



NatWest

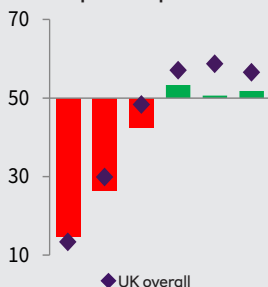
NatWest UK Small Business PMI®

Steady recovery in UK small business activity extends into September

UK Small Business Activity Index



Apr - Sep '20



Key findings

Business activity for small businesses picks up for September

Small firms cite boost in consumer spending and active housing market

Performance gap between small enterprises and large companies remains

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.

UK small businesses saw activity rise again in September, as demand showed further signs of picking up following the record downturn in the spring. After having slowed midway through the third quarter, growth ticked up slightly in September, with the headline All-Sector Small Business Activity Index climbing from August's 50.6 to 51.8.

However, the latest data showed small businesses continuing to trail behind their larger counterparts in the speed of recovery, with the equivalent all-firm index recording a comparatively higher reading of 56.6 in September. This underperformance by small enterprises was observed across each of the three broad sectors monitored by the survey, although for constructors the gap was relatively small.

Rising housing market activity, the reopening of manufacturing supply chains and stock replenishment were all factors contributing to the steady rise in output levels among small businesses in September. Surveyed firms also

commented on the continuation of a post-lockdown rebound in demand, with inflows of new work rising during the month. On the other hand, however, slow decision-making by clients and restrictions on leisure and hospitality continued to weigh on activity.

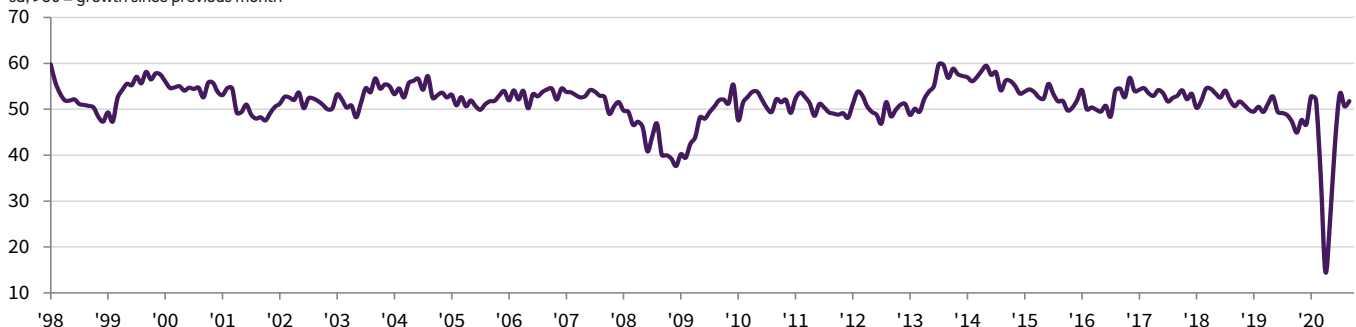
With a significant shortfall in output compared to pre-COVID levels and a subsequent need to cut costs, latest data showed a seventh straight monthly fall in employment at small businesses. Encouragingly, the rate of job shedding was the slowest in this sequence and weaker than that recorded among larger firms, which underscored the desire of small businesses to retain skilled staff where possible.

Small businesses meanwhile continued to see costs rising more quickly than their medium- and large-sized counterparts. Surveyed firms commented on increased expenses from adapting business operations during the pandemic, as well as higher raw material prices and supply shortages.

Small firms generally retained a positive outlook towards activity in one year's time. That said, confidence eased slightly in each of the three monitored sectors and overall business expectations moved further below the all-firm average in September.

NatWest UK All-Sector Small Business Activity Index

sa, >50 = growth since previous month



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Foreword



We can see early signs of a steady recovery among small businesses with our latest NatWest UK Small Business PMI data from September, which shows a slight uptick in growth.

Small businesses have had to adapt to the changing environment and pivot their business models so they can operate through the pandemic, which we can see from our survey has led to steeper costs for some. And as we head into the next phase of the crisis, with the prospect of further restrictions and localised lockdowns, we know that this brings an element of uncertainty in cash flow pressures for our small business customers through the winter period and into next year. Yet we know that the UK's SMEs, a critical part of our economy, have demonstrated resilience and adaptability.

