



NAB QUARTERLY SME SURVEY 2020 Q3

SME CONDITIONS & CONFIDENCE BETTER IN Q3, BUT STILL WEAK

NAB Australian Economics

The SME sector experienced a significant improvement in conditions and confidence in Q3, partially reversing the previous quarter's plunge. This essentially mirrors the experience of larger firms captured in NAB's Quarterly Business Survey and reflects the relaxation of COVID-19 containment measures within most State borders. At an industry level, the improvement was broad based. However, at a state level, the impact of the re-imposition of COVID-19 related restrictions in Victoria during the quarter is evident. Business conditions in Victoria improved only marginally and were the weakest of any state. In contrast, SMEs in WA and SA are experiencing the best conditions and are the most confident. Despite the gains in Q3, at a national level SME conditions and confidence remain weak, as do leading indicators, suggesting that there is still a long path ahead in the recovery from the recession.

HIGHLIGHTS

- Small and Medium Enterprise (SME) **business conditions** in 2020 Q3 improved significantly, increasing 16pts, but remain weak at -3 index points (pts). This reflected substantial improvement in all three sub-components – particularly profitability and trading conditions but also employment.
- SME **business confidence** also improved sharply in the quarter, except for low-tier firms for whom already very weak confidence edged even lower. While improving in the quarter, confidence also remains weak for mid and high-tier firms.
- **Large businesses** (as measured by the NAB Quarterly Business Survey, QBS) also saw gains in confidence and conditions in the quarter. SME confidence and conditions are slightly better than for large businesses, but the underlying picture is the same – the business environment improved in Q3 but remains fragile. All three subcomponents experienced gains for both large businesses and SMEs, but the employment indicator is lagging (smallest gain, weakest level). Among SMEs, the improvement in conditions was broad based, but only small tier firms have a positive reading.
- By **industry**, there was a broad-based improvement in conditions. Accommodation, cafes & restaurants, which saw the largest fall in Q2, staged the biggest recovery increasing 44pts to -22pts but still has the weakest conditions. The other industries saw gains of 5 to 24pts. Health had the strongest conditions of all the sectors, followed by retail where conditions were positive for the first time since 2016 Q4. In terms of confidence, accommodation, cafes & restaurants and retail were the only sectors to see a decline and, along with finance, are the least confident. Transport and property are the least pessimistic.
- SME business conditions improved across all **states**, led by large gains in SA, WA (up by 30pts or more) and NSW (up 20). Victoria recorded the smallest improvement (up 2pts); as a result, it has the weakest conditions of any state. There was a similar pattern for confidence, with all states showing improvement but only marginally so in Victoria which has the lowest reading. WA has the best conditions and confidence, followed by SA.
- **Leading indicators** improved in the quarter but still point to weak conditions ahead for the SME sector. Forward orders – the pipeline of work – improved significantly but was still very weak (-11pts). Similarly expected business conditions at both the 3 and 12-month horizons improved but remained at negative levels. Near term capex expectations (next 3 months) showed no improvement and while 12-month expectations lifted they remained below average. Capacity utilisation also increased but remains well below its level at the start of the year, consistent with diminished prospects for near-term business investment.
- The **sales margin** index largely recovered from its previous quarter fall, and is not significantly different to its pre-COVID 19 level. While final product prices declined, purchase cost growth moderated and both labour and overhead costs again fell.
- The major **constraints on output** identified by SMEs was again sales and orders although not to the same extent as in the previous quarter, followed by labour availability. The later picked up in the quarter but remains below its pre-COVID-19 level consistent with only a partial recovery in the labour market. Somewhat surprisingly, the constraint from the (lack of) availability of materials again increased indicating no moderation in supply chain disruptions.

