



# NatWest Sustainable Business Tracker

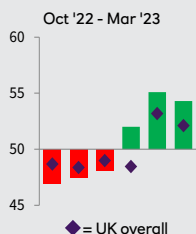
NatWest

## Half of all UK SMEs plan to invest in more energy efficient business processes over the next five years

### NatWest SME Recovery PMI



### Business Activity Index



### NatWest SME Sustainability PMI



## Key findings

UK SMEs highlight a return to output growth in Q1 2023, but prioritisation of climate action falls

Energy efficiency is seen as the main focus area for long-term investment plans

Some 54% of SMEs intend to invest in more energy efficient processes by 2028

Around 58% of SMEs plan to upgrade the energy efficiency of their business premises

Onsite green energy generation planned by 38% of SMEs within five years, up from 7% at present

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<sup>®</sup> (PMI<sup>®</sup>) surveys.

The latest report includes a special feature on green energy investment plans.

Small and medium-sized companies (SMEs) reported a return to growth in the first quarter of 2023, following a reduction in business activity throughout the second half of last year, according to the latest NatWest PMI survey data. At 54.3 in March, the headline All-Sector Business Activity Index signalled a solid increase in output volumes at UK SMEs. Moreover, the average index reading in the first quarter of the year (53.8) was much higher than seen in the final three months of 2022 (47.5).

The swift recovery in SME business activity largely reflected a strong upturn across the service economy. This sector recorded the fastest rate of expansion since April 2022, helped by improved business and consumer confidence. In contrast, SME manufacturing output stagnated during March, while construction companies indicated a renewed decline in business activity.

Business expectations nonetheless continued to improve at UK SMEs, with overall optimism regarding the growth outlook reaching its highest for 11 months. Survey respondents often suggested that falling inflation and improving supply conditions had boosted their confidence regarding the business outlook, although many noted continued pressure on operating expenses from rising wages.

Despite an improving outlook for business activity and inflation, SMEs indicated that their prioritisation of sustainability dipped again in the first quarter of 2023. At 36%, down from 39% in Q4 2022, the headline index measuring the percentage of SMEs intending to prioritise climate action over the next 12 months was the lowest since the survey began in Q1 2020. Four out of five components of the Sustainability PMI decreased in the first quarter of 2023, with recycling the only exception.

In contrast, large enterprises (250+ employees) signalled another increase in their prioritisation of action on sustainability. At 67%, up from 64% in Q4 2022, the percentage of large firms citing sustainability action as a high priority was the greatest since the survey began three years' ago. Cleaner business processes was the top ranked area of sustainability action for large enterprises (75% of survey respondents cited this as a high priority).

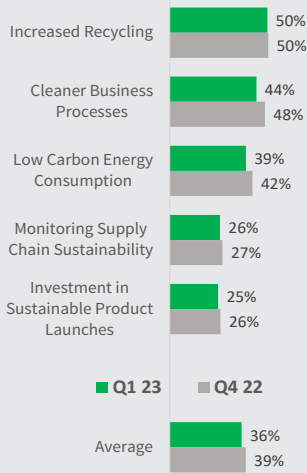
Meanwhile, we asked UK businesses about their long-term plans for green energy investment. While only 8% of SMEs noted that they had already invested in more energy efficient business processes, more than half (54%) intend to have done so on a five-year horizon. This was less than the percentage of large enterprises that plan to invest in more energy efficient business processes by 2028 (76%).

Upgrades to energy efficiency of business premises (58% of SMEs) and investments in electric vehicle infrastructure (54%) are also expected by the majority of survey respondents within the next five years. Meanwhile, only 7% of SMEs note that they have invested in onsite green energy generation, but this figure is anticipated to rise sharply to 38% by 2028.

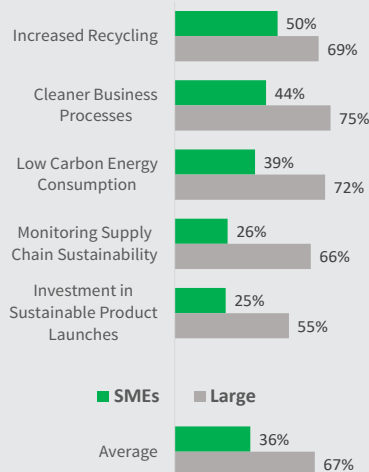
## SME Sustainability PMI: Actions in the next 12 months

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'



**SMEs vs. Large Companies (Q1 2023)**  
Percent reporting 'high priority'



## Falling prioritisation of sustainability action by SMEs contrasts with record high for large firms

In this section we look at the actions on sustainability that UK businesses are prioritising during the year ahead.