As the situation evolves, so too will our support. As a purpose-led bank, we recognise the difficulties our customers are facing, which is why we are continuing our support through the government lending schemes with £12.7 billion of loans provided. We're in the process of establishing an SME taskforce to drive recovery in the next phase of the crisis that we see coming down the track. This taskforce is aimed at

supporting the UK's SMEs, across a range of sectors and regions, on their road to recovery and back to growth.

The pattern that we have seen throughout our Small Business PMI survey series, and that we are continuing to see, is the performance gap between small firms and their larger competitors. There are reports of stretched supply chains, fierce competition and Brexit is starting to come through as a concern for small businesses. However, the business outlook seen by small firms for the next 12 months remains positive, albeit slightly muted, so there are still underlying signs of optimism despite the challenging environment.

We know the next few months into next year will continue to be challenging, and we will be as proactive in our support as we have been from the start.

Andrew Harrison
Head of Business Banking
NatWest

Small Business PMI®: Service Sector

Service sector returns to growth in September

Service sector companies across the UK with 1-49 employees signalled renewed growth in Business Activity during September. The respective seasonally adjusted index rose from 50.0 in August to 51.3 and signalled a modest expansion overall. Central to the uptick was the first increase in inflows of new business since February, albeit one that was also only mild. Survey respondents linked growth of both activity and new orders to improved client demand amid the reopening of businesses and the return of employees to the workplace.

The rate of growth in services activity at small firms remained noticeably softer than that recorded across the service sector as a whole.

Job shedding eases for fifth month in a row

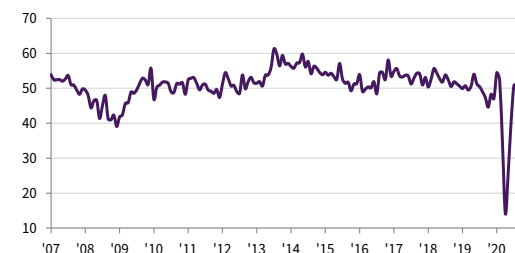
September data signalled a further reduction in staffing levels at small UK service providers. There were again mentions of redundancies, lay-offs and company restructuring, alongside reports that firms were not replacing voluntary leavers. The rate of job shedding eased for the fifth month running and was modest overall, with small services firms registering a much less widespread fall than the sector as a whole.

Optimism dips amid lockdown concerns

The 12-month outlook for activity among small UK service providers remained positive for a fifth successive month, with confidence linked to hopes of a rebound from the economic impact of the COVID-19 pandemic. Sentiment moderated slightly from August, however, with many respondents citing concerns about re-introduced lockdown measures, and some noting worries surrounding Brexit uncertainty.

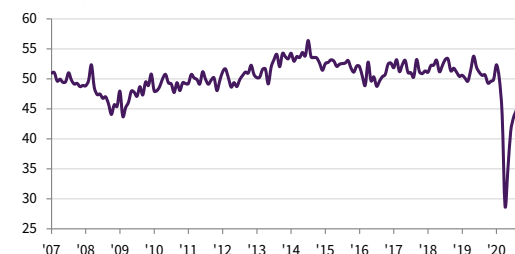
Business Activity Index
sa, >50 = growth since previous month

51.3
Sep '20



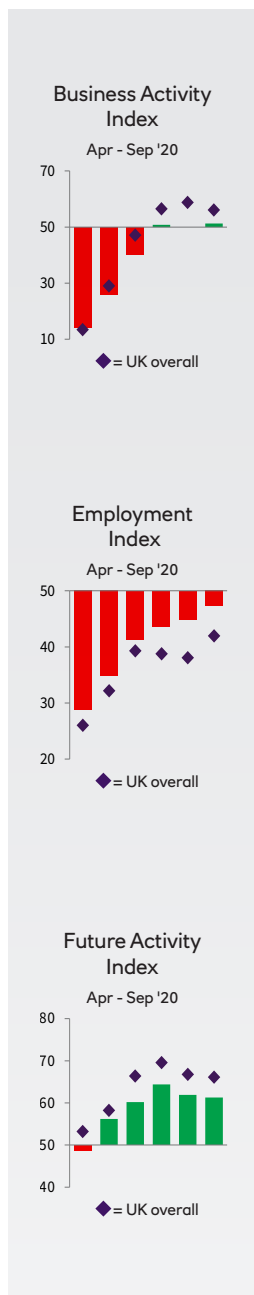
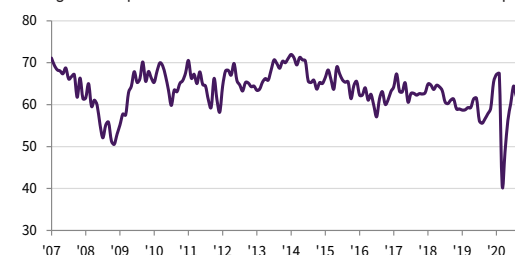
Employment Index
sa, >50 = growth since previous month

