

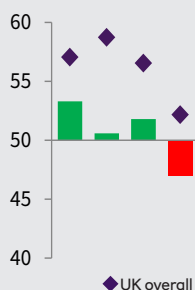
# NatWest UK Small Business PMI®

## Challenging year for small firms ends with further fall in output, but optimism continues to improve

### UK Small Business Activity Index



#### Jul - Dec'20



### Key findings

Business activity falls for the third straight month in December, albeit at a slower rate

Services-led downturn masks strong growth across manufacturing and construction

Small firms make further cuts to staff numbers as cost pressures intensify

The NatWest UK Small Business PMI® is a monthly index that monitors the performance of private sector firms with between 1 and 49 employees.

Business activity at small firms fell further in December, with the challenging economic conditions continuing to disrupt demand, push up input costs and lead to job losses.

The headline All-Sector Small Business Activity Index registered 48.8 in December, little-changed from 47.4 in November and in sub-50 contraction territory for a third straight month. December rounded off by far the worst year in over two decades of data collection (index average in 2020: 43.6).

The latest reading still lagged behind the equivalent index for UK companies of all sizes, which signalled a slight rise in overall business activity at the end of the year (50.8).

Reduced small-firm activity owed exclusively to a sustained downturn in the service sector, where the survey highlighted the impact of restricted trade and temporary closures at consumer-facing businesses.

December data for small manufacturing and construction firms were more positive, with both rates of output expansion the quickest

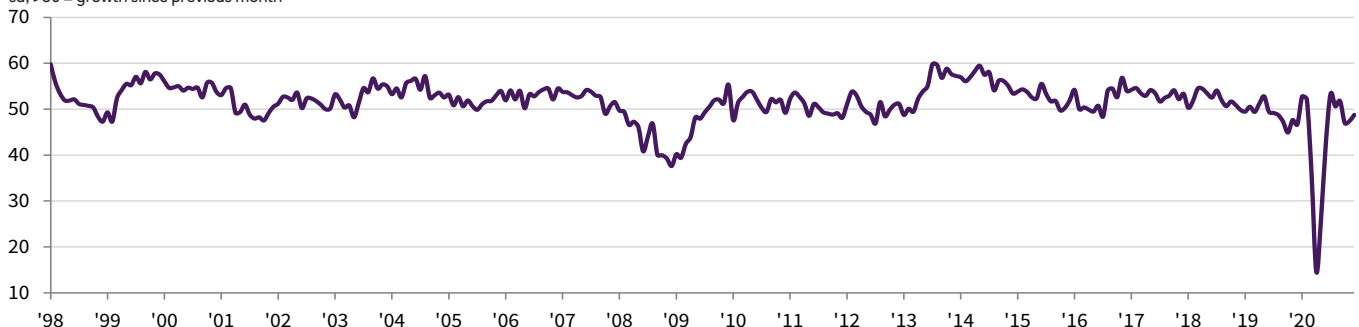
since last July and faster than those recorded by larger businesses. The upturns were supported by rising inflows of new work, albeit with many small manufacturers reporting a temporary boost to export demand from clients stockpiling ahead of the end of the Brexit transition period.

A rush to bring forward purchases, delays at UK ports, and raw material shortages all contributed to the greatest lengthening of input lead-times since last May. Increased strain on supply chains in turn led to greater upward pressure on input prices in December, with small firms facing the sharpest rise in costs for more than a year and thereby a further squeeze on margins.

Despite the challenges at hand, small firms retained a positive outlook towards future activity, buoyed by vaccine roll outs and hopes of looser COVID-19 containment measures over the next 12 months. Optimism improved to the highest since July 2015, but was still weaker than at larger companies.

Employment at small firms continued to fall. The rate of staff cuts was the quickest since August and faster than at larger firms for the first time since the start of the pandemic.

