

Supply chain pressures eased further, and confidence is rising, though changes to China's zero-Covid policy brings new risks in the short-term. New research shows little evidence of businesses seeking greater diversification of supply lines, increasing domestic capabilities and investing to make supply chains more agile, outside of Manufacturing & Hospitality. Despite concerns that businesses may have over-ordered to address shortages amid strong demand, most SMEs report low incidence.

The impact of supply chain issues on Australian business moderated further in Q4 2022. In total, 1 in 5 (20%) SMEs report supply chains were a very significant issue for their business in the past 3 months, down from over 1 in 4 (26%) in Q3 and almost 1 in 3 (31%) in Q2. The number of SMEs who reported a very significant impact fell in all states bar WA (27% from 25% in Q3). It was sharply lower in TAS (33% from 50% in Q3), but still highest overall, and lowest in NSW (17%) and SA (17%).

With China abandoning its zero-Covid policy, the rapid spread of the virus increases the risk of supply chain disruption in the near term, as businesses face disruption, with staff shortages due to infections and self-isolation. While any longer-term impacts remain unclear, Chinese factories are expected to face worker shortages until at least February. Much uncertainty remains. Anecdotal evidence suggests that COVID spread very rapidly - much faster than anticipated - in December. This might support a faster than previously expected recovery.

That said, Australian business confidence around supply chains remains high with fewer businesses (18%) expecting it to still be a significant issue in 12 months' time (24% predicted in Q3 and 31% in Q2). VIC (23% up from 21% in Q3) was the only outlier, and now highest of all states. In contrast, just 13% of SMEs in NSW and SA expect a very significant supply chain impact in the next 12 months.

Around 3 in 10 SMEs in Wholesale (31%) and 1 in 4 in Manufacturing (25%), Retail (24%) and Construction (23%) said supply chain was a very significant issue in the past 3 months, though sharply lower than in Q3 in all sectors. An unchanged 1 in 4 (24%) in Transport & Storage were highly impacted. Interestingly, SMEs in Personal Services however saw a doubling in the number of highly impacted business (13% from 6% in Q3). The number of SMEs who believe supply chain will be a significant issue for them in the next 12 months remains highest in Construction (24%), Wholesale (23%), Retail (21%), Transport & Storage (21%) and Manufacturing (20%), and lowest in Health (3%), Accommodation (6%) and Personal Services (6%).

Prior to the pandemic, supply chains were focused on getting goods as quickly and cheaply to customers as possible. This was achieved by outsourcing parts of the supply chain to cut storage overheads, manufacturers cutting back on the quantity of spare stock and delivering products 'just in time' to fulfil customer orders. The pandemic clearly highlighted the fragility of this model, adding to global shortages and inflation. As a result, there have been calls for greater diversification of supply lines and increasing domestic capabilities, particularly for essential goods such as medical supplies and equipment and chemicals but also for a range of other goods including construction materials.

As CEDA has previously noted, while in the short-term the pandemic provided rationale for reducing Australia's reliance upon extremely lean, just-in-time inventory management, strategic buffers of some supplies and more capabilities in advanced manufacturing (as well as clean and efficient energy, smart infrastructure, transport, construction and services), there was not a need for wholesale reshoring or to turn our backs on global supply chains. In this latest NAB update to better understand how SMEs have responded to supply chain issues, we asked them to rate the extent they agreed with some key behavioural statements about supply chains and their business.

When asked to what extent SMEs agreed they were "shifting from a global supply chain model to one more domestically based", the incidence was very low. On average, SMEs scored just 2.4 pts out of 10 (where 10 is agree completely). Moreover, only 6% of SMEs were in "high" agreement (i.e., scored 8+ pts). By industry, agreement was highest in Manufacturing (3.0 pts) and Construction (2.9 pts), and lowest in Finance & Insurance (0.9 pts). That said, around 13% of SMEs in Manufacturing and 12% in Accommodation agreed "strongly" with this statement.

Interestingly when SMEs were previously asked (Q3 2022), how likely were they to support local manufacturing, 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 firms in Construction and Accommodation, Cafes & Restaurants. This transition may yet occur, but at least to date there does not appear to have been any significant change.

