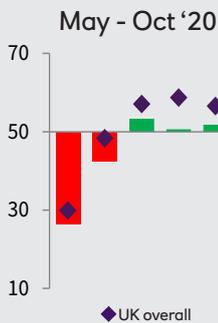


# NatWest UK Small Business PMI<sup>®</sup>

## Small firms in renewed downturn during October

### UK Small Business Activity Index



### Key findings

Business activity for small businesses contracts for the first time since June

Small service providers hardest hit by tighter restrictions

Larger businesses and wider private sector, however, remain in growth

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

October data highlighted a reversal of fortunes for UK small enterprises, with overall business activity declining for the first time in four months. This contrasted with a steady recovery during the third quarter of 2020 and was led by shrinking service sector output.

At 47.0 in October, down from 51.8 in September, the headline All-Sector Small Business Activity Index registered below the 50.0 no-change level and remained weaker than the equivalent index for the UK private sector as a whole (52.2 in October).

Service providers with less than 50 employees were the hardest-hit in October (index at 46.8). The rate of decline exceeded that reported by small manufacturing (47.1) and construction firms (48.7).

Consumer-facing service providers widely linked lower output to tighter restrictions on social mobility and hospitality amid a resurgence in the coronavirus 2019 (COVID-19) pandemic. Consequently, many small service sector firms saw a downturn in forward bookings even before the announcement

of circuit breakers and national lockdown measures across the UK.

Small manufacturing companies experienced a renewed drop in output during October, which contrasted with growth across the sector as a whole. Falling production was mostly attributed to weak customer demand due to the pandemic, although in some instances manufacturers simply cited an end to working through backlogs from the spring.

Construction was more resilient than other parts of the economy in October, but small companies continued to trail behind larger enterprises. Lower levels of activity were partly linked to the completion of catch-up work, according to survey respondents.

Employment trends among small companies remained less negative than those reported by larger enterprises during October. The overall rate of job shedding at small firms was only slightly faster than in September, but still much softer than in the second quarter of 2020.

Despite seeking to retain staff where possible through the pandemic, latest data indicated that year-ahead business expectations among small firms (index at 61.0) continued to trail well behind those seen across the UK private sector as a whole in October (66.9).

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



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# Foreword



The latest data from our NatWest UK Small Business PMI index shows that small businesses saw weakened activity in October. We know that this slowdown can be largely attributed to external factors such as tighter restrictions and uncertainty over local and national lockdowns.

It's not unsurprising that small firms in the services sector have been the hardest hit in October as restrictions on trading have translated into an impact on their bottom line. We can be in no doubt that small businesses are operating in a challenging environment, having to reforecast cash flow and pivot their business models to adapt to the latest rules and regulations. This is why we will continue to support our customers through the various government loan schemes, including the recent top up process for Bounce Back Loans. To date, we have approved over £13 billion of loans under the schemes to support our business customers through this difficult and stressful time.

We know small businesses face different challenges to their larger competitors when trying to pivot

back to growth. This can be seen in our latest PMI data which shows that even though small business activity has contracted for the first time since June, larger businesses and the wider private sector, however, remain in growth – albeit slightly muted from the month before.

Recognising these differences, I'm proud to be able to launch our NatWest SME Transformation Taskforce initiative alongside the publication of this report. Our launch meeting will bring together policymakers, business groups, and others to share insights and discuss what information and support we can collectively give SMEs to help them through this continuing period of uncertainty. We will be focusing on finding solutions to facilitate growth back into this key segment of our economy. And while the recent news of the development of a vaccine has brought glimmers of hope back to the economy, we are not back in growth yet so we need to do all we collectively can to support our SMEs.

**Andrew Harrison**  
Head of Business Banking  
NatWest

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

## Consumer services hit by tighter restrictions in October

Service providers with 1-49 employees reported a decline in business activity for the first time in four months. This was signalled by the seasonally adjusted index dropping from 51.3 in September to 46.8 in October. Any figure below 50.0 indicates a reduction in business activity. The renewed downturn among small firms contrasted with modest growth across the service sector as a whole (equivalent index at 51.4 in October).

