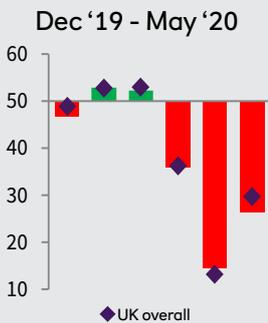


NatWest UK Small Business PMI[®]

Slide in business activity eases, but small firms are especially cautious about the outlook

UK Small Business Activity Index



Key findings

Signs of a turnaround as downturn in activity slows during May

Widespread use of furlough scheme helps retain staff

Business expectations lag behind those reported by larger firms

This new NatWest UK Small Business PMI[®] is a monthly index designed to monitor the progress and challenges faced by small enterprises in the manufacturing, services and construction sectors as the UK economy begins to emerge from the public health emergency.

May data from the NatWest UK Small Business PMI[®] point to a clear improvement on the situation seen during April, with the downturn in private sector output moderating from the record pace reported at the peak of the coronavirus disease (COVID-19) outbreak.

Signs of a turnaround were highlighted by a rise in the All-Sector Small Business Activity Index – which monitors output at private sector companies with 1-49 employees – from 14.6 in April to 26.3 in May. Nonetheless, the index remained below the 50.0 no-change value and signalled the second-fastest drop in business activity since the start of the series in 1998. Small manufacturers recorded the slowest drop in output, followed by service providers, while those in the construction sector posted the fastest pace of decline.

Small businesses continued to experience a severe shortfall of new work in May and reported widespread business closures across their supply chains, despite a boost as some parts of the UK economy began to reopen with social distancing measures. Difficulties sourcing materials, restricted transport capacity and the need to find alternative suppliers all placed a strong burden on small business costs in May, especially in the manufacturing and construction sectors.

Employment trends among small businesses have been more resilient than elsewhere in each of the main categories of activity monitored by the survey. However, survey respondents experiencing a slump in revenues overwhelmingly commented on use of the government's job retention scheme to help keep on staff. Small businesses are much more cautious about the year ahead outlook than their peers in all three main sectors covered by the survey.

A dynamic small business sector is undoubtedly a pre-requisite for growth in the UK economy, and the latest PMI results illustrate the urgent need to help these firms adjust to the 'new normal'.

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



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Foreword



As the largest supporter of UK SMEs we have worked proactively and tirelessly to get support to our business customers as quickly as possible. Small businesses form a vital segment of the UK economy and their recovery and return to growth is essential in safeguarding jobs as we start to emerge from the coronavirus pandemic.

The data and economic findings in this report helps build the picture of why it's so important to stand behind our small businesses and help them through the difficulties; from supply chain issues to decreases in output and production. This important insight into the small business sector, which we will now be producing on a regular basis, demonstrates that the challenges they face can make it much more difficult to get back on the road to recovery than their largest competitors. As a bank we will use these insights to ensure we are providing the best possible support to our customers.

From the outset, we have given our small business customers the best support we can to help them cope with the impacts of Covid-19. To reassure our customers we quickly announced a £5bn Fund focused on the provision of working capital support to meet the needs of our SME customers. This was before the government announced its various loan schemes and it served to show our customers we were standing behind them from the start. We currently have £4bn of in train requests for that Fund that we are working through approval and getting to our customers as fast as possible.

We also took a leadership position in the market for not requiring personal guarantees in support of any CBILS loan, as well as starting the loan scheme at lower than any other bank – from £5k rather than £25k. This was before the Bounce Back Loan scheme was announced but it demonstrated our recognition of how vital small businesses are to our economy.

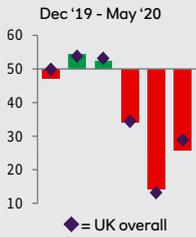
We did this because we know this isn't business as usual. This stance has been driver that has taken us through the implementation of the various government schemes. We recognise that it has been a difficult and stressful time, especially for our smallest business customers, so it's only right that we have worked tirelessly to get everything up and running as quickly and robustly as possible.

