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Royal Bank of Scotland PMI[®]

Private sector activity contracts at softer pace in December

- **Private sector output falls for fifth month running**
- **Contraction in new work remains solid**
- **Employment falls for first time in 21 months**

According to the latest Royal Bank of Scotland PMI[®] data, private sector activity fell solidly during December. The Business Activity Index - a measure of combined manufacturing and service sector output - improved from November's recent low of 43.9 to 48.3 in December, signalling the softest downturn in activity in the current five-month sequence of reduction. Similarly, while new work received fell strongly in December, the pace of decrease was softer than that recorded in the previous survey period. That said, the ongoing drop in business requirements amid challenging demand conditions resulted in the first fall in employment in 21 months. Moreover, as backlogs of work continued to decrease and expectations moderated further.

Demand shortfalls continued to lead a decrease in new work received across Scotland's private sector in December, thereby extending the run of contraction to six successive months. While the rate of decline eased from November's recent low, it was solid overall. The cost of living crisis, higher interest rates and growing economic uncertainty were all linked to the loss in client appetite.

Moreover, the downturn in incoming new business across Scotland was stronger than that recorded at the UK-level.

Sentiment across the Scottish private sector ticked down for the second month running during December. The latest reading was the second weakest in 31 months and comfortably below the historical average. The war in Ukraine, a slowdown in the housing market and inflation weighed heavily on confidence.

Of the 12 monitored regions, Scotland had the third-lowest Future Activity Index reading, ahead of Northern Ireland and the North East.

Latest data signalled a fall in employment across Scotland during December, thereby ending the run of uninterrupted growth that began in April 2021. This was driven by lower staffing levels reported at service providers, as goods

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producers posted another slight rise in headcounts. The overall decline was only marginal. Where a fall was noted, firms were either actively reducing headcounts or delayed hiring despite reports of resignations.

The pace of job shedding across Scotland was slightly faster than the UK average, which similarly reported a fall in payroll numbers for the first time in 22 months.

As has been the case since June, levels of unfinished work fell across Scotland during December. The rate of depletion eased on the month to the softest since August, but was solid overall. Surveyed businesses reported that as the pipeline of new work was eroded, they were able to work through backlogs.

The pace of contraction across Scotland was in line with that recorded for the UK as a whole.

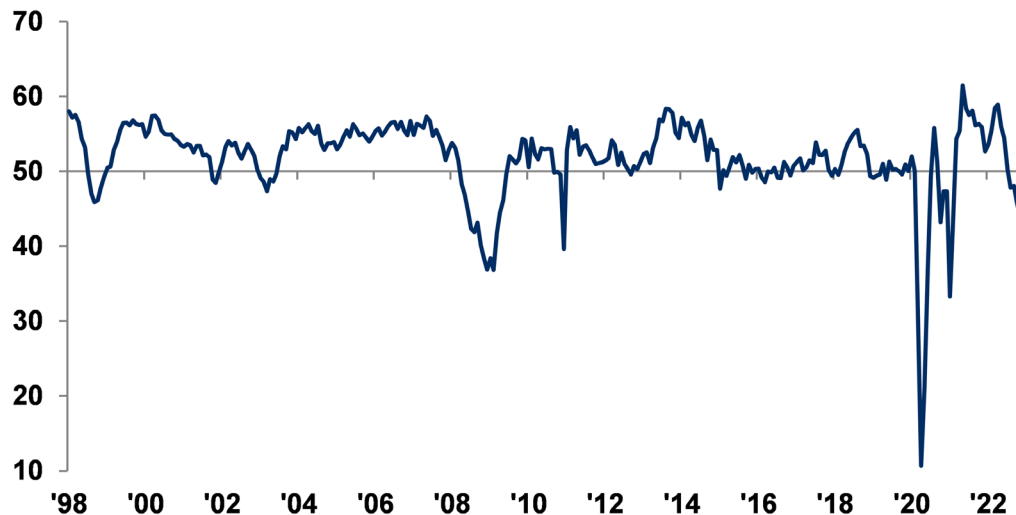
Companies in Scotland registered another substantial incline in average cost burdens during December, thereby stretching the current run of inflation to 31 months. While the pace of incline was the softest in 18 months, it registered well above the pre-COVID average. An array of reasons was attributed to the latest incline, which included higher wages, inflation, the ongoing energy crisis and Brexit.

Price pressures, while elevated, were still weaker across Scotland than that seen across the UK as a whole.

Prices charged for the provision of goods and services rose for the twenty-sixth successive month during December. Scottish firms were keen to share cost burdens with clients. The pace of charge inflation eased from November to the softest in three months but was still among the highest on record.

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:

"The Scottish private sector recorded another grim performance during December. Client appetite suffered as various economic headwinds continued to dominate the business environment. That said, the downturn across Scotland visibly eased from November, as both private sector output and new work received fell at softer paces.

"Moreover, the loss in demand helped to relieve price pressures, with slower rates of inflation seen for both input costs and output charges. Nonetheless, these remain well above their respective historical averages.

"As we move into 2023, it will be important as to how firms adjust to demand shortfalls. We have already noticed the first reduction in employment since March 2021. Moreover, amid a high inflation and interest rate environment, it will be difficult to revive demand and thus will be the primary concern for businesses."

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 December were collected 06-21 December 2022.

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

About PMI

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