

more  
than  
money



# NAB Business Insights

Q1 2023

Supply Chain - The impact on SMEs

## Key Findings

**Supply chain pressures have eased further, and confidence is rising. Highly impacted firms continue to be most prevalent in Wholesale Trade and least so in Health and Business Services. Finance & Insurance reported a notable spike in concern over supply chain.**

Business conditions in the NAB Monthly Business Survey eased in April but are still well above average. Elevated trading conditions continue to suggest demand is strong and the employment index also ticked higher in the month, reflecting the strength of the labour market. However, cost growth remained a challenge, with purchase cost growth picking back up after easing in recent months and labour cost growth still high. Nonetheless, price growth measures continued to gradually moderate with overall price growth running at 1.1% in quarterly terms and retail prices at 1.4% (down from 1.7%). This may signal further gradual easing in inflation in the early part of Q2 after the most recent CPI release showed some easing in Q1, albeit inflation remains very elevated.

Against this background, there was a further easing in supply chain issues for SMEs in Q1 2023. In total, just 15% said it was very significant in the last 3 months, down from (20%) in Q4'22 and a high of 31% in Q2'22. Just over 1 in 10 (12%) SMEs now believe supply chain will be a significant issue for their business in the next 12 months, down from almost 2 in 10 (18%) in the previous quarter and 3 in 10 in Q2'22.

The number of SMEs who reported a very significant supply chain impact in the last 3 months was lower in all states. However, the overall number of highly impacted SMEs in Q1 was twice as high in WA, QLD, and VIC (16%) than in TAS and SA (8%). Fewer SMEs in all states also think supply chain will be a very significant issue for their business in the next 12 months. However, this ranged from 15% in VIC to just 6% in SA.

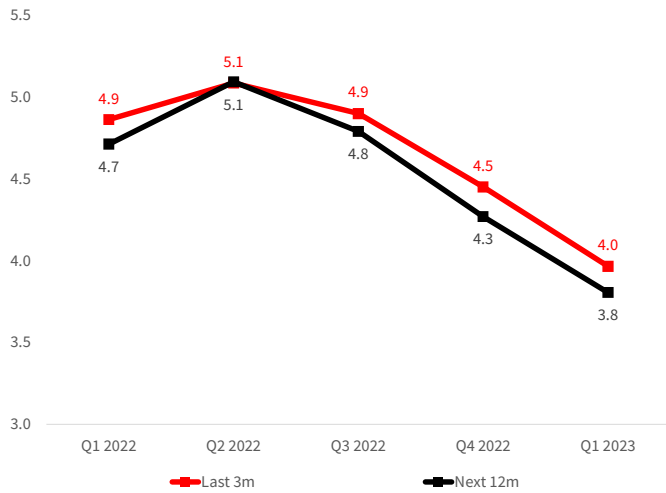
Fewer SMEs in all sectors reported a very significant supply chain impact in Q1, except Finance & Insurance (18% up from 6% in Q4'22) and Health Services (3% up from 0%). Highly impacted firms continue to be most prevalent in Wholesale Trade (22%), and least so in Health and Business Services (3%). The number of SMEs who think supply chain will be a significant issue in the next 12 months increased in Finance & Insurance (18% from 13%) and Accommodation & Hospitality (8% from 6%). It is highest in Transport & Storage (22%) and lowest Business and Health Services (3%).

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.

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.

# Supply Chain – The Impact on SMEs

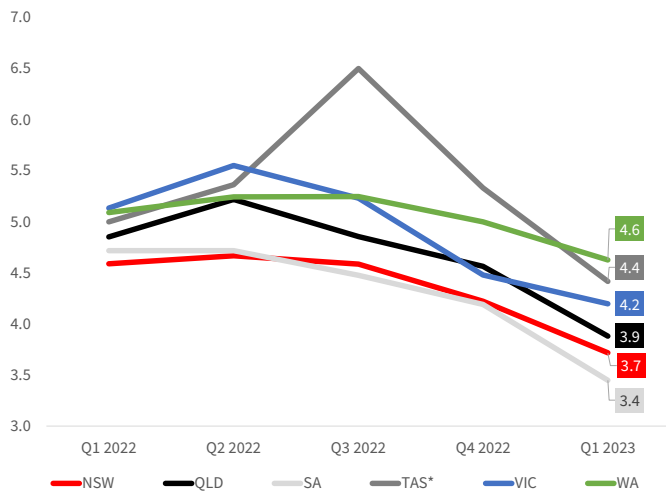
Extent supply chain is an issue for your business (score out of 10)



