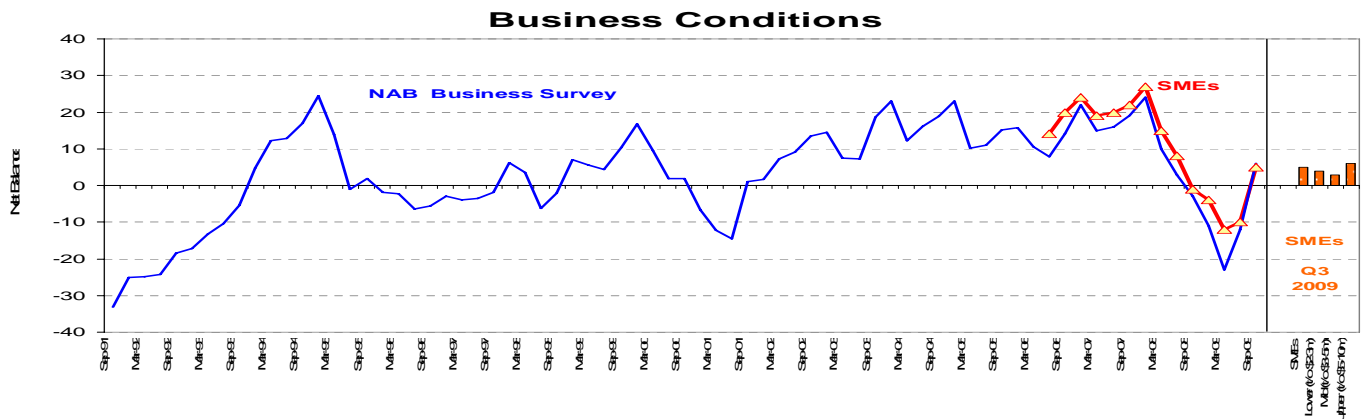


NAB's SME Survey, Australia – September Quarter, 2009

SME CURRENT BUSINESS CONDITIONS & KEY DRIVERS

SME business conditions improve considerably and turn positive in the September quarter. But SMEs performed slightly weaker than their larger counterparts in Q3

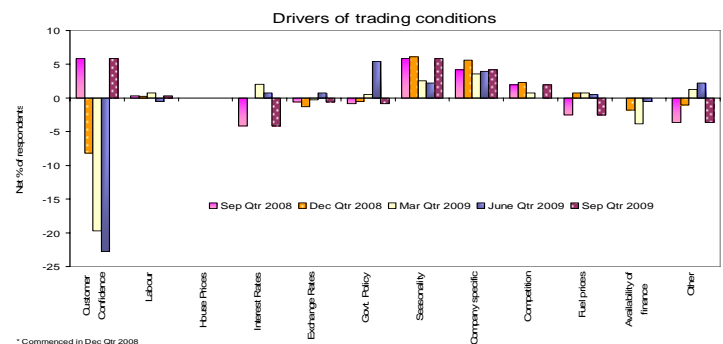
- Business conditions amongst Australia's small to medium sized businesses improved considerably and turned positive in the September quarter, according to NAB's business survey of SMEs (small & medium enterprises).
- NAB's SME business conditions index improved by 15 points to turn positive at 5 index points in the September quarter (with 25% of SMEs reporting good or very good conditions and 20% poor or very poor conditions). By comparison, larger businesses performed slightly better at 6 index points (an improvement of 20 points).
- By size grouping, all SMEs reported positive and broadly similar conditions in the September quarter, with each segment recording an improvement in conditions. Small SMEs (annual turnover between \$2-3m) and mid sized SMEs (annual turnover between \$3-5m) were broadly similar at 3 and 4 index points respectively. Large sized SMEs (annual turnover between \$5-10m) recorded the strongest improvement, and were the best performing at 6 index points.



Moreover, SMEs are optimistic about the 12 month profitability outlook

Positive (and vastly improved) Customer confidence/demand, better seasonal conditions and more favourable competitive factors are the key drives of trading conditions.

- In terms of the main drivers of activity in the September quarter, SMEs highlighted:
 - Positive (and sharply improved) customer confidence/demand
 - Positive impact from seasonal and competitive factors
 - Poor (negative) impact from interest rates and 'other' factors (e.g. ineffective marketing).



