



NAB QUARTERLY SME SURVEY 2019 Q1

CONDITIONS EASE FURTHER, CONFIDENCE TURNS NEGATIVE

NAB Australian Economics

SME business conditions and confidence weakened further in Q1 and with conditions now below average, the deterioration through 2018 appears to have persisted into early 2019. Mid and high-tier SMEs drove the result in the quarter. Forward looking indicators were mixed but overall suggest there is little chance of a substantial improvement ahead. Forward orders weakened and are now negative, while expected business conditions also weakened. Expected employment was slightly stronger, as was capex, reflecting the trend in other data which suggests activity has slowed but that employment conditions have remained healthy. Conditions for the mainland states remain most favourable for SMEs in VIC and NSW, though confidence is weakest in NSW. Across the other states confidence has converged at low levels. Margins continue to come under pressure with the pace of input costs growth continuing to outdo that of final products prices, though inflation has eased across all measures.

HIGHLIGHTS

- Small and Medium Enterprise (SME) **business conditions** continued their decline in Q1 - falling 5pts to +3. After peaking in March 2018 and declining consistently since, conditions are now below average. By component, the weakness was driven by declines in trading (down 10pts to +8) and profitability (down 7pts to +2).
- SME **business confidence** edged 1pt lower to -1, suggesting the outlook for conditions remains weak.
- Large businesses** (as measured by the NAB Quarterly Business Survey, QBS) mirrored the moves in the SME sector in Q1 with conditions and confidence both declining further. Both SME and large businesses have broadly similar levels of conditions and confidence following the narrowing of the gap between sectors over 2018. Among SMEs, the weakness was driven by deteriorating conditions for mid- and high-tier firms. Low-tier firms also saw a slight deterioration in conditions (which were already at a relatively low level) and continue to report the lowest levels of confidence.
- By **industry**, the decline in conditions was broad-based across industries, with the exception of business services which ticked up in the quarter, after easing in Q4. The declines were particularly sharp in wholesale and transport – retail remains weakest, followed by wholesale. Property is the only other industry to record negative conditions. In contrast conditions appear relatively favourable in health and business services.
- Business conditions deteriorated in all **states** in Q1. WA and QLD saw sharp declines. WA is weakest of all states, followed by SA and QLD. VIC and NSW continue to report the best conditions of the mainland states by a notable margin. Confidence across the mainland states is less dispersed, with most states around 0-2pts – close to the threshold of improving versus deteriorating – except for NSW which is the weakest.
- Leading indicators** were mixed in Q1. Expectations for conditions edged lower at the 3-month horizon, while capex and employment were slightly higher. Forward orders declined and are now negative. Capacity utilisation edged higher and remains above average but is lower than the levels seen in early 2018.
- Downwards pressure on **sales margins increased in Q1 after easing slightly** in the previous quarter. 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 while overhead costs growth was flat.
- 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 while the demand constraint ticked up – suggesting market conditions may have deteriorated slightly.

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

	2018 q3	2018 q4	2019 q1
Business Confidence	3	0	-1
Low-tier firms	-5	-2	-5
Mid-tier firms	5	0	-2
High-tier firms	5	1	3
Business Conditions	11	8	3
Low-tier firms	-1	2	1
Mid-tier firms	11	9	-1
High-tier firms	15	13	6

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.)

	2018q3	2018q4	2019q1
Trading Conditions	19	18	8
Low-tier firms	6	9	5
Mid-tier firms	19	18	1
High-tier firms	24	23	13
Profitability	11	9	2
Low-tier firms	-6	2	3
Mid-tier firms	10	9	-2
High-tier firms	18	12	5
Employment	2	-1	-1
Low-tier firms	-4	-3	-4
Mid-tier firms	4	0	-3
High-tier firms	3	3	1

All data seasonally adjusted, except purchase costs and exports. Fieldwork for this Survey was conducted from 25 February to 15 March 2019, covering around 750 firms across the non-farm business sector. **Next release date is 25 July 2019.**

