

NAB QUARTERLY SME SURVEY 2019 Q3

SME CONDITIONS REBOUND BUT ARE STILL BELOW AVERAGE

NAB Australian Economics

SME business conditions bounced back in Q3, more than reversing Q2's large fall. The improvement occurred across all the mainland states and was most notable in the property and finance sectors. Retail and wholesale conditions also improved, but conditions in both these sectors remained negative, particularly for retail which is the weakest sector. Mid-tier SMEs saw the largest improvement in conditions although high-tier SMEs continue to outperform, with low-tier firms continuing to record the weakest conditions. Despite the improvement in the quarter, conditions remain below average and well below their year ago level. Moreover, SME business confidence declined in Q3 and most leading indicators remain at below historical average levels. SME margins also remain under pressure and profitability continued to deteriorate in Q3.

HIGHLIGHTS

- Small and Medium Enterprise (SME) **business conditions** bounced back in Q3, increasing 8pts to +4 index points. This more than reversed the fall that occurred in Q2 and conditions are now around where they were at the start of the year. That said, at this level SME business conditions are well below where they were a year ago and are a little below their historical average. All three subcomponents – employment, profitability and trading conditions – improved in Q3 although the profitability index remains negative.
- SME **business confidence** fell 3pts to a below average +1 index points. The fall in Q3 largely reversed the improvement in sentiment that occurred in the previous quarter.
- **Large businesses** (as measured by the NAB Quarterly Business Survey, QBS) are now somewhat underperforming the SME sector, with both business confidence and conditions for SMEs higher than that for large businesses. The outperformance in business conditions is driven largely by better trading conditions (and, to a lesser extent, by profitability which is not as negative as it is for larger businesses). The SME employment index, however, remains below that for larger businesses. Among SMEs, mid-tier firms saw the biggest improvement in conditions, but they are less confident than low and high tier firms. Moreover, high-tier firms continue to experience conditions and confidence above that for other SMEs. While the business conditions index for small-tier firms also improved it remained negative.
- By **industry**, there were substantial improvements in business conditions in property and finance. Retail and wholesale also improved but both remained negative. In contrast, conditions declined in manufacturing, business services and transport. Overall, conditions are most favourable in finance and health, while retail is weakest, followed by accommodation, cafes and restaurants.
- SME business conditions improved in all mainland **states** in Q3, with the largest gains coming in NSW and WA. However, despite the improvement, SME conditions remain negative in WA and this is also the case in SA. While Victoria saw the smallest improvement in conditions, it continued to outperform the other states. In contrast, confidence fell across all mainland states except Victoria; it remains highest in WA, followed by Victoria, and is weakest in Queensland.
- **Leading indicators** were mixed in Q3. Expectations for conditions at the 3-month horizon, as well as forward orders and capacity utilisation showed improvement, but expected conditions and capex in 12 months declined. These leading indicators are all at below average levels except for capacity utilisation (although it too is well down on its mid-2018 level).
- The **sales margin** index improved in Q3 but remained negative and a little below its historical average. This is consistent with purchase and labour costs continuing to outpace the growth in final product prices, although overheads rose at a more modest rate in Q3.
- The major **constraints on output** identified by SMEs continued to be sales and orders (essentially unchanged in the quarter) and the difficulty in finding suitable labour (which edged higher in Q3).

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

	2019 q1	2019 q2	2019 q3
Business Confidence	0	4	1
Low-tier firms	-4	1	1
Mid-tier firms	-2	2	0
High-tier firms	4	6	3
Business Conditions	3	-4	4
Low-tier firms	1	-8	-3
Mid-tier firms	-2	-8	2
High-tier firms	6	2	8

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

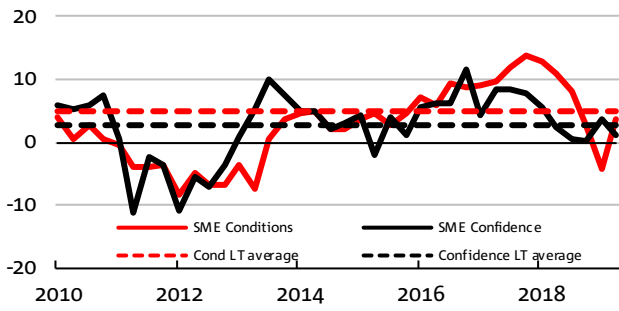
TABLE 2: SME BUSINESS CONDITIONS BY COMPONENT (NET BAL., S.A.)