The number of SMEs planning to prioritise sustainability action in the next 12 months hit a survey-record low during Q1 2023. In contrast, large enterprises reported the highest degree of prioritisation since the survey began in February 2020.

Latest data indicated that the percentage of small and medium-sized enterprises (SMEs) planning to prioritise sustainability action during the year ahead fell from 39% to 36% in the first quarter of 2023. This was the lowest reading since the survey began three years ago.

SMEs noted lower prioritisation in four out of five sustainability categories, with recycling the exception. The biggest falls since Q4 2022 were for cleaner business processes and low carbon energy consumption, with survey respondents suggesting that elevated energy costs and squeezed margins are set to limit action on sustainability in the near-term.

Large enterprises remain highly upbeat about their prioritisation of sustainability action during the next 12 months. At 67%, up from 64% in the previous quarter, the percentage of large firms citing sustainability action as a high priority reached a new survey-record. Cleaner business processes is the top-ranking category of sustainability action for large firms, according to the latest survey data.

### Recycling a top priority for UK SMEs

Around 50% of UK SMEs noted that recycling was a high priority area of sustainability action for the next 12 months. Small and medium-sized manufacturing companies were slightly more focused on recycling than service providers (53% vs. 47% cited recycling as a high priority). Moreover, reports from survey respondents often cited efforts to improve their environmental

management systems and gain ISO 14001 accreditation.

### Near-term setback for action on low carbon energy consumption

The percentage of UK SMEs citing low carbon energy consumption as a high priority dipped from 42% to 39% in Q1, its lowest since the survey began three years' ago. Similarly, the number of large enterprises reporting low carbon energy consumption as a high priority dropped to 72%, from 77% in Q4 2022.

Survey respondents mostly suggested that elevated energy costs and a lack of alternative suppliers had limited their ability to prioritise low carbon energy consumption in the near-term. However, many firms commented on planned investments in green energy generation on site, especially the installation of heat pumps and solar panels.

Meanwhile, cleaner business processes were the second-highest ranking action area for SMEs (44%) and the top priority for large enterprises (75%). This often included planned changes to packaging, sourcing alternative raw materials and eliminating single-use plastics.

Many firms commented on action plans related to the reduction of Scope 1 and 2 emissions (those that are owned or controlled by the businesses), alongside long-term plans to achieve net zero emissions. There were also widespread reports citing investment spending on electric vehicles and charging points.

### Supply chain monitoring hits record high among large enterprises

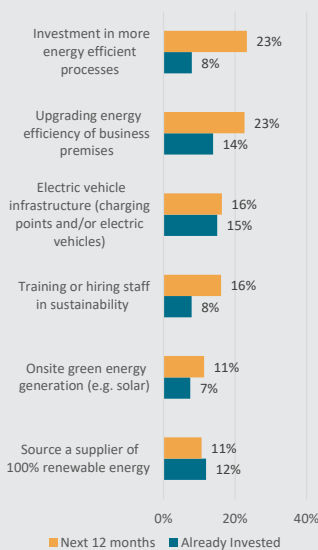
Two-thirds of large enterprises (66%) reported that supply chain monitoring is a high priority for the year ahead, which was the highest reading since the survey began in 2020. However, only 26% of SMEs indicated that supply chain monitoring is a priority area for sustainability action. A number of survey respondents noted that reporting of Scope 3 emissions had led to greater monitoring of supply chains.

## 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?\***

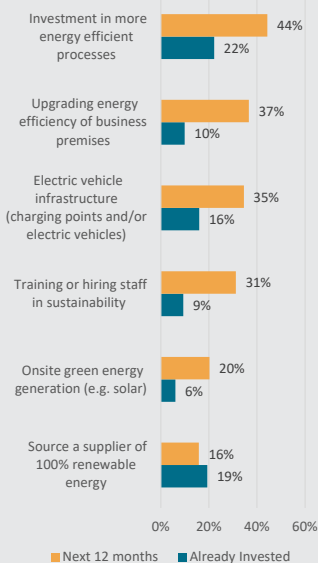
### UK SMEs

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



### Large UK enterprises

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



## Investment in energy efficient processes set to rise sharply as costs bite

In this section of the report we look at green energy investment strategies.

