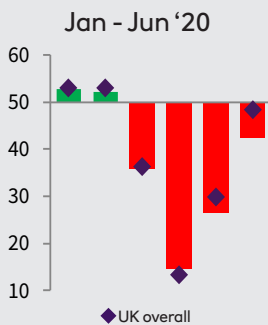


# NatWest UK Small Business PMI<sup>®</sup>

## Gradual turnaround in fortunes for small business as lockdown measures ease

### UK Small Business Activity Index



### Key findings

Manufacturing and construction are bright spots in June

Small service providers make slow but steady progress

Performance gap widens between small and larger businesses

The NatWest UK Small Business PMI<sup>®</sup> is a new monthly index designed to monitor the performance of private sector enterprises with 1-49 employees as the UK economy emerges from the public health emergency.

June data pointed to a sustained rebound in business conditions from the record low seen during April, driven by the phased restart of the UK economy as lockdown measures ease.

At 42.5 in June, the headline All-Sector Small Business Activity Index – which monitors output at private sector companies with 1-49 employees – picked up from 26.3 in May and was further above the low seen in April (14.6).

Despite signs of a turnaround in business activity, latest data highlighted that the rebound has been more gradual among small enterprises. The equivalent All-Sector Business Activity Index for large UK companies was 51.3 in June. A gap in performance relative to small firms was seen both in terms of current business activity and growth expectations for the next 12 months, with the shortfall centred on the service economy.

Small service providers faced particularly acute difficulties as parts of the economy reopened in June. Around 41% reported a drop

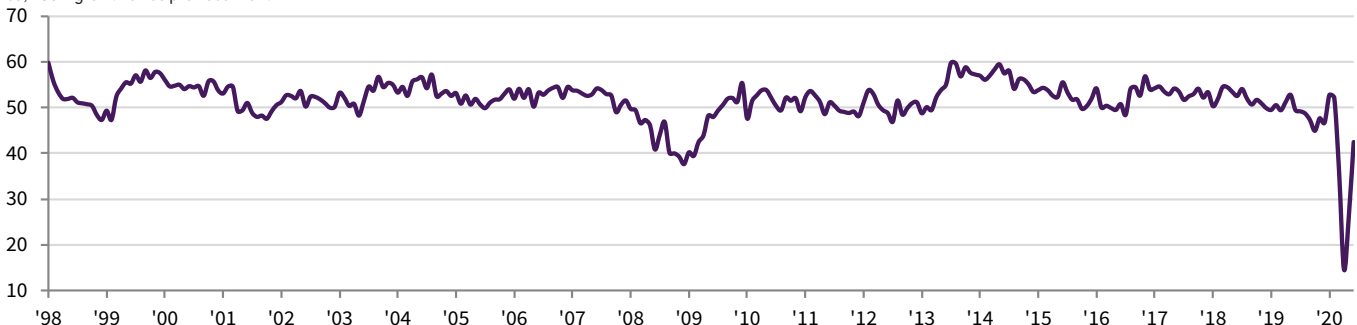
in activity, while 23% signalled an expansion. This was an improvement on the situation seen in May, but it lagged behind the trend signalled by larger firms as many small enterprises remained only in the early stages of recovery.

Service sector companies commented on the challenge of adapting business facilities to meet social distancing needs and difficulties judging near-term workloads. Those in the travel, leisure and entertainment categories again reported widespread business closures.

Manufacturing had a relatively encouraging month in June, as did construction, despite severe supply chain disruption since the COVID-19 pandemic. Small firms in these sectors saw sharp rises in input costs. Manufacturers mainly reported higher prices due to exchange rate depreciation, while construction firms noted constrained availability of materials as sites reopened.

Finally, small firms indicated that persistently low workloads and fragile confidence meant that employment trends were highly subdued in June. There were some reports citing a return of essential employees from furlough, but the overall trend was a drop in staffing numbers for the fourth month in a row.