	2019q1	2019q2	2019q3
Trading Conditions	8	0	11
Low-tier firms	4	-9	6
Mid-tier firms	2	-1	10
High-tier firms	14	5	13
Profitability	2	-7	-1
Low-tier firms	2	-5	-6
Mid-tier firms	-3	-14	-4
High-tier firms	5	0	2
Employment	-2	-6	2
Low-tier firms	-6	-13	-6
Mid-tier firms	-4	-5	-2
High-tier firms	1	0	7

All data seasonally adjusted, except purchase costs and exports. Fieldwork for this Survey was conducted from 26 August to 12 September 2019, covering around 800 firms across the non-farm business sector. **Next release date is 13 February 2020.**

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.)

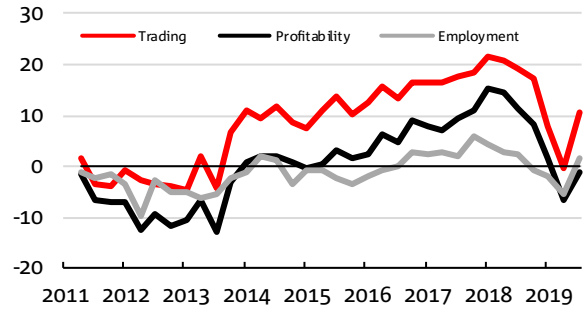


CHART 3: SME BUSINESS CONDITIONS & CASH FLOW (NET BAL., N.S.A.)

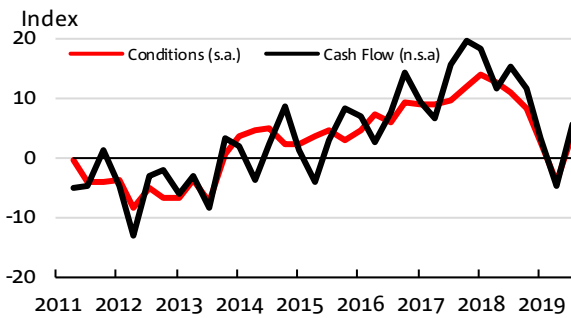
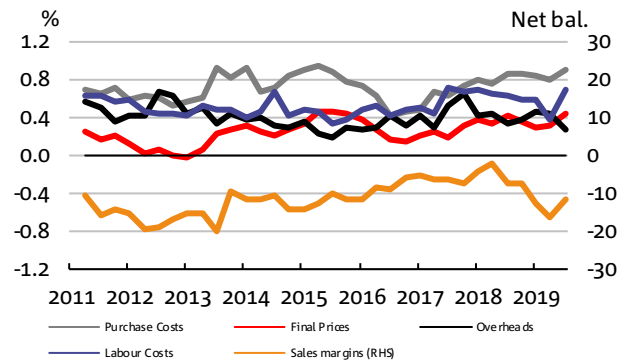


CHART 4: SME INPUT COSTS AND FINAL PRICE GROWTH (S.A.)



