



NatWest UK Sustainability PMI[®]

November 2021



NatWest

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Key findings

November 2021

Majority of UK firms cite action on recycling and cleaner business processes as high priorities in the next 12 months

Low carbon energy consumption is an increasing priority for manufacturing companies

Monitoring supply chain sustainability rises in importance for service sector businesses

Sustainable product launches slip back as near-term pandemic recovery diverts focus

Customer expectations are the most commonly cited reason for action on environmental sustainability

Four-in-five UK households say it's important to align their spending habits with net zero goals

NatWest's Springboard to Sustainability report shows that half of the UK's carbon reduction ambition can be delivered by the SME sector

Foreword

As the world's biggest climate summit continues in Glasgow, it's encouraging to see NatWest's UK Sustainability Purchasing Managers Index (PMI) reveal that the nation's businesses are committed to going green. A key insight shows the priority for recycling is falling as the climate focus turns to clean energy. There is also a strong feeling among businesses that more funding and guidance is needed to deliver on environmental ambitions.

The findings show that businesses and consumers are prioritising sustainability, but support is needed to give business the boost it needs to realise climate goals. [NatWest's Springboard to Sustainability](#) report, published in October 2021, found that half the UK's carbon reduction ambition can be delivered by the SME sector. This could unlock a £160 billion opportunity for SMEs in the process. To play our part, as the UK's largest business bank, we've committed to lending £100 billion of Climate and Sustainable Funding and Financing by the end of 2025.

The PMI has found that low carbon energy consumption has become an increasing priority for manufacturing companies, with the percentage rising to 48% from 40% in February 2020. Growing environmental priorities are also shifting in other sectors with around 35% of service sector businesses considering monitoring supply chain sustainability as a high priority, up from 32% before the pandemic.

Overall, the top three green priorities for business are increased recycling (52%), cleaner business processes (51%) and using low carbon energy (44%).

One of the most surprising insights is that although most UK firms say action on recycling (52%) is a high priority over the next year, it has slipped over the course of the pandemic from 63% in February 2020. Businesses said that the drop reflects the difficulty in identifying new opportunities for increased recycling, due to it being complicated and resource intensive. This is an where Government, banks and authorities need to step up to make sure the affordable green revolution doesn't stall.

Recovery from the pandemic has also diverted some focus away from sustainable product launches, with the number dropping from 28% to 25%. With 30% of UK carbon emissions coming from SMEs, the sector would also benefit from help to ensure these competing



Andrew Harrison
Head of Business Banking
NatWest

"Government, banks and authorities need to step up to make sure the affordable green revolution doesn't stall"

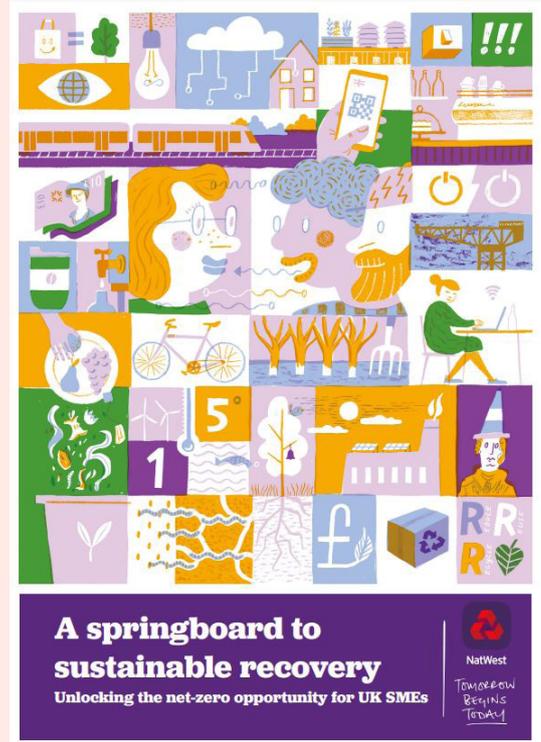
demands don't take away from environmental progress.

The report also found that customer expectations are the biggest reason for business action on environmental sustainability (51%), followed by company image (46%). That correlates with their customers' views: four-in-five UK households (81%) say it is important to align spending habits with net zero goals.

