



NAB Quarterly SME Survey Q3 2023

SME conditions improve but smallest firms still negative

NAB Group Economics

Summary

SME business conditions improved in Q3, rising back to around average levels at +7 index points, but the improvement was limited to medium and larger SMEs with conditions for the smallest firms still negative. The improvement came through profitability and employment, while trading conditions remained robust, with SMEs in health, hospitality and transport all seeing noticeable improvements in the quarter. The improvement in SME conditions mirrored a small pickup reported by larger firms in the Quarterly Business Survey. SME confidence also improved in Q3 although it remained negative at -3 index points, and forward orders rose to be at -2 index points. Cost growth remained elevated with labour cost growth picking up to 1.8% in the quarter, and labour availability remained a significant constraint for around 40% of SMEs – though materials availability has continued to improve, now a significant constraint for less than 10% of SMEs. Price growth also remained elevated at 1.1% overall, in line with persistent inflation pressures seen in official data.

Survey Details

- **SME business conditions** rose 5pts to +7 index points, just above the long-run average of +6. Conditions improved most for medium and larger SMEs, with the index still weak for the smallest firms at -4 index points. The employment and profitability indices rose, partially reversing the weak Q2 result, while trading conditions were steady.
- **By industry**, SME conditions rose across all industries except for wholesale and finance, with significant increases in health (up 28pts), accommodation, cafes & restaurants (up 16pts) and transport & storage (up 18pts). SME conditions are now only negative in property at -3 index points.
- **SME business confidence** rose 4pts to -3 index points. By industry, SME confidence was weak or negative across the board except for finance and accommodation, cafes & restaurants. SME confidence remains weakest in retail at -14 index points.
- **Across the states**, SME conditions rose across the board, with conditions strongest in Qld and weakest in NSW. SME confidence turned positive in Qld but remained negative across all other states.
- **Compared to larger firms** (as measured in the NAB Quarterly Business Survey), SME conditions were materially softer – though this was primarily due to the weakness among the smallest firms. Confidence was similarly negative across both larger firms and SMEs.
- **Leading indicators** improved. Forward orders rose 2pts to -2 index points while capex remained steady at +5 index points and capacity utilisation rose to 82.6% (from 82.4%).
- **Cost pressures** remain elevated. Purchase cost growth edged down to 1.7% in quarterly terms, while labour costs growth was 1.8%, up from 1.5% in Q2. Final prices grew at 1.1% overall (down from 1.2%) and the sales margin index improved to -8 index points (from -15 in Q2).

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

	2023 q1	2023 q2	2023 q3
Business Confidence	-5	-7	-3
Low-tier firms	-2	-4	-3
Mid-tier firms	-9	-7	-5
High-tier firms	-5	-7	-3
Business Conditions	11	1	7
Low-tier firms	2	-5	-4
Mid-tier firms	14	4	10
High-tier firms	14	4	9
Comparison to QBS (Non-SMEs)			
QBS Confidence	-4	-4	-1
QBS Conditions	18	11	13

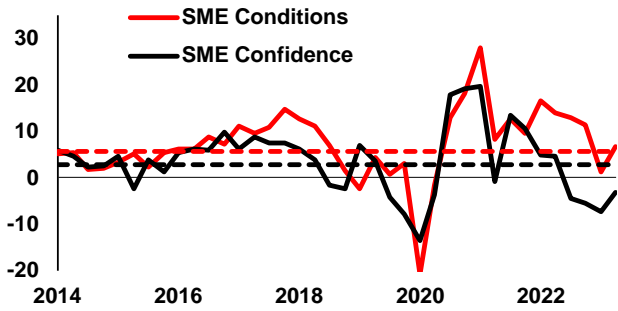
Table 2: SME Conditions by Component (Net Balance, SA)

	2023 q1	2023 q2	2023 q3
Trading Conditions	20	12	12
Low-tier firms	13	4	-1
Mid-tier firms	25	11	20
High-tier firms	23	13	15
Profitability	10	1	5
Low-tier firms	0	-10	-10
Mid-tier firms	14	6	8
High-tier firms	10	3	10
Employment	4	-5	2
Low-tier firms	-4	-14	-1
Mid-tier firms	2	-3	1
High-tier firms	9	-2	4

