

NAB QUARTERLY SME SURVEY 2020 Q1

SME CONFIDENCE DECLINES AHEAD OF COVID-19 DISRUPTION

NAB Australian Economics

While the quarterly business survey showed a significant deterioration in conditions (and a larger fall in confidence), the quarterly SME survey did not report a significant impact from growing containment measures. That said confidence declined slightly and is in negative territory suggesting that worst is yet to come. Indeed, we know that since this survey was conducted coronavirus containment measures have escalated and anecdotally, the breadth of the business sector has been impacted. With smaller firms having lower cash buffers, we fear that the SME sector will be most impacted by the economic fallout. Indeed, the government's response to date has focused significantly on providing support to small business. While overall conditions were stable in the quarter, confidence eased and reported cashflow declined signalling that there was some early deterioration. Indeed, while capacity utilisation was flat in the quarter, forward orders were weaker (and at a low level) while expected conditions, capex and employment in both the near and medium-term were lower. This suggests that while the SME sector was relatively unaffected in late February and early March, the escalation in containment measures which came in the back end of the month will likely see a greater impact on the sector going forward.

HIGHLIGHTS

- Small and Medium Enterprise (SME) **business conditions** were flat (at +3 index points) leading. The trading and profitability sub-components were unchanged in the quarter while employment rose to a neutral level.
- SME **business confidence** weakened further in the quarter, led by a deterioration in high-tier firms which are now as weak as the low-tier segment. Mid-tier firms improved in the quarter but remain negative.
- **Large businesses** (as measured by the NAB Quarterly Business Survey, QBS) deteriorated in the quarter with conditions falling to -3 index points and confidence declining to -11. By component, trading conditions and profitability remain positive in the SME segment, while the QBS equivalents are at zero or negative. After tracking at a higher level for some time, the QBS measure of employment has now converged to the SME reading at 0 index points. Among SMEs, a deterioration in the high-tier businesses were offset by an increase in mid-tier firms while the low-tier reading of conditions tracked sideways.
- By **industry**, conditions were mixed. Retail, finance, property and accommodation & food services saw an improvement while health and construction edged higher. Manufacturing, wholesale, business services and transport were weaker. The decline in confidence was led by accommodation and health, while retail, wholesale and business services also declined.
- SME business conditions were higher in Qld and SA, flat in NSW, and declined in Vic, WA and Tas. Overall, conditions were highest in SA and Vic, while WA continued to see the softest reads. Confidence fell in NSW, WA and SA in the quarter, and was marginally higher across the states. Confidence is negative in all states and weakest in SA and Qld.
- **Leading indicators** point to a weak outlook for the SME sector. While conditions were flat, expected conditions in 3 and 12 months were lower (alongside the deterioration in confidence). Expected capex and employment was also lower at the short and medium-term horizon suggesting that, while capacity utilisation was flat in the quarter, there is unlikely to be much expansion in the sector going forward.
- The **sales margin** index was broadly flat but remains negative with growth in input prices still outpacing the growth in final products prices. Growth in final products prices also eased slightly, as did labour costs growth and overheads. Input price growth was unchanged in the quarter and continue to track at the fastest rate on the cost side.
- The major **constraints on output** identified by SMEs continued to be sales and orders (essentially unchanged in the quarter) followed by the availability of suitable labour – which eased somewhat in the quarter. While it remains low, availability of materials has become an increasing constraint over the past 3 quarters.

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

	2019	2019	2020
	q3	q4	q1
Business Confidence	1	-1	-3
Low-tier firms	0	-5	-5
Mid-tier firms	-1	-4	-2
High-tier firms	3	4	-5
Business Conditions	3	3	3
Low-tier firms	-4	-4	-4
Mid-tier firms	2	0	3
High-tier firms	7	8	7

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

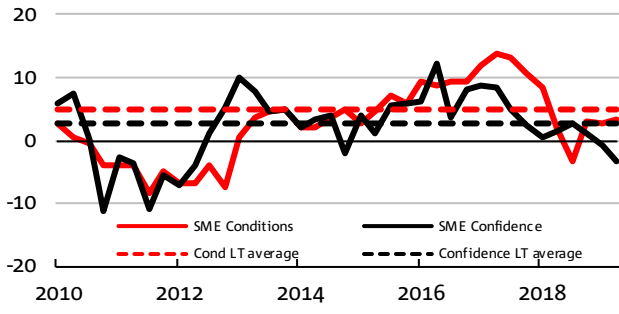
TABLE 2: SME BUSINESS CONDITIONS BY COMPONENT (NET BAL., S.A.)

