

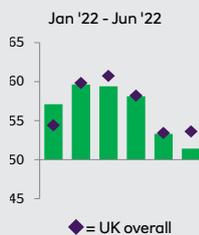
NatWest Sustainable Business Tracker

Nearly half of SMEs switch to UK suppliers in effort to combat climate change

NatWest SME Recovery PMI

51.4
May: 53.3

Business Activity Index



NatWest SME Sustainability PMI

43%
Q1: 40%

Key findings

NatWest tracker signals strongest sustainability intentions at UK SMEs since February 2020

Low carbon energy consumption sees the biggest gain of the five monitored action categories

Business optimism slumps to the lowest since May 2020 amid weaker growth and record inflation

1 in 2 SMEs have switched to suppliers in the UK as part of their efforts to reduce carbon footprint

3 in 4 SMEs plan to reshore some of their supply chain within the next five years

The NatWest Sustainable Business Tracker is a 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 plans to reduce the carbon footprint of SME supply chains.

June data highlighted a considerable slowdown in business activity growth at small and medium-sized enterprises across the UK, with the speed of recovery the weakest since February 2021. Subdued customer demand in response to the pass through of sharply rising input prices, as well as the uncertain economic outlook, was often cited by survey respondents.

Moreover, the latest survey indicated that business activity expectations are the least optimistic since May 2020. This mostly reflected concerns that the cost of living crisis will continue to weigh heavily on non-essential spending during the year ahead.

The increasingly challenging global economic backdrop did not prevent an increase in the prioritisation of sustainability action among UK firms with 1-249 employees. At 43% in June, up from 40% in March, the headline NatWest Sustainability PMI was the highest since the start of the pandemic (44% in February 2020).

Three of the five components of the Sustainability PMI increased since March, with low carbon energy consumption seeing the biggest rise in prioritisation. Some 51% of SMEs reported green energy as a high priority for the year

ahead, up from 42% in March and the largest percentage in the survey history. A number of firms commented on plans to boost low carbon energy consumption by installing solar panels on site. There were also reports citing forthcoming investments in battery storage and electric vehicle charging infrastructure.

SMEs indicated that increased recycling (60%) and cleaner business processes (54%) were the most widely focused upon areas of sustainability, with both rising in priority since March.

In contrast to the positive overall trend for sustainability action, investment intentions regarding sustainable product launches were pared back since the start of this year. This was often in response to a recent slowdown in client demand. Around 19% of SMEs cited sustainable product launches as a high priority for the year ahead, down from 25% in March and the lowest since the survey began in February 2020.

Finally, some 30% of SMEs noted that monitoring supply chain sustainability is a high priority for the next 12 months. This was little-changed from 31% in March, but remained much lower than seen for large businesses (64% in June).

Global supply shortages and a lack of alternative sources of raw materials remained severe constraints on switching to more sustainable suppliers. However, there were encouraging signs that UK businesses are seeking to reduce the carbon footprint of their supply chains. Our special feature illustrates that half of all SMEs have already switched to a domestic supplier due to sustainability concerns. In total, three-quarters of surveyed SMEs intend to reshore some of their supply chain within the next five years.

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Foreword



Despite the challenging economic environment, UK businesses are as committed as ever to being more sustainable. Global supply chain pressures have led nearly half of SMEs to switch to UK suppliers with 20% more planning to re-shore in the next year. SMEs have also sought out suppliers with environmental credentials, with 28% saying they have swapped already. This all brings opportunities to UK manufacturers and service providers, especially those that are focused on sustainable practices.

We know that UK businesses are facing severe global supply chain pressures. Nearly half of all SMEs (46%) have already switched to a domestic supplier due to sustainability concerns. A further 20% are looking to re-shore at least part of their supply chain to boost sustainability during the year ahead. This suggests that approximately two-thirds of SMEs (66%) will have switched at least some of their external vendors to domestic suppliers by the summer of 2023. On a five-year horizon, this figure rises to three-quarters of SMEs.