The latest survey showed that 8% of UK SMEs have already invested in upgrading the energy efficiency of their business processes, which is set to increase markedly to 54% of all SMEs over the next five years.

Expenditure on electric vehicles and charging points is also projected to increase sharply, alongside more energy efficient business premises. Around 54% and 58% of all SMEs respectively are set to invest in these areas by 2028.

UK SMEs plan to increase their spending across a range of green investment categories. Spending on more energy efficient processes and business premises are set to see the biggest increases over the next year, amid a backdrop of sharply rising energy costs and greater pressure on margins.

### More than half of SMEs expect to invest in more energy efficient processes over next five years

The biggest leap in planned investment was seen for developing more energy efficient processes. Currently, just 8% of small and medium-sized enterprises have invested, but a further 23% of SMEs expect to invest in this area in the next year. Over the course of the next five years, the proportion of SMEs investing in more energy efficient processes is set to reach 54%.

Manufacturers are more likely to ramp up spending on improving the energy efficiency of their operations than services companies. On a five-year horizon, 72% of goods producers plan to invest in this area, compared to 51% of services firms.

Upgrading the energy efficiency of business premises also ranked highly in terms of green investment strategies.

Some 14% of SMEs are already invested in this area, which is higher than that seen for large enterprises (9%). A further 23% of SMEs anticipate to invest in this area over the next year, while an additional 31% of large firms foresee increased spending to reduce the carbon footprint of their premises over the same period.

When commenting on investment plans for business premises, firms often cited the installation of more efficient lighting, insulation, energy monitoring systems, and the procurement of better quality raw materials, often to help reduce the recent surge in operating costs. However, some companies also indicated that increased business expenses, including higher borrowing costs and staff wages, had strained cash flow and limited their ability to pursue green energy initiatives.

### Onsite green energy generation and supply come into greater focus

The generation of onsite clean energy, which includes the installation of solar panels, also moved up the agenda for many SMEs. Around 31% of small and medium-sized firms will look to invest in clean energy technologies over the next five years, which points to a rapid increase in uptake (at present only 7% have already made such investments).

Investment in green energy generation onsite was similarly low among large enterprises (6%), though a further 49% of large firms will look to invest in this area over the next five years.

In addition to solar panels, firms commented on the planned installation of heat pumps and adoption of battery storage. A number of survey respondents indicated challenges with the shift to cleaner energy onsite, particularly due to leased premises, while others noted that the cost of some technologies were still too high to be viable.

Around 12% of SMEs reporting having already secured a 100% renewable energy supplier, compared to 19% of large firms. On a five year horizon, this is set to expand to 43% of all SMEs and 63% of all large companies.

## Special Question: Green energy investment plans

Around 54% of SMEs will invest in electric vehicles and charging points over next five years

The uptake of electric vehicle infrastructure is set to rise sharply over the coming years as firms seek out new ways to cut fuel bills and improve their carbon footprint.

The latest survey showed that 15% of SMEs have already invested in electric vehicles and charging points at their units.

This proportion is set to more than treble over the next five years to 54%, with an additional 16% of SMEs looking to invest in EV technologies by 2024 and a further 23% over the next 2-5 years.

The proportion of large companies that have already invested in electric vehicle infrastructure was 16%, but this

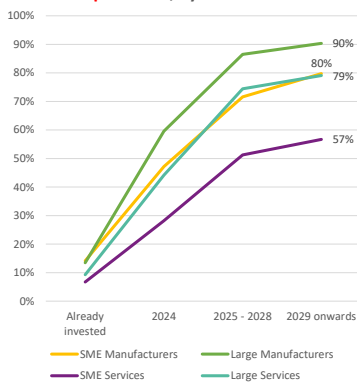
proportion rose sharply to 69% when expanding the investment horizon to five years ahead.

Large companies twice as likely as SMEs to train or hire staff in sustainability by 2028

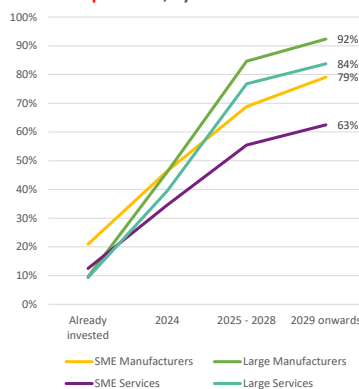
Around 16% of SMEs plan to train or hire staff in sustainability over the next year, with the proportion rising to 35% when extending the investment window to 2028. This would build considerably on the 8% of SMEs that have currently invested in this area.

