

NAB QUARTERLY SME SURVEY

2018 Q3

By Group Economics

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BUSINESS CONDITIONS EDGE LOWER BUT REMAIN FAVOURABLE

Small and Medium Enterprise (SME) business conditions edged lower in Q3 2018 to +11, while SME business confidence fell to +2pts. While conditions have eased over the past two quarters, they remain well above average, though confidence has declined to below average levels.

According to Alan Oster, NAB Group Chief Economist: “Conditions have eased through the middle of 2018, but SME business conditions are still at very reasonable levels. SME business confidence is a bit weaker and is now below average”.

“Accommodation, cafes & restaurants saw an improvement in conditions in the quarter after reporting deteriorating conditions last quarter. This return to positive territory leaves the retail industry as the only industry to report deteriorating conditions, continuing its trend of weak outcomes over recent years” said Mr Oster.

“Conditions in business services, health and finance in particular remain at favourable levels, though all other sectors except for retail currently report above average conditions” said Mr Oster.

According to Mr Oster, “Across the mainland states, we are seeing the strongest SME business readings in Victoria. Western Australia is weakest, and the only state to record negative conditions – and it has been lagging the other states for some time.”

Like conditions, confidence for SMEs remains weakest in the retail sector, though wholesale and finance also report worsening confidence at present. Confidence was highest in the manufacturing and construction industries.

“The pattern of weaker confidence than conditions at the aggregate level is evident across industries, with most reporting weaker confidence than conditions. Manufacturing and construction currently see the best outlook for their sectors, while retail continues to expect the deterioration in conditions to continue” said Mr Oster.

While conditions remain favourable overall, the smaller SMEs were significantly weaker this quarter, with sharp declines across most survey categories.

“A concerning finding from the Survey was a significant deterioration in conditions, confidence, forward orders and cash flow at the smaller end of the SME sector. This needs to be watched and better understood” 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 another key constraint, staying at a relatively high level in Q3 after trending higher after the past year or so. We see this as an important factor more generally with wage growth having been weak for a number of years. With the difficulty of suitable labour having risen and stayed high, we may start to see firms have to bid up wages more aggressively in order to recruit and retain the required staff” said Mr Oster.

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.

Group Economics

Alan Oster
Group Chief Economist
+(61 3) 8634 2927

Jacqui Brand
Personal Assistant
+(61 3) 8634 2181

Dean Pearson
Head of Economics
+(61 3) 8634 2331

Australian Economics and Commodities

Tony Kelly
Senior Economist
+(61 3) 9208 5049

Gareth Spence
Senior Economist
+(61 4) 36 606 175

Phin Ziebell
Senior Economist –
Agribusiness
+(61 4) 75 940 662

Behavioural & Industry Economics

Robert De Iure
Senior Economist –
Behavioural & Industry
Economics
+(61 3) 8634 4611

Brien McDonald
Senior Economist –
Behavioural & Industry
Economics
+(61 3) 8634 3837

Steven Wu
Economist – Behavioural &
Industry Economics
+(613) 9208 2929

International Economics

Gerard Burg
Senior Economist –
International
+(61 3) 8634 2788

John Sharma
Economist – Sovereign Risk
+(61 3) 8634 4514

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