



# NAB Quarterly SME Survey Q2 2023

## SMEs see conditions weaken in Q2 as economy slows

### NAB Group Economics

#### Summary

SME business conditions fell sharply in Q2, to just +1 index point, leaving conditions for SMEs well below their long-run average. Employment and profitability were particularly weak, especially among the smallest firms in the survey, and there were large falls in the hospitality sector and in health, both of which had previously reported very elevated SME conditions. Overall, the fall was more severe than that seen among larger firms in the Quarterly Business Survey, where conditions have softened but remained above average in Q1. Forward-looking indicators also deteriorated for SMEs, with both confidence and forward orders falling well into negative territory. In addition, almost three-quarters of SMEs continue to report significant difficulty finding suitable labour and cost pressures remain elevated with purchase costs growth and labour costs growth only easing slightly from Q1. The moderation in price growth was also limited, at 1.2% in quarterly terms down from 1.4% in Q1.

#### Survey Details

- **SME business conditions** fell 11pts to +1 index point, below the long-run average of +6. Fell significantly across all SME size categories, with the index weakest for the smallest firms at -4 index points. Trading conditions, profitability and employment all fell by large amounts, with profitability for the smallest firms down to -9 index points and employment falling to -14 index points.
- **By industry**, SME conditions fell across all industries except finance, with very large falls in accommodation, cafes & restaurants (down 37pts) and health (down 30pts), both of which were previously very elevated but turned negative in the quarter. SME's in property and retail also saw conditions turn negative in Q2.
- **SME business confidence** fell 1pt, down to -7 index points. By industry, SME confidence was weak or negative across the board with the most negative readings in retail and property.
- **Across the states**, SME conditions fell across the board, remaining strongest in Qld and WA and turning negative in Vic. SME confidence was negative across the states.
- **Compared to larger firms** (as measured in the NAB Quarterly Business Survey), SME conditions were materially softer, falling below average where conditions for larger firms remained above average. Confidence was similarly negative across both larger firms and SMEs.
- **Leading indicators** also deteriorated. Forward orders fell 5pts to -4 index points while capacity utilisation was also lower at 82.1%. Capex also fell, down 3pts to +3 index points.
- **Cost pressures** eased slightly, with purchase cost growth of 1.8% in quarterly terms (down from 2% in Q1) and labour costs growth of 1.5% (down from 1.6%). Final prices grew at 1.2% overall (down from 1.4%) and the sales margin index deteriorated to -14 index points (from -9 in Q1).

Table 1: SME Conditions & Confidence (Net Balance, SA)

	2022 q4	2023 q1	2023 q2
<b>Business Confidence</b>	-4	-6	-7
Low -tier firms	-3	-3	-4
Mid-tier firms	-5	-9	-6
High-tier firms	-5	-5	-6
<b>Business Conditions</b>	13	12	1
Low -tier firms	5	3	-4
Mid-tier firms	11	14	3
High-tier firms	17	14	3
<b>Comparison to QBS (Non-SMEs)</b>			
QBS Confidence	-1	-4	-3
QBS Conditions	21	17	9

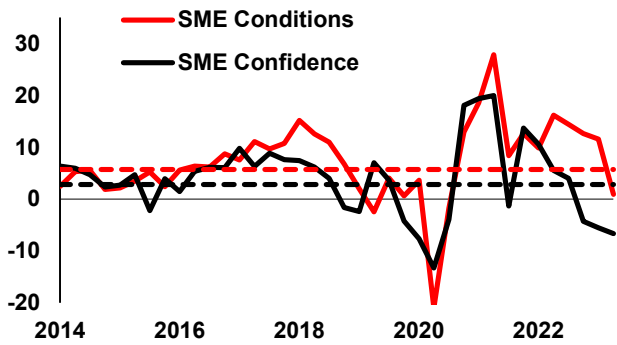
Table 2: SME Conditions by Component (Net Balance, SA)

	2022 q4	2023 q1	2023 q2
<b>Trading Conditions</b>	26	21	9
Low -tier firms	16	13	5
Mid-tier firms	26	24	9
High-tier firms	30	22	11
<b>Profitability</b>	11	10	0
Low -tier firms	2	0	-9
Mid-tier firms	11	15	4
High-tier firms	15	10	2
<b>Employment</b>	1	4	-5
Low -tier firms	0	-4	-14
Mid-tier firms	-5	2	-3
High-tier firms	5	9	-3

All data seasonally adjusted, except purchase costs and exports. Survey conducted from 22 May to 8 June 2023, covering over 700 firms across the non-farm business sector. Next release date: 26 October 2023.