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



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# Foreword



While this month's NatWest UK Small Business PMI continues to be encouraging, with previous signs of optimism now translating into a sustained rebound in business conditions, we can see from the data that there is still a performance gap between small and larger businesses. The rebound of smaller enterprises is more gradual than that of their larger competitors, which further signals the need for targeted support.

At NatWest, we have supported our SME customers from the onset of this crisis and will continue to stand by them through the next phase of recovery as businesses start to adapt to a new normal and operate within social distancing rules. We have approved over £10 billion under the three government loan schemes, with £6.5 billion of that supporting our SME business customers through the Bounce Back Loan scheme.

As lockdown measures have gradually been eased, it is positive to see that this has helped boost small business activity across the different sectors covered by this survey, with manufacturing and construction being bright spots in June and resilient small businesses also set to play a vital role in reinvigorating the labour market according to early indications. However, the data shows that smaller businesses still remained in the early stages of recovery.

As the largest supporter of UK SMEs, we recognise how vital they are to our economy, which is why we also want to arm our customers with the right tools and advice to support them as our economy starts to reopen. This includes offering free Financial Health Checks and developing solutions that businesses can use to ensure they're well prepared, such as a new cashflow tool which we're launching in FreeAgent, our accountancy software which is free to businesses who bank with us. These tools, alongside our sector insights, thought leadership and advice available on our dedicated Business Hub, is all part of a package that ensures we continue to stand behind our business customers and better support them into the future.

Our support so far demonstrates how NatWest, as a purpose-led bank, will always go further to help our customers ultimately thrive. This month's Small Business PMI survey signals to us that we need to continue to leverage our expertise and offering at this key part of our economy. This work is already underway, and we will continue to do more in the coming months.

**Andrew Harrison**  
Head of Business Banking  
NatWest

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

## Steady progress from April's low

The gradual easing of lockdown measures helped to boost business activity across some parts of the service economy in June. This was highlighted by a rise in the Business Activity Index from 25.9 in May to 40.3 in June, which was the highest reading since the downturn began in March. While the headline figure indicated steady progress for service providers after April's record low, it fell far short of the equivalent reading for the sector as a whole (47.1 in June).

Small enterprises in the service sector often cited a knock-on impact from lower spending among their clients due to the COVID-19 pandemic, while those in the travel and leisure categories mostly noted ongoing closures or severely constrained business operations in June.

Around 41% of small service providers saw a drop in activity in June, while 23% signalled an expansion. This was better than in May, when 60% noted a fall and only 11% reported a rise.

## Widespread use of furlough in June

Survey respondents widely commented on the use of the government's job retention scheme amid severely depleted workloads in June. That said, overall payroll numbers dropped at the slowest pace since March. A sizable minority of firms noted that business reopenings had meant that employees were brought back from furlough.

## Business expectations rise again

The index measuring business expectations for the year ahead picked up for the third month running in June, driven by the prospect of easing lockdown measures across the UK economy.

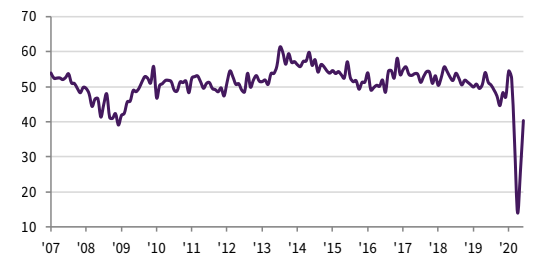
However, confidence was much weaker than among larger service firms. Difficulties adapting operations to social distancing measures were again widely reported by small service providers.

