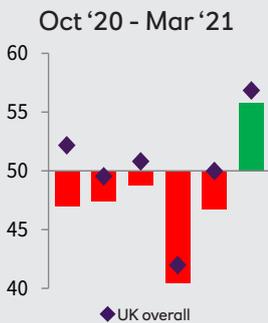


NatWest UK Small Business Recovery PMI[®]

Small firms see strongest upturn in output since November 2016

UK Small Business Activity Index



Key findings

First rise in business activity since last September

Recovery led by fastest construction growth since June 2001

Small business cost pressures hit ten-year high

The NatWest UK Small Business Recovery PMI[®] is an index that monitors the performance of businesses with between 1 and 49 employees.

Output at small UK companies rose for the first time in six months during March, which suggested a swift return to growth as looser pandemic restrictions emerged on the horizon.

This was highlighted by an increase in the All-Sector Small Business Activity Index from 46.7 in February to 55.8 in March. Any figure above 50.0 indicates growth. The latest reading was the strongest since November 2016 and compared with a low of 40.5 at the start of national lockdown in January.

Higher levels of business activity reflected a renewed upturn among small service providers, as well as faster rates of expansion in manufacturing and construction.

Small service sector companies recorded the steepest rate of activity growth for three years in March, which survey respondents linked to a surge in forward bookings and improved confidence due to the government's roadmap out of coronavirus disease 2019 (COVID-19) restrictions on consumer-facing businesses.

Construction was the best performing category, with output among small firms rising at the fastest pace since June 2001.

Meanwhile, in the manufacturing sector the latest data showed that production continued to pick up from the slump seen at the start of 2021.

Small businesses upped their employment levels in March for the first time since the pandemic began. The rate of job creation was the fastest since January 2020 and this reflected extra hiring in all three sectors monitored by the survey.

Higher demand placed pressure on supply chains already struggling due to pandemic disruptions and Brexit trade frictions. Small manufacturers recorded the longest lengthening of supplier lead times since this index began in 1992. This led to intense inflationary pressures and placed extra strain on cash flow in March. Measured overall, small businesses recorded the steepest increase in input costs for a decade.

The planned easing of pandemic restrictions provided a boost to business optimism towards the year ahead outlook in March. Optimism among small firms was the strongest since this index began in July 2012, with growth expectations especially high in the construction sector amid a surge in demand for work on residential projects.

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



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Foreword



The end of the first quarter saw small business activity bounce back for the first time since last September, according to our latest Small Business Recovery PMI index. This recovery was led by small construction firms, which saw their fastest growth in nearly 20 years.

It was also encouraging to see that small firms in the consumer facing services sector saw a rebound back to growth in March following a tough period of five months in decline. The gradual easing of lockdown restrictions and certainty around the government's roadmap boosted forward bookings and client demand in this sector, also leading to first rise in jobs since before the pandemic hit in February last year.

While the headline stats are a positive read, there are still challenges for the UK's small businesses at a sector and regional level. For example, the upward pressure on supply chains due to pandemic disruptions and Brexit are causing issues to costs, putting strains on cash flow and resulting in small businesses recording the steepest increase in input costs for a decade. Some small manufacturers noted that these worsening delays among suppliers held back recovery at the end of the first quarter.

At a regional level, London and its surrounding areas – the South East and East of England – saw the strongest small business performance. Small firms in Northern Ireland, the South West and Wales, lagged in their business output but this

picture did start to stabilise in March. Small businesses in the Midlands and in the North of England remained resilient, with small manufacturers in the North of England seeing the brightest trend in increasing jobs and expanding workforce numbers due to higher business confidence.

This regional picture further supports the findings in our recent SME Recovery Report that we need to support small businesses outside London and redress the balance. We believe there is hidden potential, which is why we committed £4 billion to support SMEs who are based outside of the capital scale and grow, as well as the creation of collaborative Regional SME Taskforces.

