

NAB QUARTERLY SME SURVEY 2020 Q4

SME CONFIDENCE HITS A RECORD HIGH AS CONDITIONS REBOUND

NAB Australian Economics

Small and medium businesses reported a sharp improvement in business conditions and confidence in Q4 2020, with SME confidence reaching its highest level since the survey began in 2006. Business conditions were less elevated, but rose to be around the strong levels last seen in 2018. By component, trading and profitability rose to 17pts and 14pts, from around zero in Q3, while employment also improved, to reach 3pts in Q4. The strength of this survey closely aligns with similar gains for larger businesses recorded in the NAB quarterly survey. The improvement was broad-based across states, industries and business size, with Victoria seeing the biggest gains following the end of its long lockdown. Victorian SMEs report the strongest confidence, although conditions remain the weakest of any state. Other indicators in the SME survey also saw solid gains, forward orders have recovered, capacity utilisation has rebounded and cash flow is at a record high. Today's survey confirms the broad-based strength of the economic recovery, which has lifted business conditions and confidence for SMEs.

HIGHLIGHTS

- **Small and medium enterprise (SME) business conditions jumped 14pts in Q4 2020, to +11 index points.** SMEs reported substantial gains in all three sub-components – profitability, trading and employment – such that all three are back in positive territory. That said, employment conditions continue to lag.
- **SME business confidence improved sharply in the quarter, to reach its highest level since the survey began in 2006.** Confidence is a little higher than its previous record, immediately following the GFC. Confidence is elevated for all sizes of businesses, with low-, mid- and high-tier firms all recording strong gains.
- **SME confidence and conditions are better than for larger businesses,** as reported in last week's NAB Quarterly Business Survey. But both surveys show a strong improvement in Q4 that was broad based across states and industries. Further, other lead indicators – such as forward orders and capacity utilisation – also saw solid gains in both surveys, suggesting conditions and confidence are likely to hold at around these strong levels.
- **By state, Victoria led the gains in business conditions (up 20pts) and confidence (up 41pts)** as it emerged out of lockdown. Victoria now has the highest level of confidence of any state, but the lowest level of business conditions. All states recorded large improvements in confidence, where outside of Victoria there were big gains in NSW and Queensland confidence (both up 21pts). For SME business conditions outside of Victoria the states recorded rises of 10 to 17pts.
- **By industry, there was a broad-based improvement.** Leading the gains in confidence was Accommodation, cafes & restaurants (up 48pts) and Health (up 38pts). The biggest gains in conditions were in Retail and Personal services, which both rose 18pts. Outside of Construction (-1 index point) and Personal services (-12 index points) all industries recorded positive conditions, suggesting most industries have returned to growth. Leading the way is Health and Retail, both at a very strong +26 index points.
- **Leading indicators improved in the quarter.** Forward orders – the pipeline of work – rose a sharp 18pts to recover pre-virus levels. Capacity utilisation and near-term expectations for capex have also broadly recovered pre-virus levels, albeit still shy of the strong levels seen in 2018. SMEs report a big improvement in cash flow, which has reached a record high. Altogether, these indicators suggest the strength of business conditions is likely to be sustained, at least in the near term.
- The **sales margin** index improved in the quarter, and despite remaining negative, is now little better pre-COVID levels. Final products price growth and is broadly in line with costs growth, after a period in recent years where costs have outpaced output price inflation.
- **Fewer firms reported weak sales and orders as a major constraint on output.** Instead, an increasing share of firms reported the availability of suitable labour and availability of materials were constraints. This is a further positive sign that spare capacity is tightening and that SMEs are no longer facing very weak demand.