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

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

	2020 q1	2020 q2	2020 q3
Business Confidence	-5	-16	-6
Low-tier firms	-7	-11	-12
Mid-tier firms	-3	-18	-7
High-tier firms	-6	-18	-2
Business Conditions	3	-19	-3
Low-tier firms	-5	-17	1
Mid-tier firms	3	-26	-5
High-tier firms	7	-15	-2

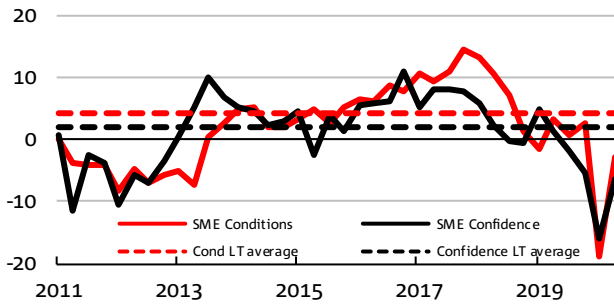
TABLE 2: SME BUSINESS CONDITIONS BY COMPONENT (NET BAL., S.A.)

	2020q1	2020q2	2020q3
Trading Conditions	8	-17	1
Low-tier firms	-2	-13	6
Mid-tier firms	8	-25	-1
High-tier firms	14	-13	0
Profitability	1	-20	0
Low-tier firms	-6	-19	1
Mid-tier firms	-1	-27	-4
High-tier firms	5	-14	3
Employment	-1	-20	-9
Low-tier firms	-7	-17	-6
Mid-tier firms	1	-24	-11
High-tier firms	1	-20	-9

All data seasonally adjusted, except purchase costs and exports. Fieldwork for this Survey was conducted from 18 August to 11 September 2020, covering over 700 firms across the non-farm business sector. **Next release date: February 2021.**

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.)

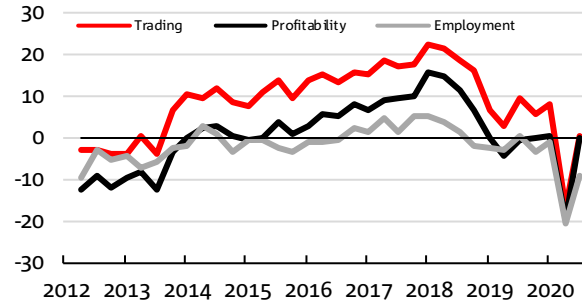


CHART 3: SME BUSINESS CONDITIONS & CASH FLOW (NET BAL, N.S.A.)

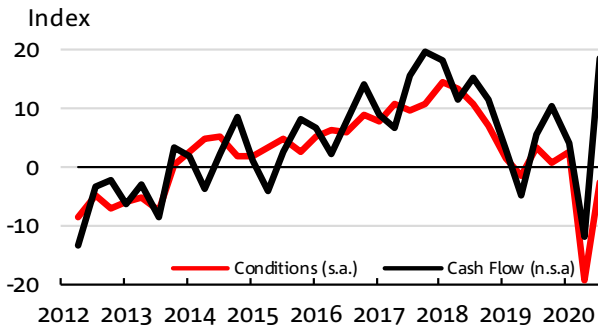
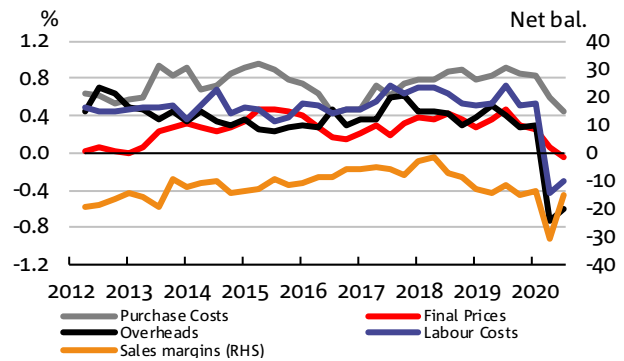


CHART 4: SME INPUT COSTS AND FINAL PRICE GROWTH (S.A.) MIGHT BE WORTH ALIGNING THE ZERO LINES?