The NatWest Springboard to Sustainability report made these recommendations on the support SMEs need:

- 1. Funding access:** SMEs need financing options that reflect the societal benefit of delivering climate action to ensure that business initiatives make financial sense
- 2. Awareness:** SMEs need support to recognise the opportunities from climate action
- 3. Knowledge:** SMEs need help to improve their climate action knowledge, specifically on measurement and sector-specific expertise
- 4. Skills and capabilities:** SMEs need support to upskill employees to deliver business transition
- 5. Market access:** SMEs looking to unlock broader climate action need improved financial certainty of the benefits of doing so
- 6. Navigation:** SMEs need support to navigate the complex and evolving climate landscape

At NatWest we'll continue to focus on advice, education, coaching and products that can help SMEs contribute to cutting the UK's carbon emissions by 50%. What all this tells us, in clear numbers, is that all sectors of the economy will play their part in helping the UK achieve its climate ambitions.



Sustainability priorities during the recovery

We begin by analysing the actions planned by UK businesses to improve their environmental sustainability over the next 12 months. These findings are based on a survey panel of around 1,300 manufacturers and service providers, who were asked about their intended actions on sustainability. Results from September 2021 are compared against those seen prior to the pandemic.

The latest UK Sustainability PMI® data revealed that increased recycling and cleaner business processes remain the two big areas of action, with just over half of all private sector firms citing these as high priority initiatives for the year ahead. Meanwhile, the largest upgrades to action plans were for low carbon energy consumption in the manufacturing sector and monitoring supply chain sustainability in the service sector.

Many survey respondents commented on objectives to reduce, reuse and recycle, as well as long-term investments in relation to cleaner business operations. A number of manufacturers commented on achieving ISO 14001 accreditation for their environmental management system. Others areas of action included increased sourcing of recycled materials and a focus on packaging, especially to avoid the UK plastic packaging tax from April 2022.

However, the top ranking types of sustainability action have seen a slippage in priority over the course of the pandemic. At 52% in September, the percentage of UK businesses reporting increased recycling as a high priority was down from 63% in February 2020. Similarly, the number prioritising cleaner business processes decreased from 53% to 51% in September.

The slight drop in priority for these areas largely reflected the difficulty of identifying new opportunities, as UK businesses typically noted that efforts to recycle, reduce waste and improve business processes were a relatively mature aspect of environmental management. Business needs support to realise its green ambitions and NatWest's Springboard to Sustainability report found that this could offer SMEs a £160 billion opportunity to them in the process.

48% of UK manufacturers say low carbon energy consumption is a high priority 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 All-Sector Index

Percent reporting 'high priority'



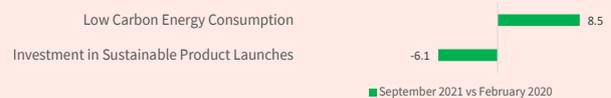
UK Service Sector Index

Top changes in percent reporting 'high priority'



UK Manufacturing Sector Index

Top changes in percent reporting 'high priority'



Sources: NatWest, IHS Markit.

The latest survey data illustrated that action on low carbon energy consumption has increased in priority over the course of the pandemic, especially for goods producers. Survey respondents reported efforts to switch to fully renewable energy supplies, embrace electric company vehicles and investigate the viability of solar panels on site.

Around 48% of UK manufacturers cited low carbon energy consumption as a high priority for the year ahead, up from 40% in February 2020. More detailed sector data showed that Consumer Goods producers and Consumer Services led the way (52%) while Technology was lowest ranked (29%). September data also showed that monitoring supply chain sustainability is a higher priority than before the pandemic. This was driven by a rise in the number of service providers citing action plans, which reached 35% in September.

Finally, around one-in-four businesses (25%) cited sustainable product launches as a high priority area for the year ahead. This represented a modest drop in priority since February 2020, led by greater caution in the manufacturing sector. Some suggested that the volatile price and supply environment as the global economy recovers from the pandemic was a factor set to limit their risk appetite and managerial capacity to pursue new product launches.

Sustainability priorities during the recovery

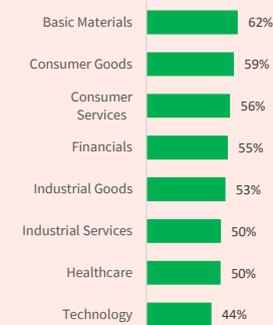
Q. Which of the following actions, if any, is your company prioritising to improve environmental sustainability in 12 months' time? (High Priority, Low Priority, Not a Priority, Don't Know).