CONSTRAINTS ON OUTPUT

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

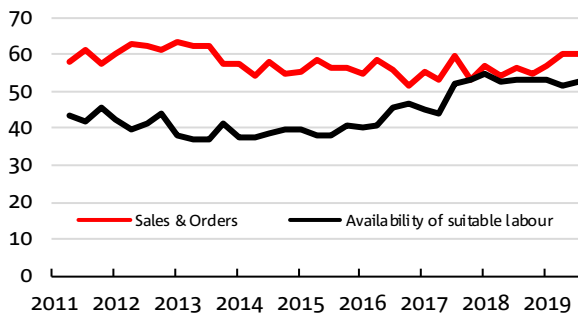
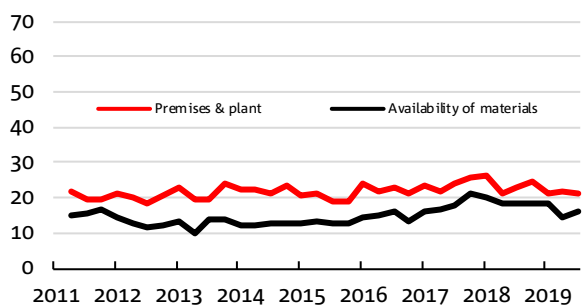
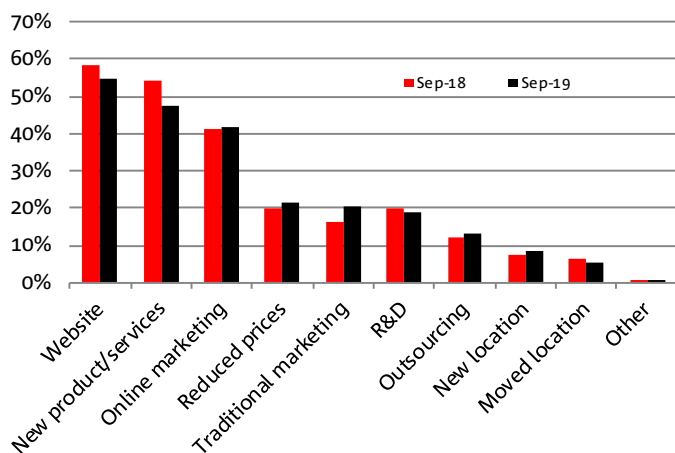


CHART 6: FACTORS CONSTRAINING SME OUTPUT (% of firms)



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.)

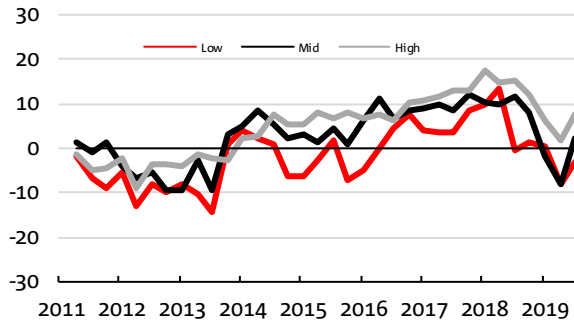


CHART 9: BUSINESS CONFIDENCE BY FIRM SIZE (NET BAL., S.A.)

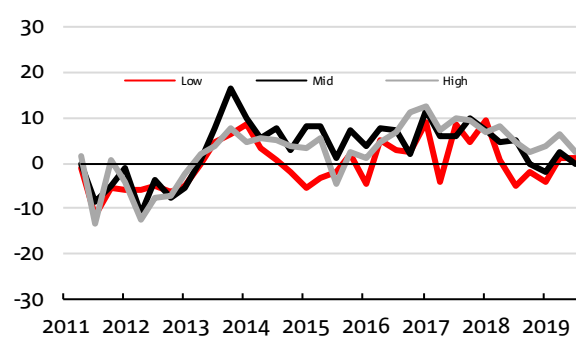


CHART 10: TRADING CONDITIONS BY FIRM SIZE (NET BAL., S.A.)

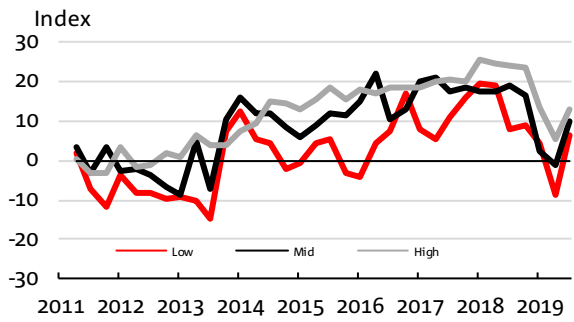


CHART 11: PROFITABILITY BY FIRM SIZE (NET BAL., S.A.)

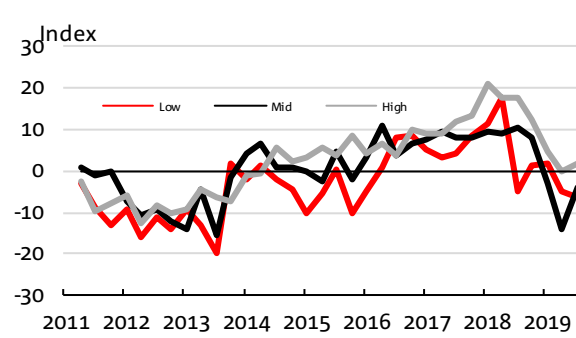


CHART 12: EMPLOYMENT BY FIRM SIZE (NET BAL., S.A.)