	2019q3	2019q4	2020q1
Trading Conditions	9	8	8
Low-tier firms	4	-1	-2
Mid-tier firms	9	2	6
High-tier firms	13	17	15
Profitability	-2	2	2
Low-tier firms	-7	-2	-5
Mid-tier firms	-4	0	1
High-tier firms	2	6	6
Employment	1	-2	0
Low-tier firms	-7	-7	-5
Mid-tier firms	-2	-1	1
High-tier firms	7	2	1

All data seasonally adjusted, except purchase costs and exports. Fieldwork for this Survey was conducted from 18 February to 13 March 2020, covering over 700 firms across the non-farm business sector. **Next release date is 30 July 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.)

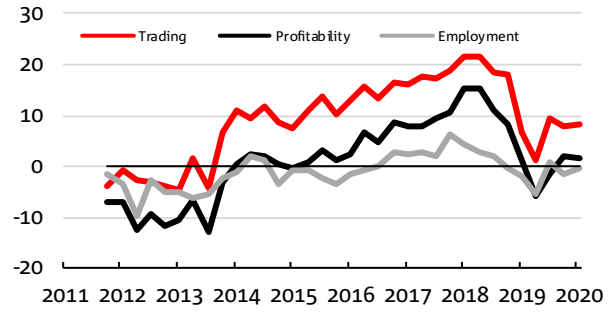


CHART 3: SME BUSINESS CONDITIONS & CASH FLOW (NET BAL., N.S.A.)

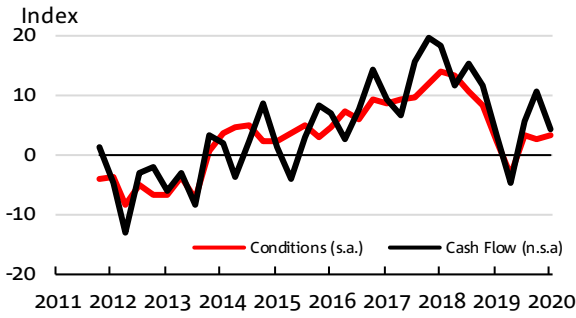
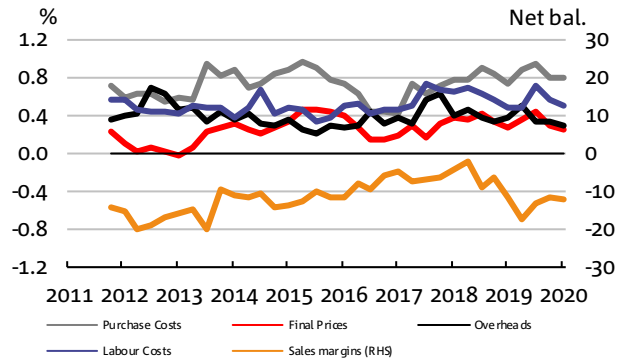


CHART 4: SME INPUT COSTS AND FINAL PRICE GROWTH (S.A.)