Another way that firms have readjusted their global supply chains has been through changing to suppliers that have environmental credentials, with 28% of surveyed SMEs having done this already. Survey respondents often mentioned choosing suppliers that were able to provide documentation on their environmental impact. A further 20% of SMEs are planning to switch to suppliers with better environmental credentials over the next year.

The results highlighted a considerable slowdown in business activity growth at SMEs across the UK, with the speed of recovery the weakest since February 2021. Despite this, it did not prevent an increase in the prioritisation of sustainability action among SMEs. At 43% saying it was a priority in June, up from 40% in March, this was the highest since the start of the pandemic (44% in February 2020).

Three of the five sustainability priorities

of the Sustainable Business Tracker increased since March 2022, with low carbon energy consumption seeing the biggest rise in prioritisation. Some 51% of SMEs reported green energy as a high priority for the year ahead, up from 42% in March and the largest percentage in the survey history. Firms shared their plans to boost low carbon energy consumption by installing solar panels on site, as well as investments in battery storage and electric vehicle charging infrastructure.

SMEs indicated that increasing recycling (60%) and having cleaner business processes (54%) were the biggest focus areas of sustainability, with both rising in priority since March.

It's important that SMEs are aware that sustainability measures can boost their recovery, and even fuel their growth, for example through increasing efficiency, lowering energy bills and by future proofing their operations. [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.

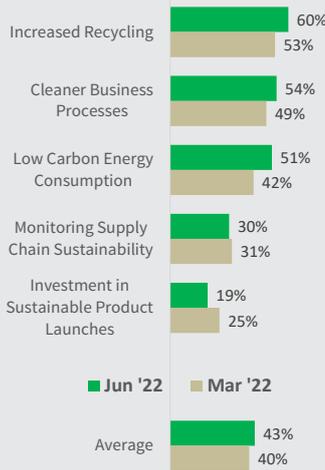
As the UK's largest business bank, to help support SMEs to take advantage of the growth opportunity that lies ahead, we've committed to lending £100 billion of Climate and Sustainable Funding and Financing by the end of 2025. We'll also continue to focus on advice, education, coaching and products that 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

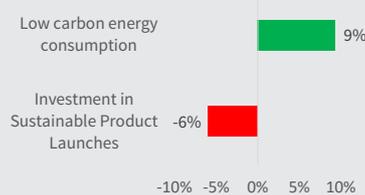
SME Sustainability PMI: Actions in the next 12 months

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

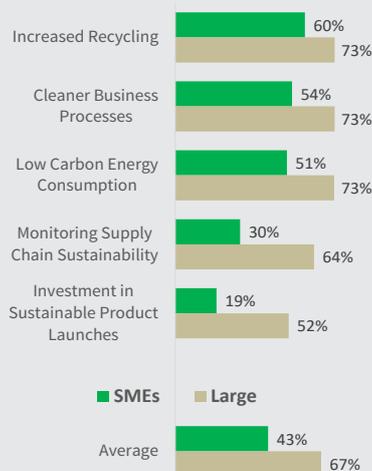
UK SME Sustainability PMI: Actions
Percent reporting 'high priority'



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



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



Green energy plans boost the NatWest Sustainability PMI in June

In this section of the report we look at the actions on sustainability that UK SMEs are prioritising during the year ahead. The headline NatWest Sustainability PMI was the highest since the pandemic began, with plans for low carbon energy consumption seeing the largest rise since the previous survey.

On a less positive note, sustainable product launches were at the lowest ebb for over two years as the uncertain global economic outlook took its toll on investment plans.

June data pointed to a rebound in the percentage of small and medium-sized enterprises (SMEs) planning to prioritise sustainability action during the next 12 months. This was highlighted by the NatWest Sustainability PMI registering 43% in June, up from 40% in March and the highest reading since February 2020.

The number of SMEs citing sustainability plans as high priority increased in three of the five categories monitored by the survey. The prioritisation of low carbon energy consumption saw the biggest rise since the first quarter of 2022 (51% in June, up from 42% in March).

