

NatWest UK Small Business PMI®

July sees growth of activity at small businesses, albeit at varying speeds

UK Small Business Activity Index



Key findings

Small manufacturers and construction firms outperform in July

Recovery remains slower among small service providers

Job shedding continues to ease, contrasting with the worsening picture at larger firms

The NatWest UK Small Business PMI® is a monthly index that monitors the performance of private sector firms with between 1 and 49 employees as the UK economy emerges from the coronavirus 2019 (COVID-19) pandemic.

July data showed a pick-up in activity at UK small businesses, in a further sign of operating conditions gradually improving following the lifting of lockdown measures. However, the pace of recovery remained uneven and lagged behind that seen among larger companies.

The headline All-Sector Small Business Activity Index – which monitors output at private sector companies with 1-49 employees – rose further in July from a record low in April, climbing to 53.3 from 42.5 in June. Being above 50.0, the index pointed to more small firms seeing an improvement in activity than a decline for the first time since February.

The latest reading signalled the fastest rate of growth for exactly two years. Nevertheless, the rebound was still slower than across the UK private sector as a whole (equivalent index at 57.1). This was largely confined to the service sector, where small businesses recorded a return to growth after four months of contraction but continued to see activity

curbed by restrictions on capacity and a reluctance to spend among customers.

Small manufacturers and construction firms enjoyed stronger growth than their larger counterparts in July, recording the steepest rises in activity for around six years and sixteen-and-a-half years respectively. There were reports of customer numbers increasing and a catch up on work delayed due to the lockdown.

July data showed that small firms faced strong and above-average cost increases. Pressures on this front remained especially acute in the construction and manufacturing sectors, linked in part to supply-chain disruption and rising transport costs. Service providers also noted a jump in operating expenses from recent lows, which they partly attributed to staff returning from furlough.

Small enterprises were more optimistic about the outlook for activity over the next 12 months in July. With many still operating below full capacity, workforce numbers continued to fall. In a step in the right direction, the decline in employment eased for the third month running to the weakest since March, which contrasted with an accelerated pace of staff cuts among larger firms.

NatWest UK All-Sector Small Business Activity Index
sa, >50 = growth since previous month



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Foreword



Seeing growth of activity in small businesses in the latest NatWest UK Small Business PMI is a positive sign of recovery, but overall, the data is still showing that smaller enterprises are lagging behind the activity seen among larger companies.

The picture at a sub-sector level is a little different, with small manufacturers and construction companies enjoying a stronger growth than their larger counterparts. Whereas small service providers are still lagging behind large businesses in the sector, even though they have seen a return to growth, as their activity is curbed by restrictions.

These insights outlined some of the challenges faced by smaller businesses, including high cost increases and a jump in operating expenses, but it is encouraging to see that the decline in employment eased for the third month running in small businesses, in contrast to larger firms.

With last week's figures on GDP showing a 20% fall in economic output in the three months to June, our support to SMEs will be vital in the coming months and years to ensure we can support them back to recovery and growth. We have approved just over £11.7 billion under the three government loan schemes, with £7.1 billion of that supporting our SME business customers through the

Bounce Back Loan scheme.

A recent initiative we launched to our business banking customers was the integration of a market leading accountancy platform, FreeAgent, within our online digital banking platform, free of charge. This significant improvement enables customers to oversee, plan and protect their business with more ease than ever before. This latest offering builds on the specific support we are providing to SMEs and combined with our other initiatives, such as financial health checks and our recently launched cashflow forecasting tool, we believe that our innovative business packages can support our customers into the future.

We want to be agile in our response to best support our customers as they face into uncertainty, and with changing consumer behaviour and the potential risk of local lockdowns, we will continue to do whatever we can to stand by our SMEs. As a purpose-led bank, this will be our focus over the coming months.

