



# NAB QUARTERLY SME SURVEY 2018 Q3

## CONDITIONS EDGE LOWER BUT REMAIN FAVOURABLE

*NAB Australian Economics*

SME business conditions edged lower in 2018 Q3, but remain relatively high, while confidence fell to below average levels. The weakness in the quarter was driven primarily by weakness in smaller firms, which saw a broad-based deterioration across employment, trading conditions and profitability. Business services and health continue to see the strongest conditions, while retail continues to deteriorate. By state, Victoria continues to see very strong conditions; WA still lags – and is the only state to record negative conditions.

### HIGHLIGHTS

- Small and Medium Enterprise (SME) **business conditions** edged lower (-1pt) to +11 (from a revised +12) in Q3. While conditions have eased over the past two quarters after peaking in March, they remain well above the long-run average of +5). By component, trading conditions and employment each edged lower by 1pt to +19 and +2, respectively, while firms' profitability fell by 3pts in the quarter. Low-tier firms showed particular weakness, declining across all components.
- SME **business confidence** fell 4pts to +2pts in Q3 and is now a little below average.
- **Large businesses** (as measured by the NAB Quarterly Business Survey, QBS) continued to outperform the **SME sector** with around a 2-3pt gap in the conditions index persisting in Q3 though both surveys have seen a similar pattern of easing in conditions over the past 2 quarters (and both remain above average). Among SMEs, low-tier firms drove the weakness in Q3 with conditions falling sharply. Conditions for mid- and high-tier firms edged up in the quarter. Confidence was also weaker for low tier firms, consistent with weakening conditions.
- Conditions across **industries** were mixed. Accommodation, cafes & restaurants improved, as did wholesale and business services with the remaining industries weaker in the quarter. Overall, conditions remain highest in business services, health and finance. Retail continues to lag, and is the only industry to record negative conditions, and is also currently reporting the weakest confidence of all industries. Confidence is also weak in finance and wholesale – with both also reporting a deterioration in confidence. SME business confidence is highest in manufacturing and construction.
- Business conditions eased across all **mainland states** with QLD experiencing a particularly sharp fall. VIC edged lower but remains the highest of all states. WA remains weakest, with conditions still deteriorating, and despite showing some signs of improvement in recent quarters, appears to have weakened again in Q3. Overall, conditions for SMEs remained strongest in VIC, followed by SA and NSW. Confidence weakened further in the Eastern states, with NSW turning negative in the quarter and QLD and VIC also declining. Confidence edged higher in SA and WA – though confidence has generally been a little lower in these states when compared to the east coast over recent quarters.
- **Leading indicators** were generally weaker in Q3, but overall remained at high levels. Expectations for Capex and business conditions over the next 3 and 12 months were lower. Employment expectations for both the next 3 months and over the next year were also lower – though remain high. Capacity utilisation fell in Q3 and after reaching its highest level since the GFC last quarter.
- **Sales margins** continue to come under pressure with the balance of firms reporting deteriorating margins widening in the quarter. This is consistent with surveyed input prices continuing to outpace the growth in final product prices.
- Major **constraints on output** identified by SMEs were sales and orders (i.e. demand) as well as the difficulty in finding suitable labour. Sales and orders rose a little in the quarter, while difficulty in finding suitable labour was unchanged at a relatively high level.

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

	2018	2018	2018
	q1	q2	q3
<b>Business Confidence</b>	<b>8</b>	<b>6</b>	<b>2</b>
Low-tier firms	9	1	-4
Mid-tier firms	7	5	5
High-tier firms	7	9	4
<b>Business Conditions</b>	<b>14</b>	<b>12</b>	<b>11</b>
Low-tier firms	10	13	0
Mid-tier firms	10	9	13
High-tier firms	17	14	16

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.)**

	2018q1	2018q2	2018q3
<b>Trading Conditions</b>	<b>21</b>	<b>20</b>	<b>19</b>
Low-tier firms	20	18	6
Mid-tier firms	16	16	20
High-tier firms	26	23	23
<b>Profitability</b>	<b>15</b>	<b>14</b>	<b>11</b>
Low-tier firms	12	18	-6
Mid-tier firms	9	7	11
High-tier firms	21	16	20
<b>Employment</b>	<b>4</b>	<b>3</b>	<b>2</b>
Low-tier firms	-1	2	-3
Mid-tier firms	4	5	5
High-tier firms	6	2	3