The only categories to see lower levels of prioritisation were investment in sustainable product launches and monitoring supply chain sustainability.

Half of all SMEs cite low carbon energy consumption as a high priority

At 51% in June, the percentage of SMEs citing low carbon energy consumption as a high priority was up from 42% in March and the highest since the survey began in February 2020. Service providers were more likely to report plans to boost their green energy consumption (59%) than manufacturing companies (41%). Reports from survey respondents often cited plans to install solar panels, invest

in battery storage and support electric vehicle charging for employees.

Latest data signalled that the number of large companies planning to prioritise low carbon energy consumption also reached a survey-record high in June. At 73%, up from 70% in March, the percentage of large companies with plans to boost green energy consumption during the year ahead remained much higher than among SMEs (51% in June).

Recycling is the most widely reported sustainability action

Small and medium-sized businesses once again indicated that increased recycling was the most widely focussed upon area of sustainability. Around 60% of SMEs reported increased recycling as a high priority action for the next 12 months, up from 53% in March.

Cleaner business processes remained the second-highest priority area in June. More than half of all SMEs (54%) cited cleaner business processes as a high priority action during the year ahead. A number of firms commented on staff training and additional recruitment to support sustainable business processes.

Weaker economic outlook hits plans for sustainable product launches

Investment in sustainable product launches was the least commonly cited action, with only 19% of SMEs reporting this as a high priority over the next 12 months. Moreover, the number was down from 25% in March and the lowest since the survey began. Some firms noted that they delayed new product launches due to concerns about the economic outlook.

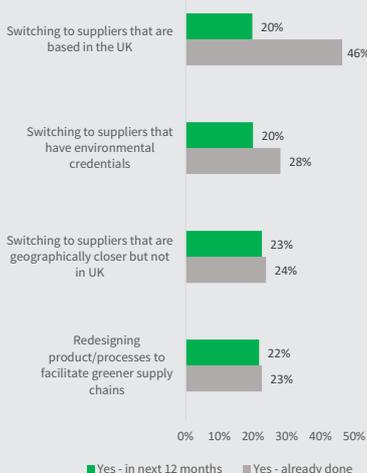
Meanwhile, a need to focus on mitigating global supply shortages appeared to have constrained supply chain monitoring. The total number of SMEs reporting this area as a high priority was 30% in June, little-changed from 31% in March. A rise in supply chain monitoring plans across the service economy was more than offset by a sharp fall in the manufacturing sector.

Special Question: Supply Chain Sustainability

Thinking about reducing the carbon footprint across your supply chain, which of the following actions, if any, are you likely to take?*

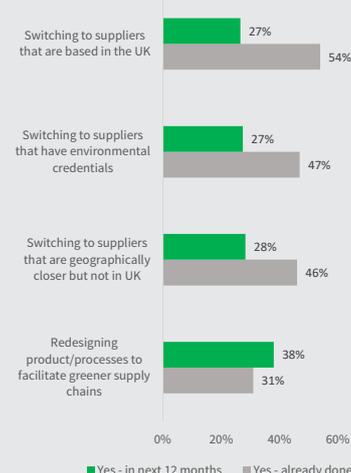
UK SMEs

Percent reporting 'Already done' or 'Next 12 months'



Large UK enterprises

Percent reporting 'Already done' or 'Next 12 months'



* Yes - already done, Yes - in next 12 months, Yes - in next 2-5 years, Yes - in more than 5 years' time, No plans, Don't know / not applicable.

Nearly half of SMEs have switched to suppliers in the UK to reduce their carbon footprint

In this section of the report, we take a closer look at how UK companies are reducing the carbon footprint across their global supply chain, with firms reporting on actions they have already taken and what they plan to do in future.

Switching to UK-based suppliers was the most commonly cited action already taken by SMEs (46%), followed by switching to suppliers with better environmental credentials (28%).

