



# NAB QUARTERLY SME SURVEY 2018 Q4

## CONFIDENCE AND CONDITIONS CONTINUE TO EASE

*NAB Australian Economics*

SME business conditions continued to decline in Q4, though remain just above average after reaching high levels earlier in the year. Confidence has weakened and is now below average. Mid and high-tier SMEs drove the result in the quarter, while smaller SMEs showed an improvement in both conditions and confidence, though remain weak. Forward looking indicators generally weakened in Q4 – with expectations for conditions, employment and capex declining. Forward orders have also declined to a low level. Capacity utilisation remains high, but also edged lower in the December quarter. Conditions remain most favourable on the east coast, with Victoria still recording well above average conditions, while WA and SA continue to lag the other states.

### HIGHLIGHTS

- Small and Medium Enterprise (SME) **business conditions** continued their downward trend in Q4, falling 2pts to +8. Despite easing in each of the last three quarters, conditions remain above their long-run average of +5, reflecting the relatively high starting point. By component, profitability declined 3 points to +8 and employment fell 2pts to 0 index points; trading conditions were stable at +18 in Q4.
- SME **business confidence** fell 3pts to 0, suggesting that on average conditions will remain similar over the coming quarter.
- **Large businesses** (as measured by the NAB Quarterly Business Survey, QBS) and SME business conditions converged in Q4, with a stronger deterioration in large businesses. This comes after the larger end of the spectrum having outperformed the SME sector for much of the past 2 years. Among SMEs, the weakness was driven by deteriorating in conditions for mid- and high-tier firms. Low-tier firms saw an improvement in the quarter and now report positive conditions after previously having reported a deterioration.
- By **industry**, conditions strengthened in manufacturing, finance and accommodation, cafes & restaurants. Property and construction saw declines, as did health and business services. The remaining industries tracked sideways, with retail remaining weak at -9.
- Business conditions eased across all **states** except QLD, which rebounded after a sharp fall last quarter, and WA where conditions returned to being positive after having been negative for some time. Conditions are strongest in the eastern states with SA and WA now close to the threshold between improving and deteriorating conditions. Victoria remains the standout reporting the strongest conditions of all states by a sizable margin. Confidence across all mainland states declined, except for WA where confidence rose from a relatively weak level. Confidence is now highest in WA and lowest in NSW.
- **Leading indicators** weakened further in Q4. Expectations for conditions, capex and employment were lower at both the 3- and 12- month horizons. Forward orders declined and capacity utilisation edged lower but remains high after trending up in recent years.
- Pressure on **sales margins** eased in the quarter – though overall surveyed margins continue to deteriorate. This is consistent with surveyed input prices and labour costs continuing to outpace the growth in final product prices. Growth in both input prices, labour costs and final products prices all eased in the quarter.
- The major **constraints on output** identified by SMEs continued to be sales and orders (i.e. demand) and the difficulty in finding suitable labour. The difficulty in finding suitable labour was broadly unchanged in the quarter but remains at a relatively high level.

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

	2018	2018	2018
	q2	q3	q4
<b>Business Confidence</b>	<b>6</b>	<b>3</b>	<b>0</b>
Low-tier firms	1	-5	-1
Mid-tier firms	5	6	0
High-tier firms	9	5	1
<b>Business Conditions</b>	<b>13</b>	<b>10</b>	<b>8</b>
Low-tier firms	14	-1	2
Mid-tier firms	10	12	8
High-tier firms	15	15	12

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

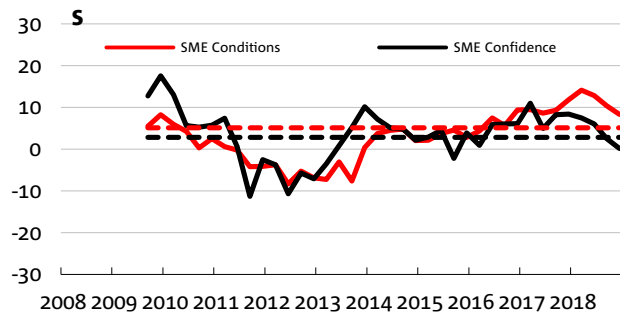
**TABLE 2: SME BUSINESS CONDITIONS BY COMPONENT (NET BAL., S.A.)**

