

Supply chain issues eased in Q3 and are expected to be less problematic in the next 12 months. But 1 in 4 SMEs still report supply chains as a “significant” issue for their business. New research shows 1 in 2 SMEs are “very” or “extremely” likely to increase their use of Australian based suppliers and over 4 in 10 would support new local start-ups.

The pandemic has highlighted the fragility of global supply chains. Heightened goods demand, factory closures, rising freight rates, a reliance on 'just-in-time' inventory systems and the Russia/Ukraine conflict, have coalesced to create significant challenges for supply chains across the globe. Australian businesses have not been immune.

As Australia's largest business bank NAB is in a unique position to understand the impact of the supply chain on SMEs across the country. In this survey around 760 SMEs were again asked about the impact on their business of supply chain disruptions and what they believed Australia should do to deal with future supply chain issues.

In total, around 1 in 4 (26%) of all SMEs said supply chains were a “significant” issue for their business in the past 3 months (i.e. scored the issue 8 pts or higher), however this is down on just over 3 in 10 (31%) firms in Q2. With global indicators of supply side pressures easing, a fewer number of SMEs (24%) also believe supply chain will remain a significant issue in the next 12 months, down from 31% in Q2.

The easing in global supply chain disruptions and rebuilding of inventories, raises the prospect of a fall in inflation. Freight rates have substantially unwound, supplier delivery times and order backlogs are normalising and some retailers, faced with excessive stock, are now moving to discount prices. Whether this will see a rapid decline in inflation or only partially offset now broad-based inflation is an open question.

By industry, supply chains remain a “significant” issue for over 4 in 10 firms in Wholesale (44%) in Q3, and for around 1 in 3 in Retail (34%), Construction (33%) and Manufacturing (33%) where it fell heavily from 48% in Q2.

The number of firms who reported “significant” issues was lowest in Finance & Insurance (5%), Property Services (6%) and Health (7%). Fewer SMEs in all sectors experienced “significant” supply chain issues in Q3, bar Business Services where the number that did so climbed to 9% (2% in Q2).

Almost 4 in 10 (38%) Wholesale firms believe supply chain will still be a “significant” issue for their business in the next 12 months, compared to just 5% in the Finance & Insurance sector. Encouragingly fewer firms in all sectors expect to experience “significant” supply chain issues in the next 12 months, except in Business Services - see charts on page above.

Many countries are increasing domestic sourcing to combat supply chain issues. This is helping to jump start investment in additional production capacity. Some firms are also nearshoring - i.e. relying on suppliers that are geographically closer to production facilities to reduce transport costs, time and risk.

Investing in Australian based manufacturing is also widely seen as a key way of addressing supply chain issues. New research this quarter explores how likely SMEs would be to support local manufacturing - i.e. either through establishing their own new manufacturing facilities, increasing their use of Australian based suppliers, and supporting new Australian based manufacturing start-ups.

Around 1 in 2 (51%) SMEs said they were “very” or “extremely” likely to increase their use of Australian based suppliers, rising to almost 7 in 10 among Construction and Accommodation, Cafes & Restaurants small and medium sized businesses. By state, SA businesses are most likely to increase their use of local suppliers (64%).

Encouragingly for those considering establishing new manufacturing operations in Australia, over 4 in 10 SMEs (44%) said they were “very” or “extremely” likely to support new local start-ups (19% were “extremely” likely to do so, 24% “very likely”), including over 5 in 10 SMEs in the Construction sector (54%).