# SME Conditions, Confidence & Prices

Chart 1: SME Conditions & Confidence (Net Balance, SA)



Note: Dotted lines denote long-run averages.

Chart 2: SME Conditions Components (Net Balance, SA)

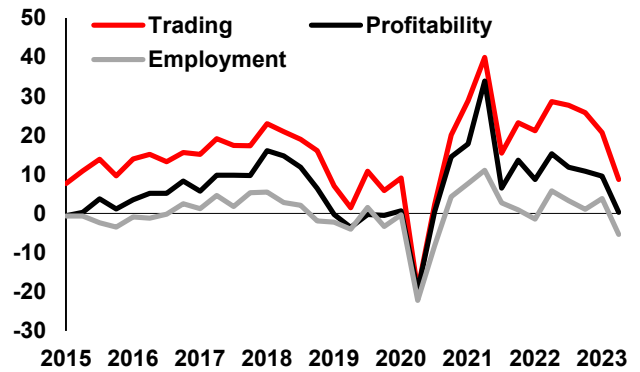


Chart 3: SME Conditions & Cash Flow (Net Balance, SA)

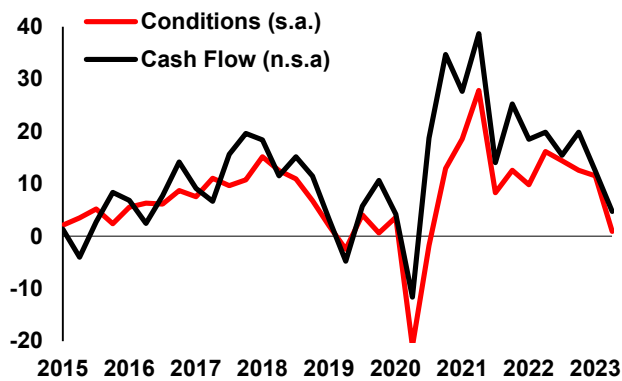
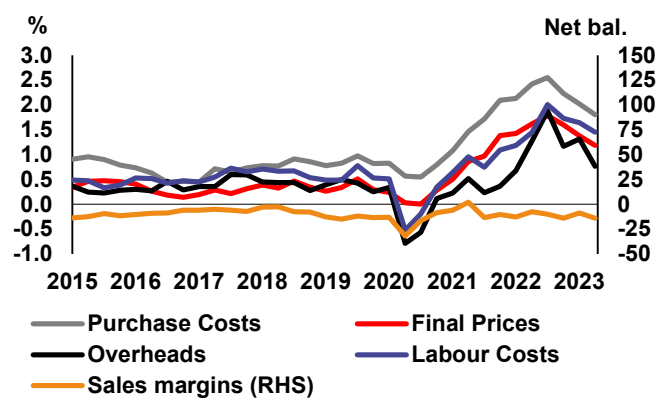


Chart 4: SME Input Costs, Price Growth & Margins



# Constraints on SME Output

Chart 5: Factors Constraining SME Output (% of Firms)

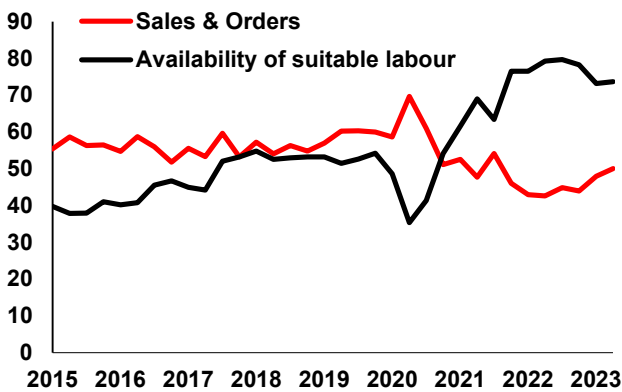
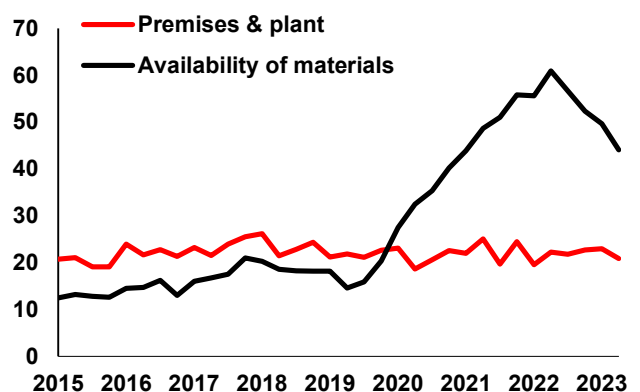


