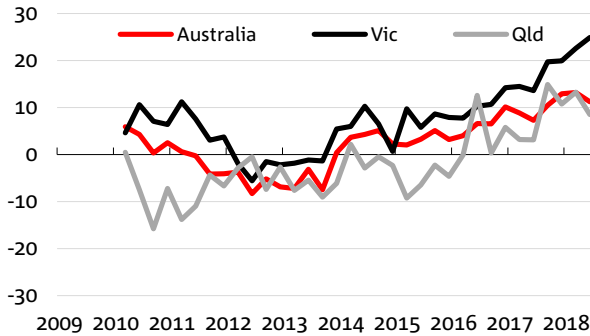


CHART 25: SME BUSINESS CONFIDENCE BY STATE (NET BAL., S.A.)

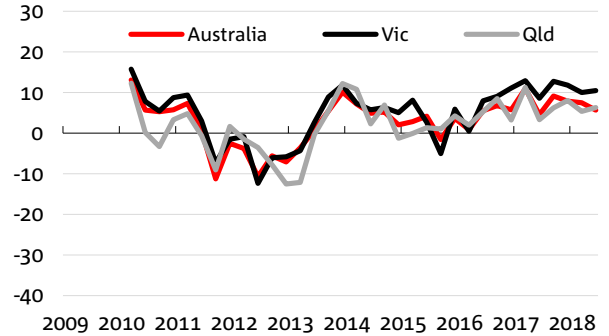


CHART 23: SME BUSINESS CONDITIONS BY STATE (NET BAL., S.A.)

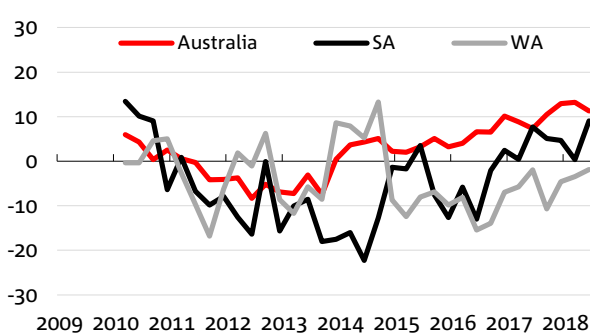
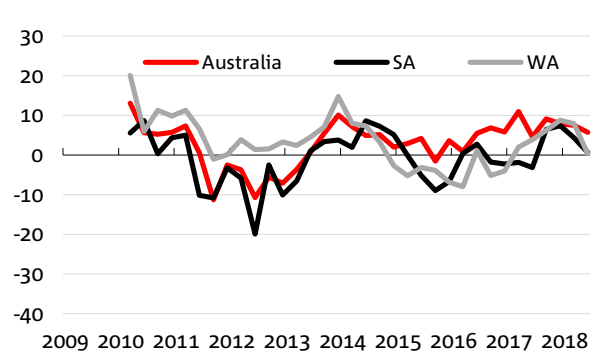


CHART 26: SME BUSINESS CONFIDENCE BY STATE (NET BAL., S.A.)



NAB QUARTERLY SME SURVEY – CONDITIONS & CONFIDENCE BY INDUSTRY

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

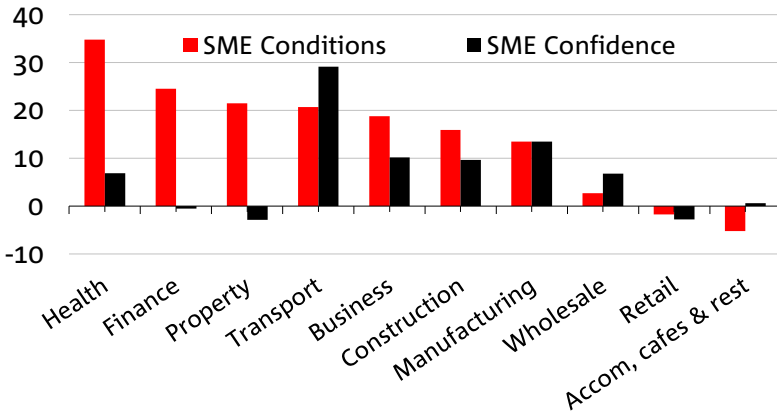


CHART 28: SME BUSINESS CONDITIONS BY INDUSTRY (NET BAL., S.A.)