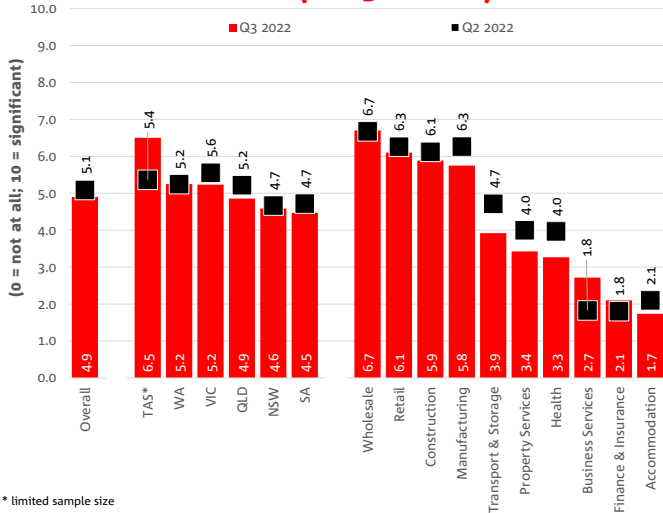
Main Report

Supply chain issues moderated a little in Q3 and are expected to be less problematic in the next 12 months. When asked to rate the extent they were an issue for their business in the last 3 months, SMEs on average scored 4.9 pts out of 10 (10 is significant), down from 5.1 pts in Q2. Looking forward, SMEs also expect less disruption to their business from supply chain issues scoring 4.8 pts overall, down from 5.1 pts in the previous survey.

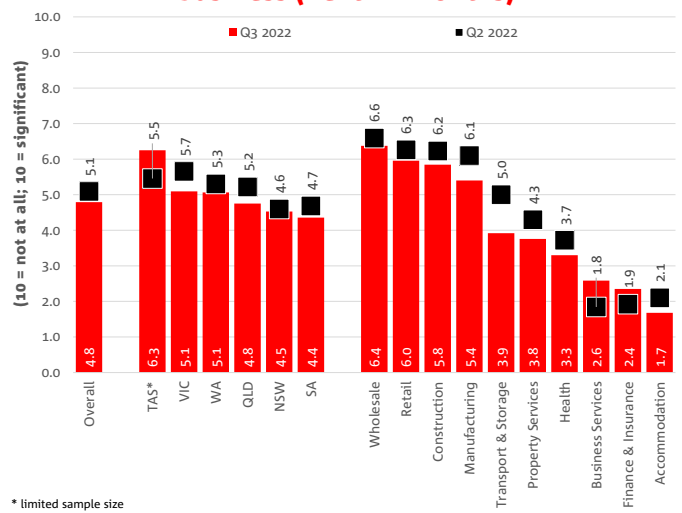
Supply chain issues in the last 3 months were biggest (and much higher) in TAS at 6.5 pts, down from 5.4 pts in Q2 (but from a smaller sample size). It was next highest in WA (unchanged at 5.2 pts) and VIC (5.2 pts but down from 5.6 pts in Q2). It was lowest in SA at 4.5 pts (from 4.7 pts in Q2), and also had a smaller impact in NSW (4.6 from 4.6 pts in Q2) and QLD (4.9 pts from 5.2 pts in Q2). SMEs in all states expect supply chain issues to improve in the next 12 months, except TAS (6.3 pts up from 5.5 pts in Q2).

Supply chain continued to have the biggest impact for SMEs in the Wholesale (6.7 pts), Retail (6.1 pts), Construction (5.9 pts) and Manufacturing (5.8 pts) sectors in Q3 - but SMEs in all these sectors said supply chain issues moderated in the past 3 months, except Wholesale (unchanged). Supply chain caused the least issues for SMEs in the Accommodation sector (1.7 pts). They were also assessed as less problematic in all other sectors except Finance & Insurance and Business Services. Looking forward, SMEs in all sectors believe supply chain issues will not have as big an impact on their business in the next 12 months than they expected in Q2 in all sectors bar Business Services and Finance & Insurance - though these industries still expect to remain among the least disrupted overall. The industry split also continues to suggest SMEs in the Wholesale (6.4 pts), Retail (6.0 pts), Construction (5.8 pts) and Manufacturing (5.4 pts) sectors will remain the most affected. Transport/Storage firms however expect supply chain issues facing their businesses to improve most.