	2018q2	2018q3	2018q4
<b>Trading Conditions</b>	<b>21</b>	<b>18</b>	<b>18</b>
Low-tier firms	20	6	7
Mid-tier firms	17	19	18
High-tier firms	25	23	23
<b>Profitability</b>	<b>14</b>	<b>11</b>	<b>8</b>
Low-tier firms	18	-6	2
Mid-tier firms	9	10	8
High-tier firms	17	18	11
<b>Employment</b>	<b>3</b>	<b>2</b>	<b>0</b>
Low-tier firms	2	-4	-3
Mid-tier firms	5	5	0
High-tier firms	2	3	2

All data seasonally adjusted, except purchase costs and exports. Fieldwork for this Survey was conducted from 23 November to 14 December 2018, covering around 750 firms across the non-farm business sector. **Next release date is 30 April 2019.**

# NAB QUARTERLY SME SURVEY – CONDITIONS, CONFIDENCE & PRICES

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



Note: Dotted lines denote long-run averages

CHART 2: SME BUSINESS CONDITIONS COMPONENTS (NET BAL., S.A.)

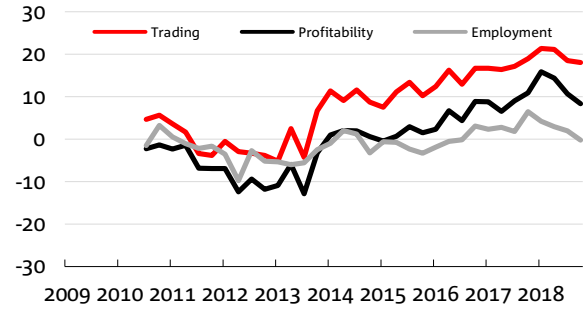


CHART 3: SME BUSINESS CONDITIONS & CASH FLOW (NET BAL., N.S.A.)

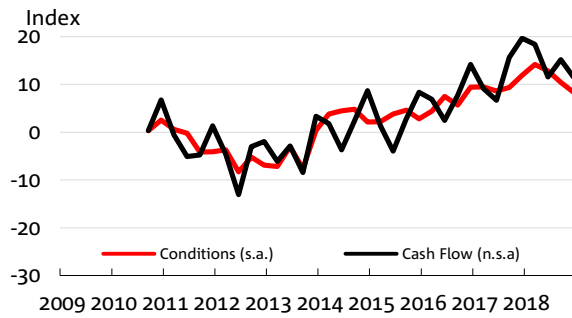
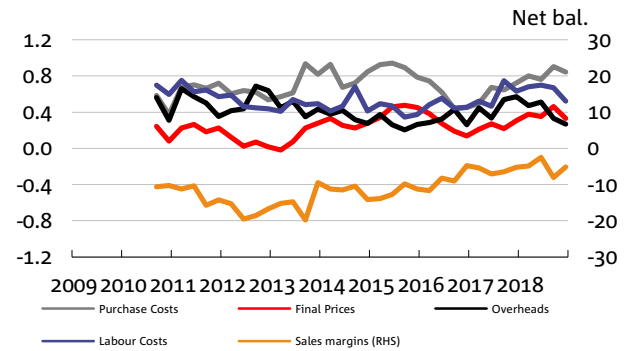


CHART 4: SME INPUT COSTS AND FINAL PRICE GROWTH (S.A.)