Andrew Harrison
 Head of Business Banking
 NatWest

Small Business PMI®: Service Sector

Service economy returns to growth

July data indicated that small companies in the service sector experienced a modest overall increase in business activity, following the deep retrenchment seen in the second quarter of 2020. At 50.8 in July, up from 40.3 in June, the Business Activity Index registered above the 50.0 no-change threshold for the first time since February. That said, small businesses remain on a slower recovery path than the UK service sector as a whole (equivalent index at 56.5 in July).

Around 34% of small enterprises in the service sector reported an expansion of business activity in July, up from 23% in June and only 11% in May. Growth was overwhelmingly linked to the reopening of the UK economy and easing lockdown measures in July, particularly in customer-facing areas of activity.

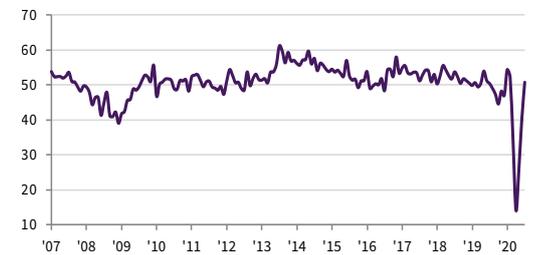
Job cuts subside during July

The rate of job shedding among small service providers eased since June, in contrast to the quicker drop in employment reported by larger enterprises during July. Latest data signalled the slowest fall in staffing numbers since March, with some small businesses noting that higher workloads had led them to recall staff from furlough. Other service providers commented that rising candidate availability had now enabled them to recruit staff for unfilled vacancies.

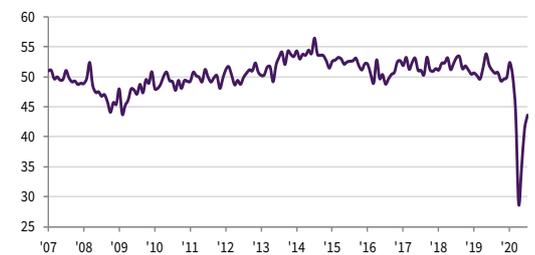
Optimism hits five-month high

Exactly half of the survey panel anticipate a rise in business activity during the year ahead, while only 22% forecast a reduction. At 64.4 in July, the resulting Future Activity Index was the highest since February, but still well short of the equivalent measure for the UK service sector as a whole (69.6). Small service enterprises noted concerns about the prospect of future business interruptions, alongside rising costs and lower productivity due to social distancing measures.

Business Activity Index 50.8
sa, >50 = growth since previous month Jul '20



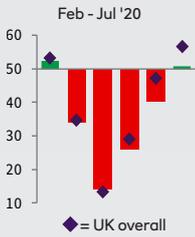
Employment Index 43.6
sa, >50 = growth since previous month Jul '20



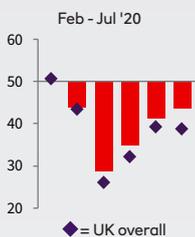
Future Activity Index 64.4
>50 = growth expected over next 12 months Jul '20



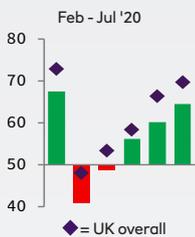
Business Activity Index



Employment Index



Future Activity Index



Small Business PMI®: Manufacturing Sector

Manufacturers a bright spot in the small business revival

UK manufacturers with 1-49 employees recorded their strongest growth in business activity for just over six years at the start of the third quarter. The respective index registered 61.9, up from 49.8 in June and the first reading above the 50.0 no-change threshold since February.

The performance in July was better than that for the good-producing sector as a whole (equivalent index at 59.3, up from 50.7 in June), with the rate of growth also outstripping those recorded by small construction and services firms.

Where an increase in production was recorded (at 41% of firms), this was often linked to rising inflows of new orders as customers resumed work and ramped up operations. Surveyed businesses also commented on a boost to productive capabilities as staff were recalled from furlough.

Employment falls only marginally

The decline in manufacturing employment slowed sharply in July. Overall workforce numbers were down only marginally and at the slowest rate since the current sequence of staff cuts began in March. This contrasted with another sharp rate of job losses among larger goods producers.