1. Cleaner business processes
2. Increased recycling
3. Investment in sustainable product launches
4. Low carbon energy consumption
5. Monitoring supply chain sustainability

Actions on Sustainability, by Industry Sector

September 2021 data. Ranked by percent reporting high priority

Cleaner Business Processes



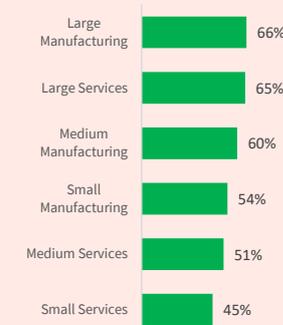
Increased Recycling



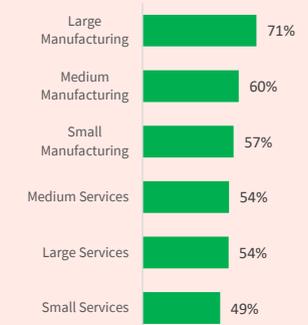
Actions on Sustainability, by Company Size

September 2021 data. Ranked by percent reporting high priority

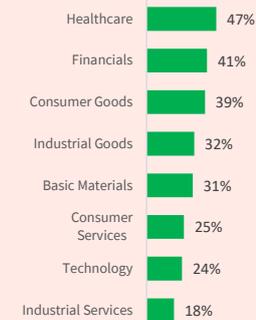
Cleaner Business Processes



Increased Recycling



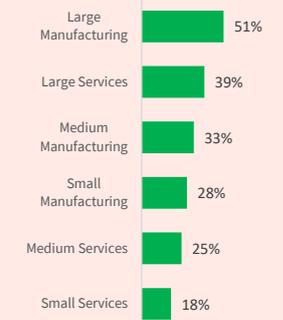
Investment in Sustainable Product Launches



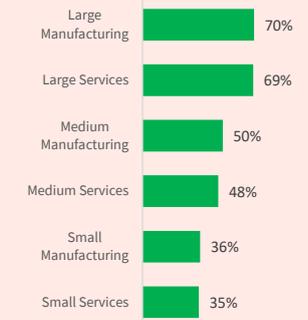
Low Carbon Energy Consumption



Investment in Sustainable Product Launches



Low Carbon Energy Consumption



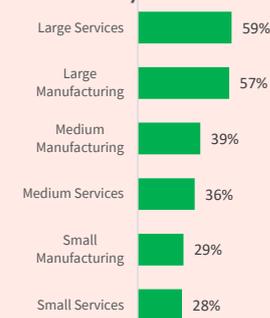
Monitoring Supply Chain Sustainability



Average overall ranking



Monitoring Supply Chain Sustainability



Average overall ranking



Sources: NatWest, IHS Markit.

Comments from survey participants

What are UK businesses saying about sustainability actions for the year ahead?

Q. If applicable, please use this space to help us better understand your company's actions on environmental sustainability in the next 12 months (open-ended question).

Basic Materials

"Inclusion of 30% recycled content to avoid the new UK plastic packaging tax"

"Increase recycling and move to close loop manufacture"

"All circular economy opportunities are being explored in order to remain compliant and competitive"

"Looking for opportunities to reduce supply chain footprint, considering options to move supply chains back from Asia"

"We are as green as we can go, using sustainable forests for our paper and all of our chemicals are water based. We are changing over to electric company cars this year"

"Regularly launching products to offer more recyclable solutions and continuing to invest in R&D"

Consumer Goods

"Changed to recyclable paper products"

"We are exploring use of solar energy and ground source heating to reduce our carbon footprint"

"Will keep pushing suppliers to choose environmentally friendly materials"

"We are implementing new efficient industrial boilers and machine-based energy monitoring systems"

Consumer Services

"We are buying as much as possible from small producers with high environmental standards."

"We avoid single use plastic and recycle all glass, plastic, cans and paper as much as possible"

"Working on zero carbon events, supply chain monitoring and carbon offsetting"

"Electric charging points. Investing in battery storage"

"New transport equipment with lower emissions, switched from diesel to electric forklifts"

"We have learnt how to reduce travel - for example with meetings. We now need to find other ways to make our business more sustainable. This will require investment in training and technology - budgeted for this in 2022"

Financials

"Hybrid working"

"Have a published ESG policy with carbon offset contribution. Recycling, car share, incentives for public transport and cycle to work scheme"

"Develop new financial products to help our clients to utilise ESG framework. Better internal processes and reporting to ensure that we are compliant"