CONSTRAINTS ON OUTPUT

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

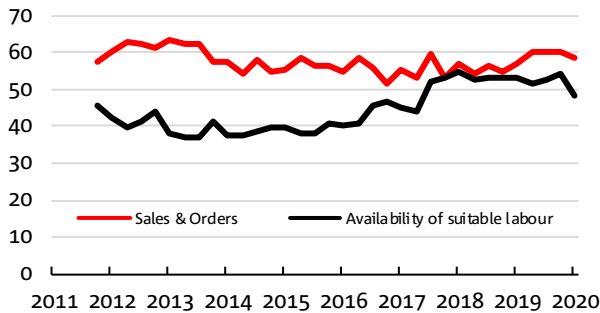
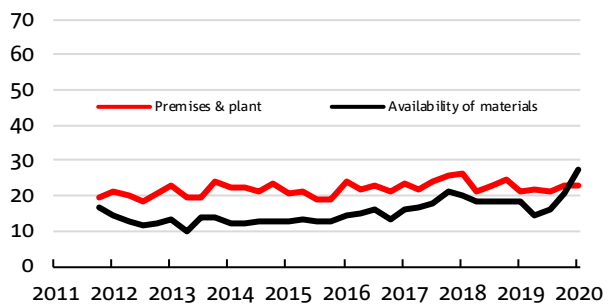
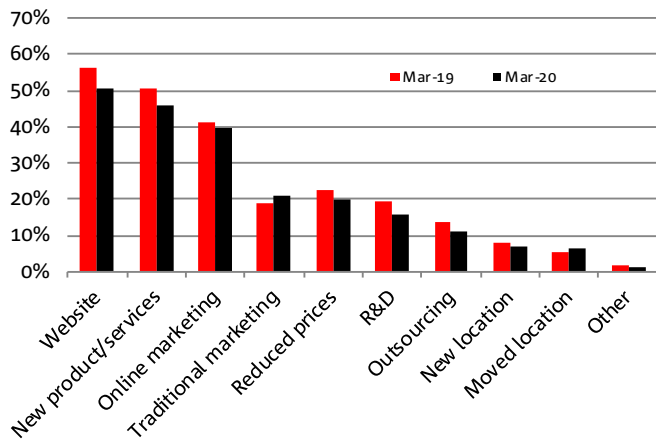


CHART 6: FACTORS CONSTRAINING SME OUTPUT (% of firms)



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.)

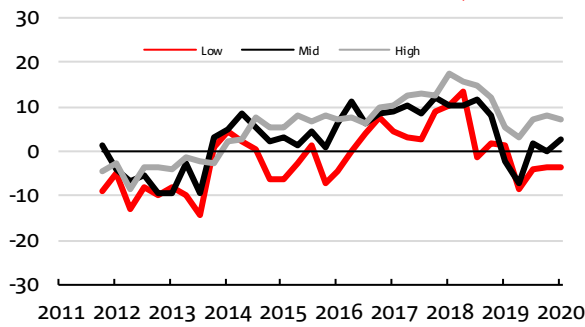


CHART 9: BUSINESS CONFIDENCE BY FIRM SIZE (NET BAL., S.A.)

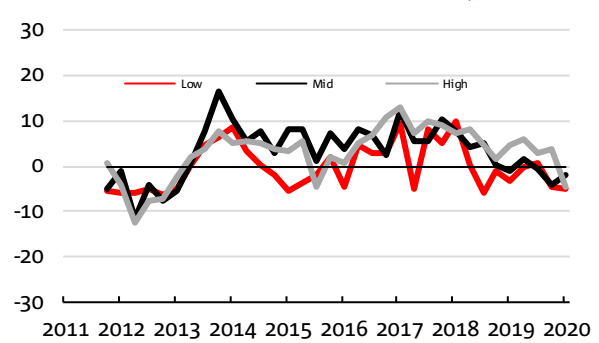


CHART 10: TRADING CONDITIONS BY FIRM SIZE (NET BAL., S.A.)

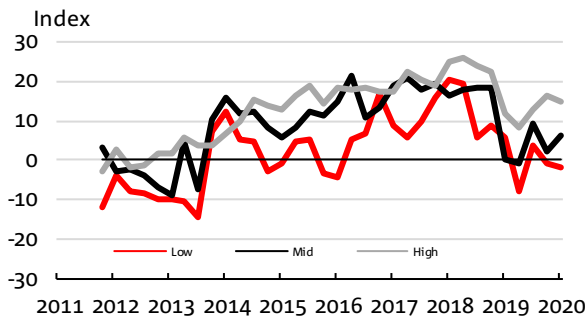


CHART 11: PROFITABILITY BY FIRM SIZE (NET BAL., S.A.)