## CONSTRAINTS ON OUTPUT

CHART 5: FACTORS CONSTRAINING SME OUTPUT

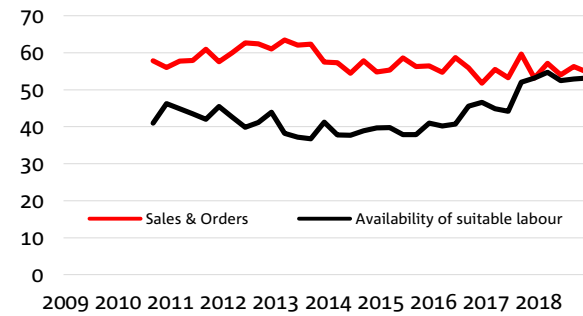
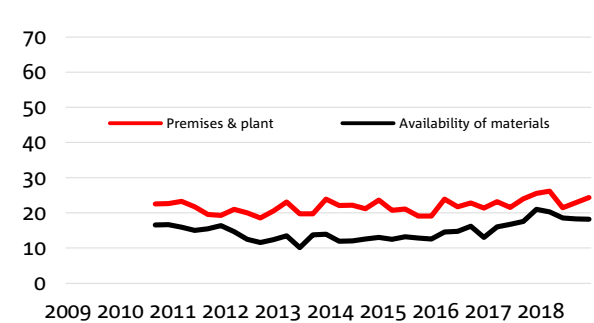
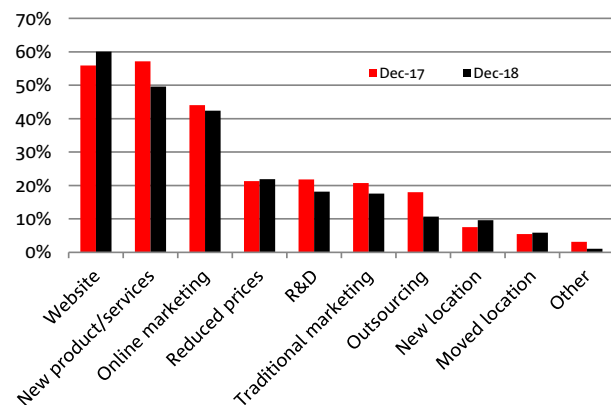


CHART 6: FACTORS CONSTRAINING SME OUTPUT



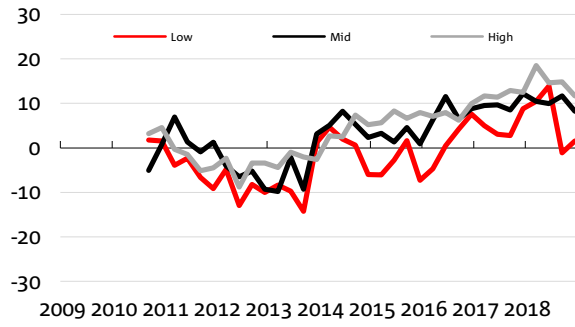
## STRATEGIES

CHART 7: STRATEGIES EMPLOYED TO IMPROVE COMPETITIVENESS

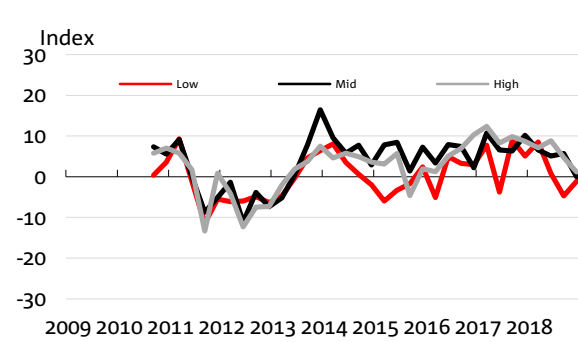


# NAB QUARTERLY SME SURVEY – CONDITIONS AND CONFIDENCE BY FIRM SIZE

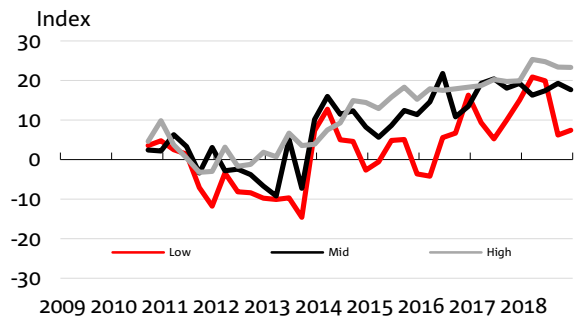
**CHART 8: BUSINESS CONDITIONS BY FIRM SIZE (NET BAL., S.A.)**