Small enterprises in the service economy almost exclusively linked lower activity to the impact of the COVID-19 pandemic, particularly in relation to local lockdowns, tighter rules on social mobility and new restrictions on hospitality trade.

Business-to-business service providers often noted greater hesitancy among clients amid concerns about the trajectory of the pandemic. Some small firms also commented that home working had made it more difficult to build sales pipelines and engage with prospective clients.

### Redundancies remain less prevalent than at larger companies

October data indicated another decline in staffing numbers among small service providers, but the rate of job cuts remained much softer than reported by larger companies. Survey respondents typically commented on redundancy measures due to lower levels of turnover since the start of the pandemic.

### Optimism at five-month low

Business expectations regarding the year-ahead outlook continued to ease from the recent peak seen in July. Moreover, small service providers were much less positive about their prospects for growth than larger enterprises during October.

Business Activity Index  
sa, >50 = growth since previous month  
46.8  
Oct '20



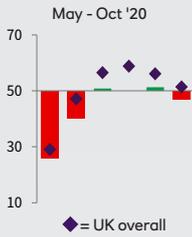
Employment Index  
sa, >50 = growth since previous month  
46.7  
Oct '20



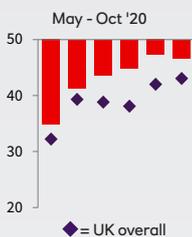
Future Activity Index  
>50 = growth expected over next 12 months  
58.6  
Oct '20



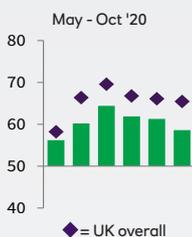
Business Activity Index



Employment Index



Future Activity Index



# Small Business PMI®: Manufacturing Sector

## Production levels fall in October

Manufacturing output among small enterprises (those with 1-49 employees) decreased for the first time in four months during October. At 47.1, down from 52.7 in September, the seasonally adjusted index signalled a modest rate of contraction. The index remained much weaker than the equivalent for the UK manufacturing sector as a whole (55.8 in October).

Survey respondents primarily commented on weak underlying customer demand due to the pandemic. In some cases, small manufacturers also cited a drop-off in production volumes as backlogs from the lockdown period started to clear.

## Slower decline in staffing numbers

At 46.2 in October, the seasonally adjusted Employment Index registered below the 50.0 no-change threshold for the eighth consecutive month. However, the rate of job shedding eased since September and was slightly less marked than seen among larger manufacturing companies.

Where a decline in employment was reported, survey respondents mostly attributed this to staff redundancies in response to depleted order books. Anecdotal evidence also cited a general reluctance to replace voluntary leavers amid heightened uncertainty about the economic outlook.

## Supplier lead times lengthen to greatest extent since June

October data pointed to a steep and accelerated downturn in vendor performance. The latest lengthening of lead times for manufacturing inputs was the sharpest since June, which was often linked to capacity constraints and low stocks after shutdowns among suppliers earlier this year. A similarly steep downturn in vendor performance was also reported by larger UK manufacturers during the latest survey period.

## Small firms remain less optimistic than the rest of the manufacturing sector

The number of small manufacturers expecting output growth during the next 12 months continued to exceed those forecasting a decline. However, at 68.9 in October, the Future Activity Index was much lower than the equivalent figure for the UK manufacturing sector as a whole (75.2), which suggested that smaller enterprises remain more cautious about their recovery prospects during the year ahead. Subdued demand as a result of the pandemic and worries about the impact of Brexit were commonly cited as factors likely to restrain output growth.

