

NAB QUARTERLY SME SURVEY 2019 Q4

SME CONDITIONS AND CONFIDENCE EDGE LOWER

NAB Australian Economics

SME business conditions edged lower in Q4, following a strong rebound in the previous quarter. Trading conditions and employment components were weaker, while profitability saw a small improvement. Outcomes across industries were mixed, though finance and health currently see the best conditions while retail and accommodation, cafes & restaurants are weakest – in line with recent consumer behaviour. Confidence edged lower and remains below average – suggesting that SMEs themselves expect the weakness in conditions to persist. Forward indicators were generally weaker – except for forward orders which saw a small improvement. However, with the general weakening and forward orders still negative conditions are likely to remain suppressed in the near term.

HIGHLIGHTS

- Small and Medium Enterprise (SME) **business conditions** edged lower in Q4 following the large rebound seen in Q3. Conditions remain below average and well below the level seen in Q4 2018. The trading and employment sub-components weakened in the quarter while profitability saw a small improvement. Notably the employment index has turned negative suggesting that employment in the sector is likely to weaken.
- SME **business confidence** recorded a second consecutive decline, falling 1pt to 0 index points. Confidence in the sector remains below average and has eased significantly since the end of 2017.
- **Large businesses** (as measured by the NAB Quarterly Business Survey, QBS) have seen a broadly similar performance to SMEs. Conditions (notwithstanding different trends in the quarter) and confidence are broadly similar across the surveys. By component, trading conditions and profitability are reasonably similar though the clear gap between the employment index in each survey persists. The QBS continues to suggest that despite the weakening trend in conditions over the past year, employment growth generally remains above average, while the SME employment index is negative. Among SMEs, mid-tier firms were responsible for the small decline in conditions, while low and high-tier firms conditions were unchanged – though the former remains negative. Confidence declined for low and mid-tier firms and is lowest in these segments, while high tier firms saw a small improvement.
- By **industry**, manufacturing and wholesale saw improvements in conditions, while construction, retail and transport edged higher. Finance saw a large fall - while health, accommodation, cafes & restaurants and business services also weakened. Despite notable declines in the quarter, health and finance continue to see the most favourable conditions across industries. Retail remains weakest, followed by accommodation, cafes & restaurants – reflecting the weakness in recent consumer data.
- SME business conditions were mixed across the **states**. NSW saw a sharp decline following the Jump last quarter. SA saw a second consecutive large rise while Vic also saw an improvement in conditions. WA and QLD were broadly flat in the quarter. NSW and WA currently see the weakest (and negative conditions) while Vic is highest.
- **Leading indicators** point to ongoing weakness. Expected business conditions both in the near term and over the next 12-months edged lower. Capacity utilisation also edged lower but was met with a small improvement in expected capex at the 12-month horizon. Forward orders improved in the quarter, but remain negative.
- The **sales margin** index improved again in Q4 but remained negative and below average with growth in costs on the input side generally moderating in the quarter. Growth in final products prices also eased and remains low, continuing to be outpaced by growth in the inputs side (particularly for inputs into production and labour costs with overhead costs growth also low).
- 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 continued to trend higher in the quarter.

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

	2019 q2	2019 q3	2019 q4
Business Confidence	3	1	0
Low-tier firms	1	1	-4
Mid-tier firms	2	0	-3
High-tier firms	6	3	4
Business Conditions	-4	3	2
Low-tier firms	-8	-4	-4
Mid-tier firms	-8	2	-1
High-tier firms	2	7	7

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

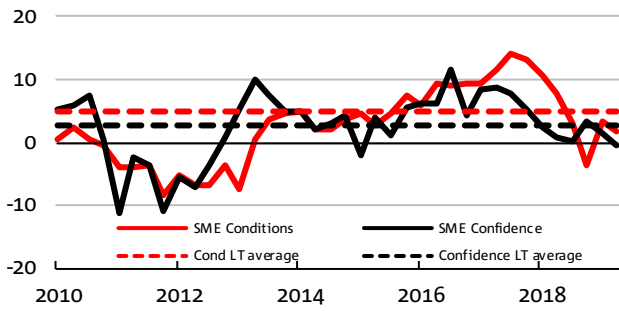
TABLE 2: SME BUSINESS CONDITIONS BY COMPONENT (NET BAL., S.A.)