NAB QUARTERLY SME SURVEY – CONDITIONS, CONFIDENCE & PRICES

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

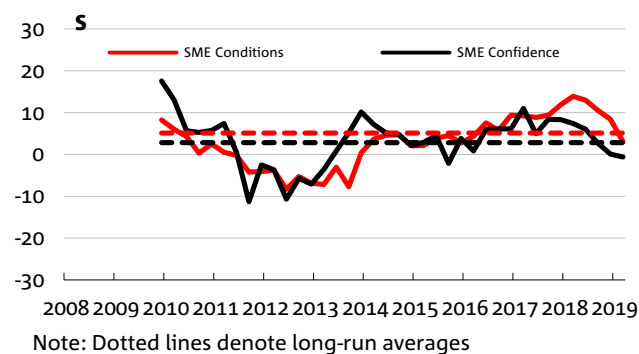


CHART 2: SME BUSINESS CONDITIONS COMPONENTS (NET BAL., S.A.)

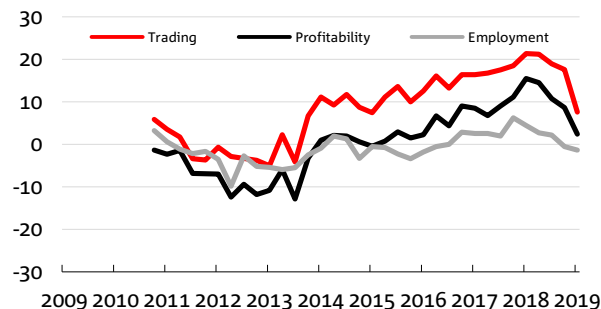


CHART 3: SME BUSINESS CONDITIONS & CASH FLOW (NET BAL., N.S.A.)

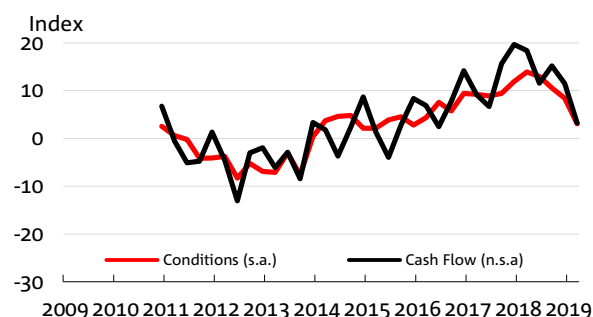
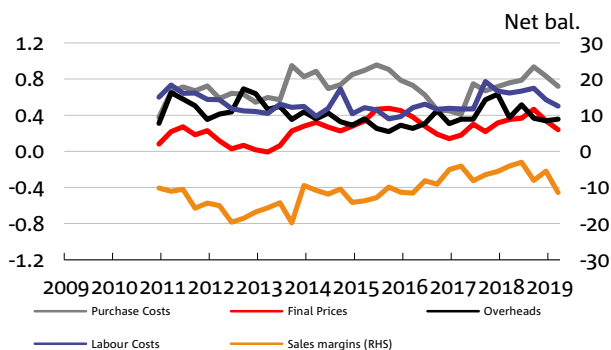


CHART 4: SME INPUT COSTS AND FINAL PRICE GROWTH (S.A.)