Healthcare

"Set aggressive global goals across a spectrum of areas. Published goals as part of company reporting"

"We are monitoring our supply chain and partners for their environmental credentials"

Industrial Goods

"We plan to have zero waste to landfill in 2022"

"We are trying to reduce waste and install solar panels. We have a mixture of EV and Hybrid vehicles"

"We have employed a number of sustainability engineers to develop and increase our sustainability efforts"

Industrial Services

"Introduction of energy efficiency through solar panelling"

"More local sourcing"

"Increasingly focusing on better supply chain credentials"

"We will be doing much less travel to customer meetings and our default is now virtual meetings"

Technology

"We are taking steps to improve the recyclability of our end-user packaging"

"We are accredited to ISO14001 and have various sustainability goals including lowering power consumption, recycling and monitoring supply chain sustainability"

"Utilise low carbon couriers and less plastic packaging"

"We would like to install solar panels to generate electricity"

Motivation for actions on sustainability

The latest UK Sustainability PMI® highlights that businesses are increasingly motivated to take action on sustainability. Survey respondents once again cited customer expectations as the biggest factor influencing their sustainability efforts in the next 12 months.

Motivation due to company image and reputational risks has seen the biggest increase since the pandemic began. Investor relations have also gained influence on sustainability actions, according to survey respondents. Manufacturers are more optimistic than service providers about improving profitability through their sustainability actions.

September data revealed that customer expectations remain the primary driving force behind sustainability actions by UK private sector companies. Just over half of the survey panel (51%) reported that customer expectations had a large influence on their sustainability initiatives for the year ahead, up from 46% in February 2020. Consumer Goods producers were the most likely to signal that customer expectations were influencing their actions (66%), followed by manufacturers of Basic Materials (63%).

In second place was company image and reputational risks, with nearly half (46%) reporting this as a motivating factor, up from 40% before the pandemic. At 49% in September, compared to 37% in February 2020, there was a substantial increase in the number of UK manufacturers reporting this as a large motivation. Service providers also signalled that company image and reputation risks was a more important factor than last year (45% in September, up from 40%).

Government legislation was in third place in the rankings (42%), although this figure was unchanged since February 2020. Healthcare businesses (62%) were particularly likely to cite government legislation, followed by the Industrial Goods and Technology categories (51% in both).

Exactly one-in-four UK firms noted that improved profitability was a large motivation for their actions on sustainability. This figure was down slightly since the start of the pandemic, which contrasted with gains in all other

51% say customer expectations are a major reason for their sustainability actions

To what extent are the reasons below likely to influence your environmental sustainability actions in the next 12 months?

UK All-Sector Index

Percent reporting 'large extent'



UK Manufacturing and Service sectors compared

Change in percent reporting 'large extent' vs. February 2020



Sources: NatWest, IHS Markit.

categories except government legislation. To play its part in supporting business, NatWest has committed to lending £100 billion of Climate and Sustainability Funding and Financing by the end of 2025.

By detailed sector, Industrial Goods (35%) and Consumer Goods (34%) were the most likely to report improving profitability through sustainability initiatives. Company size data signalled that small and medium sized manufacturers scored highly for this aspect of motivation in September, with around one-in-three citing improved profitability as a major influence.

Around 15% of the survey panel reported investor relations as a primary factor behind their sustainability actions, up from 13% in February 2020. The increase was mainly driven by manufacturing companies, with this figure rising from 13% to 17% in September. By detailed sector, investor relations was the biggest influence on Financials (28%), Industrial Goods (23%) and Consumer Goods (18%).

Finally, businesses were invited to report on their motivations for sustainability action beyond the six categories monitored by the survey. Comments from respondents to this question overwhelmingly noted that action on sustainability was simply 'the right thing to do'. Many noted that the primary influence was their personal values, as well as the expectation of their customers.

Motivation for actions on sustainability

Q. To what extent are the reasons below likely to influence your environmental sustainability actions in the next 12 months? (Large Extent, Small Extent, Not At All, Don't Know).