CONSTRAINTS ON OUTPUT

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

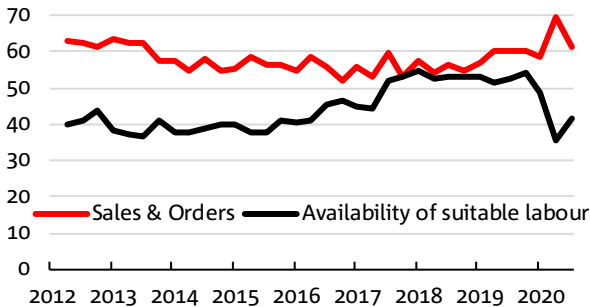
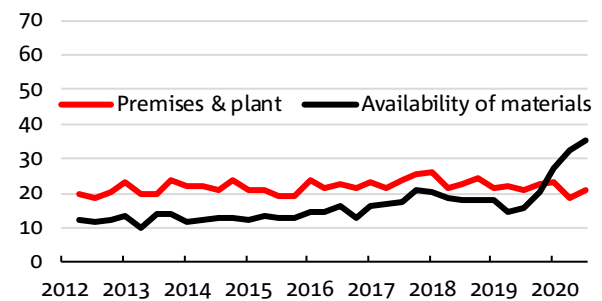
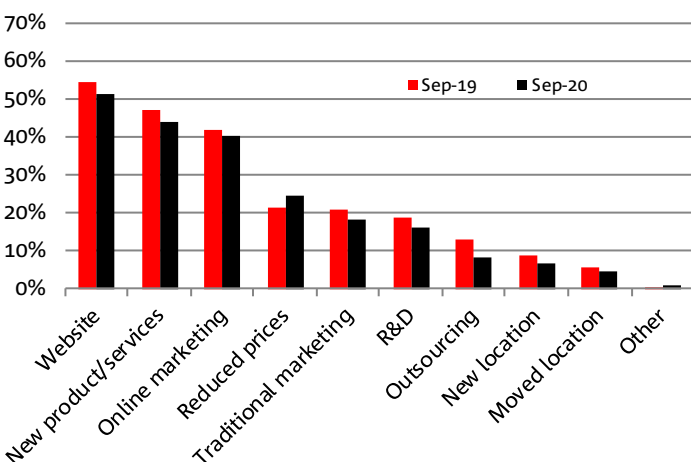


CHART 6: FACTORS CONSTRAINING SME OUTPUT (% of firms)



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.)

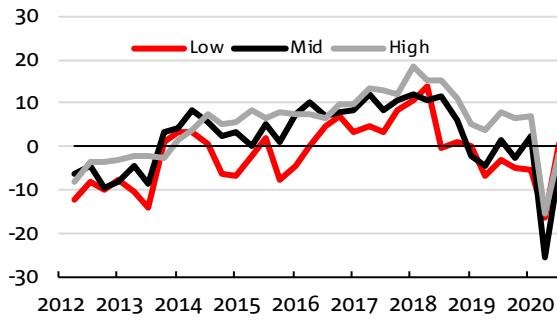


CHART 9: BUSINESS CONFIDENCE BY FIRM SIZE (NET BAL., S.A.)

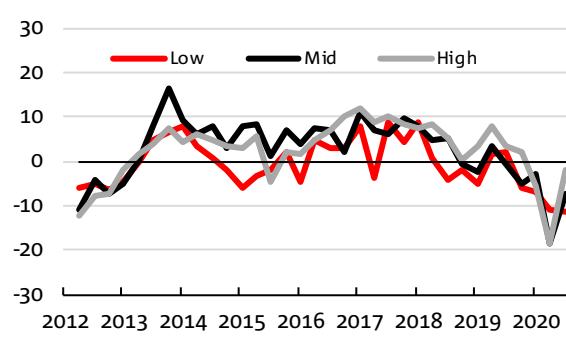


CHART 10: TRADING CONDITIONS BY FIRM SIZE (NET BAL., S.A.)

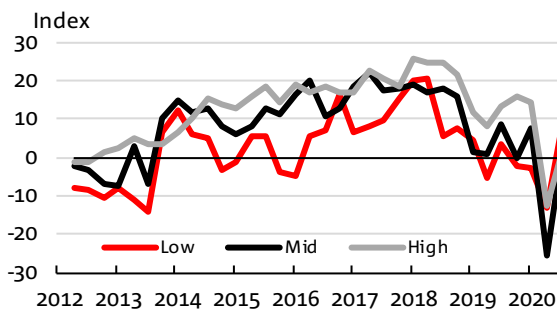


CHART 11: PROFITABILITY BY FIRM SIZE (NET BAL., S.A.)