Among those small manufacturers that did report lower headcounts, this was often linked to redundancies amid under-utilised capacity. Several firms reported recalling staff from furlough, though there were still very few mentions of new positions being created.

Cost pressures remain high at small manufacturers

Latest data showed another round of strong input price increases among small manufacturers, which they linked to a combination of a weak pound, rising freight costs and higher prices for raw materials. The overall rate of cost inflation stayed closed to June's nine-month high and remained well in excess of that reported by larger manufacturers, who reportedly benefited from higher volume purchases.

There was limited pass-through of higher costs to clients during July, with output charges up only fractionally and at the slowest rate for more than four years amid fierce competition for new work.

Confidence continues to grow

July saw not only an increase in the proportion of small manufacturers expecting output to rise over the coming year (63% up from 59%), but also a marked decrease in those downbeat about the outlook (11% down from 22%). As such, the Future Business Activity improved to the highest since April 2014. Confidence even surpassed the total manufacturing sector average.

Business Activity Index
sa, >50 = growth since previous month Jul '20 61.9



Employment Index
sa, >50 = growth since previous month Jul '20 49.1



Suppliers' Delivery Times Index
sa, >50 = faster times since previous month Jul '20 41.9



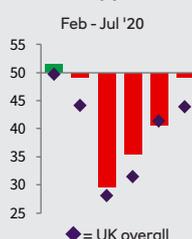
Future Activity Index
>50 = growth expected over next 12 months Jul '20 76.0



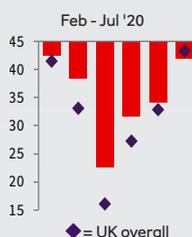
Business Activity Index
Feb - Jul '20



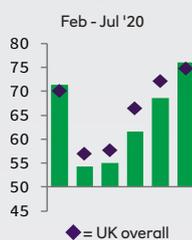
Employment Index
Feb - Jul '20



Suppliers' Delivery Times Index
Feb - Jul '20



Future Activity Index
Feb - Jul '20



Small Business PMI[®]: Construction Sector

Rapid upturn in construction output in July

Construction companies reported a sharp expansion of output volumes in July, with the Small Business Activity Index reaching 61.4, up from 49.5 in June. The index was above the 50.0 no-change value for the first time in five months and the latest reading signalled the fastest rate of growth since October 2003.

Survey respondents commented that the remobilisation of the construction supply chain and easing lockdown restrictions had underpinned a strong increase in business activity during July. Growth was reported in all main categories of construction work, with house building the best-performing area.

Job cuts continue amid shortages of orders to replace completed work

In contrast to the strong rise in business activity among small construction companies during July, latest data highlighted only a modest improvement in order books and a slower rate of expansion than seen among larger construction firms. Anecdotal evidence cited intense competition for new work and a lack of tender opportunities to replace completed projects.

Subdued underlying demand continued to weigh on employment levels, with the rate of job shedding remaining among the fastest seen over the past eight years. Around 26% of small construction firms reported a drop in staffing numbers in July, while only 6% indicated a rise.

Supply chain disruptions show signs of easing

The seasonally adjusted Suppliers' Delivery Times Index picked up further from April's record low, but continued to signal an overall lengthening of average lead times for the receipt of construction products and materials. Construction companies often commented on stretched supply chains since the restart of work on site, with materials such as plaster in particularly short supply.

Businesses expectations lag behind those of larger firms

July data pointed to positive sentiment overall about recovery prospects across the sector. Around 38% of small construction firms anticipate a rise in output over the year ahead, while 31% predict a decline. However, the degree of confidence fell short of that seen among larger construction companies, reflecting concerns about a lack of project starts and intense competition for new work.

