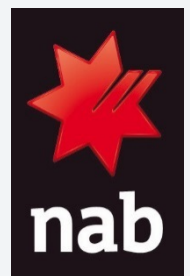


EMBARGOED UNTIL: 11:30AM AEST, 25 JULY 2019

NAB QUARTERLY SME SURVEY 2019 Q2

DESPITE AN UP-TICK IN CONFIDENCE, CONDITIONS DETERIORATE

NAB Australian Economics



SME business conditions deteriorated sharply in Q2 after declining in previous quarter and are now negative. While firms across the spectrum saw a deterioration, small and medium sized SMEs now see the weakest conditions by some margin. The deterioration was broad-based across states and industries, and overall weakness is particularly evident in goods distribution industries and property. Health, transport and business services continue to see the most positive outcomes. Despite the sharp deterioration in conditions, confidence saw a wide-spread improvement, likely reflecting post-election optimism and firmer rate cut expectations around the time of the survey. We think this effect is likely to be short-lived with the NAB monthly business survey for June having shown an unwind in confidence. Further, forward looking indicators weakened in the quarter suggesting that a turnaround in conditions is not imminent. Demand appears to be a significant factor affecting firm output with this constraint continuing to edge higher and capacity utilisation edging lower. Alongside this, capex plans appear to have moderated. Margins in the sector also remain under pressure, with input price growth continuing to outpace growth in final product prices.

HIGHLIGHTS

- Small and Medium Enterprise (SME) **business conditions** dropped to -4 index points in Q2 – continuing the trend decline over the past year. At these levels conditions are both below average and negative – suggesting that conditions for small firms are now going backwards. The weakness is evident across each of the three subcomponents with employment and profitability now at -6 and trading conditions at 0.
- SME **business confidence** rose 3pts to +3 index points, showing some improvement after hovering at the threshold of improving/deteriorating conditions over the previous two quarters.
- **Large businesses** (as measured by the NAB Quarterly Business Survey, QBS) mirrored these moves in Q2, but saw slightly better outcomes with confidence rising further and conditions declining by less than the SME sector. Conditions and confidence are now significantly lower for SMEs than large businesses. Among SMEs, low and mid-tier firms largely drove the results, seeing larger increases in confidence, and bigger declines in conditions than high-tier firms.
- By **industry**, the decline in conditions was broad-based, with the exception of transport and wholesale – although the latter still remains negative. The weakening in property and retail over the past year continued with further sharp declines in Q2 leaving conditions at very low levels. Overall, health, conditions in businesses services and transport are most favourable, while retail, wholesale and property are in deep negative territory.
- Business conditions deteriorated in all **states** in Q2, except WA which ticked up but remains the weakest of all states. VIC and NSW saw sharp declines though the former is the only mainland state to remain in positive territory. In contrast, **confidence** improved in all mainland states except VIC – with the relative dispersion remaining less stark than that of business conditions.
- **Leading indicators** generally weakened in Q2. Expectations for conditions at the 3-month horizon fell, as did expectations of capex alongside the decline in capacity utilisation. Forward orders weakened further and remain negative. Expected business conditions at the 12-month horizon edged higher offsetting some of the weakness in the near term.
- **Sales margins continued to deteriorate in Q2.** This is consistent with surveyed input prices and labour costs continuing to outpace the growth in final product prices. Growth in overheads ticked up in the quarter, while input price costs growth was flat. Labour costs growth eased slightly.
- The major **constraints on output** identified by SMEs continued to be sales and orders (which ticked up in the quarter) and the difficulty in finding suitable labour (which edged lower).

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

	2018	2019	2019
	q4	q1	q2
Business Confidence	0	0	3
Low-tier firms	-2	-5	1
Mid-tier firms	0	-2	2
High-tier firms	2	4	6
Business Conditions	8	2	-4
Low-tier firms	2	1	-8
Mid-tier firms	8	-2	-7
High-tier firms	13	6	2

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.)