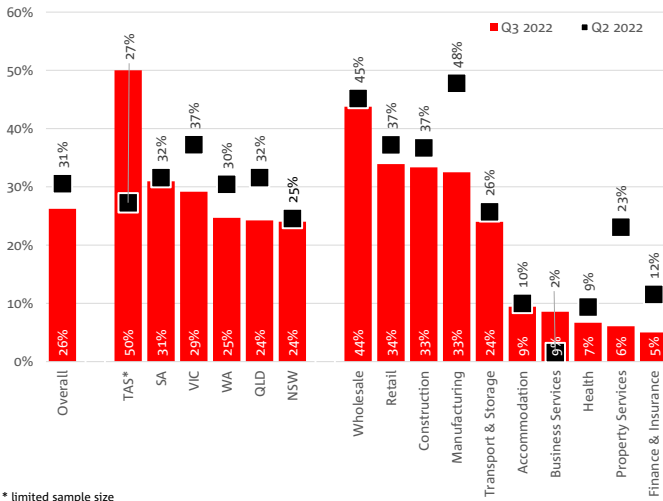
Extent supply chain an issue for your business (last 3 months)



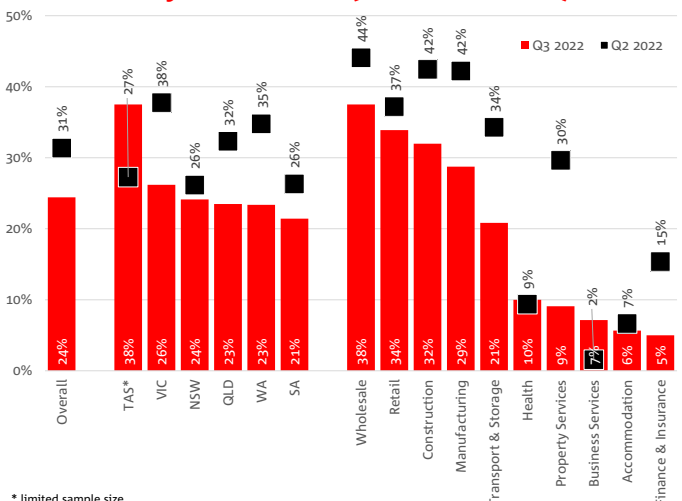
Extent supply chain an issue for your business (next 12 months)



Extent supply chain a "significant" issue for your business (last 3 months)



Extent supply chain a "significant" issue for your business (next 12 months)



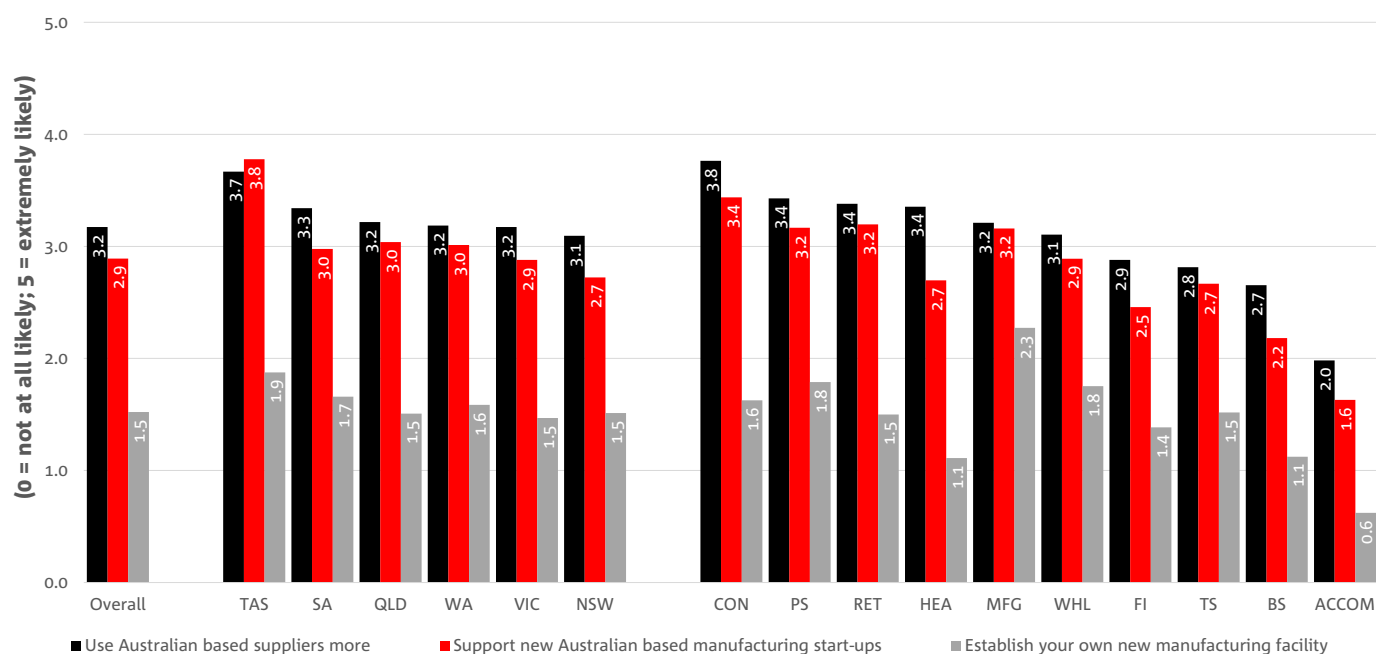
The average score however hides a large number of SMEs that continue to be heavily impacted by supply chain issues. In total, around 1 in 4 (26%) of all SMEs said they were a “significant” issue for their business in the past 3 months (i.e. they scored 8 pts or higher), though this was down just over 3 in 10 (31%) firms in Q2. Overall, a similar number of SMEs (24%) also believe supply chain will remain a significant issue in the next 12 months, though was also sharply down from 31% in predicted in Q2.