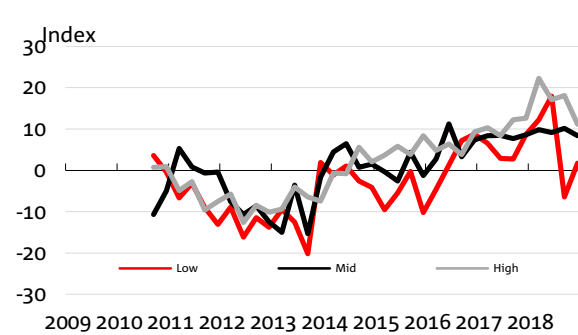
**CHART 9: BUSINESS CONFIDENCE BY FIRM SIZE (NET BAL., S.A.)**



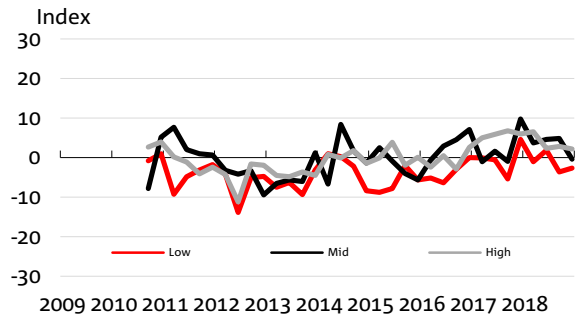
**CHART 10: TRADING CONDITIONS BY FIRM SIZE (NET BAL., S.A.)**



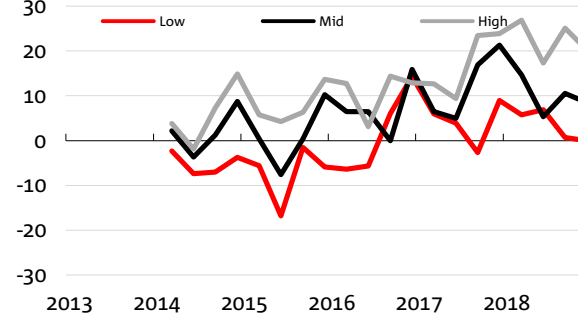
**CHART 11: PROFITABILITY BY FIRM SIZE (NET BAL., S.A.)**



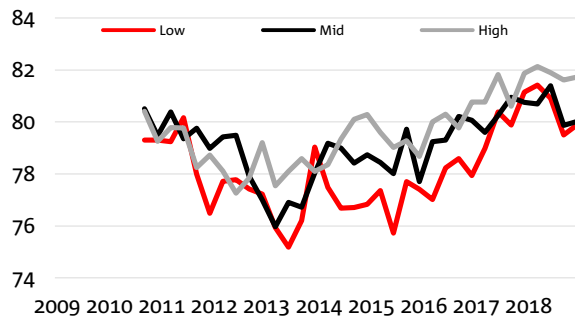
**CHART 12: EMPLOYMENT BY FIRM SIZE (NET BAL., S.A.)**



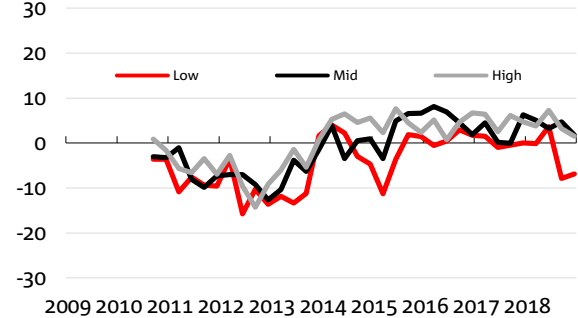
**CHART 13: CASH FLOW BY FIRM SIZE (NET BAL., N.S.A.)**



**CHART 14: CAPACITY UTILISATION (% S.A.)**



**CHART 15: 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 16: BUSINESS COND. & CONFIDENCE BY STATE (NET BAL., S.A.)

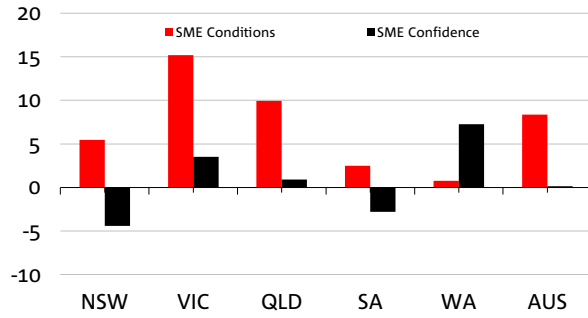


CHART 17: SME BUSINESS CONDITIONS BY STATE (NET BAL., S.A.)