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



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# Foreword



Data from our Small Business PMI index for December showed a further fall in business output for a third month in a row, signalling the end to a turbulent year for the UK's small businesses. With the benefit of hindsight, we know that challenges are set to continue into 2021 with tough economic conditions as further restrictions and lockdowns were brought in across the UK.

In December, small firms in the consumer-facing services sector were, again, the hardest hit by restrictions with the fall in small business activity largely restricted to this sub-sector. While services led the downturn with restricted trade and temporary closures, in contrast, small manufacturers and small construction companies saw an upturn in growth in December. Manufacturers cited a boost in export sales ahead of Brexit and construction firms saw a surge in demand for work, particularly in the residential space. There was still, however, continued pressure on supply chains ramping up input prices for small firms.

While 2020 was an undoubtedly challenging year for small businesses, I have seen our small business customers show remarkable resilience and adapt to the ever-changing environment of Covid-19. The end of last year also marked the end of the Brexit transition period, with the deal giving small

businesses the certainty and framework to work from to continue trading with the EU.

I'm proud of the role that NatWest has played in supporting its small business customers, particularly through these challenging times. Alongside our core financial support, including through the government schemes, we have developed and rolled out tools and advice to help our customers further. From our Coronavirus Business Pulse Checks to Business Builder and Tyl, we continue to stay connected with our customers to help them through this period of uncertainty.

Finally, it's encouraging to see that small businesses retained a positive outlook for future activity in this latest report, with hopes buoyed by the vaccine rollouts. We hope that positive outlook continues and the UK's small businesses can get back on their road to economic recovery.

**Andrew Harrison**  
**Head of Business Banking**  
**NatWest**

# Small Business PMI®: Service Sector

## Downturn in services activity continues during December

A third successive monthly decline in service sector business activity was recorded during December. The downturn eased only slightly, with the respective seasonally adjusted index rising from 46.0 in November to 46.4 in December.

Inflows of new work also fell during the final month of 2020, with the pace of decline the second-fastest since June. Panellists overwhelmingly attributed the falls in output and new business to ongoing lockdown measures, which had restricted trade and forced some consumer-facing business to close temporarily.

Small businesses continued to fare worse than medium and large firms, as services activity declined only fractionally across the UK as a whole during December (index at 49.4).

## Job losses most widespread since July

The worsening pandemic situation led to further job cuts at small service providers, according to anecdotal evidence. The latest fall in employment was the fastest since July 2020, albeit still far less severe than during the spring lockdown. This trend contrasted with that for larger services firms, which saw a slower reduction in staff numbers during December.

## Optimism highest for 10 months

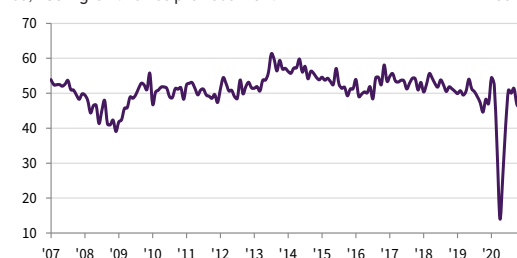
Small UK service providers remained upbeat with regards to activity over the coming year. In fact, business confidence climbed to the highest since last February amid hopes of recovery following the successful roll out of vaccinations and looser pandemic restrictions over the course of 2021.

