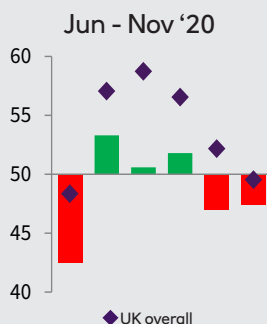


# NatWest UK Small Business PMI®

## Activity at small firms falls again amid lockdown measures, but optimism rebounds

### UK Small Business Activity Index



### Key findings

Moderate, albeit slightly slower, reduction in business activity at small firms

Downturn contained to services, with manufacturing and construction seeing growth

Vaccine news boosts small business confidence to ten-month high

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

UK small businesses saw activity decline for the second month running during November, as overall demand conditions remained weak. That said, although still below the neutral 50.0 mark, the headline All-Sector Small Business Activity Index registered at 47.4 in November, up from 47.0 in October, to signal a slightly softer rate of contraction.

The equivalent UK index was also in contraction territory in November (49.5), but signalled a much softer rate of output decline than at small firms.

Sector level trends diverged, however, with the downturn in November contained to small services firms. Business activity in the service sector fell at an accelerated pace, with the national lockdown in England and strict restrictions elsewhere across the UK taking a severe toll on consumer-facing firms.

Small construction companies saw a return to output growth, with demand conditions improving for the first time since July amid reports of improved client confidence and a surge in new projects. The overall increase in

activity was only slight, however.

The manufacturing sector saw a notable turnaround, with factory production at small enterprises rising at the quickest pace since August following a modest decline in October. Growth was aided by a strong upturn in order book volumes, with panellists reporting higher sales both domestically and abroad.

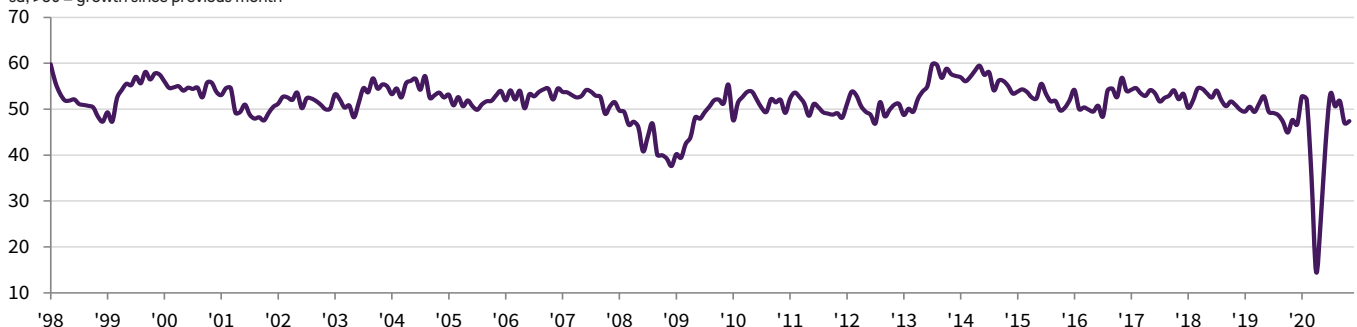
In spite of the ongoing downturn, news of a vaccine and hopes of an end to lockdown measures boosted confidence at small firms. Sentiment with regards to activity over the next year was the highest since January.

Optimism did not translate into higher staffing levels, however, as small firms trimmed workforce numbers at a slightly accelerated pace in response to muted demand and falling backlogs in November. Service providers registered the sharpest fall in employment.

Meanwhile, lockdown measures around the world and delays at UK ports continued to stress supply chains in November, with small firms reporting a sharp lengthening of vendor lead times. Supplier shortages and logistics issues pushed input prices up again, which created further pressure on operating margins among small enterprises.

### NatWest UK All-Sector Small Business Activity Index

sa, >50 = growth since previous month



## Contents

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# Foreword



Small businesses across the UK, particularly those in consumer facing sectors, are having to continually navigate uncertain terrain with restrictions, stricter measures and national lockdowns. So, it's not a surprise that our latest PMI data shows a continuing decline in activity for small firms in November for the second month in a row.

At a sector level, it was the small service providers that saw the most accelerated downturn in business activity, whereas small construction and manufacturing firms saw a notable turnaround to muted growth with reports of improved client demand and confidence. We know from talking to our business customers that SMEs continue to demonstrate their resilience through the pandemic by being agile and pivoting business models quickly despite the uncertainty and unpredictable business environment.