All data seasonally adjusted, except purchase costs and exports. Survey conducted from 21 August to 7 September 2023, covering over 700 firms across the non-farm business sector. **Next release date: 8 February 2024 (to be confirmed).**

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)

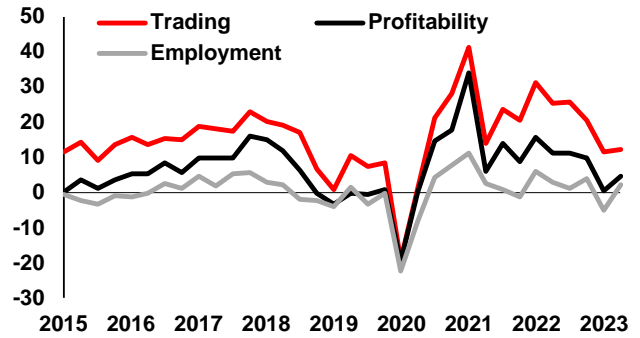


Chart 3: SME Conditions & Cash Flow (Net Balance, SA)

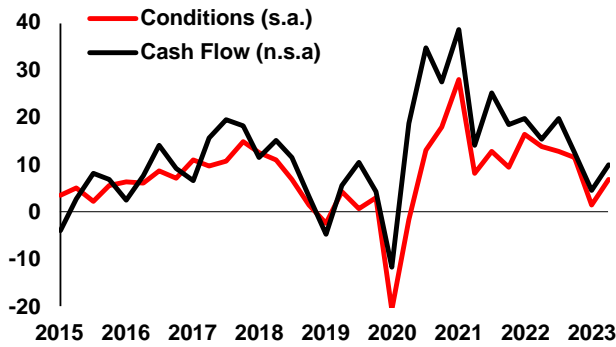
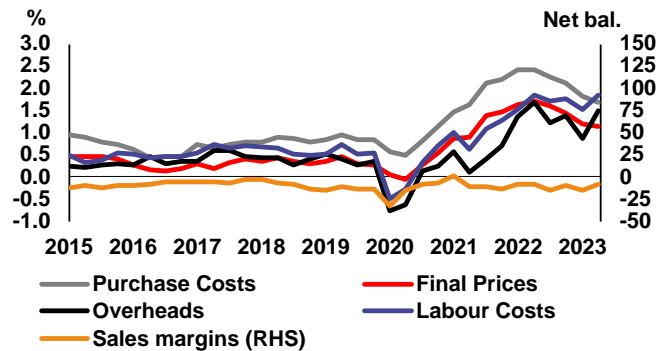


Chart 4: SME Input Costs, Price Growth & Margins



Constraints on SME Output

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

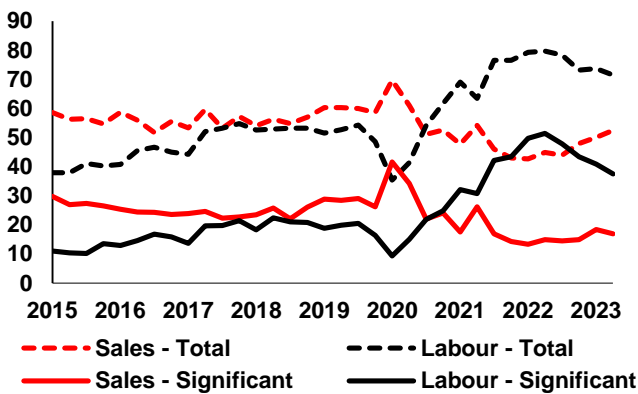
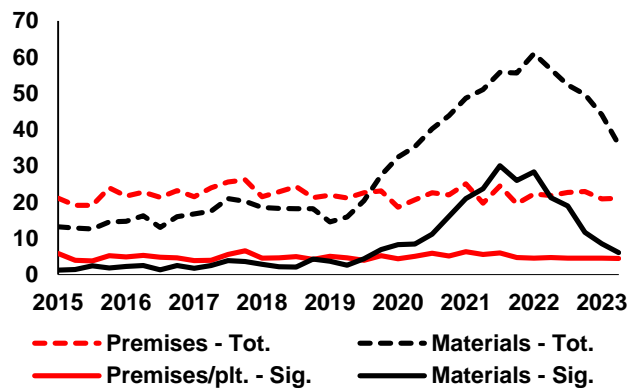