Business Activity Index

sa, >50 = growth since previous month

40.3

Jun '20

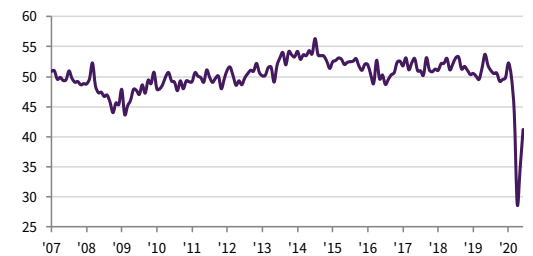


Employment Index

sa, >50 = growth since previous month

41.3

Jun '20

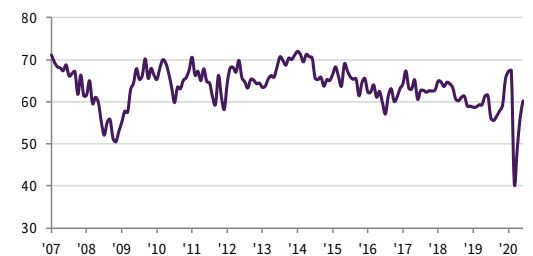


Future Activity Index

>50 = growth expected over next 12 months

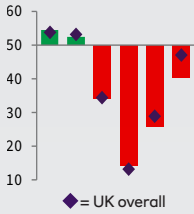
60.2

Jun '20



Business Activity Index

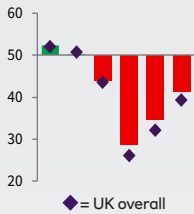
Jan - Jun '20



◆ = UK overall

Employment Index

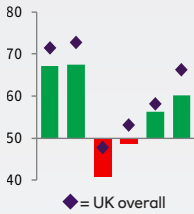
Jan - Jun '20



◆ = UK overall

Future Activity Index

Jan - Jun '20



◆ = UK overall



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

## Encouraging trends in June

The headline Business Activity Index rebounded strongly in June, rising to 49.8 from 31.6 in May. Moreover, the latest reading pointed to a similarly encouraging trend to that seen across the UK manufacturing sector as a whole in June (equivalent index at 50.7, up from 35.0 in May).

Just over one-third of the survey panel (36%) registered an expansion of manufacturing output in June. In contrast, around 19% saw growth in May and only 12% reported a rise in April.

Small manufacturers mostly commented on a boost to production following a phased return to work after stoppages during the lockdown period. Survey respondents also noted that the reopening of other parts of the economy, especially the construction sector, had helped to support customer demand.

Meanwhile, those reporting a reduction in output volumes overwhelmingly cited the adverse impact of the COVID-19 pandemic on their order books.

### Staffing numbers down sharply in early stages of reopening

Despite signs of a turnaround in production schedules, latest data signalled highly subdued employment trends across the manufacturing sector. Around one-in-four (26%) small manufacturers reported a drop in payroll numbers, while only 7% signalled a rise.

Lower employment was often attributed to fewer working hours and the continued placement of staff on furlough, especially those not critical to production. Some firms also commented on redundancy schemes amid sharply reduced demand and the need to cut costs.

### Small manufacturers record strong cost pressures

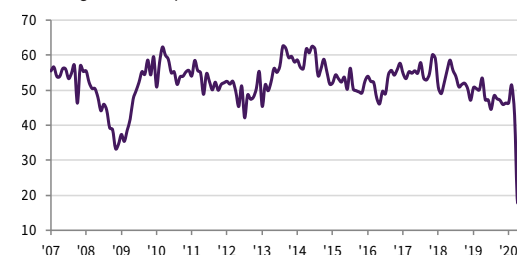
June data indicated a sharp and accelerated rise in input prices among small manufacturers, with the rate of inflation the fastest since September 2019. Higher transport costs and an increase in prices due to exchange rate depreciation were reported by survey respondents.

Cost pressures exceeded those reported by larger manufacturers by a wide margin, which partly reflected stretched supply chains and less scope to negotiate with vendors.