47.3
Sep '20



Future Activity Index
>50 = growth expected over next 12 months

61.3
Sep '20



Small Business PMI®: Manufacturing Sector

Manufacturing sector continues to recover in September

Small UK manufacturers recorded a further increase in output during September, although the rate of growth softened slightly on the month. At 52.7, the seasonally adjusted index was still indicative of a marginal rate of expansion, aided by a return to growth in order book volumes, which rose mildly following a decline in the previous survey period. According to panellists, improved client demand was the primary driver of the uptick in both activity and new business.

However, goods producers with less than 50 employees recorded a notably softer expansion in output than large manufacturers during September.

Firms make further sharp cuts to workforce numbers

September data highlighted another sharp reduction in staffing levels at small UK goods producers, with the rate of decline little-changed from August and notably more marked than the fall registered in July. Redundancies were frequently cited by manufacturers, reflecting concerns about the longer-term demand outlook.

The rate of job shedding at small manufacturers was broadly similar to the trend at medium sized firms, but slightly quicker than that at large enterprises.

Lead times lengthen amid stock shortages and logistics issues

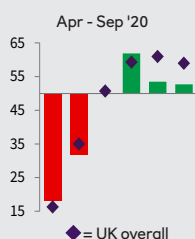
Vendor performance deteriorated for the thirteenth straight month in September, with lead times lengthening to the greatest extent since June. According to survey respondents, stock shortages and logistics issues were more common among suppliers during September. The rate of deterioration in supplier performance at small firms was similar to that across the manufacturing sector as a whole.

Stretched supply chains contributed to a further increase in cost burdens faced by small manufacturing firms, with the rate of input price inflation quickening from August.

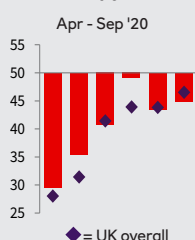
Business expectations remain positive

The Future Activity Index remained above the 50.0 threshold in September, indicating that UK manufacturers with 1-49 employees expect output to increase over the coming year. Confidence was linked to improved demand and hopes of an economic recovery following the slump seen during the pandemic. Nonetheless, small firms were still much less optimistic than the rest of the manufacturing sector in September.