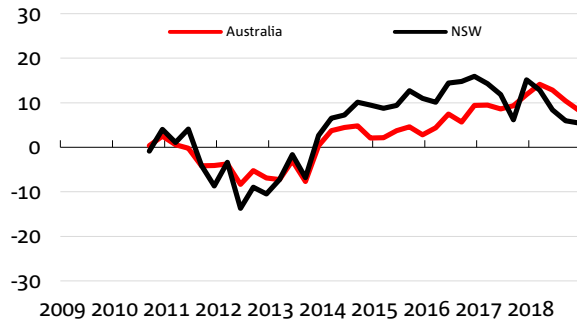


CHART 18: SME BUSINESS CONFIDENCE BY STATE (NET BAL., S.A.)

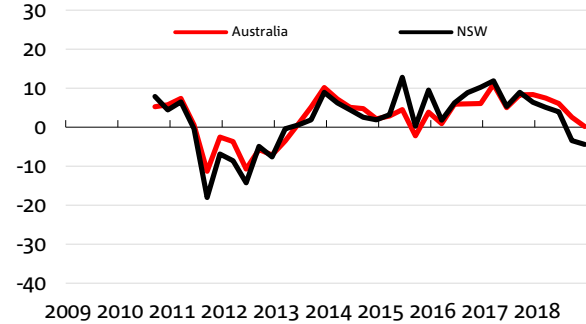


CHART 19: SME BUSINESS CONDITIONS BY STATE (NET BAL., S.A.)

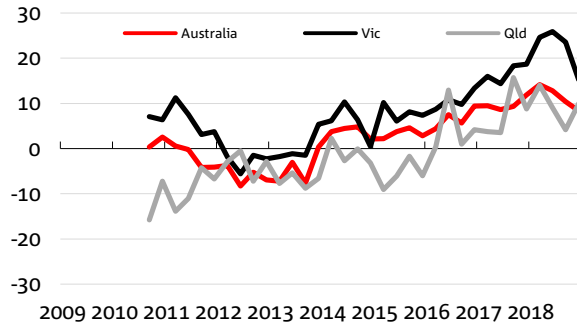


CHART 20: SME BUSINESS CONFIDENCE BY STATE (NET BAL., S.A.)

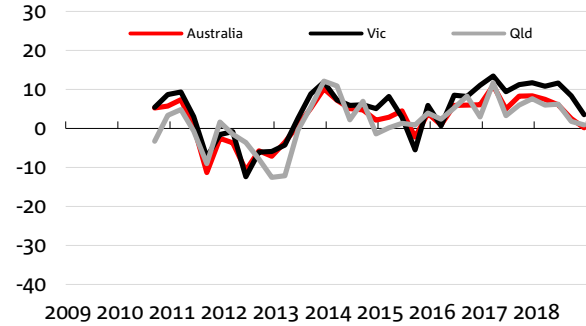


CHART 21: SME BUSINESS CONDITIONS BY STATE (NET BAL., S.A.)

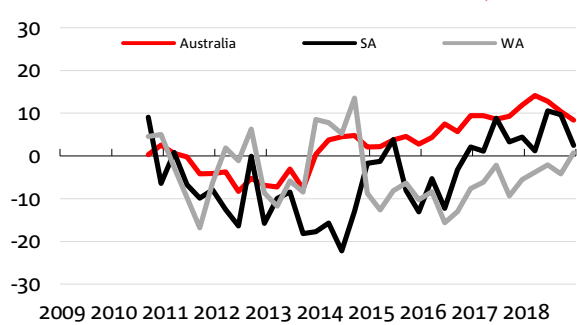
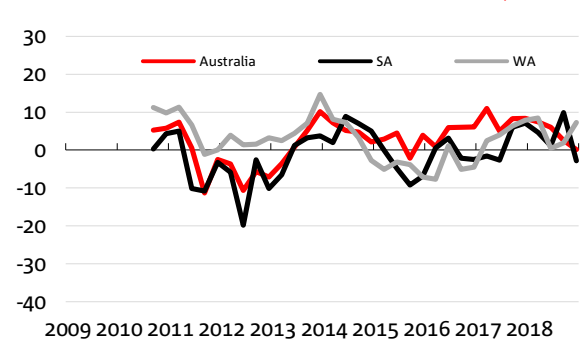
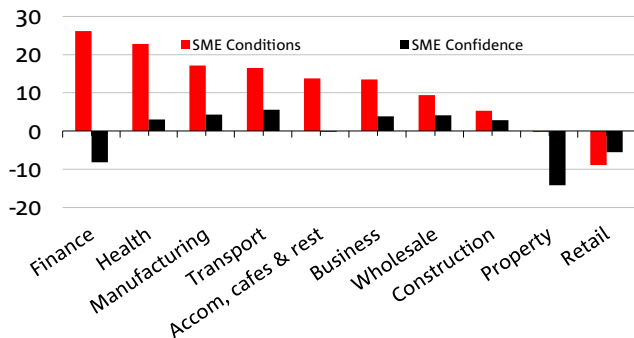