The pandemic also resulted in calls for greater diversification of supply lines, particularly to smaller Southeast Asian countries with comparable labour costs. When SMEs were asked the extent to which they were “shifting from a global supply chain model to one more regionally based (i.e., near shoring)”, agreement was again low. SMEs on average scored 2.3 pts, with just 6% of SMEs in “high” agreement. By industry, agreement was strongest in Manufacturing (3.1 pts) and Business Services (2.8 pts), and lowest in Finance & Insurance (1.3 pts). The greatest number of firms in “high” agreement with this statement were in the Accommodation sector (16%).

The need for businesses to remain nimble and react to unforeseen changes across the supply chain has become particularly clear since the pandemic. Strategies such as leveraging automation and analytics to better predict inventory availability, lead times & order accuracy, maintaining alternate providers/competitors, disaster-recovery plans, more frequent lines of communication with priority suppliers, sharing real-time demand signals and forecasts, collaborating on new product innovation and the use of smart sensors to detect production or delivery issues, are just some of the opportunities.

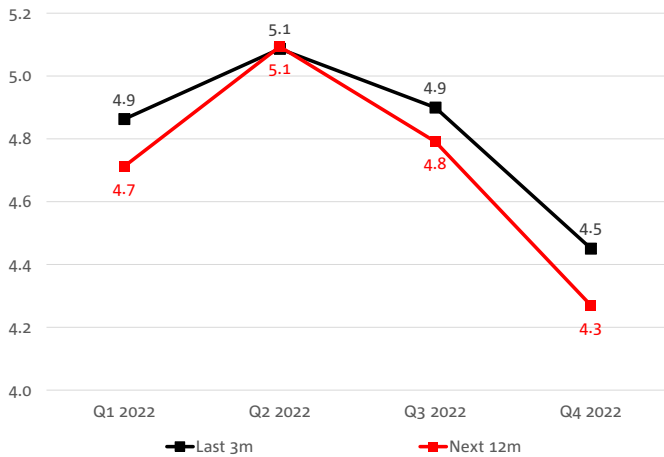
Despite agreement on the need for a nimbler approach, there was only low levels of agreement regarding “investing more to make our supply chains more agile”. On average, SMEs scored 2.3 pts out of 10, with just 7% of SMEs in “high” agreement. Responses remained low in all states, ranging from 2.8 pts in SA and TAS to 2.0 pts in VIC. However, significantly more SMEs in SA (14%) were in “high” agreement than any other state. By industry, agreement was highest in Manufacturing (3.2 pts) and lowest in Finance & Insurance (1.7 pts). That said, almost 1 in 5 SMEs in the Manufacturing sector (18%) were in “high” agreement with this statement. This compared to just 2% in Construction.

Finally, the practice of over ordering during volatile or uncertain times was also explored - in effect, procurement managers worried that they may not receive the materials they need, ordering higher quantities than what their manufacturing or service operations need (sometimes also in the hope that the larger orders will make suppliers treat them as a higher priority).

This issue does not appear to be widespread. When asked how much they agreed with the statement: “We have over-ordered due to slowing demand”, agreement was lowest of all questions. On average, SMEs scored just 2.1 pts out of 10, with 7% of SMEs in “high” agreement. Scores remained low across all states, ranging from 2.4 pts in QLD to 0.8 pts in TAS. By industry, agreement was highest in Retail (2.9 pts), just ahead of Accommodation and Wholesale (2.8 pts). Agreement was lowest in Finance & Insurance (0.6 pts), Personal Services (0.8 pts) and Business Services (0.9%). Just over 1 in 10 SMEs in Accommodation (12%), Wholesale (11%) and Manufacturing (11%) were in “high” agreement with this statement.

Main Report

Extent supply chain an issue for your business (score out of 10)

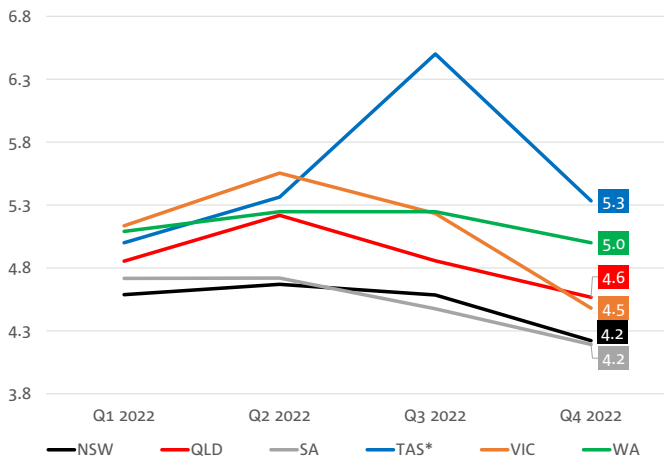


Supply chain issues moderated further in Q4 and expected to be less problematic in the next 12 months. When asked to rate the extent they were an issue for their business in the last 3 months, SMEs scored 4.5 pts out of 10 (10 is significant), down from 4.9 pts in Q3. Looking forward, SMEs also see less disruption to their business arising from supply chain issues, scoring 4.3 pts overall (4.8 pts in the previous survey).