Chart 6: Factors Constraining SME Output (% of Firms)



# SME Indicators by Firm Size

Chart 7: SME Conditions by Firm Size (Net Balance, SA)

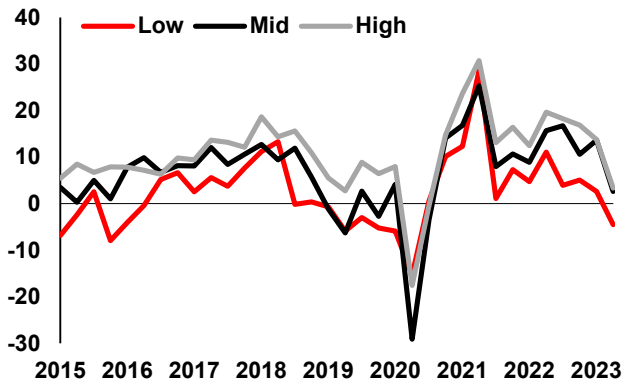


Chart 8: SME Confidence by Firm Size (Net Balance, SA)

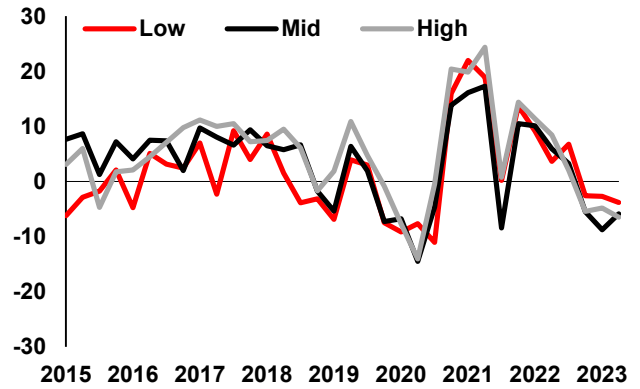


Chart 9: Trading Conds. by Firm Size (Net Balance, SA)

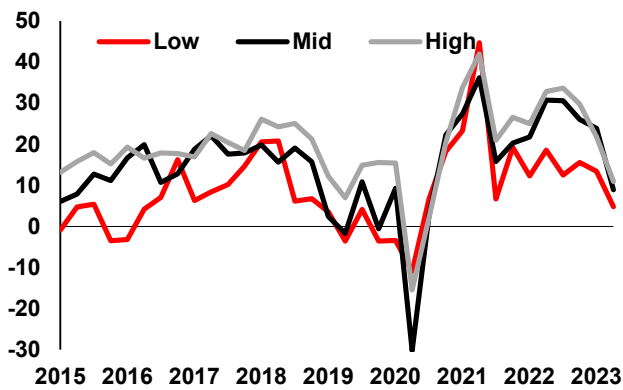


Chart 10: Profitability by Firm Size (Net Balance, SA)

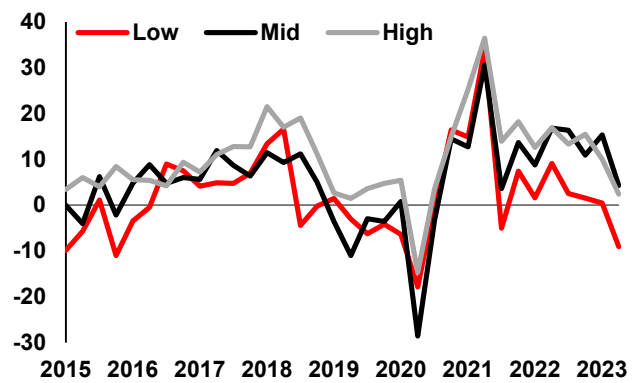


Chart 11: Employment by Firm Size (Net Balance, SA)

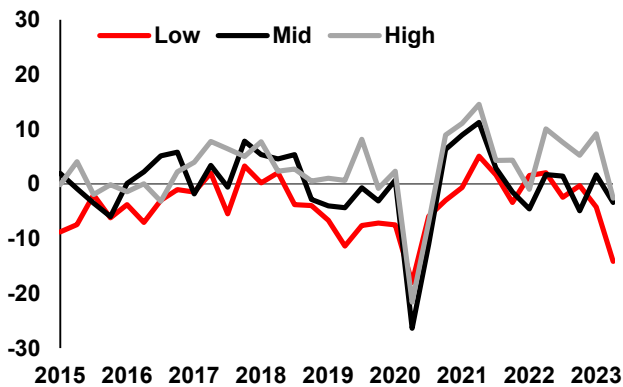


Chart 12: Cash Flow by Firm Size (Net Balance, NSA)