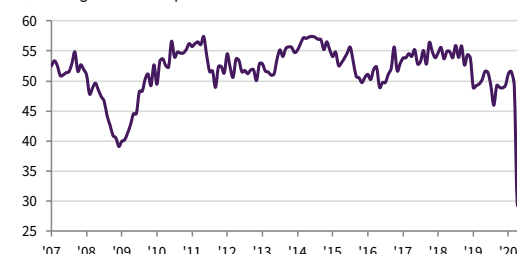
### Optimism hits four-month high

More than half of the survey panel (59%) anticipate a rise in output over the year ahead, while only 22% forecast a reduction. As a result, business optimism among small manufacturers picked up further in June, with the Future Activity Index hitting its highest level since February.

Business Activity Index  
sa, >50 = growth since previous month  
49.8  
Jun '20



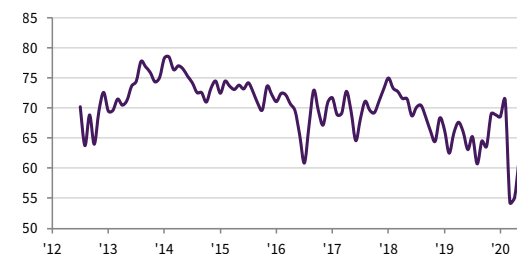
Employment Index  
sa, >50 = growth since previous month  
40.7  
Jun '20



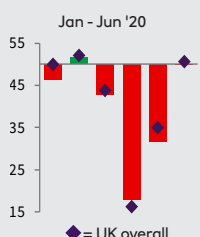
Suppliers' Delivery Times Index  
sa, >50 = faster times since previous month  
34.1  
Jun '20



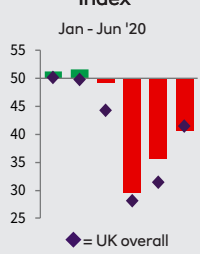
Future Activity Index  
>50 = growth expected over next 12 months  
68.6  
Jun '20



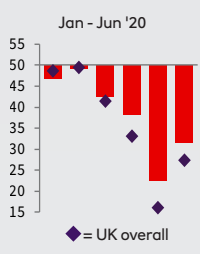
Business Activity Index  
Jan - Jun '20



Employment Index  
Jan - Jun '20



Suppliers' Delivery Times Index  
Jan - Jun '20



Future Activity Index  
Jan - Jun '20





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

## June's rebound was led by large construction firms

June saw growth of activity across the UK construction sector as a gradual restart of work on site and adaptations to new regulations led to a boost in output. The increase was led by large firms, with the Small Business Activity Index registering 49.5 in June, up sharply from May's 20.3, but below the total industry index of 55.3.

Anecdotal evidence suggested that work undertaken by small construction companies was disproportionately affected by material shortages and supply chain disruption due to the COVID-19 pandemic.

### Subdued hiring activity

The relatively muted resumption in activity among small construction companies was reflected in the latest employment trends. Though the downturn in payroll numbers eased further from April's nadir amid reports of some staff returning from furlough, the proportion of firms reporting lower employment (31%) remained considerable by historical standards.

### Slow turnaround in the availability of materials

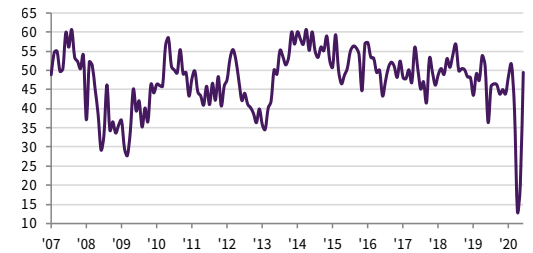
Supply chains remained severely disrupted during June. Moreover, in a reversal of the situation in both April and May, reports of delays on building materials and products from small enterprises were more prevalent than across the industry as a whole. Anecdotal evidence suggest that small constructors faced greater difficulty sourcing items than their larger counterparts, in part due to an inability to find alternative supply arrangements.

While June saw a strong rebound in purchasing activity across the construction sector as a whole, small building firms noted a further (albeit much softer) decline in their buying levels during the month. There was only a slight easing of cost pressures in June, with the rate of input price inflation ticking down from May's seven-month high.