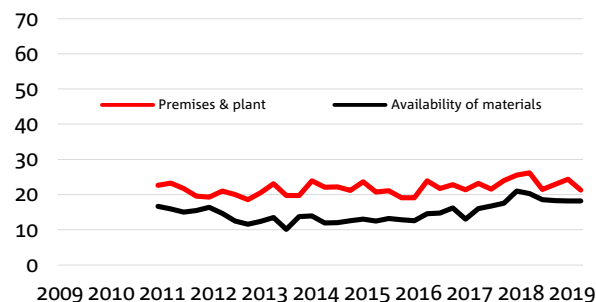


CONSTRAINTS ON OUTPUT

CHART 5: FACTORS CONSTRAINING SME OUTPUT

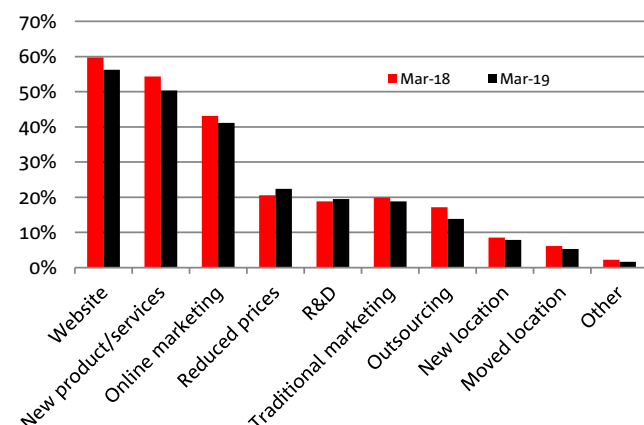


CHART 6: FACTORS CONSTRAINING SME OUTPUT



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.)

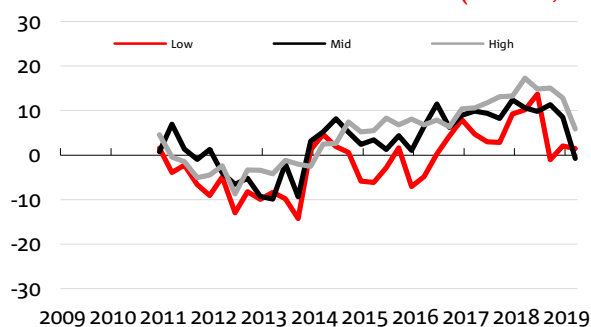


CHART 9: BUSINESS CONFIDENCE BY FIRM SIZE (NET BAL., S.A.)

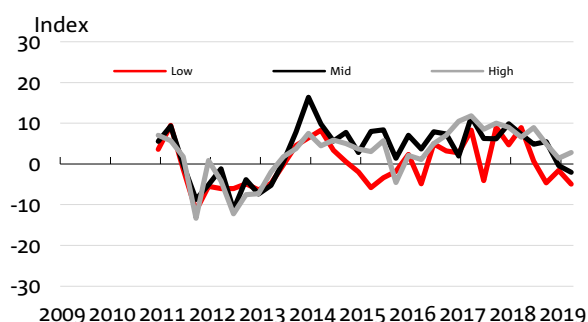


CHART 10: TRADING CONDITIONS BY FIRM SIZE (NET BAL., S.A.)

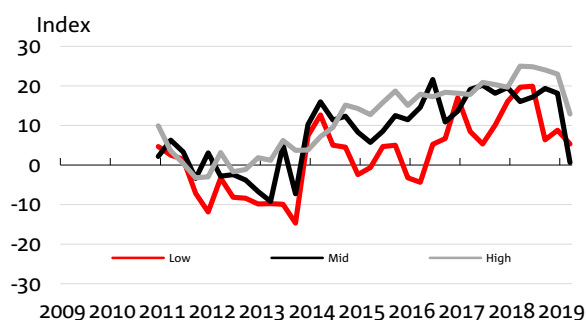


CHART 11: PROFITABILITY BY FIRM SIZE (NET BAL., S.A.)

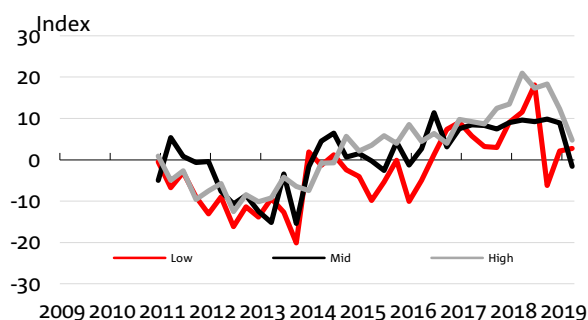


CHART 12: EMPLOYMENT BY FIRM SIZE (NET BAL., S.A.)