Small businesses are more cautious than larger firms about the year ahead, which only cements the need for collaborative and continued support. For our part, as a purpose-led bank, we want to go further to get the right support to our small business customers. Led by this important insight, we will be launching a Small Business Taskforce to bring together our support and expertise targeted at this key part of our economy. We will be partnering with others to get further insight, but our main goal and proposition through this venture is to offer the right tools, advice and products to help our small businesses through the next phase of this crisis, and to help them thrive beyond that.

Andrew Harrison
Head of Business Banking
NatWest

Small Business PMI[®]: Service Sector

Business Activity Index



Downturn in business activity eases from April's record

May data highlighted that small service sector companies remained under severe strain, despite a boost in some areas as parts of the economy began to reopen with social distancing measures. At 25.9, the Business Activity Index was well below the 50.0 no-change mark and the second-lowest since the start of the survey in 1996.

Around 60% of small UK service providers reported a drop in business activity during May. The proportion recording a fall in output was down from 78% in April, but it exceeded the equivalent figure for large service sector companies in May (49%).

On a more positive note, the percentage of small service sector firms signalling activity growth in May (11%) was up from just 6% in April.

Furlough scheme limits scale of job cuts in May

Steep falls in new work since the COVID-19 pandemic and widespread business closures in consumer-facing parts of the economy led to another rapid drop in employment numbers.

However, small firms were less likely to report lower staffing numbers than large service providers, with the government's furlough scheme widely cited as helping to retain staff and limit redundancies.

Optimism at small firms lags behind rest of service sector

Around 48% of small service providers expect a rise in business activity during the year ahead, while 35% forecast a reduction. This pointed to a recovery in optimism since April, but the degree of confidence continued to fall well short of the levels seen across the service sector as a whole.

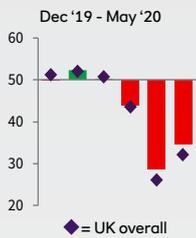
Business Activity Index

sq, >50 = growth since previous month

25.9
May '20



Employment Index



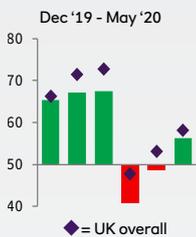
Employment Index

>50 = growth expected over next 12 months

34.8
May '20



Future Activity Index



Future Activity Index

sq, >50 = growth since previous month

56.2
May '20



Small Business PMI®: Manufacturing Sector

Manufacturers record softer output drop than in April

Latest data indicated that small manufacturers fared better than companies of the same size in the service and construction sectors during May. A number of firms commented on a phased return to work with production schedules adapted for social distancing measures. That said, the index measuring manufacturing output at small businesses remained well below the 50.0 no-change value, with the rate of decline slowing since April but now exceeding that seen across the sector as a whole.

Around 59% of small manufacturers reported lower production in May, while only 19% signalled an expansion. The proportion signalling a rise in output was up from just 12% in April. Reports from survey respondents suggested that prolonged business closures among key clients during the COVID-19 pandemic was the main factor leading to falling output volumes in May.

Job cuts less widespread than at larger manufacturers in May

Mirroring the trend seen during the global financial crisis, job cuts were much less prevalent among small manufacturers than the average across the sector as a whole in May.

Those reporting lower payroll numbers widely commented on the use of the government's jobs retention scheme and a strict hiring freeze. Anecdotal evidence also pointed to hopes that a phased return to work in the months ahead would help to retain skilled staff and avoid redundancies.

Supply chain disruption raises costs

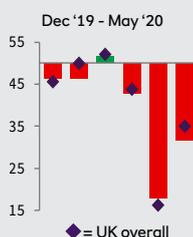
Business closures around the world and constrained transport capacity continued to disrupt manufacturing supply chains in May. Around 47% of small firms reported longer lead times among suppliers, while only 9% suggested an improvement.

Small manufacturers often noted that efforts to source inputs from alternative suppliers had resulted in higher purchasing costs in May. Input price inflation hit a seven-month high and exceeded that seen across the manufacturing sector as a whole by a wide margin.

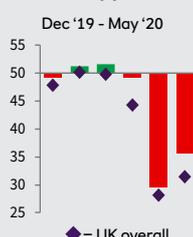
Slow improvement in business expectations from March's low

May data pointed to a further upturn in business expectations from the low point seen in March. However, confidence among small firms lagged behind the rest of the manufacturing sector, with survey respondents overwhelmingly citing concerns of a long-term dip in customer demand.