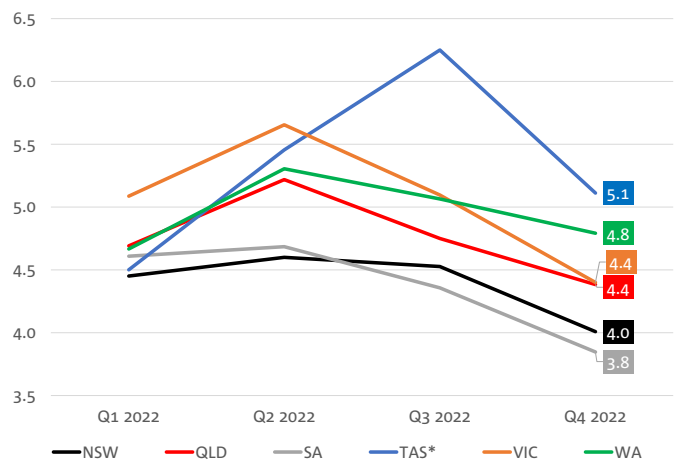
Supply issues were less problematic in all states in the last 3 months. It remained highest in TAS but also fell most to 5.3 pts and was lowest in NSW and SA (4.2 pts). SMEs in VIC reported a large improvement to 4.5 pts (down from 5.2 pts in Q3).

SMEs in all states are also more optimistic about the next 12 months, with the extent they believe supply chain issues will be an issue for their business falling across the country but ranging from 5.1 pts in TAS to 3.8 pts in SA - see charts below.

Extent supply chain an issue for your business last 3m: states (score out of 10)



Extent supply chain an issue for your business next 12m: states (score out of 10)



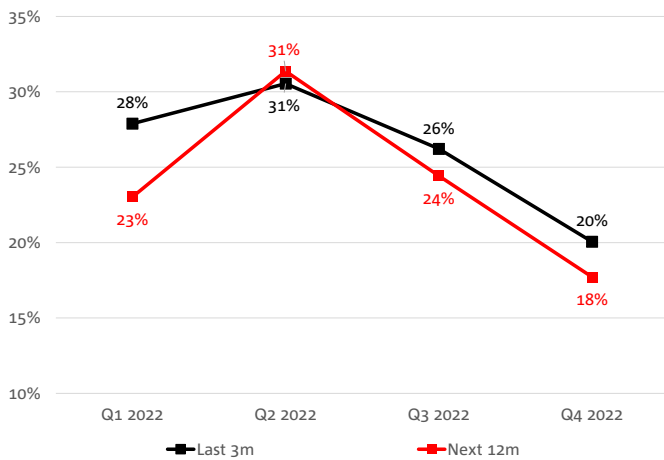
Extent supply chain an issue for your business: industry

	Last 3 months				Next 12 months			
	Q1 22	Q2 22	Q3 22	Q4 22	Q1 22	Q2 22	Q3 22	Q4 22
All SMEs	4.9	5.1	4.9	4.5	4.7	5.1	4.8	4.3
MFG	6.2	6.3	5.8	4.8	6.0	6.1	5.4	4.7
CON	5.7	6.1	5.9	5.3	5.7	6.2	5.8	5.2
RET	6.4	6.3	6.1	5.5	5.9	6.3	6.0	5.3
WHL	6.7	6.7	6.7	6.1	6.3	6.6	6.4	5.7
TS	4.4	4.7	3.9	4.2	4.6	5.0	3.9	3.7
FI	2.4	1.8	2.1	2.0	2.4	1.9	2.4	2.3
BS	1.5	1.8	2.7	2.1	1.6	1.8	2.6	2.0
PS	3.2	4.0	3.4	2.7	3.4	4.3	3.8	2.7
ACCOM	1.5	2.1	1.7	1.8	1.7	2.1	1.7	1.7
HEA	3.8	4.0	3.3	2.4	3.6	3.7	3.3	2.3

Supply chain caused less business disruption for SMEs in most industries in Q4, except Transport & Storage (4.2 pts up from 3.9 pts in Q3) and Accommodation (1.8 pts up from 1.7 pts in Q3). The biggest improvement was reported in Manufacturing (4.8 pts down from 5.8 pts in Q3) and Health (2.4 pts down from 3.3 pts in Q3). Though moderating, supply chain continued to have the biggest impact in Wholesale (6.1 pts), Retail (5.5 pts), and Construction (5.3 pts). It continued to cause the least issues in Accommodation (1.8 pts), Finance & Insurance (2.0 pts), and Business Services (2.1 pts).