Last month, our SME Taskforce met for the first time, bringing together insights from across policymakers, business groups, and others to find the right recommendations of support to spark growth back into this key part of our economy. It was clear

from our discussion that businesses are navigating a crisis that is lasting longer than expected. The picture is even more complex at a regional and sectoral level meaning there is no one size fits all approach. These insights inform us that it's so important that we continue to stay close to our SME customers to best support them through the recovery period.

Looking ahead, it's encouraging to see that small business confidence has been boosted as the news of a vaccine has converted into a positive business outlook for the year ahead – the highest reading from our PMI data for ten months. We can't predict when some semblance of normality will return but we hope to see that optimism continue into next year and eventually translate into seeing our SMEs bounce back to economic growth.

**Andrew Harrison**  
Head of Business Banking  
NatWest

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

### Lockdown restrictions stifle services activity

A back-to-back monthly reduction in business activity at small services firms was recorded in November. At 46.0, down from 46.8 in October, the respective seasonally adjusted index signalled an accelerated contraction and one that was solid overall, driven primarily by a further decline in the level of new business. Panellists cited stricter lockdown measures for the reductions in both activity and new business, with many consumer-facing firms noting they had temporarily closed due to restrictions.

The downturn was mirrored at the broader UK level in November, with small firms registering only a slightly quicker fall than the national average.

### Firms cut jobs at faster pace

Subsequently, small service providers recorded a further sharp reduction in staffing levels in November, with the latest decline the quickest since August. Panellists linked lower employment to redundancies alongside the use of the government furlough scheme.

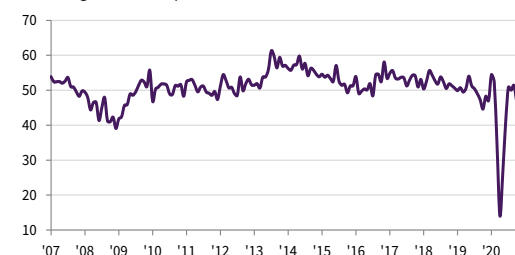
However, the rate of job shedding at both medium and large services firms outpaced that for small companies.

### Business optimism picks up to nine-month high

In spite of the ongoing downturn, service providers with less than 50 employees remained optimistic with regards to activity in 12 months' time. Business confidence strengthened to the highest since February, amid hopes that lockdown measures would soon be loosened and in response to the positive news about effective vaccines.

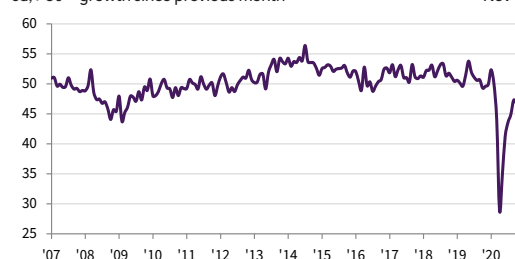
Business Activity Index  
sa, >50 = growth since previous month

46.0  
Nov '20



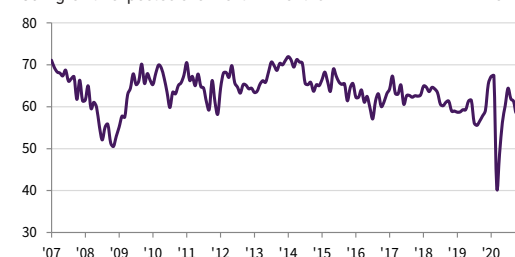
Employment Index  
sa, >50 = growth since previous month

44.6  
Nov '20

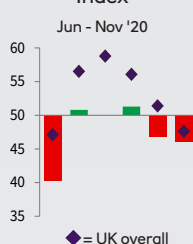


Future Activity Index  
>50 = growth expected over next 12 months

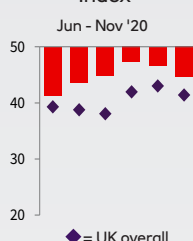
65.3  
Nov '20



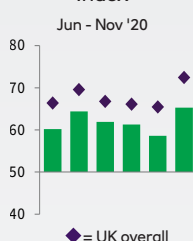
Business Activity Index  
Jun - Nov '20



Employment Index  
Jun - Nov '20



Future Activity Index  
Jun - Nov '20



# Small Business PMI®: Manufacturing Sector

## Factory production rebounds in November

November data highlighted renewed growth in output at small UK manufacturing firms, following a decline in the previous survey period. Firms attributed the moderate expansion to improved client demand - both domestically and abroad - while there was also mentions of a pre-Brexit deadline boost to overseas sales. Indeed, total new order growth increased to the quickest since July.