By state, TAS replaced VIC with the highest number of SMEs who said supply chain was a “significant” issue at 50% (up sharply from 27% in Q2). It was next highest in SA (31%) followed by VIC (29%) but down noticeably from 37% in the previous quarter. Around 1 in 4 SMEs in all other states experienced a “significant” business impact from supply chain issues in Q3, with this number down noticeably in QLD and WA and unchanged in NSW. Looking ahead 12 months, the survey shows fewer SMEs in all sectors expect supply chain issues to have a “significant” impact on their business, ranging from just 21% in SA to 26% in VIC. TAS was the outlier at 38% (from 27% in Q2), but significantly below the number the experienced a “significant” impact in the last 3 months.

By industry, supply chains were a “significant” issue for over 4 in 10 firms in Wholesale (44%) in Q3, and for around 1 in 3 in Retail (34%), Construction (33%) and Manufacturing (33%) where it fell heavily from 48% in Q2. The number of firms who reported “significant” issues was lowest in Finance & Insurance (5%), Property Services (6%) and Health (7%). Fewer SMEs in all sectors experienced “significant” supply chain issues in Q3, bar Business Services where the number that did so climbed to 9% (2% in Q2).

Almost 4 in 10 (38%) Wholesale firms believe supply chain will still be a “significant” issue for their business in the next 12 months, compared to just 5% in the Finance & Insurance sector. Encouragingly fewer firms in all sectors expect to experience “significant” supply chain issues in the next 12 months, except in Business Services - see charts on page above.

How likely are you to support local manufacturing in these ways in the next 6 months if available?



Investing in Australian based manufacturing is widely seen as one way of addressing supply chain issues. This quarter, we asked SMEs how likely they would be in the next 6 months to support local manufacturing in 3 key ways if available - i.e. establish their own new manufacturing facility, use Australian based suppliers more, and support new Australian based manufacturing start-ups.