	2018q4	2019q1	2019q2
Trading Conditions	17	7	0
Low-tier firms	9	5	-7
Mid-tier firms	17	1	-1
High-tier firms	23	13	6
Profitability	8	2	-6
Low-tier firms	2	2	-4
Mid-tier firms	8	-3	-14
High-tier firms	12	4	0
Employment	-1	-2	-6
Low-tier firms	-5	-5	-13
Mid-tier firms	-1	-4	-5
High-tier firms	2	1	-1

All data seasonally adjusted, except purchase costs and exports. Fieldwork for this Survey was conducted from 14 May to 16 June 2019, covering around 750 firms across the non-farm business sector. **Next release date is 24 October 2019.**

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

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NAB QUARTERLY SME SURVEY – CONDITIONS, CONFIDENCE & PRICES

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

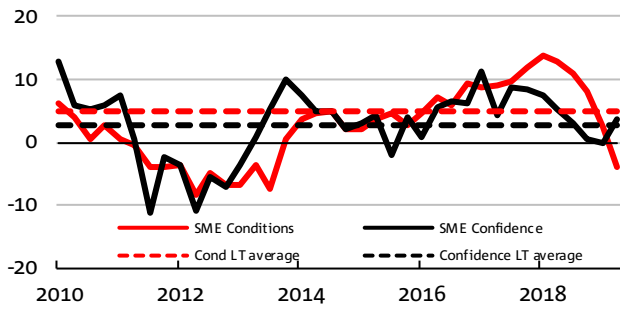


CHART 2: SME BUSINESS CONDITIONS COMPONENTS (NET BAL., S.A.)

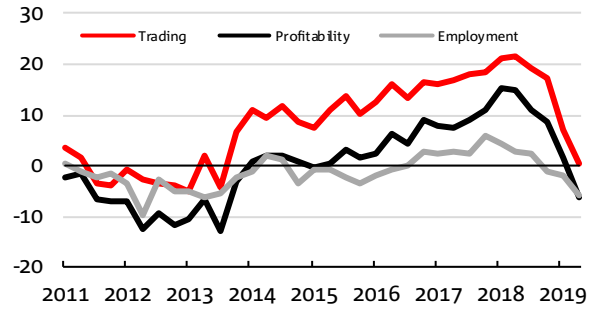


CHART 3: SME BUSINESS CONDITIONS & CASH FLOW (NET BAL., N.S.A.)

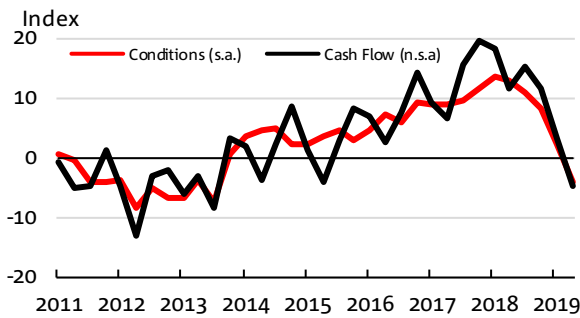
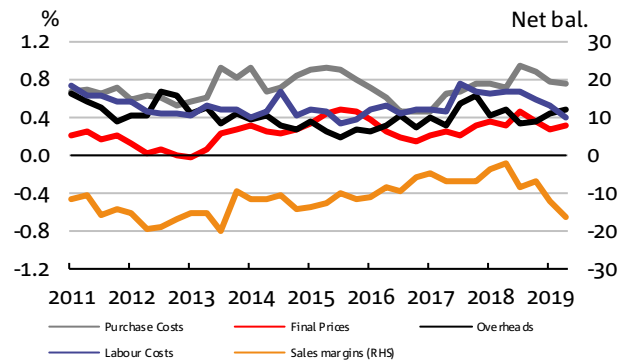


CHART 4: SME INPUT COSTS AND FINAL PRICE GROWTH (S.A.)



CONSTRAINTS ON OUTPUT

CHART 5: FACTORS CONSTRAINING SME OUTPUT (% of firms)