Overall, while the UK's small businesses do face challenges on their road to recovery, it's reassuring to see that business optimism among this part of economy is the strongest it's been since this index began. We're proud to have been able to support our small business customers through what has been a stressful and difficult period since the onset of the pandemic. We're committed to helping SMEs, the lifeblood of our economy, build back better and stronger, and we will continue to provide our customers with support they need – using the insights from SME Recovery Report as our north star to accelerate the recovery of the UK economy and unlock up to £140 billion of Gross Value Added (GVA) growth.

Andrew Harrison
 Head of Business Banking
 NatWest

Small Business Recovery PMI®: Service Sector

Service activity rebounds at close of first quarter

Small UK service providers registered a rebound in activity during March, following a five-month period of decline. At 54.7, up from 45.2 in February, the seasonally adjusted index pointed to the sharpest upturn in service sector output since March 2018. Anecdotal evidence overwhelmingly attributed the recovery to the gradual easing of lockdown restrictions, which boosted forward bookings and client confidence.

Inflows of new work also saw an uplift for the first time since last September and one that was the strongest since January 2020.

First rise in service sector jobs since the pandemic began

The return to output and new order growth led to greater staff hiring, with March data highlighting the first increase in employment at small service providers since February 2020.

A number of service companies cited efforts to prepare for the reopening of consumer-facing sectors in line with the government's roadmap for easing COVID-19 restrictions. Survey respondents also commented on improved client demand and confidence in the durability of the recovery.

Looser lockdown measures boost confidence to 14-year high

Small service providers recorded the most upbeat outlook for activity over the next year since December 2006. Strong confidence was attributed to the successful UK vaccine rollout and plans for the easing of pandemic restrictions. Companies were especially hopeful that the release of pent up consumer demand and will push forward the recovery in the coming 12 months.

Business Activity Index
sa, >50 = growth since previous month
54.7
Mar '21



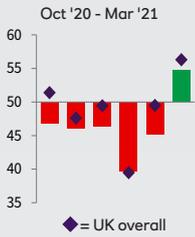
Employment Index
sa, >50 = growth since previous month
51.5
Mar '21



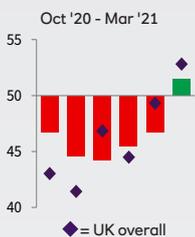
Future Activity Index
>50 = growth expected over next 12 months
72.4
Mar '21



Business Activity Index



Employment Index



Future Activity Index



Small Business Recovery PMI®: Manufacturing Sector

Manufacturing recovery picks up pace in March

UK manufacturers with less than 50 employees posted strong growth in March. This signalled a clear change of direction after the slump in production that followed lockdown measures and Brexit disruptions at the beginning of 2021.

Factory output rose at the fastest rate since last July, with the seasonally adjusted index hitting 57.2 in March, up from 52.5 in February. This compared with a reading of just 40.3 in January, which was far weaker than the equivalent for the UK manufacturing sector as a whole (50.7).

Goods producers commented on a resurgence in sales due to improving global economic conditions and rising optimism among clients. New orders received by small manufacturers increased for the first time in three months in March, and at the strongest pace since June 2018.

Firms take on additional staff for first time since pandemic began

March data highlighted a renewed increase in workforce numbers at small UK goods producers, with the rate of job creation the strongest since October 2017. Panellists noted that additional staff were recruited in line with greater capacity pressures and planned increases in production schedules.

Supply disruption most severe on record

Some manufacturers noted that worsening delays among suppliers had held back the recovery in March. Small goods producers signalled that lead times lengthened to the greatest extent since the survey began in 1992. This was attributed to a combination of Brexit disruption to supply chains and surging global demand for manufacturing inputs. Adding to demand and supply imbalances, there were also widespread mentions of international shipping delays.

Supply constraints contributed to a further steep rise in cost inflation during March. Small UK goods producers saw the largest increase in purchasing prices for just over 10 years. In response, manufacturing firms raised their output charges at the fastest pace since July 2008.

Output forecasts remain upbeat

Small goods producers are confident that output will increase in the next 12 months. Optimism was attributed to the easing of pandemic restrictions and hopes of a solid economic recovery. That said, the degree of positive sentiment remained weaker than reported by larger manufacturing firms.