Chart 6: Factors Constraining SME Output (% of Firms)



SME Indicators by Firm Size

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

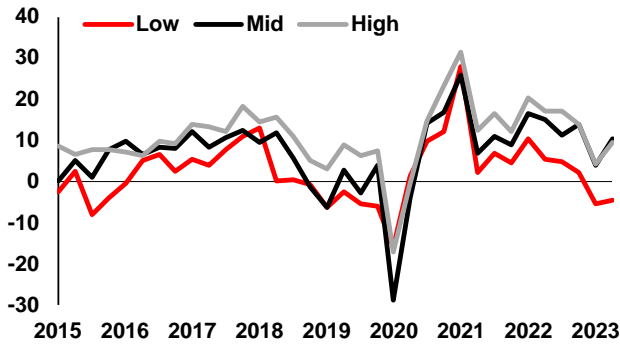


Chart 8: SME Confidence by Firm Size (Net Balance, SA)

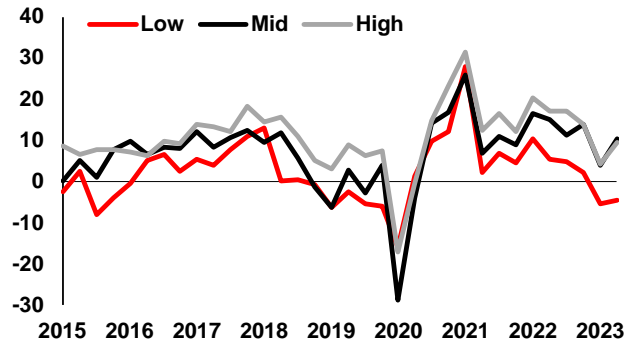


Chart 9: Trading Conds. by Firm Size (Net Balance, SA)

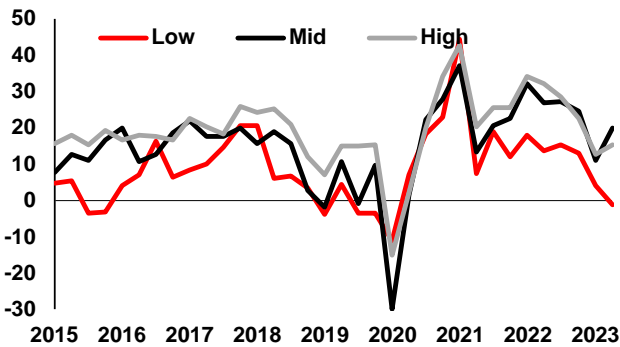


Chart 10: Profitability by Firm Size (Net Balance, SA)

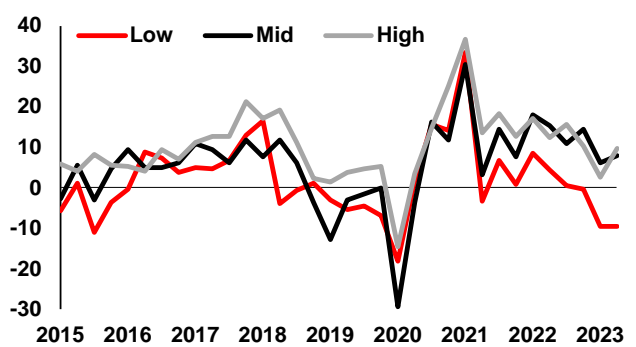


Chart 11: Employment by Firm Size (Net Balance, SA)

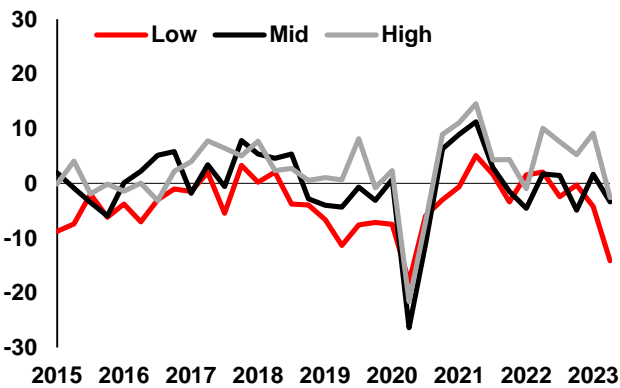


Chart 12: Cash Flow by Firm Size (Net Balance, NSA)