1. Company image (and reputational risks)
2. Customer expectations
3. Government legislation
4. Improved profitability
5. Investor relations

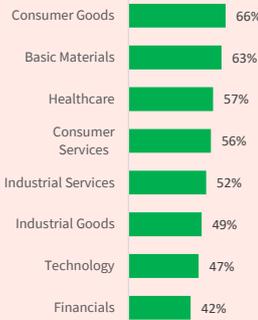
Motivation for Sustainability, by Industry Sector

September 2021 data. Ranked by percent reporting large extent

Company Image (and reputational risks)



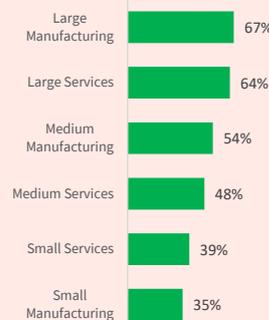
Customer Expectations



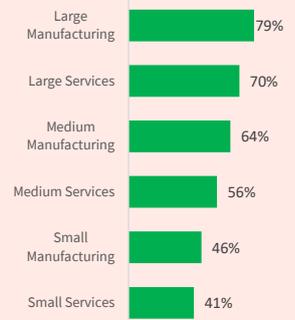
Motivation for Sustainability, by Company Size

September 2021 data. Ranked by percent reporting large extent

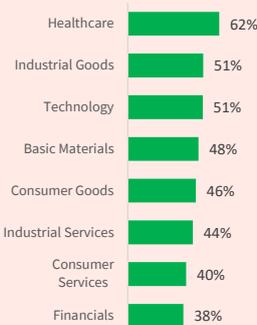
Company Image (and reputational risks)



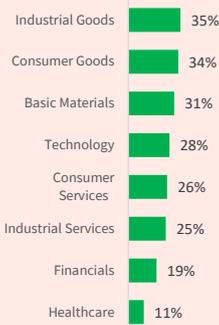
Customer Expectations



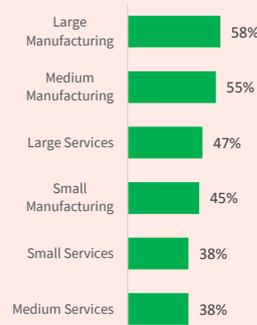
Government Legislation



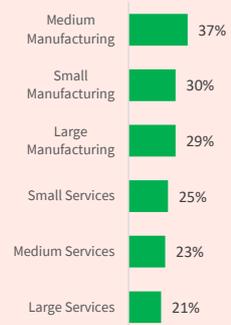
Improved Profitability



Government Legislation



Improved Profitability



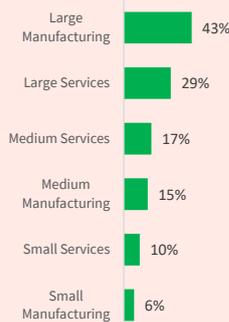
Investor Relations



Average overall ranking



Investor Relations



Average overall ranking



Sources: NatWest, IHS Markit.

Comments from survey participants

What else are UK businesses saying about motivation on sustainability?

Q. Please specify any other reasons likely to influence your environmental sustainability actions in the next 12 months in the space below (open-ended question).

Basic Materials

"We want to do it. It matters!"

"We understand that sustainability and environment are becoming more important to the world and everyone has to play their part"

"Because there is a climate emergency"

"Shareholder objective, although the overall goal to be 'greener' will need to be defined in a range of practical measures"

Consumer Goods

"Ethical reasons and industry leading technology driving competitive advantage"

"We are also citizens of this planet and reducing our environmental impact is a moral responsibility for every business and person"

"My own desire to be as sustainable as I possibly can is the main factor. I don't want my business to impact environment negatively"

Consumer Services

"If the guests start to demand it then we may, with government help, get solar panels"

"Sense of societal responsibility"

"Staff want us to behave well in this area"

"Climate change needs to be addressed, so this will be top down driven, with the CEO completing a climate change course in the next few weeks and there will then be a company wide plan for communicating the issues and what actions need to be taken, including influencing both suppliers and customers on the need for change"

"To change for the better and to do the right thing"

Financials

"Employee engagement - some already express a desire to recycle and save energy"

"It's the right thing to do"

Healthcare

"We are practising what we preach"

"Very much determined by market"

Industrial Goods

"I'd just feel better if we are recycling more!"

Industrial Services

"Reasons and actions that are both necessary and should reasonably be expected from a company operating in the utility sector"

"Because it's the right thing to do - recycle more and prevent wastage"

"Higher income taxes mean we're likely to focus on tax efficient benefits like electric vehicles"

"We all need to play our part in healing the planet and creating a healthier and safer environment for future generations"

"Recruitment - strong environmental performance is an important factor in trying to recruit top talent, particularly amongst graduates and junior consultants"

Technology

"Genuine concern for the planet"

"Staff interest and desire to get involved in sustainability activities"

"Our customers take this as seriously as we do"

Sources: NatWest, IHS Markit.