Business Activity Index  
sa, >50 = growth since previous month  
47.1  
Oct '20



Employment Index  
sa, >50 = growth since previous month  
46.2  
Oct '20



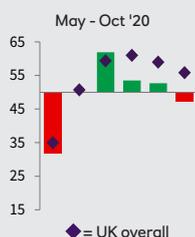
Suppliers' Delivery Times Index  
sa, >50 = faster times since previous month  
36.9  
Oct '20



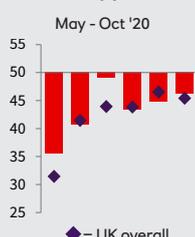
Future Activity Index  
>50 = growth expected over next 12 months  
68.9  
Oct '20



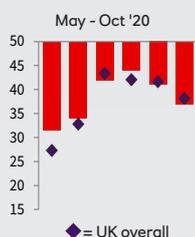
Business Activity Index  
May - Oct '20



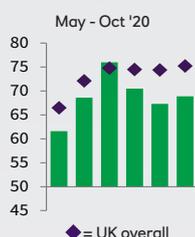
Employment Index  
May - Oct '20



Suppliers' Delivery Times Index  
May - Oct '20



Future Activity Index  
May - Oct '20



# Small Business PMI®: Construction Sector

## Recovery stalls as catch-up work nears completion

October data indicated a marginal decline in total construction activity among small enterprises, which ended a three-month period of solid expansion. Survey respondents often noted a reduced contribution from catch-up work on projects that had been delayed at the start of the pandemic. Some construction firms also commented on a temporary slowdown due to longer decision-making among clients.

Across the construction sector as a whole, there were divergent trends across the three main areas of activity monitored by the PMI survey. Another sharp rise in house building helped to offset subdued workloads in both the commercial and civil engineering categories during October.

### Staffing levels fall only marginally

Small construction companies continued to retain staff to a greater degree than larger enterprises in October. The latest survey indicated only a slight fall in employment levels, which was mainly linked to the non-replacement of voluntary leavers. Meanwhile, larger construction companies typically attributed reduced payroll numbers to cost cutting initiatives and subsequent rounds of redundancies.

### Availability of materials worsens

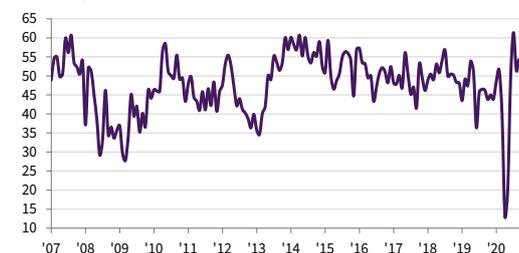
Suppliers' delivery times lengthened substantially in October, with small construction companies widely noting that demand for inputs had outstripped availability. Timber and plaster were the most commonly cited items in short supply. Shortages of construction products and materials resulted in stronger input cost inflation during October. The latest rise in purchasing prices was one of the fastest seen in the past one-and-a-half years.

### Business expectations rebound

The proportion of small construction firms expecting an increase in business activity over the next 12 months (50%) exceeded those forecasting a decline (13%). Moreover, the latest survey indicated that the degree of optimism climbed to its highest since April 2018 and was stronger than seen among larger construction companies.

Growth expectations for the year ahead were linked to a general improvement in tender opportunities and hopes of a sustained recovery in construction work beyond the summer period of pent up demand. However, survey respondents also noted that the business outlook was still highly uncertain, especially given the trajectory of the pandemic and its impact on the wider UK economy.

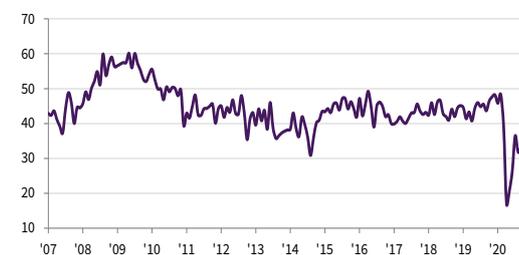
Business Activity Index  
sa, >50 = growth since previous month  
48.7  
Oct '20