Large companies are also expected to ramp up their investment in staff hiring and training in sustainability. Currently, 22% of large enterprises have already made such investments, which is set to triple to two-thirds (67%) by 2024, and then reach 81% of all large companies by 2028.

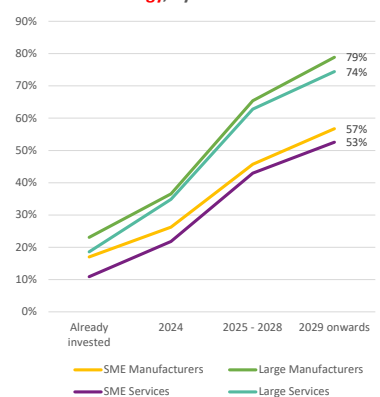
Percent of UK firms planning to invest in more energy efficient processes, by size and sector



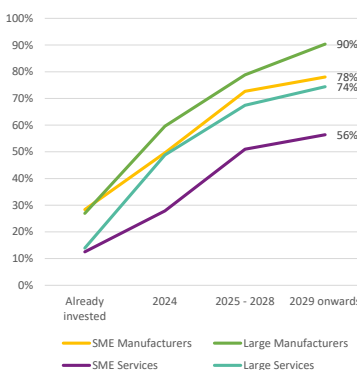
Percent of UK firms planning to upgrade energy efficiency of business premises, by size and sector



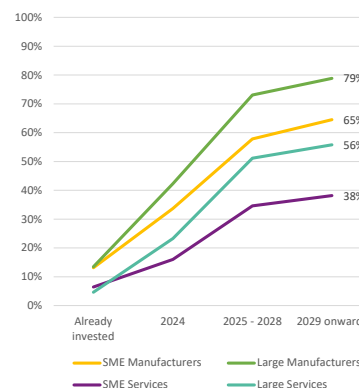
Percent of UK firms planning to source a supplier of 100% renewable energy, by size and sector



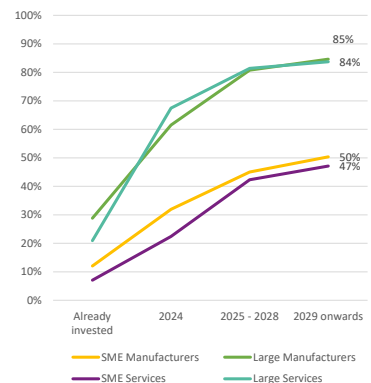
Percent of UK firms planning to invest in Electric vehicle infrastructure, by size and sector



Percent of UK firms planning to invest in onsite green energy generation, by size and sector



Percent of UK firms planning to train or hire staff in sustainability, by size and sector



# SME Recovery PMI<sup>®</sup>: Service Sector

## Service sector activity growth hits 11-month high

UK SME service providers (companies with less than 250 employees) concluded the first quarter of 2023 on a positive footing. The seasonally adjusted Business Activity Index printed above the no-change 50.0 threshold for the third month running to signal a sustained upturn in activity across the sector. Furthermore, at 56.0 in March, up from 55.6 in February, the index pointed to the quickest pace of growth in 11 months. This contrasted with broadly stagnant manufacturing output and a fresh fall in construction activity. Furthermore, SME service providers registered a quicker expansion in activity than larger firms. Panellists stated that increased demand, new client wins, and an improved business climate supported output growth.

Additionally, inflows of new business received at UK service sector SMEs also increased for the third month running in March. Moreover, the rate of expansion was the quickest since April 2022, with firms often linking the upturn to a relatively robust demand environment.

### Mild rise in staffing levels

Service sector SMEs in the UK raised their workforce numbers again in March, thereby stretching the current run of payroll expansion to just over two years. Increased business requirements and planned company expansions supported the latest round of job creation, according to panel members. That said, the latest upturn in staffing levels was the softest seen for three months and only mild. Furthermore, the respective seasonally adjusted index dipped below the series' historical average, as some firms mentioned that resignations and redundancies had dampened growth.