Business Activity Index
sa, >50 = growth since previous month
57.2
Mar '21



Employment Index
sa, >50 = growth since previous month
56.0
Mar '21



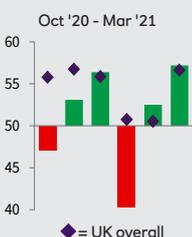
Suppliers' Delivery Times Index
sa, >50 = faster times since previous month
21.7
Mar '21



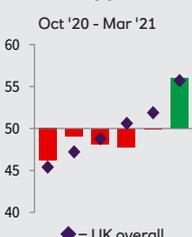
Future Activity Index
>50 = growth expected over next 12 months
74.9
Mar '21



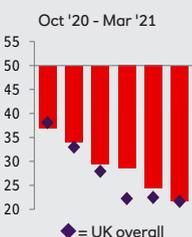
Business Activity Index



Employment Index



Suppliers' Delivery Times Index



Future Activity Index



Small Business Recovery PMI®: Construction Sector

Fastest construction output growth since June 2001

March data highlighted a rapid upturn in activity at small UK construction firms, building on the improvement seen in February. Panellists attributed the latest expansion to improved demand conditions and a swathe of new projects, especially for residential work.

The headline Business Activity Index posted 63.2 in March, up from 51.3 in February, to signal the strongest rate of growth at small construction companies since June 2001.

Construction was the best performing sector during March, with the rate of output expansion outstripping both manufacturing and services by a wide margin.

Employment rebounds in March

With demand improving and activity requirements on the rise, small UK construction firms took on additional staff during March. The rate of job creation was the fastest since October 2018 and this provided a clear sign that businesses are ramping up capacity in anticipation of a sustained upturn in workloads.

Strongest cost pressures for four years

Supply constraints continued to feed through to inflationary pressures in the construction sector during March.

Average lead times for inputs lengthened sharply, although delays were slightly less severe in the final two months of the opening quarter. Materials such as steel, timber and a range of items required for residential building projects were reported as in short supply.

Stretched supply and higher transportation costs contributed to price hikes by vendors in March.

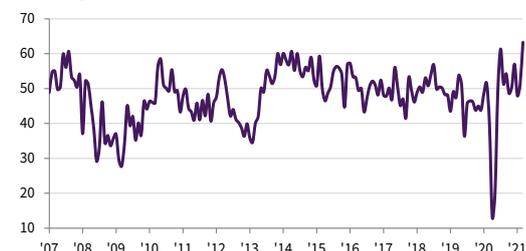
The latest rise in overall input costs was the steepest for four years.

Growth projections hit new peak

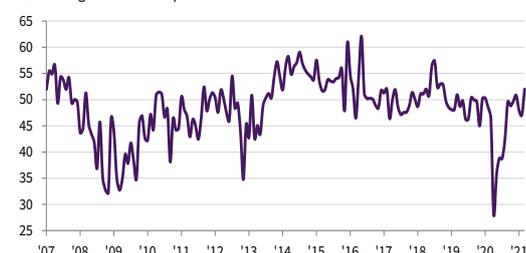
Improving order books and an expected boost to client demand from the easing of COVID-19 restrictions helped to drive up confidence at small constructors in March. The degree of positive sentiment was the highest since January 1998.

Small UK construction firms were more optimistic towards activity over the next year than those in other parts of the economy during March.

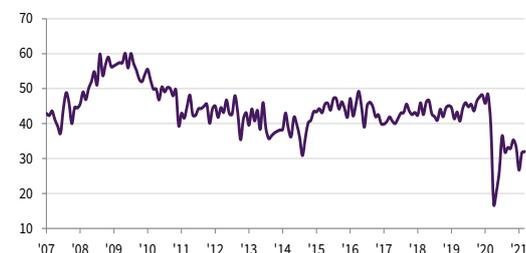
Business Activity Index
sa, >50 = growth since previous month
63.2
Mar '21