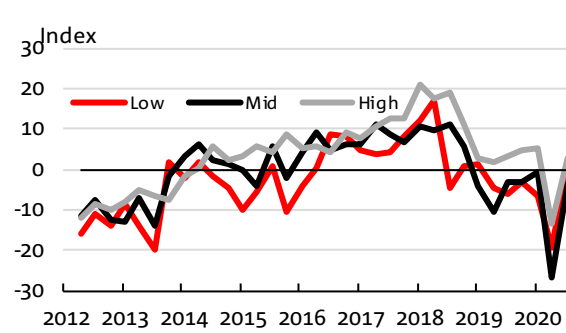


CHART 12: EMPLOYMENT BY FIRM SIZE (NET BAL., S.A.)

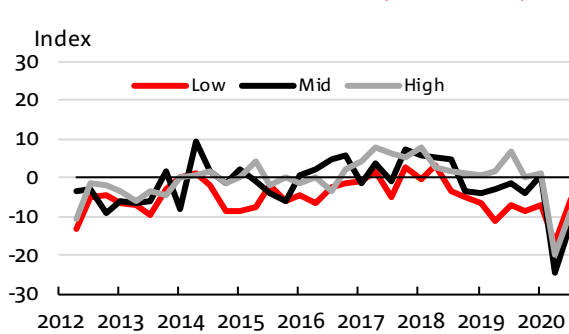


CHART 13: CASH FLOW BY FIRM SIZE (NET BAL., N.S.A.)

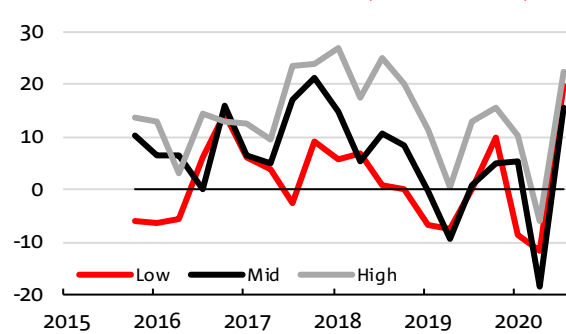


CHART 14: CAPACITY UTILISATION (% S.A.)

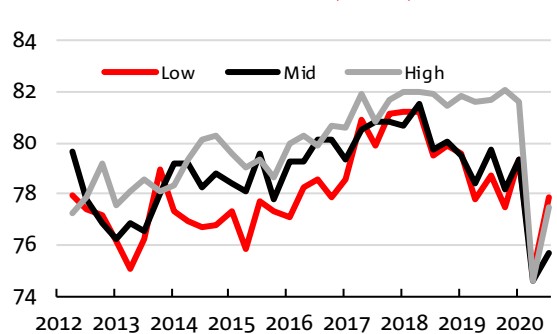
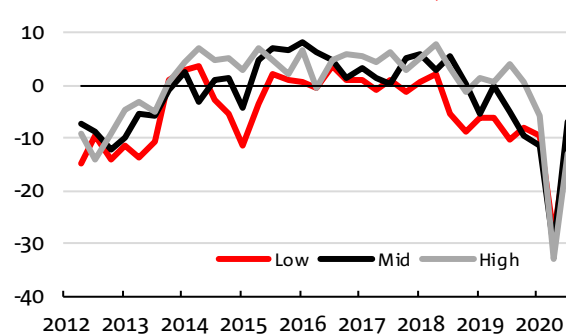


CHART 15: FORWARD ORDERS BY FIRM SIZE (NET BAL., S.A.)



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.)

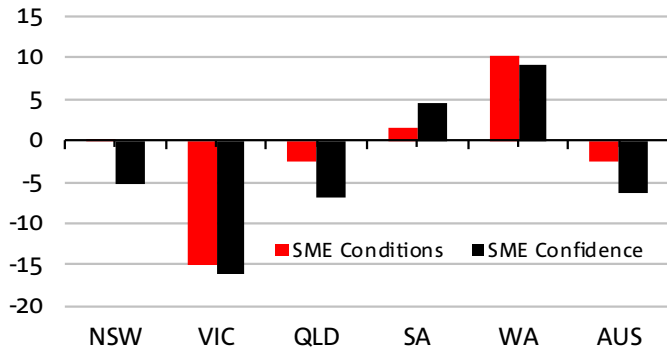


CHART 17: SME BUSINESS CONDITIONS BY STATE (NET BAL., S.A.)