UK SMEs indicated that reshoring at least part of their supply chain was the most frequently taken sustainability action to reduce their carbon footprint. Nearly half of all surveyed SMEs (46%) have switched from an overseas to UK-based supplier. A further 20% are looking to reshore at least part of their supply chain to boost sustainability during the year ahead. This suggests that approximately two-thirds of SMEs (66%) will have switched at least some of their external vendors to domestic suppliers by the summer of 2023. On a five-year horizon, this figure rises to three-quarters of SMEs.

The latest survey showed that nearshoring supply chains – switching to suppliers that are geographically closer but not UK-based – was an action already taken by approximately one-in-four SMEs (24%). A similar proportion (23%) intend to nearshore at least some of their supply chain over the next 12 months in order to reduce their carbon footprint.

When commenting on plans to either reshore or nearshore supply chains, survey respondents often cited long-term efforts to reduce air miles and shipping distances for environmental reasons. Many SMEs mentioned efforts to become more resilient to global supply shocks in the wake of the pandemic. Some also noted that Brexit-related trade frictions had encouraged them to strengthen their domestic supply chains.

Meanwhile, those without any plans

to shift towards geographically closer suppliers mainly commented on difficulties sourcing raw materials and electronic components in Europe, together with the considerable price differential relative to suppliers in emerging markets.

One-in-five SMEs intend to switch to suppliers with better environmental credentials over the next year

Another way that firms have readjusted their global supply chains has been through switching to suppliers that have environmental credentials, with 28% of surveyed SMEs having done this already. Reports from survey respondents often mentioned switching to suppliers that were able to provide documentation on their environmental impact. Many companies noted that they had sought to obtain this information from current vendors, for greater transparency and as part of efforts to improve their sustainability. Moreover, a further 20% of SMEs are planning to switch to suppliers with better environmental credentials over the next year.

SMEs signal widespread plans to redesign their product or processes to support greener supply chains

When asked if they intend to redesign their product or processes to help facilitate greener supply chains, approximately 23% of SMEs stated that they had already pursued this. Encouragingly, a further 22% of SMEs are also planning to do so by next summer. On a five-year horizon, some 36% of SMEs are seeking to develop more environmentally friendly processes or products.

Progress on this aspect of supply chain sustainability was notably quicker at large companies, however. Nearly half of large firms (47%) indicated that they had already adapted their products and processes to be greener, while a further 27% anticipated to do so during the year ahead.

SME Recovery PMI[®]: Service Sector

Service sector activity growth slows in June

UK SME service providers registered a sustained expansion in business activity during June, with growth remaining stronger than that seen across manufacturing and construction firms. That said, at 51.8, down from 53.3 in May, the respective seasonally adjusted index pointed to the weakest expansion in 16 months.

Survey panellists linked the latest rise in business activity to looser pandemic restrictions, improved client numbers and greater spend in areas such as travel and hospitality. However, growth was reportedly constrained by subdued demand conditions amid intense inflationary pressures.

In fact, latest data pointed to the first fall in new orders since February 2021. Survey participants indicated that the cost of living crisis, weak consumer confidence and fears of a global recession had dampened sales.

Job creation remains strong

Service providers with less than 250 employees continued to take on additional staff at the end of the second quarter, stretching the current sequence of employment growth to 16 months. The upturn was often attributed to efforts to fill vacant positions and expand capacity.

Although sharp, the rate of job creation eased for the fourth month running and was the weakest since September 2021. Anecdotal evidence indicated that voluntary redundancies and restructuring efforts weighed on hiring activity in June.

Cost inflation hits fresh high

Small and medium-sized firms reported an unprecedented increase in their input costs during June as lingering supply-chain shortages and the war in Ukraine exerted upward pressure on costs. Panellists reported higher prices for transportation, fuel, raw materials, wages and utilities. Similarly, charges increased at a substantial, albeit slower, pace with firms often passing on a large proportion of their cost burdens to their clients.

Confidence dips to two-year low amid uncertainty and rising costs

Despite signalling positive sentiment towards the year-ahead outlook for output, the Future Activity Index fell in June to its lowest since May 2020. Small and medium-sized companies reported concerns over the war in Ukraine, client uncertainty, rising interest rates and the cost of living crisis.

