



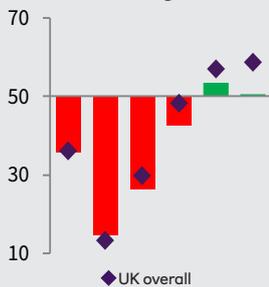
# NatWest UK Small Business PMI®

## UK small business recovery slows in August

### UK Small Business Activity Index



Mar - Aug '20



### Key findings

Output levels rise again, but pace of growth loses momentum

Recovery among small enterprises lags further behind their larger counterparts

Job cuts ease to the slowest since March

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.

The recovery in activity among the UK's small businesses lost momentum in August. This was highlighted by the headline All-Sector Small Business Activity Index slipping to 50.6, down from a two-year high of 53.3 in July. While still above the 50.0 level that separates expansion from contraction, the latest reading signalled a near-stalling of business activity after solid growth in the previous month.

With the equivalent all-firm index gaining further ground to 58.7 in August, the latest data highlighted a widening gap in performance between small enterprises and larger companies. At the sector level, small manufacturing and construction firms saw continued improvements in output levels, albeit with growth slowing since July. Business activity meanwhile failed to pick up in the service sector, with the stagnation coming on the back of modest growth at the beginning of the second quarter.

One factor holding back the recovery was a relative lack of new work at small firms.

Volumes of new orders showed little change during August as businesses indicated that COVID-19 continued to weigh on demand. Although only modest, new work received by small firms in the service sector did return to growth. Survey respondents cited a boost from easing lockdown measures, the government's 'Eat Out to Help Out' scheme and increased housing market activity in August.

Small businesses continued to trim workforce numbers during August, citing redundancies and the non-replacement of leavers to help reduce costs. That said, the decline in employment was the weakest for five months and slower than that seen among larger enterprises. On top of this, there were reports of staff returning from furlough as firms stayed positive overall towards the business outlook.

Supply chain disruption remained a challenge for small firms, particularly those operating in the construction sector. As such, there was strong upward pressure on input prices, with rates of cost inflation continuing to outstrip those faced by medium- and large-sized firms. This continued to squeeze small business margins, but output prices did stabilise in August after falling in each of the previous five months.

NatWest UK All-Sector Small Business Activity Index

sa, >50 = growth since previous month



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# Foreword



Our latest NatWest UK Small Business PMI survey shows that the road to recovery for small businesses continues to be challenging. However, there are positive signs and, even though the rate of growth has slowed among smaller manufacturers and construction companies in August, we are continuing to see output levels increase.

Encouragingly, optimism among smaller enterprises for future activity remains high. Another hopeful sign is that job cuts among smaller businesses eased to the slowest it has been since March, as well as being slower than what we've seen in larger companies.

Overall, the data tells us that the trend of business activity for smaller companies continues to lag behind their larger competitors. We know that small firms are facing different challenges to larger businesses, from adapting to social distancing measures to supply chain issues and liquidity pressures. And this is why we are providing targeted and specific support to our SME customers.

With the furlough scheme coming to an end soon, we know it's critical that we continue to stay close to our business customers. As we have done throughout this pandemic, we are working with them to understand what pressures they are facing in the coming months in order to provide the right tools and support to help them back to growth.

There has already been a 30% increase in start-ups since the beginning of the pandemic. Companies House reported nearly 200,000 new business registrations between March and July. We're proud to offer the UK's largest fully funded business accelerator network. We will help get the UK back to growth by creating an additional 50,000 new businesses in the UK by 2023 – through our start up proposition and focusing our efforts on underrepresented groups and addressing geographical inequality.

Through the three government schemes, we have approved over £11.7 billion of new lending. Of that, over £7.2 billion supports our SME business customers through the Bounce Back Loan scheme. Through our financial support, combined with our tools and insight, we are standing by our business customers and giving them the help they need to get back on their feet. And with a positive outlook still remaining among smaller businesses according to this month's PMI, we will be there to help them back to growth too.

**Andrew Harrison**  
 Head of Business Banking  
 NatWest

# Small Business PMI<sup>®</sup>: Service Sector

## Services activity stagnates in August

August data highlighted that small service sector companies continued to experience highly subdued customer demand amid the COVID-19 pandemic, despite many businesses reopening after lockdown restrictions were loosened. The Business Activity Index dipped slightly from 50.8 in July and registered on the 50.0 threshold in August, to signal no-change in service sector output. This setback contrasted with a stronger recovery for the UK service sector as a whole, with the equivalent index rising to 58.8 in August.

