

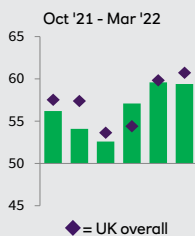
NatWest Sustainable Business Tracker

UK businesses increase investment in green energy as global supply chains and energy prices pinch

NatWest SME Recovery PMI

59.4
Feb: 59.6

Business Activity Index



NatWest SME Sustainability PMI

40%

Sep '21: 41%

Key findings

1 in 6 SMEs intend to generate onsite green energy by 2023

1 in 3 SMEs plan to invest in electric vehicles or charging points by next year

21% of SMEs are set to train or hire staff in sustainability in the next year

Low carbon energy demand was the only component of the NatWest Sustainability PMI to rise since last autumn, with 41% of businesses citing this as a high priority

Strong SME recovery in March, led by service sector growth

The NatWest Sustainable Business Tracker is a new quarterly report, designed to monitor business performance and sustainability actions at UK enterprises with 1-249 employees. Results are compiled from responses to S&P Global UK Purchasing Managers' Index[®] (PMI[®]) surveys.

We track sustainability actions among small and medium-sized enterprises (SMEs) across five main categories. The latest report includes a special feature on green energy investment.

A strong recovery in business activity at UK small and medium-sized enterprises has been achieved so far in 2022. However, input price inflation hit a record high in March and subsequent worries about absorbing increasing costs were cited as a key constraint on sustainability action.

Despite this, adopting low carbon energy saw an overall rise in prioritisation. This has been reflected in planned investments in onsite green energy generation, electric vehicle infrastructure and hiring and training staff in sustainability.

Only 7% of SMEs have already reported investing in onsite green energy generation, but this number could more than double by 2023 as a further 10% of SMEs reported plans to begin within the next 12 months. This suggests that around 1 in 6 SMEs (17%) intend to generate onsite green energy by 2023. SMEs mainly anticipate solar panel installations and battery storage investments to protect their business against ongoing energy price rises.

Around 15% of SMEs report that they have already invested in electric vehicle

infrastructure, such as electric car fleets or charging points. Similarly, this number could more than double by 2023 as another 20% plan to do so in the next year. This suggests that around 1 in 3 SMEs (35%) will have invested in electric vehicles or charging points by next year.

Meanwhile, just 13% of SMEs report that they have secured a renewable energy supplier, but another 10% plan to do so in the year ahead.

Training or hiring staff in sustainability was the most commonly cited investment in the year ahead for SMEs (21%), whereas for larger firms it is 44%. By sector, efforts to boost training and hiring were most prevalent among SME service providers (22% vs. 16% of SME manufacturers).

There were some bright spots for sustainability action in the SME manufacturing sector. The proportion reporting investments in sustainable product launches rose slightly to 32%, up from 31% in the previous survey in September 2021. Those monitoring supply chain sustainability jumped to 40%, up from 35%, and above the pre-pandemic benchmark (37%).

Looking at business performance, SME service providers saw the fastest growth of all three monitored sectors in March (60.7), as fewer pandemic restrictions helped to boost demand.

SME construction output also expanded at a sharp pace (58.8), but the manufacturing recovery remained relatively subdued (52.7) as widespread supply chain issues and escalating costs hit the sector. The overall rate of input price inflation at UK SMEs was the steepest since this index began in January 1998, which was driven by escalating energy, fuel and wage bills.

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Foreword



As energy price concerns for households continue to dominate headlines, the results of the latest NatWest Sustainable Business Tracker remind us that it is also a major concern for UK businesses. But these pressures on global supply chains and energy price rises are encouraging businesses to increase investment in renewable energy and expertise.

The most striking findings include 44% of large businesses planning to train or hire staff in sustainability in the next year and 17% of SMEs planning to invest in onsite green energy generation by 2023 - so it is crucial that investors and lenders are ready to support businesses' green plans.