Business Activity Index

sa, >50 = growth since previous month

46.4

Dec '20

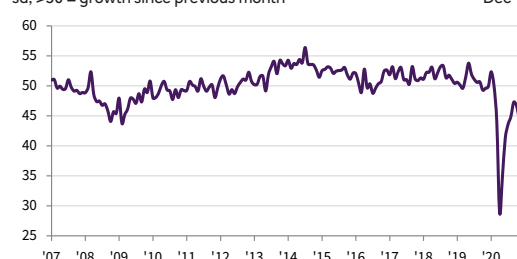


Employment Index

sa, >50 = growth since previous month

44.2

Dec '20

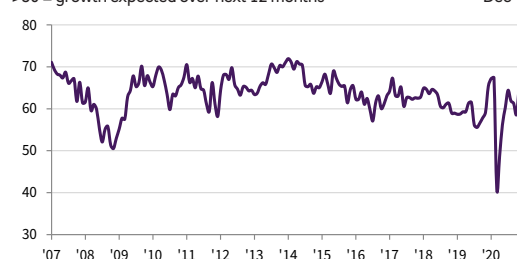


Future Activity Index

>50 = growth expected over next 12 months

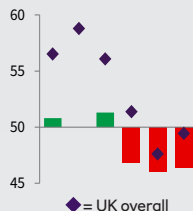
67.1

Dec '20



Business Activity Index

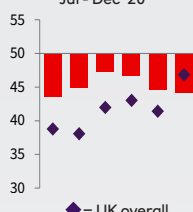
Jul - Dec '20



◆ = UK overall

Employment Index

Jul - Dec '20



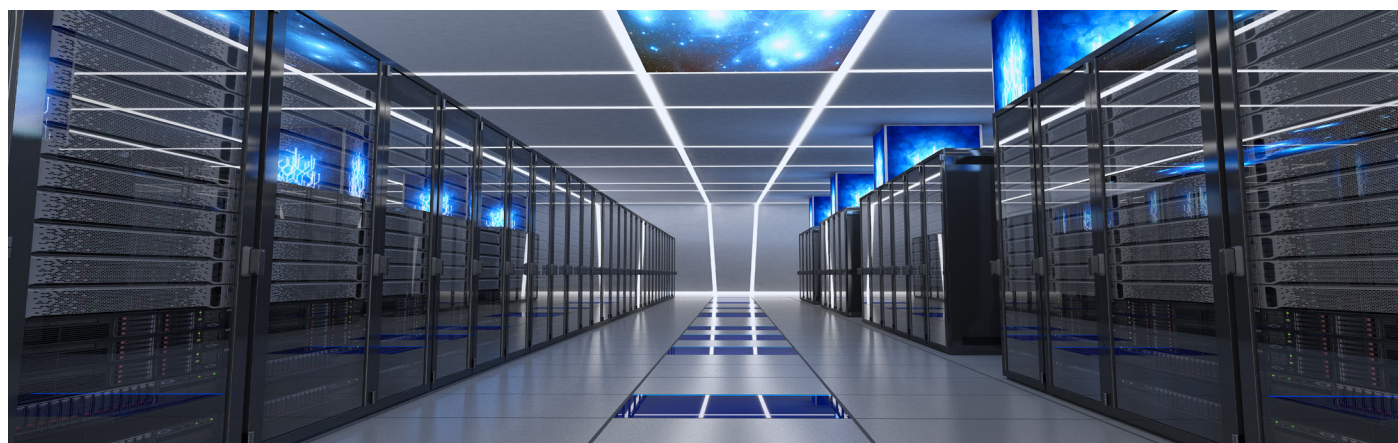
◆ = UK overall

Future Activity Index

Jul - Dec '20



◆ = UK overall



# Small Business PMI®: Manufacturing Sector

## Manufacturing growth quickens at close of 2020

Latest data highlighted a sustained upturn in output at small UK manufacturers, with the rate of growth the quickest since July and sharp overall. Client demand recovered further, as order book volumes rose for the fourth straight month and at the fastest rate since mid-2018. The boost to demand partly stemmed from a boost to export sales ahead of the Brexit transition deadline, according to survey respondents.

Strong production growth among small businesses mirrored the trend seen across the UK manufacturing sector as a whole in December.

## Firms continue to trim staff numbers

As has been the case in each month since the pandemic began in March 2020, small goods producers continued to trim their workforce numbers in the latest survey period. The rate of job shedding gathered pace since November but remained only marginal and much slower than seen in the first half of last year.

## Lead times lengthen to greatest extent since April

December data highlighted further substantial disruption to supply chains, with average lead times for inputs lengthening to the greatest extent since April. According to respondents, delays were the result of logistical issues and stretched transport availability due to COVID-19 measures, as well as shortages at suppliers. As a result, input prices rose at the most marked rate for two-and-a-half years.