### Sharp rise in operating expenses

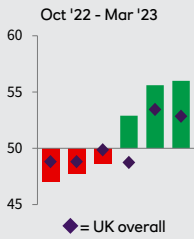
Average cost burdens faced by UK service sector SMEs rose for the thirty-third successive month in March. Higher salary costs, greater energy prices and supplier price hikes were all linked to the latest uptick in input prices. While still sharp in the context of historical data, the rate of inflation was the softest seen since May 2021.

The sustained increase in expenses resulted in a further sharp rise in prices charged by service providers. However, the rate of charge inflation was the joint-weakest recorded since October 2021.

### Optimism at 11-month high

Strong upturn in activity and new business fed through to greater optimism among UK SME service providers through the first quarter of 2023. Optimism across the sector now sits at an 11-month high, albeit remaining below the long-run trend level. Firms linked positive sentiment to expectations of further increases in customer demand, new client wins and new project starts.

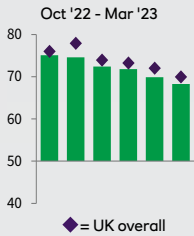
Business Activity Index



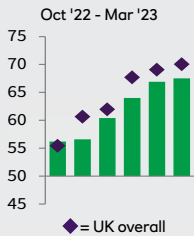
Employment Index



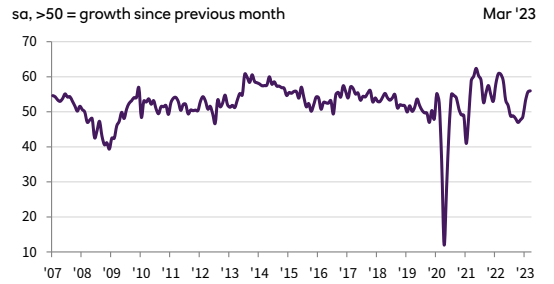
Input Prices Index



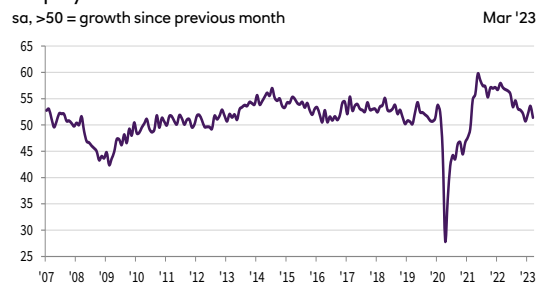
Future Activity Index



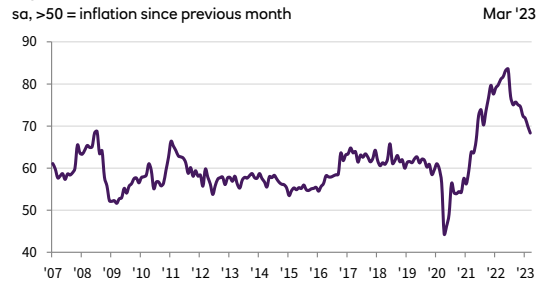
Business Activity Index



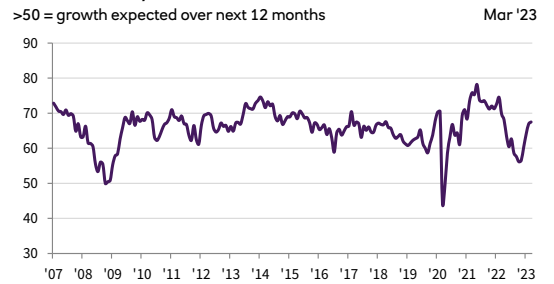
Employment Index



Input Prices Index



Future Activity Index



# SME Recovery PMI<sup>®</sup>: Manufacturing Sector

## Manufacturing output broadly stagnant in March

UK SME manufacturing firms signalled broadly unchanged production during March. However, despite the respective index weakening notably from February's 10-month high of 52.8 to 50.1, the latest reading compared favourably to the declines seen throughout the second-half of last year into January. Moreover, the stagnation of SME manufacturing contrasted with a reduction at larger companies.

Firms that registered higher output partly attributed this to improved delivery times, with average lead times shortening at the second-quickest pace on record. However, others noted that weak client demand had impacted production schedules. Furthermore, factory orders fell for an eleventh month running in March and at a solid rate that was sharper than seen in February.