Our latest NatWest Sustainable Business Tracker shows that companies are increasingly planning to switch to greener energy sources as they feel the pinch from global supply chains and energy prices. This includes 20% of SMEs planning to start investing in electric vehicles or charging points in the next year. 15% of SMEs have done this already so it is important progress that this figure could more than double by next year. Environmental knowledge is also at a premium with 21% of SMEs planning to train or hire staff in sustainability by 2023.

Increasingly SMEs are recognising that sustainability measures can boost their recovery, fuel their growth and future proof their business. Current energy pressures are leading companies to look for ways to increase efficiency, lower energy bills and invest in employees with green knowledge. NatWest's Springboard to Sustainability report, published in October 2021, found that 50% of the UK's carbon reduction ambition can be delivered by the SME sector. This could also unlock a £160 billion opportunity for them. Sustainability, recovery and growth go hand-in-hand and SMEs need to be supported to know how to make the most of the opportunities that lie ahead.

Perhaps one of the most standout findings

has been that although only 7% of SMEs have already reported investing in onsite green energy generation, this number could more than double to 17% by 2023. A further 10% of SMEs said they plan to begin within the next 12 months. This illustrates how secure sustainable energy has become a higher priority for SMEs.

Meanwhile, just 13% of SMEs report that they have secured a renewable energy supplier, but another 10% plan to do so in the year ahead.

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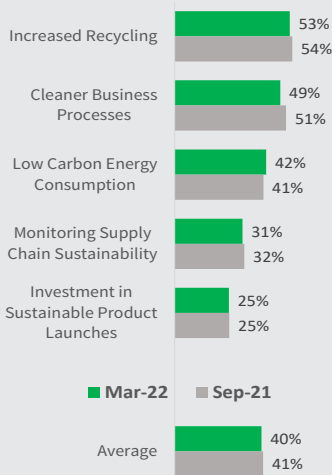
This quarter's PMI survey shows encouraging progress in the right direction, but there is clearly still a lot to do. As the UK's largest business bank, to help support SMEs to take advantage of the growth opportunity that lies ahead, we've committed to lending £100 billion of Climate and Sustainable Funding and Financing by the end of 2025. We'll also continue to focus on advice, education, coaching and products that can help SMEs contribute to cutting the UK's carbon emissions by half; we encourage SMEs and business leaders who need support and guidance to go greener, to speak to one of our Relationship Managers or visit natwest.com to discover how we can help.

Andrew Harrison
 Head of Business Banking
 NatWest

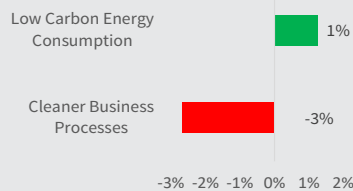
SME Sustainability PMI: Actions in the next 12 months

Which of the following actions, if any, is your company prioritising to improve environmental sustainability in the next 12 months?

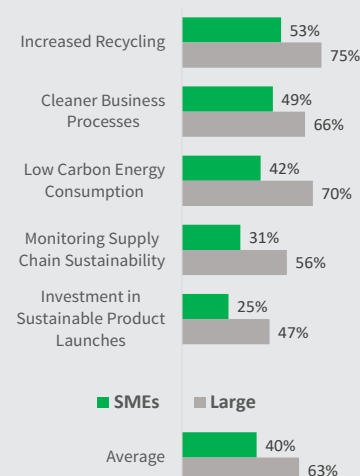
UK SME Sustainability PMI: Actions
Percent reporting 'high priority'



Top changes in percent of SMEs reporting 'high priority' (figures rounded)



SMEs vs. Large Companies (Mar-22)
Percent reporting 'high priority'



Low carbon energy consumption moves into focus for UK SMEs

In this section of the report we look at the actions on sustainability that UK SMEs are prioritising during the year ahead. The survey reveals a greater focus on low energy carbon consumption than last autumn, but all other categories have seen a decline.