	2019 q2	2019 q3	2019 q4
Trading Conditions	0	10	6
Low-tier firms	-8	4	-1
Mid-tier firms	-1	9	0
High-tier firms	7	12	16
Profitability	-6	-1	1
Low-tier firms	-5	-7	-2
Mid-tier firms	-14	-4	-1
High-tier firms	0	2	4
Employment	-5	1	-2
Low-tier firms	-13	-7	-7
Mid-tier firms	-5	-2	-1
High-tier firms	0	7	1

All data seasonally adjusted, except purchase costs and exports. Fieldwork for this Survey was conducted from 19 November to 13 December 2019, covering around 800 firms across the non-farm business sector. **Next release date is 30 April 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.)

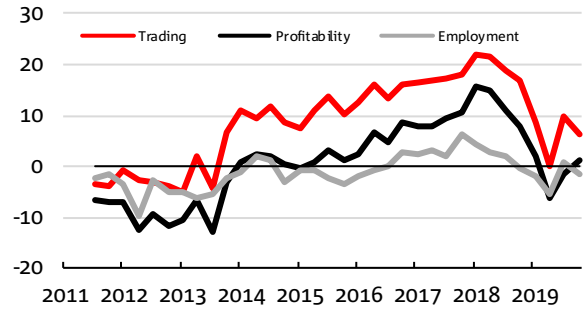


CHART 3: SME BUSINESS CONDITIONS & CASH FLOW (NET BAL., N.S.A.)

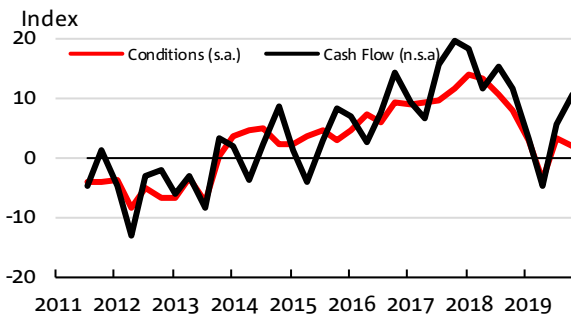
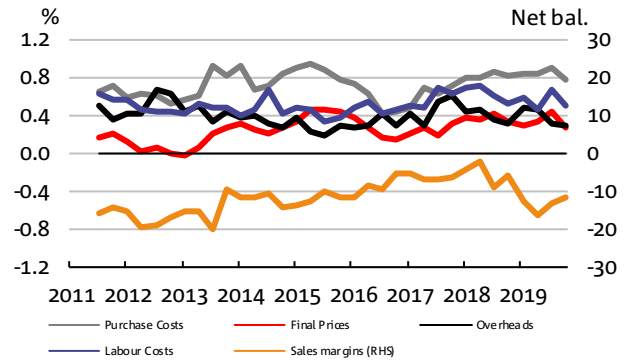


CHART 4: SME INPUT COSTS AND FINAL PRICE GROWTH (S.A.)



