

18 October 2024

NatWest UK SME Growth Tracker

Staff hiring remains a bright spot for SMEs, despite a dip in business activity in September



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About the report

The NatWest SME Growth Tracker is a quarterly report designed to monitor business performance at UK enterprises with 1-249 employees. The report tracks monthly changes in business activity, demand, employment, supply chains, prices and the year-ahead outlook.

The data are compiled from companies that participate in S&P Global's UK services, manufacturing and construction PMI surveys. For more reports and insight, visit www.natwest.com/business/insights/economics



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Key findings

September 2024

SME Growth Tracker signals marginal drop in output

Employment and new business continue to rise

Inflationary pressures soften in comparison to first half of 2024

Year-ahead output growth expectations remain upbeat

NatWest UK SME Business Activity Index
September 2024

49.3

The SME Business Activity Index is a diffusion index calculated from companies' responses to a question on monthly changes in the volume of business activity. The index varies between 0 and 100 and is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. A reading above 50 indicates an increase compared to the previous month, and below 50 a decrease. The index is seasonally adjusted.

Data compiled 12-27 September



UK overview

The NatWest SME Growth Tracker is a quarterly report, designed to monitor business performance at UK enterprises with 1-249 employees.

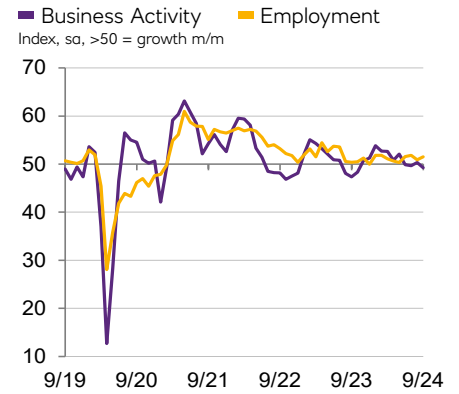
At 49.3 in September, down from 50.3 in August, the headline NatWest SME Business Activity Index posted below the neutral 50.0 threshold for the third time in the past four months. The latest reading was the lowest since October 2023 and signalled a marginal reduction in output levels at small and medium-sized enterprises (SMEs). This contrasted with solid growth across the UK private sector as a whole in September (index at 53.0).

Sector data indicated that the decline in SME output was largely driven by the service economy. Survey respondents often commented on the impact of squeezed household budgets, especially those in consumer-facing

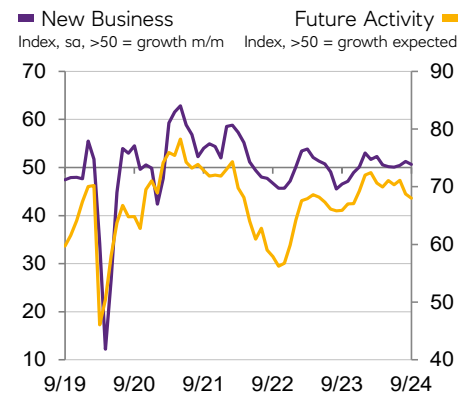
parts of the service sector. SME manufacturers meanwhile cited lacklustre global demand conditions as a factor weighing on production volumes.

SME construction companies bucked the downward trend in September, with output growth accelerating to its fastest since January. Moreover, new business gains were the strongest for two-and-a-half years. Small and medium-sized firms suggested that improving demand for residential work, alongside lower borrowing costs and generally rising client confidence, had helped to boost their order books.

Total new work at UK SMEs increased for the tenth consecutive month, albeit only marginally, which provided a positive signal for near-term growth. Moreover, small and medium-sized businesses continued to recruit additional staff. Higher levels of employment have been recorded throughout 2024 so far



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



Sebastian Burnside, NatWest Chief Economist said:

"Business activity among SMEs has cooled in line with the change of season. However, this slight dip in activity shouldn't hide what are strong signs of underlying good health. Businesses have maintained a strong streak in new orders for 10 months running and employment has been a strong point for SMEs all year. And while