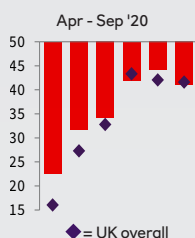
Business Activity Index



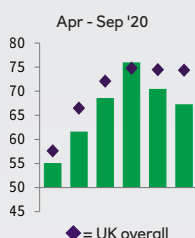
Employment Index



Suppliers' Delivery Times Index



Future Activity Index

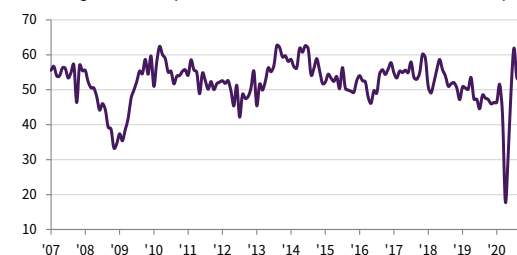


Business Activity Index

sa, >50 = growth since previous month

52.7

Sep '20

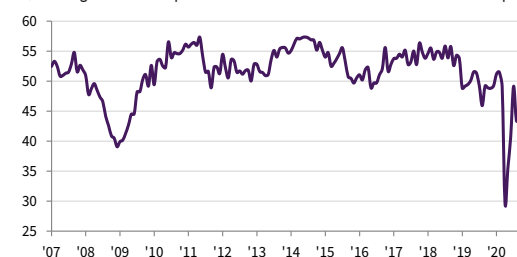


Employment Index

sa, >50 = growth since previous month

44.9

Sep '20



Suppliers' Delivery Times Index

sa, >50 = faster times since previous month

41.0

Sep '20

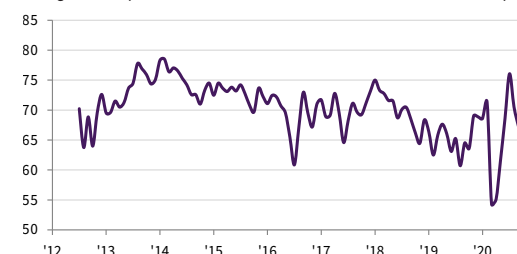


Future Activity Index

>50 = growth expected over next 12 months

67.3

Sep '20



Small Business PMI®: Construction Sector

Small constructors report solid end to third quarter

September saw a third straight monthly improvement in activity at small UK construction firms, marking a sustained recovery in output levels following the record downturn during the second quarter. After slowing in August, the rate of growth recovered somewhat and was quicker than those recorded by similar-sized firm operating in the manufacturing and service sectors.

Despite small building companies reporting a boost to activity from house building and general property development, their growth performance was slightly sub-par compared to the construction sector as a whole.

Employment starts to stabilise despite shrinking pipeline of new work

Latest data showed small UK construction companies facing intense competition for new work amid some reports of overcapacity in the sector. They reported lower order book volumes for the second month in a row in September, which contrasted with sustained growth in new business across the sector as a whole.

Employment at small building firms fell for the eighth month in a row. That said, the rate of staff shedding eased to only a marginal pace that was the weakest in the current sequence. Small enterprises also showed less willingness to cut payroll numbers than their larger counterparts.

Construction supply chains remain under pressure

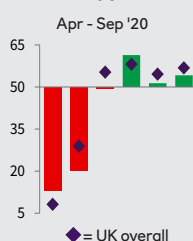
Small construction firms continued to report widespread delays on the delivery of inputs during September. Panellists commented on the effects of stock shortages at suppliers, with the situation being exacerbated by a sustained upturn in purchasing activity.

As such, there was further strong upward pressure on the price of building products and materials. Though the rate of cost inflation faced by small construction firms eased slightly since August, it still remained quicker than that recorded across the sector as a whole.

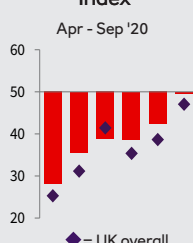
Expectations ease slightly from August's peak

Sentiment among small construction firms towards activity in one year's time remained positive in September, with companies hopeful of a return to more stable market conditions. Less positively, however, the degree of confidence eased slightly since August and dipped further below the sector's average.