The latest NatWest Sustainability PMI data illustrates the widest gap between the priorities of SMEs and large companies since the survey began in February 2020.

March data revealed another slide in the number of UK SMEs reporting a high degree of prioritisation for sustainability action during the year ahead. At 40% in March, the headline index measuring the average across the five sustainability categories was down from 41% in September 2021 and well below the pre-pandemic benchmark (44%).

In contrast, the portion of large companies reporting a high level of sustainability prioritisation climbed to 63% in March, up from 60% in September 2021 and much higher than the pre-pandemic figure (57%). As a result, the latest survey data indicated the widest gap between UK SMEs and large companies since the index began two years ago.

Two out of five SMEs cite low carbon energy consumption as a high priority

While small and medium-sized enterprises reported a slight overall reduction in the prioritisation of sustainability actions during March, the number planning to focus on low carbon energy consumption picked up since last autumn. Around 42% intend to prioritise low carbon energy consumption in the year ahead, up from 41% in September 2021 and further above the pre-pandemic benchmark (40%).

The number of large companies planning to prioritise low carbon energy consumption held steady overall at 70%

in March. A rise in the number of large service providers planning to prioritise low carbon energy consumption (78%) was offset by a decline in the manufacturing sector (62%).

Increased recycling remains the most commonly cited sustainability action

For the third consecutive survey period, increased recycling was the top priority for UK SMEs during the year ahead. Just over half (53%) indicated that increased recycling was a high priority. This action was followed by cleaner business processes (49%) in March's survey.

At the other end of the scale, only one-in-four UK SMEs reported that investment in sustainable product launches is a high priority in the next 12 months. This figure was broadly unchanged since September 2021.

Small and medium-sized manufacturers remain more likely to focus on sustainable product launches (32%) than services companies (19%) and the gap between the two sectors widened in March.

Just under one-third of SMEs intend to prioritise supply chain monitoring

March data pointed to a slight drop in the proportion of UK SMEs that felt supply chain monitoring was a high priority over the year ahead (31%, down from 32% last autumn). However, small and medium-sized manufacturers bucked the downward trend, with 40% focussing on this aspect of sustainability (up from 35% in September 2021).

Large manufacturers report a sharp rise in supply chain monitoring

More than half of all large companies (56%) noted that supply chain monitoring is a high priority for the year ahead.

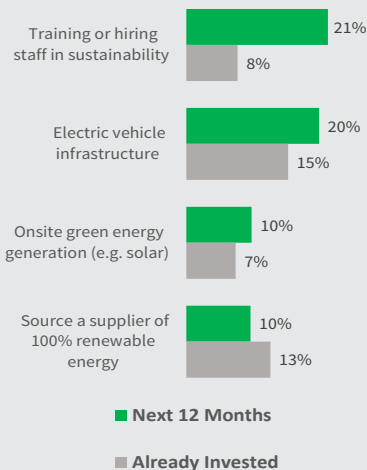
Manufacturers are especially likely to focus on supply chain sustainability, with the figure jumping from 57% to 64% in March. This was the highest reading since the survey began in February 2020.

Special Question: Green energy investment plans

Q. Thinking about green energy plans at your place of business, which of the following, if any, form part of your future investment strategy?*

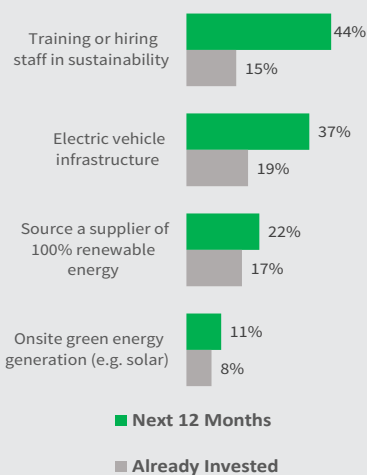
UK SMEs

Percent reporting 'Already invested' or 'Next 12 months'.