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 q2	2020 q3	2020 q4
Business Confidence	-14	-6	19
Low-tier firms	-10	-13	18
Mid-tier firms	-17	-7	15
High-tier firms	-16	-2	22
Business Conditions	-18	-4	11
Low-tier firms	-15	0	9
Mid-tier firms	-24	-6	11
High-tier firms	-14	-2	13

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

	2020 q2	2020 q3	2020 q4
Trading Conditions	-15	0	17
Low-tier firms	-10	6	16
Mid-tier firms	-23	-1	16
High-tier firms	-10	0	16
Profitability	-18	-1	13
Low-tier firms	-16	0	14
Mid-tier firms	-25	-5	12
High-tier firms	-12	2	11
Employment	-20	-9	3
Low-tier firms	-17	-6	-4
Mid-tier firms	-24	-11	3
High-tier firms	-19	-9	9

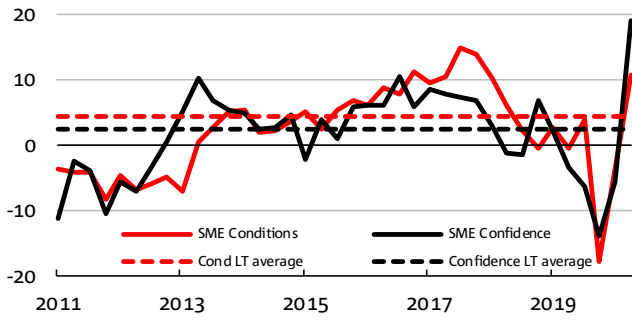
All data seasonally adjusted, except purchase costs and exports. Fieldwork for this survey was conducted from 18 November to 18 December 2020, covering over 700 firms across the non-farm business sector. Next release date: 27 May 2021.

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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.)

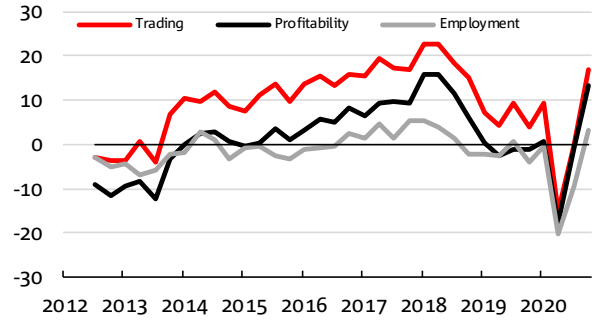


CHART 3: SME BUSINESS CONDITIONS & CASH FLOW (NET BAL., N.S.A.)

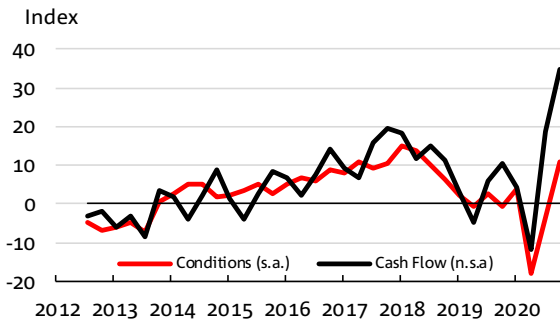
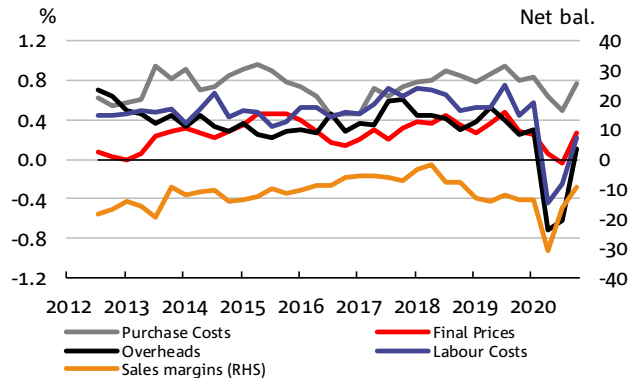


CHART 4: SME INPUT COSTS AND FINAL PRICE GROWTH (S.A.) MIGHT BE WORTH ALIGNING THE ZERO LINES?