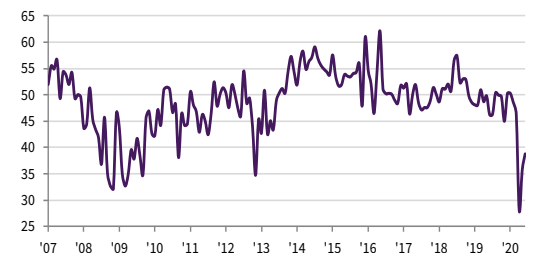
### Businesses expectations still close to the weakest since 2012

Confidence turned positive in June for the first time since stoppages due to the COVID-19 pandemic began in March. Surveyed firms commented on hopes of a release of pent-up demand as lockdowns are eased. That said, the degree of optimism remained weak by historical standards and below that recorded among larger firms, reflecting concerns about long-lasting effects on supply chains and the wider economy.

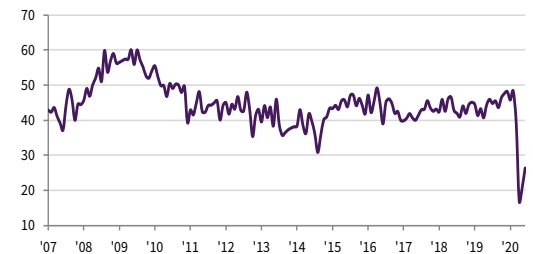
Business Activity Index  
sa, >50 = growth since previous month Jun '20



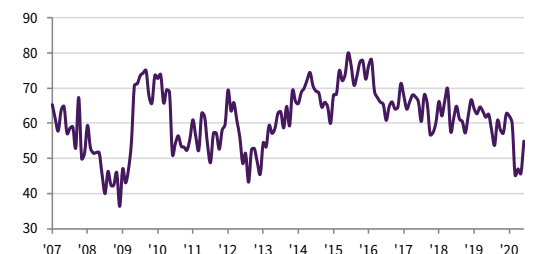
Employment Index  
sa, >50 = growth since previous month Jun '20



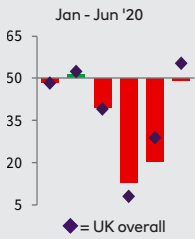
Suppliers' Delivery Times Index  
sa, >50 = faster times since previous month Jun '20



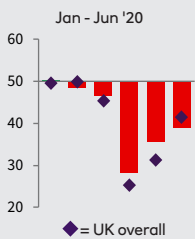
Future Activity Index  
>50 = growth expected over next 12 months Jun '20



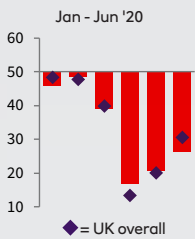
Business Activity Index  
Jan - Jun '20



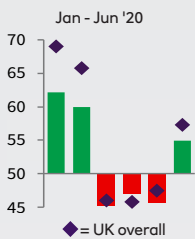
Employment Index  
Jan - Jun '20



Suppliers' Delivery Times Index  
Jan - Jun '20



Future Activity Index  
Jan - Jun '20



# Small businesses across the UK have taken an important stride along the long road to recovery

**Stephen Blackman**



One small step and all that. While still reeling from a shock few firms dared imagine, small businesses across the UK have taken an important stride along the long road to recovery.

We can overlook the fact the reported figure remains less the 50, and so technically signalling further contraction in June. At times like this, we need to look at movement and momentum, not score or position. And the leap from 26.3 in May to 42.5 gives hope that the disappointing 1.8% increase in GDP in May has indeed accelerated. Those closer to the scene perhaps think so, as the share of firms actively trading approached nearly nine in ten in late June, up from eight in ten a month ago.