Customer expectations

As the UK economy recovers from the pandemic, the transition to more environmentally sustainable business operations has been increasingly driven by customer expectations, alongside efforts to improve company image and reputational risks.

To explore this trend in more detail, we surveyed 1,500 UK households to find out what they think companies should be prioritising over the next year to be more environmentally sustainable. We also asked how people's purchasing behaviour might change due to their views on sustainability and the government's net zero target.

September's survey data showed that the vast majority of households believe UK businesses should make environmental sustainability actions a high priority, despite the challenges posed as the economy recovers from the pandemic.

Across the six areas monitored by the survey, the highest priority was increased recycling (cited by 83% of UK households), followed closely by reduced packaging (82%) and focusing on cleaner business processes (81%). These figures were little-changed from the proportions recorded before the pandemic in February 2020.

A clear majority of households also listed the three other actions as a high priority; developing products that use sustainable materials/respect the environment (74%), increasing use of low carbon energy sources (73%) and monitoring suppliers to ensure minimal impact on the environment (72%).

When asked to comment on what other actions UK companies should be taking to improve their environmental sustainability, households often indicated that businesses should embrace electric vehicles, renewable energy sources such as solar panels, reduce business travel, adopt flexible working arrangements and cut down or eliminate the use of plastics (particularly single-use).

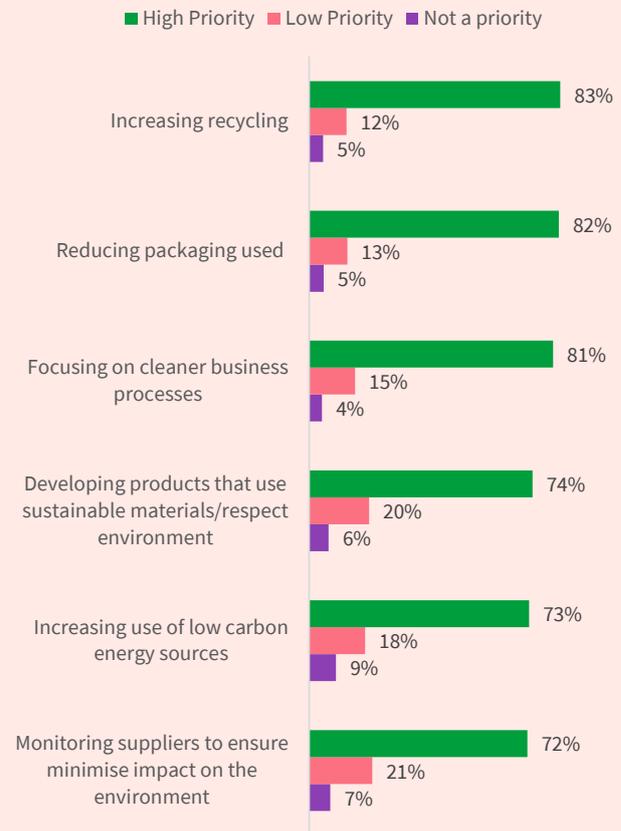
The consumer expectations survey also looked at how households' views on environmental sustainability will influence their own behaviour over the next 12 months.

Around 64% of UK households stated that its likely their views on environmental sustainability will impact their spending habits over the next year. This was down from 69% before the pandemic in early-2020, but still suggested that the majority of households are planning to adapt their consumption preferences due to environmental sustainability concerns.

Looking at these results down by age group, the youngest cohort (18-24 years old) were the most likely to change their behaviour due to their views, with 71% in this demographic likely to alter their spending habits, while those in the oldest age bracket (55-64) were the least likely (60%).

Finally, the UK government has set a target of net zero emissions by 2050 to end the UK's contribution to global warming. When asked whether they believe its important to change their behaviour to help meet this goal, around four-in-five households agreed (81%). The percentage feeling that it was important to align their consumption with net zero goals was high across all age bands (above 78%).

Which of the following actions do you believe should be a high priority, a low priority or not a priority for UK businesses over the next 12 months?



A representative sample of 1,500 UK households were asked about actions they believe UK businesses should take to improve their environmental sustainability over the next 12 months.