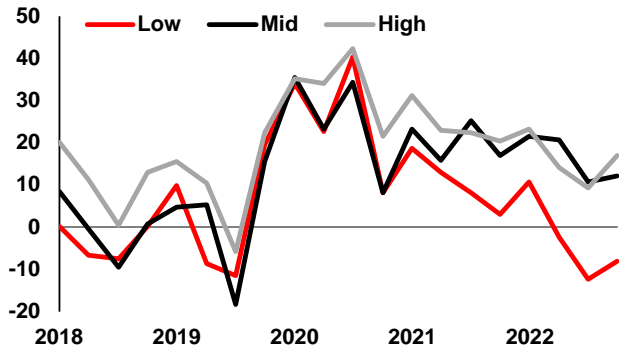


Chart 13: Capacity Utilisation by Firm Size (% , SA)

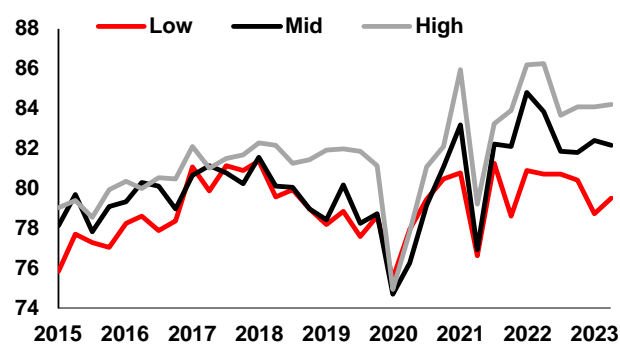
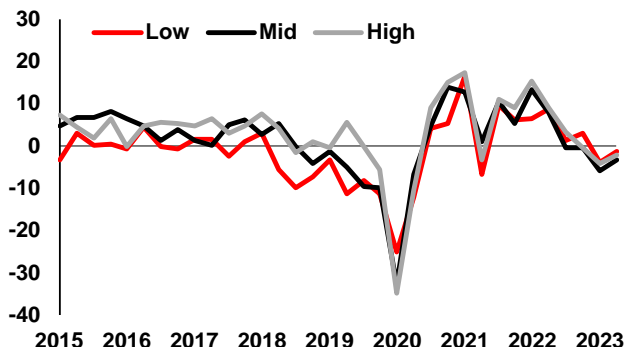


Chart 14: Forward Orders by Firm Size (Net Balance, SA)



SME Indicators by State

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

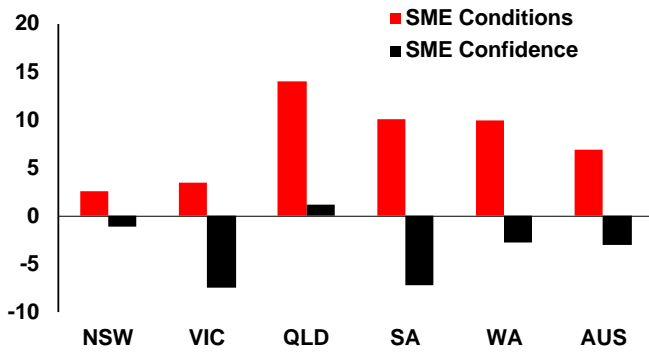


Chart 16: SME Conditions by State (Net Balance, SA)

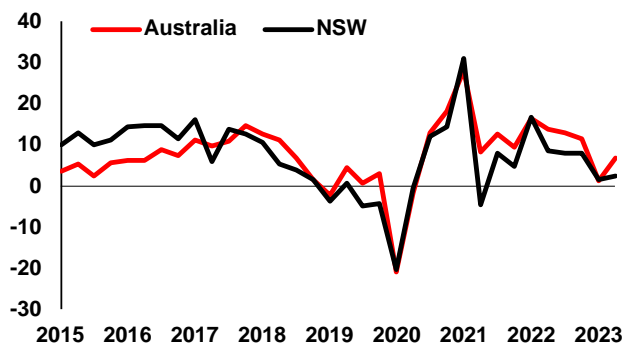


Chart 17: SME Confidence by State (Net Balance, SA)