CONSTRAINTS ON OUTPUT

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

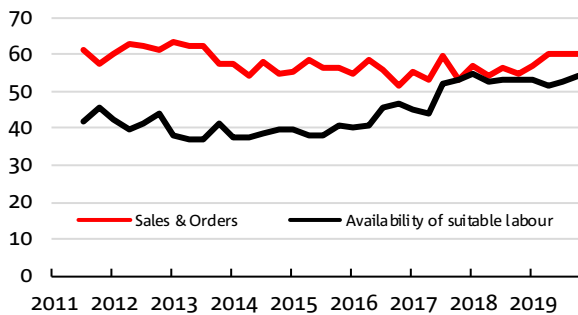
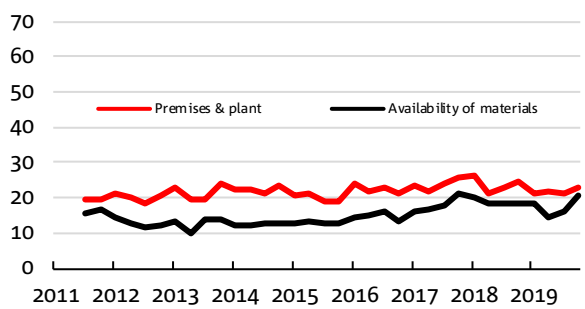
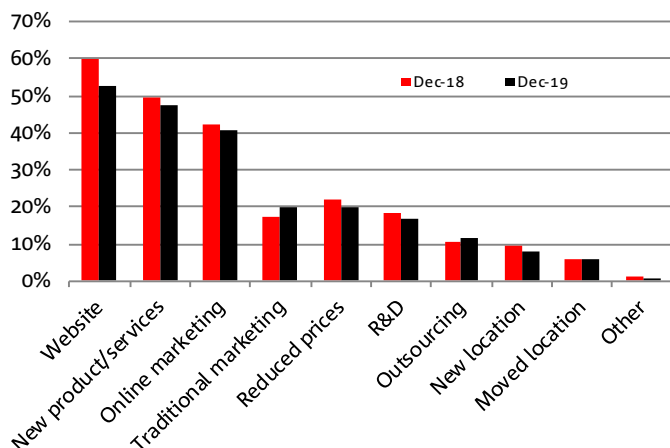


CHART 6: FACTORS CONSTRAINING SME OUTPUT (% of firms)



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.)

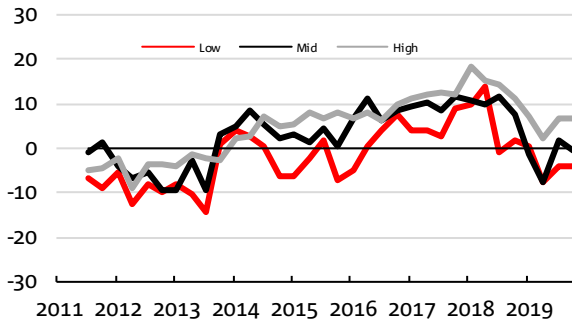


CHART 9: BUSINESS CONFIDENCE BY FIRM SIZE (NET BAL., S.A.)

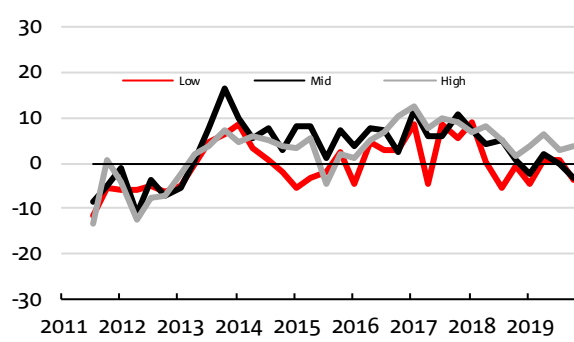


CHART 10: TRADING CONDITIONS BY FIRM SIZE (NET BAL., S.A.)

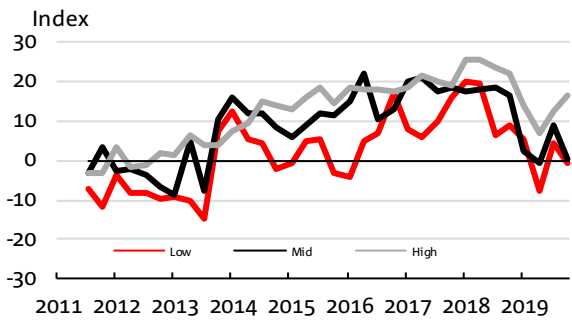


CHART 11: PROFITABILITY BY FIRM SIZE (NET BAL., S.A.)

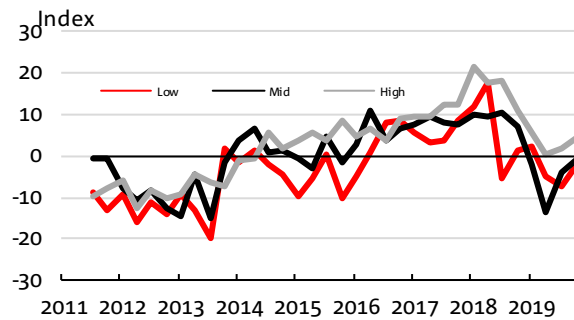


CHART 12: EMPLOYMENT BY FIRM SIZE (NET BAL., S.A.)