Large UK enterprises

Percent reporting 'Already invested' or 'Next 12 months'.



* Next 12 Months, Next 2 to 5 Years, More than 5 years, Already invested, Will not invest, Don't know'.

Number of SMEs generating green energy onsite could more than double by 2023

In this section of the report we look at green energy investment strategies. The survey results indicate that just 7% of UK SMEs have invested in green energy generation onsite, but this could more than double by 2023 as a further 10% are expecting to begin during the next 12 months.

Electric vehicles and charging points are also a cornerstone of carbon reduction strategies over the coming year, with 20% of SMEs planning investments for the first time by 2023.

March data suggested that clean energy generation onsite, such as the installation of solar panels, features in the green investment strategies of around 10% of SMEs within the next 12 months. This would represent a much wider adoption of clean energy technologies than at present as only 7% of small and medium-sized firms report that they have already made such investments.

On a five year horizon, around 27% of SMEs aim to invest in onsite generation. Green energy generation is also set to increase at large UK enterprises, with 40% intending to start investing in onsite units within the next five years.

Survey respondents with plans to generate green energy mainly cited solar panel installations and battery storage investments. Some firms noted that they were exploring air source heat pumps and others commented on biomass plants.

Investing in electric vehicles (EVs) and the infrastructure to support them is a key facet of green investment strategies in the next 12 months

March data showed that companies of all sizes have been proactive in the adoption of EV technologies, such as the purchase of all-electric fleets and the installation of charging points for employee use.

Some 15% of SMEs are already invested in this area and the proportion is slightly

higher for large enterprises (19%).

Many SMEs are planning EV-focused investments as part of their near-term green energy strategies. One-in-five SMEs (20%) expect to invest in EV infrastructure in the next 12 months, with the proportion almost doubling to 37% when the investment horizon is extended up to five years. Around 58% of large enterprises expect EVs to be a part of their green energy strategy by 2027.

Efforts to source renewable energy is set to become more widespread

Just 13% of SMEs report that they have already sourced a supplier of 100% renewable energy. However, within the year ahead a further 10% plan to source a sustainable supplier.

Survey respondents often noted that cost-effectiveness was the main near-term priority as they sought to protect margins from escalating energy prices. As a result, SMEs were most likely to shift towards sustainable energy suppliers on a two-to-five year horizon (25%).

Efforts to reduce carbon footprints by securing renewable energy suppliers were far more prevalent at large companies. Around 17% reported that they had already secured 100% renewable suppliers and a further 22% cited plans to source within the next 12 months.

SMEs plan extra staff training and recruitment for sustainability roles

Around 21% of SMEs plan to train or recruit staff with a sustainability focus in the coming year, making this a prominent feature of the near-term green energy strategy for many businesses. However, only 8% of small and medium-sized firms have already invested in this area.

The split by company size showed much stronger investment intentions among large enterprises. In addition to the 15% that have already invested in staff training and hiring for sustainability roles, a further 44% of large enterprises plan to do so in the coming 12 months.

SME Recovery PMI[®]: Service Sector

Service sector leads activity growth in March

UK SME service providers signalled a sharp upturn in business activity during March, with growth outpacing that seen among manufacturers and construction firms. At 60.7, little-changed from 60.8 in February, the respective seasonally adjusted index highlighted one of the best rates of expansion in the series history (which started in January 1998).

According to survey members, business activity continued to recover from the Omicron wave as restrictions were lifted. Firms noted an upsurge in new business, owing to the resumption of events, a resurgence of travel activity and return to offices.

There was a mild slowdown in growth of new business during March, but the latest expansion was nevertheless historically sharp. Survey participants indicated that acute price pressures, cautious spending among clients and Russia's invasion of Ukraine somewhat curbed the upturn.