However, goods producers with less than 50 employees still registered slower growth in production and order book volumes than both medium and large firms during November.

## Job cuts least widespread since pandemic began

Workforce numbers at small UK manufacturers continued to decline in November, although the rate of job shedding was the joint-weakest since December 2019 and only mild. Although some firms reported redundancies and the non-replacement of leavers, others noted that some employees had returned from furlough and additional staff employed amid higher sales.

As a result, the overall reduction in employment at small firms was noticeably slower than across the manufacturing sector as a whole.

## Supply shortages and transport delays put severe pressure on lead times

Small UK goods producers recorded a further deterioration in vendor performance during November. Moreover, lead times lengthened to the greatest extent since May amid reports of supply shortages due to the pandemic and logistics challenges following delays at UK ports.

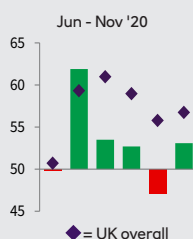
Firms of all sizes saw delivery times lengthen to a greater extent in November, reflecting a broad-based impact on manufacturing supply chains.

## Optimism strengthens further

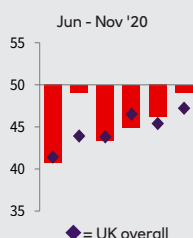
A stronger level of confidence towards output over the coming year was recorded at small UK manufacturers during November. In fact, the level of sentiment was the highest since July. Improved market conditions, positive vaccine developments and less COVID-19 uncertainty were all cited as reasons to be confident.

That said, business optimism remained historically subdued, with firms still citing concerns surrounding the pandemic and Brexit uncertainty.

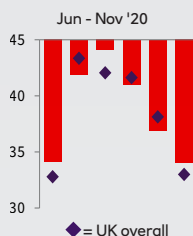
Business Activity Index



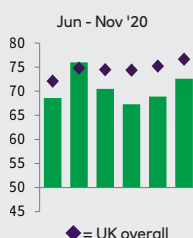
Employment Index



Suppliers' Delivery Times Index



Future Activity Index

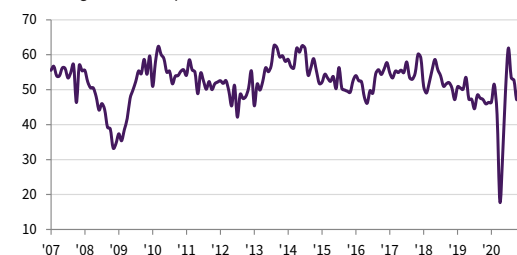


Business Activity Index

sa, >50 = growth since previous month

53.1

Nov '20

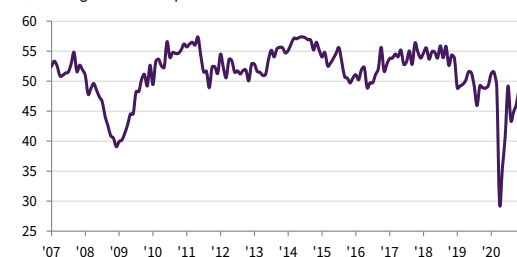


Employment Index

sa, >50 = growth since previous month

49.1

Nov '20



Suppliers' Delivery Times Index

sa, >50 = faster times since previous month

34.0

Nov '20

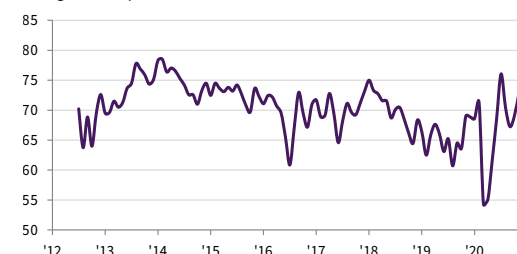


Future Activity Index

>50 = growth expected over next 12 months

72.6

Nov '20





## Small Business PMI®: Construction Sector

### Construction activity returns to growth amid revived demand

Following a slight reduction in October, small UK construction firms recorded a rebound in business activity during November. At 50.5, however, the respective seasonally adjusted index pointed to only a slight expansion, and one that was slower than across the construction sector a whole.