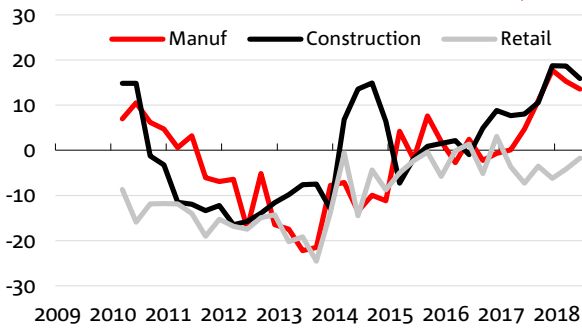


CHART 31: SME BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., S.A.)

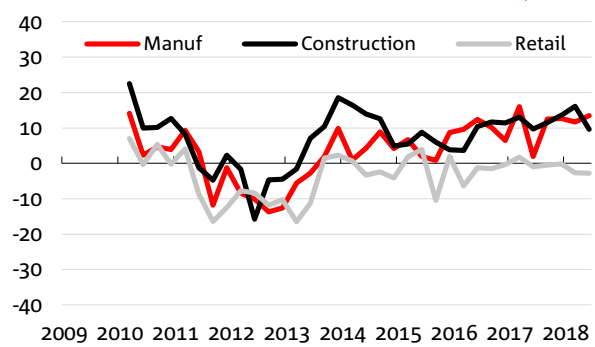


CHART 29: SME BUSINESS CONDITIONS BY INDUSTRY (NET BAL., S.A.)

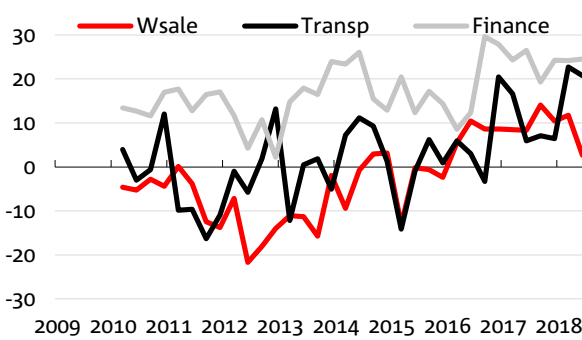


CHART 32: SME BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., S.A.)

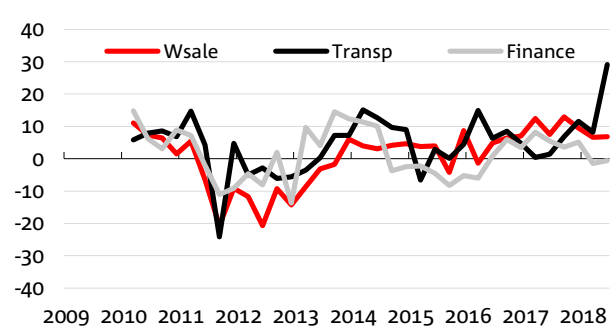


CHART 30: SME BUSINESS CONDITIONS BY INDUSTRY (NET BAL., S.A.)