Looking forward, SMEs in most sectors believe supply chain issues will be broadly unchanged from levels seen in the last 3 months. The main exceptions were in Finance & Insurance, where SMEs believe supply chain issues in the next 12 months will have a bigger impact on their business than in the last 3 months (2.3 pts compared to 2.0 pts in the last 3 months). In contrast, SMEs in Transport & Storage (3.7 pts down from 4.2 pts in the last 3 months) and Wholesale (5.7 pts down from 6.1 pts in the last 3 months) expect the biggest improvement - though Wholesale still among the most impacted sectors along with Retail (5.3 pts) and Construction (5.2 pts).

Extent supply chain an issue for your business (% scored "high")

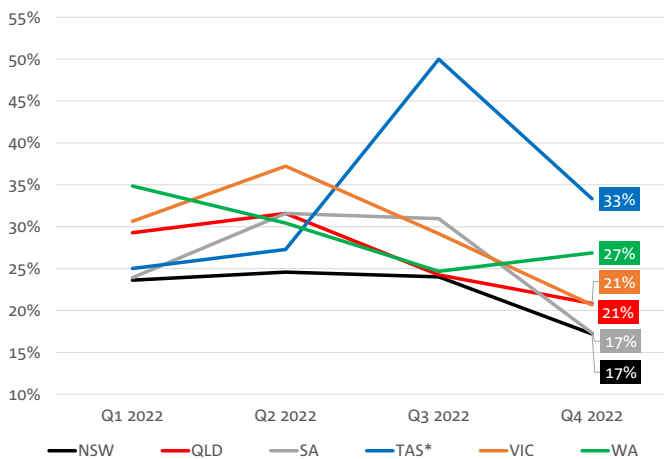


Q4 also saw a sharp fall in the number of SMEs who said supply chain was a “very significant” issue for their business (i.e., scored 8+ pts). In total, 1 in 5 (20%) said it was a very significant issue in the last 3 months, down from over 1 in 4 (26%) in Q3. Slightly fewer (18%) also believe supply chain will still be a significant issue in 12 months’ time (24% predicted in Q3).

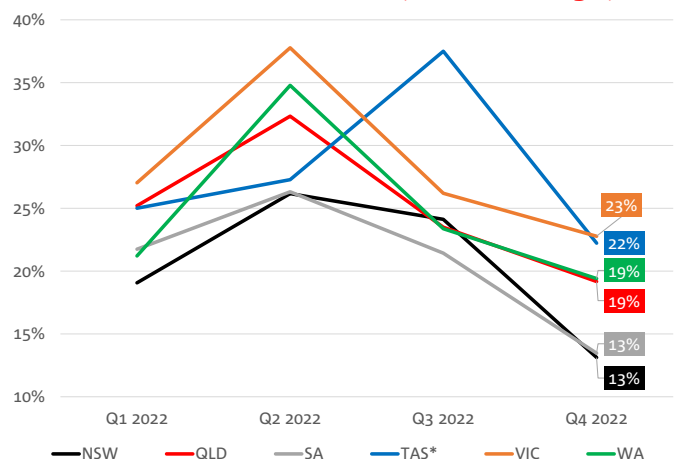
The number of SMEs who reported a very significant supply chain impact in the last 3 months fell in all states bar WA (27% from 25% in Q3). It was sharply lower in TAS (33% from 50% in Q3), but still highest overall, and lowest in NSW (17%) and SA (17%).

Fewer SMEs in most states think supply chain will be a very significant issue for their business in the next 12 months. VIC (23% up from 21% in last 3 months) was the only outlier, and now highest of all states. In contrast, just 13% of SMEs in NSW and SA expect a very significant supply chain impact in the next 12 months.