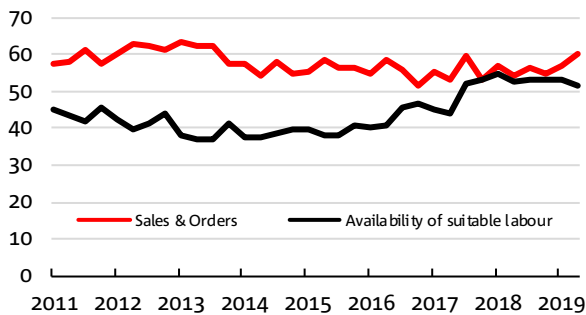
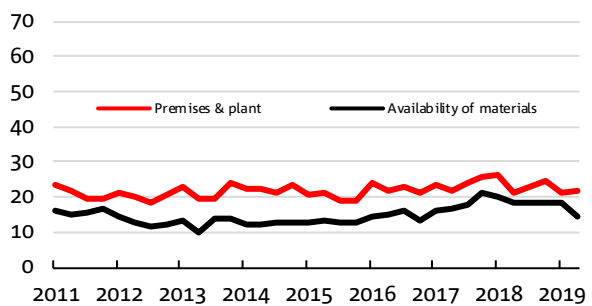
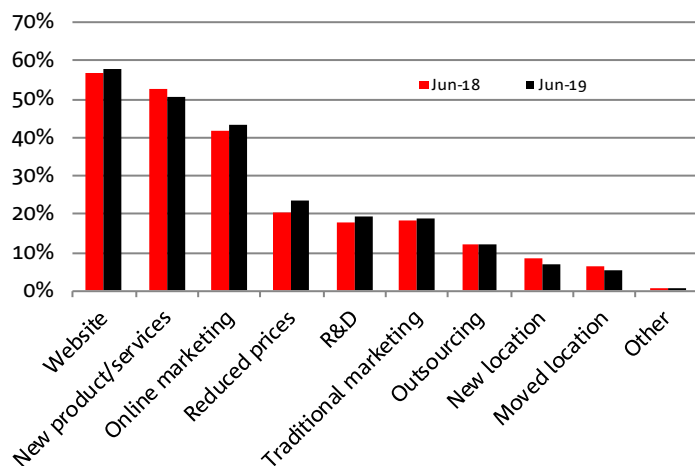


CHART 6: FACTORS CONSTRAINING SME OUTPUT (% of firms)



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.)

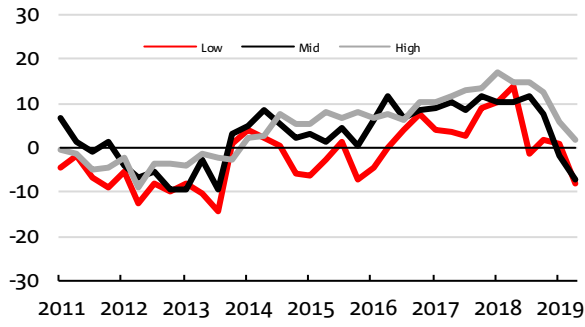


CHART 9: BUSINESS CONFIDENCE BY FIRM SIZE (NET BAL., S.A.)

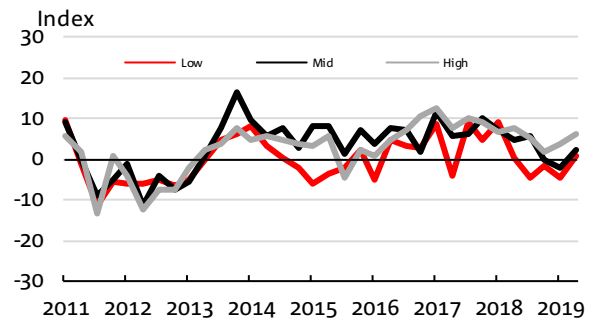


CHART 10: TRADING CONDITIONS BY FIRM SIZE (NET BAL., S.A.)

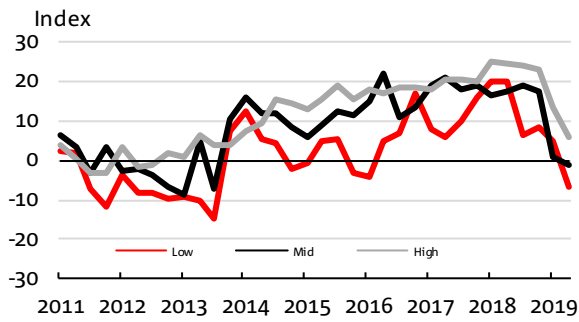


CHART 11: PROFITABILITY BY FIRM SIZE (NET BAL., S.A.)