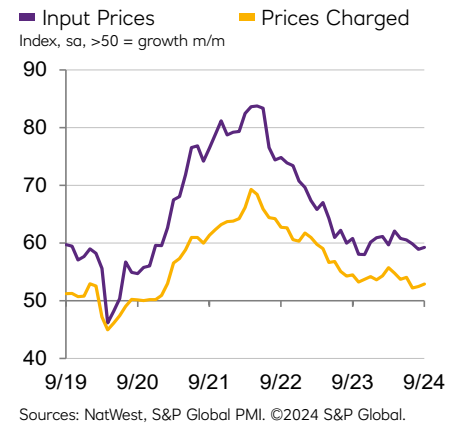
many businesses report their margins remain tight, inflationary pressures have softened since the start of the year."

and the rate of job creation picked up slightly since August. Survey respondents noted cautious efforts to boost operating capacity and meet new workloads, despite a slowdown in business activity in recent months.

Strong margin pressures persisted in September, with higher wages by far the most commonly cited reason for increased costs. Overall input price inflation was nonetheless slightly lower than seen in the first half of the year. Average prices charged by SMEs rose at one of the slowest rates since the start of 2021.

SMEs remained upbeat about their growth prospects for the next 12 months. Optimism was attributed to hopes of a sustained improvement in UK economic conditions, alongside a tailwind to business and consumer spending from lower borrowing costs. However, the overall degree

of positive sentiment slipped to a 10-month low. A number of survey respondents commented on business uncertainty ahead of the Autumn Budget.



James Holian, Head of Business Banking at NatWest said:

"Above all September's survey shows how variable the experience of SMEs is depending on which sector they operate in. Construction firms have just recorded their strongest rise in new work for two-and-a-half years, while services companies have recorded their fastest fall in activity in a year.

"Across the UK, NatWest Group is helping more businesses get

started than any other bank, so we have a deep understanding of the local economies in which they operate as well as the opportunities and challenges they face. We're committed to supporting businesses to thrive and are confident that with our help, businesses can maintain a positive outlook as we move towards the final quarter of this year."

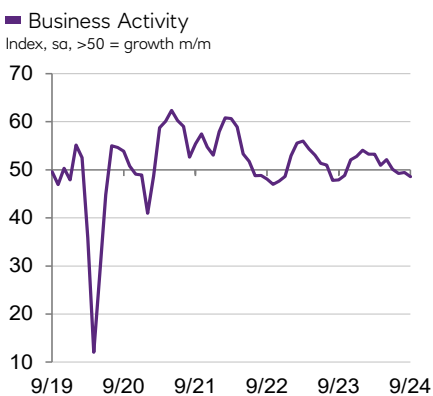


Services

Sharpest decrease in activity for a year

There was a renewed downturn in services activity among small and medium-sized enterprises (SMEs) in the third quarter of the year, with the respective seasonally adjusted index posting below the 50.0 no-change mark in each of the three months to September. Survey respondents cited weak consumer demand and caution from clients ahead of the Autumn Budget.

While the latest monthly decline in activity at SMEs was only modest, it was the quickest for 12 months and contrasted with moderate growth across the UK service sector as a whole.



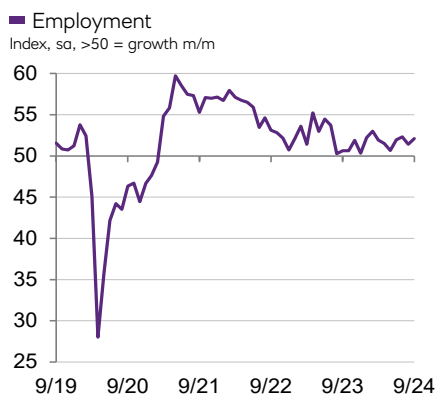
Sources: NatWest, S&P Global PMI. ©2024 S&P Global.

Sustained jobs growth recorded in September

As has been the case in each month since March 2021, SME service providers reported a further uplift in payroll numbers in September. New hires were typically brought in to support firms' growth plans, according to panel member reports. The pace of job creation in September was slightly faster than the long-run average and stronger than seen across the UK service economy as a whole.