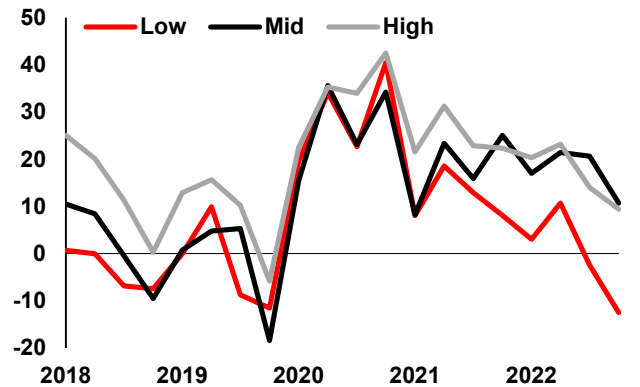


Chart 13: Capacity Utilisation by Firm Size (% , SA)

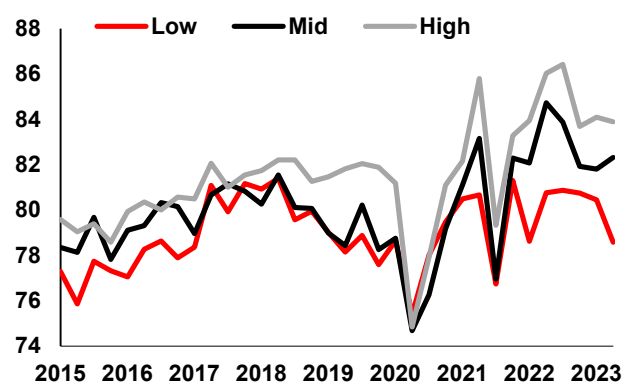
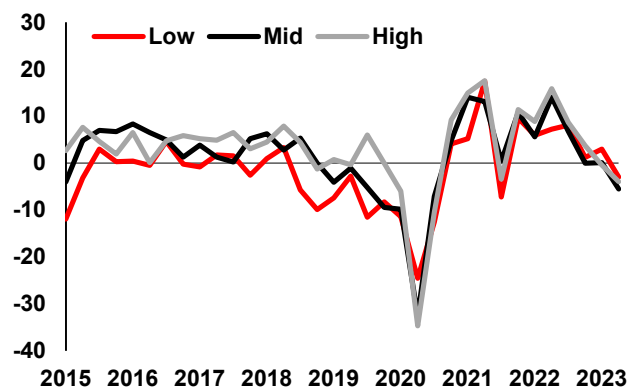


Chart 14: Forward Orders by Firm Size (Net Balance, SA)



# SME Indicators by State

Chart 15: SME Conds. & Conf. by State (Net Balance, SA)

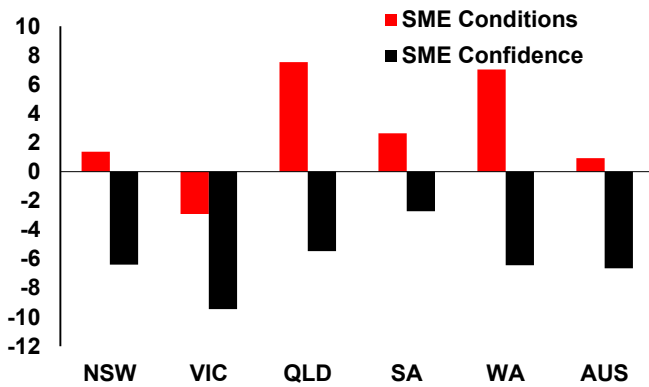


Chart 16: SME Conditions by State (Net Balance, SA)

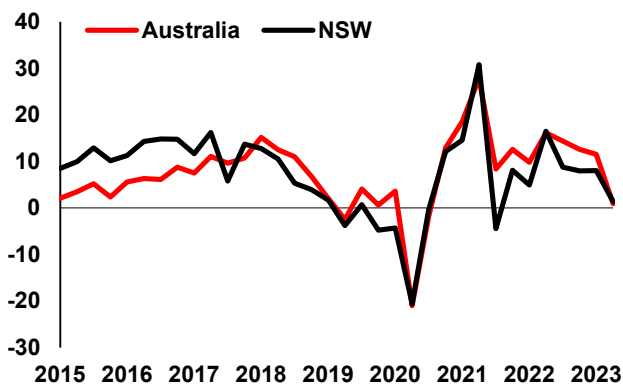


Chart 17: SME Confidence by State (Net Balance, SA)