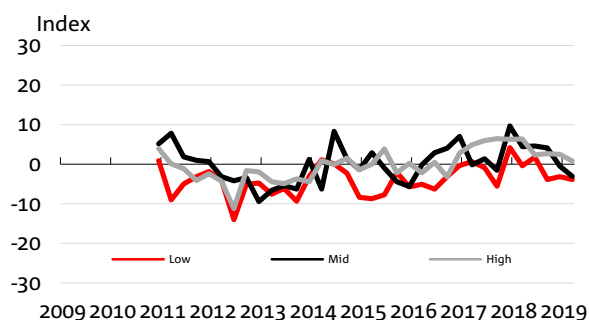


CHART 13: CASH FLOW BY FIRM SIZE (NET BAL., N.S.A.)

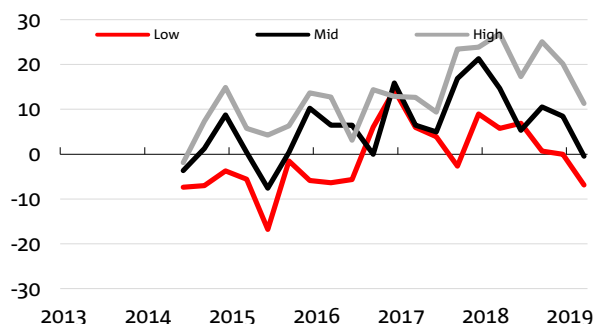


CHART 14: CAPACITY UTILISATION (% S.A.)

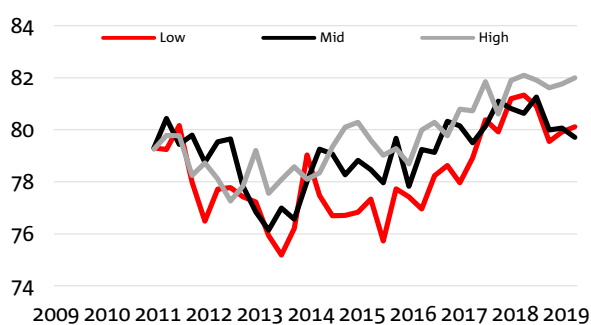
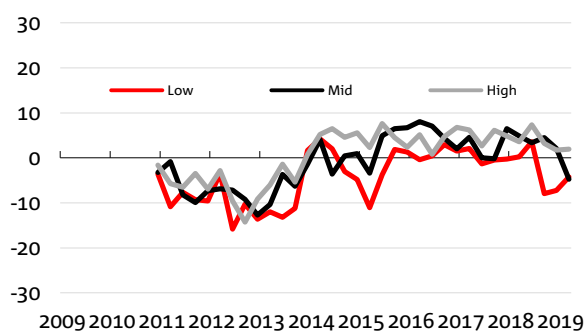


CHART 15: FORWARD ORDERS BY FIRM SIZE (NET BAL., S.A.)



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.)

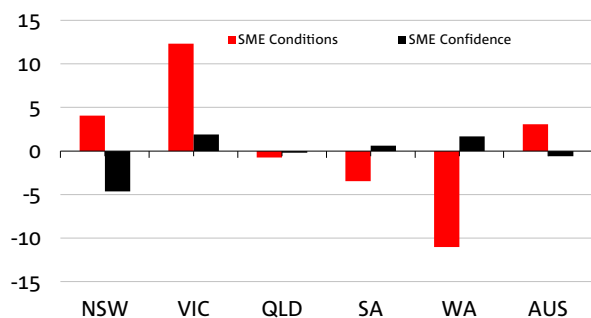


CHART 17: SME BUSINESS CONDITIONS BY STATE (NET BAL., S.A.)

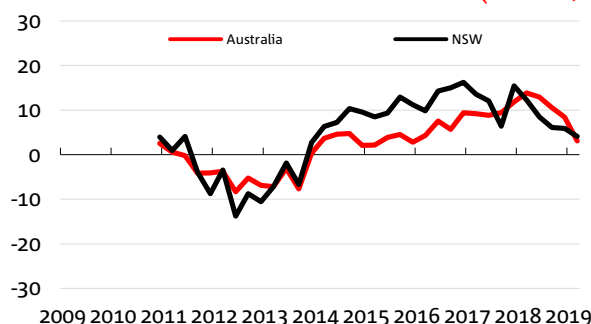


CHART 18: SME BUSINESS CONFIDENCE BY STATE (NET BAL., S.A.)