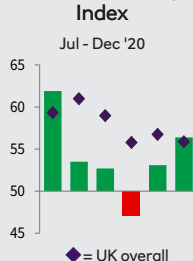
## Business expectations dip slightly in December

UK manufacturers with less than 50 employees remained optimistic of higher output within the next year, but the level of positive sentiment dipped slightly during the final month of 2020.

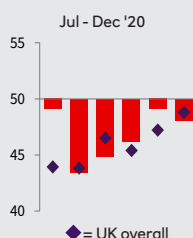
Confidence was linked to hopes of looser lockdown measures and a timely end to the pandemic following the successful development of a vaccine.

Some firms remained concerned about the implications of Brexit, both in terms of disruptions to export operations and higher operating costs, although the latest survey was compiled before the trade deal was announced in December. Business confidence at small UK goods producers remained weaker than the average for the manufacturing sector as a whole.

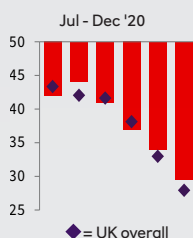
Business Activity Index



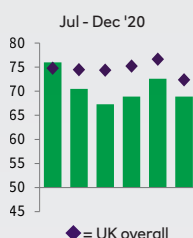
Employment Index



Suppliers' Delivery Times Index



Future Activity Index

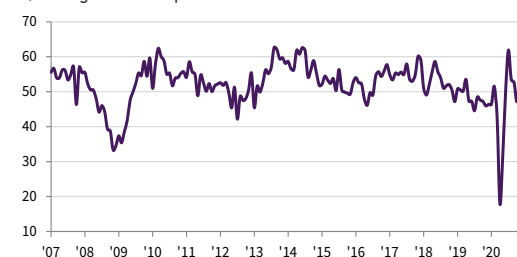


Business Activity Index

sa, >50 = growth since previous month

56.4

Dec '20

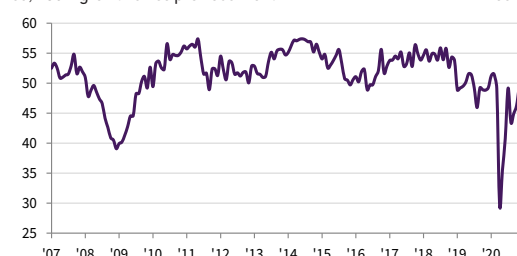


Employment Index

sa, >50 = growth since previous month

48.1

Dec '20



Suppliers' Delivery Times Index

sa, >50 = faster times since previous month

29.5

Dec '20

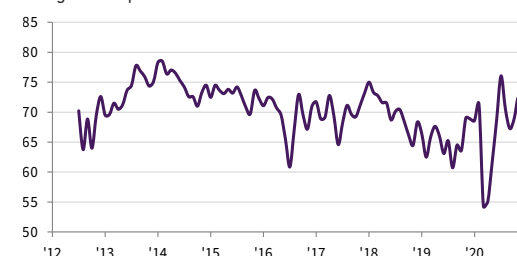


Future Activity Index

>50 = growth expected over next 12 months

68.9

Dec '20





# Small Business PMI®: Construction Sector

## Construction leads small business recovery

Small UK construction firms reported a marked upturn in activity during December, with the rate of growth the quickest since July and the fastest across the three monitored sectors. Respondents attributed the expansion to a surge in demand, especially for residential work. December data also highlighted a further rise in inflows of new projects, with the rate of growth accelerating to the fastest since February 2020.

Business activity rose across the UK construction sector as a whole at the close of 2020. The increase in output at small firms was noticeably faster than the UK average, however.

## Staff numbers tick higher for first time in 11 months

December data highlighted the first increase in workforce numbers at small UK constructors since January 2020, amid reports that firms were taking on staff to cope with greater output requirements.