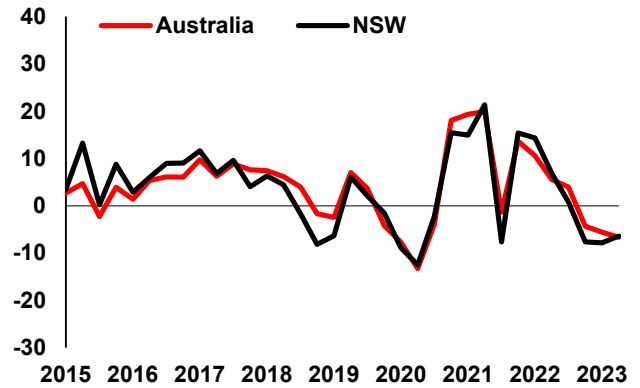


Chart 18: SME Conditions by State (Net Balance, SA)

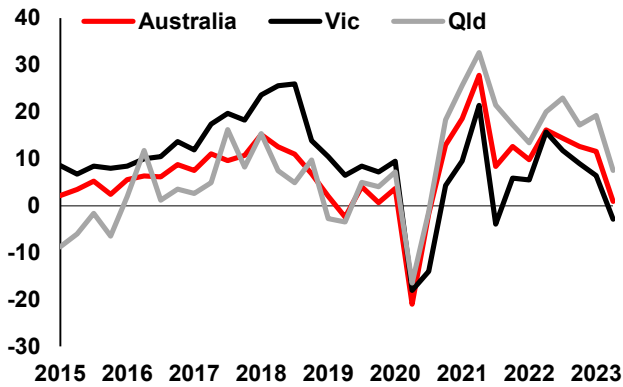


Chart 19: SME Confidence by State (Net Balance, SA)

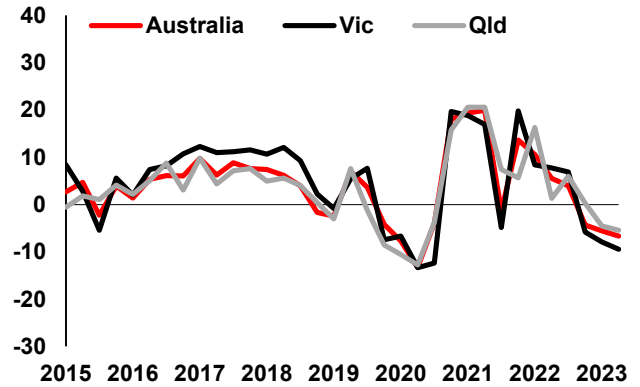


Chart 20: SME Conditions by State (Net Balance, SA)

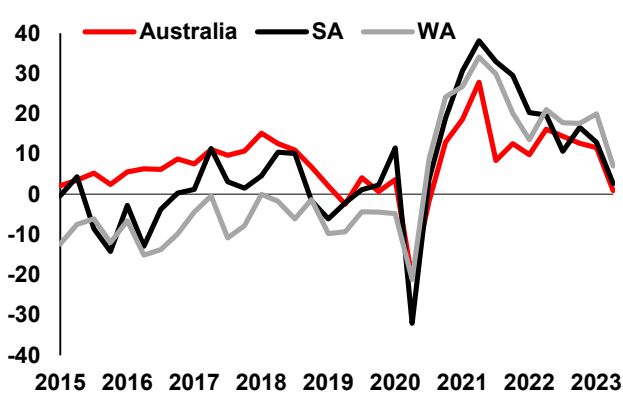
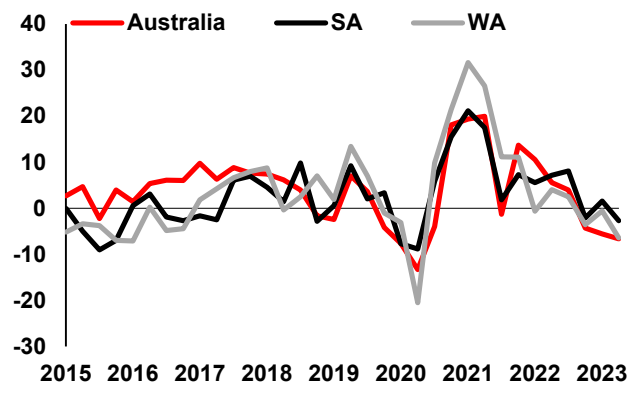