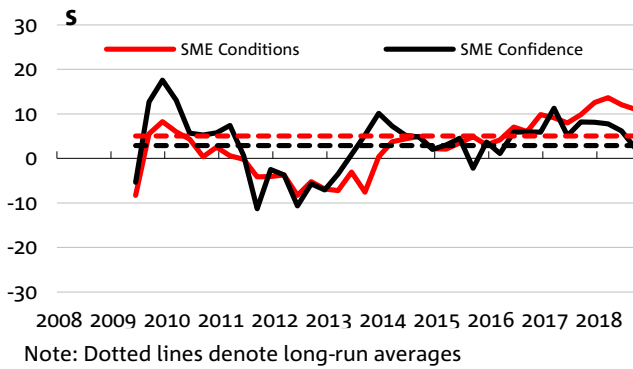
All data seasonally adjusted, except purchase costs and exports. Fieldwork for this Survey was conducted from 24 August to 13 September 2018, covering around 650 firms across the non-farm business sector. **Next release date is 14 February 2019.**

Contacts: Alan Oster – Chief Economist, Gareth Spence – Senior Economist

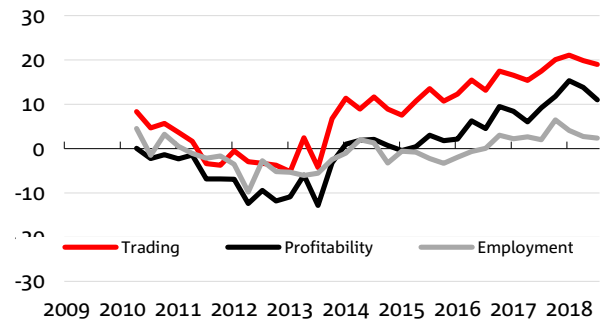
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# NAB QUARTERLY SME SURVEY – CONDITIONS, CONFIDENCE & PRICES

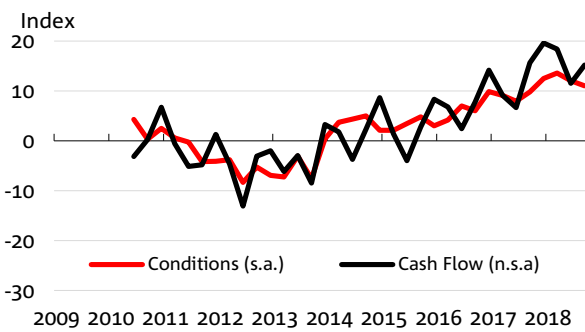
**CHART 5: SME BUSINESS CONDITIONS & CONFIDENCE (NET BAL., S.A.)**



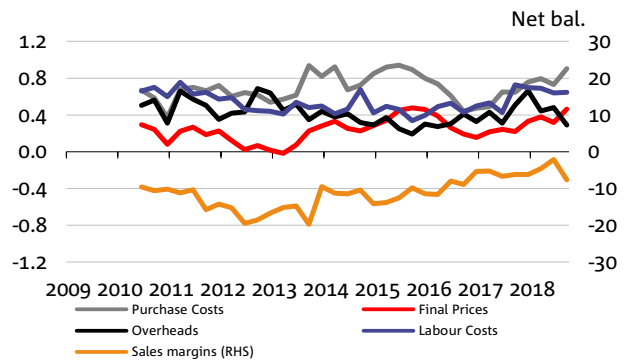
**CHART 6: SME BUSINESS CONDITIONS COMPONENTS (NET BAL., S.A.)**