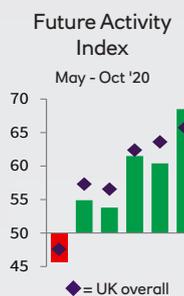
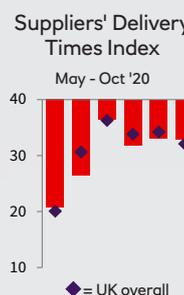
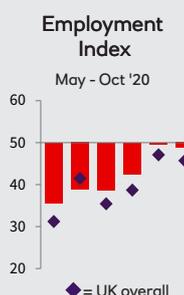
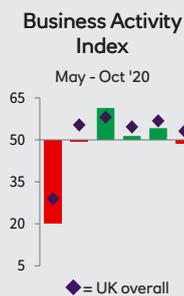
Employment Index  
sa, >50 = growth since previous month  
48.8  
Oct '20



Suppliers' Delivery Times Index  
sa, >50 = faster times since previous month  
32.9  
Oct '20



Future Activity Index  
>50 = growth expected over next 12 months  
68.5  
Oct '20



## October saw end to the three-month running streak of positive prints

Stephen Blackman



The short-lived recovery in UK SME business output came to an abrupt halt in October as the introduction of a new three tier local lockdown across England took its toll on activity. In an ominous portent, the Small Business PMI dipped back into contraction territory in October (47.0 vs. 51.8 in September), ending a three-month running streak of positive prints. It's likely larger firms, will soon follow.

On a sectoral basis, weakness was widespread across manufacturing, construction and services. However, it was consumer-facing service sector firms that reported the biggest hit. A similar picture emerges from the Federation of Small Businesses' latest quarterly survey. Business sentiment took a further lurch downwards in Q3 2020 as uncertainty persists.

Further pain lies ahead. England is now in a second national lockdown, provisionally ending December 2nd at the earliest. Wales and Scotland have followed their own paths to contain a resurgence of Covid-19 – the former unveiled a two week “circuit breaker” whilst the latter established a five-tier system. And as a sign of things to come, and coinciding with the introduction of England's Lockdown 2.0, official data tells us that retail footfall fell to just 1/3rd the level enjoyed on the same day in 2019.

And so, the ghost of Christmas future hovers over vulnerable retailers as they prepare for the crucial Christmas trading period. Separate data from NatWest Group showed our largest cities are seeing sharp falls in spending on eating out and other local services, like hairdressers. This is backed up by consumer surveys for October reporting spending on restaurants, and particularly entertainment dropped further

in October as local restrictions started to bite. Takeaways and digital subscriptions, in contrast, are on the up as the stay-at home mentality persists, highlighting shifting patterns in spending habits. The ONS reported the number of people travelling to work dipped in late October to 56%, its lowest level since mid-August.

News that the government will extend the Job Retention Scheme (JRS) to the end of March 2021 should soften the blow on the service sector. A few months ago, Chancellor Rishi Sunak was signalling the JRS would be wound down by the end of October, replaced by the Job Support Scheme. Now there will be a restoration of the previous 80% of wages for hours not worked. This should help Britain's millions of smaller businesses and also mitigate the rise in the unemployment rate in coming months.

All in all, small firms in the service sector face a bleak midwinter. Business confidence looks set to remain in the doldrums, keeping companies in a cautious mode amid continued weak demand and nervousness about a potential no-deal Brexit. Latest press reports of a vaccine being rolled out in early 2021, if not earlier, points to light at the end of the tunnel for struggling UK SMEs. But it's still early days.

**Stephen Blackman**  
Principal Economist  
NatWest

## Special focus: UK business outlook

### Small firms relatively upbeat on employment, but expect to rein in investment spending

Net balance expecting higher employment in next 12 months



English regional data refers to small firms.

Source: IHS Markit UK Business Outlook Survey.  
Data collected tri-annually.

In this section we look at small firms' expectations for employment, profitability and investment over the next 12 months. All figures are presented as net balances and derived from IHS Markit's UK Business Outlook survey.