CONSTRAINTS ON OUTPUT

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

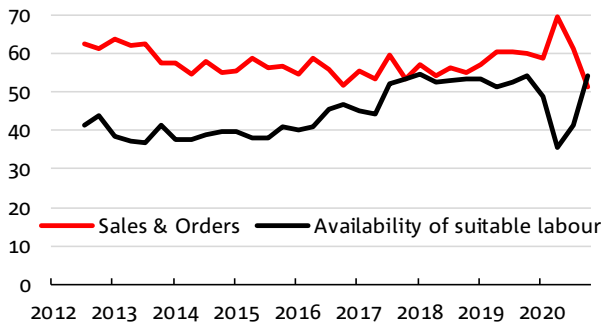
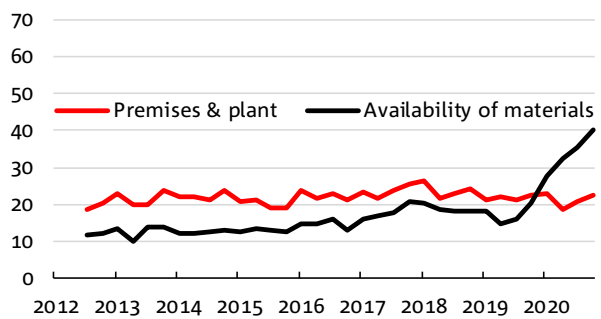
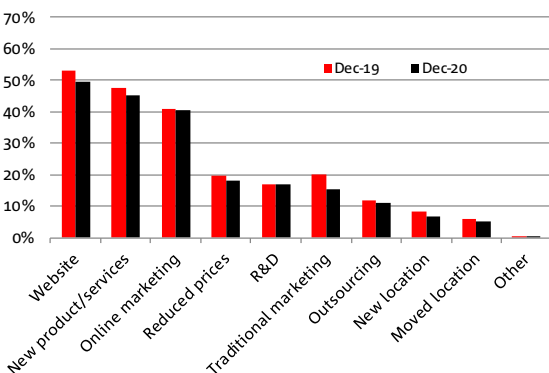


CHART 6: FACTORS CONSTRAINING SME OUTPUT (% of firms)



STRATEGIES

CHART 7: STRATEGIES EMPLOYED TO IMPROVE COMPETITIVENESS



NAB QUARTERLY SME SURVEY – BY FIRM SIZE

CHART 8: BUSINESS CONDITIONS BY FIRM SIZE (NET BAL., S.A.)

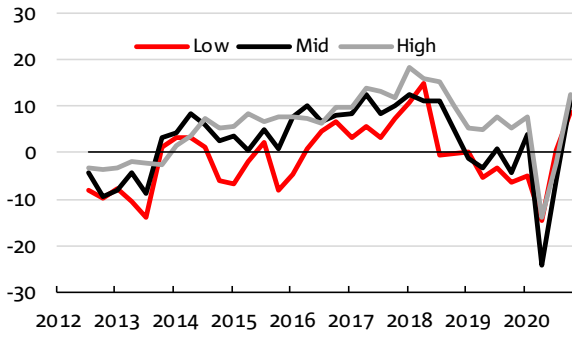


CHART 9: BUSINESS CONFIDENCE BY FIRM SIZE (NET BAL., S.A.)

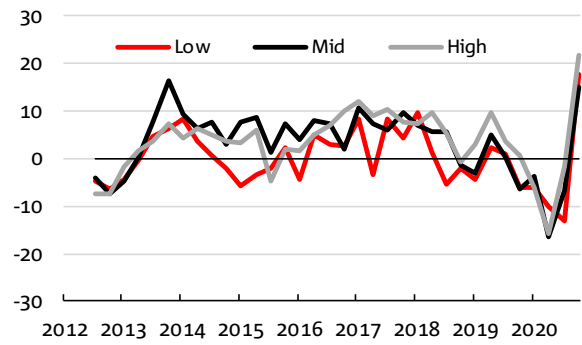


CHART 10: TRADING CONDITIONS BY FIRM SIZE (NET BAL., S.A.)

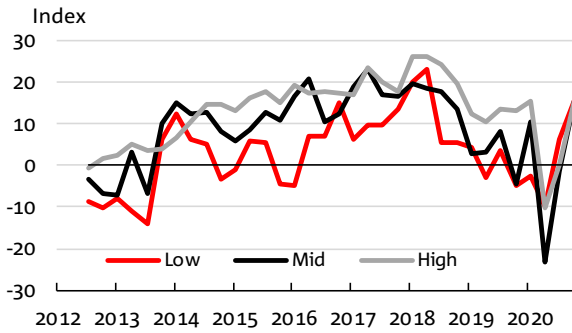


CHART 11: PROFITABILITY BY FIRM SIZE (NET BAL., S.A.)