Small service providers often commented on a lack of work to replace completed projects and limited scope to stimulate client demand. August data indicated that total new orders returned to growth, but the rate of expansion was only marginal and much weaker than seen among larger service providers.

## Decline in employment eases further

Workforce numbers at small service sector firms declined at a softer rate in August, with the latest round of job cuts the least severe in the current six-month sequence of falling employment. There were mentions of redundancies due to weak demand and constrained operating capacity among customer-facing businesses, but some firms also reported bringing employees back from furlough amid a partial rebound in workloads.

The rate of job shedding at small service providers was notably weaker than those at both medium- and large-sized companies.

## Expectations remain positive

The Future Activity Index remained above the crucial 50.0 mark for the fourth month running in August, signalling optimism among firms with regards to the year-ahead outlook for activity.

That said, sentiment among small firms dipped slightly from July and remained weaker than across the UK service sector as a whole.

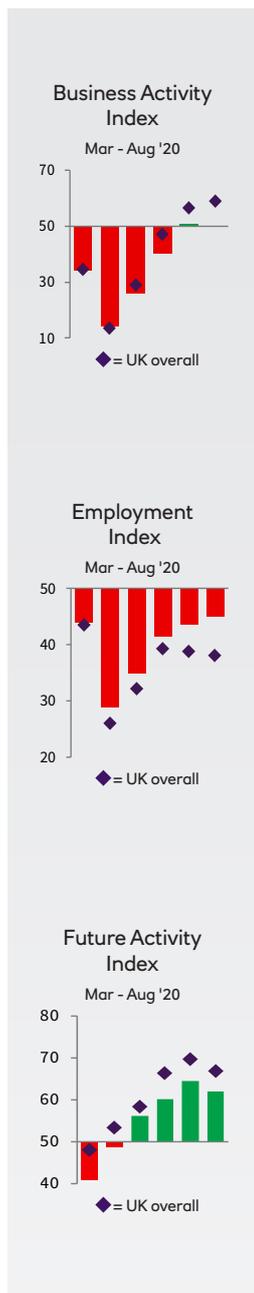
Business Activity Index 50.0  
sa, >50 = growth since previous month Aug '20



Employment Index 44.9  
sa, >50 = growth since previous month Aug '20



Future Activity Index 61.9  
>50 = growth expected over next 12 months Aug '20



# Small Business PMI<sup>®</sup>: Manufacturing Sector

## Manufacturing continues to lead small business recovery

Manufacturing firms continued to report the strongest recovery among UK companies with 1-49 employees in August, recording a more positive trend in output than both small service providers and construction firms.

Despite falling from 61.9 in July to 53.5 in August, the respective seasonally adjusted index still signalled a solid expansion in production at small manufacturing enterprises. Moreover, some survey respondents noted that output had ramped up following factory closures at the height of the pandemic, with an inevitable slowing in growth as the catch-up on production volumes progressed.

## Staff numbers fall again as order books contract in August

August data showed a renewed, but only slight, fall in order book volumes at small manufacturers as client demand was again held back by the coronavirus pandemic. Subsequently, following a near stabilisation in employment in July, small goods producers signalled an acceleration in job losses during August.

There were mentions of redundancies and the non-replacement of leavers, with firms often linking this to the need to cut costs. However, the overall rate of job shedding at small goods producers was softer than that recorded at larger manufacturing firms.

## Supply chain disruptions ease, but cost pressures continue

August data highlighted a further lengthening of average lead times faced by small manufacturers, as the COVID-19 pandemic continued to disrupt supply chains. That said, the latest deterioration in vendor performance was the weakest since January, with small manufacturers also recording fewer delays than seen on average across the sector as a whole.

Small firms registered a further increase in input cost in August. In addition to supply shortages, respondents linked the latest increase to higher freight charges and unfavourable exchange rates. Although sharp, the rate of input price inflation was the softest for three months.

## Growth expected over the year ahead

Expectations towards the 12-month outlook for output among small UK manufacturers remained positive during August. The Future Activity Index dipped from 76.0 in July to 70.5, indicating a moderation of confidence, but was still above the long-run series average of 70.2. More than half of small goods producers (55%) expect output to increase from current levels, while just 14% anticipate a decline.