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



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

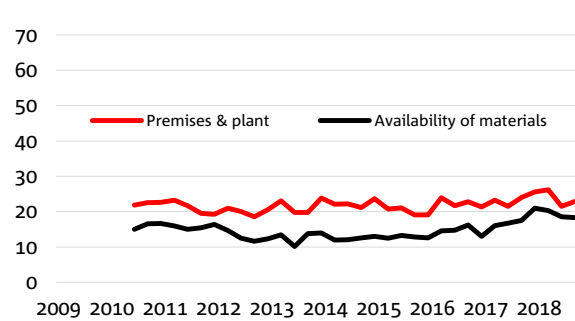


## CONSTRAINTS ON OUTPUT

**CHART 9: FACTORS CONSTRAINING SME OUTPUT**

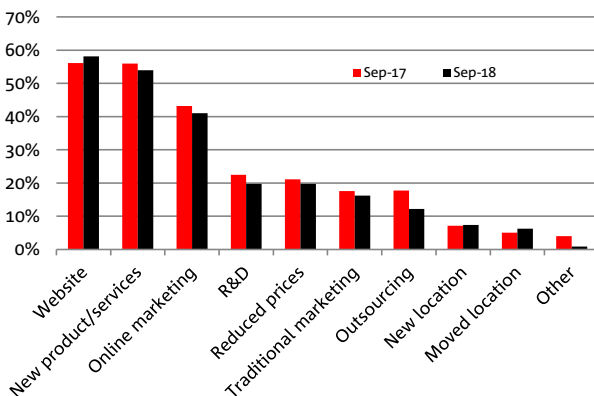


**CHART 10: FACTORS CONSTRAINING SME OUTPUT**



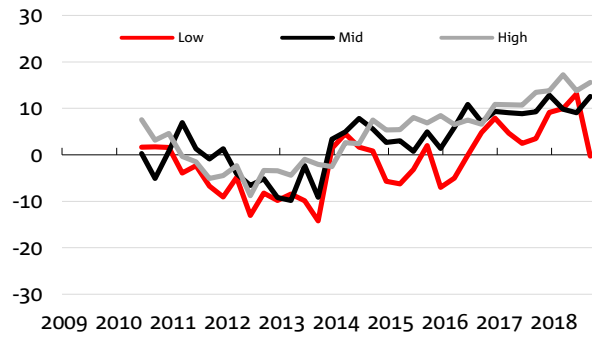
## STRATEGIES

**CHART 11: STRATEGIES EMPLOYED TO IMPROVE COMPETITIVENESS**

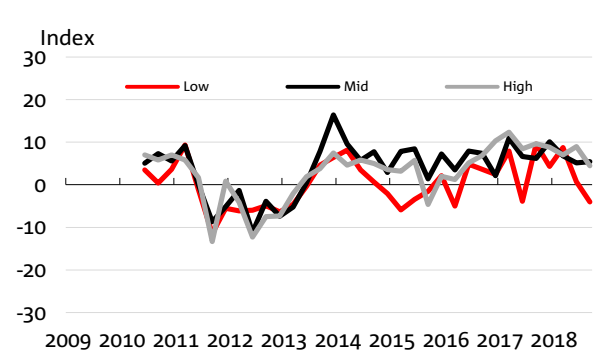


# NAB QUARTERLY SME SURVEY – CONDITIONS AND CONFIDENCE BY FIRM SIZE

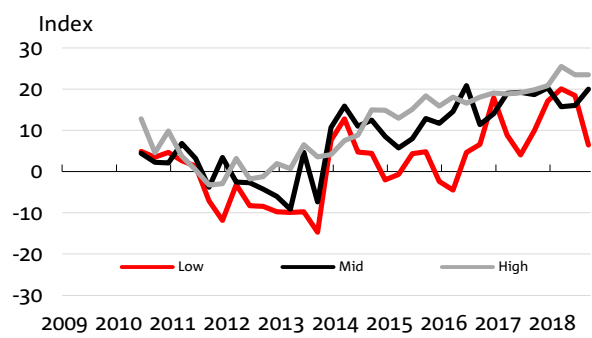
**CHART 12: BUSINESS CONDITIONS BY FIRM SIZE (NET BAL., S.A.)**



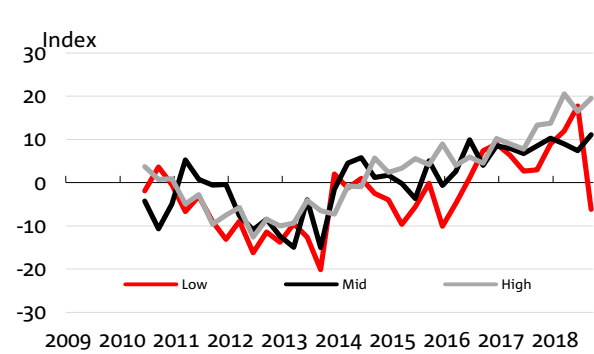
**CHART 13: BUSINESS CONFIDENCE BY FIRM SIZE (NET BAL., S.A.)**