We find that small firms are more optimistic about expanding workforce numbers in the year ahead than the average UK business, but generally show a subdued appetite for future investment amid weaker profitability forecasts relative to larger companies.

Following severe job cuts since the onset of the COVID-19 pandemic and widespread use of furlough, October saw UK businesses signal their intention to increase employment modestly over the next 12 months (net balance: +5%). This was a change of direction from the situation this summer, when employment intentions hit a survey-record low (-9%).

Small firms (+9%) were more optimistic towards future hiring than their larger counterparts in October, a pattern seen across both manufacturing and services. The most downbeat jobs forecasts were signalled by large service providers (-12%).

Among companies with 1-49 employees, those operating in the Midlands are the most confident about adding to their payroll numbers (+12%) in the year ahead, followed by firms in the South of England (+11%) and then the North (+9%).

#### Small enterprises cautious about profitability

Reflecting their more positive hiring intentions, small businesses anticipate

a steeper rise in staff costs during the coming year than larger companies. The latest survey also showed that they are less confident about being able to increase their prices charged for goods and services.

As a result, October data reveal a relatively subdued outlook for profitability among small businesses over the next 12 months. While firms with 1-49 employees predict a rise in profits (net balance: +11%), they are much less optimistic than both medium-sized (+22%) and large businesses (+24%).

Regional data suggested that the most upbeat area for small business profitability was among manufacturing firms in the South (+43%), which exceeded the equivalent forecasts in the North (+31%) and Midlands (+31%) by a wide margin.

#### Investment by small firms expected to fall

The positive outlook for hiring among small firms contrasts with comparatively weaker investment plans. Net balances of -12% for capital expenditure and -8% for research & development were recorded in October. This compared with figures of -10% and -6% respectively for the UK as a whole.

The decline in future capex among small firms is set to be centred on the services economy (-15%), while manufacturers are moderately upbeat (+4%).

Regional data showed that the South of England's manufacturing sector is a relatively bright spot for investment plans among small firms, recording above average net balances for both capex (+11%) and R&D (+5%).



## Special focus: Working capital

# Intense pressure on working capital in October, with service sector firms reporting most acute challenges

In this section we look at working capital pressures reported by UK private sector firms of all sizes during the COVID-19 pandemic, as well as their expectations for the year-ahead. All figures are compiled from IHS Markit's UK Business Outlook survey.

October data illustrate a surge in the number of firms reporting longer customer payment times, especially those in the service sector. On a more positive note, cash flow expectations for the next 12 months have improved from June's low point.

Worries about future customer payment delays receded in all major sectors monitored by the survey during October. At the same time, plans to delay payments to suppliers have become less prevalent.

October data pointed to a steep increase in pressure on working capital at UK private sector companies since the onset of the COVID-19 pandemic. More than one-third (36%) of UK private sector firms reported longer payment times from customers during the past 12 months, while only 4% noted an improvement. The number of firms reporting longer cash collection times was up from 33% in June and just 25% on average in 2019.

Service providers bore the brunt of longer wait times for payments from clients in the 12 months to October. This was a turnaround in historical trends, with construction firms typically reporting the most widespread delays prior to the pandemic. Around 37% of service sector respondents noted that customer payment times had lengthened in the last year, a sharp increase from 26% in February, and higher than both construction firms (32%) and goods producers (30%) in October.

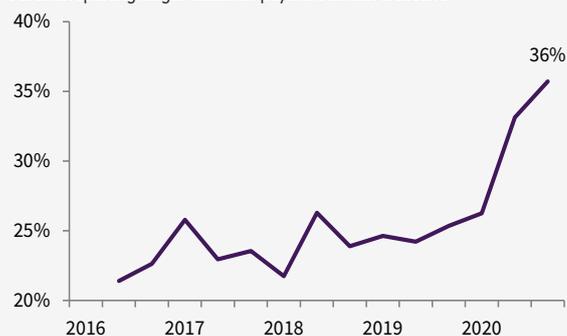
Pressure on working capital from client delays had a knock-on impact on suppliers, with 15% of UK private sector companies reporting that they had taken longer to pay invoices in the last 12 months. While only a minority of respondents, the number reporting slower payment times was notably higher than the 2019 average (9%). The share of service providers reporting extended payment times to suppliers (16%) was the highest of the three monitored sectors and double that seen last year (8%).