Manufacturing and construction continue to lead the way, with close to 100% of firms back in business. But a sense of sobriety is needed. Over one in five firms (21.2%) have suffered a fall in output in excess of 50%, albeit this is a slight improvement from May. And the dominant service sector continues to struggle, reflecting the slower easing of lockdown restrictions. Hopefully the shift to allow more retail and leisure activity in recent weeks will have boosted performance. Plus new

business start-ups are nearly 3/4 the rate we should expect. But make no mistake. While many firms climb the cliff face of recovery, the commercial and consumer landscape has changed irrevocably, and business will have to repurpose and restructure.

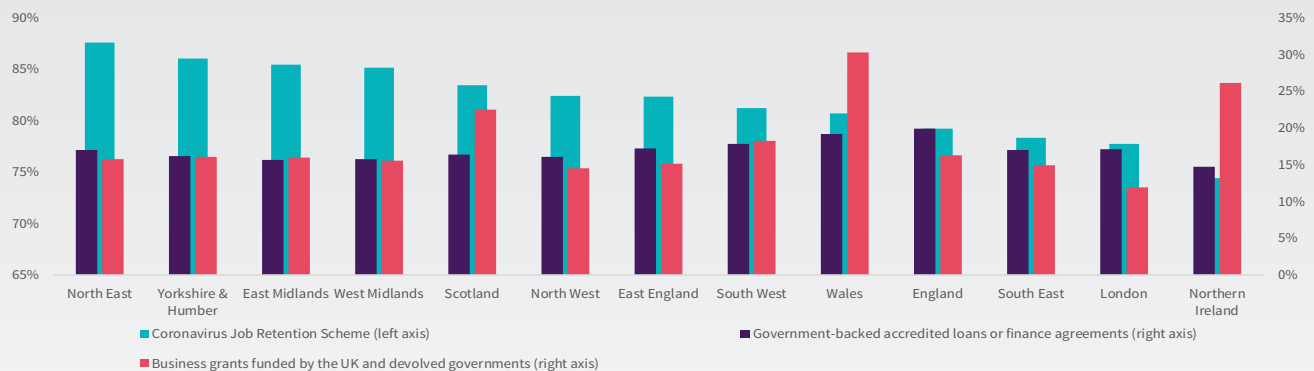
This raises the question of how many of those currently furloughed will return to their current jobs. The Summer Economic Statement provides some succour for firms and workers, including the welcome help targeted at young people in the form of the £2bn “Kickstart Scheme” to fund a six-month work replacement programme for 16-24-year olds who have been particularly hit by Covid-19.

In short, direction matters, and UK small businesses are slowly but surely recovering. But the path will be choppy and uneven. Companies remain understandably cautious. We’ve moved to a new world quickly and firms are having to learn and adapt at an astonishing pace.

**Stephen Blackman**  
Principal Economist  
NatWest

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

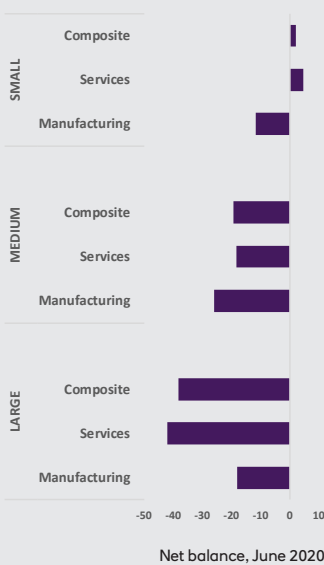
ONS Business Impact of Coronavirus (COVID-19) Survey, 1 June - 14 June 2020



## Special focus: UK small business employment

# Resilient small business hiring intentions may help to cushion fall in UK employment

Year ahead outlook for employment by company size



In this section we look at small firms' staff hiring intentions for the year ahead, using new data compiled from IHS Markit's UK Business Outlook survey.

We find that positive recruitment plans at small enterprises in June contrasted with highly downbeat projections among larger firms.

The IHS Markit Business Outlook survey asks a panel of UK manufacturers and service providers about their business expectations over the next 12 months, including key metrics such as employment, profits and prices.