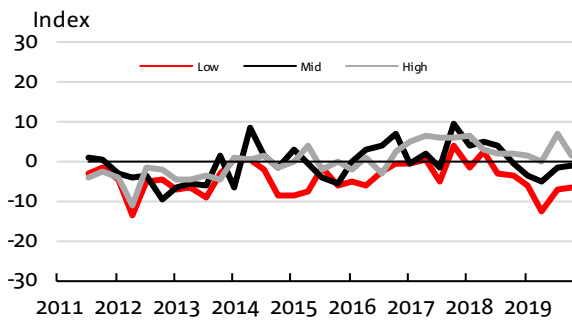


CHART 13: CASH FLOW BY FIRM SIZE (NET BAL., N.S.A.)

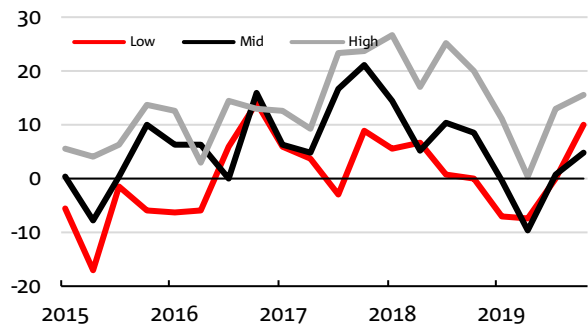


CHART 14: CAPACITY UTILISATION (% S.A.)

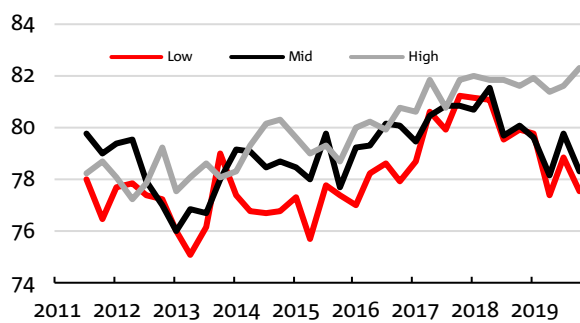
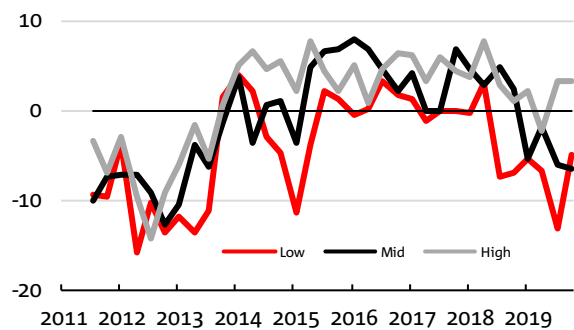


CHART 15: FORWARD ORDERS BY FIRM SIZE (NET BAL., S.A.)



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.)

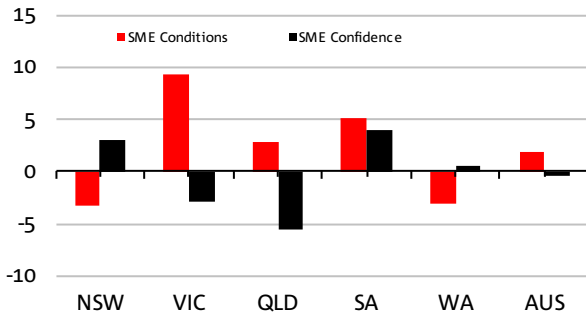


CHART 17: SME BUSINESS CONDITIONS BY STATE (NET BAL., S.A.)

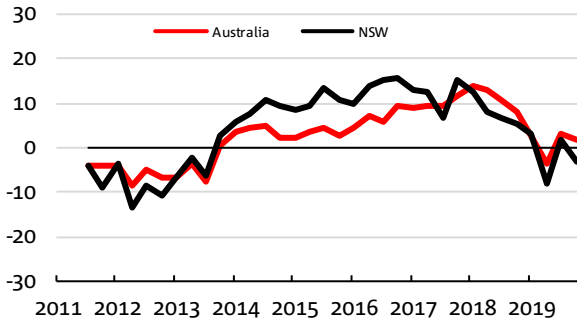


CHART 18: SME BUSINESS CONFIDENCE BY STATE (NET BAL., S.A.)