CHART 22: SME BUSINESS CONFIDENCE BY STATE (NET BAL., S.A.)

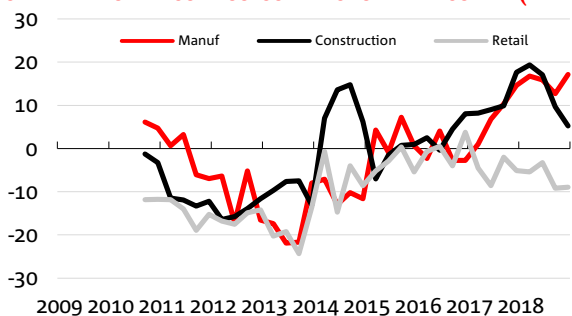


# NAB QUARTERLY SME SURVEY – CONDITIONS & CONFIDENCE BY INDUSTRY

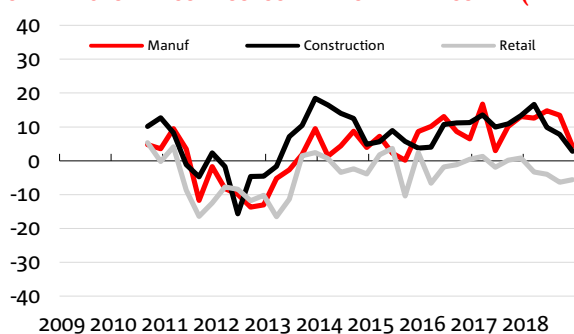
**CHART 23: SME BUSINESS COND. & CONF. BY INDUSTRY (NET BAL. S.A.)**



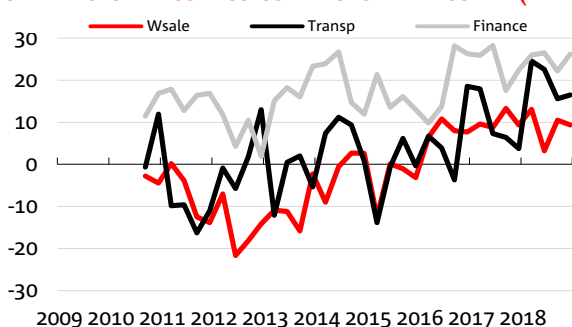
**CHART 24: SME BUSINESS CONDITIONS BY INDUSTRY (NET BAL., S.A.)**



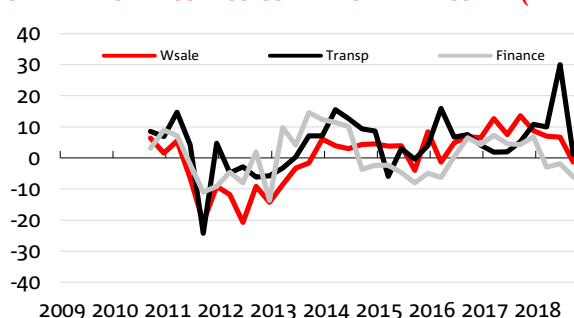
**CHART 25: SME BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., S.A.)**