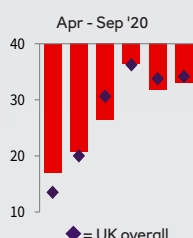
Business Activity Index
Apr - Sep '20



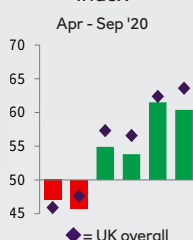
Employment Index
Apr - Sep '20



Suppliers' Delivery Times Index
Apr - Sep '20



Future Activity Index
Apr - Sep '20

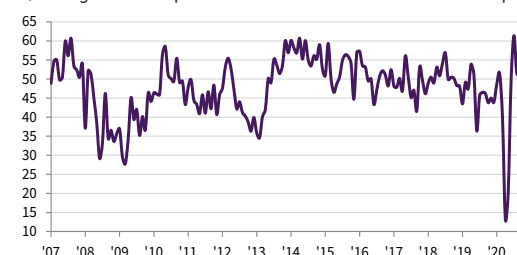


Business Activity Index

sa, >50 = growth since previous month

54.2

Sep '20

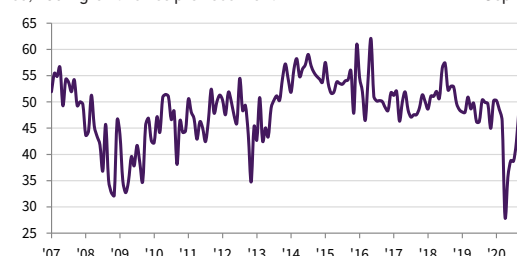


Employment Index

sa, >50 = growth since previous month

49.6

Sep '20

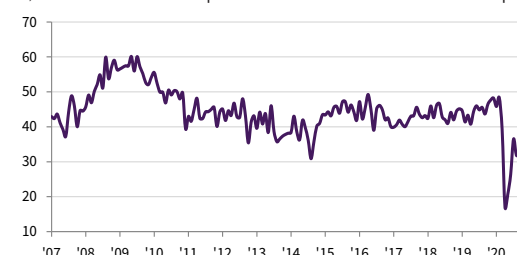


Suppliers' Delivery Times Index

sa, >50 = faster times since previous month

33.1

Sep '20

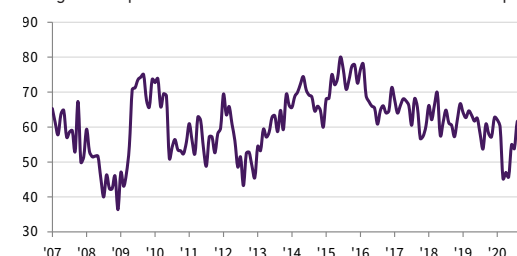


Future Activity Index

>50 = growth expected over next 12 months

60.4

Sep '20



September has the potential to be a pivotal moment in the battle against Covid

Stephen Blackman



There's an odd feeling of uncertainty in the air, odd even in for this strangest of times.

With England and the devolved nations opting for various twists on localised lockdowns, all are trying to manage the finest of balancing acts; how to limit infections by restricting the movement of people, without unduly damaging what appears to be an increasingly fragile economic recovery.

Indeed, September has the potential to become a key moment in the battle against Covid. The question is: will it be one of the last months before a second dangerous lurch downwards; or will it quietly blend in among the series of months of slow but strengthening economic recovery?

The month itself was a decent, if unspectacular, period for small businesses. A PMI reading of 51.8, crucially above 50 so a net positive for trading activity, is one most firms would have taken in the current situation. The rise on August's 50.6 is more of a bonus, and we probably shouldn't read too much into small monthly variations.

What's particularly noteworthy is that infections were rising sharply over the month and with that rise came a corresponding behavioural response from consumers. And on balance, these changes are likely to have hurt small firms. For example, throughout September the share of people working from home rose from 27% to 37%, meaning fewer commuters snatched lunches and quick buys on the way home. The share of people eating out

fell by a chunky 13 percentage points in September, from 38% of us at the tail-end of August to 25% at the end of September/early October.

These trends probably hurt small business disproportionately, because they are concentrated in sectors where small firms cluster.

And yet, the evidence concludes that while small businesses are by far the least likely to have re-started trading (8:10 micro firms versus more than 9:10 larger firms are trading), September saw a noticeable uptick in small firms reopening doors or starting (Microsoft) Windows. An estimated 3.5% of micro firms started in the fortnight between the 7th and 20th of September.

That said, conditions are tough. While most small firms, and indeed all firms, have seen steady and stable revenues during September, more than 1 in 4 micro firms (those with fewer than 10 employees) saw their income drop by more than 20%.

And this was before the restriction screw turned tighter. Many small firms have coped and adapted with superhuman spirit these last few months. Yet further restrictions ask for more. There will be challenges and opportunities, although not evenly distributed. And yet what remains uncertain is the extent of the impact that localised lockdowns, plus the corresponding shift in attitudes and behaviour, will have on small firms and indeed the business landscape.

Stephen Blackman
Principal Economist
NatWest

Applications to government support schemes, by percentage of businesses

ONS Business Impact of Coronavirus (COVID-19) Survey, 7 to 20 September 2020

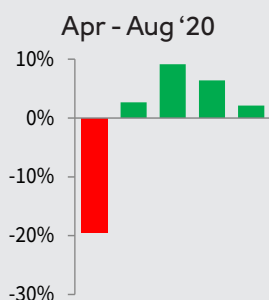


Special focus: Monthly GDP

UK GDP

Monthly % Change

Aug '20
+2.1%



UK economic growth continues into August, but rebound loses momentum

The UK economy continued to recover from the impact of the COVID-19 pandemic, although the rebound lost further momentum, according to the latest Gross Domestic Product (GDP) data released by the Office for National Statistics. The level of UK GDP grew by 2.1% from July to August.