Cost pressures intensify

Input costs rose sharply for service providers with less than 250



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.

David Scott, Head of Consumer Industries, NatWest, said:

"Consumers have been hit by three years of disposable income erosion and continued price rises, causing them to reprioritise spending. This has impacted the services industry, which spans sectors such as hotels and restaurants, transport, recreational and sporting activities, as well as financial services including insurance and pension funding. Despite this, the entrepreneurial nature of services operators has seen ongoing investment in staff and sustainable initiatives, and stronger pipelines of new work indicate optimism in the sector."



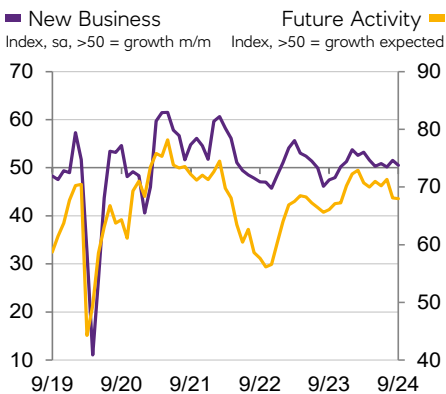
employees in September. This was mainly driven by higher staff wages due to the increased cost-of-living. Some firms also reported increased raw material prices, but others commented on lower fuel costs. The overall rate of cost inflation remained softer than on average in the first half of 2024. Prices charged by SMEs meanwhile increased one of the slowest rates seen since early-2021.

Business confidence below historical average

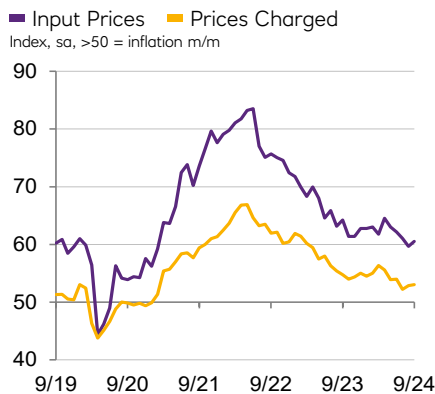
The Future Activity Index for small and medium-sized services firms posted well above the neutral 50.0 mark in September, to signal

confidence in the year-ahead outlook for activity.

Hopes for stronger pipelines of new work, greater business investment and rising headcounts reportedly underpinned optimism. However, the degree of positive sentiment deteriorated for a second successive month to its lowest since November 2023.



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Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



Manufacturing

Renewed drop in output at SME manufacturers

Following a brief spell of growth in August, production volumes at small and medium-sized firms fell slightly in September. Panel members attributed the drop in output to reduced order book volumes amid muted domestic and overseas demand for manufactured items.

Meanwhile, there was a modest decrease in incoming new orders in September, thereby stretching the current run of contraction to four months.

September sees modest job shedding

September signalled ongoing retrenchment of headcounts at manufacturing sector SMEs. Survey respondents mostly linked the decrease in staffing numbers to the non-replacement of leavers, in part due to elevated wage costs. The rate of job shedding was nonetheless only modest.

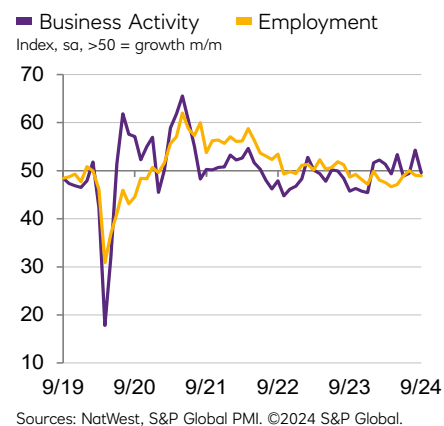
Confidence dips to lowest in 2024 so far