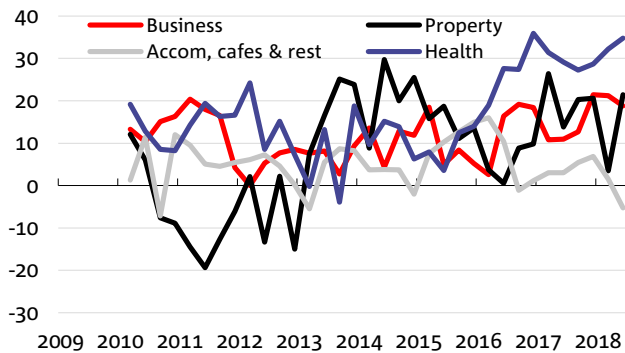
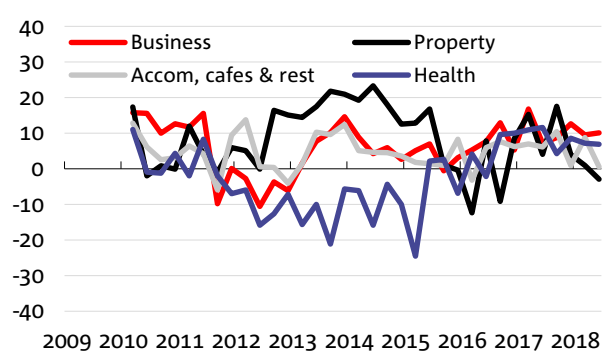


CHART 33: SME BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., S.A.)



NAB QUARTERLY SME SURVEY – COMPARISON WITH LARGER BUSINESSES

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

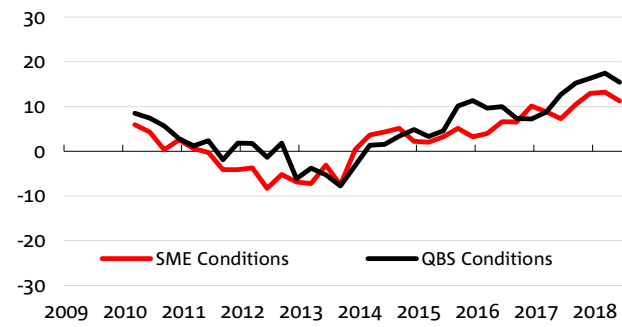


CHART 35: BUSINESS CONFIDENCE – SME & QBS (NET BAL., S.A.)

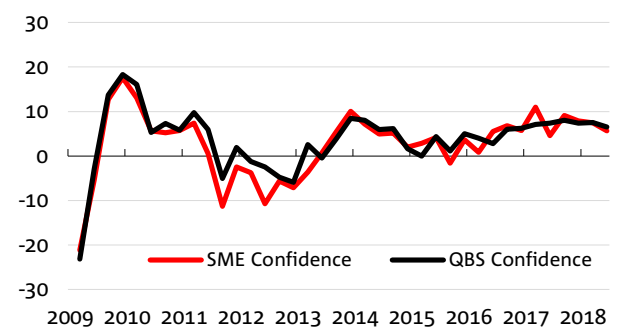


CHART 36: TRADING CONDITIONS – SME & QBS (NET BAL., S.A.)

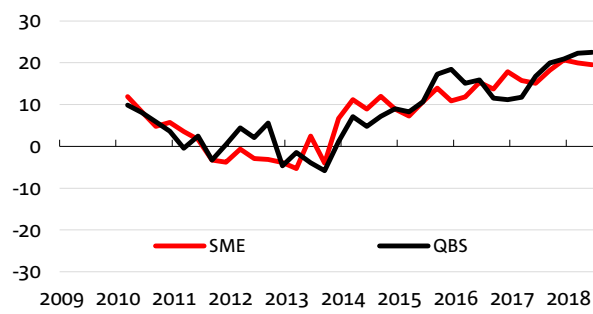


CHART 37: PROFITABILITY – SME & QBS (NET BAL., S.A.)

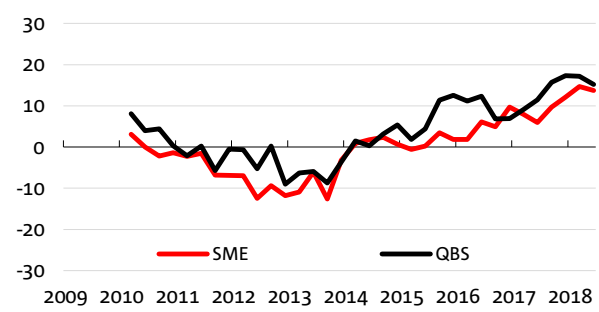


CHART 38: EMPLOYMENT – SME & QBS (NET BAL., S.A.)