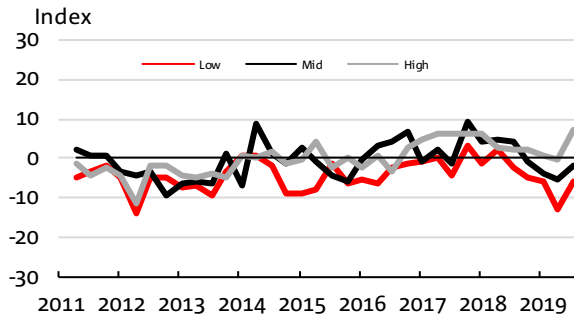


CHART 13: CASH FLOW BY FIRM SIZE (NET BAL., N.S.A.)

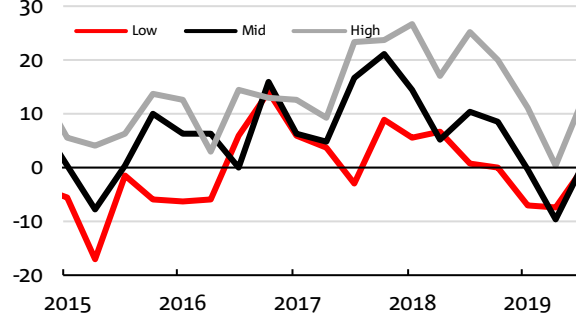


CHART 14: CAPACITY UTILISATION (% S.A.)

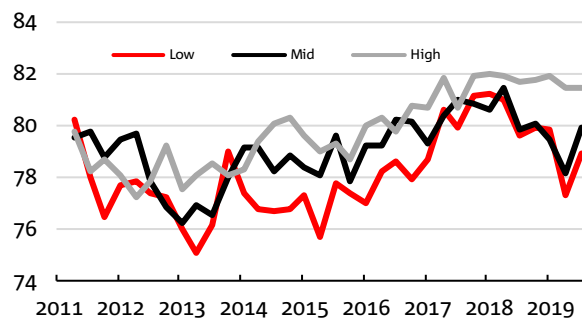
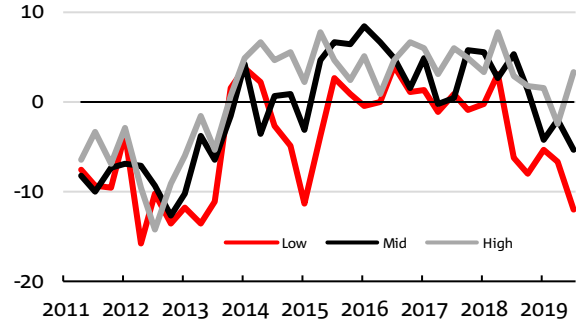


CHART 15: FORWARD ORDERS BY FIRM SIZE (NET BAL., S.A.)



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.)

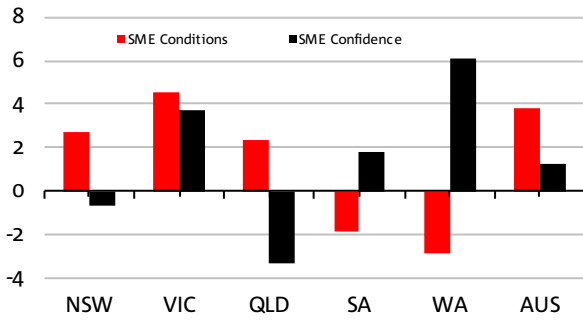


CHART 17: SME BUSINESS CONDITIONS BY STATE (NET BAL., S.A.)