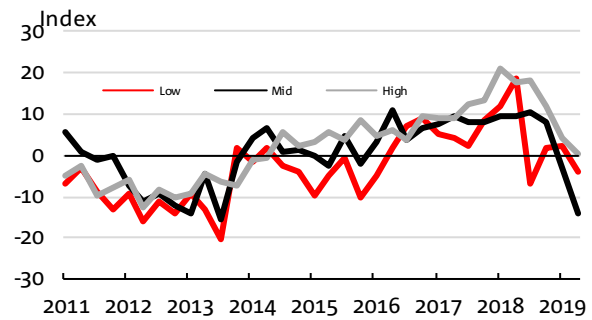


CHART 12: EMPLOYMENT BY FIRM SIZE (NET BAL., S.A.)

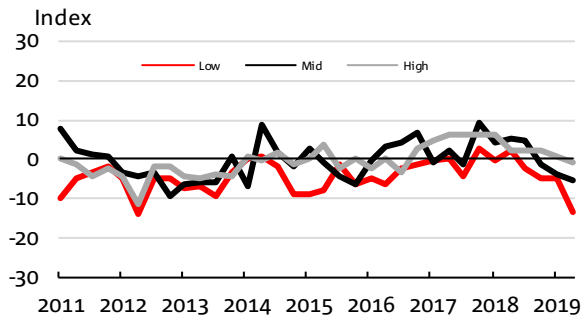


CHART 13: CASH FLOW BY FIRM SIZE (NET BAL., N.S.A.)

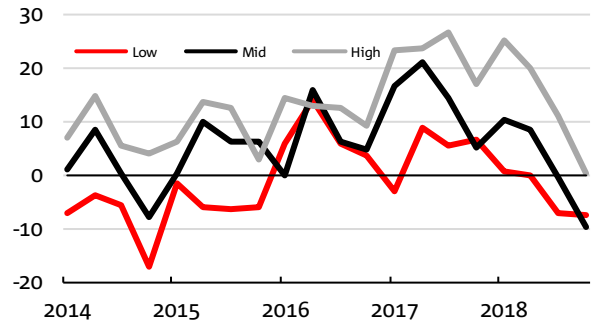


CHART 14: CAPACITY UTILISATION (% S.A.)

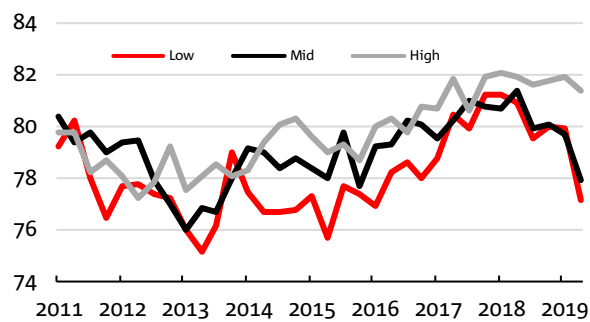
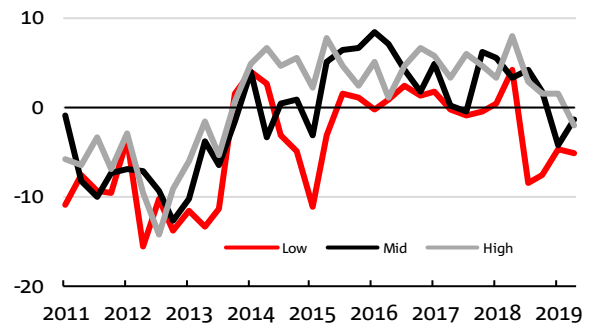


CHART 15: FORWARD ORDERS BY FIRM SIZE (NET BAL., S.A.)



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.)

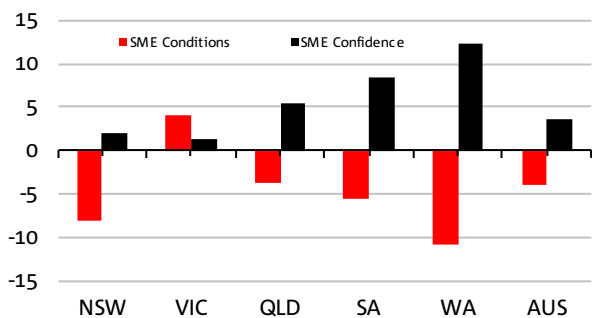


CHART 17: SME BUSINESS CONDITIONS BY STATE (NET BAL., S.A.)