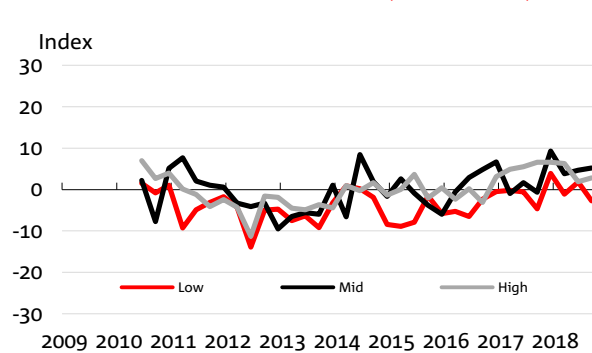
**CHART 14: TRADING CONDITIONS BY FIRM SIZE (NET BAL., S.A.)**



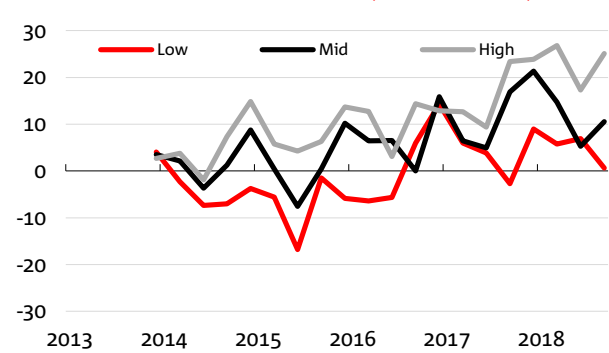
**CHART 15: PROFITABILITY BY FIRM SIZE (NET BAL., S.A.)**



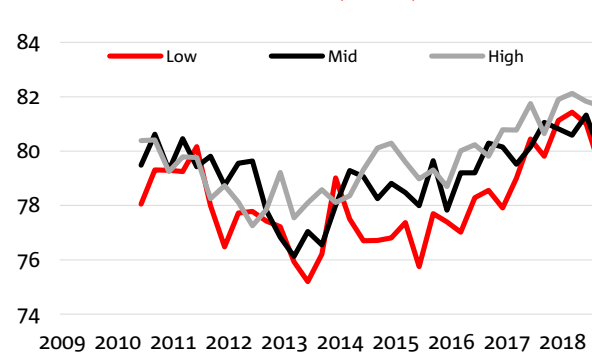
**CHART 16: EMPLOYMENT BY FIRM SIZE (NET BAL., S.A.)**



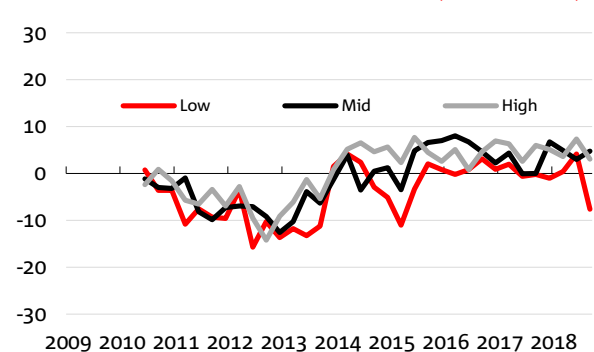
**CHART 17: CASH FLOW BY FIRM SIZE (NET BAL., N.S.A.)**



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



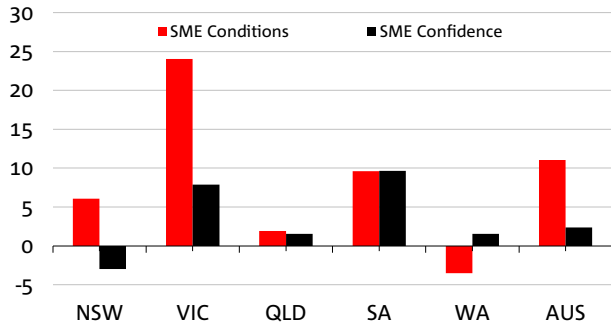
**CHART 19: FORWARD ORDERS BY FIRM SIZE (NET BAL., S.A.)**



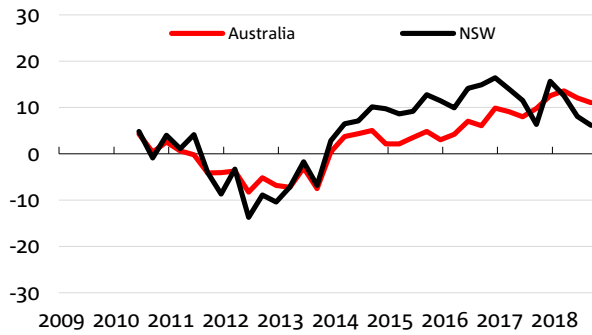
Note: Low-tier firm: turnover \$2m-3m p.a.; Mid-tier: \$3m-5m p.a.; High-tier: \$5m-10m