Extent supply chain an issue for your business last 3m: states (% scored "high")



Extent supply chain an issue for your business next 12m: states (% scored "high")



Around 3 in 10 SMEs in Wholesale (31%) and 1 in 4 in Manufacturing (25%), Retail (24%) and Construction (23%) said supply chain was a very significant issue in the last 3 months, though sharply lower than in Q3 in all sectors. An unchanged 1 in 4 (24%) in Transport & Storage were also highly impacted. SMEs in Personal Services however saw a doubling in the number of highly impacted business (13% from 6% in Q3). The number of SMEs who believe supply chain will be a significant issue for their business in the next 12 months is highest in Construction (24%), Wholesale (23%), Retail (21%), Transport & Storage (21%) and Manufacturing (20%), and lowest in Health (3%), Accommodation (6%) and Personal Services (6%) - see table below.

Extent supply chain a “very significant” issue for your business: industry

	Last 3 months				Next 12 months			
	Q1 22	Q2 22	Q3 22	Q4 22	Q1 22	Q2 22	Q3 22	Q4 22
All SMEs	28%	31%	26%	20%	23%	31%	24%	18%
MFG	44%	48%	33%	25%	36%	42%	29%	20%
CON	30%	37%	33%	23%	30%	42%	32%	24%
RET	37%	37%	34%	24%	28%	37%	34%	21%
WHL	47%	45%	44%	31%	31%	44%	38%	23%
TS	23%	26%	24%	24%	28%	34%	21%	21%
FI	10%	12%	5%	6%	10%	15%	5%	13%
BS	5%	2%	9%	7%	4%	2%	7%	9%
PS	11%	23%	6%	13%	11%	30%	9%	6%
ACCOM	3%	10%	9%	8%	6%	7%	6%	6%
HEA	10%	9%	7%	0%	7%	9%	10%	3%

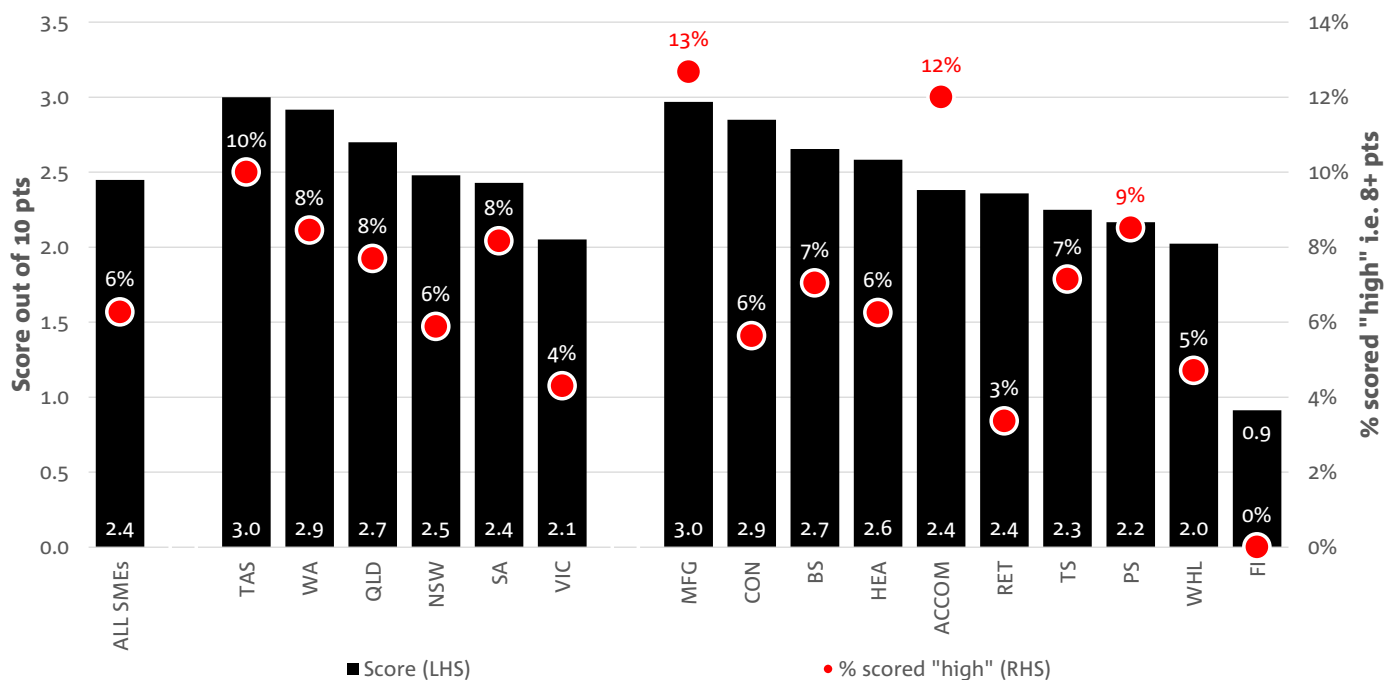
To better understand how SMEs have responded to supply chain issues, we asked them to rate the extent they agreed with some statements about supply chain into and from their business.