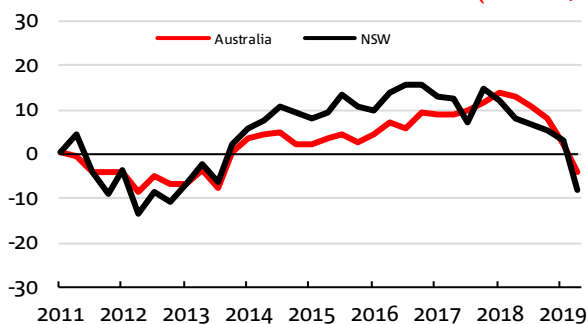


CHART 18: SME BUSINESS CONFIDENCE BY STATE (NET BAL., S.A.)

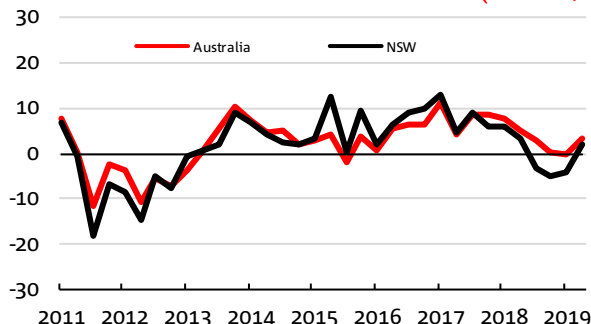


CHART 19: SME BUSINESS CONDITIONS BY STATE (NET BAL., S.A.)

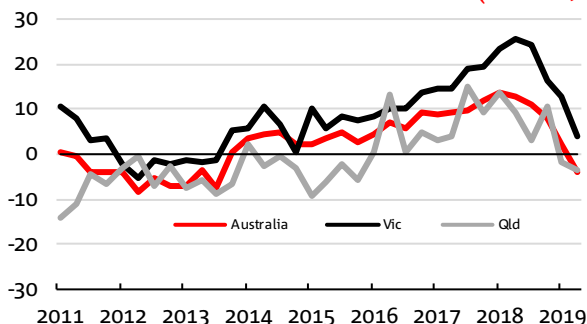


CHART 20: SME BUSINESS CONFIDENCE BY STATE (NET BAL., S.A.)

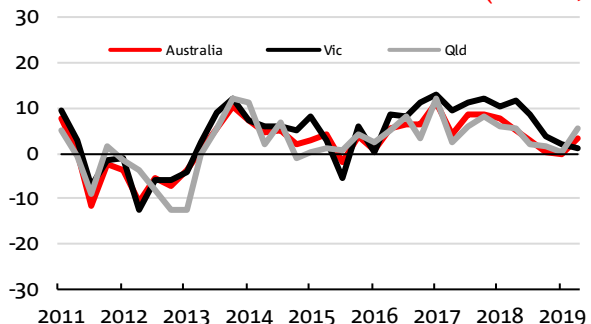


CHART 21: SME BUSINESS CONDITIONS BY STATE (NET BAL., S.A.)

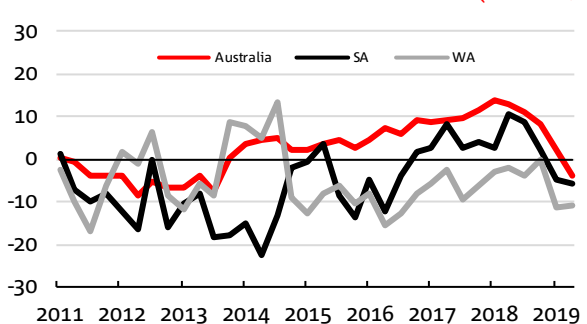
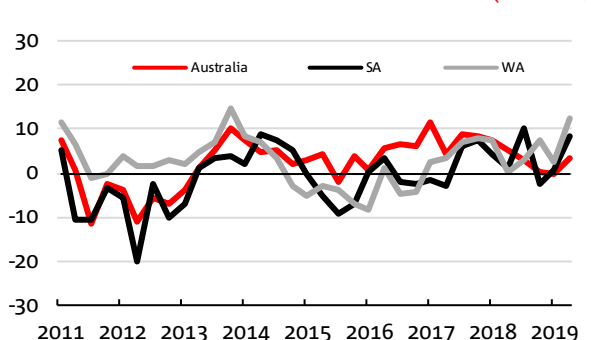


CHART 22: SME BUSINESS CONFIDENCE BY STATE (NET BAL., S.A.)