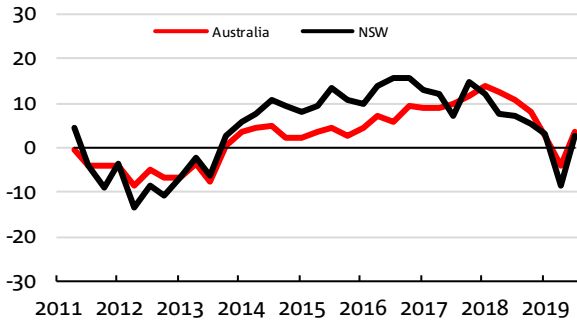


CHART 18: SME BUSINESS CONFIDENCE BY STATE (NET BAL., S.A.)

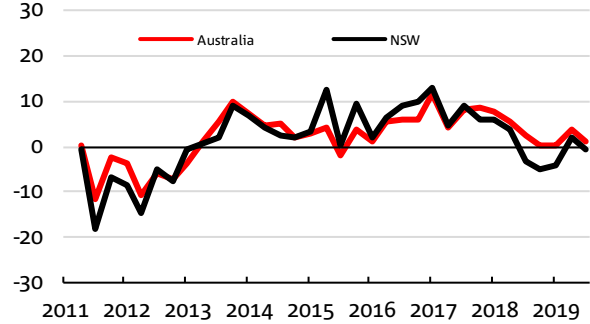


CHART 19: SME BUSINESS CONDITIONS BY STATE (NET BAL., S.A.)

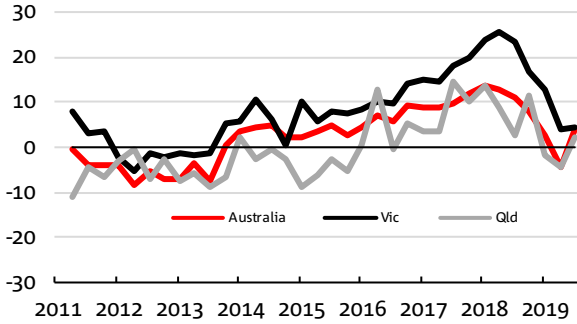


CHART 20: SME BUSINESS CONFIDENCE BY STATE (NET BAL., S.A.)

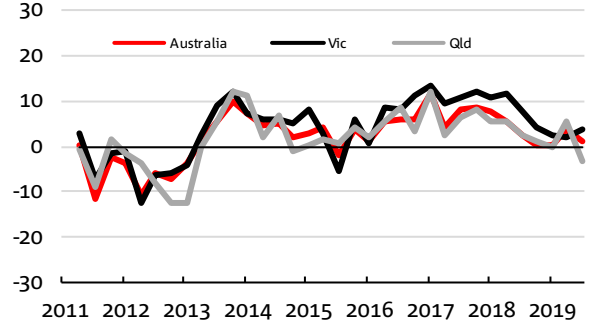


CHART 21: SME BUSINESS CONDITIONS BY STATE (NET BAL., S.A.)

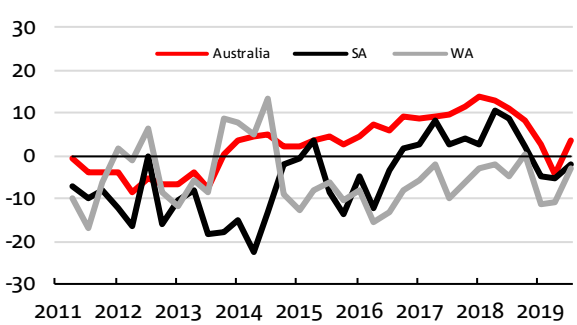
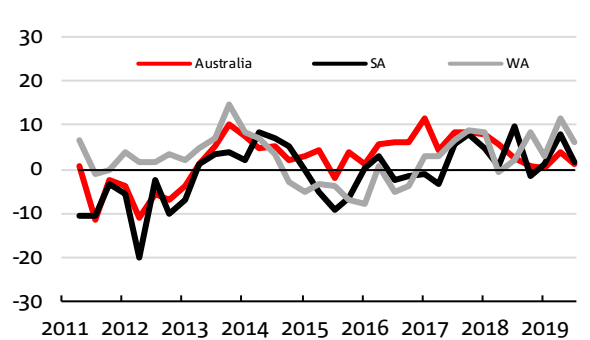


CHART 22: SME BUSINESS CONFIDENCE BY STATE (NET BAL., S.A.)