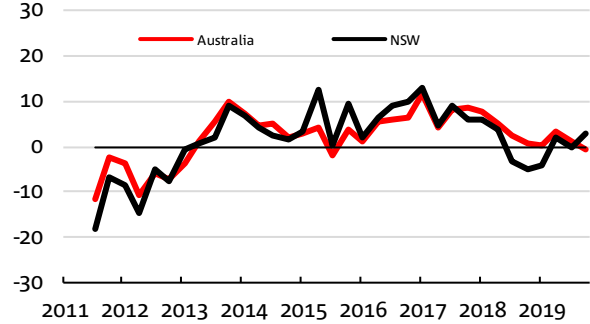


CHART 19: SME BUSINESS CONDITIONS BY STATE (NET BAL., S.A.)

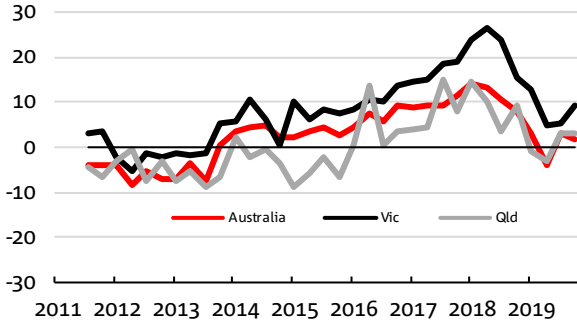


CHART 20: SME BUSINESS CONFIDENCE BY STATE (NET BAL., S.A.)

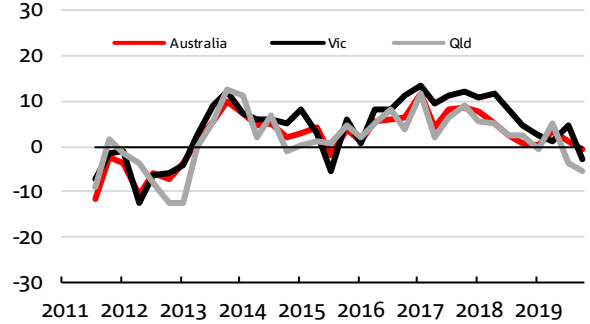


CHART 21: SME BUSINESS CONDITIONS BY STATE (NET BAL., S.A.)

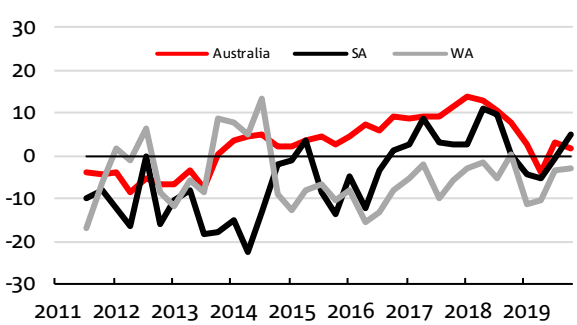
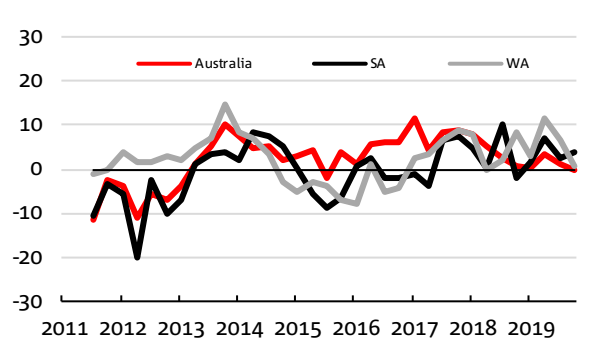


CHART 22: SME BUSINESS CONFIDENCE BY STATE (NET BAL., S.A.)