Sustained demand growth supports job creation

Small and medium-sized companies signalled a further increase in employment in March, with the rate of expansion holding close to February's recent high. The upturn was associated with greater sales, upbeat growth projections and efforts to ease capacity pressures. That said, anecdotal evidence indicated that hiring activity was stymied by soaring wage costs and difficulties finding suitable staff, while a few panellists reported workers leaving in search of higher pay. Large firms outperformed SMEs with regards to job creation.

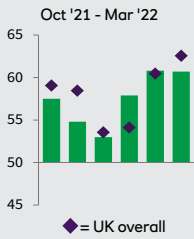
Inflation rates climb to new records

Small and medium-sized firms reported an unprecedented increase in their expenses during March. Mounting price pressures were linked to the cascading effect of the war in Ukraine, energy price volatility and rising fuel prices on utility, raw material and wage costs. These additional cost burdens continued to feed through to final service charges, with a record rise also seen here.

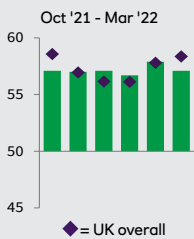
Business sentiment dampened by inflation concerns

Companies with fewer than 250 employees remained optimistic towards growth prospects, but the overall level of confidence slipped to the lowest since January 2021. Macroeconomic uncertainty, Russia's invasion of Ukraine, staff shortages and intense inflationary pressures were seen as the major headwinds to the outlook.

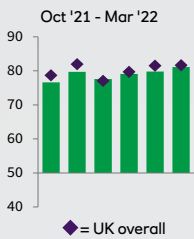
Business Activity Index



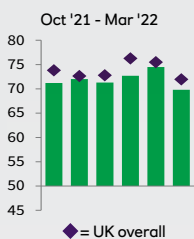
Employment Index



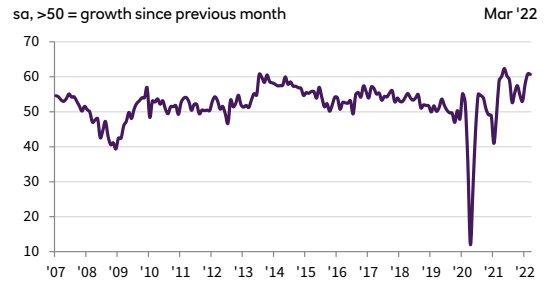
Input Prices Index



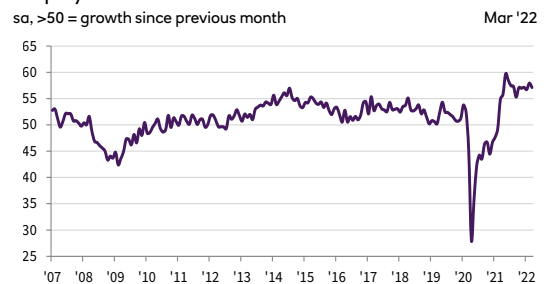
Future Activity Index



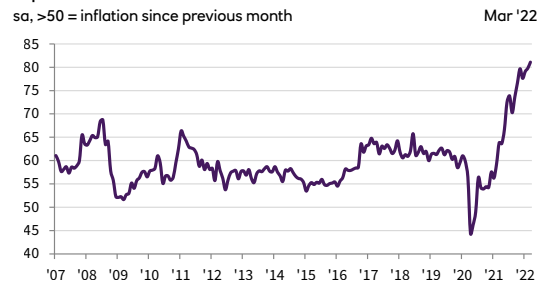
Business Activity Index



Employment Index



Input Prices Index



Future Activity Index



SME Recovery PMI[®]: Manufacturing Sector

SME manufacturers signal subdued growth in March

Small and medium-sized manufacturing companies again underperformed their services and construction counterparts, despite output growth gaining some momentum in March. Rising from 52.2 in February to 52.7, the seasonally adjusted Output Index pointed to a moderate rate of expansion that was nevertheless above the all-firms average (51.8).

Where production rose, survey members cited efficiency gains, the retreat of the pandemic, greater sales and stock-building efforts among clients amid a rush to beat price hikes.