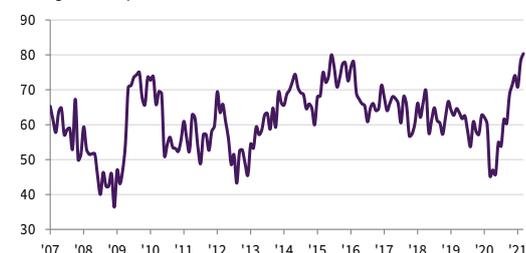
Employment Index
sa, >50 = growth since previous month
52.0
Mar '21



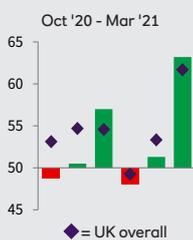
Suppliers' Delivery Times Index
sa, >50 = faster times since previous month
32.0
Mar '21



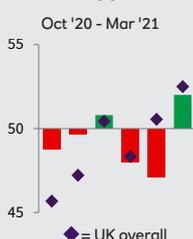
Future Activity Index
>50 = growth expected over next 12 months
80.4
Mar '21



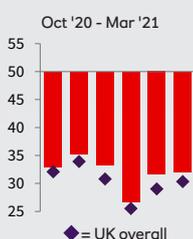
Business Activity Index



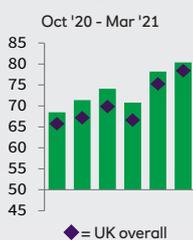
Employment Index



Suppliers' Delivery Times Index



Future Activity Index



Spring has sprung

Stephen Blackman



Welcome announcements of an easing of restrictions across all UK devolved nations prompted a welcome bounce-back in March's Small Business Recovery PMI, which jumped by just shy of ten points to 55.8, its highest reading since November 2016.

Regionally-speaking, London and the South East saw the biggest rise in output in Q1 2021, whereas Wales/South West suffered the largest decline in activity. Meanwhile, the Midlands was relatively resilient and fared better than the North of England and Scotland.

UK small construction firms posted their biggest monthly rise in activity last month since mid-2001 and manufacturing output picked up healthily, but the most eye-catching improvement was a marked increase in service sector activity output. Just as the service sector was the main casualty during the pandemic, so the largest sector of the UK economy should be the main beneficiary of the gradual reopening of the UK economy in coming months. Non-essential retail and hospitality opened its doors (outside) in England and Wales on April 12th. Scotland will follow suit on April 26th.

The worst appears over for the struggling service sector. Witness the 0.2% monthly rise in service sector GDP in February, driven by higher retail and wholesale activity. Even the food and accommodation sector saw a marginal rise in output despite the latest lockdown, aided by higher home deliveries and click & collect – indicative of more agility. The “Amazon effect” has had a noticeable impact on groceries amid the inexorable rise in online shopping, which reached a record 36.1% of total UK retail sales in

February 2021.

Latest retail surveys report higher spending on hotels, resorts, and accommodation in March as more people make plans for post-lockdown. The advent of spring and the (hopeful) prospect of higher temperatures bodes well for a further improvement in activity in Q2 and beyond.

A key question going forward is how quickly consumers run down their “forced savings” built up during the pandemic? A recent Bank of England (BoE) survey noted the main drivers of higher UK household savings have been high income wealth generators rather than furloughed workers or the unemployed. This explains the BoE's cautious estimate that only 5% of savings will be spent in coming months. Outgoing BoE Chief Economist Andrew Haldane is more bullish, describing the UK economy as a “coiled spring”.

All in all, the outlook for the UK economy is brightening. The IMF recently upgraded its 2021 forecast for UK growth to 5.3% (4.5%) whilst the OBR marked down its peak for the unemployment rate to 6.5% at March's Budget, down from 7.5% last November, supportive for consumer spending. Moreover, fears of longer-term scarring have eased: the IMF now expects a limited longer-term impact on growth from the pandemic compared to the global financial crisis in 2007/2008. This suggests lost output in the UK will be recovered sooner than previously expected, possibly in early 2022.