NAB QUARTERLY SME SURVEY – CONDITIONS & CONFIDENCE BY INDUSTRY

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

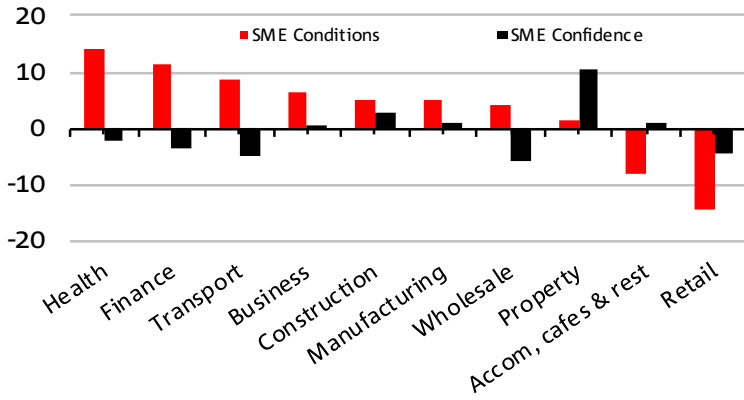


CHART 24: SME BUSINESS CONDITIONS BY INDUSTRY (NET BAL., S.A.)

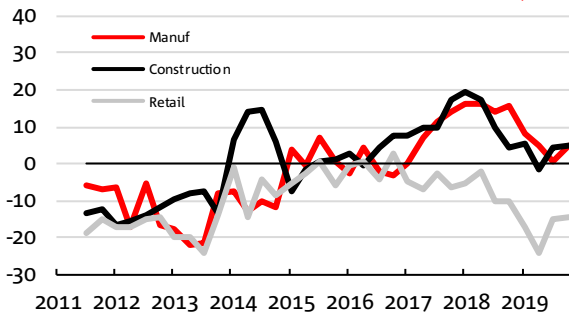


CHART 25: SME BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., S.A.)

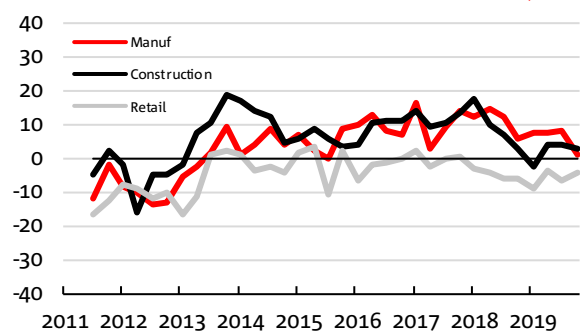


CHART 26: SME BUSINESS CONDITIONS BY INDUSTRY (NET BAL., S.A.)

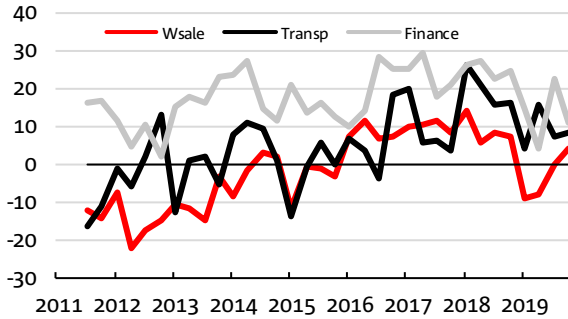


CHART 27: SME BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., S.A.)

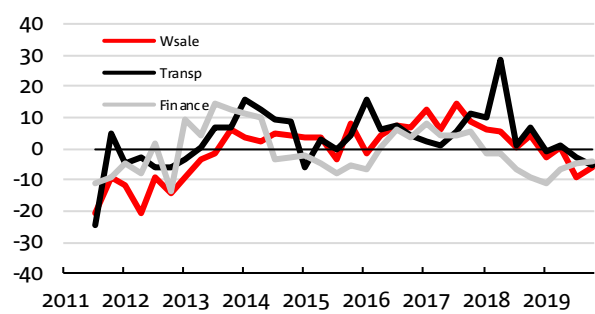


CHART 28: SME BUSINESS CONDITIONS BY INDUSTRY (NET BAL., S.A.)