The rate of job creation was only marginal, but nonetheless slightly quicker than that recorded for the UK construction sector as a whole.

## Supply chains under pressure amid pandemic restrictions

Ongoing COVID-19 related restrictions, disruptions at UK ports and stock shortages among vendors led to more intense pressure on construction supply chains during December. Average lead times for inputs lengthened to a greater extent than in November, but delays were still less severe than at the height of lockdown restrictions in the spring.

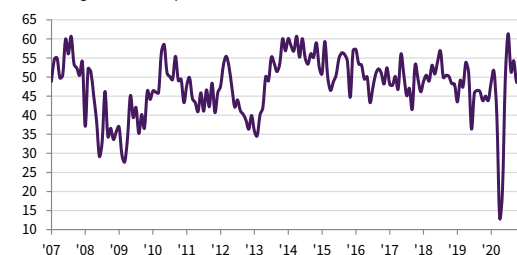
Disruptions and price hikes at suppliers pushed input costs higher again, with the rate of inflation accelerating to the most marked since April 2019.

## Business confidence strongest since early-2016

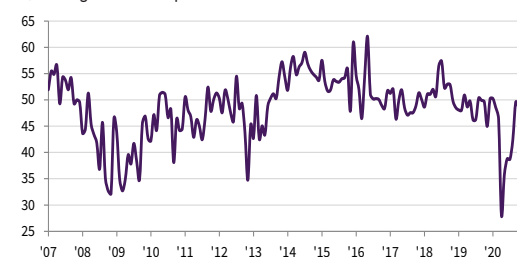
Small UK construction firms remained optimistic about higher activity over the next 12 months in December, with sentiment the strongest for more than five-and-a-half years.

News of the vaccine roll out, hopes that the economy will recover during the second half of 2021 and expectations of improved client demand were all cited by survey respondents as reasons for confidence.

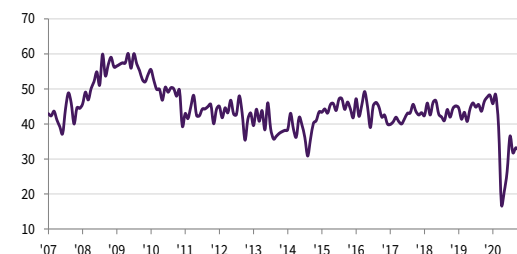
Business Activity Index  
sa, >50 = growth since previous month  
57.0  
Dec '20



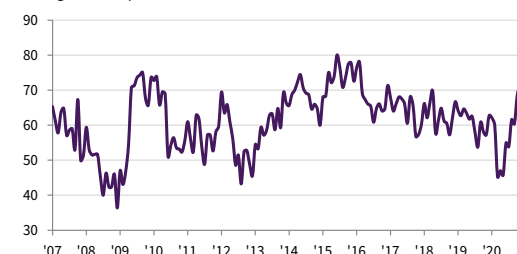
Employment Index  
sa, >50 = growth since previous month  
50.8  
Dec '20



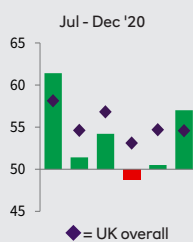
Suppliers' Delivery Times Index  
sa, >50 = faster times since previous month  
33.3  
Dec '20



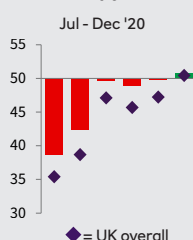
Future Activity Index  
>50 = growth expected over next 12 months  
74.1  
Dec '20



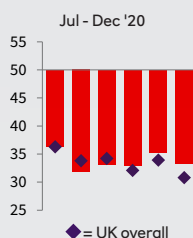
Business Activity Index  
Jul - Dec '20



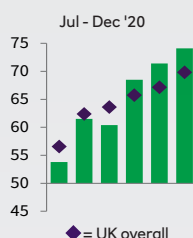
Employment Index  
Jul - Dec '20



Suppliers' Delivery Times Index  
Jul - Dec '20



Future Activity Index  
Jul - Dec '20



# The UK small business sector faces hurdles near-term

Stephen Blackman



The latest NatWest UK Small Business PMI posted its second consecutive modest monthly rise in December to 48.8, from 47.7 in November, hinting at slightly improved conditions at the end of 2020, yet still signalling contraction for small firms. However, this is likely to prove a false dawn as the third UK national lockdown looks set to prompt a renewed decline in business sentiment in early 2021.