March data highlighted a further uptick in factory orders, albeit with the expansion remaining historically weak. Growth was reportedly hampered by Russia's war against Ukraine, supply chain disruptions, elevated inflation and uncertainty about the future.

Sharp increase in headcounts

SME manufacturers continued to hire additional staff in March, with the rate of expansion far outpacing its long-run trend and being broadly in line with the all-firms average. Efforts to reduce backlogs, demand resilience, new product launches, post-COVID reorganisation and upbeat growth projections were behind the latest uptick in payroll numbers. That said, some firms indicated that staff retention was a problem amid higher salaries being offered elsewhere, while others mentioned that cost-reduction measures and tight labour market conditions restricted hiring.

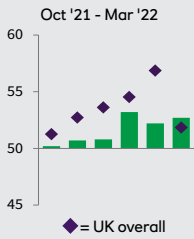
Cost inflation nears series record

The latest results showed that small and medium-sized manufacturers were slightly harder hit by rising costs than large companies, with the rate of inflation among the strongest since the series started in 1998. SME firms mentioned that rising energy prices spilled over to virtually all materials purchased. Supply and demand mismatches as well as Russia's invasion of Ukraine were also mentioned as triggers of price pressures. As a result, charge inflation quickened further in March and surpassed the all-firms average.

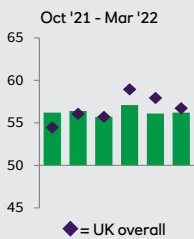
Optimism weakens to 14-month low

Despite still signalling positive sentiments towards the year-ahead outlook for production, the Future Activity Index fell in March to its lowest since January 2021. Concerns around slower growth amid higher inflation, global uncertainty, geopolitical tensions and staff shortages all stifled business confidence among SMEs.

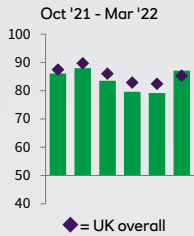
Business Activity Index



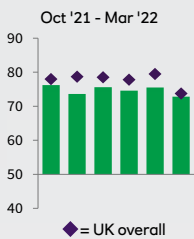
Employment Index



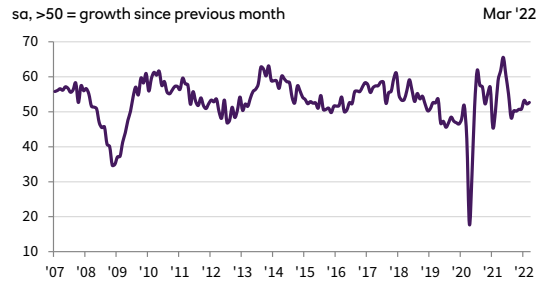
Input Prices Index



Future Activity Index



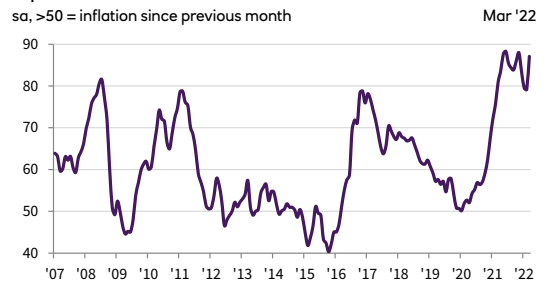
Business Activity Index



Employment Index



Input Prices Index



Future Activity Index



SME Recovery PMI[®]: Construction Sector

Construction activity growth remains strong, despite easing

SME construction companies continued to report higher levels of activity at the end of the first quarter, taking the current stretch of expansion to 14 months. Although weaker than in February, the rate of increase was sharp and the second-fastest since mid-2021. Anecdotal evidence highlighted greater enquiries, new business gains and an aggressive approach to contract tendering as the key drivers of output growth.

Not only did new work intakes rise for the fourteenth successive month in March, but also at a sharp and accelerated pace that was broadly in line with the all-firms average. Companies reported increased client appetite for new work, strong house sales, government incentives and economic resilience as the key drivers of sales growth.