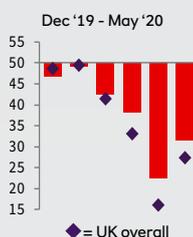
Business Activity Index



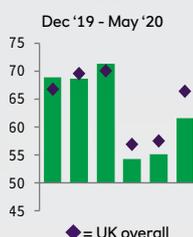
Employment Index



Suppliers' Delivery Times Index



Future Activity Index



Business Activity Index

sa, >50 = growth since previous month

31.6

May '20



Employment Index

>50 = growth expected over next 12 months

35.5

May '20



Suppliers' Delivery Times Index

sa, >50 = growth since previous month

31.6

May '20



Future Activity Index

sa, >50 = growth since previous month

61.6

May '20



Small Business PMI®: Construction Sector

Sharp downturn continues amid rapid drop in new work

May data pointed to sustained weakness across the construction sector, but a gradual restart of work on site with social distancing measures helped to moderate the overall rate of decline.

Small construction companies indicated a faster drop in business activity than larger firms during May, which reversed the pattern seen in the previous month. Survey respondents often cited a lack of new opportunities to tender and project cancellations amid the COVID-19 pandemic.

Reopened sites help to stem rate of decline in staffing numbers

Mirroring the trends seen in manufacturing and services, latest data indicated that employment numbers were more resilient at small construction companies than across the sector as a whole. However, small construction companies continued to report widespread use of the government's job retention scheme to help retain staff, while there were only sporadic reports that employees had been brought back from furlough in May.

Materials shortages hold back small construction firms

Delays receiving building products and materials were widely reported in May, with 64% of small construction firms reporting longer lead times from suppliers. Survey respondents often commented on extended business closures, alongside shortages of stock and transport availability among vendors.

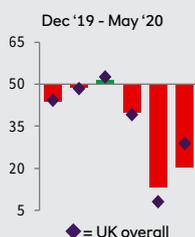
Stretched supplier capacity and shortages of supply resulted in higher costs during May. Small construction firms reported sharply rising prices for personal safety items and restricted allocations of materials including plasterboard. Measured overall, the latest increase in average purchasing prices was the steepest for eight months and faster than reported elsewhere in the construction sector.

Concerns about the business outlook worsen since April

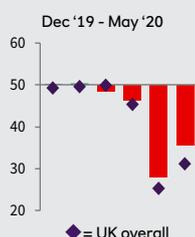
Small construction companies are still downbeat overall about their prospects of growth. The degree of pessimism about the year ahead outlook worsened since April, which was mainly attributed to anxiety about inflows of new work.

Small firms commented on worries in relation to new project cancellations, uncertain cash flow projections and the potential for greater competition with larger construction companies if tender opportunities diminish across the sector.

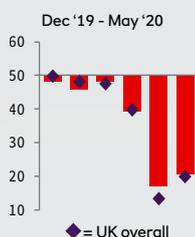
Business Activity Index



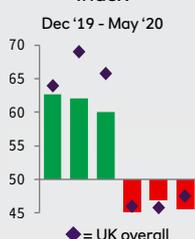
Employment Index



Suppliers' Delivery Times Index



Future Activity Index



Business Activity Index

20.3
sa, >50 = growth since previous month
May '20



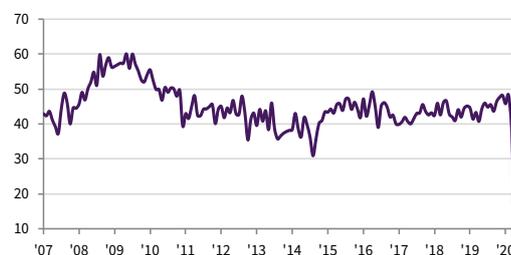
Employment Index

35.6
>50 = growth expected over next 12 months
May '20



Suppliers' Delivery Times Index

20.7
sa, >50 = growth since previous month
May '20



Future Activity Index

45.7
sa, >50 = growth since previous month
May '20



May's Small Business PMI tells us that we've turned a corner. Now it's time to find a route to recovery.