## Slowest increase in staff numbers for three months

Job creation across UK SME manufacturing firms was sustained for the third month running in March. Plans for new product development and anticipation of future growth led firms to boost their staffing levels. While this was a marked improvement compared to the drop in workforce numbers seen at large manufacturers, the rate of job creation was only marginal and the weakest in the aforementioned sequence. Furthermore, some businesses indicated that lower sales had prompted them to make redundancies amid cost-cutting initiatives.

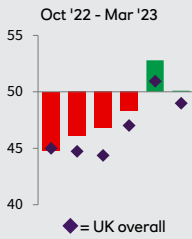
## Input price inflation dips to 34-month low

March data signalled a further easing of price pressures at UK SME goods producers, with the pace of cost inflation slowing for the sixth successive month. Though still sharp, the latest upturn in operating expenses was the weakest recorded since May 2020, as companies mentioned that reduced strain on supply chains and lower prices for some commodities had helped to ease inflationary pressure.

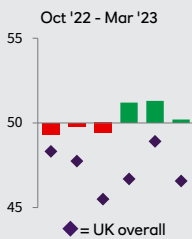
## Confidence around the outlook remains strong

UK SME manufacturing companies were strongly confident regarding the 12-month outlook for output, despite the recent slowdown in growth and a weak demand environment. In fact, the degree of confidence held close to February's 11-month high and remained above the historical average. According to respondents, optimism was linked to projections of improved sales and hopes that inflationary pressures will ease further.

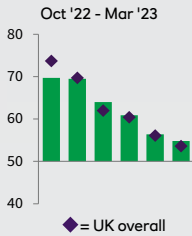
Business Activity Index



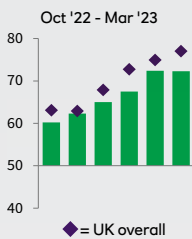
Employment Index



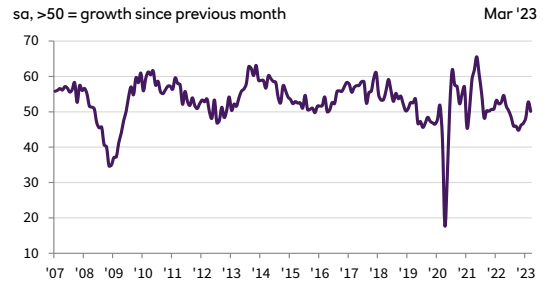
Input Prices Index



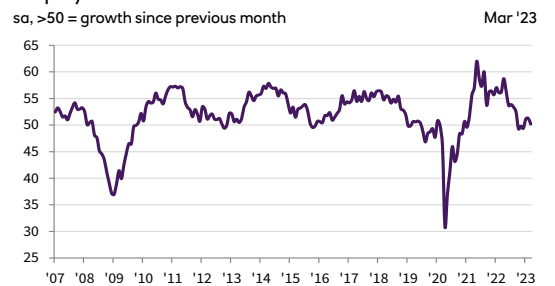
Future Activity Index



Business Activity Index



Employment Index



Input Prices Index



Future Activity Index



# SME Recovery PMI<sup>®</sup>: Construction Sector

## Renewed downturn in construction activity

At 46.6, the seasonally adjusted Business Activity Index fell notably from February's nine-month high of 54.2, indicating a renewed decline in activity at SME construction companies during March. Output has now fallen in eight of the last nine survey periods. According to panellists, the drop in activity was linked to reduced client spend and fewer contracts. The fall in activity contrasted with a sustained upturn at large construction firms, albeit one that was mild overall.

New business received by SME construction firms also decreased at the end of the first quarter, albeit mildly, following a solid upturn in February.

## Job creation improves to eight-month high

As has been the case since the start of the year, UK SME construction firms raised their employment levels during March. Moreover, the pace of job creation was the quickest seen since July 2022 and solid. Anecdotal evidence indicated that staff numbers increased due to the end of hiring freezes at some firms and expectations of improved business conditions in the months ahead.

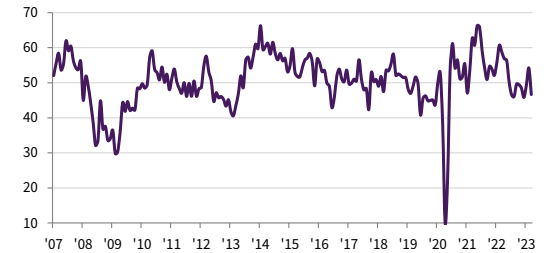
## Average input costs rise at softer rate

UK SME construction firms continued to face strong price pressures during March. Panel members attributed greater expenses to rising raw material costs, higher wages and increased energy bills. That said, the pace of inflation was the weakest in 28 months, having slowed in each month since April 2022. SME firms also registered a softer rate of cost inflation than that seen at large construction companies.