The overall improvement in activity was driven in part by a renewed upturn in new business at small UK constructors. Order books rose for the first time since July amid reports of new projects and improved client confidence.

### Employment starts to stabilise

November data highlighted a near stabilisation in staffing levels at small UK construction firms, following nine months of job trimming. Some companies noted they had taken on additional staff to cope with increased demand.

Moreover, the broadly stable level of employment at small firms contrasted with a moderate, albeit slower, rate of job cutting across the UK construction sector as a whole.

### Pressure on supply chains remains severe

The tightening of COVID-19 related measures in some parts of the world and transport delays with inputs sourced from abroad led to further supply chain pressures in November, as evidenced by a further lengthening of lead times for inputs. Vendor performance deteriorated to the weakest extent since July, but delays were still severe overall.

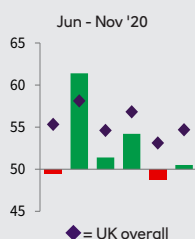
Stock shortages at suppliers also had an adverse impact on input costs, according to survey respondents. Cost burdens facing small UK construction firms rose at the most marked rate since April 2019, although the rate of inflation was broadly in line with that at the broader UK level.

### Vaccine news buoys confidence to near five-year high

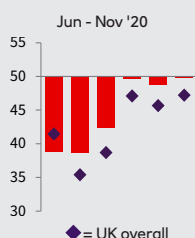
Positive news regarding a vaccine, alongside hopes of looser lockdown restrictions and an end to the pandemic led to a stronger level of confidence at small UK construction firms in November. The majority of respondents (59%) expect activity to rise over the coming 12 months, up from a low of 25% in March, with the resulting Future Activity Index the highest since March 2016.

A similar wave of optimism was recorded at the UK level, although sentiment remained stronger at small construction firms.

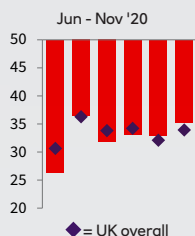
Business Activity Index  
Jun - Nov '20



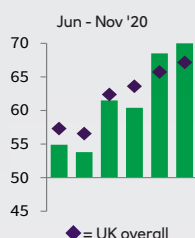
Employment Index  
Jun - Nov '20



Suppliers' Delivery Times Index  
Jun - Nov '20



Future Activity Index  
Jun - Nov '20

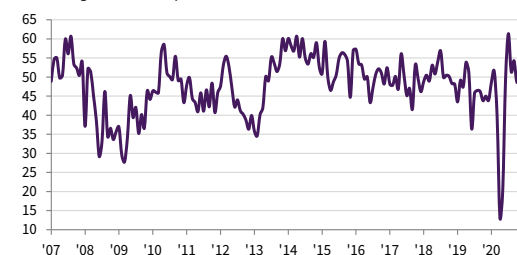


Business Activity Index

sa, >50 = growth since previous month

50.5

Nov '20

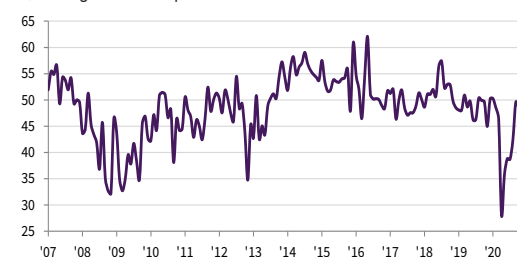


Employment Index

sa, >50 = growth since previous month

49.7

Nov '20

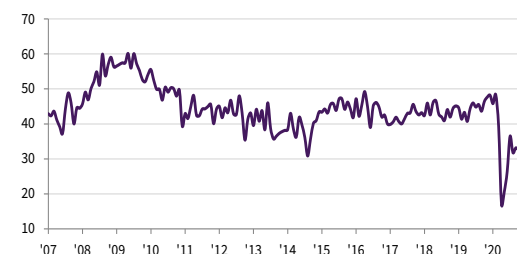


Suppliers' Delivery Times Index

sa, >50 = faster times since previous month

35.3

Nov '20

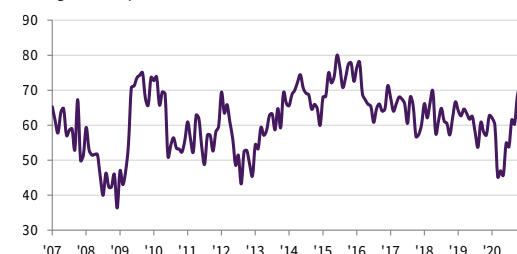


Future Activity Index

>50 = growth expected over next 12 months

71.4

Nov '20



# Vaccine breakthrough provides winter light for UK's small businesses

Stephen Blackman



As anticipated, October's Small Business PMI proved a reliable bellwether as the index for all firms followed its lead into contraction territory last month. So, it's welcome news that the small business PMI for November (47.4) was actually a tad higher than October's (47).