The slowing trend of the economic recovery was similar to that recorded by the NatWest Small Business PMI in August, where the seasonally adjusted Business Activity Index dipped to 50.6 and signalled noticeably slower growth than in July. Both the monthly GDP figures and recent PMI surveys illustrate that initial gains following the easing of lockdown measures have started to lose momentum.

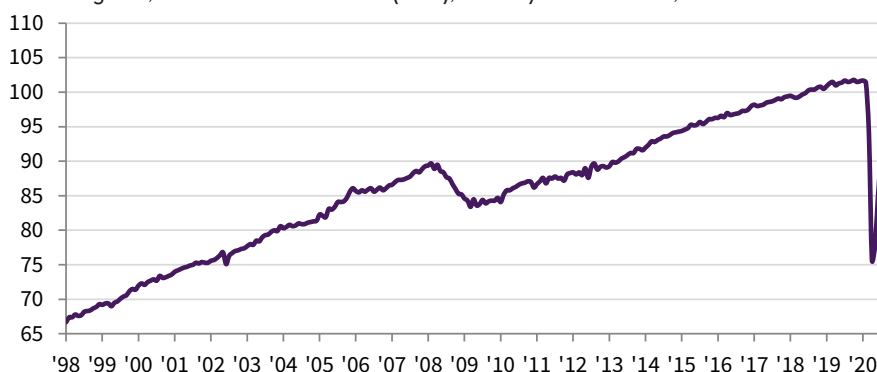
With the recovery still its early stages, UK GDP in August remained 9.2% lower than before the pandemic in February, meaning that there is still a sizeable amount of

lost ground to make up. The rebound in August was driven by construction and services, with monthly growth of 3% and 2.4% respectively, whilst the manufacturing component of GDP lost significant growth momentum.

The Eat Out to Help Out scheme provided a substantial boost to restaurants and other food-oriented businesses in August. The rebound was encouraging from a small business perspective, given the number of firms in the accommodation and food services category and a reliance of many on high street footfall.

Latest PMI data suggested that the recovery continued into September, but at a relatively subdued pace for small businesses. Moreover, tighter restrictions on hospitality trade and the prospect of widening local lockdowns led to another fall in business optimism in September.

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 survey data from the Office for National Statistics indicated that the proportion of staff on furlough at small- and medium-sized enterprises had fallen to 14% in the two weeks to 20th September, down from 17% a month earlier. This was slightly higher than the 10% reported by large businesses.

By sector, accommodation and food services (36%) reported the greatest proportion of employees on furlough in the two weeks to 20th September, followed by arts, entertainment and recreation (32%).

Meanwhile, an estimated 1.7% of employees at UK SMEs were reported to have returned from furlough in the two weeks to 20th September, which was broadly similar to the proportion reported by large enterprises (1.5%).

By region, enterprises in the North East remained the most likely to have applied to the government's job retention scheme (86%) and those in London the least likely (74%).

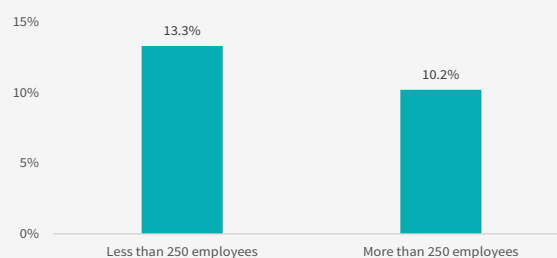
September data highlighted that around three-quarters of UK SMEs (76%) had experienced higher operating costs due to implementing safety measures in the workplace in response to the pandemic.

The arts, entertainment and recreation sector was the mostly likely to report a 'substantial' increase in costs (28%), closely followed by accommodation and food services. In both sectors, the number reporting a substantial rise in costs was almost three times the all-industry average (10%). Looking at the proportion of firms reporting higher operating costs than current turnover, this was by far the highest in the arts, entertainment and recreation sector (37%).