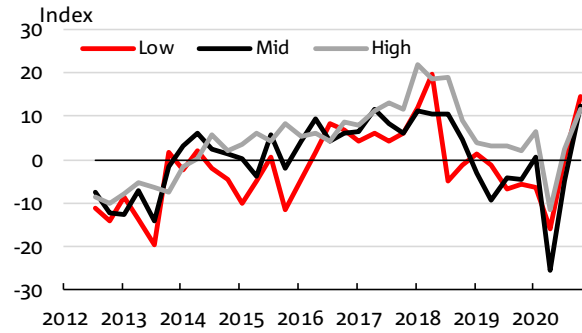


CHART 12: EMPLOYMENT BY FIRM SIZE (NET BAL., S.A.)

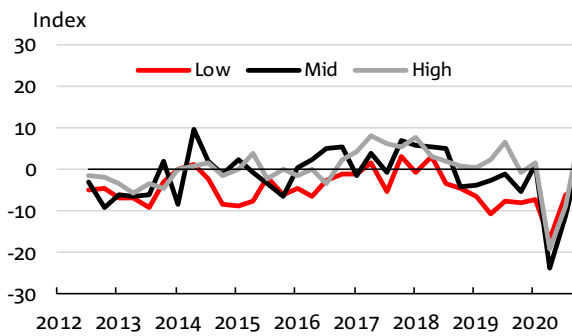


CHART 13: CASH FLOW BY FIRM SIZE (NET BAL., N.S.A.)

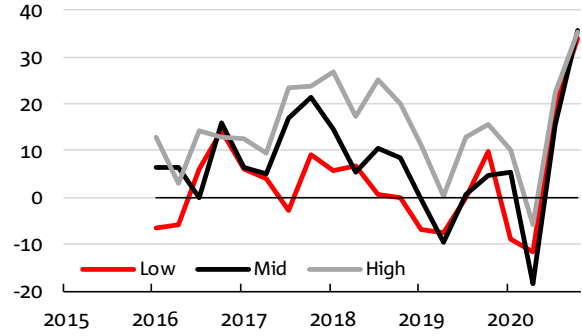


CHART 14: CAPACITY UTILISATION (% S.A.)

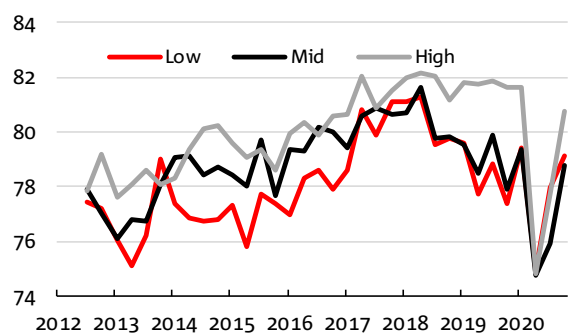
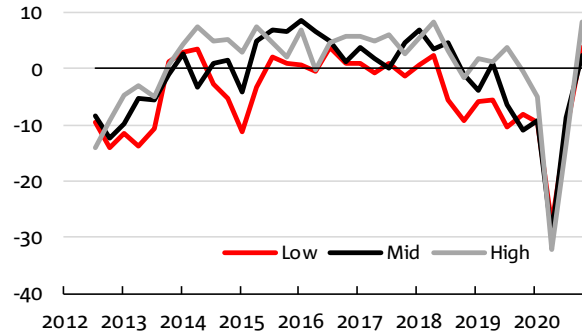


CHART 15: FORWARD ORDERS BY FIRM SIZE (NET BAL., S.A.)



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

NAB QUARTERLY SME SURVEY – BY STATE

CHART 16: BUSINESS COND. & CONFIDENCE BY STATE (NET BAL., S.A.)

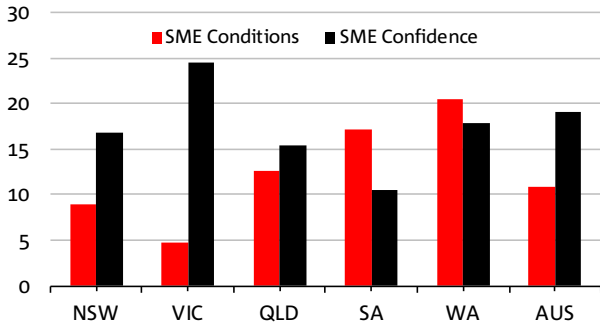


CHART 17: SME BUSINESS CONDITIONS BY STATE (NET BAL., S.A.)