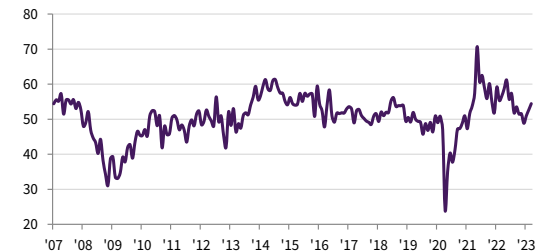
## Business expectations rebound sharply

Business confidence across SME construction companies revived over the first quarter of 2023, to mark a substantial shift in the sector's mood since the end of 2022. March data indicated the second-strongest degree of optimism seen for a year. An alleviation of supply chain pressures, work opportunities in Europe, greater marketing efforts and new products were all expected to boost activity in the coming 12 months. That said, the degree of confidence was softer than the historical average and not quite as upbeat as that seen for large firms.

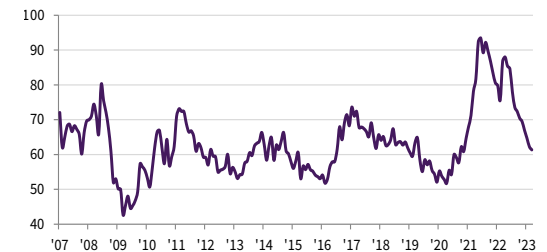
Business Activity Index 46.6  
sa, >50 = growth since previous month Mar '23



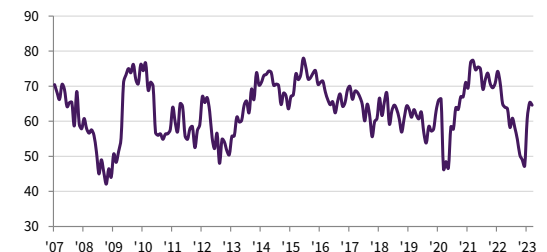
Employment Index 54.5  
sa, >50 = growth since previous month Mar '23



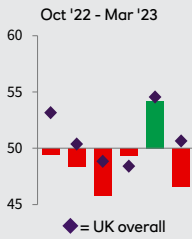
Input Prices Index 61.4  
sa, >50 = inflation since previous month Mar '23



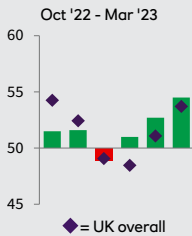
Future Activity Index 64.6  
>50 = growth expected over next 12 months Mar '23



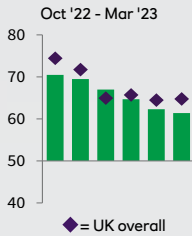
Business Activity Index



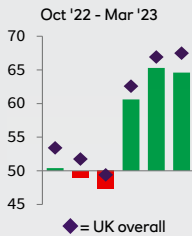
Employment Index



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<sup>®</sup> (PMI<sup>®</sup>) 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<sup>®</sup> 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<sup>®</sup> 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<sup>®</sup> data for March were collected 10 – 30 March 2023. 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<sup>®</sup> data are compiled on a quarterly basis. The latest survey was compiled in March 2023. 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](mailto: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 '22	46.9	45.7	45.7	56.2	52.2	48.3	73.9
Nov '22	47.5	45.7	44.9	56.7	51.8	45.4	73.4
Dec '22	48.1	47.2	45.2	59.9	50.4	45.0	70.8
Jan '23	52.0	50.1	48.0	64.2	51.9	46.8	69.6
Feb '23	55.1	53.4	50.4	67.6	53.2	48.3	67.3
Mar '23	54.3	53.8	51.5	67.9	51.5	48.8	65.8

### NatWest SME Recovery PMI® data (by sector)

	All-Sector Business Activity	Service Sector Business Activity	Manufacturing Business Activity	Construction Business Activity
Oct '22	46.9	47.0	44.8	49.4
Nov '22	47.5	47.7	46.1	48.4
Dec '22	48.1	48.6	46.8	45.8
Jan '23	52.0	52.9	48.3	49.3
Feb '23	55.1	55.6	52.8	54.2
Mar '23	54.3	56.0	50.1	46.6

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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.

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