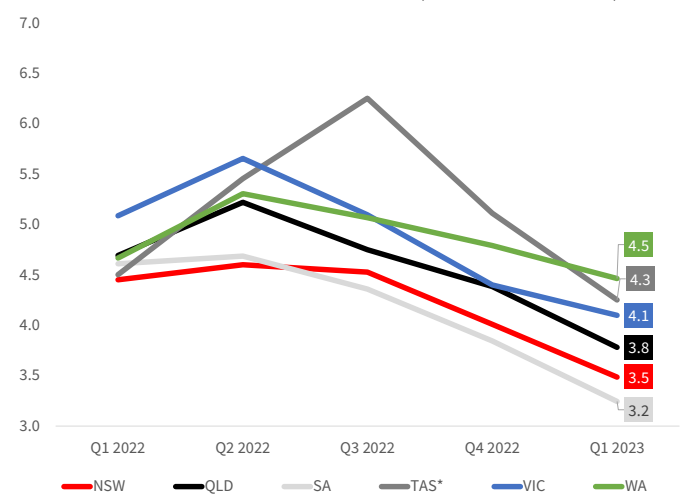
Supply chain issues moderated for the third consecutive quarter in Q1 and are expected to be less problematic in the next 12 months. When asked to rate the extent it was an issue for their business in the last 3 months, SMEs scored 4.0 pts out of 10 (10 is significant), down from 4.5 pts in Q4'22 and a high of 5.1 pts Q2 2022. SMEs also see less disruption to their business from supply chain in the next 12 months, scoring 3.8 pts overall down from 4.3 pts in Q4'22 and 5.1 pts in Q2'2022).

Supply chain was less problematic in all states in the last 3 months. It was highest in WA (4.6 pts) and lowest in SA (3.4 pts). SMEs in all states are more optimistic about the next 12 months, with the extent they believe supply chain will be an issue for their business falling across the country, ranging from 4.5 pts in WA to 3.2 pts in SA - see charts below.

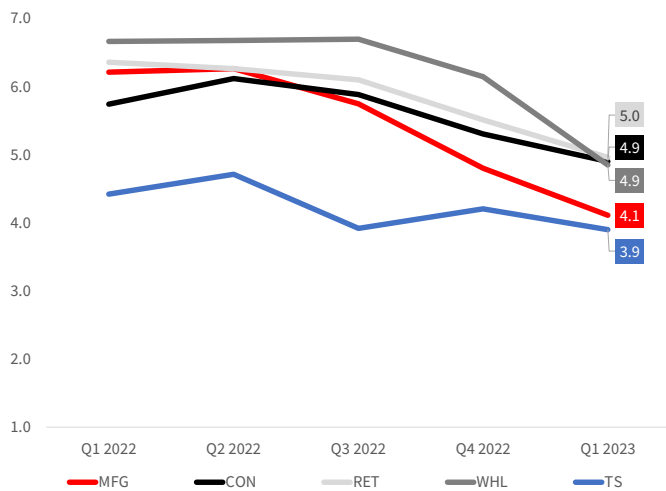
Extent supply chain is an issue for your business last 3m: states (score out of 10)



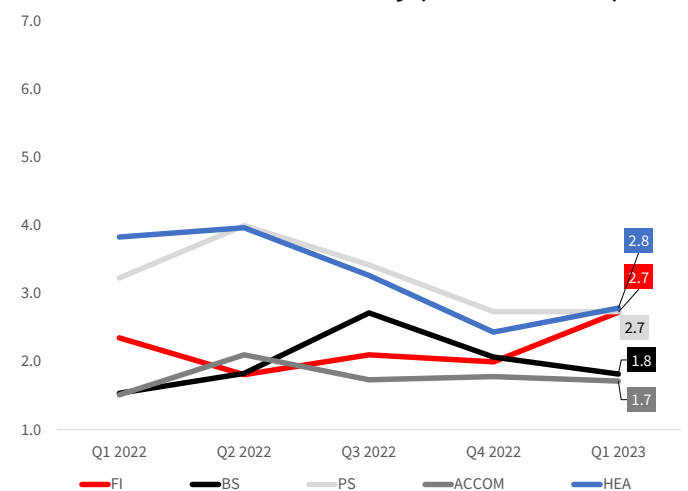
Extent supply chain is an issue for your business next 12m: states (score out of 10)