The service sector remained under the cosh at the end of last year, but activity in the manufacturing sector strengthened last month, boosted by increased stock building ahead of the end of the Brexit transition period. The EU and UK agreed a trade agreement on Christmas eve, providing for zero tariff and zero quota trade in goods but potentially posing regulatory and administrative obstacles across goods and services trade.

In contrast to the relative resilience of the manufacturing sector, consumer-facing sectors continue to bear the brunt of weakness, notably hospitality and leisure. According to the Office for National Statistics (ONS), only 48.5% of companies in the food and accommodation sector were currently trading in late December 2020 (from 14th-23rd), prior to the third national lockdown being implemented.

Christmas provided little cheer for beleaguered retailers as surging virus numbers prompted non-essential retailers to close their doors again in London, the South East and Wales from December 19th. The bulk of England followed suit from December 30th, preceded by Scotland on December 26th. The lockdown in the UK is likely to last to at least mid-February 2021.

The British Retail Consortium's (BRC) measure of retail sales posted a 1.8% year on year rise in December, down from a recent peak of 5.6% year on year in September,

signalling a clear slowdown. For 2020 as a whole was the worst year since records began in 1995. A similar downbeat message is evident from other consumer surveys.

Diverging household spending patterns persist. On the one hand, essential spending picked up ahead of Christmas, boosting the coffers of groceries and supermarkets. On the other, non-essential shopping continued to suffer amid social distancing and the ongoing shift to online spending. The cancellation of festive social plans took its toll on the hospitality sector, but there was a glimmer of light for travel agents and airlines. Perhaps people were booking in anticipation of a successful rollout of the vaccine in coming months.

The government's vaccination programme is underway: the aim is to vaccinate the top four most vulnerable age cohorts by mid-February, totalling 13 million, an ambitious target. Only Israel and Bahrain have vaccinated a larger proportion of their population than the UK but it is early days to draw conclusions.

All in all, the UK small business sector faces hurdles near-term, but a successful rollout of the vaccine should allow the UK economy to gradually reopen in Q2, paving the way for a modest upturn in the second half of 2021. Still, it could be a while before small companies feel the benefit of a recovery particularly if restrictions are tightened further.

Stephen Blackman  
Principal Economist  
NatWest

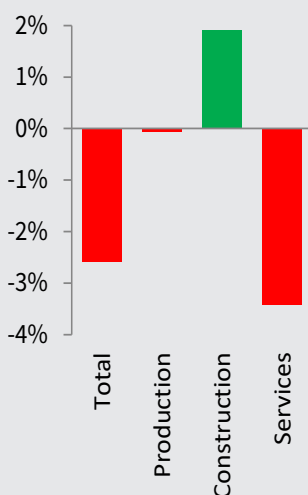
## Special focus: Monthly GDP

### UK GDP

#### Monthly % Change

Nov '20  
**-2.6%**

#### Nov '20, by sector



## UK GDP declines for the first time in seven months during November 2020

The latest Gross Domestic Product (GDP) data published by the Office for National Statistics highlighted a renewed fall in economic activity during the return of national lockdown measures in November.

However, as signalled by the NatWest Small Business PMI, the negative impact on private sector output was far less severe than at the start of the pandemic and largely confined to the service economy.

Monthly data pointed to a 2.6% decline in UK GDP during November, which represented the first overall fall in economic activity since last April. The speed of the downturn during the second lockdown period was nonetheless much slower than the cumulative 24.8% drop in economic output at the start of the COVID-19 pandemic.