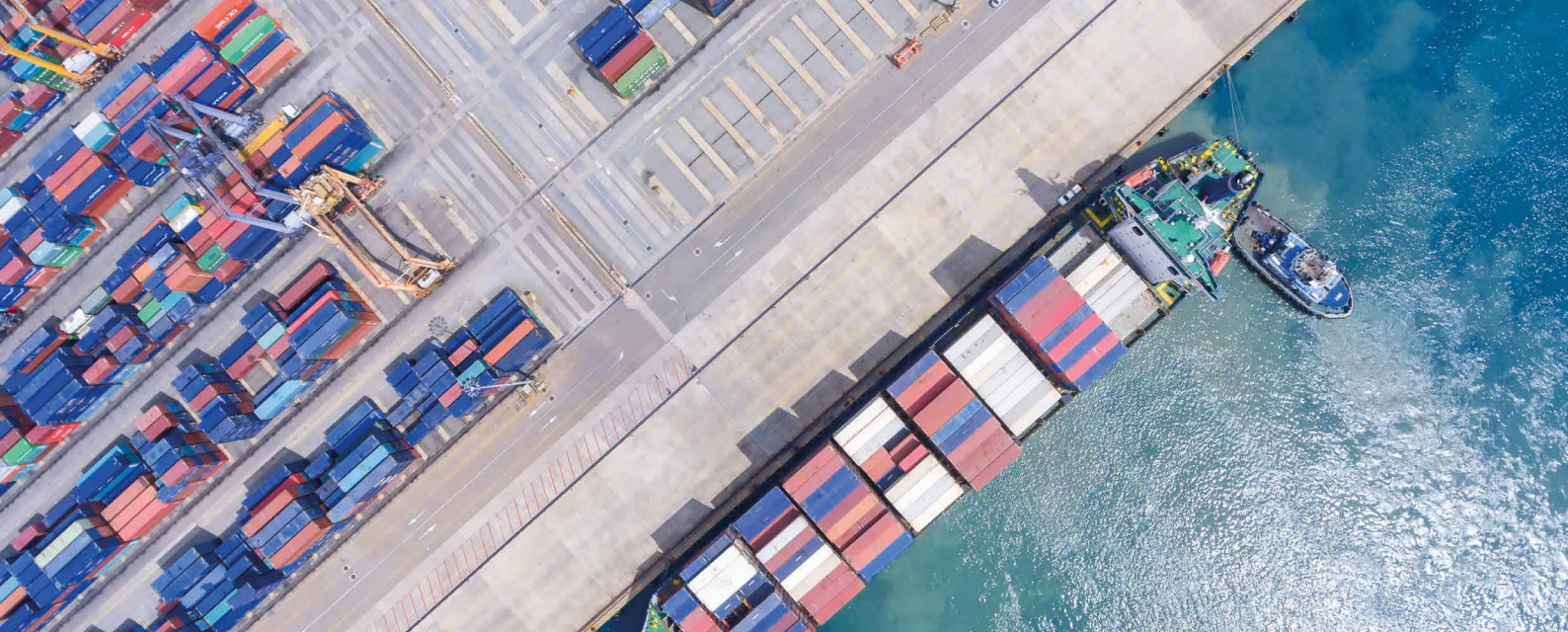
SME manufacturers remained confident of a rise in output from present levels over the next 12 months. New product launches, marketing efforts and firms' long-term business expansion plans were cited as reasons for optimism.

However, the degree of positive sentiment fell to its lowest in the year-to-date, which mirrored the weaker trend seen across the manufacturing sector as a whole in September.

Input price inflation cools to six-month low

September data signalled a further uplift in operating expenses faced by SME manufacturers. Panellists mentioned higher shipping fees, energy costs and raw material prices, due to tighter supply conditions. Some firms also noted higher packaging costs, reflecting increased paper and cardboard prices.





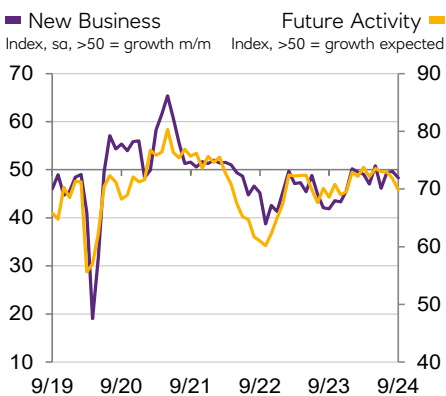
The overall rate of cost inflation was nonetheless the least pronounced since March and lower than across the manufacturing sector as a whole.