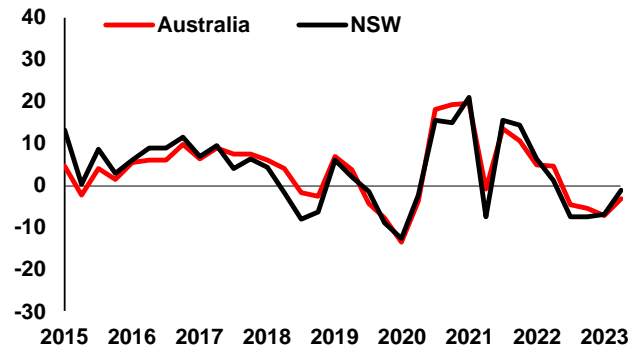


Chart 18: SME Conditions by State (Net Balance, SA)

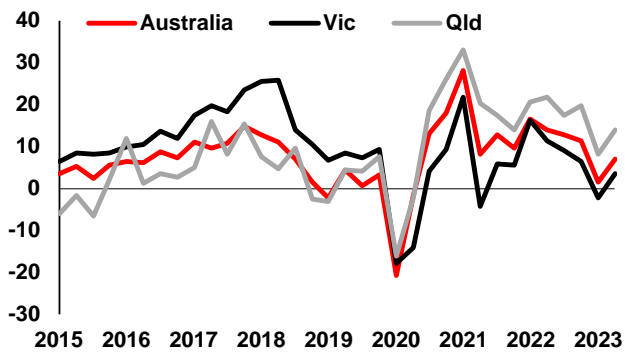


Chart 19: SME Confidence by State (Net Balance, SA)

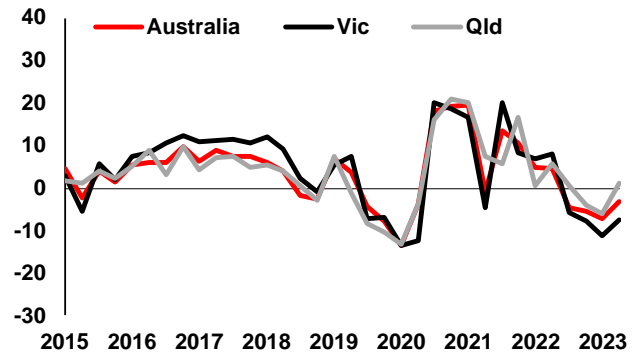


Chart 20: SME Conditions by State (Net Balance, SA)

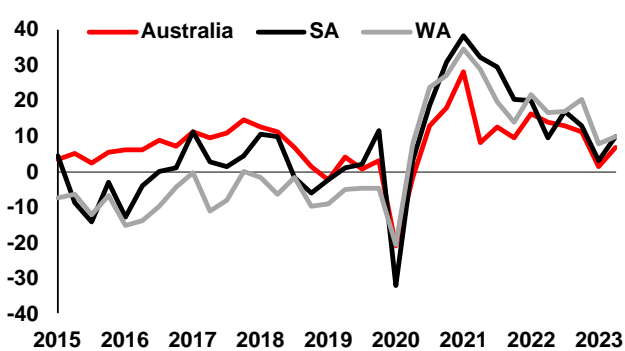
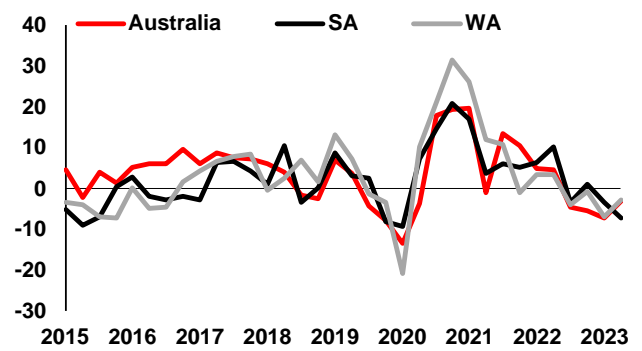