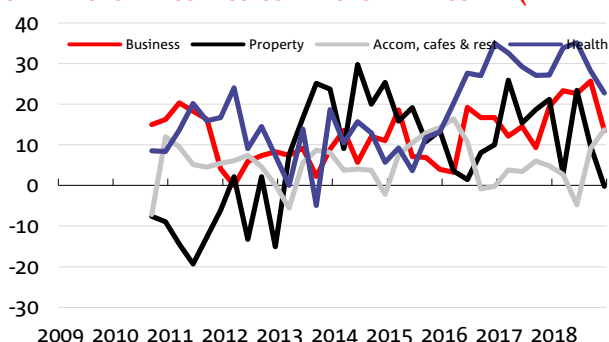
**CHART 26: SME BUSINESS CONDITIONS BY INDUSTRY (NET BAL., S.A.)**



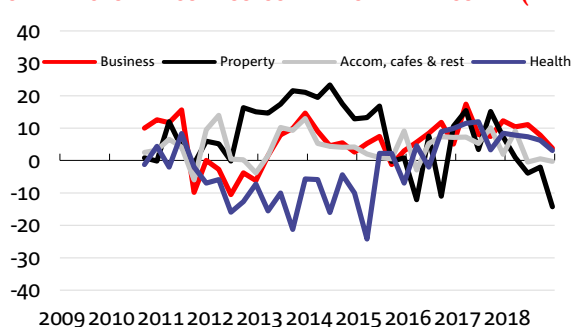
**CHART 27: SME BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., S.A.)**



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

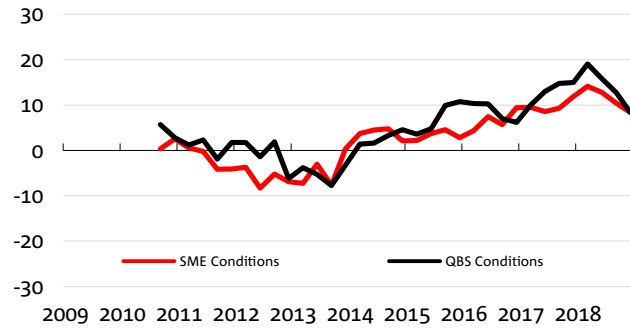


**CHART 29: SME BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., S.A.)**

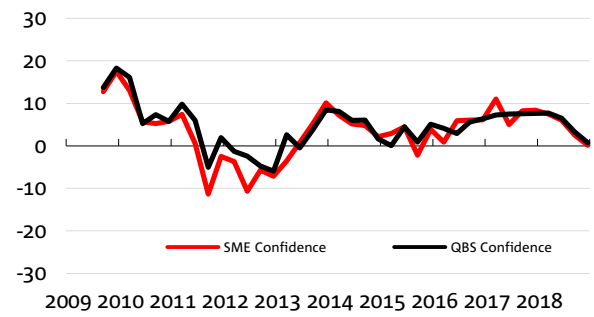


# NAB QUARTERLY SME SURVEY – COMPARISON WITH LARGER BUSINESSES

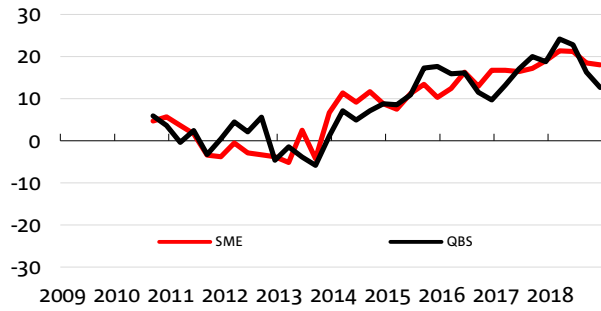
**CHART 30: BUSINESS CONDITIONS – SME & QBS (NET BAL., S.A.)**



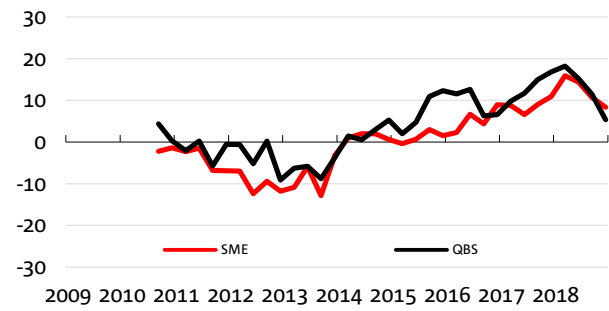
**CHART 31: BUSINESS CONFIDENCE – SME & QBS (NET BAL., S.A.)**