SME goods producers passed through some of the cost burden to customers by increasing their selling prices in September. The rate of charge inflation was only modest and the softest since May.

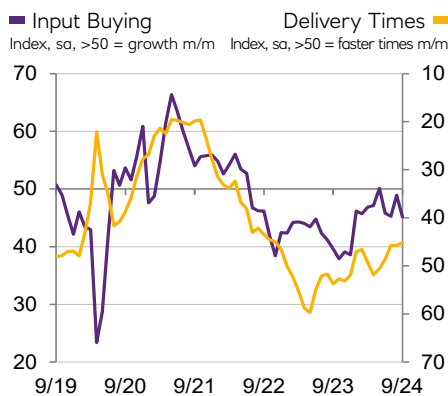
Laura Capper, Head of Construction and Manufacturing at NatWest comments:

"While the drop in output and new orders is certainly a challenge for SME manufacturers, it's encouraging to see that the reduction in staffing remains modest, and confidence in future growth remains. The focus

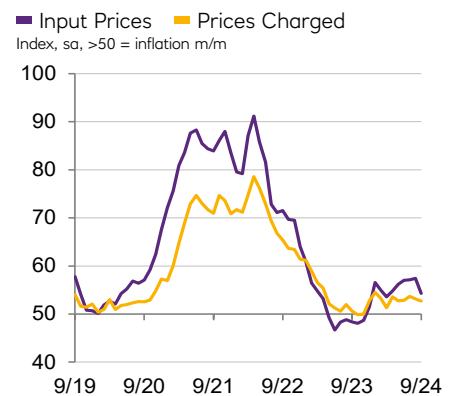
on new product launches and strategic business expansion plans shows that many firms are still positioning for long-term success, despite current headwinds. Additionally, the cooling of input price inflation offers relief, allowing manufacturers to better manage costs and remain competitive as they navigate this period of softer demand."



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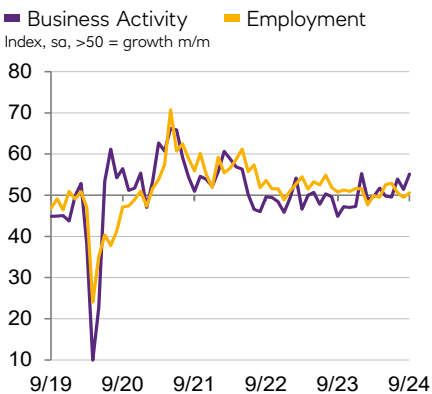
Construction

Strongest rise in new work since March 2022

Latest data pointed to a robust and accelerated rise in total construction activity among SMEs. Moreover, the rate of expansion was the fastest since January. Firms often linked the rise in activity to improved demand for construction work and an influx of new contracts, in part due to a post-election rebound in clients' willingness to spend. Total new business expanded at the sharpest pace for two-and-a-half years in September.

Marginal upturn in employment numbers

Headcounts at SME construction

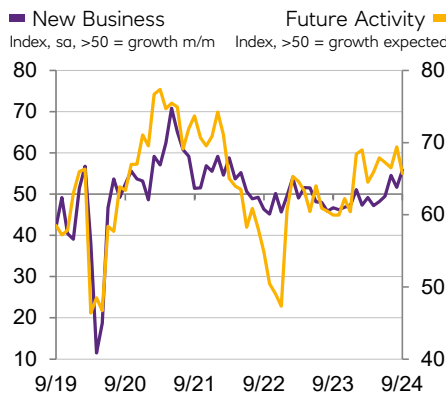


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firms were raised slightly in September. Overall employment has now increased in four of the past five months, mostly reflecting greater workloads and efforts to boost business capacity.