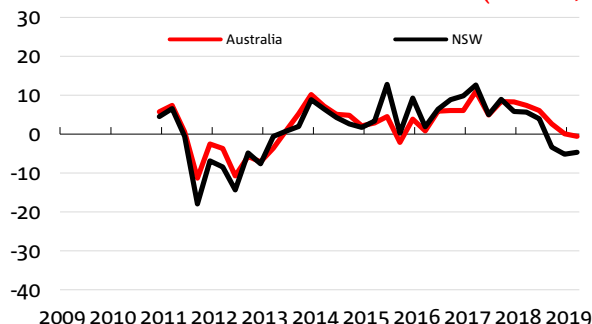


CHART 19: SME BUSINESS CONDITIONS BY STATE (NET BAL., S.A.)

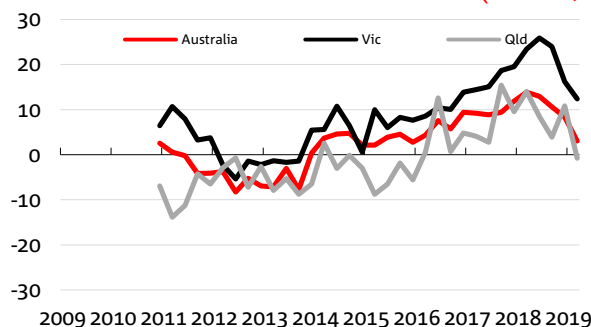


CHART 20: SME BUSINESS CONFIDENCE BY STATE (NET BAL., S.A.)

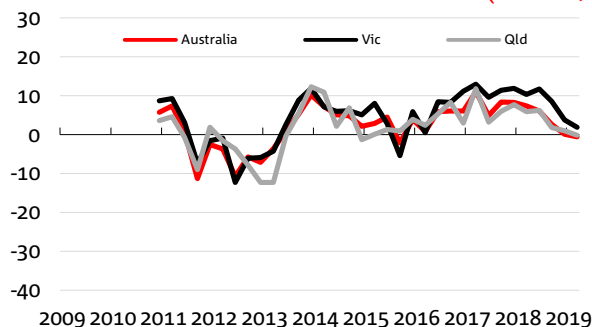


CHART 21: SME BUSINESS CONDITIONS BY STATE (NET BAL., S.A.)

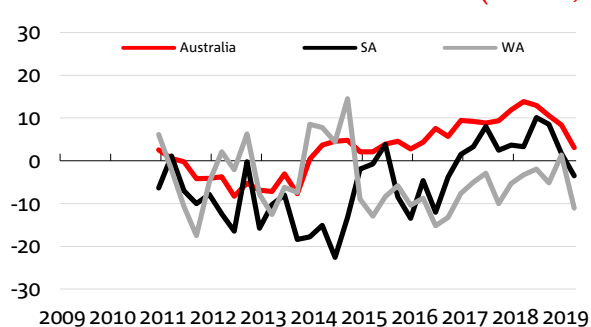
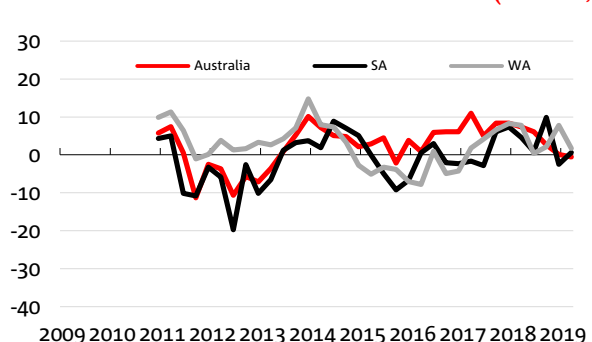


CHART 22: SME BUSINESS CONFIDENCE BY STATE (NET BAL., S.A.)