Stephen Blackman



Researching the economic impact of COVID-19 has become a discipline more akin to historical enquiry than quantitative analysis. We have access to official records, and yet they only tell us so much.

To gain a richer picture we also need to hear from the forgotten voices, such as those businesses temporarily closed. And we also need to gauge what choices firms are likely to make as the support initiatives, including the Job Retention Scheme, start to unwind. Only then will we begin to see the scale of scarring left by COVID-19 across the UK economic landscape.

During crises surveys signal mood as much as activity. And the slight uptick in May's Small Business PMI tells us that, at least, the worst should be behind us. ONS data shows there has been a steady, if modest, rise in the proportion of firms that are actively trading, from just 77% in early April to 82% in the fortnight between May 4th-17th. Manufacturers saw the biggest increase, with 92% now operational again. But more than one-quarter of all businesses (25.7%) have experienced a fall in turnover exceeding 50%. Official data shows that turnover in services fell by 33% between March

and April, with cash running through the metaphorical tills down £59bn. Similarly, turnover in production fell by 35%, or £16bn.

The pandemic's longer term and wider impacts depends, in large part, on the scale of permanent job losses as businesses operations and models adapt to new rules, behaviours and options. As the survey highlights, the furloughing schemes have been instrumental in limiting the scale of job losses across the UK. The question is, what happens as these schemes unwind? And here the news is mixed.

More than a third of small business in services expect a further reduction in activity this year. Yet, fewer firms now anticipate a reduced workforce than they did in April and there's even tentative signs, via VAT reports, that new businesses are starting (though modestly, it must be stressed). Finally, it's worth noting that most of this occurred before further easing in lockdown measures. Directionally, the report is just what we hoped to see. It now needs to accelerate.

Stephen Blackman
Principal Economist
NatWest

Applications to government support schemes, by percentage of businesses

ONS Business Impact of Coronavirus (COVID-19) Survey, 4 May - 17 May 2020



Source: Office for National Statistics

Special focus: UK small business employment

Small enterprises account for more than 8 million jobs

Latest data from the Office for National Statistics (ONS) show that almost one-third (30%) of people employed in the UK private sector are working at a small business. This accounts for an estimated 8.3 million employee jobs.

For a number of sectors, particularly agriculture and fisheries and 'Other Service Activities' – which includes repair workshops and personal services such as hairdressers – small businesses account for more than four-in-ten jobs.

The sector with the largest number of people employed by small businesses is Wholesale & Retail, which accounts for around 1.5 million jobs. In second place is accommodation and food services, where small firms account for just over 1 million employees, followed by professional, scientific and technical activities (around 970,000 employees).

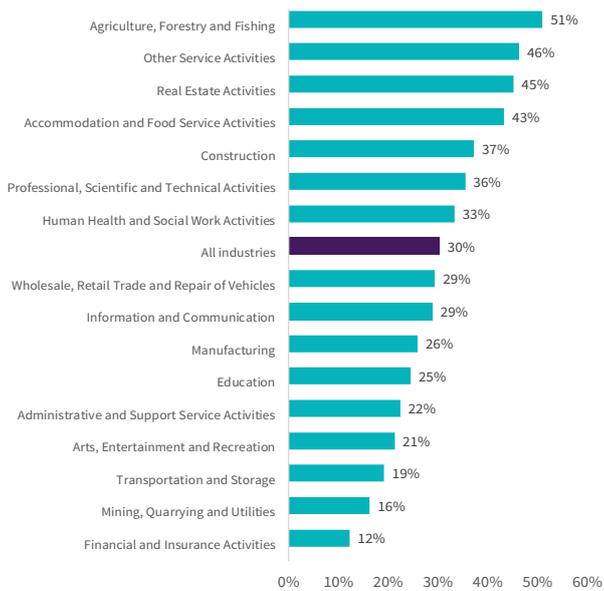
Employment footprint is greatest outside London

Small businesses play a vital role in regional employment across all areas of the UK. Northern Ireland has the highest share of employment in small businesses (41%), followed by Wales at 39%. Relatively high numbers of people are also employed by small businesses in the South West (36%) and Scotland (35%). In each of these areas, accommodation and food services have a particularly large economic footprint, as well as the agriculture and fisheries sector.