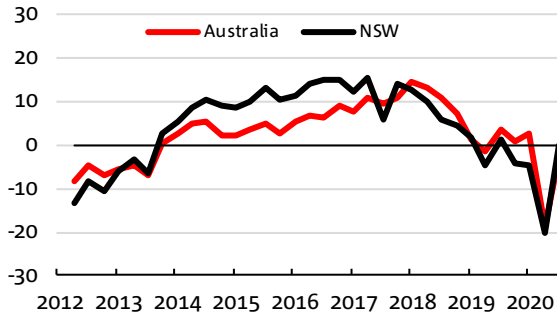


CHART 18: SME BUSINESS CONFIDENCE BY STATE (NET BAL., S.A.)

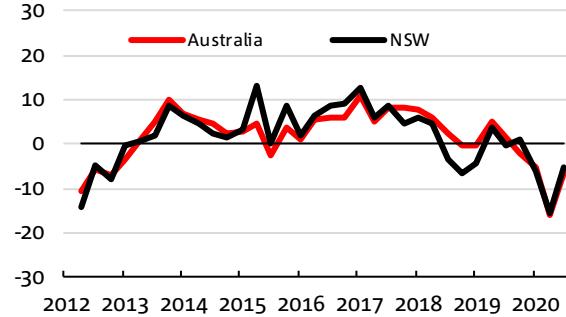


CHART 19: SME BUSINESS CONDITIONS BY STATE (NET BAL., S.A.)

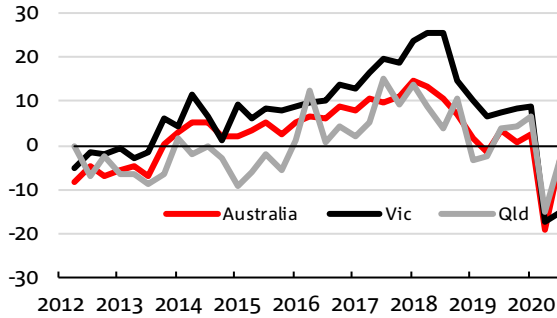


CHART 20: SME BUSINESS CONFIDENCE BY STATE (NET BAL., S.A.)

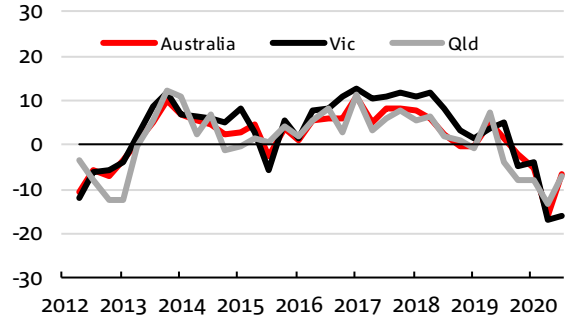


CHART 21: SME BUSINESS CONDITIONS BY STATE (NET BAL., S.A.)

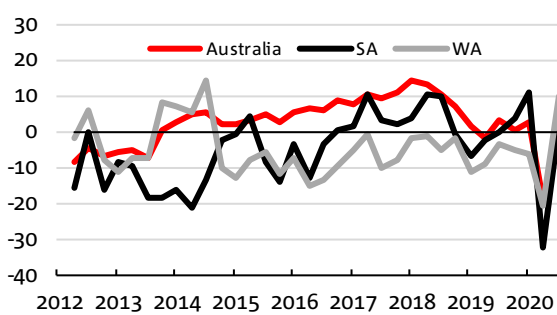
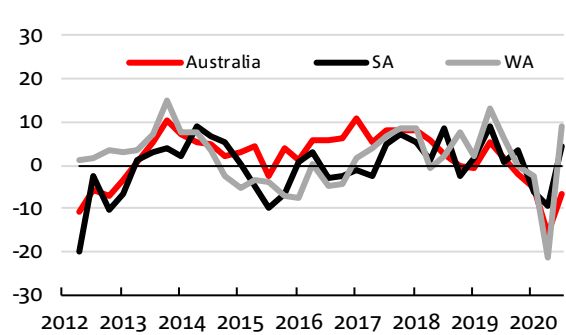


CHART 22: SME BUSINESS CONFIDENCE BY STATE (NET BAL., S.A.)