Key SME Indicators – Australia*

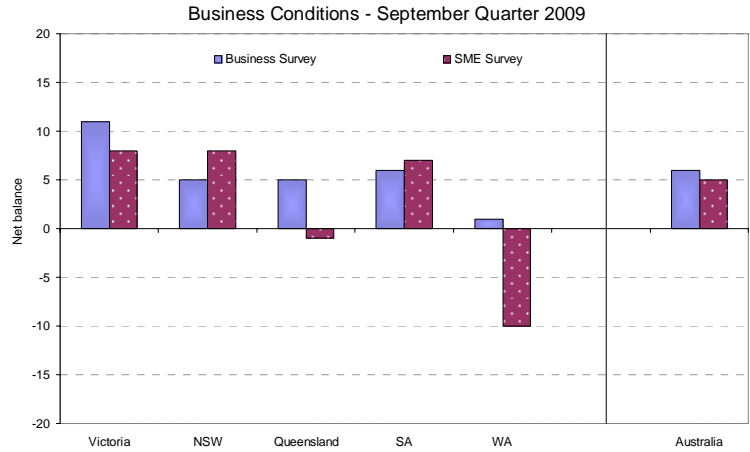
Business Conditions	Q2	Q3	Profitability Outlook	Q2	Q3
	2009	2009		2009	2009
All	-12	6	All	3	30
SMEs	-10	5	SMEs	1	27
<i>By SME size band:</i>			<i>By SME size band:</i>		
Lower (turnover \$2-3 m pa)	-7	4	Lower (turnover \$2-3 m pa)	1	23
Mid (turnover \$3-5 m pa)	-6	3	Mid (turnover \$3-5 m pa)	2	31
Upper (turnover \$5-10 m pa)	-13	6	Upper (turnover \$5-10 m pa)	1	26

* All data is not seasonally adjusted. About 700 firms, with annual turnover between \$2-10 million, were surveyed between late August and early September. A time series database is available by subscription: Email jbrand@nab.com.au

SME CONDITIONS BY STATE & INDUSTRY

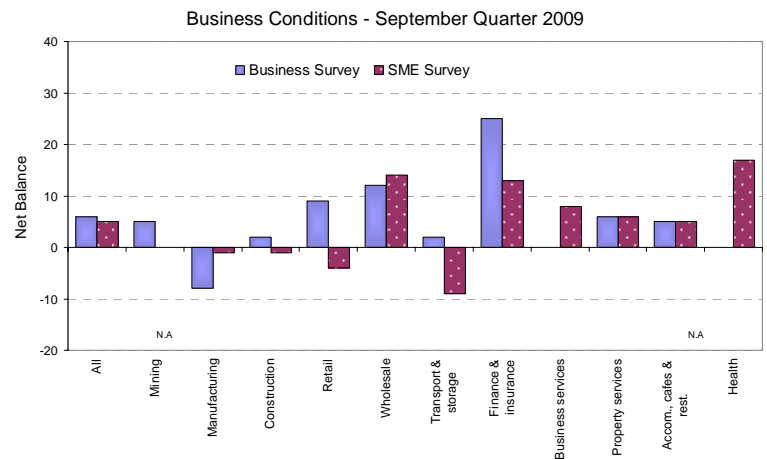
SME conditions improve, with VIC and NSW the best performing. SMEs in all states – except WA & Qld – report positive conditions

- All states, except WA, recorded an improvement in conditions in the September quarter. Unlike last quarter, when all states recorded poor conditions, most states (ex Qld and WA) recorded positive conditions.
- Victoria and NSW were jointly the best performing states this quarter, followed closely by SA. All three states performed better than the national average.
- WA was the laggard, followed by Queensland. Both recorded poor conditions this quarter.
- With the exception of NSW and SA, SMEs generally underperformed their larger state counterparts. This underperformance is most apparent in WA and Queensland.