Latest data collected in June found that employment was expected to fall over the year ahead, which is the first time that private sector firms have predicted a fall in workforce numbers since the global financial crisis of 2008/9. By contrast, the vast of majority of UK private sector businesses anticipate that output levels will rise over the forthcoming 12 months.

This divergence in expectations largely stems from the recent decoupling seen between output and employment, with the government's job retention scheme having allowed UK businesses to retain labour whilst activity fell sharply due to COVID-19 pandemic and associated lockdown. Latest official data up to April showed gross domestic product (GDP) down 25% on pre-crisis levels. Employment, on the other hand, was shown to have fallen by

only 1% over the corresponding period.

With the furlough scheme set to be wound down before the end of the year and activity not expected to recover to pre-crisis level until long after, UK businesses have signalled their intention to cut payroll numbers over the next 12 months as they look to realign capacity with demand.

However, a breakdown of June's outlook data by company size revealed a more positive picture for future employment among the UK's small businesses. The survey found that around 27% of private sector firms with 1-49 employees planned to increase their workforce numbers, against 25% expecting a fall. Although low by historical standards, the resulting net balance of +2% compared favourably with net balances of -19% for medium-size companies and -38% for and large businesses.

In the detail, positive employment expectations among small businesses were centred on the service sector, with small manufacturers anticipating some retrenchment over the coming year. Nevertheless, at -12%, the corresponding net balance was still well above the total manufacturing average of -19%.

Small businesses therefore look set to play a vital role in reinvigorating the labour market and, given the appropriate support, may help alleviate some of the anticipated fall in UK employment over the next 12 months.



Special focus: UK small business employment

# Government support schemes for small business during the COVID-19 pandemic

This section illustrates that the take-up of both the Coronavirus Job Retention Scheme (CJRS) and government-backed loans has been particularly high among small- and medium-sized enterprises (SMEs). These schemes have been designed to alleviate pressure on cash reserves and help retain skilled staff during the COVID-19 pandemic.

Office for National Statistics data indicate that the proportion of staff on furlough at small- and medium-sized enterprises was around 37% in the two weeks to 14th June 2020. These figures relate to businesses that have not permanently stopped trading during the COVID-19 crisis.

The share of employees on furlough among SMEs was in excess of that reported by large businesses (30%). A contrast in the take-up of the Coronavirus Job Retention Scheme by company size mirrors the picture from the NatWest Small Business PMI survey, which suggests that the use of furlough once again resulted in fewer overall job losses among small enterprises.

Going forward, SMEs signalled their intention to bring an average of 40% of their workforce back to the workplace in the second half of June, which compared with only 23% for large firms.

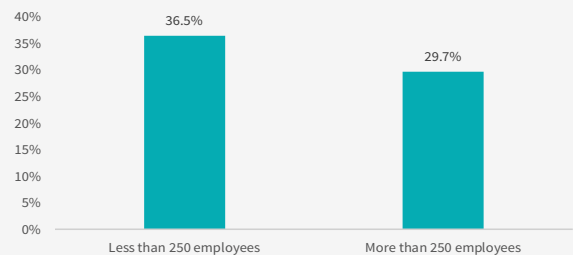
At the regional level, there were signs of a change in the picture from a month earlier. Whereas in the first two weeks of May the South West had seen the greatest proportion of businesses apply for the job retention scheme as the travel and tourism was shutdown, latest data showed that firms in the North East (88%) were now the most likely to have applied to the furlough scheme in the first half of June, followed by those in Yorkshire & Humber (86%).

By sector, arts, entertainment and recreation saw the greatest use of furlough (70%), overtaking accommodation and food services where the proportion was down to 67% from 83% a month earlier.