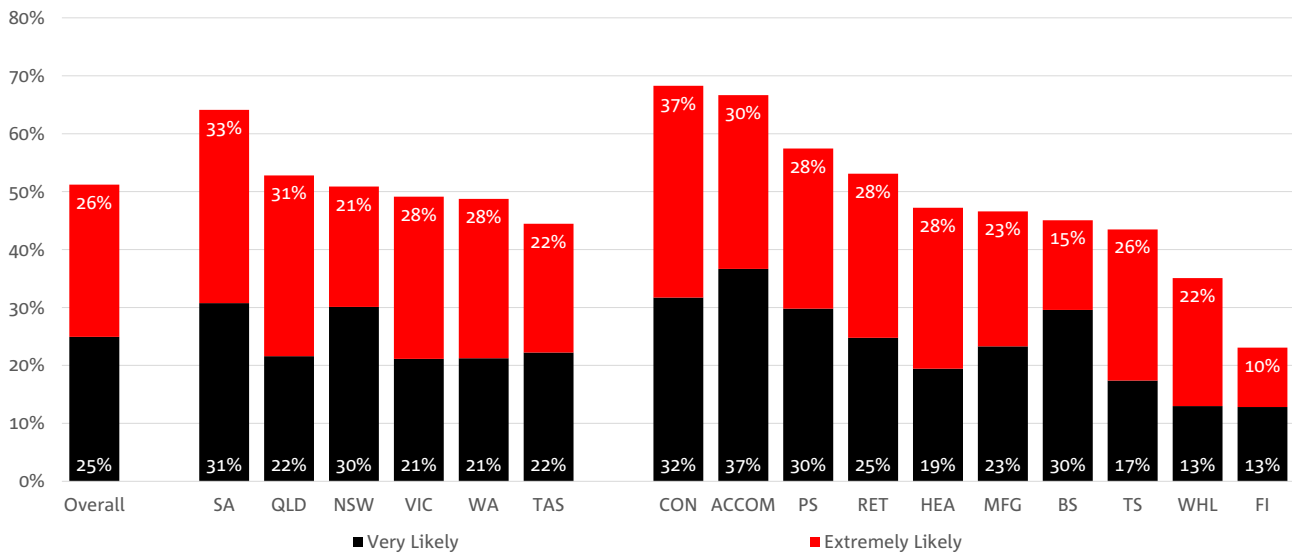
Overall, SMEs were most likely to use Australian based suppliers more as the way of addressing supply chain issues, scoring on average 3.2 pts. By state, the likelihood of doing so was highest in TAS (3.7 pts), and lowest in NSW (3.1 pts). By industry, Construction firms were the most likely to use Australian based suppliers more to address their supply chain issues (3.8 pts), followed by SMEs in the Property Services (3.4 pts), Retail (3.4 pts) and Health (3.4 pts) sectors. SMEs in the Accommodation (2.0 pts) were least likely to resort to this measure to help ease supply chain pressures.

Australian SMEs also indicated they would be “quite” likely to support new Australian based manufacturing start-ups (2.9 pts). SMEs in TAS (3.8 pts) were however somewhat more likely to do so than in all other states, particularly compared to NSW (2.7 pts). By industry, motivation to support local manufacturing start-ups was highest in Construction (3.4 pts), Retail (3.2 pts), Property Services (3.2 pts) and Manufacturing (3.2 pts), and lowest in Accommodation where firms were “not very likely” to support start-ups (1.6 pts).

Overall SMEs overall were ‘not very likely’ to establish their own new manufacturing facilities to help address their supply chain issues, scoring just 1.5 pts) on average. The likelihood of doing so was however somewhat higher in the Manufacturing sector (2.3 pts), Transport/Storage (1.8 pts) and Property Services (1.8 pts). SMEs operating in the Accommodation (0.6 pts), Business Services (1.1 pts) and Health (1.1 sectors) were ‘not at all likely’ to establish their own manufacturing facilities.

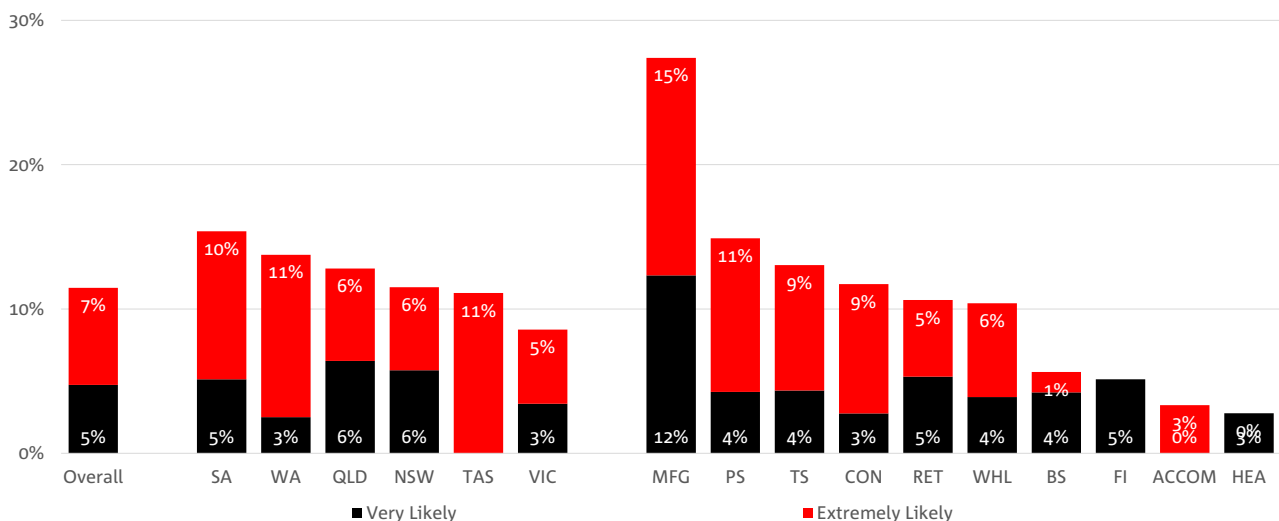
Once again, the average score however hides a large number of SMEs that are looking to support Australian based suppliers or to establish a manufacturing facility here in Australia or. Focussing on those businesses that are very or extremely likely to increase their use of Australian based suppliers, around 1 in 2 (51%) SMEs said they were likely to do so (26% were “extremely” likely and 25% “very” likely), rising to almost 7 in 10 among Construction and Accommodation, Cafes & Restaurants businesses. By state, SA businesses are most likely to increase their use of local suppliers (64% very or extremely likely).