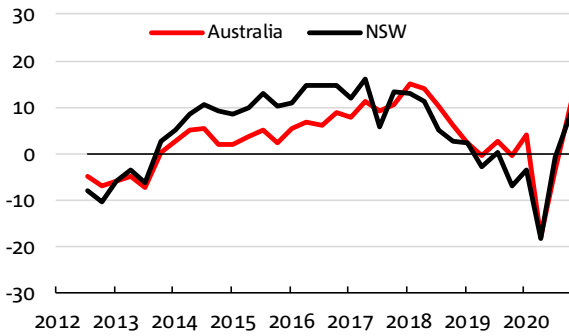


CHART 18: SME BUSINESS CONFIDENCE BY STATE (NET BAL., S.A.)

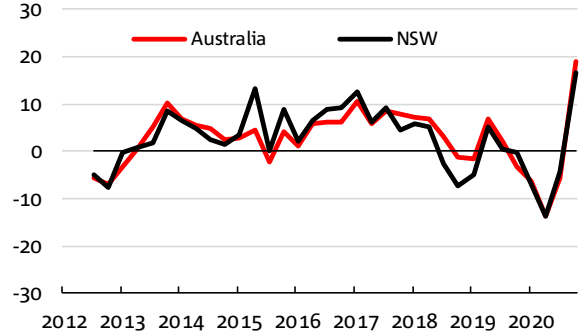


CHART 19: SME BUSINESS CONDITIONS BY STATE (NET BAL., S.A.)

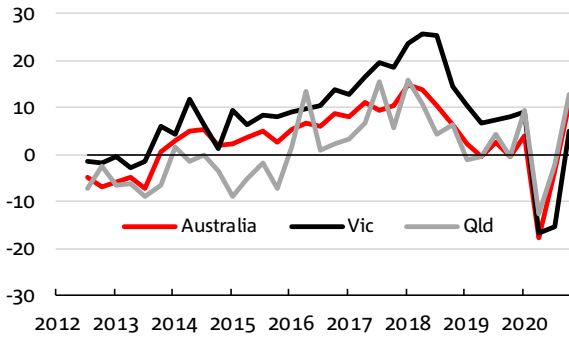


CHART 20: SME BUSINESS CONFIDENCE BY STATE (NET BAL., S.A.)

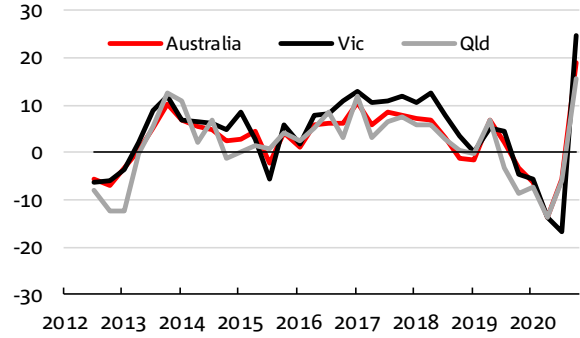


CHART 21: SME BUSINESS CONDITIONS BY STATE (NET BAL., S.A.)

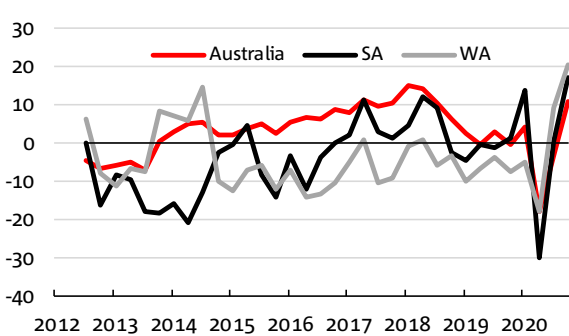
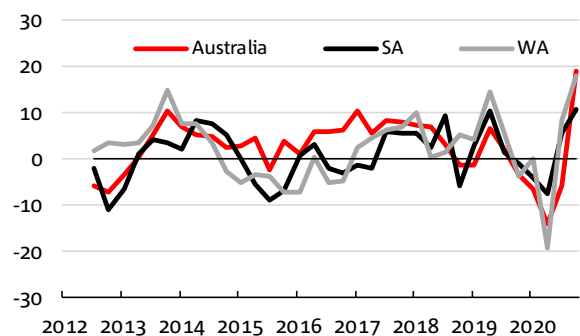


CHART 22: SME BUSINESS CONFIDENCE BY STATE (NET BAL., S.A.)



