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Royal Bank of Scotland PMI[®]

Scottish private sector suffers first contraction since February 2021

- **Output contracts during August amid quicker fall in new orders**
- **Growth in employment moderates**
- **Business outlook dampens, as confidence hits 27-month low**

Scottish private firms registered the first contraction in 18 months, according to the latest Royal Bank of Scotland PMI[®] data. The seasonally adjusted headline Royal Bank of Scotland Business Activity Index - a measure of combined manufacturing and service sector output - posted 47.8 in August, down from 50.2 in July. Below the neutral 50.0 threshold for the first time since February 2021, the latest reading indicated a modest decrease in private sector activity. At the same time, inflows of new work fell for the second consecutive month, and that too at a quickened pace. The drop in business requirements allowed firms to work through backlogs, resulting to capacity pressures easing for the third month running. Also, the rate of job creation measured the weakest in 16 months, signalling a slowdown in hiring activity. On the flipside, weakening demand gave a respite to inflationary pressures; input prices rose at the weakest pace in seven months, while firms raised their charges at the second-slowest rate since January.

For the second consecutive month, a contraction was recorded in new business received at the Scottish private sector during August. The rate of decrease quickened on the month as inflows of new orders received at service firms stagnated, while manufacturing companies noted a fourth running month of reduction. According to surveyed businesses, the downturn stemmed from weakening client demand, Brexit, the Ukraine-Russia war, and rising economic uncertainty.

Moreover, the pace of decrease registered across Scotland was stronger than that seen for the UK as a whole.

Expectations towards future activity at Scottish companies moderated during August. The level of positive sentiment dropped to a 27-month low. Rising recession risks, the cost-of-living crisis and declining demand all dampened the 12-month outlook.

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The bank has commitment to retain its close connections with the Scottish communities it serves.

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Scotland registered weaker output expectations than Wales and all English regions except the North East, although it was more optimistic than Northern Ireland.

Scotland's private sector firms raised employment for the seventeenth successive month in August. However, reduced business requirements resulted in a slowdown in hiring growth. The latest reading signalled the softest expansion in workforce numbers since April 2021. Firms also cited hiring difficulties amid a highly competitive jobs market.

The latest upturn across Scotland was softer than that at the UK level.

Backlogs of work at Scottish private sector firms fell in August for the third consecutive month. The rate of depletion quickened marginally on the month as the respective seasonally adjusted Outstanding Business Index was largely pulled down by a sharp drop seen across the manufacturing sector. Respondents noted that reduced order volumes and additional staff allowed them to clear away backlogs.

Overall, the rate of reduction was only marginally faster across Scotland than that seen across the UK as a whole.

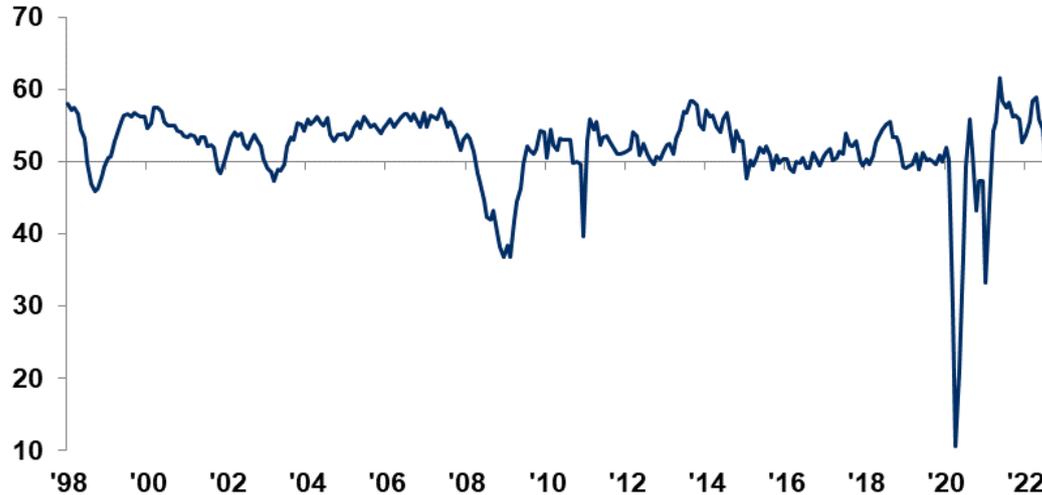
Average cost burdens facing private sector firms in Scotland increased during August, thereby extending the current run of inflation to 27 months. While the rate of input price inflation recorded the weakest in seven months, it remained strong in the context of historical data. COVID, Brexit, the war in Ukraine and rising energy and raw material prices were all in part blamed for the latest incline.

As has been the case for the last 22 months, Scottish private sector firms continued to raise their charges during August. Though the respective seasonally adjusted index posted the second-lowest in seven months, it remained comfortably above the long-run series average. According to panellists, the rise in charges reflected higher input costs.

Scotland registered the weakest increase in charges across all 12 UK areas monitored in August.

Scotland Business Activity Index

sa, >50 = growth since previous month



Source: Royal Bank of Scotland, S&P Global.

COMMENT

Judith Cruickshank, Chair, Scotland Board, Royal Bank of Scotland, commented:

"August data signalled a deterioration across the Scottish private sector, as activity levels fell for the first time in 18 months. Moreover, weak client demand and rising economic uncertainty, with a threat of a recession looming, resulted in falling inflows of new business."

"The latest survey data did indicate some easing of upward pressure on input costs as a result of a reduction in client appetite. Nonetheless, inflation rates remained stubbornly strong."

"Moreover, the contraction across the sector impacted business confidence, which hit a 27-month low during August. Market uncertainties and the cost-of-living crisis heavily weighed on optimism and suggests a gloomy performance in the months ahead."

ENDS

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Notes to Editors

Methodology

The Royal Bank of Scotland PMI® is compiled by S&P Global from responses to questionnaires sent to a panel of around 500 manufacturers and service providers. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP.

Survey responses are collected 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, for the manufacturing and services sectors. 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. Comparable manufacturing and services indices are then weighted together to form a composite index, with the weights based on official value added data.

The headline figure is the Business Activity Index. This is a composite index calculated by weighting together the Manufacturing Output Index and the Services Business Activity Index. The Scotland Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the 'Scotland PMI', but is not comparable with the headline UK Manufacturing PMI figure.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

The survey data for August were collected 12-24 August 2022.

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

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. To learn more go to ihsmarkit.com/products/pmi.html.

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