Business Activity Index
sa, >50 = growth since previous month
61.4
Jul '20



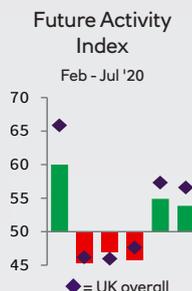
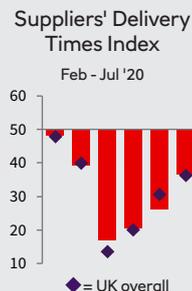
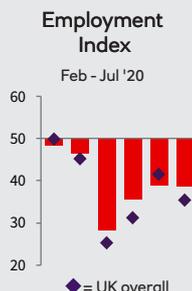
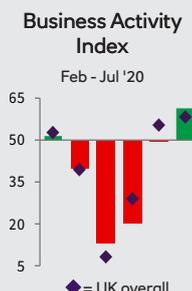
Employment Index
sa, >50 = growth since previous month
38.7
Jul '20



Suppliers' Delivery Times Index
sa, >50 = faster times since previous month
36.4
Jul '20



Future Activity Index
>50 = growth expected over next 12 months
53.8
Jul '20



The fortunes of small businesses will prove to be as varied and individual as it'll be for 67m of us who call the UK home

Stephen Blackman



The UK is home to nearly 6 million small business, including 211,000 who employ more than 10 workers. With so many businesses it's clear that their fortunes during the coronavirus pandemic will prove to be as varied and individual as it'll be for the 67 million of us who call the UK home.

Yet collectively small firms have shared the wider pain felt by all business. So, it's welcome news that, like the economy overall, small businesses sentiment and activity improved sharply in July. We shouldn't read too much into their slight relative underperformance. It's likely a sectoral story. Small businesses tend to cluster within services and construction, sectors that recovered slightly slower than manufacturing. The gap should narrow, especially for construction and may have already done so. Home working and home living equals more home spending. So, we'll convert homes and outside space, building home offices, redesigning gardens, or general upkeep. At least for as long as we have the cash to do so.

Longer term, the fortunes of small businesses rests on three powerful trends. First is the impact COVID-19 may exhort on our entrepreneurial drive, the animal spirits that encourage many of us to strike for freedom by establishing our own business. The good news is that after a sharp fall from March to May, more firms

were incorporated in early August than the average for Q3 2019 (3,332 incorporations per working day on average vs. 2,612). This acceleration has run since June, giving hope to the persistence of our animal spirits. Technology has been a great facilitator, supporting start-ups and small businesses by reducing costs, enhancing collaboration & communication and establishing micro markets.

The second is whether the need for more collaboration between Government and big business, for example to ensure the provision of essential goods and services, crowds out opportunity for small businesses. Again, technology may prove to be the tool that empowers smaller firms by helping targets niche opportunities of market, customer or location.

The final trend is the extent that our attention and spending shifts to the local. Over one in five workers are still mainly working from home and many may never fully go back. As networks are disrupted this provides opportunities as well as challenges for Britain's small businesses. But again, outcomes will be uneven and individual, with fortunes shaped by the imagination and creativity of the owners to provide value for their customers.

Stephen Blackman
Principal Economist
NatWest

Applications to government support schemes, by percentage of businesses

ONS Business Impact of Coronavirus (COVID-19) Survey, 13 to 26 July 2020



Special focus: UK second quarter GDP

Size of the UK economy shrinks by around one-fifth during the second quarter of 2020

UK GDP

Quarterly % Change



Last four quarters



The latest NatWest Small Business PMI data provide some grounds for optimism that a turning point has been reached after the lows seen during the lockdown.

However, the scale of the mountain to climb is not be underestimated, with figures released by the Office for National Statistics illustrating an unprecedented 20.4% drop in Gross Domestic Product (GDP) during the second quarter of the year.

Provisional figures indicated that UK GDP declined by 20.4% during the April to June quarter, which was almost ten times faster than the rate of contraction seen in the first three months of the year (-2.2%).

The speed of the economic downturn was also far quicker than at any time in 2008/09, as had been suggested in advance by more

timely business survey indicators and a range of statistics monitoring mobility and transportation usage during the COVID-19 pandemic. Collectively, reductions in GDP during each of the first two quarters of 2020 have sent the volume of UK economic output down to levels last seen in 2003.