Business Activity Index



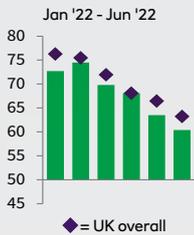
Employment Index



Input Prices Index



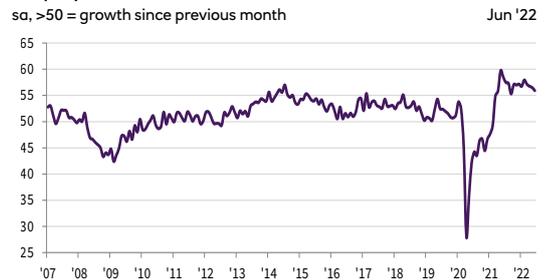
Future Activity Index



Business Activity Index



Employment Index



Input Prices Index



Future Activity Index



SME Recovery PMI[®]: Manufacturing Sector

Output growth weakens to eight-month low

June data indicated a softer increase in manufacturing production among UK SMEs. At 50.3 in June, down from 51.7 in May, the seasonally adjusted Output Index was below its long-run average and consistent with only a fractional rate of expansion. The figure was in line with the all-firms average, however.

Panellists indicated that while growth continued, the latest upturn was the weakest since last October. The slowdown was overwhelmingly linked to weak consumer demand as well as staff shortages. New orders fell for the second month in a row and at the quickest pace since January 2021. Firms reported that consumers were deterred from placing orders due to sharply rising prices and growing uncertainty.

Staffing levels rise at slowest pace for 16 months

SME manufacturers continued to hire additional staff in June, thereby extending the current sequence of rising employment across the sector to 17 months. The rate of job creation was solid overall and quicker than the all-firms average. However, the rate of expansion eased for the second month in succession and was the slowest recorded since February 2021. A renewed decline in backlogs, difficulties sourcing skilled staff and weaker inflows of new work led to the weaker uplift in staffing levels.

Input cost inflation eases, but remains historically elevated

Small and medium-sized manufacturers signalled a substantial increase in input prices at the end of the second quarter. That said, the rate of inflation softened to the weakest since February and was below that seen for large companies.

Rising costs reportedly stemmed from supply chain disruption, higher transportation fees, increased energy costs and the impacts of the war in Ukraine.

Subsequently, SME manufacturers opted to pass on greater costs in the form of higher selling prices. The overall rate of output price inflation was substantial, but dipped to a four-month low.

Business sentiment dampened by growing uncertainty

SME manufacturers retained an optimistic view regarding the 12-month outlook for production in June. However, the overall degree of positive sentiment dipped to the weakest for just over two years. Sentiment was dampened by weaker demand conditions, the cost of living crisis and inflationary pressures, according to panel comments.

Business Activity Index
sa, >50 = growth since previous month
50.3
Jun '22



Employment Index
sa, >50 = growth since previous month
53.7
Jun '22



Input Prices Index
sa, >50 = inflation since previous month
81.6
Jun '22



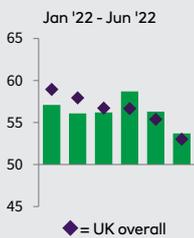
Future Activity Index
>50 = growth expected over next 12 months
65.2
Jun '22



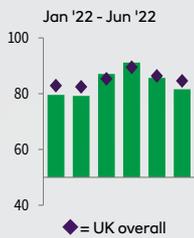
Business Activity Index
Jan '22 - Jun '22



Employment Index
Jan '22 - Jun '22



Input Prices Index
Jan '22 - Jun '22



Future Activity Index
Jan '22 - Jun '22



SME Recovery PMI[®]: Construction Sector

Construction activity growth grinds to a near-halt

Small and medium-sized construction companies in the UK signalled ongoing growth of output in June, but the rate of expansion softened notably since May. The seasonally adjusted Total Activity Index was down from 56.3 in May to 50.2 in June, its lowest reading since January 2021 and indicative of only a fractional increase in output. Nevertheless, the latest reading took the current uninterrupted sequence of growth to 17 months.