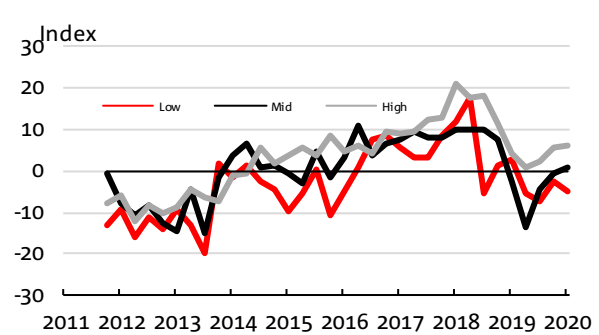


CHART 12: EMPLOYMENT BY FIRM SIZE (NET BAL., S.A.)

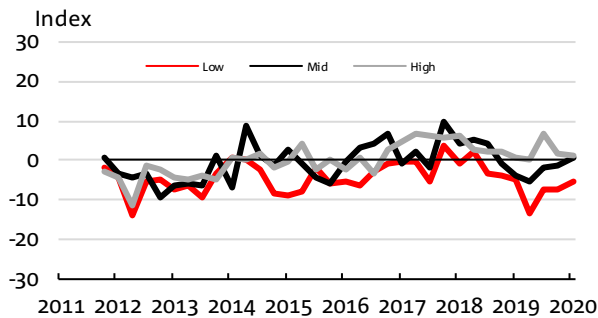


CHART 13: CASH FLOW BY FIRM SIZE (NET BAL., N.S.A.)

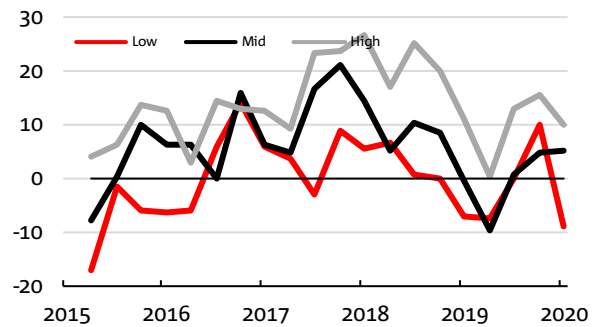


CHART 14: CAPACITY UTILISATION (% S.A.)

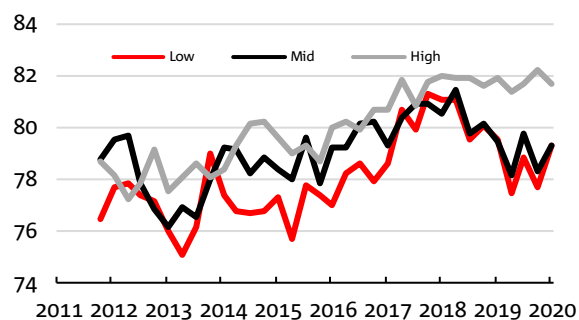
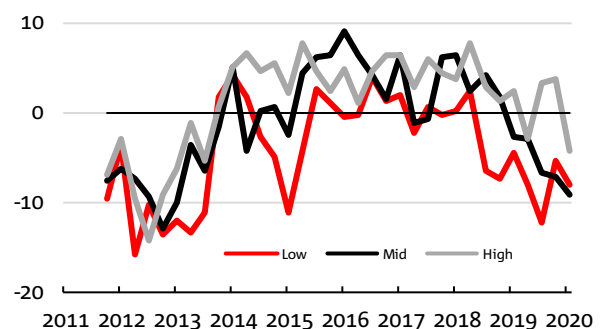


CHART 15: FORWARD ORDERS BY FIRM SIZE (NET BAL., S.A.)



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.)

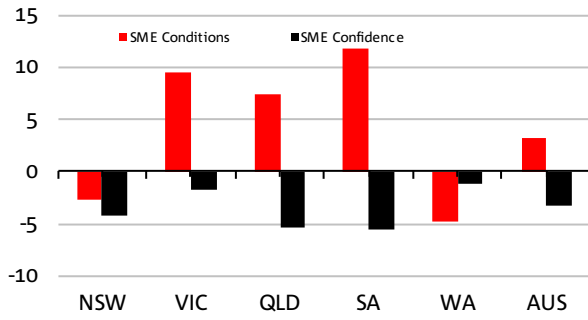


CHART 17: SME BUSINESS CONDITIONS BY STATE (NET BAL., S.A.)