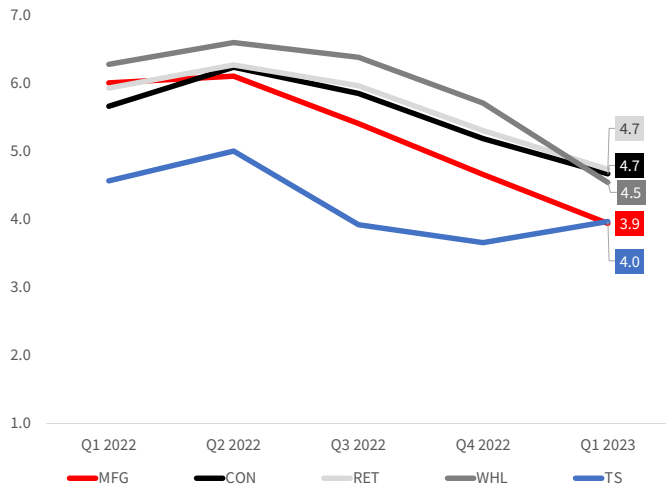
Extent supply chain is an issue for your business last 3m: industry (score out of 10)



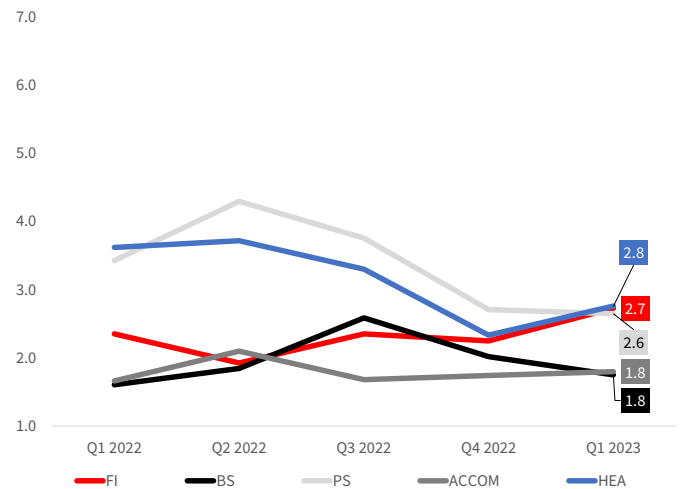
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Extent supply chain is an issue for your business in 12m: industry (score out of 10)



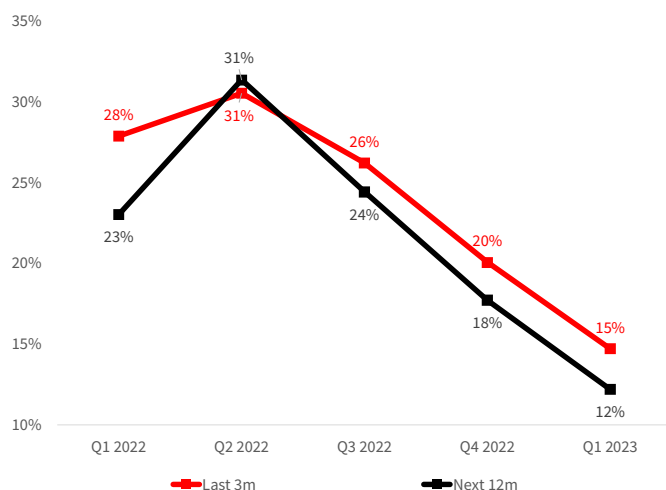
Extent supply chain is an issue for your business in 12m: industry (score out of 10)



Supply chain also caused less disruption for SMEs in most industries in Q1'22, except Finance & Insurance (2.7 pts up from 2.0 pts in Q4'22), and Health Services (2.8 pts up from 2.4 pts) - though they remain among the least impacted industries overall. Though moderating sharply, supply chain had the biggest impact in Wholesale Trade (5.0 pts), ahead of Construction and Retail (4.9 pts). It caused the least issues in Accommodation & Hospitality (1.7 pts) and Business Services (1.8 pts) - see charts on previous page.