Business Activity Index  
sa, >50 = growth since previous month  
53.5  
Aug '20



Employment Index  
sa, >50 = growth since previous month  
43.4  
Aug '20



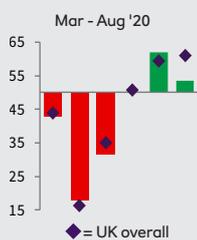
Suppliers' Delivery Times Index  
sa, >50 = faster times since previous month  
44.1  
Aug '20



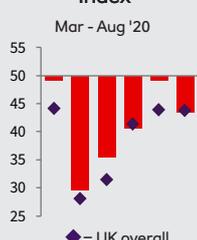
Future Activity Index  
>50 = growth expected over next 12 months  
70.5  
Aug '20



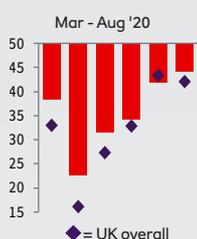
Business Activity Index  
Mar - Aug '20



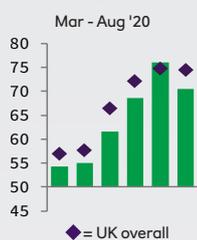
Employment Index  
Mar - Aug '20



Suppliers' Delivery Times Index  
Mar - Aug '20



Future Activity Index  
Mar - Aug '20



# Small Business PMI®: Construction Sector

## Construction activity rises again, but new business falls

Small construction companies across the UK signalled a second consecutive monthly increase in output during August. The loosening of COVID-19 lockdown measures and subsequent return to work on site drove the latest uptick, according to survey respondents.

That said, growth in construction activity was only marginal and eased sharply from July's recent peak, reflecting a renewed slide in levels of new business. Moreover, output growth at small construction firms was weaker than that for the sector as a whole.

### Slowest decline in workforce numbers since March

A seventh successive month of job cuts at construction firms with 1-49 employees was recorded in August, amid further reports of redundancies and the non-replacement of voluntary leavers. However, the rate of staff shedding eased further from April's record to the softest since March, and was notably slower than across the sector as a whole.

### Supplier delays worsen in August

The pandemic continued to place pressure on construction supply chains in August. Lead times lengthened sharply, and to a greater extent than in July, amid frequent reports of shortages of stock at suppliers. Small construction firms again bore the brunt of the disruption, registering a faster deterioration in vendor performance than both medium- and large-sized firms.

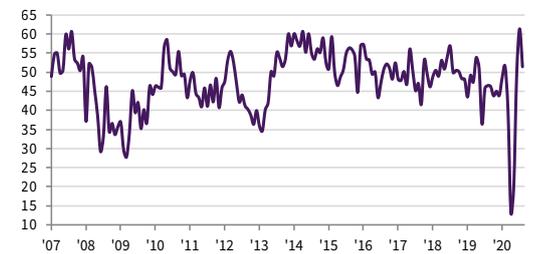
Subsequently, input prices faced by small companies rose further in August. The rate of cost inflation was marked and the strongest for 16 months.

### Optimism hits seven-month high

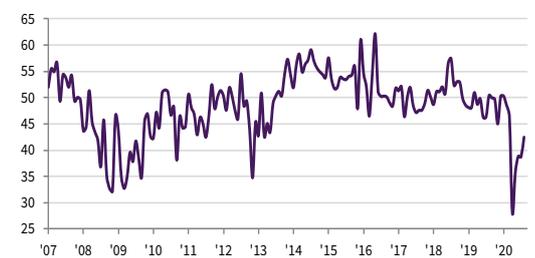
Small construction firms registered notably improved expectations with regards to activity over the coming 12 months in August. Around 40% of survey respondents expect output to be higher in one year's time, comparing favourably to 17% that predict a decline. The resulting Future Activity Index registered 61.5 in August, the highest for seven months. Hopes of improved market conditions, looser lockdown restrictions and an anticipated uptick in the number of new projects were all cited as reasons for confidence.

That said, the degree of optimism among small firms was still slightly weaker than across the UK construction sector as a whole.

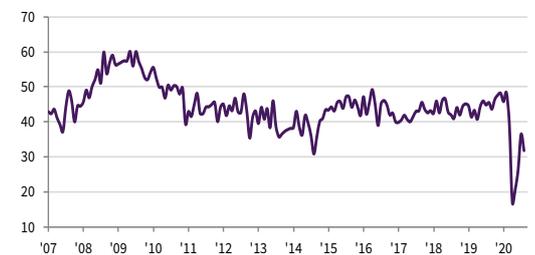
Business Activity Index  
sa, >50 = growth since previous month  
51.4  
Aug '20



Employment Index  
sa, >50 = growth since previous month  
42.4  
Aug '20



Suppliers' Delivery Times Index  
sa, >50 = faster times since previous month  
31.8  
Aug '20

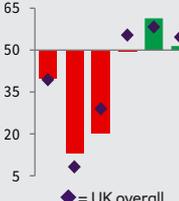


Future Activity Index  
>50 = growth expected over next 12 months  
61.5  
Aug '20