With its large number of international head offices and a specialism in financial services, London is the lowest ranked region for small business share of employment. Still, almost 1.4 million people in the capital are employed by small firms. This figure is up by more than 40% in the past ten years and represents the strongest growth of any region.

Sector share of employment (2019)

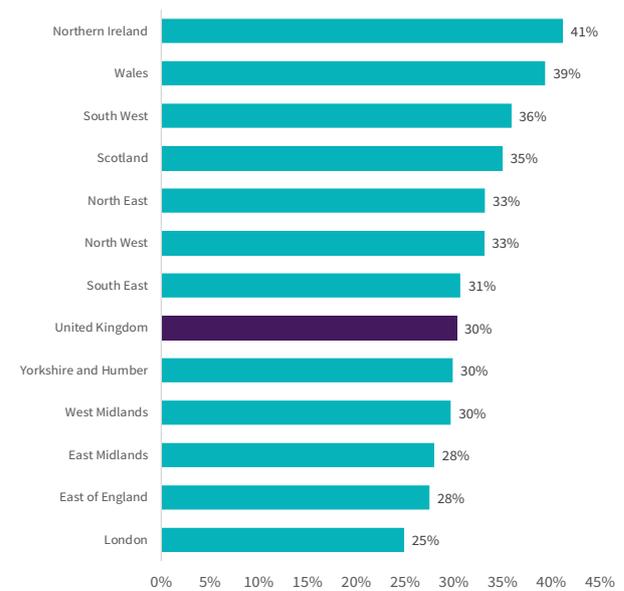
Proportion of jobs in enterprises with 1-49 employees



Source: Office for National Statistics, Business Population Estimates 2019.

Regional share of employment (2019)

Proportion of jobs in enterprises with 1-49 employees



Source: Office for National Statistics, Business Population Estimates 2019.



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 32% in the two weeks to 17th May 2020. These figures relate to businesses that have continued to trade during the COVID-19 crisis.

The share of employees on furlough among SMEs was in excess of that reported by large businesses (26%). 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 has resulted in fewer overall job losses among small enterprises.

A little over 80% of SMEs had at least one member of staff on furlough, according to the breakdown of data by company workforce size.

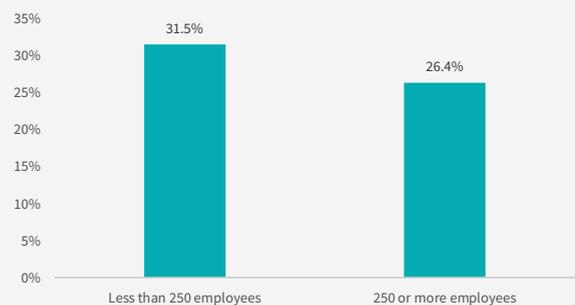
At the regional level, the South West has seen the greatest proportion of businesses (88%) apply for the job retention scheme, largely reflecting the pandemic's severe impact on travel and tourism. By sector, accommodation and food services has seen by far the greatest use of furlough.

Survey data from the Office for National Statistics also highlights a contrast in cash reserves between different sized enterprises. Around 30% of SMEs believe their reserves will last three months or less, while the same figure for large businesses is 20%.