Chart 21: SME Confidence by State (Net Balance, SA)



# SME Indicators by Industry

Chart 22: SME Conds. & Conf. by Industry (Net Bal., SA)

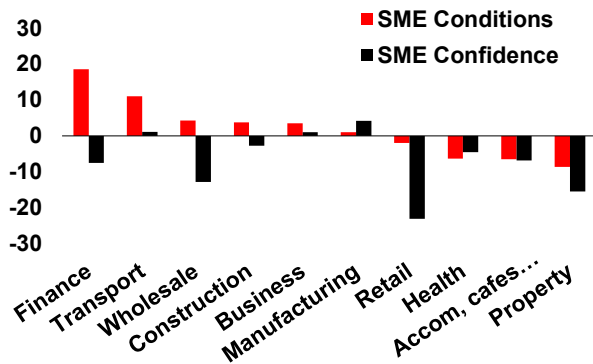


Chart 23: SME Conditions by Industry (Net Balance, SA)

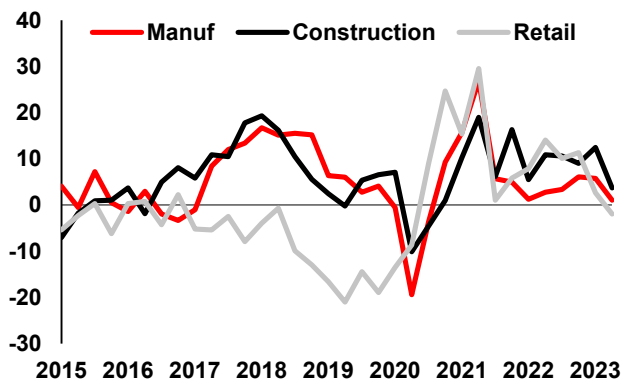


Chart 24: SME Confidence by Industry (Net Balance, SA)

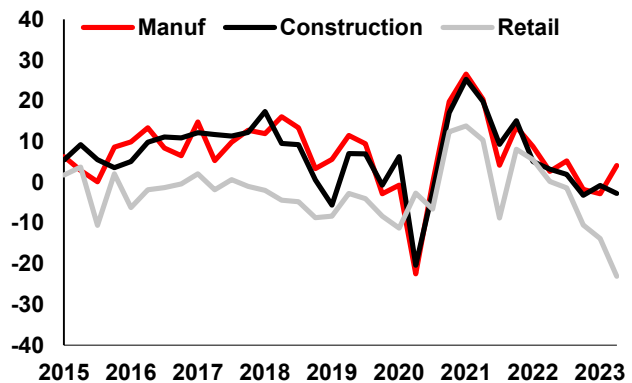


Chart 25: SME Conditions by Industry (Net Balance, SA)

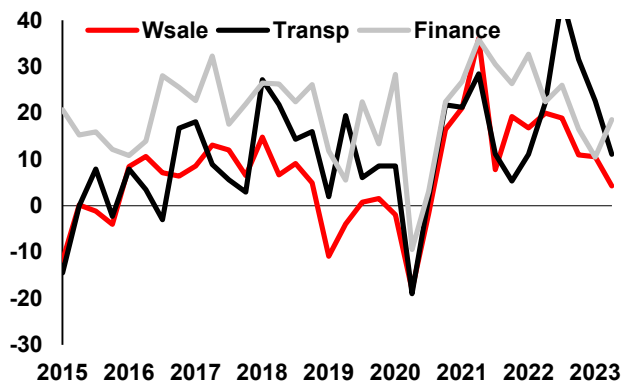


Chart 26: SME Confidence by Industry (Net Balance, SA)

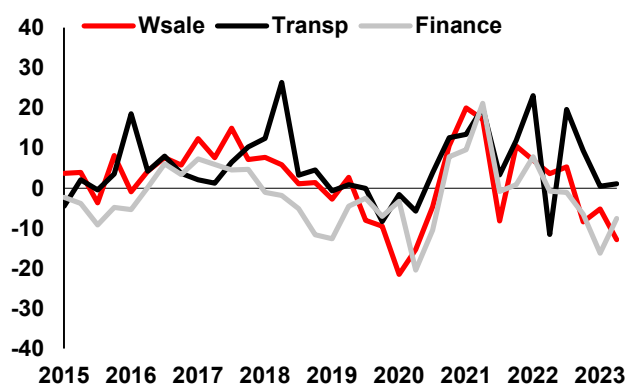


Chart 27: SME Conditions by Industry (Net Balance, SA)

