

NAB QUARTERLY SME SURVEY

2020 Q2

By Group Economics

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THE SME SECTOR SEES A LARGE COVID HIT

The Small and Medium Enterprise (SME) business survey saw a large deterioration in Q2. Both SME confidence and conditions declined sharply, while capacity utilisation also declined to its lowest level in the history of the survey. The deterioration was evident across all size tiers and across each of the trading, profitability and employment sub-components. In addition, forward looking indicators for both conditions, employment and capex all deteriorated sharply in addition to a weak outcome for forward orders.

According to Alan Oster, NAB Group Chief Economist: “The SME sector has not escaped the fallout of the pandemic’s economic effect. SME confidence declined sharply, while activity as reflected in business conditions also declined sharply”.

“The deterioration was broad-based across sectors – but the accommodation, cafes and takeaway sector saw a massive decline of 66 pts. Not surprisingly it is now the weakest sector. It is also likely that these industries will see ongoing impacts given they have the largest exposure to restriction measures” said Mr Oster.

Forward orders – the current pipeline of work – fell sharply in the quarter. Other forward-looking also saw a significant deterioration with business conditions, employment and capex expectations all falling sharply for the next 3 and 12 months. Capacity utilisation fell very sharply and is now at a very low level.

According to Mr Oster: “the weakening in demand economy-wide has seen a very sharp deterioration in capacity utilisation and the outlook isn’t much better. There will need to be a big turnaround in activity to see a recovery in capacity utilisation before firms become comfortable in expanding both employment and investment”.

“The impact of the pandemic has been evident across all businesses – both our Quarterly survey which covers larger businesses and all tiers of the SME survey. Our monthly survey showed that confidence turned late in the quarter but while this is encouraging conditions had remained weak and confidence likely fragile. Indeed, those surveys were conducted before the reintroductions of restrictions in Victoria” Mr Oster said.

According to Mr Oster: “With uncertainty around both health outcomes and the economy remaining high, the SME sector will continue to face challenges. Larger firms typically have larger buffers, while SMEs may not. There is a clear need for ongoing support – which we think will continue. This will help businesses rebound as best they can as the economy gradually recovers”.

The NAB SME Survey is the leading survey of small and medium businesses in Australia, and complements the comprehensive Quarterly NAB Business Survey (QBS) which covers larger businesses. The SME survey offers a rich repertoire of insights into factors affecting smaller firms’ conditions by state, industry and size, as well as an assessment of their outlook for investment and output. For more information, please see the NAB Quarterly SME Survey report.

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