Again, it's small businesses operating in the service sector that bear the brunt of weakness. In contrast, activity in construction and particularly manufacturing returned to positive territory. It's too early to say with conviction but we can speculate. And an interesting question is whether the rise in construction is part of the Covid-fuelled trend towards the home, housing and localism? Demand for household goods continues to rise, in contrast to services, signalling a shift in consumers' spending patterns amid the inexorable rise in online sales. And families are spending more on DIY and household furnishings as more people work from home. According to the Office for National Statistics (ONS), 73 minutes were spent on an average day working from home in September and early October compared to 55 minutes at the end of March and April.

Unsurprisingly, consumer-facing sectors remain vulnerable, particularly hospitality and leisure. The ONS reported that food and accommodation dropped 14% in October, pressuring UK GDP as renewed restrictions started to bite. Only 45% of accommodation and food and 58.6% of arts and entertainment were trading in the last two weeks of November, below the 75% average for all UK industries, as last month's national lockdown took its toll.

And so, the beleaguered UK high street remains under pressure as is evident with Arcadia filing for administration, putting thousands of jobs in jeopardy. Retail footfall has fallen back to the lows

of the summer in November with big cities suffering, notably London. Google Trends data show that the volume of online searches for phrases including "restaurant" in early December has been 19% below October's level, while searches including "pub" have declined by 14%.

News that the devolved nations in the UK have agreed to a five-day break during Christmas, following England's one-month lockdown in November, provides some festival cheer, but it is likely to prove short-lived.

Indeed, the vaccine breakthrough provides what seems to be the only real winter light for the UK's struggling small businesses. A rapid rollout of the vaccine, potentially reaching 20 million people in the UK by February 2021, would enable a loosening of restrictions in late Q1/early Q2 next year. However, caution is never entirely wasted and even with the fairest of winds it will be some time before a semblance of what once passed for normality is restored.

Overall, the UK's small businesses will continue to face multiple challenges until at least early 2021. That said, festive cheers suggest activity could pick-up from Q2 next year as the vaccine is distributed to the bulk of the UK population. And even if true, the scars from Covid will run deep as the economy and society settles into a new foundation.

**Stephen Blackman**  
Principal Economist  
NatWest

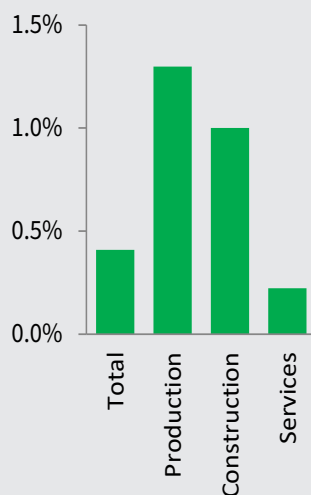
## Special focus: Monthly GDP

### UK GDP

#### Monthly % Change



#### Oct '20, by sector



## UK GDP data confirms resilient manufacturing recovery offset by service sector weakness

A second wave of coronavirus infections and the subsequent tightening of containment measures led to a further slowdown in the UK economy's recovery in October, latest Gross Domestic Product (GDP) from the Official for National Statistics showed. GDP was up just 0.4% from September, to leave overall economic output still 7.9% lower than the level in February 2020.

The slowdown mirrored the recent PMI survey data, with the headline all-firm Business Activity Index having registered a four-month low of 52.2 in October. The PMI's subsequent return to contraction territory (49.5) in November amid a second national lockdown across England signals an impending setback to GDP.

The slowdown in UK GDP growth in October was led by a near-stalling of service sector output, which was up just 0.2% on the month. The main drag came from a sharp downturn in accommodation and food service activities amid tightened restrictions on hospitality and temporary closures in some parts of the UK.

The recovery in the construction component of GDP continued in October, albeit with waning momentum. Output here rose 1.0%, following growth of 3.8% and 2.9% in August and September respectively.