NAB QUARTERLY SME SURVEY – CONDITIONS & CONFIDENCE BY INDUSTRY

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

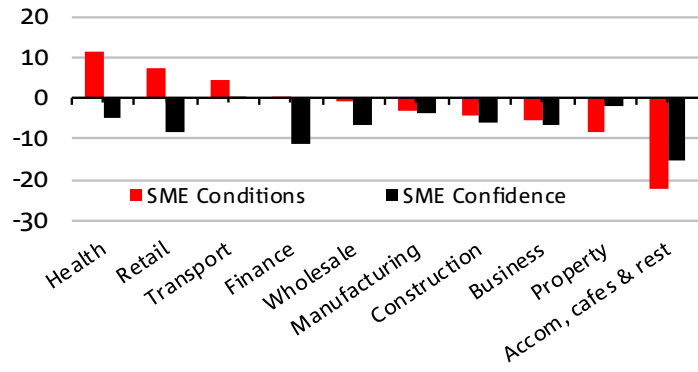


CHART 24: SME BUSINESS CONDITIONS BY INDUSTRY (NET BAL., S.A.)

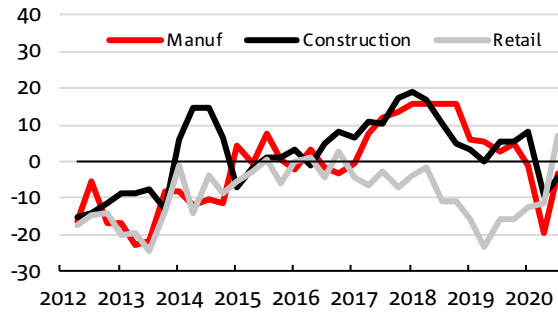


CHART 25: SME BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., S.A.)

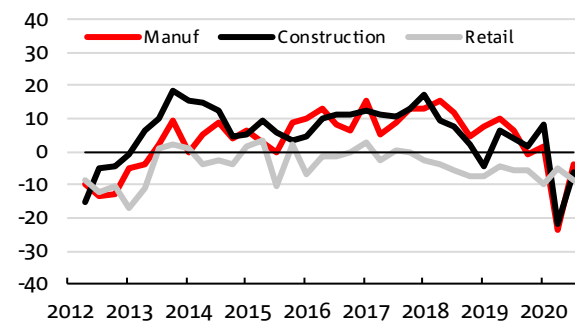


CHART 26: SME BUSINESS CONDITIONS BY INDUSTRY (NET BAL., S.A.)

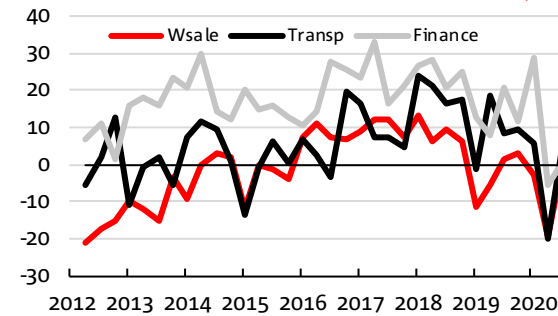


CHART 27: SME BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., S.A.)

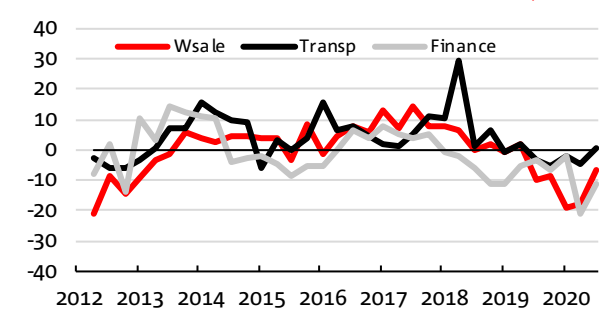


CHART 28: SME BUSINESS CONDITIONS BY INDUSTRY (NET BAL., S.A.)