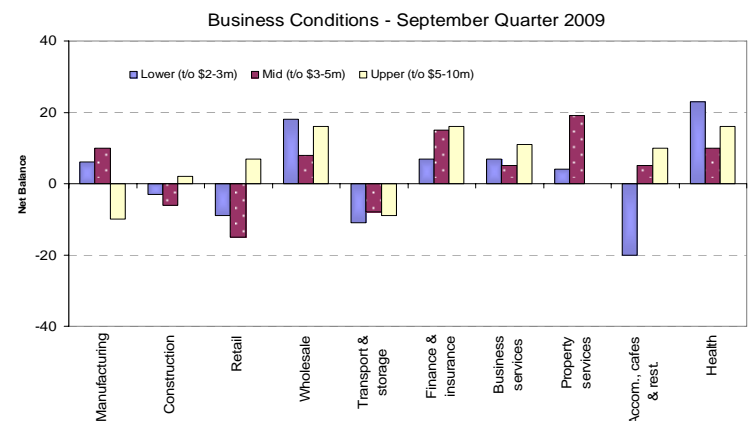
Health, wholesaling and finance were the strongest performing sectors among SMEs; transport, retail, manufacturing and construction reported poor conditions

- Health, followed by wholesaling and finance were the best performing SME sectors. Finance continues to benefit from an improvement in equities.
- In terms of quarterly movements, there were sharp improvements in manufacturing, construction, health and wholesaling. Transport was the only sector to deteriorate this quarter.
- SMEs performed better than their larger counterparts in business services, and manufacturing. However, they underperformed in retail, finance and transport.
- SME conditions were weak and poor in transport, retail (mainly food and motor vehicle), and most parts of construction and manufacturing.



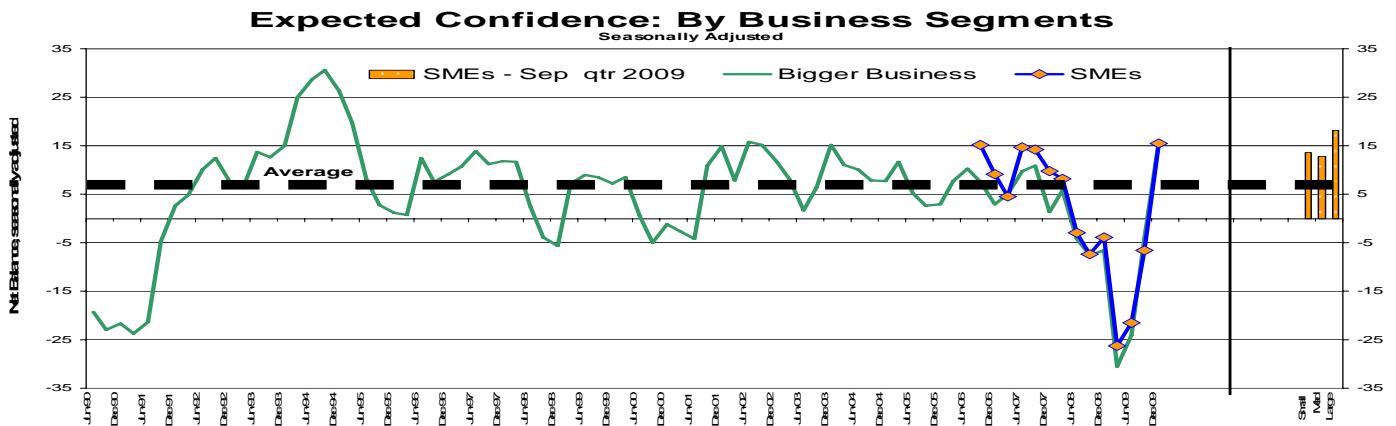
By SME size, the best performers were: small health and wholesale; medium finance and property services; and larger finance, health and wholesale. The weakest performers were: small accommodation, transport and retail; medium construction, retail and transport; and large manufacturing and transport

- For SMEs in the lower turnover size band (annual sales of \$2-3 million), the best conditions prevail in health and wholesale.
- In the mid SME size range (annual sales of \$3-5 million) conditions are most favourable in finance and property services.
- For SMEs in the upper size band (annual sales of \$5-10 million), conditions are generally best in health, finance and wholesale.
- Among the SMEs the weakest conditions were in: small accommodation, transport and retail; medium construction, retail and transport; and large manufacturing and transport.