Chart 21: SME Confidence by State (Net Balance, SA)



SME Indicators by Industry

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

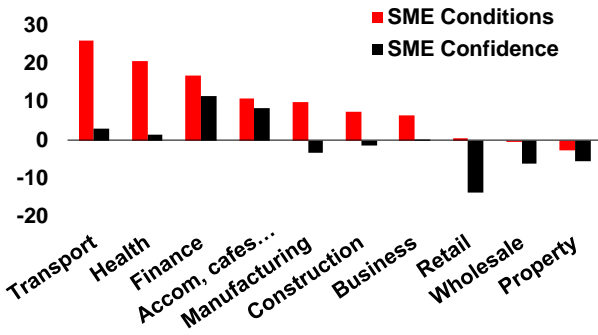


Chart 23: SME Conditions by Industry (Net Balance, SA)

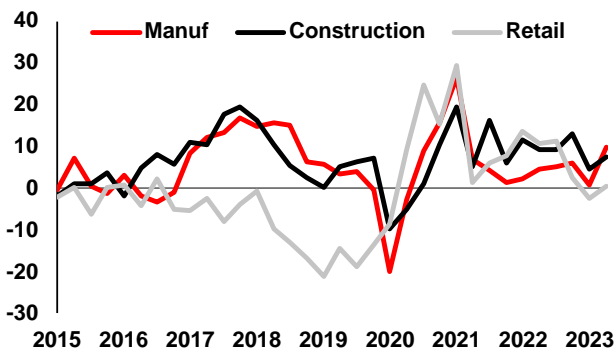


Chart 24: SME Confidence by Industry (Net Balance, SA)

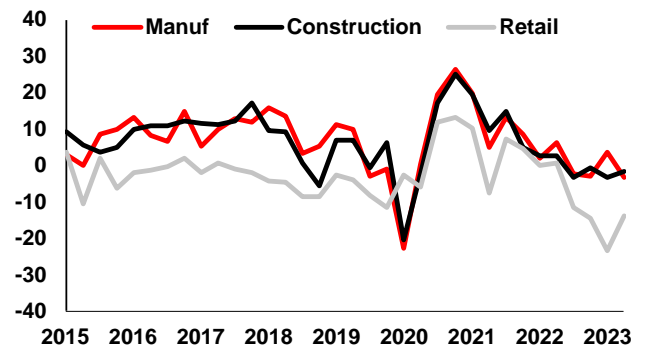


Chart 25: SME Conditions by Industry (Net Balance, SA)

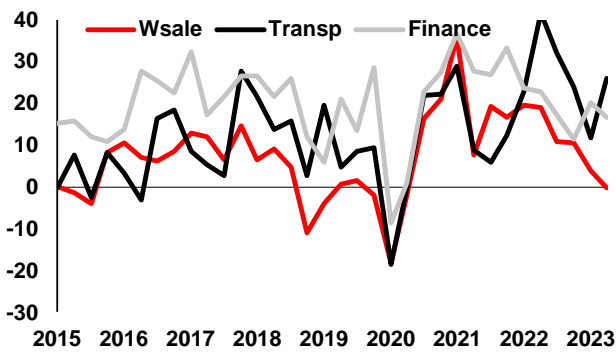


Chart 26: SME Confidence by Industry (Net Balance, SA)

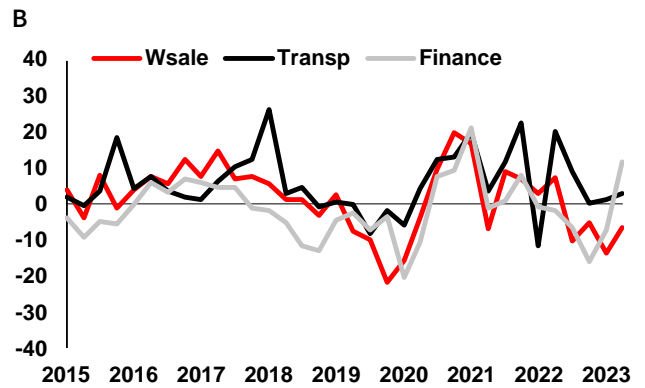


Chart 27: SME Conditions by Industry (Net Balance, SA)