With the size of the UK economy shrinking to its smallest for 17 years amid widespread business closures in many sectors during the lockdown period, any output growth through the July to September quarter will come from an exceptionally low base.

These GDP figures mirror the comments received from respondents to the latest PMI surveys, with small businesses often citing expansion in July from extremely low levels of activity and a long road ahead to achieve pre-pandemic levels of output.

United Kingdom, Gross Domestic Product (GDP), volume index , 100 = 2016



Source: Office for National Statistics



Special focus: UK small business employment

Government support schemes for small business during the COVID-19 pandemic

This section illustrates that the take-up of both the Coronavirus Job Retention Scheme (CJRS) and government-backed loans has been particularly high among small- and medium-sized enterprises (SMEs). These schemes have been designed to alleviate pressure on cash reserves and help retain skilled staff during the COVID-19 pandemic.

Latest data from the Office for National Statistics data indicated that the proportion of staff on furlough at small- and medium-sized enterprises had fallen to 22% in the two weeks to 26th July, down from 31% a month earlier. This was still slightly higher than the 19% reported by large businesses, which continues to mirror the picture from the NatWest Small Business PMI survey suggesting that the use of furlough once again resulted in fewer overall job losses among small enterprises.

Liquidity remained under pressure among small businesses, with around 28% of SMEs expecting their cash reserves to last 3 months or less, against 18% for large firms. Furthermore, around 32% of small- and medium-sized enterprises reported that operating costs were greater than, or equal to, turnover, compared to only 23% of large firms. This was reflected in a comparatively smaller proportion of SMEs being able to provide a top-up to any furloughed worker's pay (35% versus 44% for large firms).

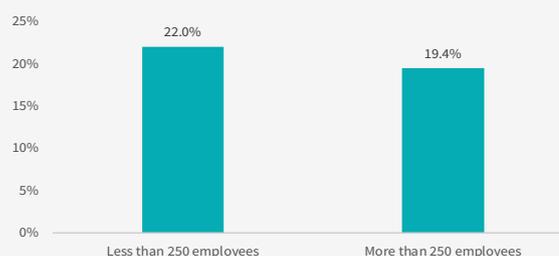
A breakdown of the data by region showed that firms in the North East were still the most likely to have applied to the government's job retention scheme (89%), and those in London the least likely (75%). In terms of the proportions of firms applying for government-backed loans and business grants, these were both highest in Wales.

By sector, arts, entertainment and recreation saw the greatest use of furlough in the two weeks to 26th July (46%), ahead of accommodation and food services (31%). However, these two sectors had also seen the greatest proportion of staff return from furlough leave at 25% and 17% respectively.

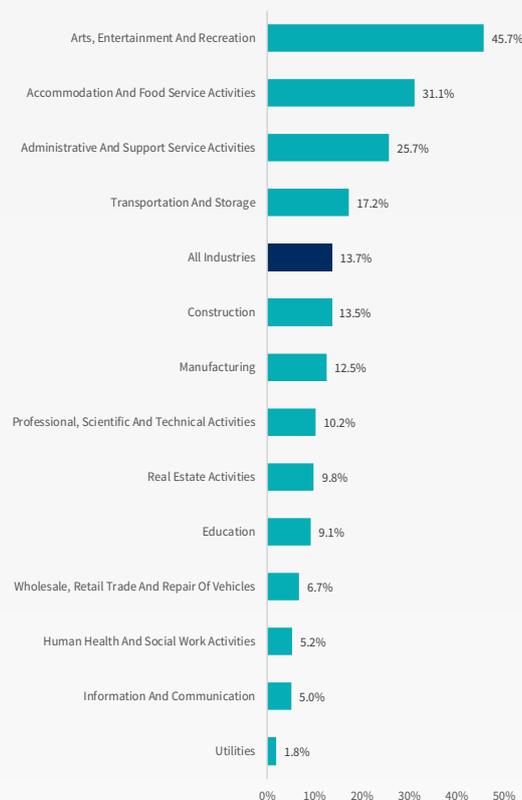
Turning to the government's two main lending schemes aimed at SMEs – the Coronavirus Business Interruption Loan Scheme (CBILS) and the Bounce Back Loan Scheme (BBLs) – a total of more than £49.1bn has so far been approved, across over 1.2 million businesses as of 18th August.