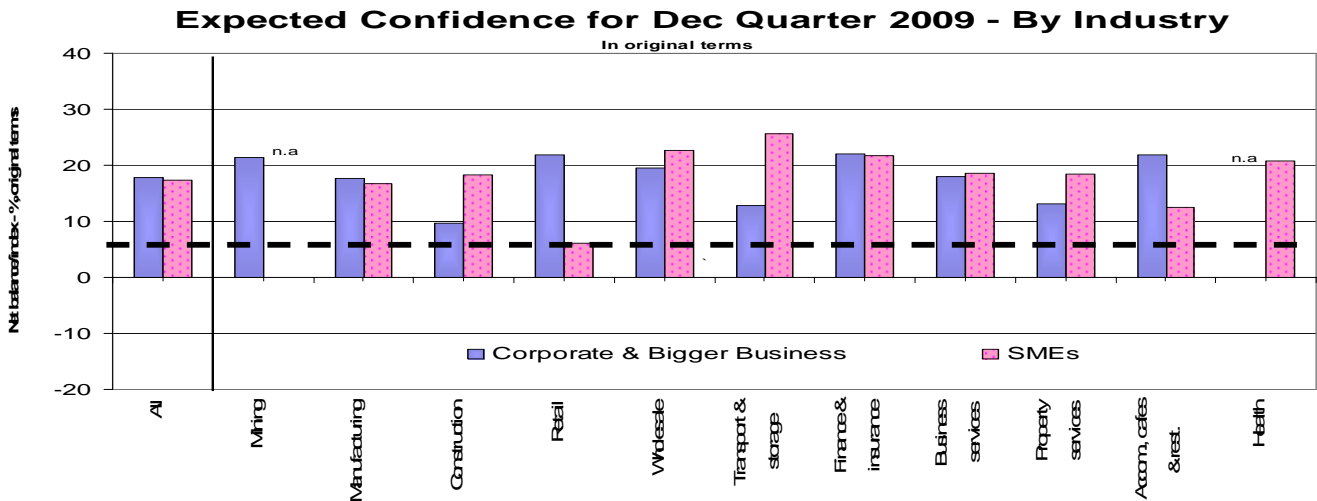
BUSINESS CONFIDENCE

Business confidence among SMEs for the December quarter, 2009, improved significantly (by 22 index points), to a positive reading of 15 index points – not much different from their larger counterparts at 16 index points. All 3 segments of SMEs were more upbeat about their outlook relative to last quarter, and all reported a positive outlook for the December quarter. There was a slight difference across sectors – with large SMEs the most optimistic at 18 index points. Small and medium sized SMEs reported a broadly similar outlook at 14 index points and 13 index points respectively.



Turning to confidence by sector, SMEs are optimistic about all sectors, in contrast to the previous quarter, when most sectors (ex finance) were still pessimistic. The most optimistic sector overall (SMEs & large) was small transport operators. Other SME sectors which were very optimistic include: health, wholesale, finance, business services and property services. Retailers were the least optimistic among the SMEs. For most sectors, SMEs and their larger counterparts have a broadly similar view of near term confidence with the exception of:

- Construction, wholesale, transport and property services – SMEs more confident.
- Retail and accommodation – SMEs less confident.



Business Confidence for the Next Quarter

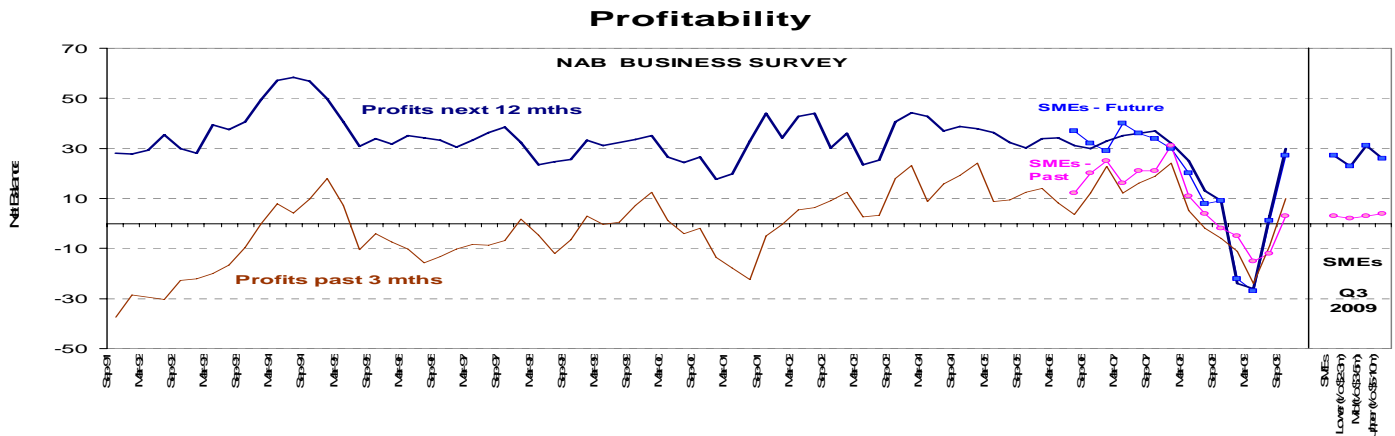
	June '09 Survey	Sep' 09 Survey
All	-4	16
SMEs	-7	15
<i>By SME size band:</i>		
Lower (turnover \$2-3 m pa)	-4	14
Mid (turnover \$3-5 m pa)	-5	13
Upper (turnover \$5-10 m pa)	-9	18