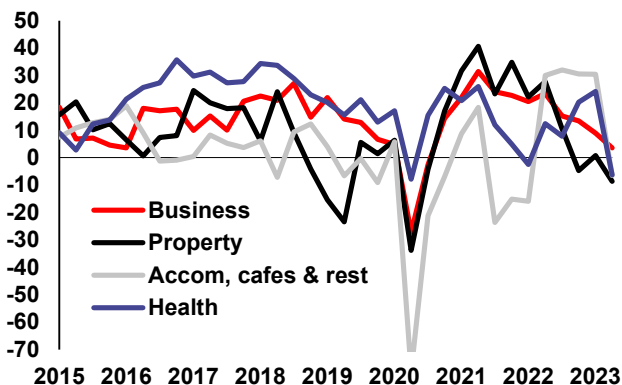
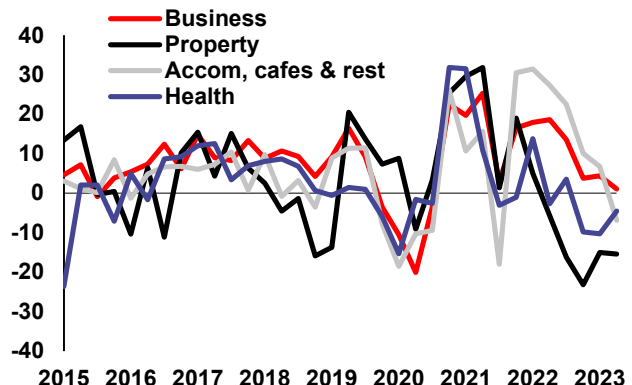


Chart 28: SME Confidence by Industry (Net Balance, SA)



# SME Indicators - Comparison to Larger Businesses

Chart 29: Business Conditions (Net Balance, SA)

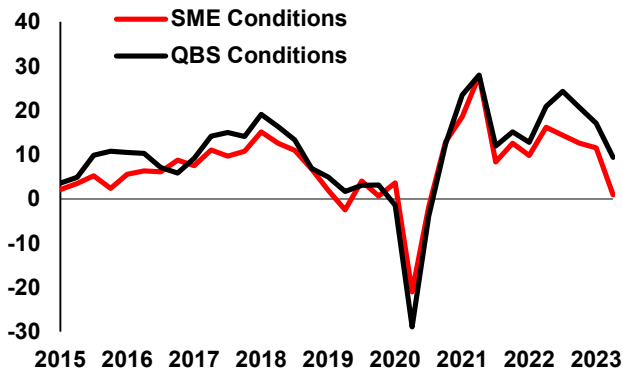


Chart 30: Business Confidence (Net Balance, SA)

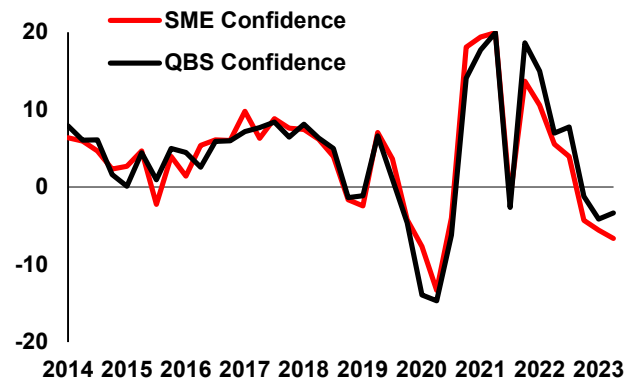


Chart 31: Trading Conditions (Net Balance, SA)

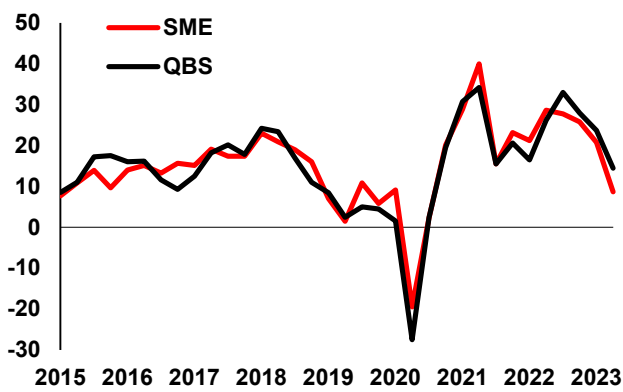


Chart 32: Profitability (Net Balance, SA)