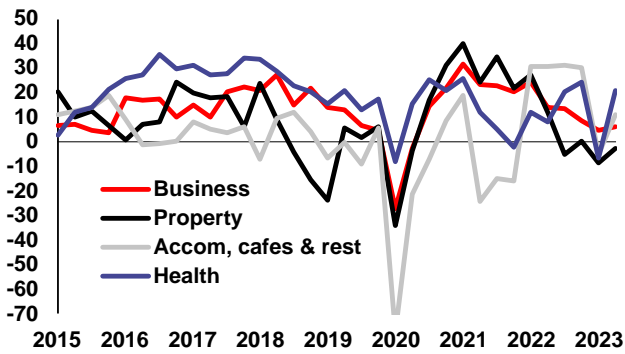
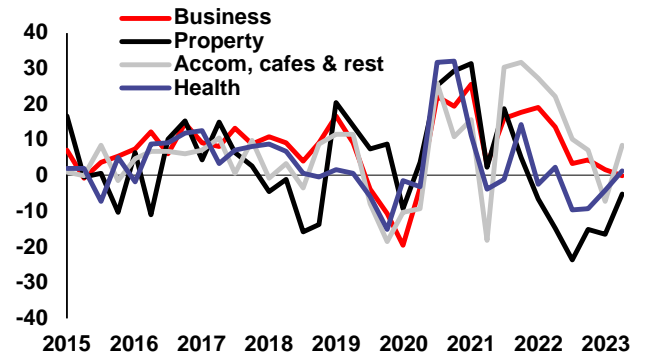


Chart 28: SME Confidence by Industry (Net Balance, SA)



SME Indicators - Comparison to Larger Businesses

Chart 29: Business Conditions (Net Balance, SA)

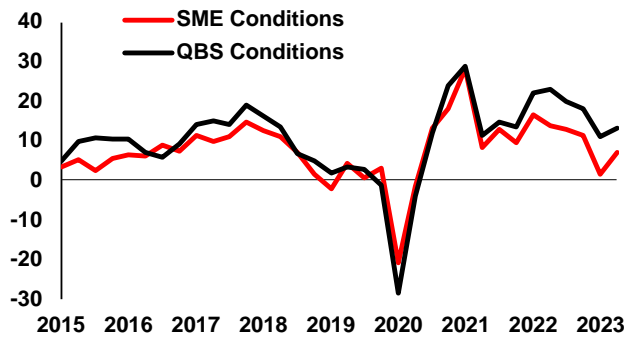


Chart 30: Business Confidence (Net Balance, SA)

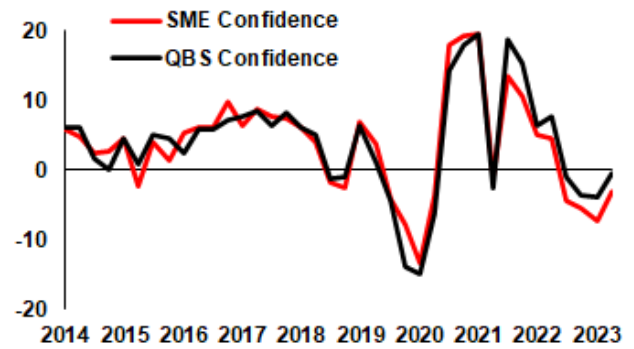


Chart 31: Trading Conditions (Net Balance, SA)

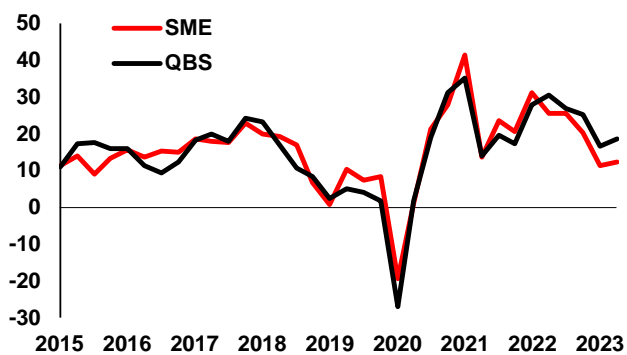


Chart 32: Profitability (Net Balance, SA)