Stephen Blackman
Principal Economist
NatWest

Special focus: Regional Small Business Recovery PMI

London and its surrounding regions lead the revival in small business optimism during Q1 2021

In this section of the report we look at a breakdown of the Small Business Recovery PMI by UK region. It highlights how the fortunes of small enterprises have differed during the first quarter of 2021 and shows areas where business optimism is bouncing back fastest.

Small businesses operating in London and its surrounding regions recorded the strongest performance during the opening quarter of the year. It was the only monitored area where business activity rose on average – albeit only marginally. This reflected not only a strong upturn in output in March ahead of easing lockdown restrictions but also a relatively shallow downturn at the start of 2021. The region's lesser dependence on consumer-facing sectors and manufacturing exports, which have borne the brunt of pandemic restrictions and Brexit disruption respectively, were the main factors helping to place it at the top of the UK regional rankings.

Business activity at small firms across the Midlands was relatively resilient on average in the first quarter of 2021, with the speed of the downturn notably softer than among those based in the North of England and Scotland.

At the lower end of the business activity rankings, Northern Ireland and the South West-Wales regional grouping lagged behind in terms of output trends at small firms through the opening quarter. However, across both areas, latest data did at least show demand stabilising in March as well as a notable improvement in small business optimism.

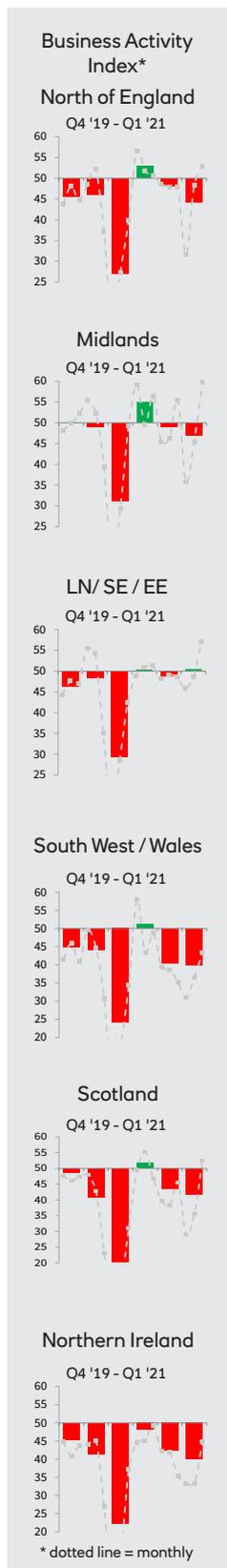
Growing confidence about the future was a

theme observed across all of the broad regions, reflecting swift progress in the UK vaccine rollout and increased business certainty brought about by government schedules for easing lockdown measures.

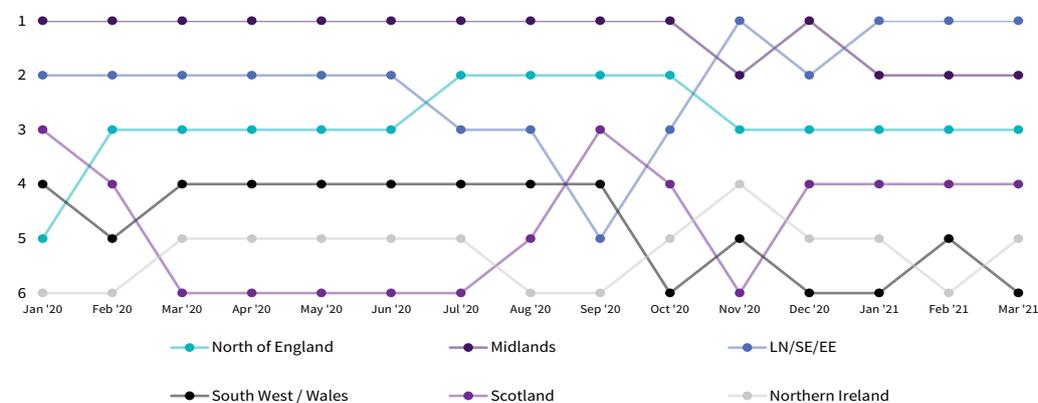
Although disparities across the regions remain, they have narrowed considerably in recent months. Notably, small business confidence in Northern Ireland has started to close the gap with the rest of the UK as optimism rebounded to a 13-month high in March. Overall, expectations towards the year ahead are highest in London and its surrounding regions, closely followed by the North of England.