# NAB QUARTERLY SME SURVEY – CONDITIONS & CONFIDENCE BY STATE

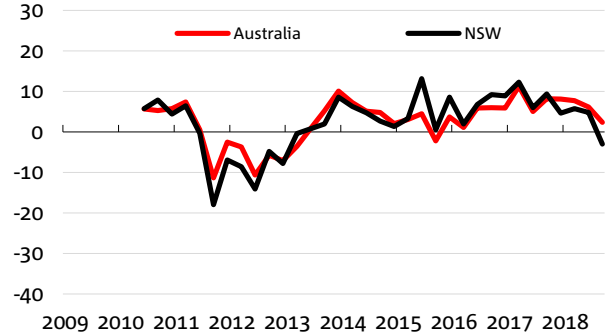
**CHART 20: BUSINESS COND. & CONFIDENCE BY STATE (NET BAL., S.A.)**



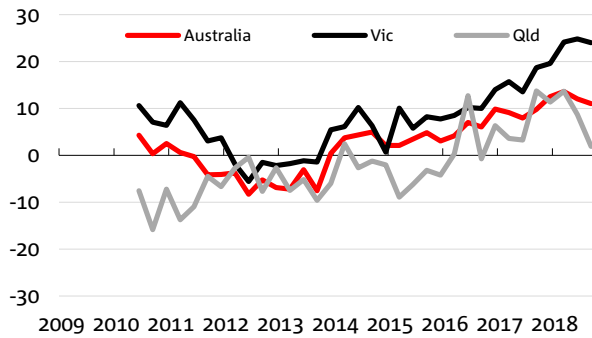
**CHART 21: SME BUSINESS CONDITIONS BY STATE (NET BAL., S.A.)**



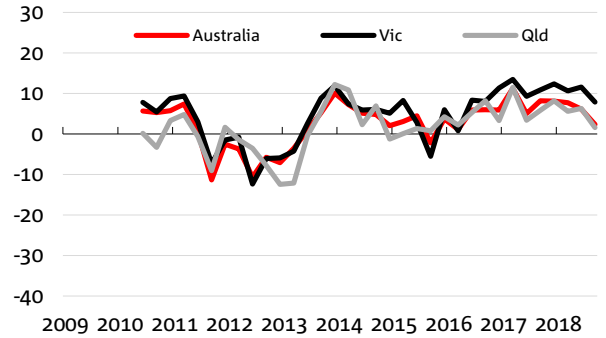
**CHART 24: SME BUSINESS CONFIDENCE BY STATE (NET BAL., S.A.)**



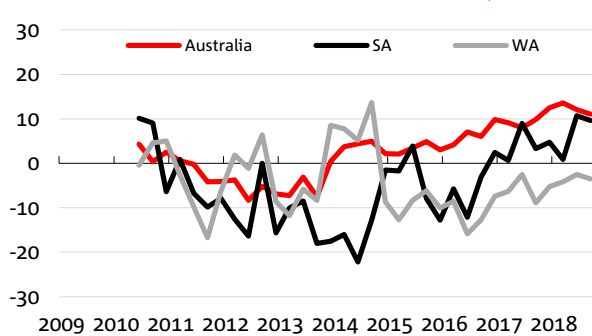
**CHART 22: SME BUSINESS CONDITIONS BY STATE (NET BAL., S.A.)**



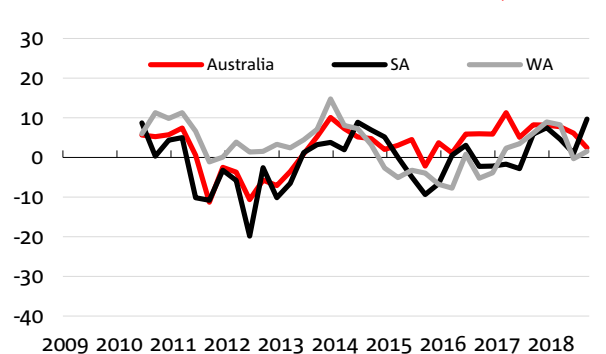
**CHART 25: SME BUSINESS CONFIDENCE BY STATE (NET BAL., S.A.)**