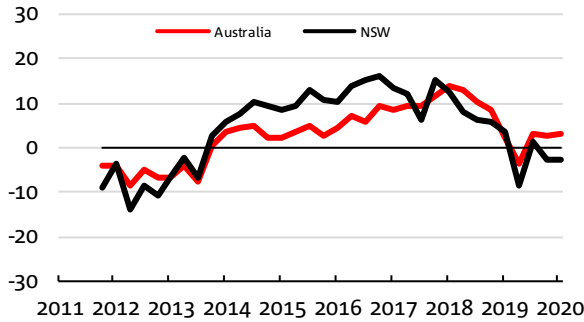


CHART 18: SME BUSINESS CONFIDENCE BY STATE (NET BAL., S.A.)

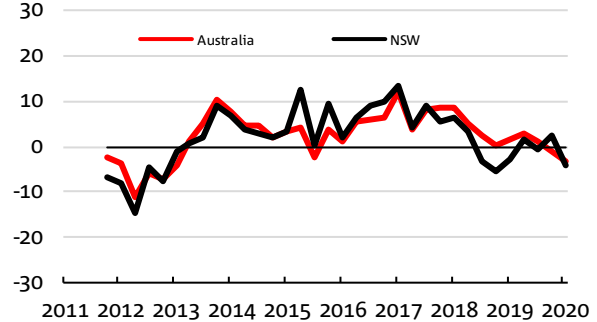


CHART 19: SME BUSINESS CONDITIONS BY STATE (NET BAL., S.A.)

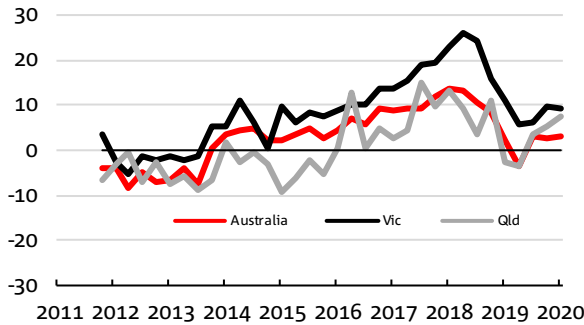


CHART 20: SME BUSINESS CONFIDENCE BY STATE (NET BAL., S.A.)

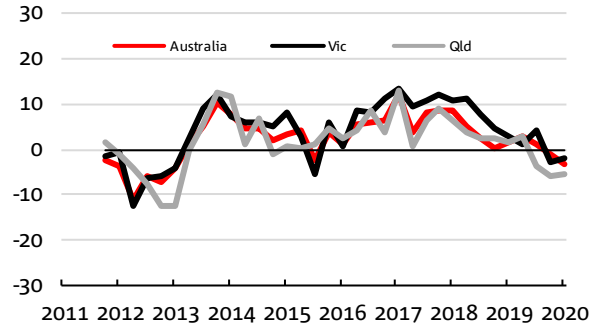


CHART 21: SME BUSINESS CONDITIONS BY STATE (NET BAL., S.A.)

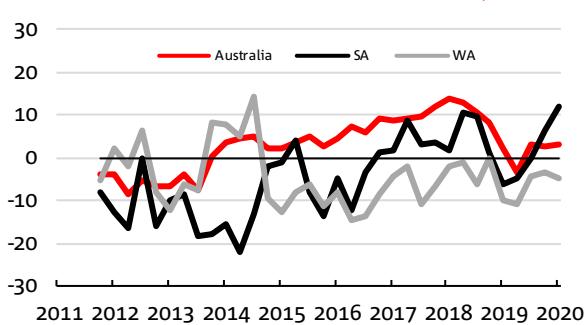
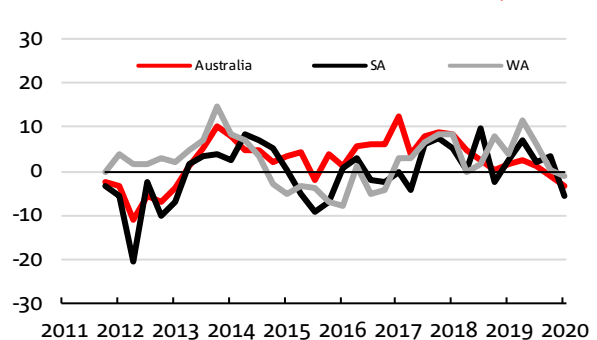


CHART 22: SME BUSINESS CONFIDENCE BY STATE (NET BAL., S.A.)