NAB QUARTERLY SME SURVEY – CONDITIONS & CONFIDENCE BY INDUSTRY

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

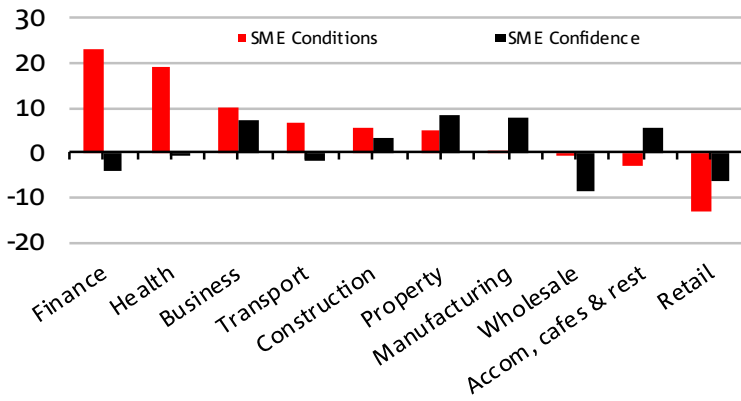


CHART 24: SME BUSINESS CONDITIONS BY INDUSTRY (NET BAL., S.A.)

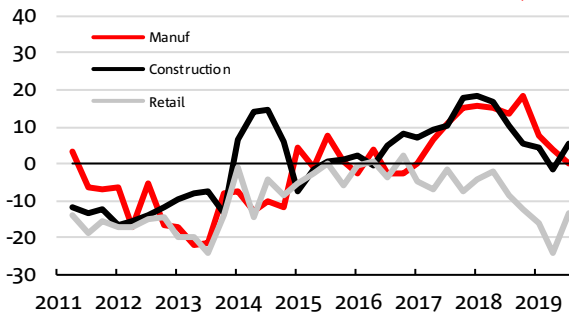


CHART 25: SME BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., S.A.)

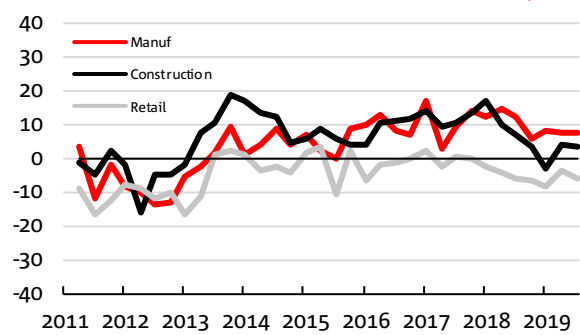


CHART 26: SME BUSINESS CONDITIONS BY INDUSTRY (NET BAL., S.A.)

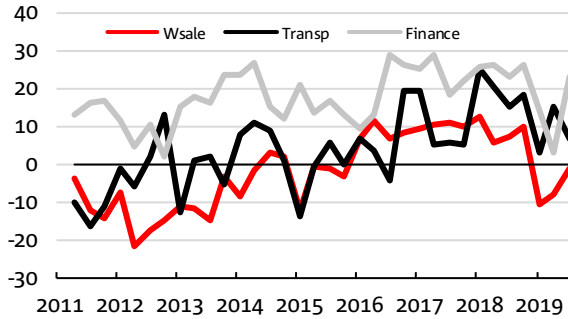


CHART 27: SME BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., S.A.)

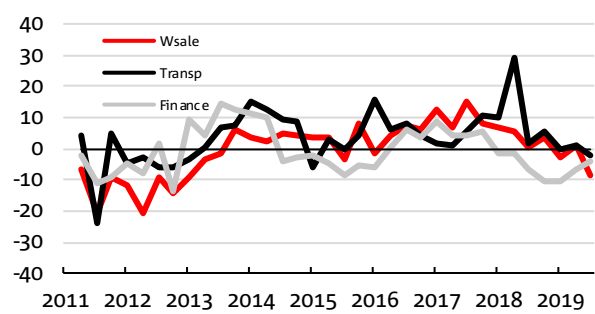


CHART 28: SME BUSINESS CONDITIONS BY INDUSTRY (NET BAL., S.A.)