Industrial production meanwhile bucked the broader slowdown in October to record its strongest growth for three months. The 1.3% increase in production brought overall output to within 4.4% of pre-COVID levels. In the detail, just two out of the 13 manufacturing sub-sectors recorded lower output,

highlighting a strong resilience in the UK's good-producing sector even in the face of the second wave of coronavirus infections and related uncertainty.

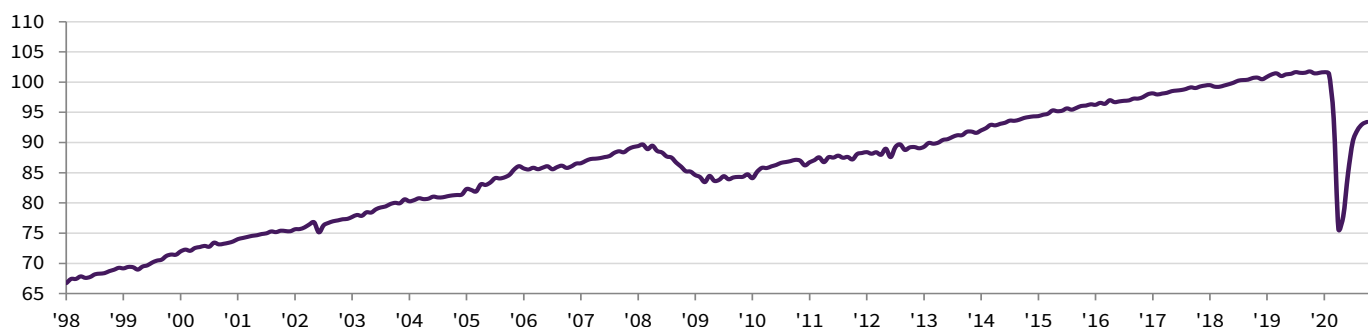
Radoslaw Kadiyski, Company Director at SBI Group International:

*"For SBI Group, November wasn't that different from October. Despite the lockdown, the business has managed to sustain a good level of new incoming orders with our whole UK team currently shifting from office based to home based working. Thanks to our hardworking staff and advanced software we have managed to maintain good level of productivity and customer satisfaction. It is difficult for most businesses in these challenging times so it would be a lie to say everything is going smoothly and as normal as possible. However, we always follow a few basic principles in our relationships with our customers and partners – openness, flexibility and correctness. This culture has helped us resolve any issues that have occurred and build even stronger relationships."*

#### About SBI

SBI Group is a family owned and operated business since 1998. It is a manufacturer specialising in premium quality garage doors and roller shutters; with more than 20 years' experience in the industry SBI Group offer innovative products not seen within the British market.

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

# Nearly half of all UK small businesses report lower than normal profits in November

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. Results relating to the pandemic's impact on small business show that profits were still lower than normal at nearly half of all small businesses in November (46%).

With the Brexit deadline fast approaching on 31 December 2020, the second part of this section looks the preparedness of small businesses for the end of the EU transition period. Of those firms seeing themselves as potentially impacted by new UK-EU trade terms, only one-in-five small businesses were fully prepared for the end of the transition period.

The NatWest Small Business PMI has highlighted that the recovery in output among small companies has consistently trailed behind that of larger enterprises. There's also evidence of a sustained squeeze on the margins of small firms, who have struggled to pass the burden of higher costs resulting from squeezed supply on to customers. All of this chimes with the results from the BICS survey, which reveals a broad – and often severe – impact on small business profits as a result of the COVID-19 pandemic.

In the two weeks ending 15th November, 46% of small businesses with between 10 and 49 employees recorded a fall in profits compared to normal expectations for the time of year, the highest proportion of all size bands. Moreover, of the small businesses reporting lower profits, around one-third of them said the decline was in excess of 50%. Small businesses were also less likely than their larger counterparts to have seen an increase in profits.

At the same time, the BICS survey highlights that cash flows risks are particularly high among small businesses. Only around 24% of small firms said they had enough cash reserves to last more than six months, which compared to around 39% of the largest firms.