NAB QUARTERLY SME SURVEY – CONDITIONS & CONFIDENCE BY INDUSTRY

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

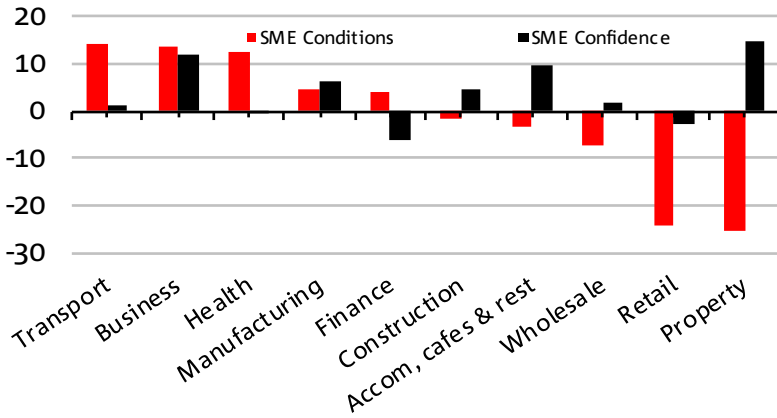


CHART 24: SME BUSINESS CONDITIONS BY INDUSTRY (NET BAL., S.A.)

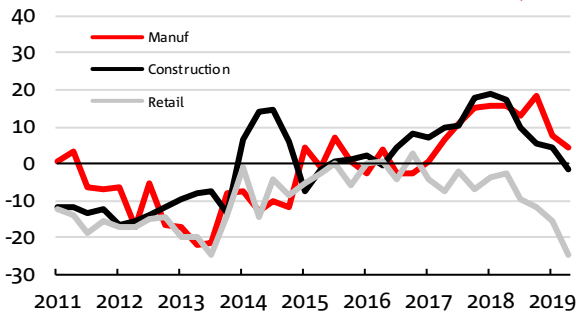


CHART 25: SME BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., S.A.)

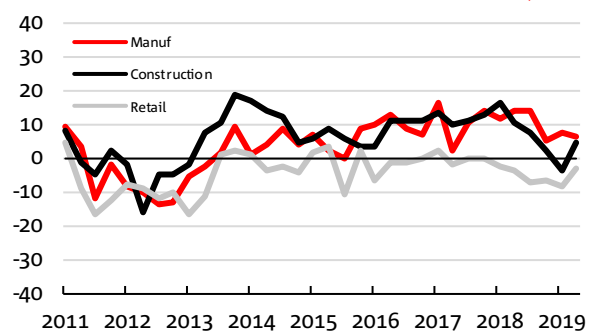


CHART 26: SME BUSINESS CONDITIONS BY INDUSTRY (NET BAL., S.A.)

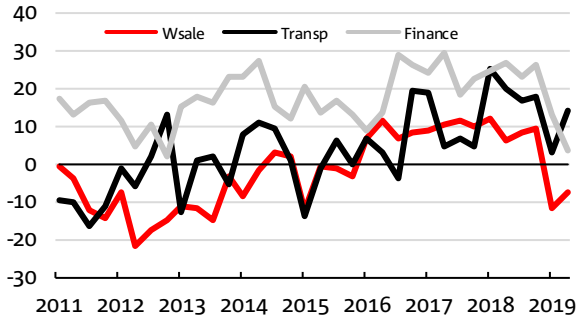


CHART 27: SME BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., S.A.)

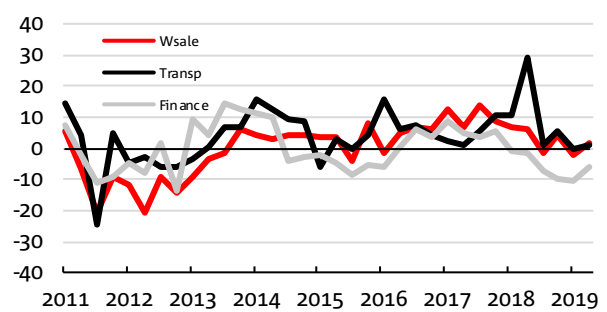


CHART 28: SME BUSINESS CONDITIONS BY INDUSTRY (NET BAL., S.A.)