Panellists indicated that ongoing increases in new orders supported the upturn in activity, but growth was constrained by order cancellations amid greater hesitancy among clients to commit to new projects and material shortages.

Although new orders continued to rise in June, the pace of expansion eased from May and was only mild overall. Survey participants indicated that growth was stymied by limited input availability and a subdued demand environment. Many orders had also been put on hold or cancelled due to greater economic uncertainty and rising costs, according to panel comments.

Rate of job creation eases

June data indicated another increase in employment levels at SME constructors. Staffing levels have now risen in each month since February 2021, with the latest uplift sharp overall. Panellists reportedly raised their headcounts to boost output and improve efficiency. That said, the rate of job creation eased notably from May to the weakest for four months amid difficulties sourcing skilled labour and weaker inflows of new orders.

Inflationary pressures remain intense

SME constructors signalled a substantial upturn in input prices, despite the rate of inflation softening to a four-month low. As was the case in the manufacturing and services sector, inflationary pressures were sharp and above the long-run series average. Higher fuel, energy, transportation, and material costs were reported by construction firms in June.

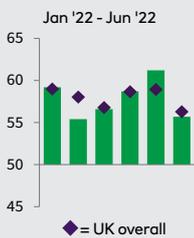
Business sentiment weakest for almost two years

Construction companies with fewer than 250 employees remained optimistic towards growth prospects over the next 12 months, but the overall level of confidence slipped to the lowest since July 2020. Concerns over the macroeconomic environment and intense inflationary pressures weighed on the degree of optimism in June.

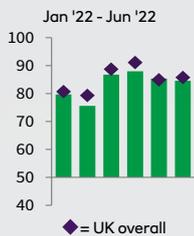
Business Activity Index



Employment Index



Input Prices Index



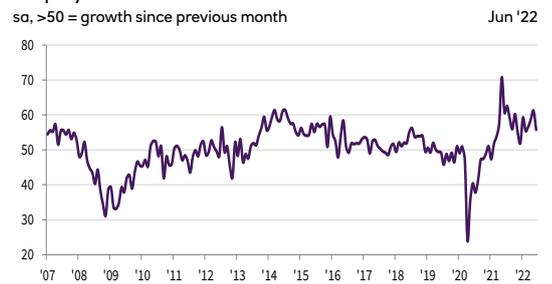
Future Activity Index



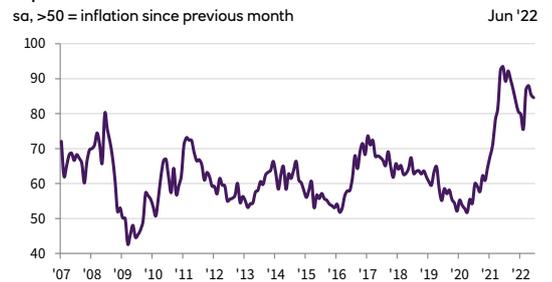
Business Activity Index



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, outstanding business and future activity.

The SME Recovery PMI[®] data for June were collected 13 – 28 June 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 are compiled on a quarterly basis in 2022. The latest survey was compiled in June 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 supply chain 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
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
Apr '22	58.1	55.2	68.1	57.2	54.1	83.6	69.3
May '22	53.3	51.2	64.1	56.9	50.8	83.8	68.4
Jun '22	51.4	49.4	60.9	55.6	49.5	83.3	65.9

NatWest SME Recovery PMI® data (by sector)

	All-Sector Business Activity	Service Sector Business Activity	Manufacturing Business Activity	Construction Business Activity
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
Apr '22	58.1	58.9	54.6	56.9
May '22	53.3	53.3	51.7	56.3
Jun '22	51.4	51.8	50.3	50.2

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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. www.spglobal.com

About PMI

Purchasing Managers' Index™ (PMI™) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.

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