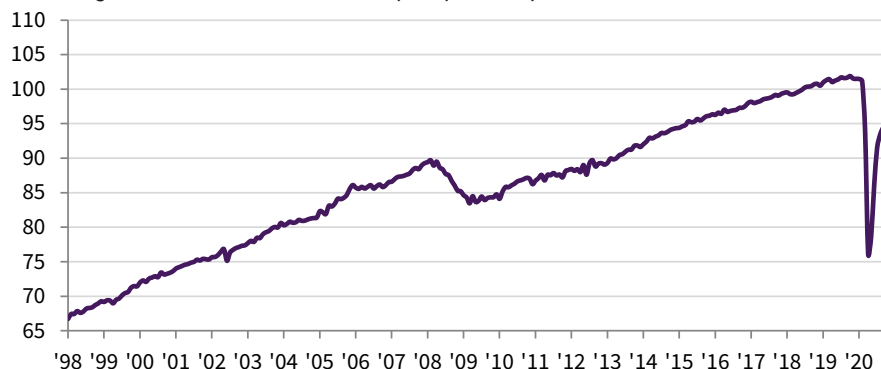
While restrictions on trade had a severe impact on leisure, hospitality and travel,

there were clear signs that businesses had been able to adapt to tighter pandemic measures and businesses closures were far less prevalent than last spring.

Reduced service sector output was the main factor leading to lower UK GDP in November, with activity in this category falling by 3.4% on a monthly basis. Industrial production was broadly flat, while construction output strongly outperformed with a 1.9% rise since October.

Looking at levels of activity relative to February 2020, service sector output was around 10% lower in November, followed by industrial production (5%). In contrast, construction activity was 1% higher than its pre-pandemic level. This mirrored the positive trend shown by the latest Construction PMI data and suggested that businesses have benefited from rising order books as well as catch-up work in late-2020.

United Kingdom, Gross Domestic Product (GDP), monthly volume index, 100 = 2018



Source: Office for National Statistics



## Special focus: Small business during the COVID-19 pandemic

# Widespread business closures reported by consumer-facing companies amid tighter COVID-19 restrictions

This section of the report takes a detailed look into the latest results from the Office for National Statistics (ONS) fortnightly Business Impact of Coronavirus (BICS) survey. The latest results reference the trading period between 14 December to 27 December 2020, which preceded the third national lockdown but saw increasing restrictions on trade in many parts of the UK due to the pandemic.

Hotels & Restaurants were unsurprisingly hardest-hit by temporary closures, with just over half of those in the Accommodation & Food Service Activities sector (53%) reporting a pause in trading during the latter half of December. A similar proportion was seen in the Arts, Entertainment & Recreation category (50%).

In contrast, only a very small minority of construction companies (9%) and manufacturers (6%) reported their trading status as temporarily paused at the end of 2020.

The widespread business closures recorded across consumer-facing parts of the UK economy in the latest BICS survey help to explain the divergent sectoral trends recorded in the latest NatWest Small Business PMI survey. Although the data collection periods only have some degree of overlap, both highlight that the impact on trade from tightening COVID-19 restrictions over the course of December was by far the most severe in leisure, hospitality, culture and entertainment.

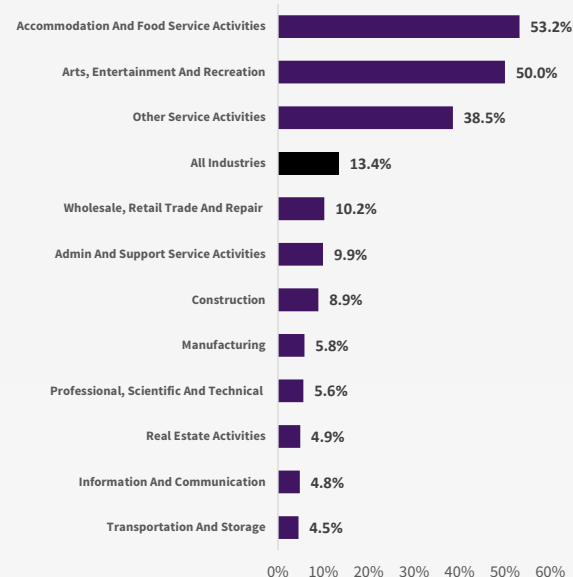
At the other end of the scale, the strong growth performances recorded by small construction and manufacturing companies in December were achieved against a backdrop of very few business closures due to the pandemic.