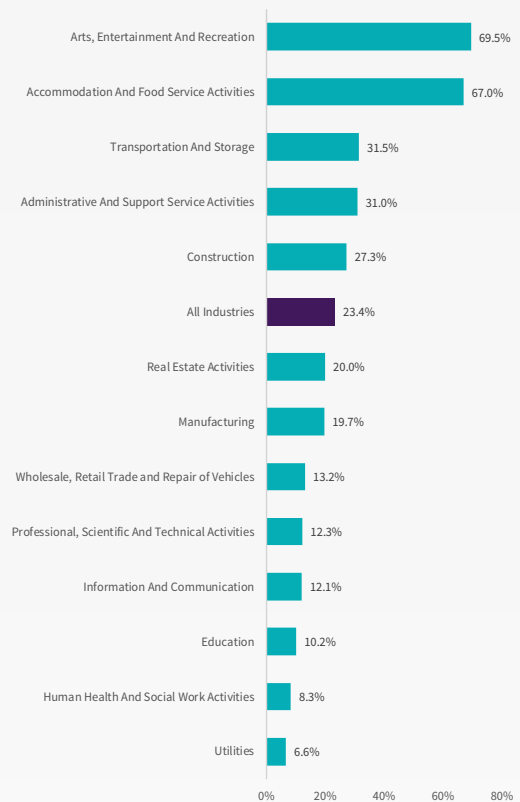
Turning to the government's two main lending schemes aimed at SMEs – the Coronavirus Business Interruption Loan Scheme (CBILS) and the Bounce Back Loan Scheme (BBLs) – a total of almost £44bn has so far been approved, across over 1.1 million businesses as of 12th July.

Lending through the Bounce Back Loan Scheme (BBLs) is now £31.7bn. For the Coronavirus Business Interruption Loan Scheme (CBILS), the value of approved facilities is £11.9bn. This figure is greater than the £2.7bn in loans provided to large firms through the Coronavirus Large Business Interruption Loan Scheme (CLBILS).

Proportion of workforce on furlough leave, by company size  
1 June to 14 June 2020



Proportion of workforce on furlough leave, by sector  
1 June to 14 June 2020



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



## 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.

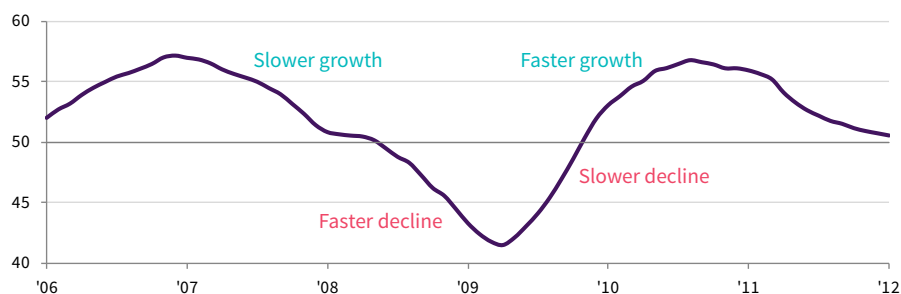
The survey data for May were collected 12 – 29 June 2020. Historical data are available from January 1998 for the All-Sector Small Business Activity Index.

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
Jan '20	52.8	55.4	48.0	66.9	52.0	48.5	59.0	53.0
Feb '20	52.1	50.2	44.7	67.3	50.1	46.6	58.1	52.1
Mar '20	35.8	33.9	38.7	43.1	44.9	37.2	54.6	48.1
Apr '20	14.6	14.3	20.5	49.4	28.9	23.0	46.2	44.5
May '20	26.3	25.5	27.5	56.1	35.0	31.0	49.2	46.6
Jun '20	42.5	42.8	31.2	60.9	41.0	40.1	51.2	47.4

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

	All-Sector Business Activity	Service Sector Business Activity	Manufacturing Business Activity	Construction Business Activity
Jan '20	52.8	54.4	46.4	48.7
Feb '20	52.1	52.3	51.5	51.4
Mar '20	35.8	34.0	42.9	39.8
Apr '20	14.6	14.1	18.0	13.1
May '20	26.3	25.9	31.6	20.3
Jun '20	42.5	40.3	49.8	49.4

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### About NatWest

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

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

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

### About IHS Markit

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

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