NAB QUARTERLY SME SURVEY – CONDITIONS & CONFIDENCE BY INDUSTRY

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

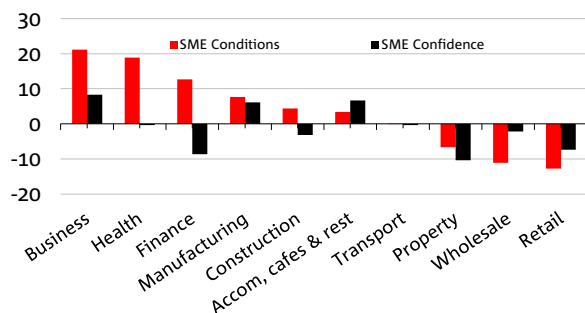


CHART 24: SME BUSINESS CONDITIONS BY INDUSTRY (NET BAL., S.A.)

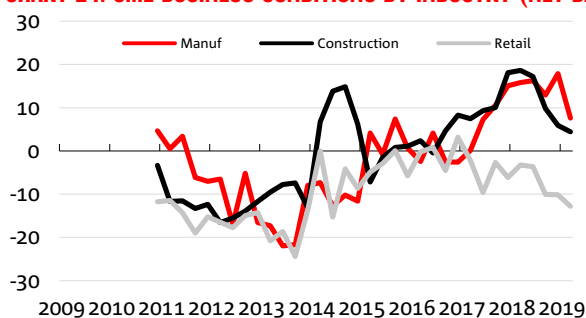


CHART 25: SME BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., S.A.)

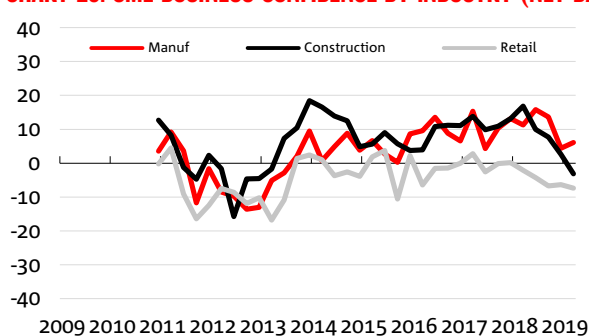


CHART 26: SME BUSINESS CONDITIONS BY INDUSTRY (NET BAL., S.A.)

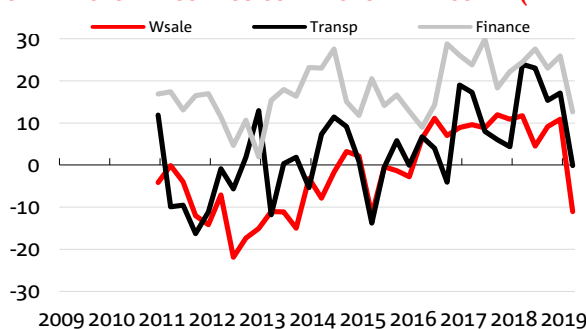


CHART 27: SME BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., S.A.)

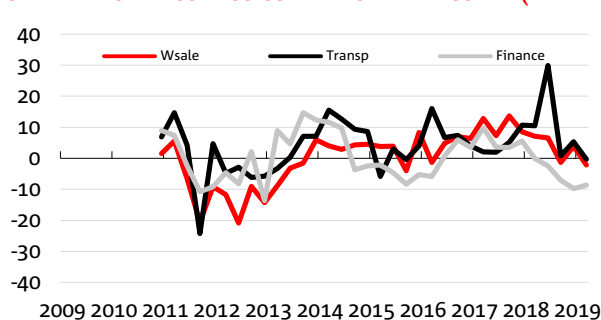


CHART 28: SME BUSINESS CONDITIONS BY INDUSTRY (NET BAL., S.A.)