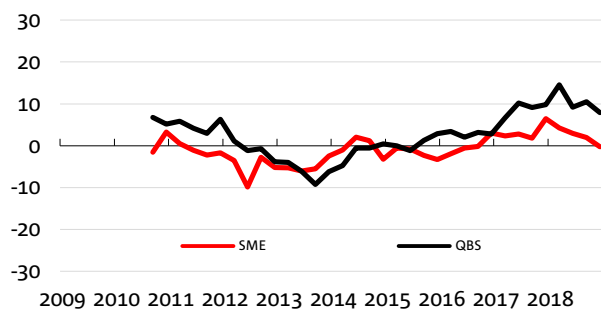
**CHART 32: TRADING CONDITIONS – SME & QBS (NET BAL., S.A.)**



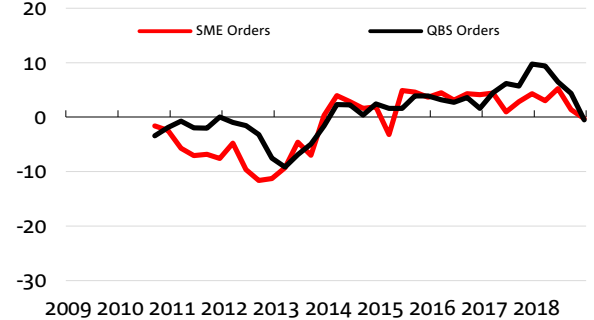
**CHART 33: PROFITABILITY – SME & QBS (NET BAL., S.A.)**



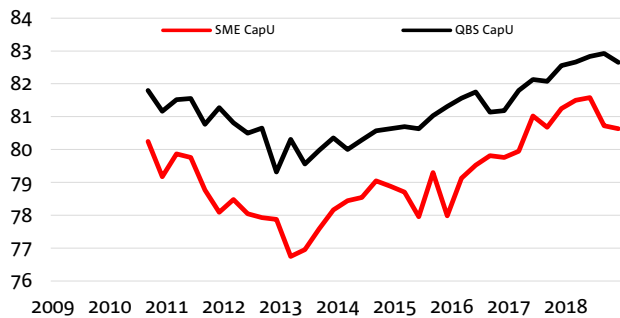
**CHART 34: EMPLOYMENT – SME & QBS (NET BAL., S.A.)**



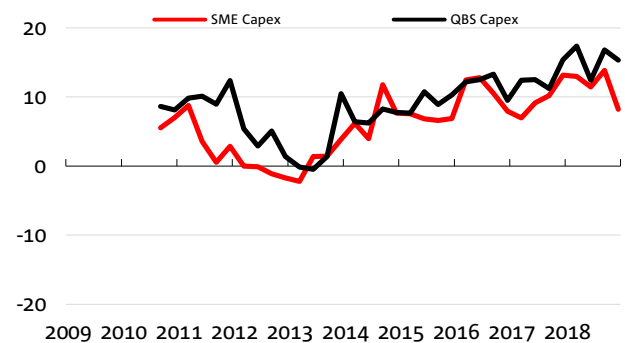
**CHART 35: FORWARD ORDERS – SME & QBS (NET BAL., S.A.)**



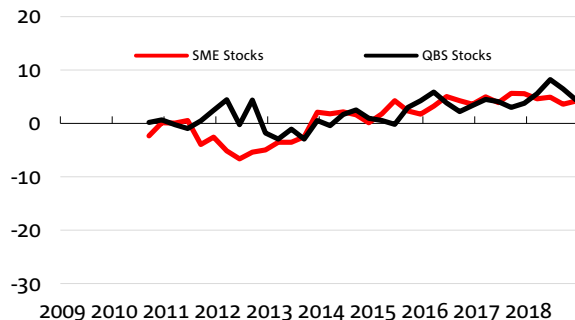
**CHART 36: CAPACITY UTILISATION – SME & QBS (% S.A.)**



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



**CHART 38: 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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