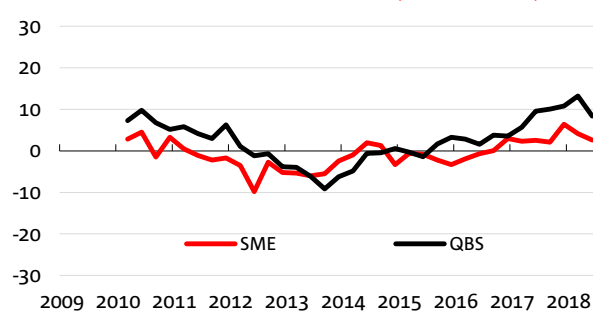


CHART 39: FORWARD ORDERS – SME & QBS (NET BAL., S.A.)

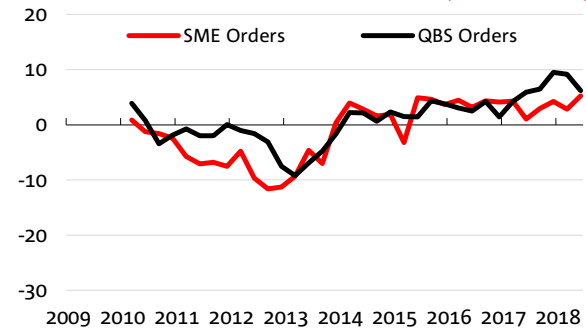


CHART 40: CAPACITY UTILISATION – SME & QBS (% S.A.)

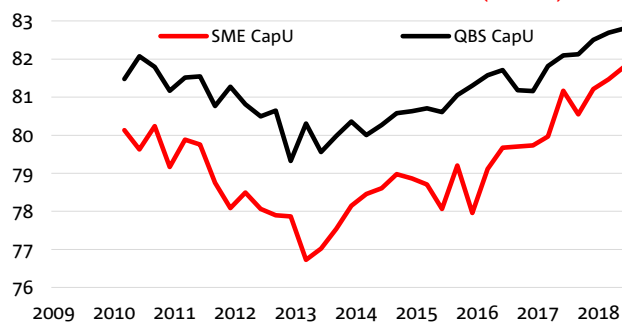


CHART 41: CAPITAL EXPENDITURE – SME & QBS (NET BAL., S.A.)

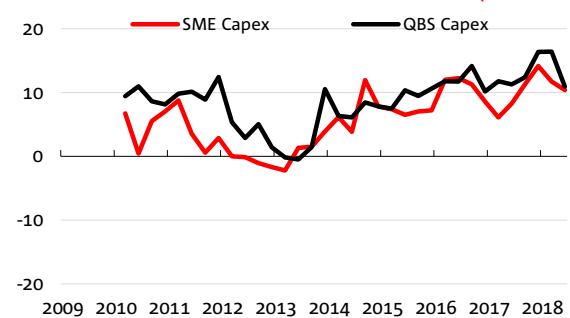
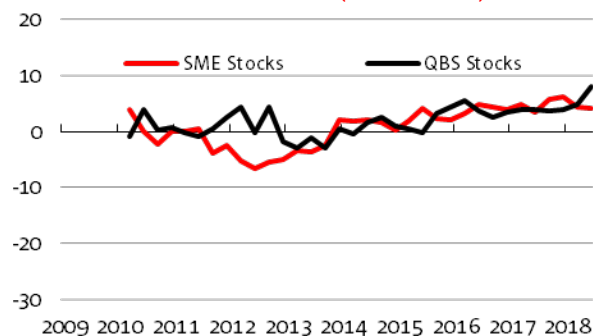


CHART 42: STOCKS – SME & QBS (NET BAL., S.A.)



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