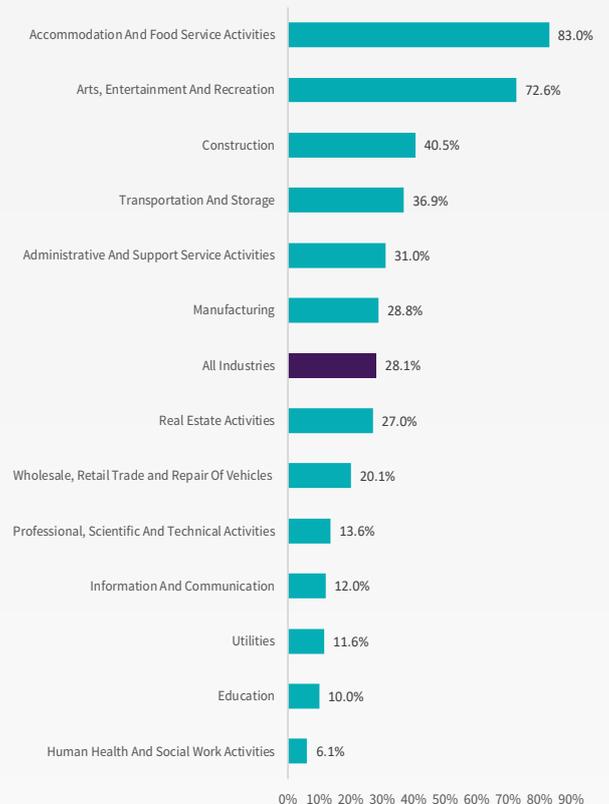
Turning to the government's two main lending schemes aimed at SMEs – the Coronavirus Business Interruption Loan Scheme (CBILS) and the Bounce Back Loan Scheme (BBLs) – a total of more than £36bn has so far been approved, across over 900,000 businesses as of 14th June.

Lending through the Bounce Back Loan Scheme (BBLs) is now £26.3bn. For the Coronavirus Business Interruption Loan Scheme (CBILS), the value of approved facilities is £10.1bn. This figure is greater than the £1.8bn in loans provided to large firms through the Coronavirus Large Business Interruption Loan Scheme (CLBILS).

Proportion of workforce on furlough leave, by company size
4 May to 17 May 2020



Proportion of workforce on furlough leave, by sector
4 May to 17 May 2020



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

About the Small Business PMI[®] report

The NatWest UK Small Business PMI[®] is a new monthly index designed to monitor business conditions reported by enterprises with 1-49 employees.

The headline figure from the survey is the All-Sector Small Business Activity Index. This measures changes in the total volume of business activity at small enterprises across the manufacturing, services and construction sectors.

NatWest UK Small Business PMI[®] data are compiled from responses to questionnaires sent to companies with 1-49 employees that participate in IHS Markit's monthly Purchasing Managers' Index[®] (PMI[®]) surveys.

Survey responses are collected by IHS Markit in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum

of the percentage of 'higher' responses and half the percentage of 'unchanged' responses.

The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

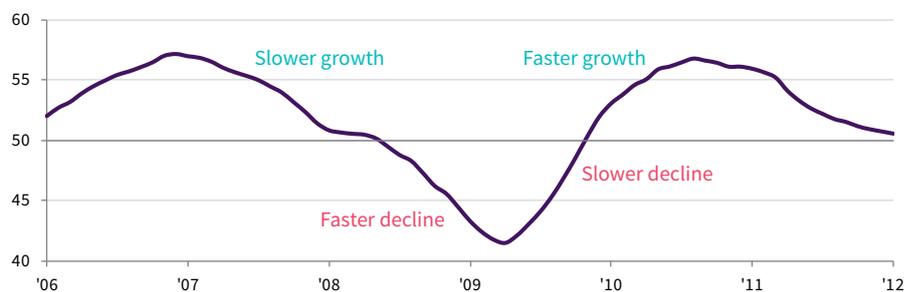
Monthly indices are compiled for a range of survey variables, including business activity, new orders, employment, input costs, prices charged, suppliers' delivery times and future activity.

The survey data for May were collected 12 – 28 May 2020. Historical data are available from January 1998 for the All-Sector Small Business Activity Index.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

Index interpretation

50.0 = no change since previous month



Index summary

NatWest UK Small Business PMI® (All-Sector)

sa, 50 = no change over previous month. *50 = no change over next 12 months.

	Activity	New Business	Suppliers' Delivery Times	Future Activity	Employment	Outstanding Business	Input Prices	Prices Charged
Dec '19	46.7	47.2	47.3	65.6	49.8	44.1	58.1	51.6
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

NatWest UK Small Business PMI® (by sector)

	All-Sector Business Activity	Service Sector Business Activity	Manufacturing Business Activity	Construction Business Activity
Dec '19	46.7	47.0	46.4	43.9
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

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About NatWest

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

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

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

About IHS Markit

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

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About PMI

Purchasing Managers' Index™ (PMI™) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.

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