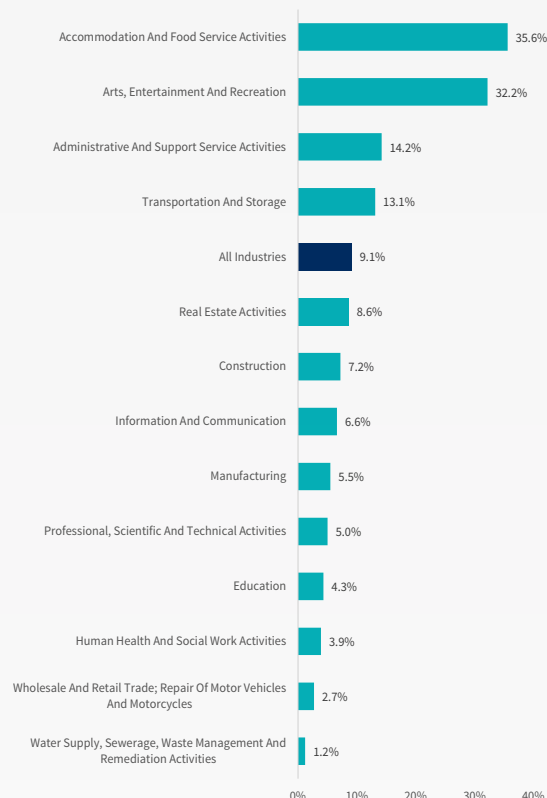
Turning to the government's two main lending schemes aimed at SMEs – the Coronavirus Business Interruption Loan Scheme (CBILS) and the Bounce Back Loan Scheme (BBLS) – a total of around £53.5bn has so far been approved, across over 1.3 million businesses as of 20th September.

Lending through the Bounce Back Loan Scheme (BBLS) is now £38.0bn. For the Coronavirus Business Interruption Loan Scheme (CBILS), the value of approved facilities is £15.5bn. This figure is greater than the £3.8bn in loans provided to large firms through the Coronavirus Large Business Interruption Loan Scheme (CLBILS).

Proportion of workforce on furlough leave, by company size
7 to 20 September 2020



Proportion of workforce on furlough leave, by sector*
7 to 20 September 2020



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

*Apportioned by employment size. Figures relate to businesses currently trading.

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.

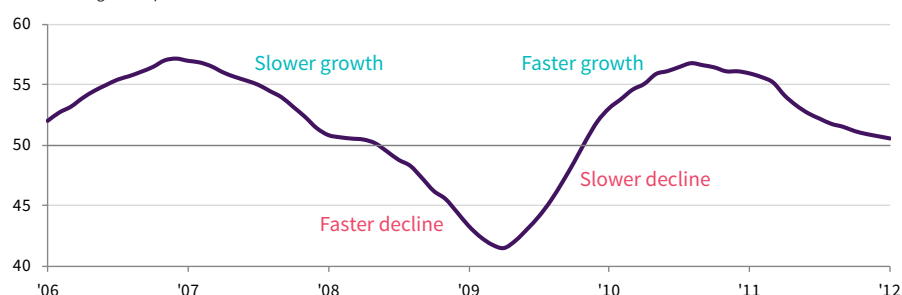
The survey data for September were collected 11 – 29 September 2020. Historical data are available from January 1998 for the All-Sector Small Business Activity Index.

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
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
Sep '20	51.8	51.1	38.1	62.0	47.1	48.1	55.5	49.4

NatWest UK Small Business PMI[®] (by sector)

	All-Sector Business Activity	Service Sector Business Activity	Manufacturing Business Activity	Construction Business Activity
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
Sep '20	51.8	51.3	52.7	54.2

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About NatWest

NatWest serves customers in England, Wales and Western Europe, supporting them with their personal, private, and business banking needs. NatWest helps customers from opening student accounts, to buying their first home, setting up a business, and saving for retirement.

Alongside a wide range of banking services, NatWest offers businesses specialist sector knowledge in areas such as manufacturing and technology, as well as access to specialist entrepreneurial support.

NatWest has been running MoneySense, an impartial financial education programme for 5–18 year-olds, for more than 21 years. By the end of 2018, NatWest will help another 1 million young people to understand and take control of their finances.

About 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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