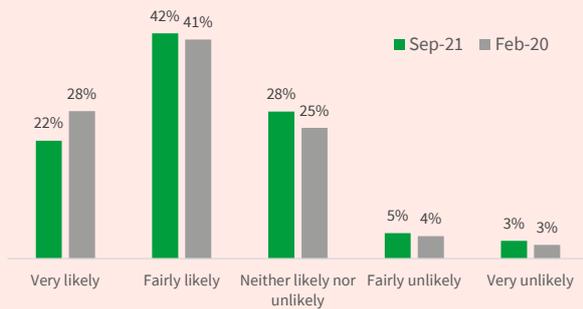
Sources: NatWest, IHS Markit.

81% say it's important to align their spending habits with net zero goals

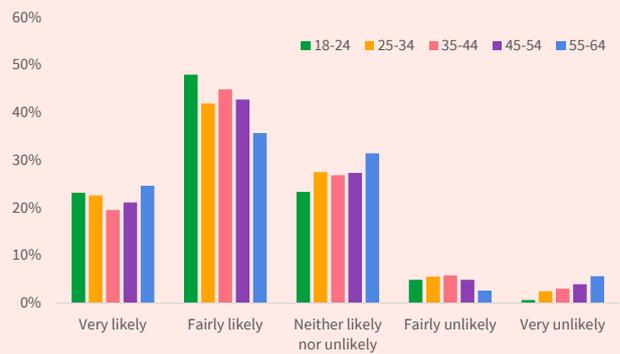
Customer expectations

What is the likelihood that your views on environmental sustainability will influence consumption habits over the next year?

UK households, overall
Pre- and post-pandemic percentages

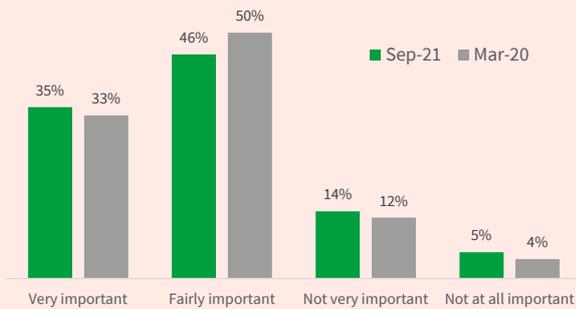


UK households, by age group
September 2021

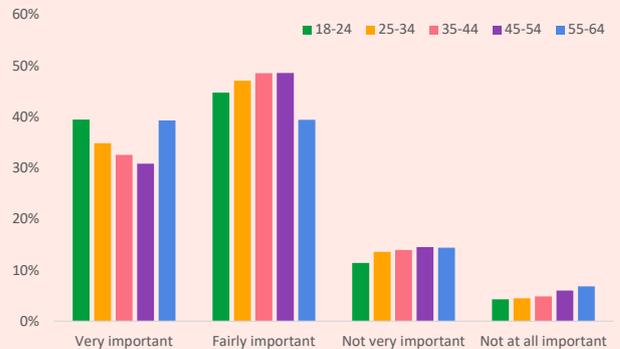


With the UK Government's net zero emissions target in mind, how important do you consider changing your behaviour to become more sustainable?

UK households, overall
Pre- and post-pandemic percentages



UK households, by age group
September 2021



Sources: NatWest, IHS Markit.



Survey methodology

NatWest UK Sustainability PMI®

The NatWest UK Sustainability PMI® was compiled by IHS Markit from responses to questionnaires sent to a panel of approximately 1,300 companies across both the manufacturing and service sectors. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP.

Data were collected 13th - 28th September 2021.

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

The customer expectations survey is based on responses from approximately 1,500 individuals in the UK, with data collected by Ipsos MORI from its panel of respondents aged 18-64.

Ipsos MORI technical details (September 2021 survey)

Ipsos MORI interviewed 1,500 adults aged 18-64 across the UK from its online panel of respondents. Interviews were conducted online between 2nd - 5th September 2021.

A representative sample of 1,500 adults were interviewed in each period, with quota controls set by gender, age and region and the resultant survey data weighted to the known UK profile of this audience by gender, age, region and household income. Ipsos MORI was responsible for the fieldwork and data collection only and not responsible for the analysis, reporting or interpretation of the survey results.

About NatWest

NatWest serves customers in England and Wales, supporting them with their personal, private, and business banking needs. NatWest helps customers at all stages in their lives, 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.

About IHS Markit

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

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