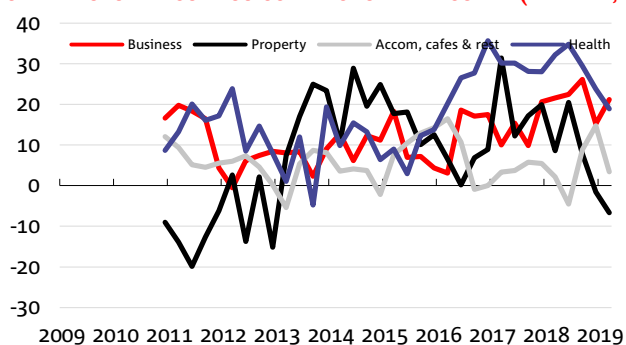
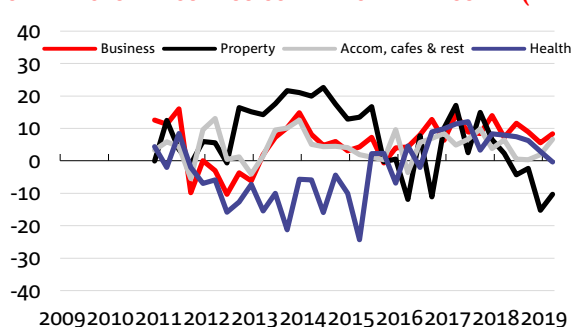


CHART 29: SME BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., S.A.)



NAB QUARTERLY SME SURVEY – COMPARISON WITH LARGER BUSINESSES

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

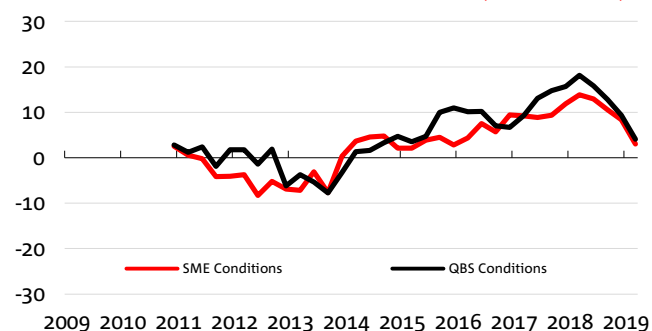


CHART 31: BUSINESS CONFIDENCE – SME & QBS (NET BAL., S.A.)

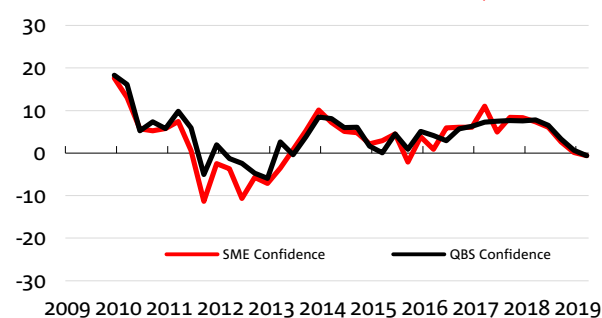


CHART 32: TRADING CONDITIONS – SME & QBS (NET BAL., S.A.)

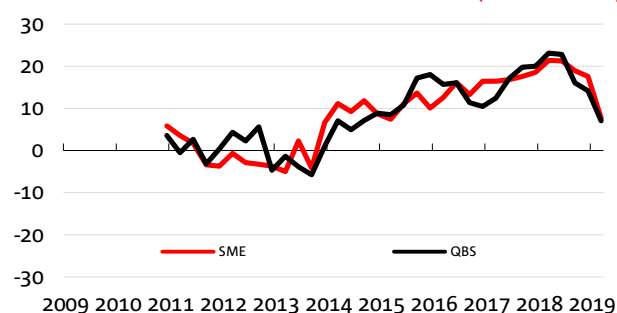


CHART 33: PROFITABILITY – SME & QBS (NET BAL., S.A.)

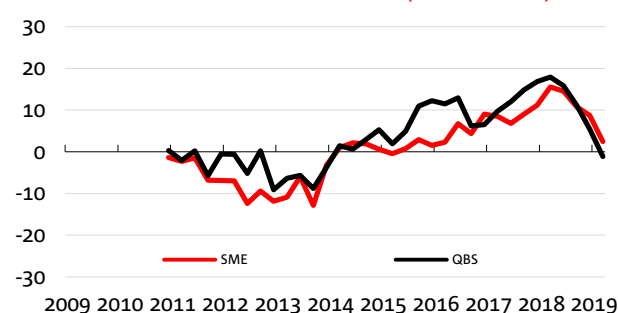


CHART 34: EMPLOYMENT – SME & QBS (NET BAL., S.A.)