Looking ahead, survey respondents remain concerned overall about their cash flow. Around 34% of UK private sector firms expect a lengthier wait for client payments over the coming 12 months, while only 3% foresee an improvement. However, all three main sectors indicated that concerns about future payments times from customers had receded from June's peak. Plans to lengthen payment times to suppliers also dropped back, from 14% of firms in June to 10% in October.

Meanwhile, manufacturing companies intend to boost their inventories in the next 12 months, adding to pressure on working capital. At 32% in October, the portion expecting to accumulate pre-production inventories was the highest since February 2019. Supply chain difficulties since the pandemic and renewed Brexit uncertainty were the main reasons for stock building plans, according to survey respondents.

Customer payment times: past 12 months

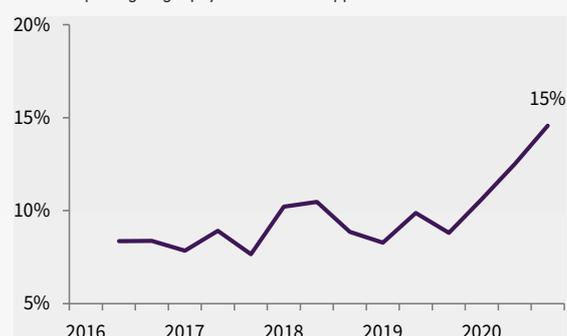
Percent reporting longer customer payment times. All sectors



Source: IHS Markit UK Business Outlook Survey. Data collected tri-annually.

Payment times to suppliers: past 12 months

Percent reporting longer payment times to suppliers. All sectors



Source: IHS Markit UK Business Outlook Survey. Data collected tri-annually.

Expected payment times: next 12 months

Percent expecting longer payment times. All sectors



Source: IHS Markit UK Business Outlook Survey. Data collected tri-annually.

## 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.

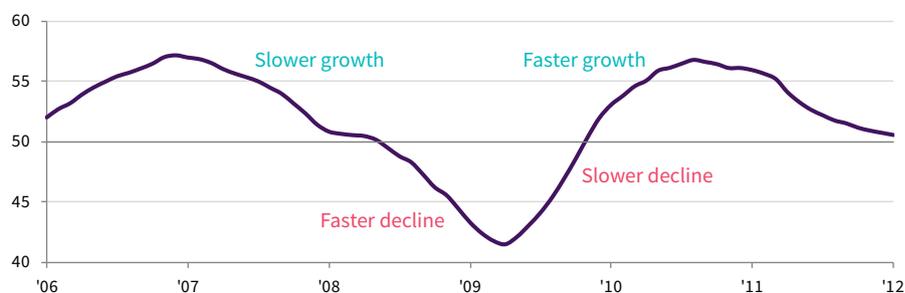
The survey data for October were collected 12 – 29 October 2020. Historical data are available from January 1998 for the All-Sector Small Business Activity Index.

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
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
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

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

	All-Sector Business Activity	Service Sector Business Activity	Manufacturing Business Activity	Construction Business Activity
May '20	26.3	25.9	31.6	20.3
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

## Contact

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

Phil Smith  
Associate Director  
IHS Markit  
+44 1491 461 009  
[phil.smith@ihsmarkit.com](mailto:phil.smith@ihsmarkit.com)

Katherine Smith  
Public Relations  
IHS Markit  
+1 (781) 301-9311  
[katherine.smith@ihsmarkit.com](mailto:katherine.smith@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<sup>™</sup> (PMI<sup>™</sup>) 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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