NAB QUARTERLY SME SURVEY – CONDITIONS & CONFIDENCE BY INDUSTRY

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

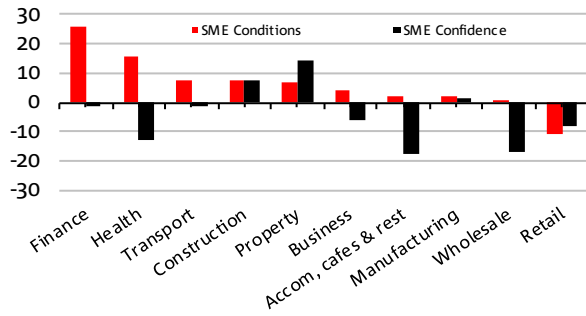


CHART 24: SME BUSINESS CONDITIONS BY INDUSTRY (NET BAL., S.A.)

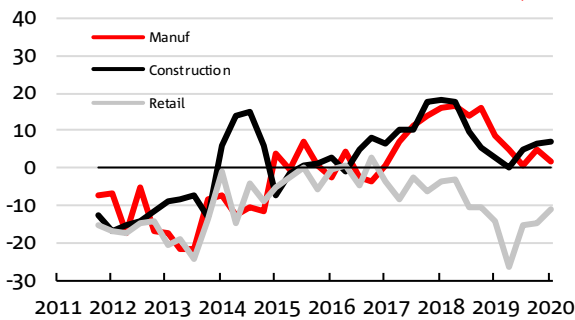


CHART 25: SME BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., S.A.)

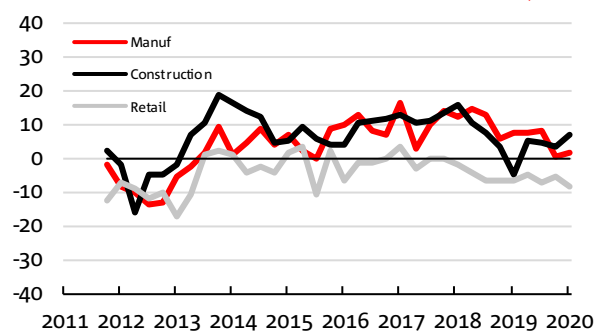


CHART 26: SME BUSINESS CONDITIONS BY INDUSTRY (NET BAL., S.A.)

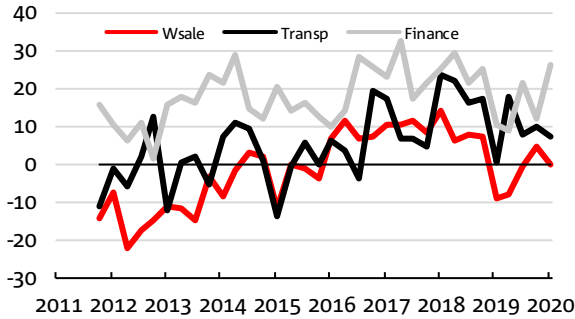


CHART 27: SME BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., S.A.)

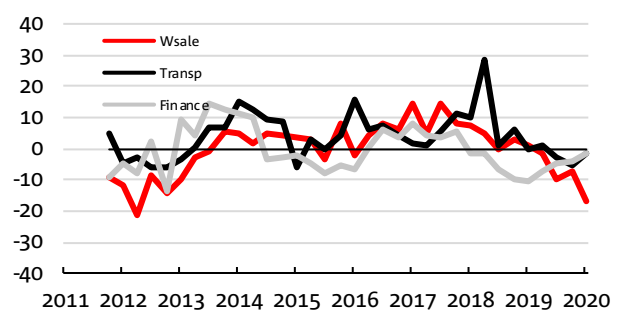


CHART 28: SME BUSINESS CONDITIONS BY INDUSTRY (NET BAL., S.A.)