Measured overall, around one-in-seven UK businesses (13.4%) reported a temporary pause to trading during the second half of December. However, with the third national lockdown underway, this figure is set to rise rapidly in the New Year, especially among those in the non-essential retail sector.

The company size breakdowns published in the latest BICS survey also illustrate that small businesses were especially likely to have paused trading. Just over one-in-four companies (27%) with less than 10 employees reported a closure in the second half of December 2020. As a result, this mirrors the subdued trends recorded by small service providers in December's PMI survey relative to larger companies and provides further evidence of the scale of the challenges ahead at the start of 2021.

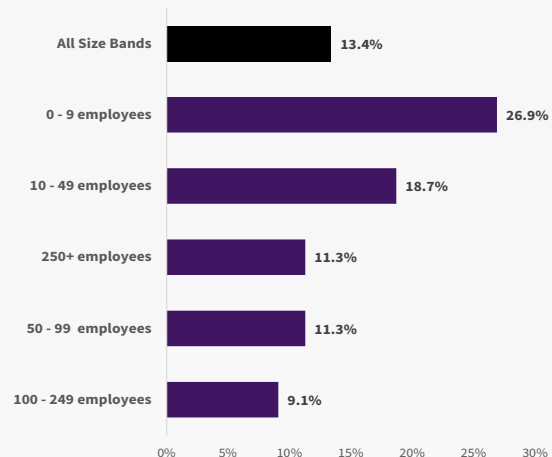
### How many UK companies paused trading in late-December?

Percentage of businesses reporting current trading status as paused.



### Company size breakdown

Percentage of businesses reporting current trading status as paused.



Source: IHS Markit calculations based on Office for National Statistics (ONS) Business Impact of Coronavirus (BICS) survey. Fortnight ending 27th December 2020.



## 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.

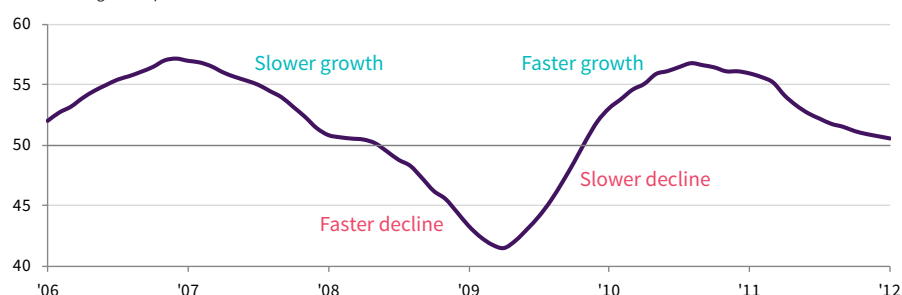
The survey data for December were collected 4 – 22 December 2020. Historical data are available from January 1998 for the All-Sector Small Business Activity Index.

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
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
Oct '20	47.0	46.8	35.4	61.0	46.8	46.5	56.3	50.1
Nov '20	47.4	49.1	34.5	66.9	45.7	47.9	56.1	49.9
Dec '20	48.8	48.2	30.9	68.0	45.3	47.7	59.3	50.3

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

	All-Sector Business Activity	Service Sector Business Activity	Manufacturing Business Activity	Construction Business Activity
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
Oct '20	47.0	46.8	47.1	48.7
Nov '20	47.4	46.0	53.1	50.5
Dec '20	48.8	46.4	56.4	57.0

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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

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