Small business employment remained under pressure during the opening quarter of 2021 across all regions; however, the expectation of busier times ahead led to positive signs for hiring in the majority of areas in March. The brightest trend on the job front has been observed in the North of England, where the region's small manufacturers in particular have shown an increased appetite for expanding workforce numbers in line with strong order book growth and higher business confidence.

One development that is likely to make it harder for small businesses to take on new staff is growing pressure on margins from sharply rising costs. The most acute cost pressures on small businesses during the opening quarter were seen in Northern Ireland. Input price inflation was also relatively steep across the North of England, while the those based in the South West and Wales have generally reported a lesser degree of pressure on operating expenses than other parts of the UK.



UK regional rankings, Business Activity Index, three-month moving average



Special focus: exports

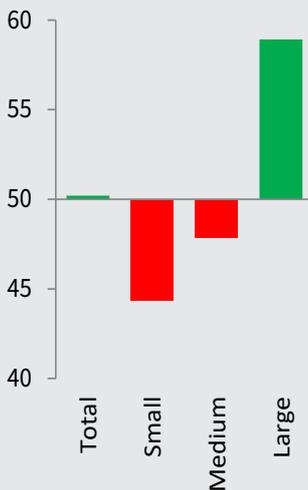
Small manufacturers report steep fall in export orders throughout Q1 2021

UK Manufacturing PMI

Export Orders Index



Q1 '21, by company size



In this section we investigate trends in UK manufacturing sector exports by company size. Small manufacturers saw falling overseas sales in each of the first three months of 2021. In contrast, there was resilient export order growth at large firms over this period.

UK manufacturers recorded a strong increase in new business from abroad in the final quarter of 2020, helped by improving global economic conditions and pre-purchasing by EU clients ahead of the Brexit transition deadline on 31st December.

Latest PMI data indicates a swift reversal of this upward trend, with lower sales among small and medium sized enterprises the key factor behind ongoing weakness in overall UK manufacturing export orders.

Those with 1-49 employees reported by far the fastest downturn in new orders from abroad and were the only segment to recorded declines in each of the first three months of 2021. At 44.4, the average reading in Q1 compared with 47.9 for medium sized firms and 58.9 for large manufacturers.

All three company size bands experienced softer export trends at the very beginning of the year, but the largest manufacturers (250+ employees) saw a growth rebound thereafter. This contrasted with the monthly trend for small manufacturers, as the slide in exports accelerated during February.

Manufacturers widely noted that new trading arrangements with EU clients had a severe impact on sales throughout the first quarter. This mirrored the evidence cited by UK exporters in the latest ONS Business Insights and Conditions Survey (BICS). This publication found that additional paperwork

(71%), changes in transport costs (46%) and customs duties/levies (36%) were by far the biggest export challenges faced by manufacturers in March.