Looking forward over the next 12 months, the outlook is mixed. Though SMEs believe supply chain issues will improve in the next 12 months in most sectors, some are less optimistic - Health Services (2.8 pts up from 2.3 pts), Finance & Insurance (2.7 pts up from 2.3 pts), Transport & Storage (4.0 pts up from 3.7 pts) and Accommodation & Hospitality (1.8 pts up from 1.7 pts). Supply chain is still expected to have the biggest business impact for SMEs in Retail (4.7 pts), Construction (4.7pts) and Wholesale Trade (4.5pts), with Business Services (1.8 pts) and Accommodation & Hospitality (1.8 pts) least impacted - see charts above.

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



Q1 also saw another sharp fall in the number of SMEs who said supply chain was a “very significant” issue for their business (i.e. scored 8+ pts).

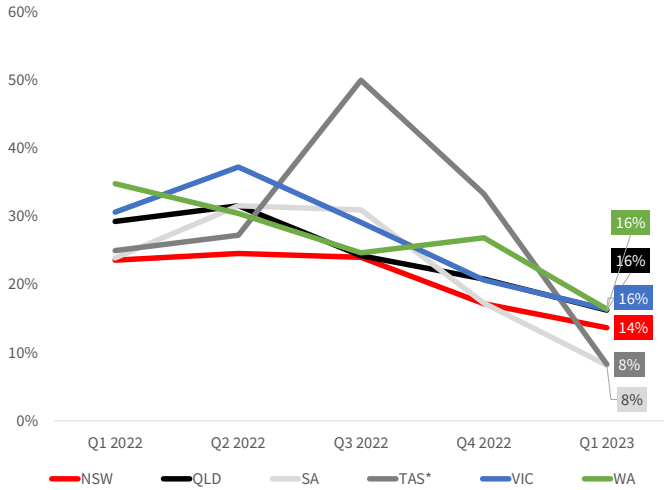
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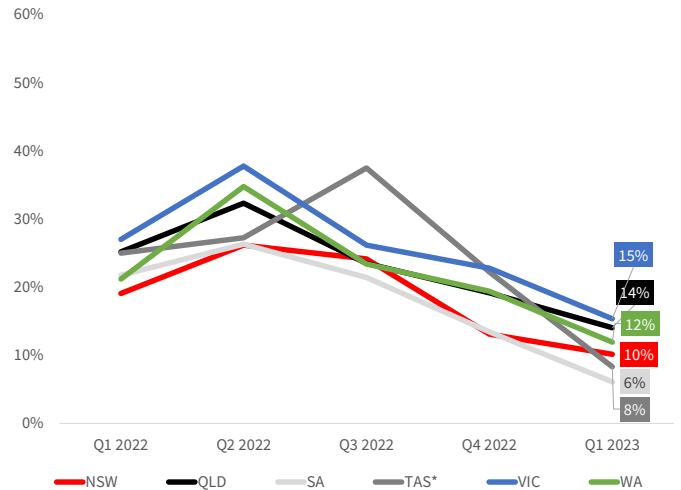
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Extent supply chain is an issue for your business last 3m: states (% scored high)