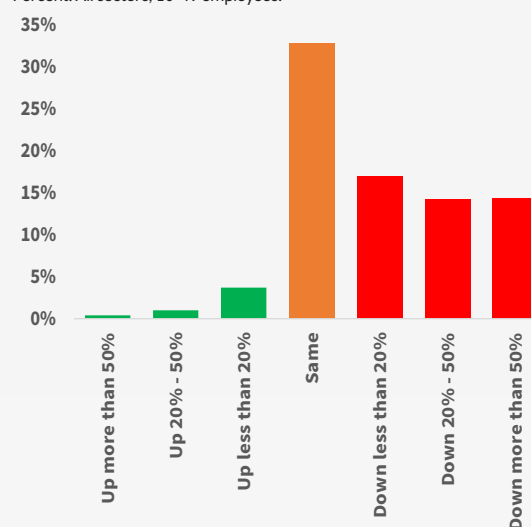
Moving to firms' preparations for the end of the Brexit transition period, the survey finds that smaller firms are generally further behind in their planning. Looking at the number of firms stating they are "fully prepared", large business (250+ employees) were found to be the most ready, and small business with between 10 and 49 employees the least. In all company size groups, the most common response was "somewhat prepared" for Brexit.

According to the survey, the main reason preventing firms from being fully prepared was a lack of information about what is required, with the coronavirus pandemic shown to be another significant obstacle.

These findings thereby emphasise the importance of greater support to small businesses in these uncertain times, to help this critical part of the UK economy in navigating the dual challenges of COVID and Brexit.

How has the coronavirus (COVID-19) pandemic affected profits, compared with normal expectations for this time of year?

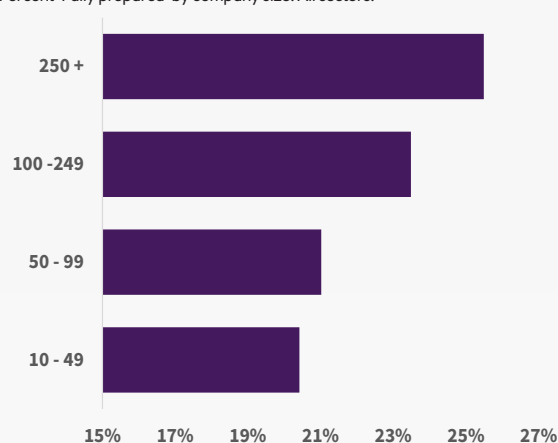
Percent. All sectors, 10-49 employees.



Source: Office for National Statistics (ONS) Business Impact of Coronavirus (BICS) survey. Fortnight ending 15th November. 'Not sure' and 'N/A' not shown.

How prepared is your business for the end of the EU transition period?

Percent 'Fully prepared' by company size. All sectors.



Source: Office for National Statistics (ONS) Business Impact of Coronavirus (BICS) survey. Fortnight ending 15th November. Excludes 'Not relevant' and 'Not sure'.



## 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.

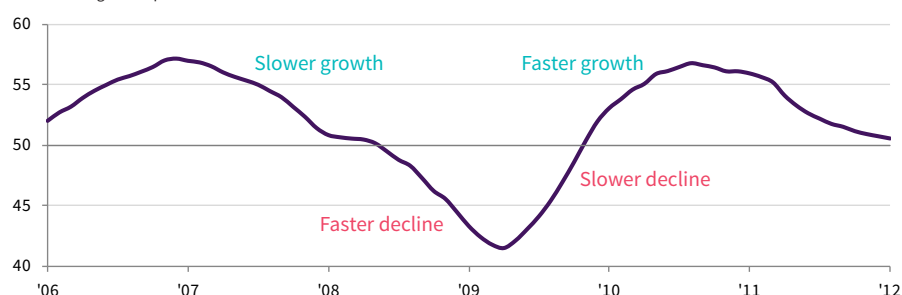
The survey data for November were collected 12 – 27 November 2020. Historical data are available from January 1998 for the All-Sector Small Business Activity Index.

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<sup>®</sup> (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 |
|---------|----------|--------------|---------------------------|-----------------|------------|----------------------|--------------|----------------|
| 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           |
| 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           |

### NatWest UK Small Business PMI<sup>®</sup> (by sector)

|         | All-Sector Business Activity | Service Sector Business Activity | Manufacturing Business Activity | Construction Business Activity |
|---------|------------------------------|----------------------------------|---------------------------------|--------------------------------|
| 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                           |
| Oct '20 | 47.0                         | 46.8                             | 47.1                            | 48.7                           |
| Nov '20 | 47.4                         | 46.0                             | 53.1                            | 50.5                           |

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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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