NAB QUARTERLY SME SURVEY – BY INDUSTRY

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

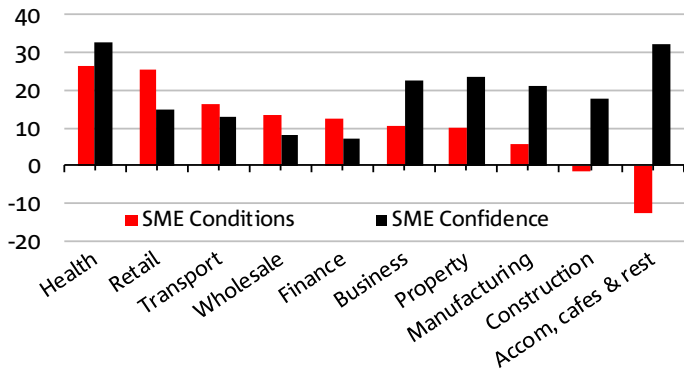


CHART 24: SME BUSINESS CONDITIONS BY INDUSTRY (NET BAL., S.A.)

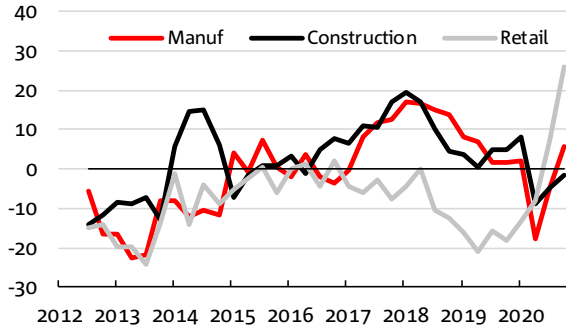


CHART 25: SME BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., S.A.)

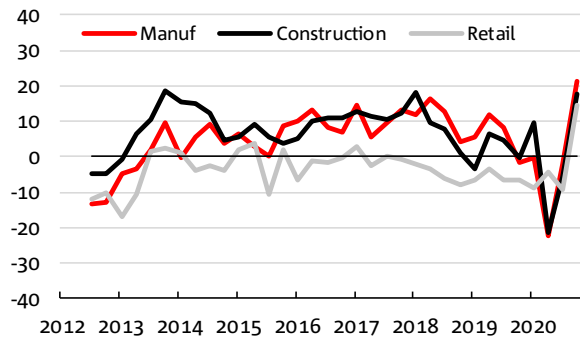


CHART 26: SME BUSINESS CONDITIONS BY INDUSTRY (NET BAL., S.A.)

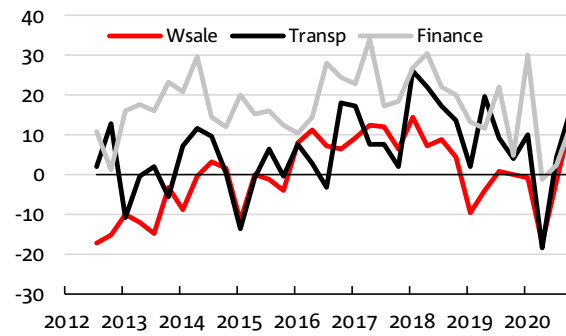


CHART 27: SME BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., S.A.)