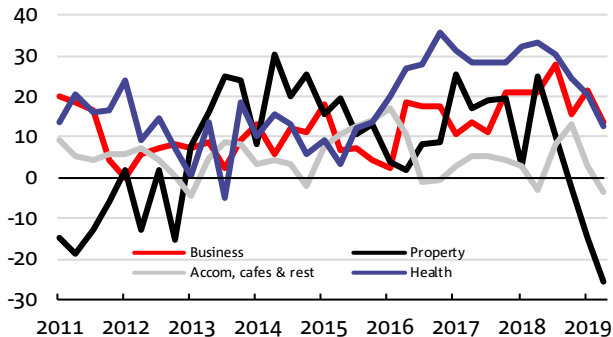
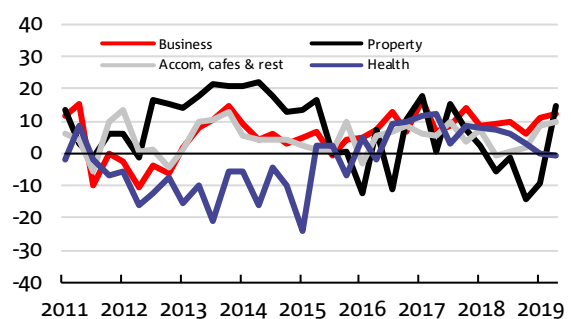


CHART 29: SME BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., S.A.)



NAB QUARTERLY SME SURVEY – COMPARISON WITH LARGER BUSINESSES

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

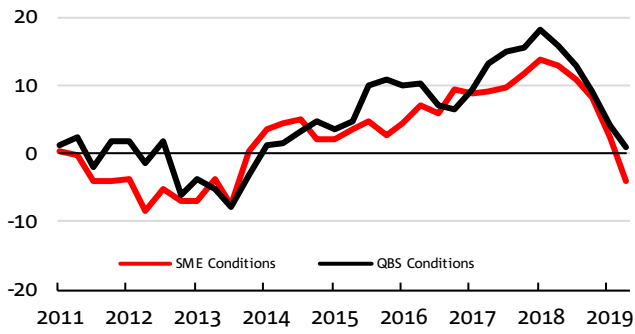


CHART 31: BUSINESS CONFIDENCE – SME & QBS (NET BAL., S.A.)

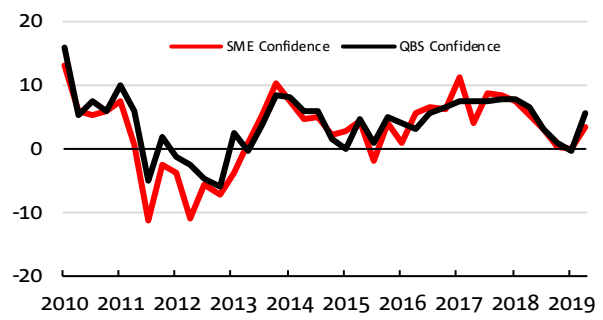


CHART 32: TRADING CONDITIONS – SME & QBS (NET BAL., S.A.)

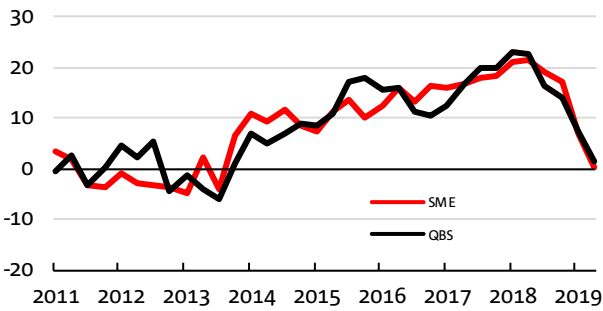


CHART 33: PROFITABILITY – SME & QBS (NET BAL., S.A.)

