

EMBARGOED UNTIL 01:01 UK (01:01 UTC) 10 February 2020

Royal Bank of Scotland PMI®

Scottish private sector activity rises amid improved demand conditions

- **Business Activity Index climbs to 14-month high**
- **Renewed increase in order book volumes**
- **Expectations strongest since March 2019**

According to the latest Royal Bank of Scotland PMI®, business activity across Scotland's private sector increased during January, following no growth in December. Key to the renewed expansion was a rise in new business, following a contraction in the previous survey period, alongside a mild rise in workforce numbers.

The seasonally adjusted headline Royal Bank of Scotland Business Activity Index - a measure of combined manufacturing and service sector output - posted 52.0 in January, up from 50.0 in December, to signal a modest increase in Scottish private sector activity following stagnant output in December. Panellists linked the increase with improved client demand. That said, the uptick was subdued in the context of the series history and softer than that seen at the UK level.

By sector, service providers recorded an eighth successive monthly rise in activity, with growth quickening from December. Meanwhile, output continued to fall in the manufacturing segment, although the decline was the softest in the current eight-month sequence of reduction and only fractional overall.

Overall demand conditions rebounded in January, with incoming new business rising following a contraction in December. Anecdotal evidence associated the rise with improved client demand as a result of increased confidence and subsiding uncertainty. That said, the rate of increase was only mild overall. Moreover, of the ten monitored UK areas to record growth, only the South West reported a softer increase than Scotland (Northern Ireland and the North East saw declines).

Amid improved demand, Scottish private sector firms recorded a rise in workforce numbers during January. The rate of increase was only marginal, however.

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At the same time, the level of outstanding business at Scottish private sector firms fell, as has been the case in all but one of the past 16 months. Moreover, the rate of backlog depletion gathered pace from December.

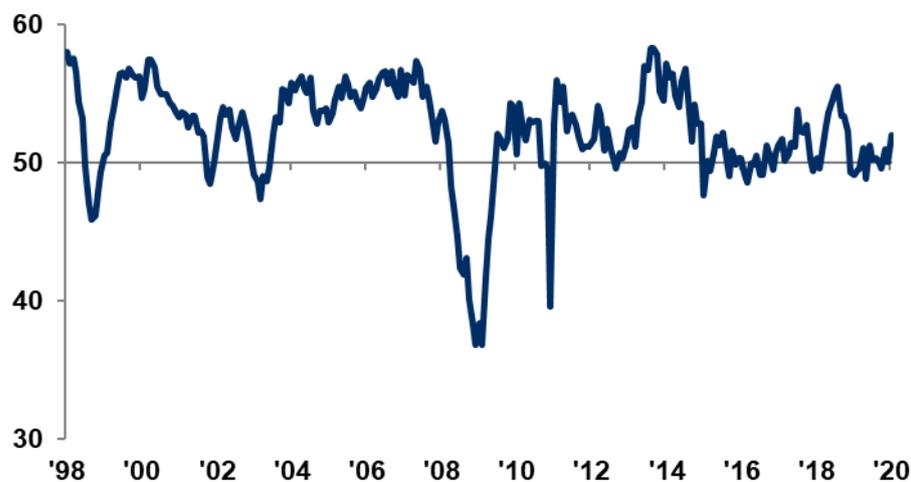
On the price front, cost burdens facing Scottish private sector firms increased further during January, with respondents noting greater costs for fuel and raw materials as well as higher prices at suppliers. Moreover, the rate of cost inflation was the fastest for seven months and marked overall.

Higher input costs were partially passed through to clients during January, as selling prices increased at the quickest rate for eight months.

January data indicated improved confidence towards activity over the next 12 months, with the level of positive sentiment the highest since March 2019.

Scotland Business Activity Index

sa, >50 = growth since previous month



Source: Royal Bank of Scotland, IHS Markit.

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COMMENT

Malcolm Buchanan, Chair, Scotland Board, Royal Bank of Scotland, commented:

“The Scottish private sector recorded a modest increase in business activity during January, with the headline Business Activity Index reaching a 14-month high, driven partly by a renewed rise in new business. That said, the uptick remained historically subdued and softer than that seen across the UK as a whole.

“At the sector level, services recorded a quicker increase in activity, whilst the manufacturing segment remained weaker, noting an eighth successive fall in output.

“Positively, firms’ output expectations for the coming 12 months strengthened in January, with respondents linking confidence to a clearer outlook and hopes of improved demand conditions. Moreover, the level of positive sentiment was the highest since March 2019.”

ENDS

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Notes to Editors

Methodology

The Royal Bank of Scotland PMI® is compiled by IHS Markit 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.

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

About PMI

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