How likely are you to use Australian based suppliers more (% "very" & "extremely" likely)



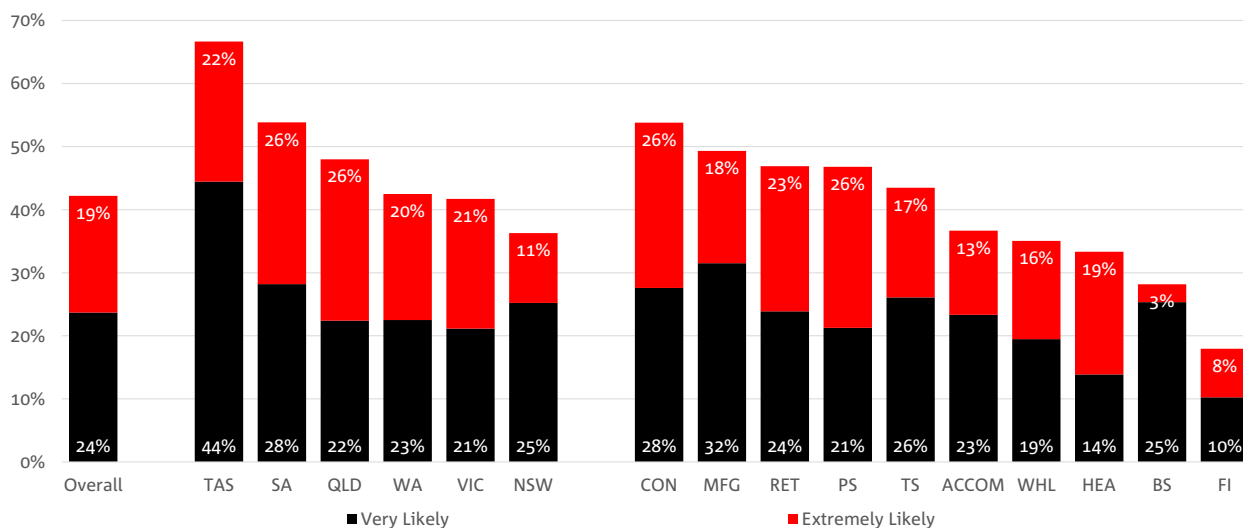
While in total around 12% of SMEs are very or extremely likely to establish their own manufacturing facilities here in Australia, this rises to over 1 in 4 (27%) of those in the Manufacturing sector (presumably looking to expand further their existing operations).

How likely are you to establish your own new manufacturing facility (% "very" & extremely" likely)



Encouragingly for those considering establishing new manufacturing operations in Australia, over 4 in 10 SMEs (44%) said they were very or extremely likely to support new local start-ups (19% were extremely likely to do so, 24% very likely), including over 5 in 10 SMEs in the Construction sector (54%).

How likely are you to support new Aust. based manufacturing start-ups (% "very" & "extremely" likely)



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