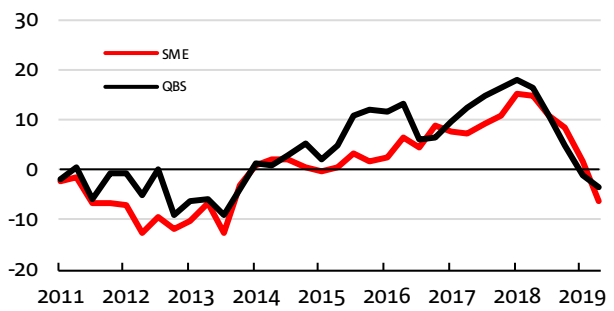


CHART 34: EMPLOYMENT – SME & QBS (NET BAL., S.A.)

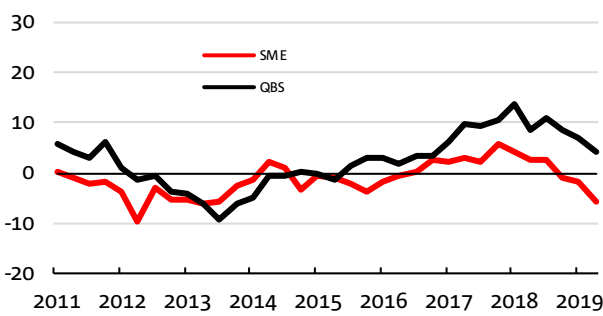


CHART 35: FORWARD ORDERS – SME & QBS (NET BAL., S.A.)

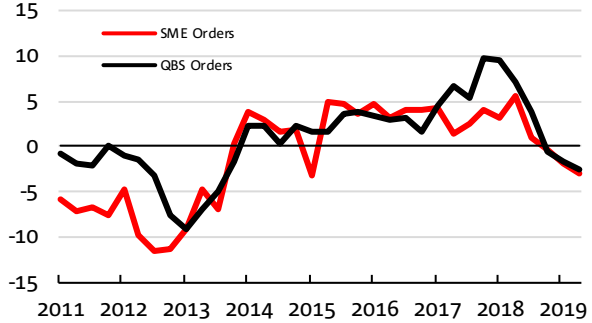


CHART 36: CAPACITY UTILISATION – SME & QBS (% S.A.)

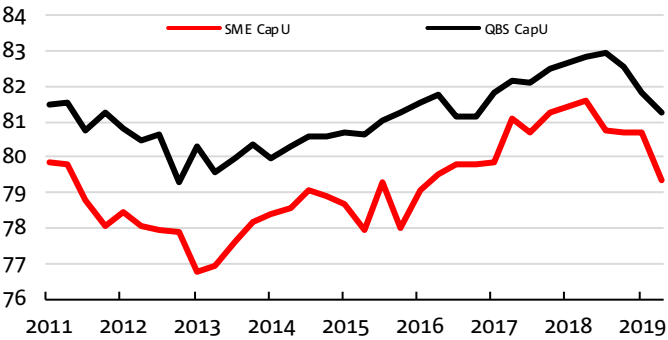


CHART 37: CAPITAL EXPENDITURE – SME & QBS (NET BAL., S.A.)

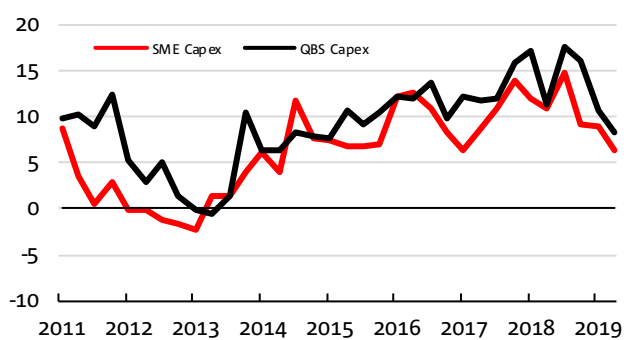
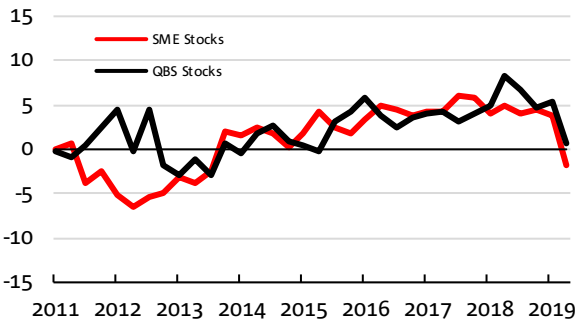


CHART 38: STOCKS – SME & QBS (NET BAL., S.A.)



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