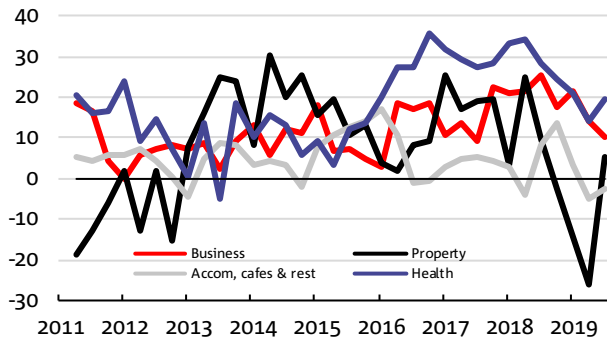
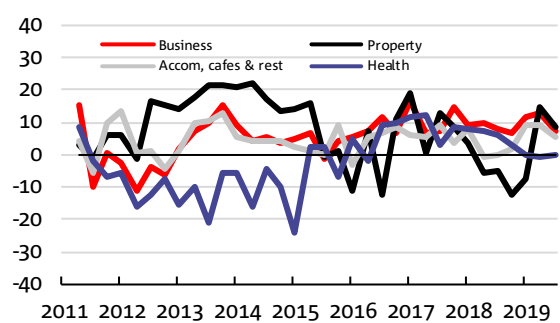


CHART 29: SME BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., S.A.)



NAB QUARTERLY SME SURVEY – COMPARISON WITH LARGER BUSINESSES

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

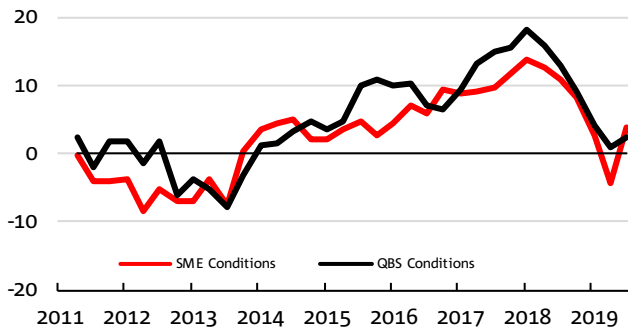


CHART 31: BUSINESS CONFIDENCE – SME & QBS (NET BAL., S.A.)

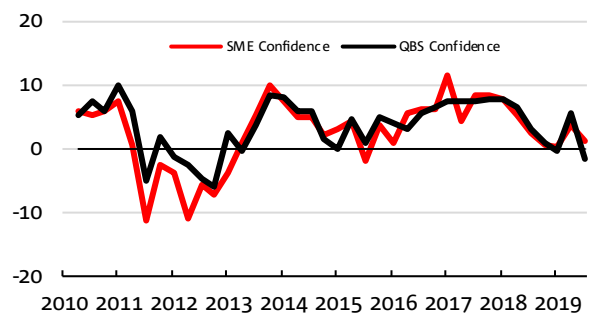


CHART 32: TRADING CONDITIONS – SME & QBS (NET BAL., S.A.)

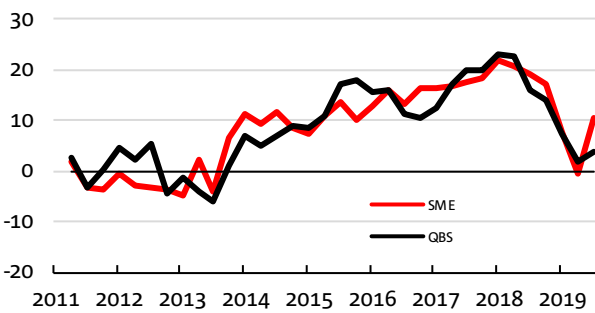


CHART 33: PROFITABILITY – SME & QBS (NET BAL., S.A.)

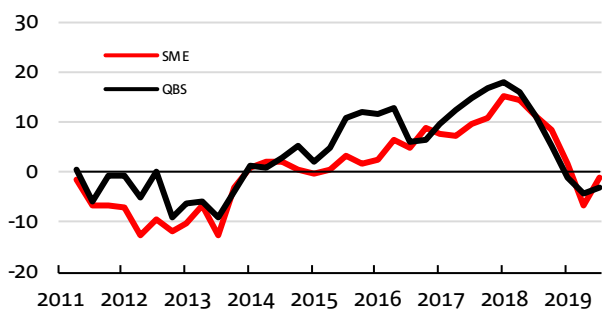


CHART 34: EMPLOYMENT – SME & QBS (NET BAL., S.A.)