Lending through the Bounce Back Loan Scheme (BBLs) is now £35.5bn. For the Coronavirus Business Interruption Loan Scheme (CBILS), the value of approved facilities is £13.7bn. This figure is greater than the £3.5bn in loans provided to large firms through the Coronavirus Large Business Interruption Loan Scheme (CLBILS).

Proportion of workforce on furlough leave, by company size 13 to 26 July 2020



Proportion of workforce on furlough leave, by sector* 13 to 26 July 2020



Source: Office for National Statistics, Business Impact of Coronavirus (COVID-19) Survey.

*Apportioned by employment size.

About the Small Business PMI[®] report

The NatWest UK Small Business PMI[®] is a new monthly index designed to monitor business conditions reported by enterprises with 1-49 employees.

The headline figure from the survey is the All-Sector Small Business Activity Index. This measures changes in the total volume of business activity at small enterprises across the manufacturing, services and construction sectors.

NatWest UK Small Business PMI[®] data are compiled from responses to questionnaires sent to companies with 1-49 employees that participate in IHS Markit's monthly Purchasing Managers' Index[®] (PMI[®]) surveys.

Survey responses are collected by IHS Markit 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 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.

Monthly indices are compiled for a range of survey variables, including business activity, new orders, employment, input costs, prices charged, suppliers' delivery times and future activity.

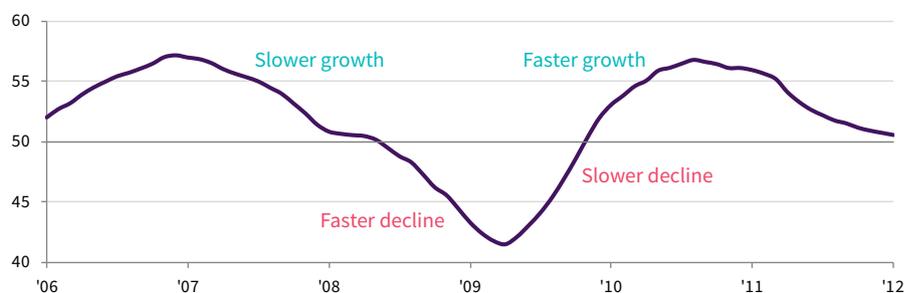
The survey data for July were collected 13 – 30 July 2020. Historical data are available from January 1998 for the All-Sector Small Business Activity Index.

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

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

Index interpretation

50.0 = no change since previous month



Index summary

NatWest UK Small Business PMI® (All-Sector)

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

	Activity	New Business	Suppliers' Delivery Times	Future Activity	Employment	Outstanding Business	Input Prices	Prices Charged
Feb '20	52.1	50.2	44.7	67.3	50.1	46.6	58.1	52.1
Mar '20	35.8	33.9	38.7	43.1	44.9	37.2	54.6	48.1
Apr '20	14.6	14.3	20.5	49.4	28.9	23.0	46.2	44.5
May '20	26.3	25.5	27.5	56.1	35.0	31.0	49.2	46.6
Jun '20	42.5	42.8	31.2	60.9	41.0	40.1	51.2	47.4
Jul '20	53.3	50.0	39.9	65.2	44.0	43.4	57.0	48.5

NatWest UK Small Business PMI® (by sector)

	All-Sector Business Activity	Service Sector Business Activity	Manufacturing Business Activity	Construction Business Activity
Feb '20	52.1	52.3	51.5	51.4
Mar '20	35.8	34.0	42.9	39.8
Apr '20	14.6	14.1	18.0	13.1
May '20	26.3	25.9	31.6	20.3
Jun '20	42.5	40.3	49.8	49.5
Jul '20	53.3	50.8	61.9	61.4

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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 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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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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