When first asked how much they agreed with the statement: **“We are shifting from a global supply chain model to one more domestically based”**, it was very low. On average, SMEs scored just 2.4 pts out of 10 (where 10 is agree completely). Moreover, only 6% of SMEs were in “high” agreement (i.e., scored 8+ pts).

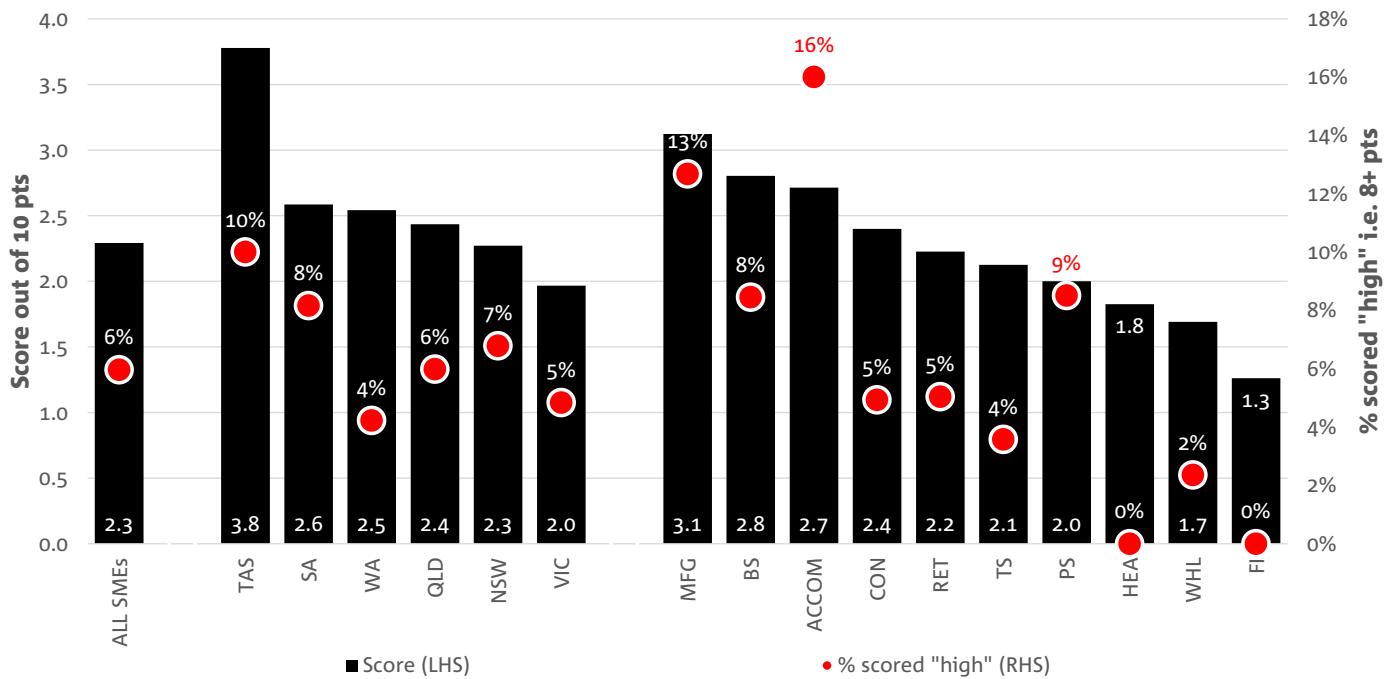
Responses were also low across states, ranging from 3.0 pts in TAS (where 1 in 10 firms were in “high” agreement), to 2.1 pts in VIC (where only 4% were in “high” agreement).

By industry, agreement was highest in Manufacturing (3.0 pts) and Construction (2.9 pts), and lowest in Finance & Insurance (0.9 pts). Around 13% of SMEs in Manufacturing and 12% in Accommodation agreed “strongly” with this statement.