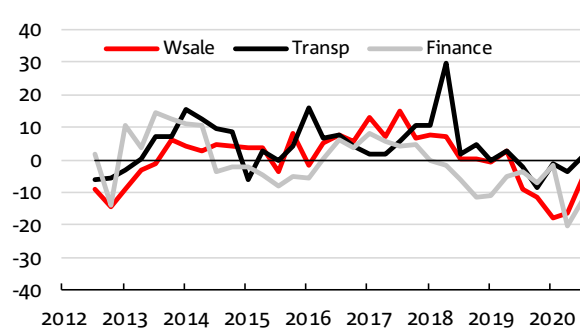


CHART 28: SME BUSINESS CONDITIONS BY INDUSTRY (NET BAL., S.A.)

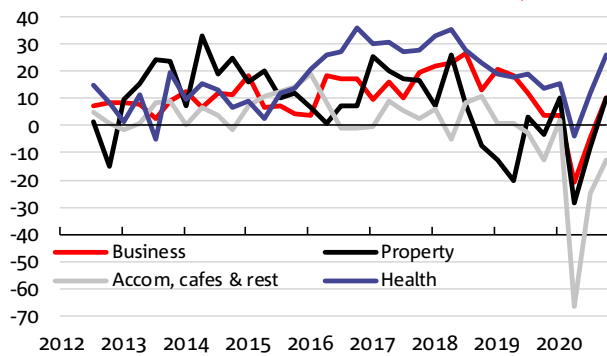
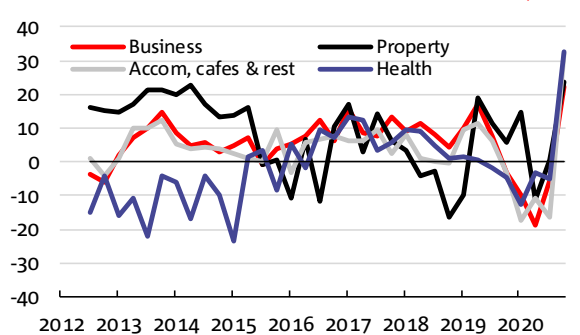


CHART 29: SME BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., S.A.)



NAB QUARTERLY SME SURVEY – COMPARISON WITH LARGER BUSINESSES

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

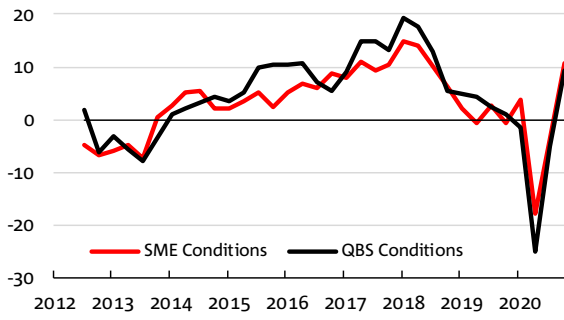


CHART 31: BUSINESS CONFIDENCE – SME & QBS (NET BAL., S.A.)

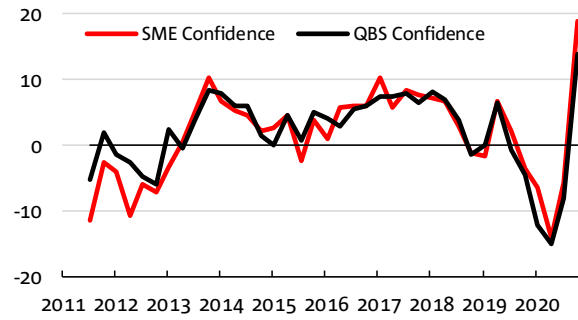


CHART 32: TRADING CONDITIONS – SME & QBS (NET BAL., S.A.)

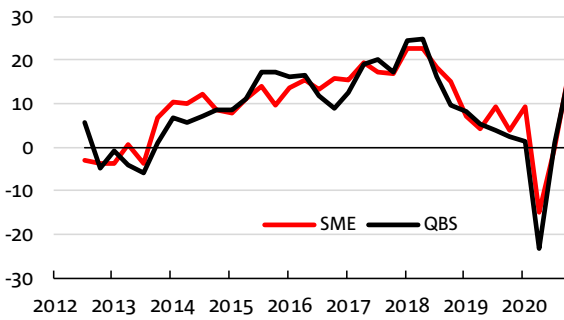


CHART 33: PROFITABILITY – SME & QBS (NET BAL., S.A.)