Optimism slips below long-run series average

The index measuring business expectations over the next 12 months remained firmly in positive territory in September. Constructors attributed confidence to improving domestic economic conditions, stronger demand for new house building projects and hopes of healthier order book volumes. That said, the degree of optimism eased from August's 30-month high to its



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.

Laura Capper, Head of Construction and Manufacturing at NatWest comments:

"September's rise in construction activity among SMEs is a clear sign that demand is rebounding, driven by new contracts and a renewed willingness to invest after the election. While the sector is seeing growth, particularly in new housing projects, the pressure from rising material costs remains a concern. Managing these cost increases will be key for SMEs to sustain momentum in the months ahead, but the positive outlook and increasing workloads suggest the sector is on solid ground for continued expansion."

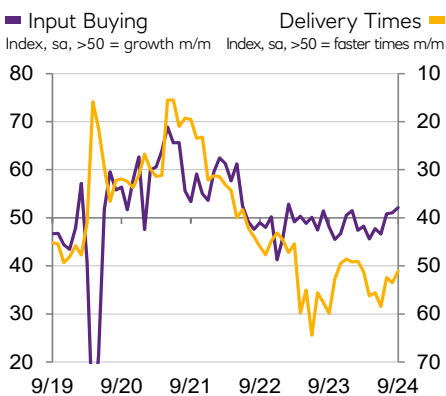


weakest since March.

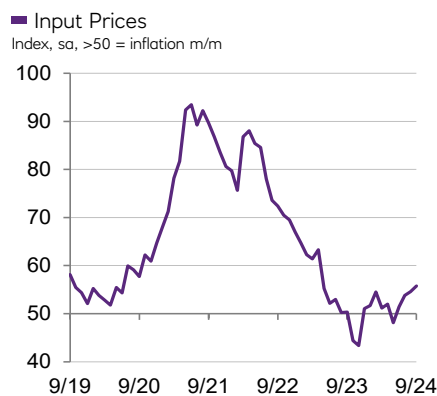
September sees strong rise in input costs

There was a further uplift in operating costs signalled by SME construction companies in September, largely reflecting increased raw material prices. Following four successive monthly rises in the respective seasonally adjusted index, the rate of cost inflation was its strongest for nearly a year-and-a-half.

Meanwhile, SME construction firms indicated that supplier performance improved to the weakest degree since February. This was linked to a renewed upturn in demand for construction products and materials.



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Methodology

The NatWest SME Growth Tracker is a quarterly report designed to monitor business performance at UK enterprises with 1-249 employees.

It is based on responses to questionnaires sent to companies with 1-249 employees that participate in monthly UK Purchasing Managers' Index™ (PMI®) surveys compiled by S&P Global.

The panel of around 850 small and medium sized enterprises is stratified by detailed sector, based on contributions to GDP.

SME survey responses are collected by S&P Global 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 SME Growth Tracker 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.

Indices are compiled for a range of survey variables, including business activity, new orders, employment, input costs, prices charged, outstanding business and future activity.

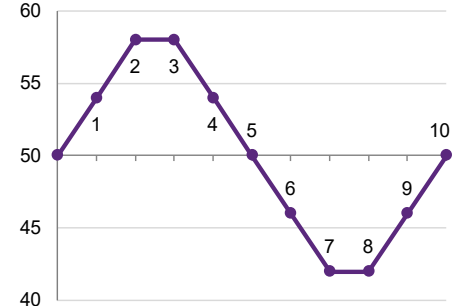
SME Growth Tracker data for September were collected 12 – 27 September 2024. The headline All-Sector Index is available from January 1998.

Manufacturing data are available from January 1992, Services data from July 1996 and Construction data from April 1997.

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

Growth Tracker Index interpretation

Index, sa, >50 = growth m/m



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.

Key

- 1 Growth, from no change
- 2 Growth, faster rate
- 3 Growth, same rate
- 4 Growth, slower rate
- 5 No change, from growth
- 6 Decline, from no change
- 7 Decline, faster rate
- 8 Decline, same rate
- 9 Decline, slower rate
- 10 No change, from decline

Further information

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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.

www.natwest.com/business/insights/economics

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PMI by S&P Global

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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