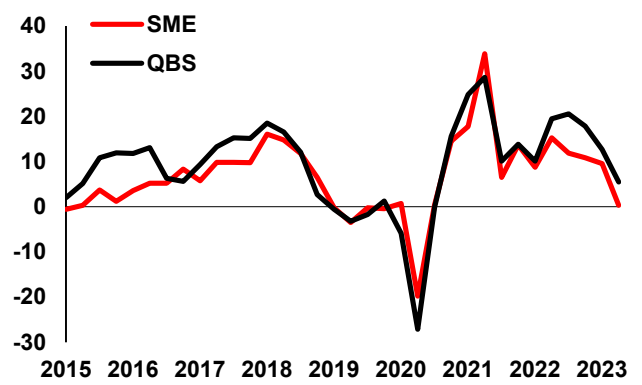


Chart 33: Employment (Net Balance, SA)

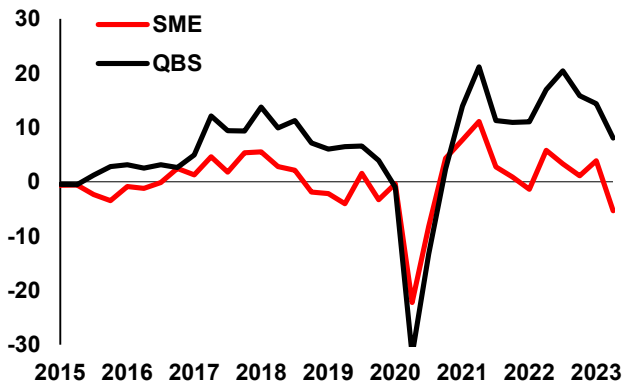


Chart 34: Forward Orders (Net Balance, SA)

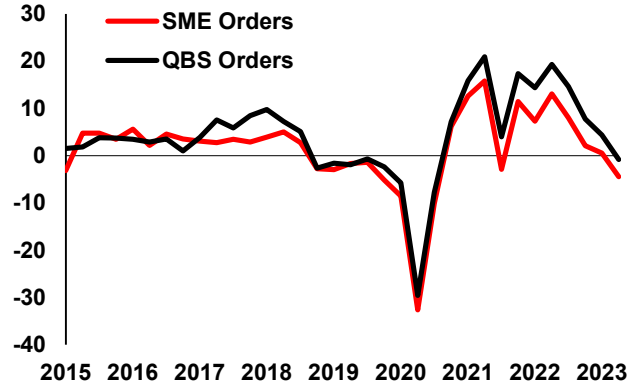


Chart 35: Capacity Utilisation (% , SA)

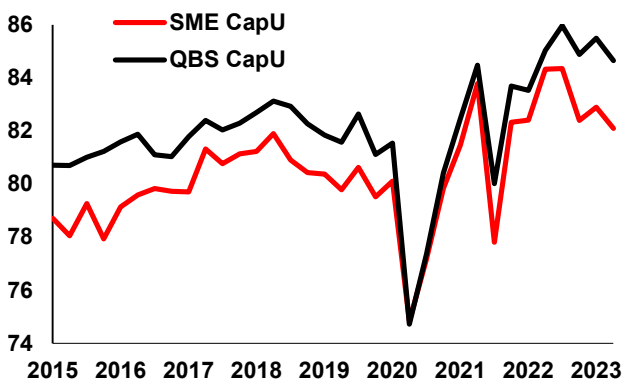
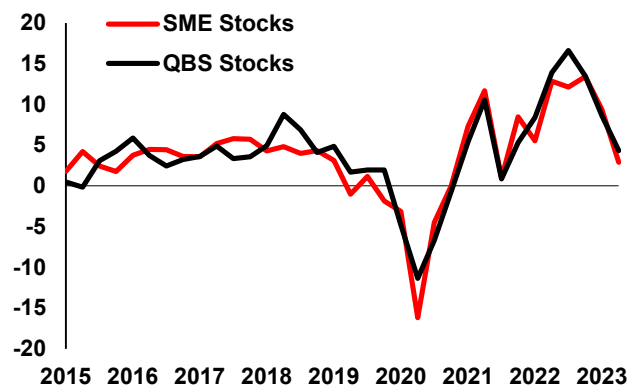


Chart 36: Stocks (Net Balance, SA)



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