Business Activity Index

Mar - Aug '20



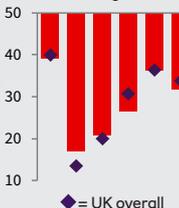
Employment Index

Mar - Aug '20



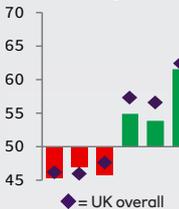
Suppliers' Delivery Times Index

Mar - Aug '20



Future Activity Index

Mar - Aug '20



# The experience of small businesses differs to that of businesses overall

**Stephen Blackman**



99; an ice cream, the number of red balloons, and the percentage of businesses now open for business, according to the ONS. Yet what landscape do these businesses face? Clearly it depends on firm size, or at least firm size plays a role. Because while the fall in the Small Business PMI reading to 50.6 may be modest, it belies a rich and vivid view.

First, the PMI shows that it's hard to improve the first post lockdown flush of activity. Remember this is a relative measure and while trading for small firms hasn't continued to accelerate, neither has it reversed. So, if July was okay, August looks to have been too. Second, any post lockdown euphoria has gone. Battled scarred owners and managers know their resilience and survivability depends on actual trade, transactions and costs rather than relief and hope. Their truthfulness demonstrates that we should listen. Therefore, lastly, we should hear what they are trying to say, which is that their experience as small businesses differ to that of businesses overall (whose PMI rose in August to 58.7).

What then explains the gap between firms' trading experiences? While it's hard to be certain, it's probably a mix of sector, place and distribution. We know small firms tend to favour services, which have been slower to recover. But larger firms are also more likely to operate in national and even

international markets. And larger groups tend to even out disparities. A national reach includes areas that are performing well and enjoying activity higher than pre-pandemic levels (seaside resorts and some larger towns), as well as poorer performing places (mainly larger cities reliant on mobility and movement). When you combine places together it evens out within firms. Yet small firms often serve specific customers in contained locations. They tend to have less agency over external factors with fewer levers to manage disruption.

This variation may extend online. While some smaller firms are exclusively digital and super high-tech, many are probably still adjusting to the rapid acceleration in online spending and wider commercial digitisation. And let's not forget costs. The disruption to supply chains is biting, forcing small businesses to refocus attention away from customers towards inventories, logistics and supply and demand management. Their size often forces small business managers to fulfil multiple functions within their business. Distractions have commercial costs.

When you layer all these factors together, it suggests that small businesses both face additional hurdles in the new environment, and that the variation in performance across small firms is likely to be greater than for their larger cousins.

**Stephen Blackman**  
Principal Economist  
NatWest

## Applications to government support schemes, by percentage of businesses

ONS Business Impact of Coronavirus (COVID-19) Survey, 10 to 23 August 2020



## Special focus: Monthly GDP

### UK GDP

#### Monthly % Change



## UK economy expands by 6.6% in July, signalling a partial rebound from April's low point

A sustained turnaround in the UK economy from the low point seen in April was confirmed by the latest Gross Domestic Product (GDP) data released by the Office for National Statistics. The level of UK GDP expanded by 6.6% from June to July.

These signs of recovery mirrored the trends shown by the NatWest Small Business PMI during the summer as easing lockdown measures and reopened businesses lead to a catch-up in output volumes.

However, the size of the UK economy remains nearly 12% lower than seen in February, with this loss of output particularly concentrated in sectors with a substantial footprint of small businesses.

The Office for National Statistics monthly Gross Domestic Product (GDP) series provides insight into levels of activity in absolute terms and, crucially, how much output has been recovered since April.

Latest data showed economic output expanding 6.6% in July, building on increases of 2.4% and 8.6% in May and June respectively.

Looking beyond the headline numbers, a breakdown by sector shows an asymmetric rebound in activity. Parts of the economy with larger footprints of small businesses, such as hotels, restaurants and other customer-facing businesses, have lagged behind the recovery since April.

While overall UK GDP was 12% lower than its pre-pandemic level in July, we estimate that the equivalent for the combined group of industry sectors with above-average footprints of small businesses was still 16% below the level seen before the lockdown.

Official data therefore support the picture from the NatWest UK Small Business report, which shows the relatively slower pace of recovery continuing into August.

United Kingdom, Gross Domestic Product (GDP), monthly 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 indicated that the proportion of staff on furlough at small- and medium-sized enterprises had fallen to 17% in the two weeks to 23rd August, down from 22% a month earlier. This remained slightly higher than the 15% reported by large businesses. These results chime with the latest NatWest Small Business PMI survey responses, which suggest that the use of furlough once again resulted in fewer overall job losses among small enterprises. Meanwhile, around one-on-ten employees at UK SMEs were reported to have returned from furlough in the two weeks to 23rd August.