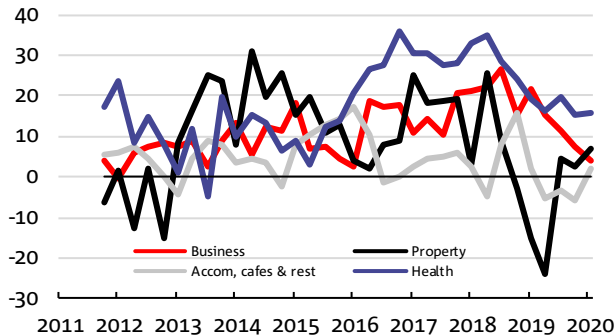
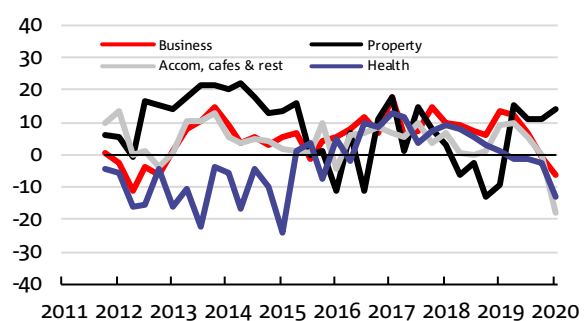


CHART 29: SME BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., S.A.)



NAB QUARTERLY SME SURVEY – COMPARISON WITH LARGER BUSINESSES

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

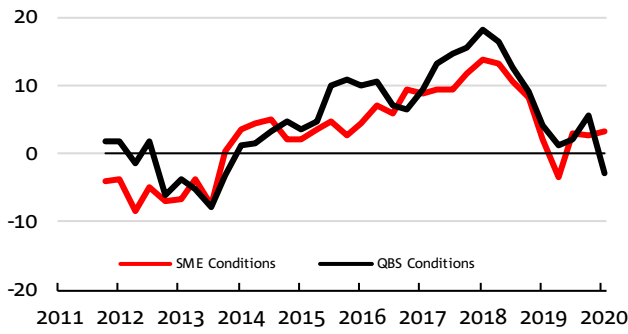


CHART 31: BUSINESS CONFIDENCE – SME & QBS (NET BAL., S.A.)

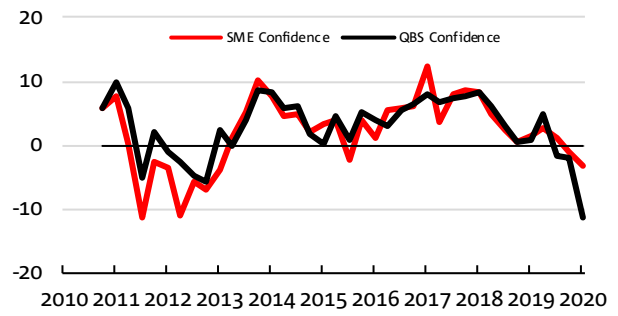


CHART 32: TRADING CONDITIONS – SME & QBS (NET BAL., S.A.)

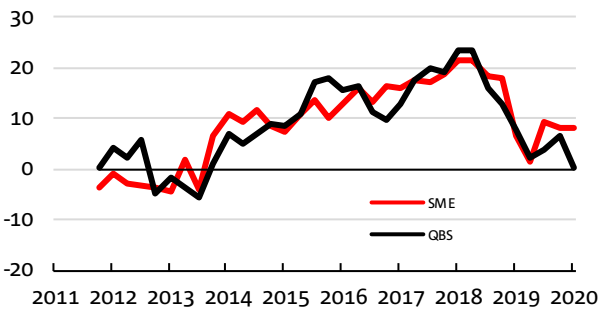


CHART 33: PROFITABILITY – SME & QBS (NET BAL., S.A.)

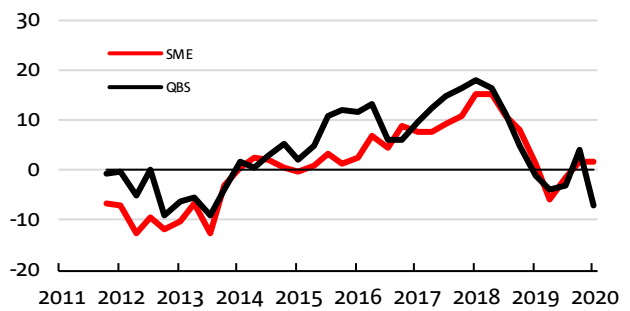


CHART 34: EMPLOYMENT – SME & QBS (NET BAL., S.A.)