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

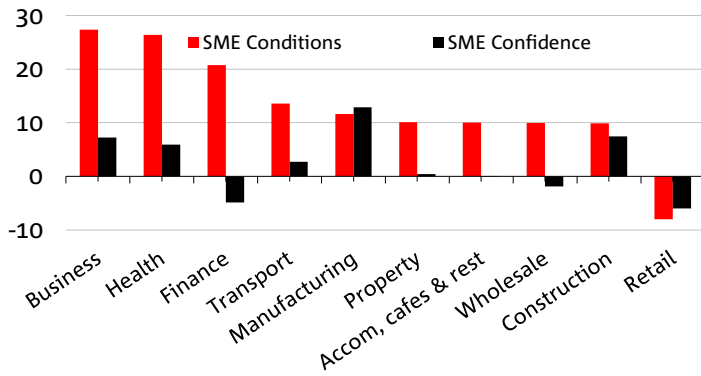


**CHART 26: SME BUSINESS CONFIDENCE BY STATE (NET BAL., S.A.)**

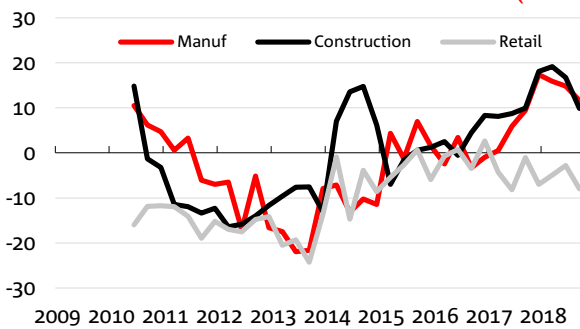


# NAB QUARTERLY SME SURVEY – CONDITIONS & CONFIDENCE BY INDUSTRY

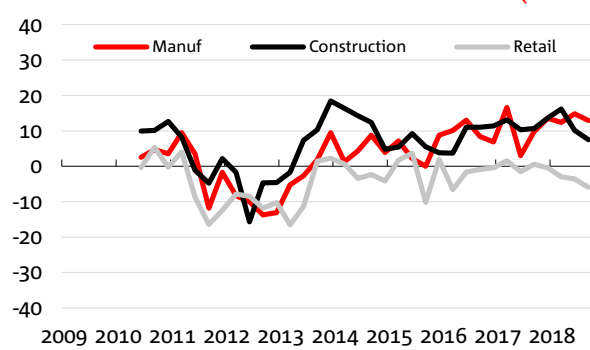
**CHART 27: SME BUSINESS COND. & CONF. BY INDUSTRY (NET BAL. S.A.)**



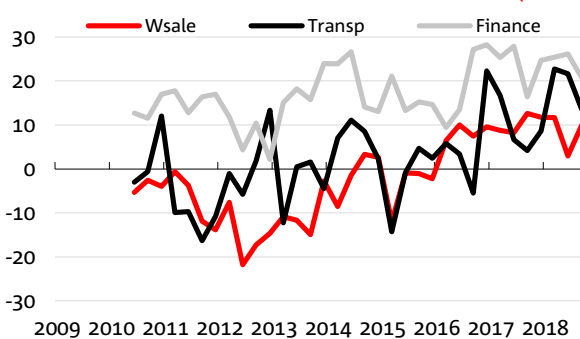
**CHART 28: SME BUSINESS CONDITIONS BY INDUSTRY (NET BAL., S.A.)**



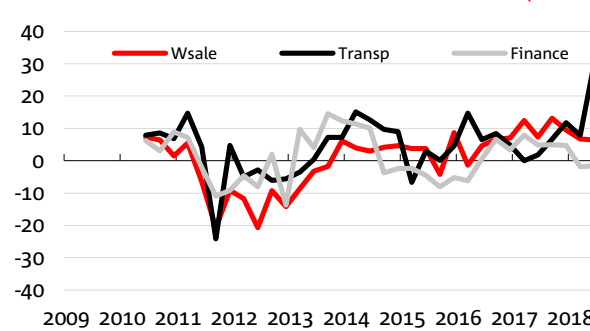
**CHART 31: SME BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., S.A.)**



