

# NAB QUARTERLY SME SURVEY

## 2018 Q2

By Group Economics

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### BUSINESS CONDITIONS EASE SLIGHTLY

Small and Medium Enterprise (SME) business conditions fell 2pts in Q2 2018 to +11, while SME business confidence edged 1pt lower to +6pts. Even after the easing in the quarter, both SME confidence and conditions remain above their historical averages.

According to Alan Oster, NAB Group Chief Economist: “Despite easing a little in Q2, SME business conditions remained at a high level in Q2, while SME business confidence also remains above average after declining in the last few quarters.

“Across industries, health again reported the strongest business conditions. After a relatively sharp deterioration in the quarter, accommodation, cafes & restaurants recorded the weakest conditions. The retail industry was the only other category to record negative business conditions in the quarter, continuing its trend of weak outcomes over recent years.”

According to Mr Oster, “Across the mainland states, SME business conditions were strongest in Victoria, and they were again weakest in Western Australia where confidence also deteriorated in the quarter. Conditions in South Australia rebounded in Q2, to be second highest behind Victoria after deteriorating last quarter.”

SME confidence was highest in the transport & storage industry, followed by manufacturing. The retail industry showed further weakness, again having the lowest confidence across industries.

“The outlook for the retail sector suggests little improvement, with the industry again recording the equal weakest confidence across all industries and one of only two to record negative conditions,” said Mr Oster.

Demand continues to be the most significant constraint on SME output, followed by difficulty in finding suitable labour.

“The most significant factor constraining the output of SMEs continues to be sales and orders. Difficulty finding suitable labour is also a key constraint after rising in significance over the past year, though this pressure appears to have eased marginally in Q2,” said Mr Oster.

A special question was asked this quarter asking SMEs to identify their current position in the business lifecycle – allowing a split of each survey variable according to this segmentation. Businesses in the ‘expansion’ and ‘business as usual’ phases report conditions significantly higher than the SME average while those that are transitioning or facing difficulty/uncertainty report significantly weaker conditions.

According to Mr Oster: “The results of the special question this quarter, which identifies businesses by their stage in the business lifecycle, provides some interesting insights into the conditions faced by SMEs. Conditions and confidence are notably higher for businesses that are in the expansion phase, while unsurprisingly, conditions are significantly weaker for firms facing difficulty/uncertainty. While there appears to be a difference in business conditions across the lifecycle spectrum, the variation in capacity utilisation doesn’t appear large.”

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. For more information, please see the NAB Quarterly SME Survey report.

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