*Confidence Data has been seasonally adjusted by the National

SME PROFITS & CONSTRAINTS

SMEs profits growth improves strongly, and turns positive in the September quarter. 12 month outlook improves significantly and reflects an optimistic outlook.

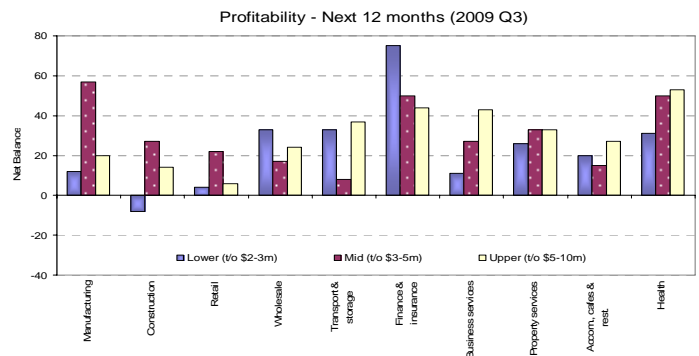
- SMEs reported a slight positive for profit growth in the September quarter, with the Nab's SME profit index up 15 points to 3 index points (as 27% of SMEs reported good/very good profits and 24% cited poor/very poor profits).
- The 12-month profit outlook for SMEs has also improved significantly – following from record lows last quarter - and reflects strong optimism about prospects for the year ahead. It rose by 26 index points to 27 index points, but, was marginally weaker than the outlook for large businesses (at 30 index points). That said, SMEs are now the most optimistic about the annual outlook since December 2007.
- Amongst SMEs, all 3 categories are optimistic about the annual profitability outlook – although there remain some differences. SMEs with medium sales turnover (at 31 index points) are the most optimistic, followed by large sized SMEs (at 26 index points) and small sized SMEs (at 23 index points).



Profit outlook best in all segments of finance and health; small wholesale and transport; medium property and manufacturing; and large business services and transport.

Medium term (12-month) profit outlook:

- For SMEs in the lower turnover band (annual sales of \$2-3 million), the profit outlook is best in finance, health, wholesale and transport
- In the mid sized segment (annual turnover between \$3-5 million), the profit outlook is most favourable in health, finance, property and manufacturing.
- For large sized SMEs with annual sales of \$5-10m, the 12-month profit outlook is strongest in health, business services, finance and transport.

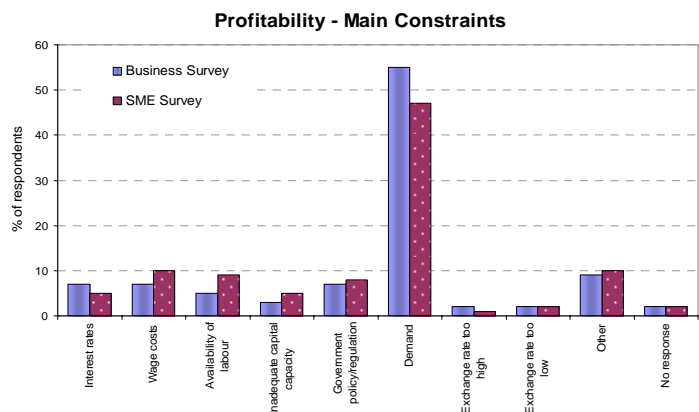


Demand - and to a much lesser extent – government, wages & ‘other’ factors are the main constraints on SMEs’ profit outlook

In terms of the 12 month profit outlook, SMEs are most concerned about:

- Weak demand; and to a much lesser extent:
- Government policies
- Wage costs & labour availability and
- Other – specified mainly as tighter competition, drought, availability of materials and funding costs.

This is broadly in line with the views of larger business, albeit SMEs place a greater degree of importance on wages and labour availability. Demand, on the other hand, is relatively less of a concern.



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