We are shifting from a global supply chain model to one more domestically based

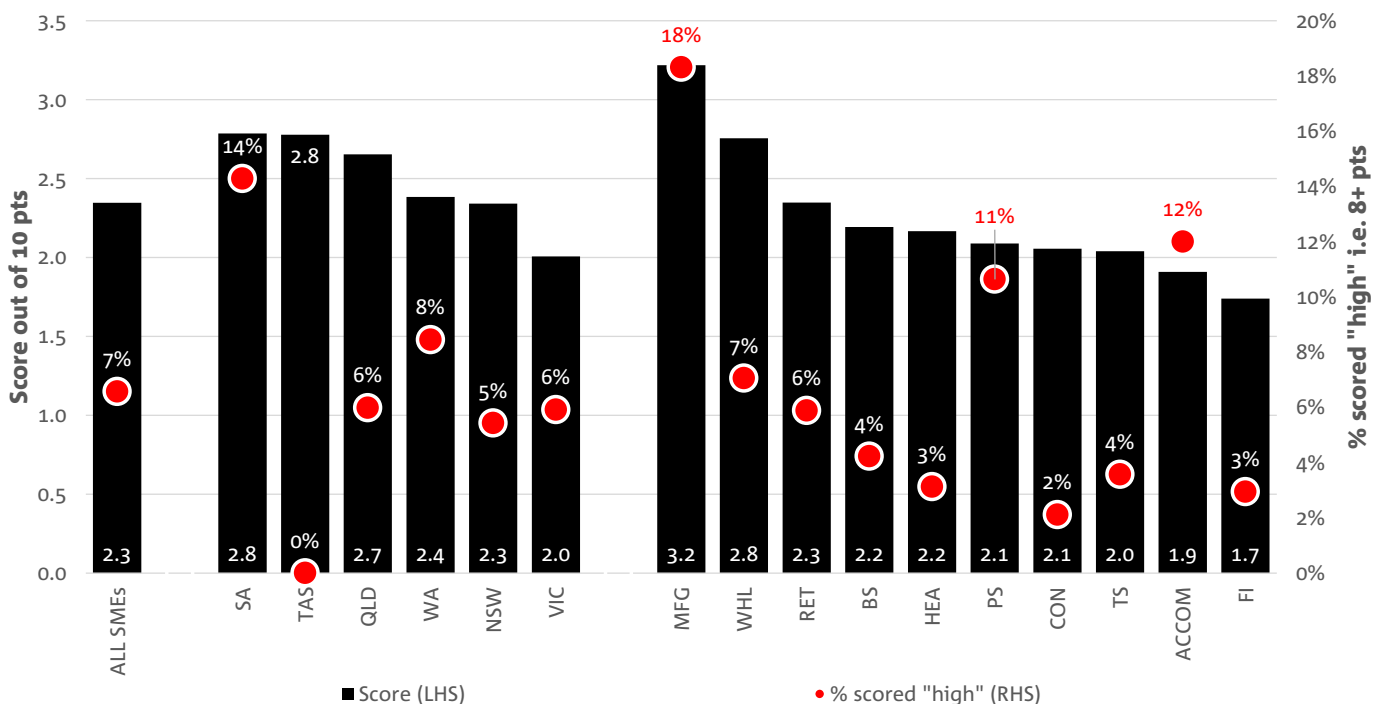


We are shifting from a global supply chain model to one more regionally based (i.e. near-shoring)