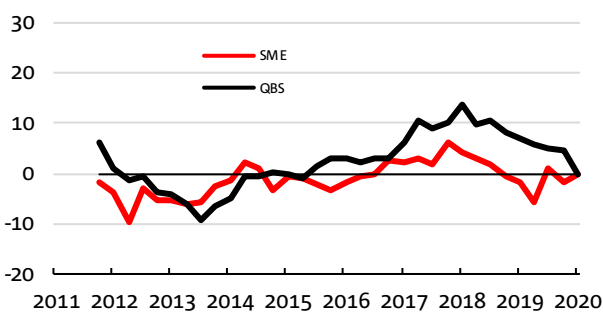


CHART 35: FORWARD ORDERS – SME & QBS (NET BAL., S.A.)

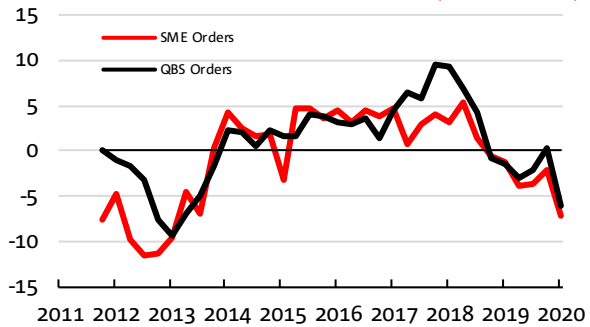


CHART 36: CAPACITY UTILISATION – SME & QBS (% S.A.)

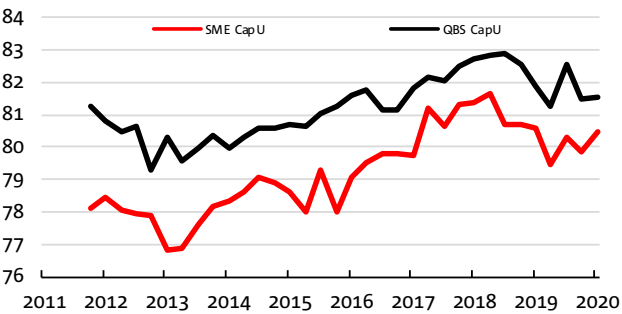


CHART 37: CAPITAL EXPENDITURE – SME & QBS (NET BAL., S.A.)

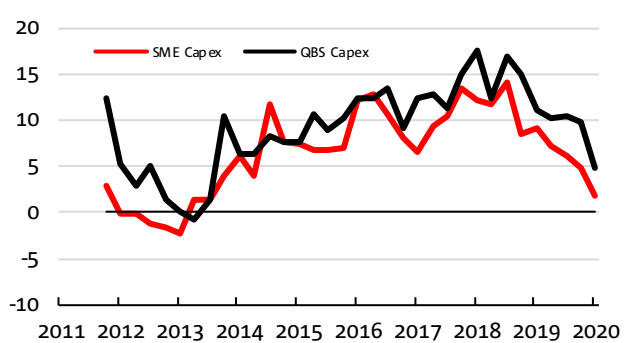
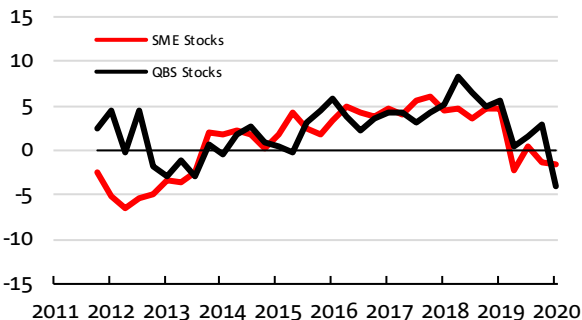


CHART 38: STOCKS – SME & QBS (NET BAL., S.A.)



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