August data highlighted that liquidity remained under pressure among small businesses, with around 27% of SMEs expecting their cash reserves to last 3 months or less, against 17% for large firms. Both numbers were little-changed from the same time in July. Meanwhile, a comparatively smaller proportion of SMEs were able to provide a top-up to any furloughed employees' pay (38% versus 43% for large firms).

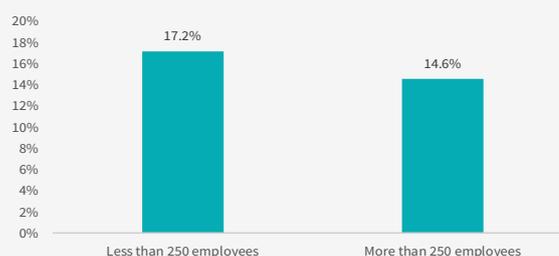
By region, enterprises in the North East were still the most likely to have applied to the government's job retention scheme (85%) and those in London the least likely (73%). In terms of the proportions of firms applying for government-backed loans and business grants, these were both highest in Wales, followed by Scotland.

By sector, arts, entertainment and recreation once again reported the greatest proportion of employees on furlough in the two weeks to 23rd August (41%), followed by accommodation and food services (29%).

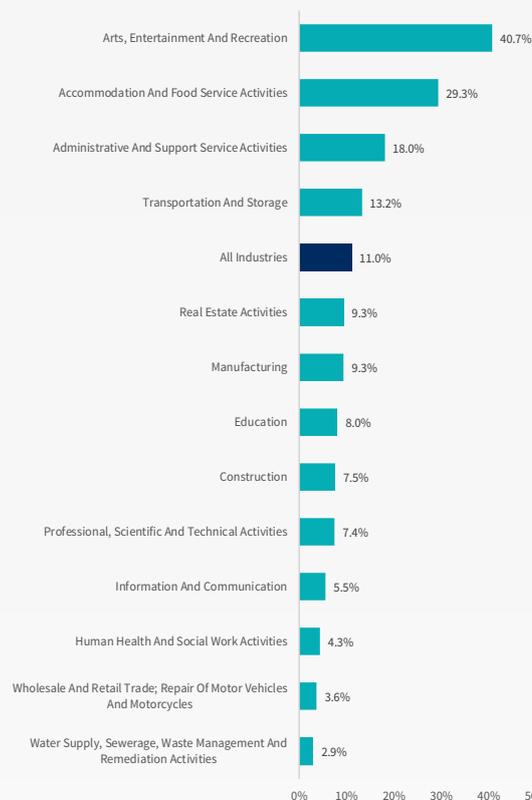
Turning to the government's two main lending schemes aimed at SMEs – the Coronavirus Business Interruption Loan Scheme (CBILS) and the Bounce Back Loan Scheme (BBLs) – a total of more than £49.1bn has so far been approved, across over 1.2 million businesses as of 18th August.

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  
10 to 23 August 2020



Proportion of workforce on furlough leave, by sector\*  
10 to 23 August 2020



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

\*Apportioned by employment size.

## About the Small Business PMI<sup>®</sup> report

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

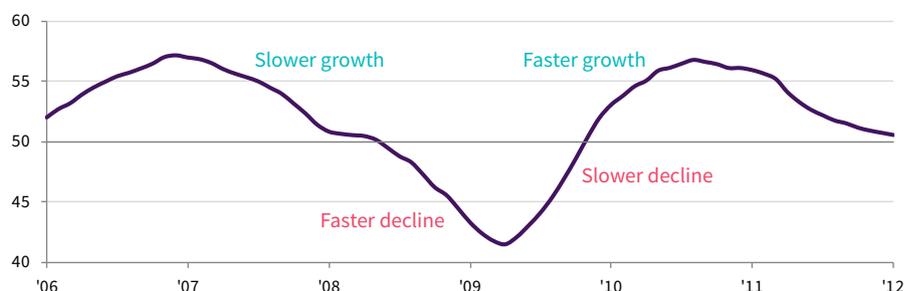
The survey data for August were collected 12 – 27 August 2020. Historical data are available from January 1998 for the All-Sector Small Business Activity Index.

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](mailto: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
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
Aug '20	50.6	49.9	39.5	63.1	44.5	42.6	56.0	50.1

### NatWest UK Small Business PMI® (by sector)

	All-Sector Business Activity	Service Sector Business Activity	Manufacturing Business Activity	Construction Business Activity
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
Aug '20	50.6	50.0	53.5	51.4

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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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