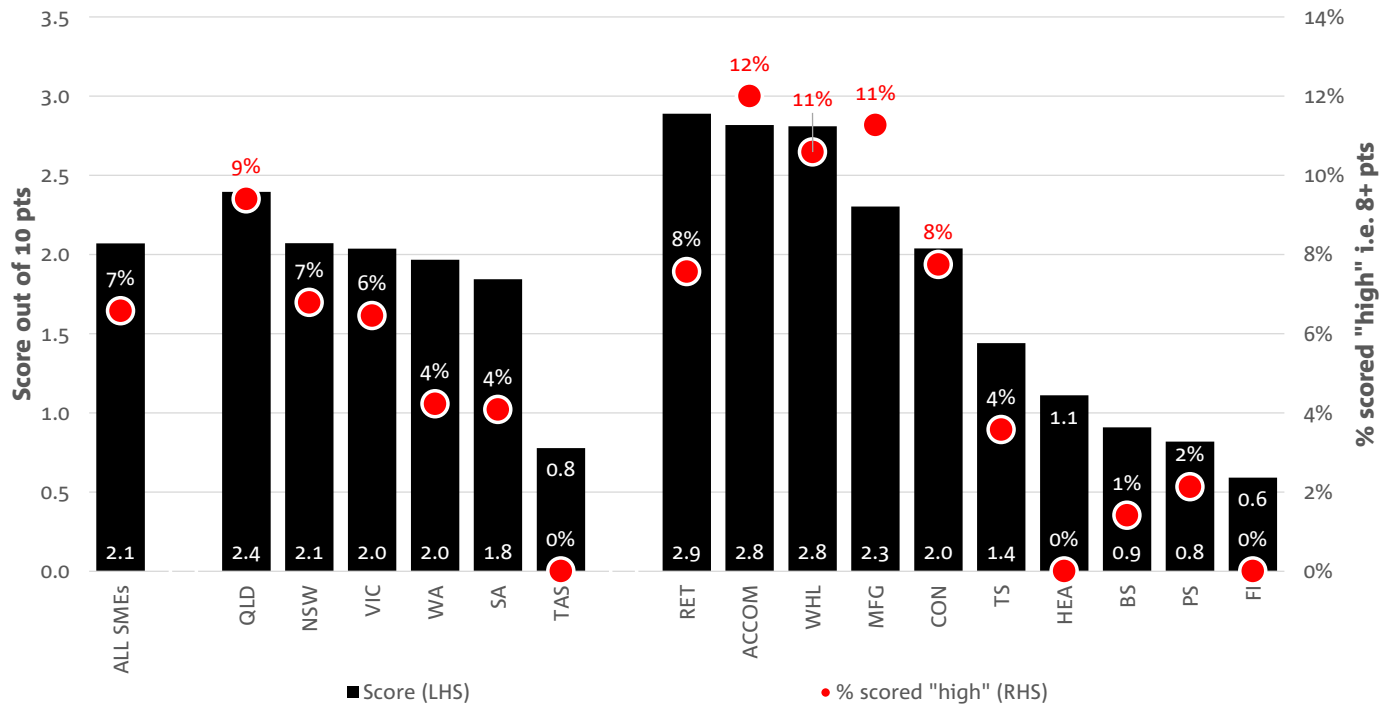
When asked how much they agreed with the statement: **“We are shifting from a global supply chain model to one more regionally based (i.e., near shoring)”**, agreement was again low. SMEs on average scored 2.3 pts, with just 6% of SMEs in “high” agreement. Responses were low across states, ranging from 3.8 pts in TAS (where 1 in 10 firms were in “high” agreement), to 2.0 pts in VIC (where only 5% were in “high” agreement). By industry, agreement was strongest in Manufacturing (3.1 pts) and Business Services (2.8 pts), and lowest in Finance & Insurance (1.3 pts). The greatest number of firms in “high” agreement with this statement were however in the Accommodation sector (16%).

We are investing more to make our supply chains more agile



Low levels of agreement were also reported with the statement: **“We are investing more to make our supply chains more agile”**. On average, SMEs scored 2.3 pts out of 10, with just 7% of SMEs in “high” agreement. Responses remained low in all states, ranging from 2.8 pts in SA and TAS to 2.0 pts in VIC. However, significantly more SMEs in SA (14%) were in “high” agreement than any other state. By industry, agreement was highest in Manufacturing (3.2 pts) and lowest in Finance & Insurance (1.7 pts). Almost 1 in 5 SMEs in the Manufacturing sector (18%) were in “high” agreement with this statement, compared to just 2% in Construction.

We have over-ordered due to slowing demand



Finally, when asked how much they agreed with the statement: **“We have over-ordered due to slowing demand”**, agreement was lowest of all questions. On average, SMEs scored just 2.1 pts out of 10, with 7% of SMEs in “high” agreement. Scores remained low across all states, ranging from 2.4 pts in QLD to 0.8 pts in TAS. By industry, agreement was highest in Retail (2.9 pts), just ahead of Accommodation and Wholesale (2.8 pts). Agreement was lowest in Finance & Insurance (0.6 pts), Personal Services (0.8 pts) and Business Services (0.9%). Just over 1 in 10 SMEs in Accommodation (12%), Wholesale (11%) and Manufacturing (11%) were in “high” agreement with this statement.

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