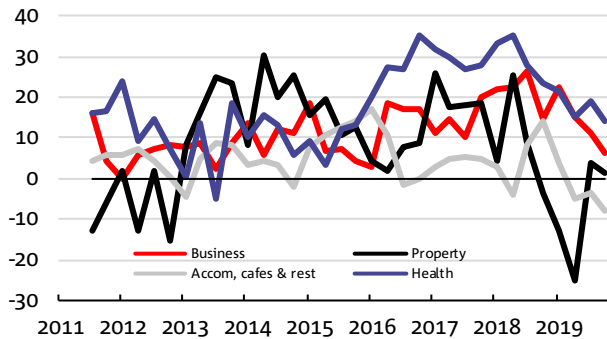
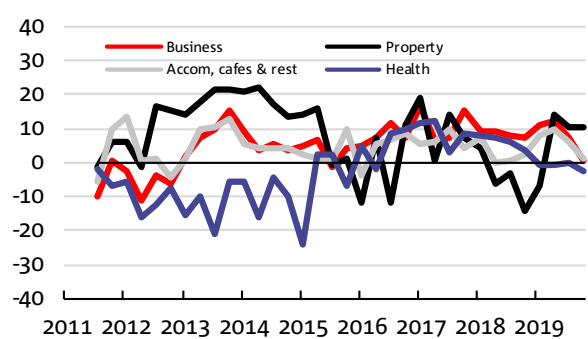


CHART 29: SME BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., S.A.)



NAB QUARTERLY SME SURVEY – COMPARISON WITH LARGER BUSINESSES

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

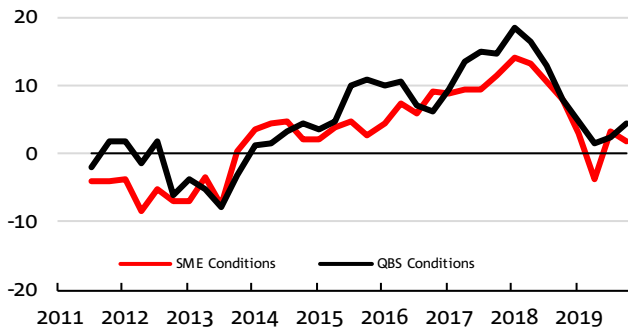


CHART 31: BUSINESS CONFIDENCE – SME & QBS (NET BAL., S.A.)

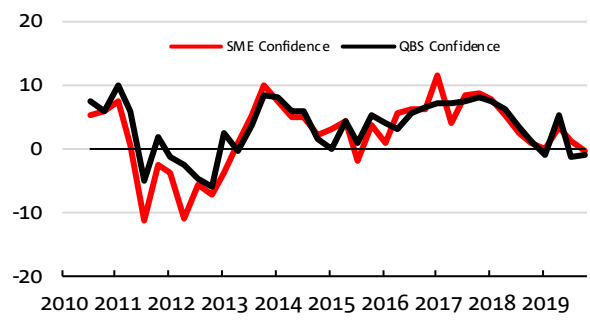


CHART 32: TRADING CONDITIONS – SME & QBS (NET BAL., S.A.)

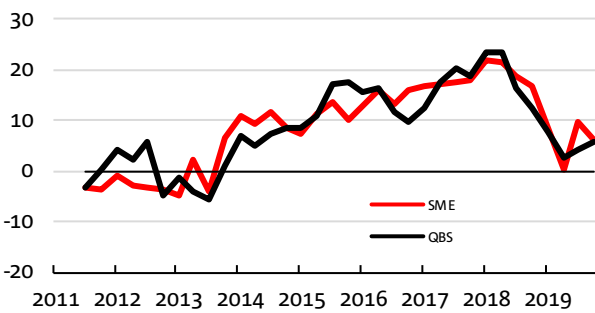


CHART 33: PROFITABILITY – SME & QBS (NET BAL., S.A.)

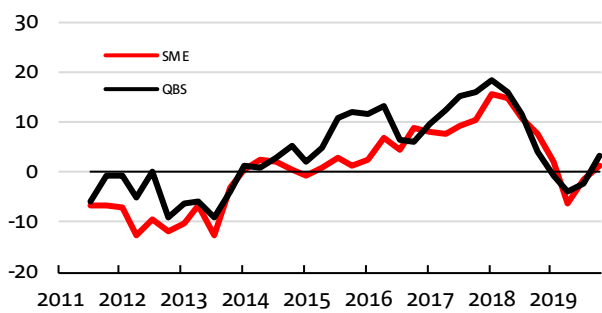


CHART 34: EMPLOYMENT – SME & QBS (NET BAL., S.A.)