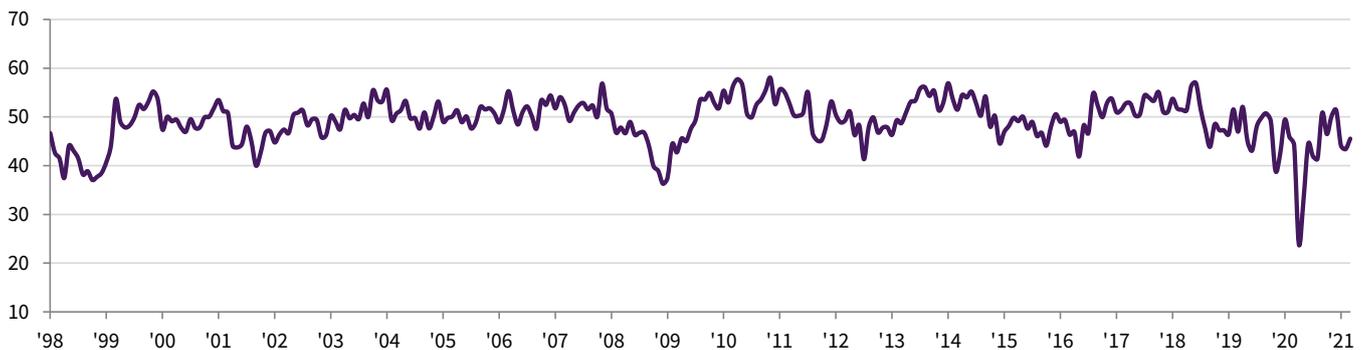
According to the latest BICS data, small enterprises across the UK felt that the support they most desired in March was advice on customs/tariffs (50%), followed by assistance with transport/distribution (31%) and financial support (21%).

Richard Hill, Head of Automotive and Manufacturing at NatWest:

“UK manufacturing has demonstrated great agility and ability to innovate in times of great challenge with the strength of recent PMI ratings showing the resilience of the sector. However, as the latest NatWest UK Small Business Recovery PMI survey shows, both Brexit and Covid-19 have caused significant disruption as smaller manufacturers recorded a steep fall in export orders, which was in contrast to their larger competitors.”

“Throughout the pandemic, we have seen first-hand across a wide spectrum of manufacturing clients a steely determination to work through these challenges of pressured supply chains and impeding productivity. Business confidence levels are strong as we move into a more positive environment, particularly as manufacturers realise the opportunities that the sustainability, climate change and digital adoption agenda presents. The recent Super-Deduction initiative is a great example of the type of progress support required.”

Small UK Manufacturers, PMI Export Orders Index, 50 = no change



About the Small Business Recovery PMI® report

The NatWest UK Small Business Recovery 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 Recovery 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.

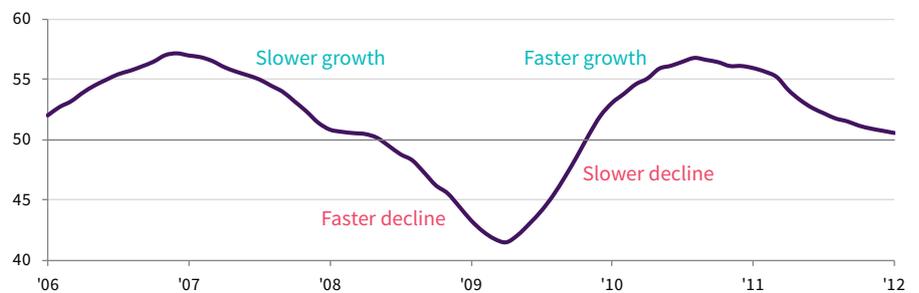
The survey data for March were collected 12 – 30 March 2021. Historical data are available from January 1998 for the All-Sector Small Business Activity Index.

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 Recovery 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
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
Jan '21	40.5	42.0	27.8	66.5	46.0	46.9	59.4	50.4
Feb '21	46.7	44.8	27.1	70.1	47.2	43.2	61.8	52.4
Mar '21	55.8	55.1	25.6	73.5	52.2	49.0	66.0	56.7

NatWest UK Small Business Recovery PMI® (by sector)

	All-Sector Business Activity	Service Sector Business Activity	Manufacturing Business Activity	Construction Business Activity
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
Jan '21	40.5	39.7	40.3	48.0
Feb '21	46.7	45.2	52.5	51.3
Mar '21	55.8	54.7	57.2	63.2

Contact

Trish Regis
Media Relations Manager
NatWest
+ 44 (0)7971 005092
patricia.regis@rbs.co.uk

Phil Smith
Associate Director
IHS Markit
+44 1491 461 009
phil.smith@ihsmarkit.com

Joanna Vickers
Corporate Communications
IHS Markit
+44 207 260 2234
joanna.vickers@ihsmarkit.com

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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