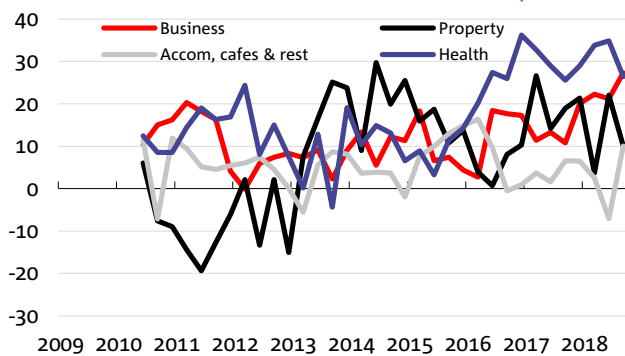
**CHART 29: SME BUSINESS CONDITIONS BY INDUSTRY (NET BAL., S.A.)**



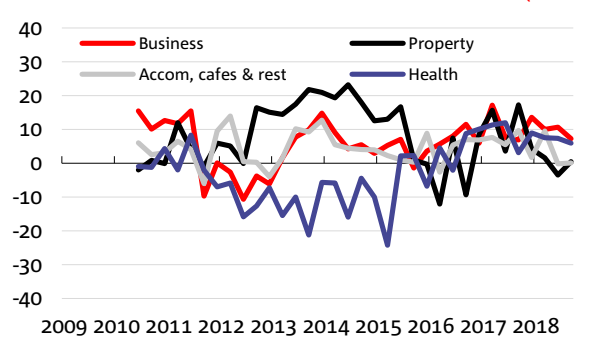
**CHART 32: SME BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., S.A.)**



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

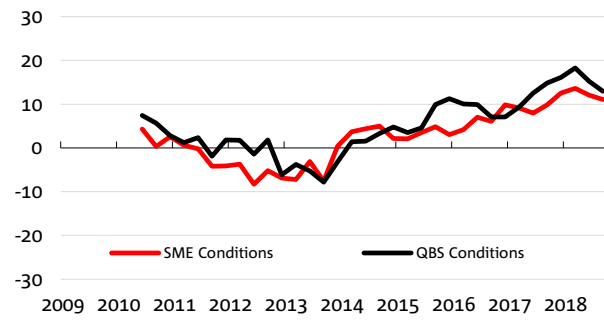


**CHART 33: SME BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., S.A.)**

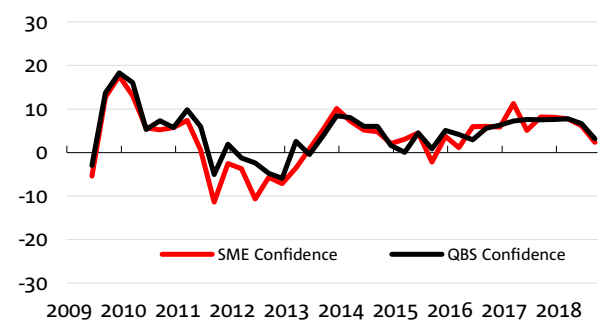


# NAB QUARTERLY SME SURVEY – COMPARISON WITH LARGER BUSINESSES

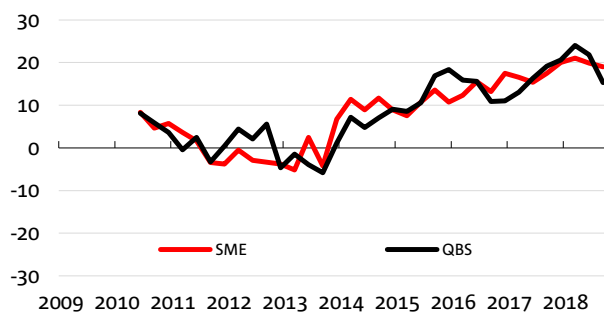
**CHART 34: BUSINESS CONDITIONS – SME & QBS (NET BAL., S.A.)**



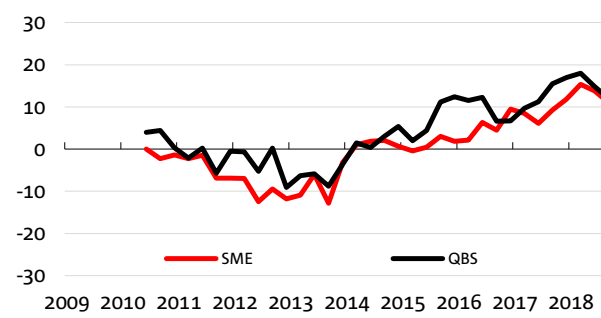
**CHART 35: BUSINESS CONFIDENCE – SME & QBS (NET BAL., S.A.)**