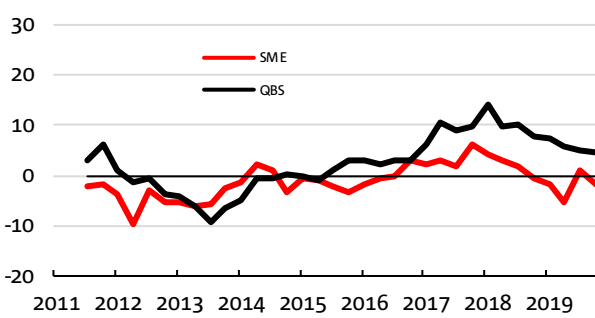


CHART 35: FORWARD ORDERS – SME & QBS (NET BAL., S.A.)

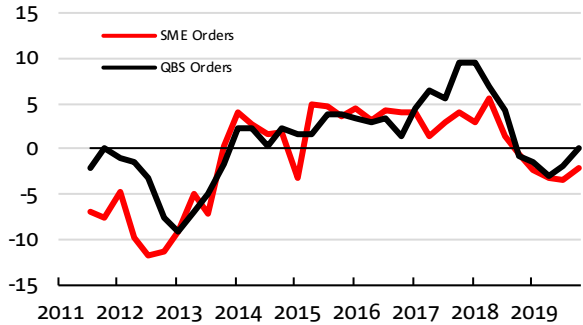


CHART 36: CAPACITY UTILISATION – SME & QBS (% S.A.)

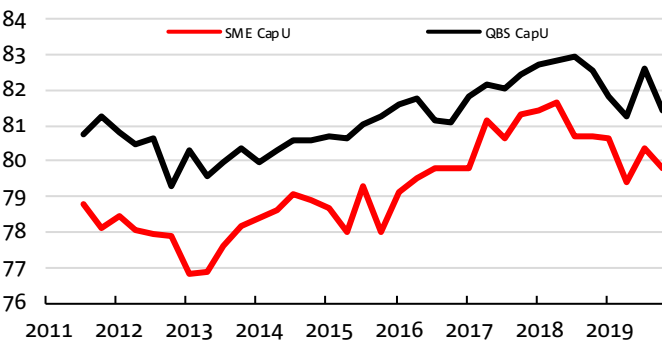


CHART 37: CAPITAL EXPENDITURE – SME & QBS (NET BAL., S.A.)

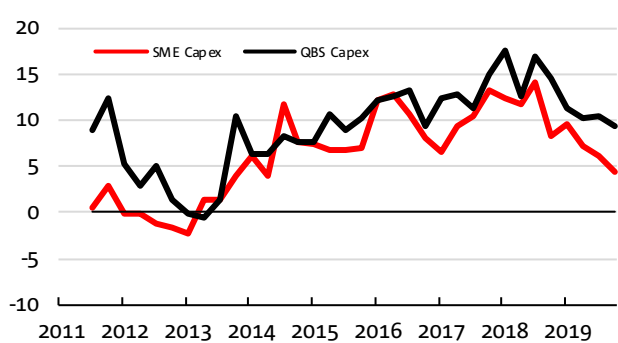
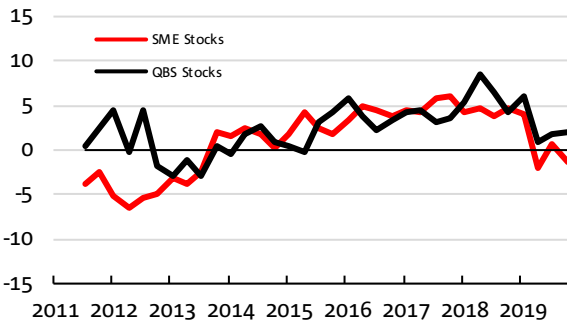


CHART 38: STOCKS – SME & QBS (NET BAL., S.A.)



CONTACTS

Alan Oster, Group Chief Economist

Alan.Oster@nab.com.au

+613 8634 2927

Tony Kelly, Senior Economist

Antony.kelly@nab.com.au

+ 61 (0)477 746 237

Important Notice

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances.

NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it.

Please click [here](#) to view our disclaimer and terms of use.