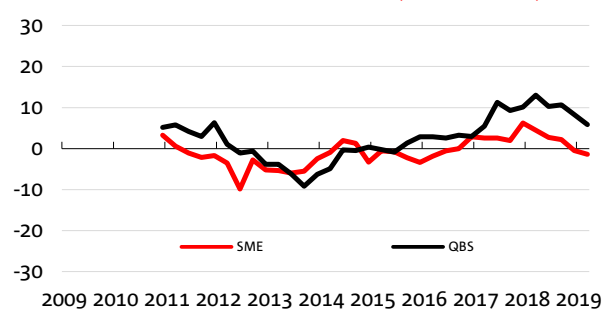


CHART 35: FORWARD ORDERS – SME & QBS (NET BAL., S.A.)

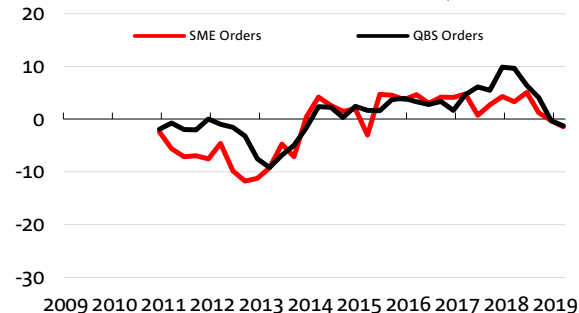


CHART 36: CAPACITY UTILISATION – SME & QBS (% , S.A.)

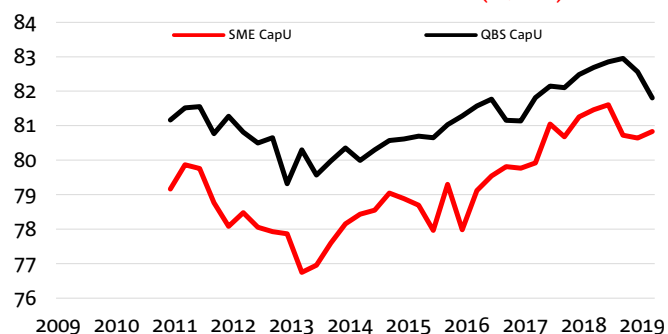


CHART 37: CAPITAL EXPENDITURE – SME & QBS (NET BAL., S.A.)

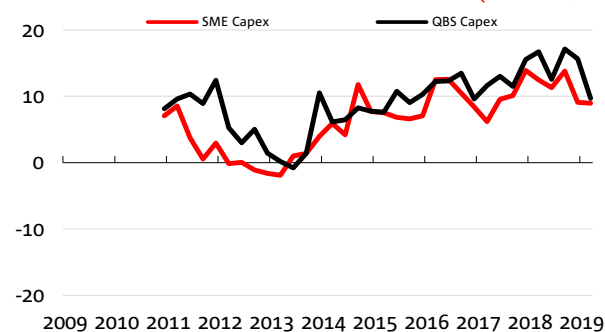
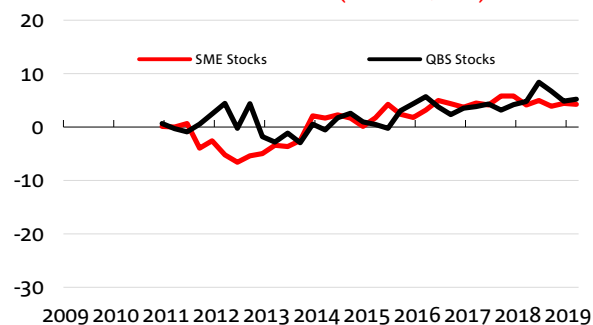


CHART 38: STOCKS – SME & QBS (NET BAL., S.A.)



CONTACTS

Alan Oster, Group Chief Economist

Alan.Oster@nab.com.au

+613 8634 2927

Gareth Spence, Senior Economist

gareth.spence@nab.com.au

+61 0 436 606 175

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