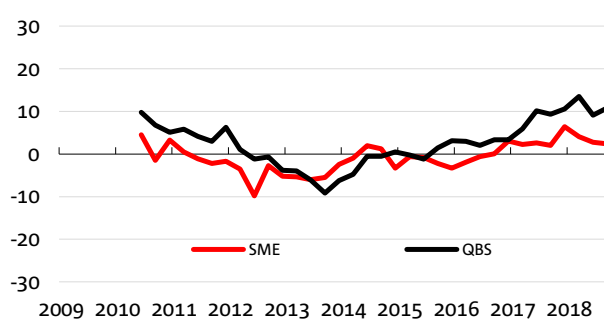
**CHART 36: TRADING CONDITIONS – SME & QBS (NET BAL., S.A.)**



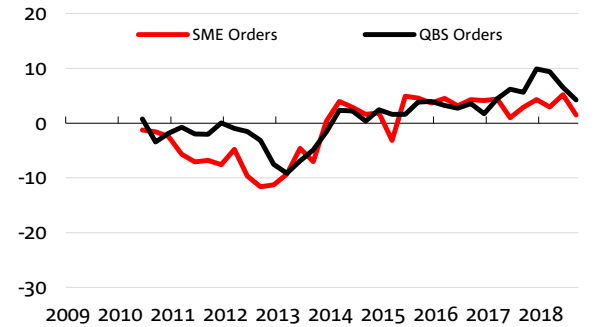
**CHART 37: PROFITABILITY – SME & QBS (NET BAL., S.A.)**



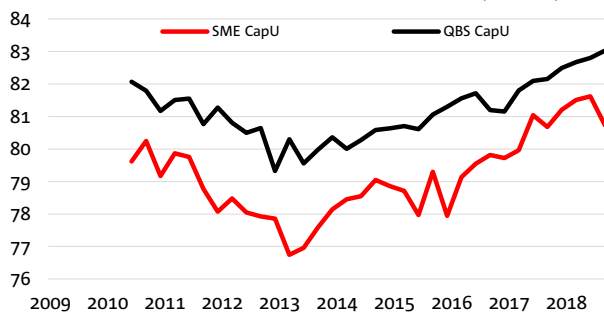
**CHART 38: EMPLOYMENT – SME & QBS (NET BAL., S.A.)**



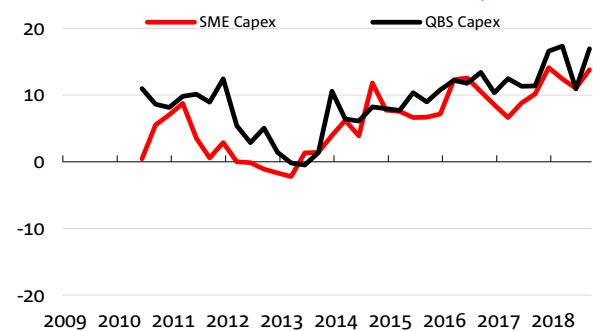
**CHART 39: FORWARD ORDERS – SME & QBS (NET BAL., S.A.)**



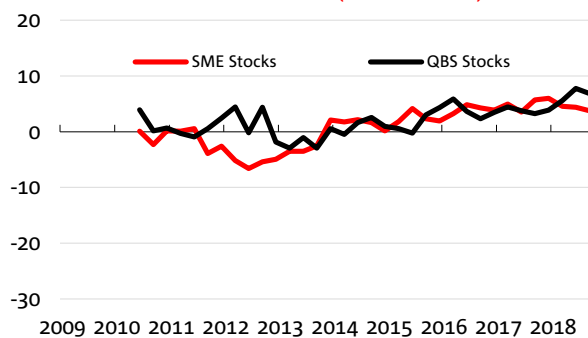
**CHART 40: CAPACITY UTILISATION – SME & QBS (% S.A.)**



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



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



## CONTACTS

Alan Oster, Group Chief Economist

[Alan.Oster@nab.com.au](mailto:Alan.Oster@nab.com.au)

+613 8634 2927

Gareth Spence, Senior Economist

[gareth.spence@nab.com.au](mailto:gareth.spence@nab.com.au)

+61 0 436 606 175

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