Rate of job creation softens in March

Small and medium-sized construction companies continued with their hiring efforts in March, with employment up for the fourteenth month running. Moreover, the rate of expansion was sharp, quicker than in February and broadly equal to the all-firms average.

Survey members suggested that increased workloads, the winning of large contracts and tender success all boosted hiring activity at the end of the first quarter.

Inflationary pressures show no signs of abating

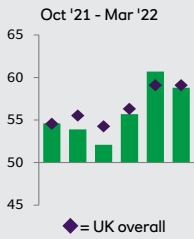
UK construction companies with fewer than 250 employees observed another monthly increase in their cost burdens in March. Moreover, the rate of inflation quickened to one of the highest on record.

Cost increases were linked to global shortages of inputs, Brexit, tight labour market conditions, rising transportation fees and the war in Ukraine. There were widespread reports of higher energy, fuel and raw material prices.

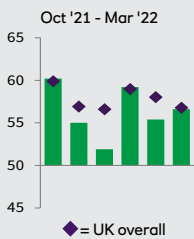
Business sentiment weakest in one-and-a-half years

Despite the strong performance seen in March, SME construction companies became less upbeat towards growth prospects. The overall degree of optimism was at an 18-month low and below those signalled by manufacturers and service providers. Constructors were worried that the recovery would be limited by geopolitical tensions, supply-chain bottlenecks and the cost-of-living crisis.

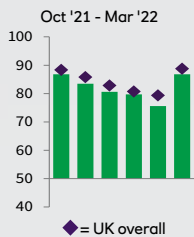
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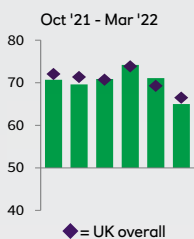
Employment Index



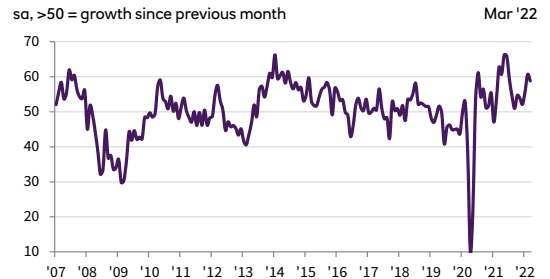
Input Prices Index



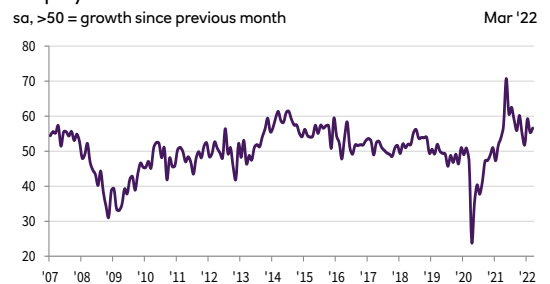
Future Activity Index



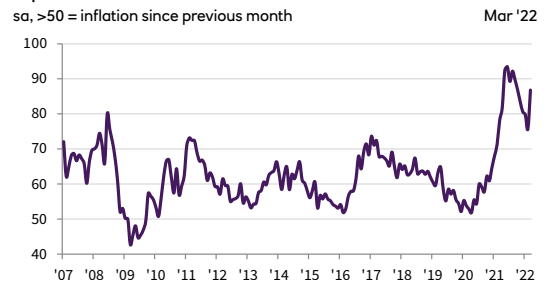
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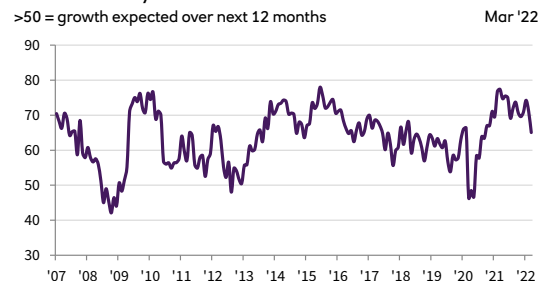
Employment Index



Input Prices Index



Future Activity Index



About the NatWest Sustainable Business Tracker

The NatWest Sustainable Business Tracker is a quarterly report designed to monitor business performance and sustainability at enterprises with 1-249 employees.