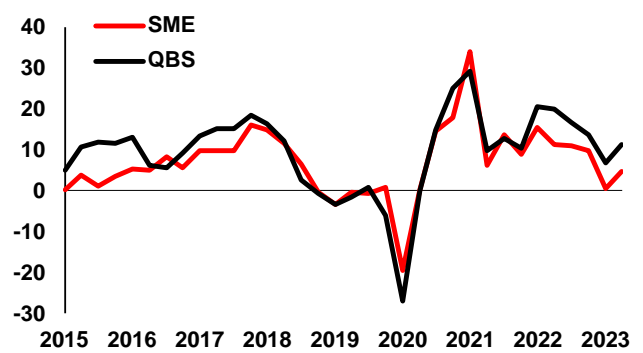


Chart 33: Employment (Net Balance, SA)

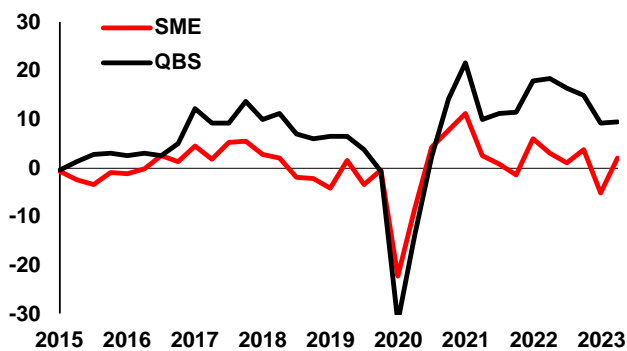


Chart 34: Forward Orders (Net Balance, SA)

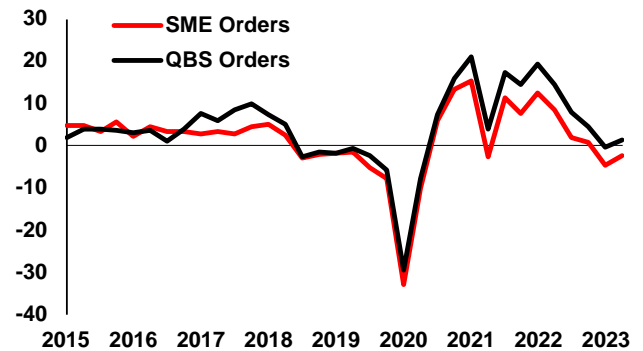


Chart 35: Capacity Utilisation (% , SA)

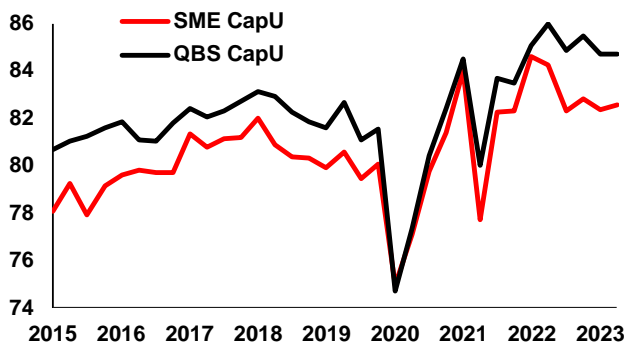
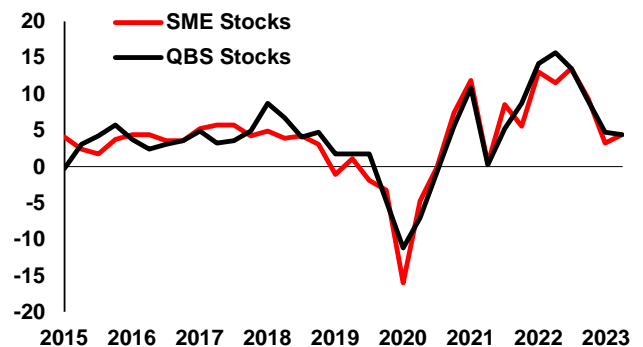


Chart 36: Stocks (Net Balance, SA)



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