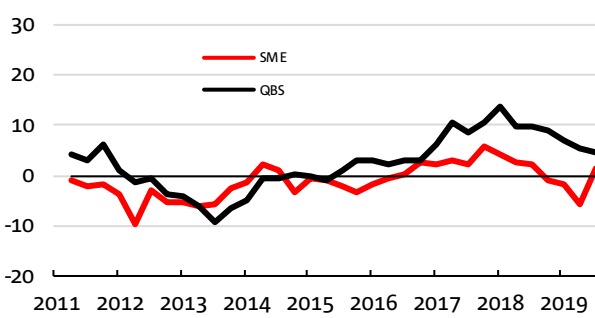


CHART 35: FORWARD ORDERS – SME & QBS (NET BAL., S.A.)

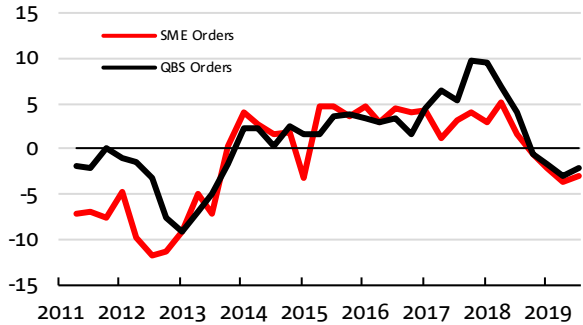


CHART 36: CAPACITY UTILISATION – SME & QBS (% S.A.)

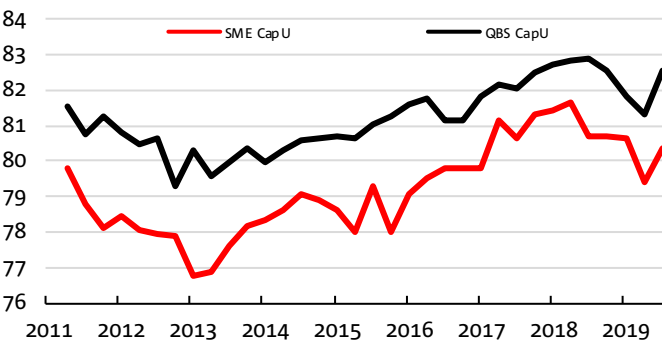


CHART 37: CAPITAL EXPENDITURE – SME & QBS (NET BAL., S.A.)

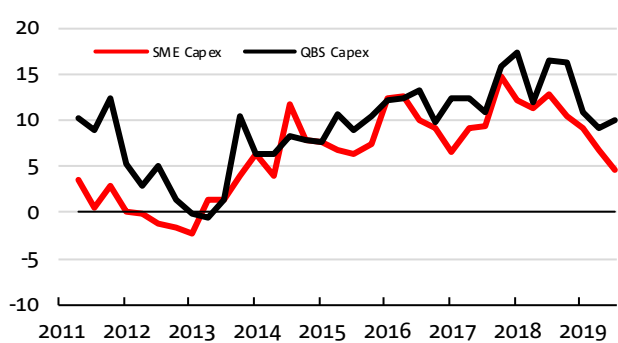
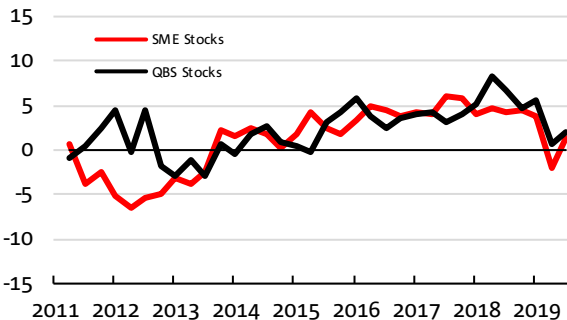


CHART 38: STOCKS – SME & QBS (NET BAL., S.A.)



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