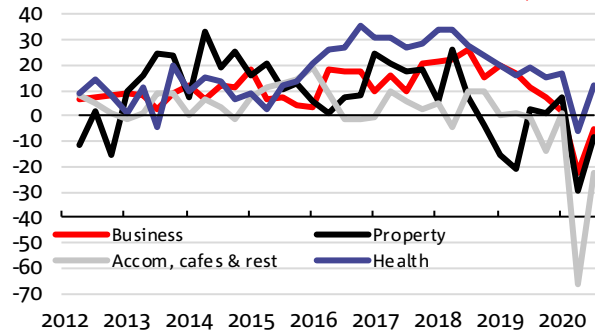
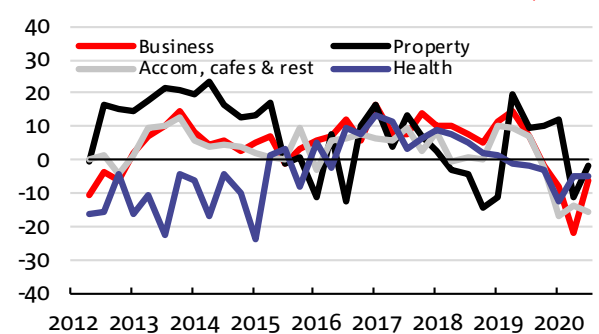


CHART 29: SME BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., S.A.)



NAB QUARTERLY SME SURVEY – COMPARISON WITH LARGER BUSINESSES

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

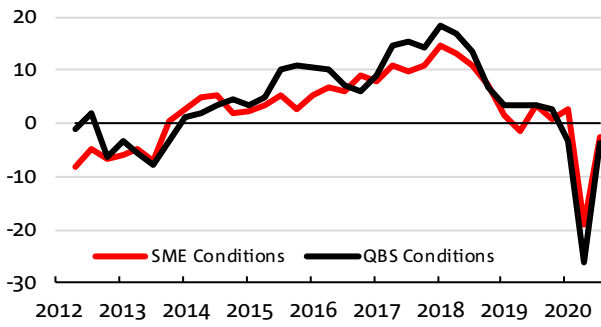


CHART 31: BUSINESS CONFIDENCE – SME & QBS (NET BAL., S.A.)

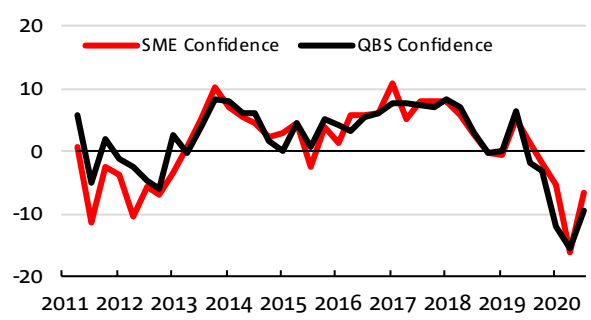


CHART 32: TRADING CONDITIONS – SME & QBS (NET BAL., S.A.)

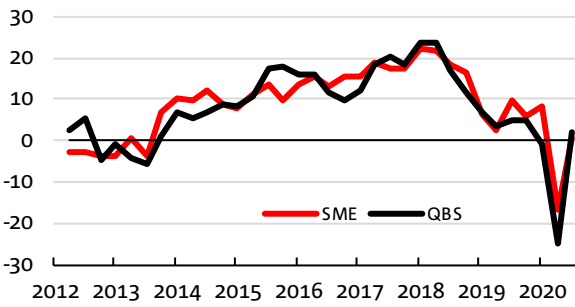


CHART 33: PROFITABILITY – SME & QBS (NET BAL., S.A.)