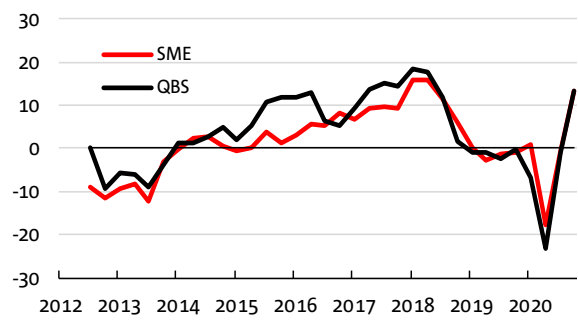


CHART 34: EMPLOYMENT – SME & QBS (NET BAL., S.A.)

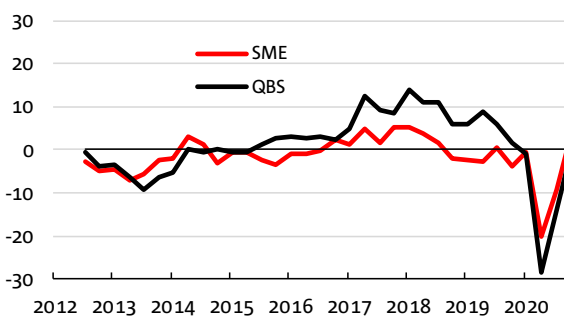


CHART 35: FORWARD ORDERS – SME & QBS (NET BAL., S.A.)

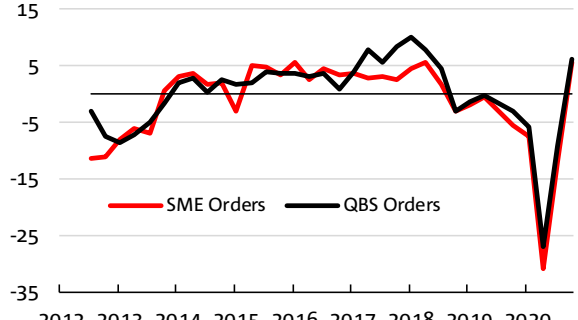


CHART 36: CAPACITY UTILISATION – SME & QBS (% S.A.)

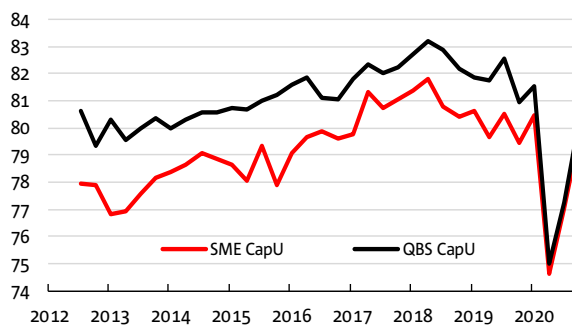


CHART 37: CAPITAL EXPENDITURE – SME & QBS (NET BAL., S.A.)

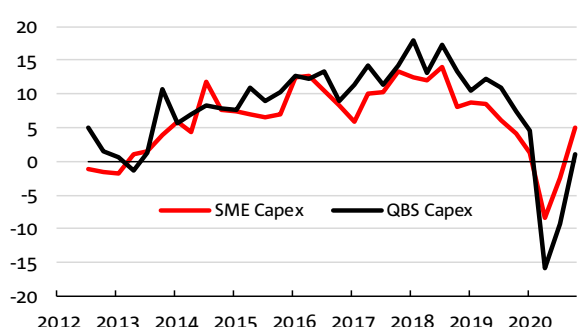
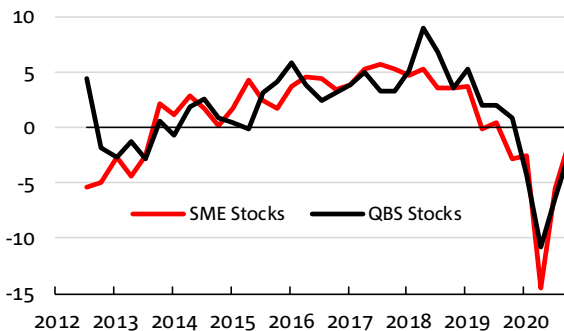


CHART 38: STOCKS – SME & QBS (NET BAL., S.A.)



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