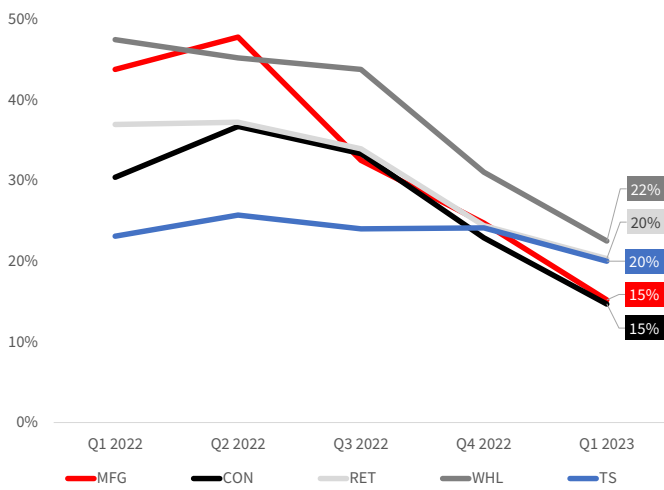


Extent supply chain is an issue for your business next 12m: states (% scored high)

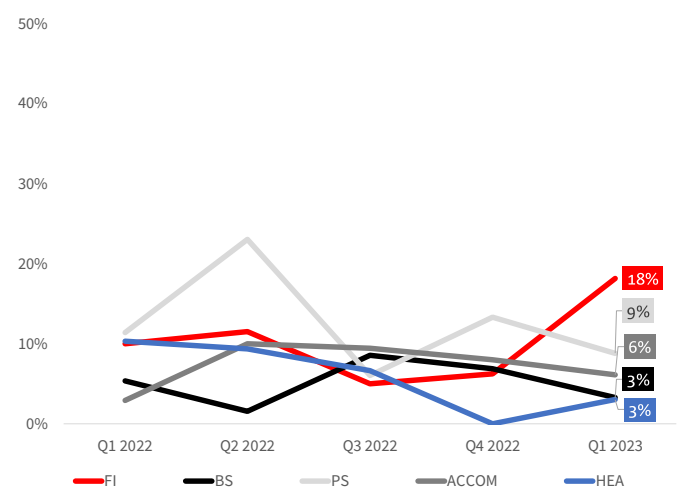


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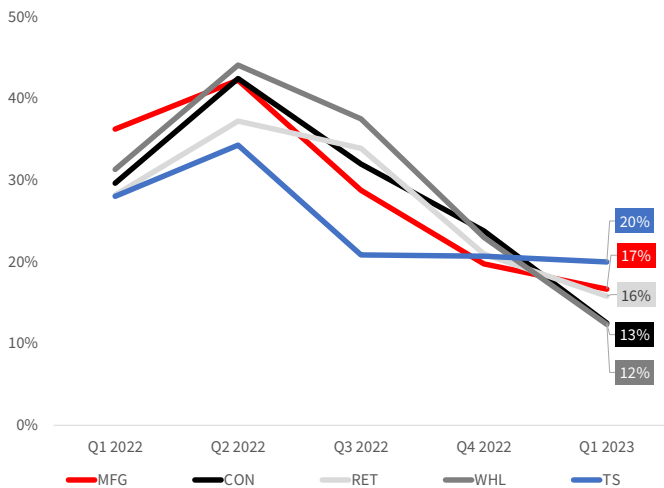
Extent supply chain an issue for business last 3m: industry (& scored high)



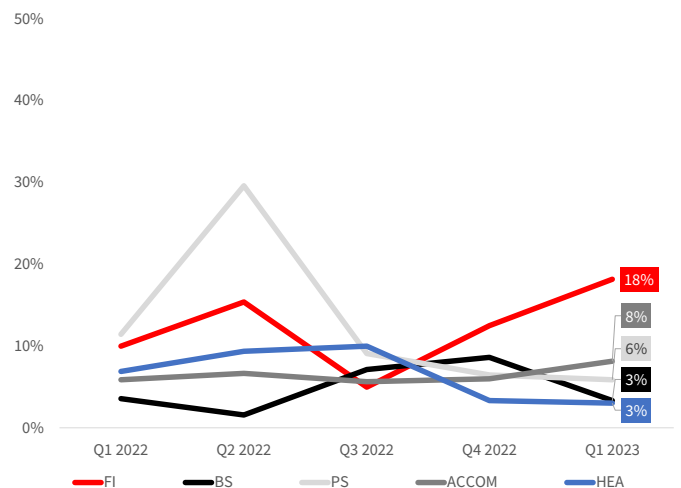
Extent supply chain an issue for business last 3m: industry (% scored high)



Extent supply chain an issue for business next 12m: industry (& scored high)



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



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