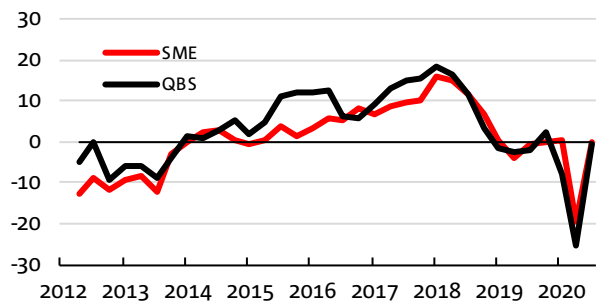


CHART 34: EMPLOYMENT – SME & QBS (NET BAL., S.A.)

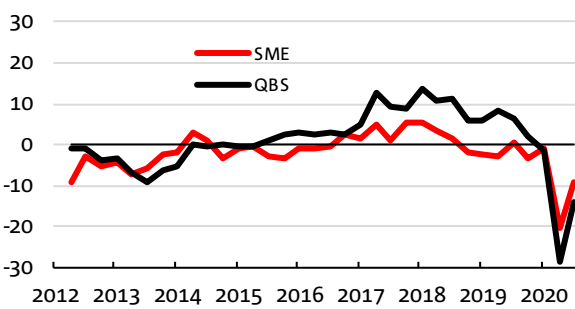


CHART 35: FORWARD ORDERS – SME & QBS (NET BAL., S.A.)

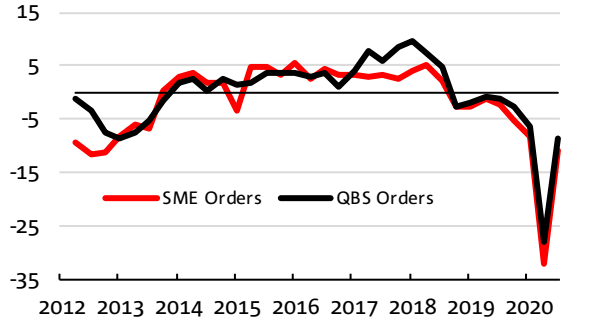


CHART 36: CAPACITY UTILISATION – SME & QBS (% S.A.)

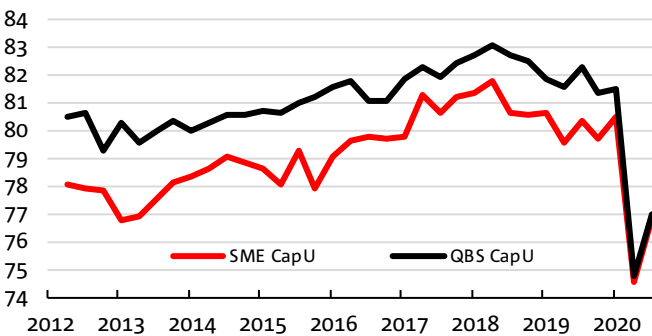


CHART 37: CAPITAL EXPENDITURE – SME & QBS (NET BAL., S.A.)

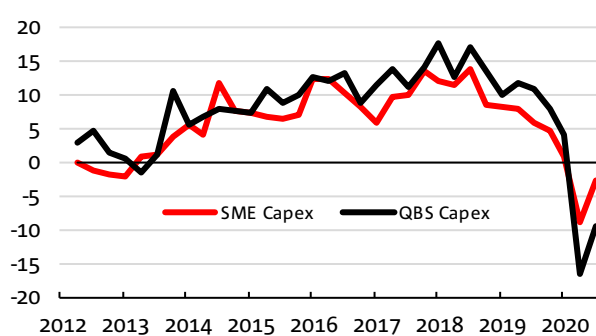
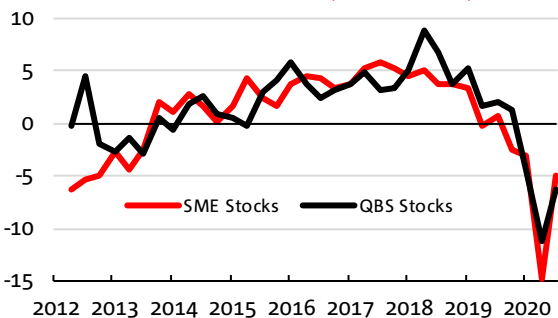


CHART 38: STOCKS – SME & QBS (NET BAL., S.A.)



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