NatWest Sustainable Business Tracker is based on responses to questionnaires sent to companies with 1-249 employees that participate in monthly UK Purchasing Managers' Index[®] (PMI[®]) surveys compiled by S&P Global.

The panel of around 850 small and medium sized enterprises is stratified by detailed sector, based on contributions to GDP.

SME Recovery PMI[®] survey responses are collected by S&P Global in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses.

The SME Recovery PMI[®] indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

Indices are compiled for a range of survey variables, including business

activity, new orders, employment, input costs, prices charged, suppliers' delivery times and future activity.

The SME Recovery PMI[®] data for March were collected 11 – 30 March 2022. Historical data are available from January 1998 for the All-Sector SME Business Activity Index.

Manufacturing data are available from January 1992, Services data from July 1996 and Construction data from April 1997.

SME Sustainability PMI[®] data will be compiled on a quarterly basis in 2022. The SME Recovery PMI[®] data will be compiled on a monthly basis.

The SME Sustainability PMI data for March were collected 11 - 30 March 2022. Companies are asked about the sustainability actions they are looking to prioritise over the next year, and the results are compared against those seen for large companies. The latest survey also monitored green energy investment plans.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

Index summary

NatWest SME Recovery PMI® data (All-Sector)

sa, 50 = no change over previous month. *50 = no change over next 12 months.

	Activity	New Business	Future Activity	Employment	Outstanding Business	Input Prices	Prices Charged
Oct '21	56.2	54.9	71.9	57.2	52.3	78.8	62.3
Nov '21	54.1	54.4	72.0	56.7	52.4	81.2	63.2
Dec '21	52.6	52.0	71.9	56.5	52.4	78.7	63.7
Jan '22	57.1	58.5	73.1	57.0	54.3	79.2	63.8
Feb '22	59.6	58.8	74.3	57.5	54.2	79.3	64.2
Mar '22	59.4	57.3	69.8	56.9	53.1	82.4	66.1

NatWest SME Recovery PMI® data (by sector)

	All-Sector Business Activity	Service Sector Business Activity	Manufacturing Business Activity	Construction Business Activity
Oct '21	56.2	57.5	50.2	54.6
Nov '21	54.1	54.8	50.7	53.9
Dec '21	52.6	53.0	50.8	52.1
Jan '22	57.1	57.9	53.2	55.7
Feb '22	59.6	60.8	52.2	60.7
Mar '22	59.4	60.7	52.7	58.8

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About NatWest

NatWest serves customers in England, Wales and Western Europe, supporting them with their personal, private, and business banking needs. NatWest helps customers from opening student accounts, to buying their first home, setting up a business, and saving for retirement.

Alongside a wide range of banking services, NatWest offers businesses specialist sector knowledge in areas such as manufacturing and technology, as well as access to specialist entrepreneurial support.

NatWest has been running MoneySense, an impartial financial education programme for 5–18 year-olds, for more than 21 years. By the end of 2018, NatWest will help another 1 million young people to understand and take control of their finances.

About S&P Global

S&P Global (NYSE: SPGI) S&P Global provides essential intelligence. We enable governments, businesses and individuals with the right data, expertise and connected technology so that they can make decisions with conviction. From helping our customers assess new investments to guiding them through ESG and energy transition across supply chains, we unlock new opportunities, solve challenges and accelerate progress for the world.

We are widely sought after by many of the world's leading organizations to provide credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity and automotive markets. With every one of our offerings, we help the world's leading organizations plan for tomorrow, today.

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