

EMBARGOED UNTIL 01:01 UK (01:01 UTC) 11 February 2019

Royal Bank of Scotland PMI®

Output declines further in January as business confidence falls

- **Manufacturing and service sector output declines**
- **Demand for services rises, but falls for goods**
- **Future output expectations hit 21-month low**

According to the latest Royal Bank of Scotland PMI®, output across Scotland's private economy declined for a second successive month at the start of 2019, the first time since August 2016 that a back-to-back drop in activity has been recorded. New business also fell in January, enabling firms to clear backlogs of work. Output expectations were also pared back, with optimism easing to a 21-month low.

The seasonally adjusted headline Royal Bank of Scotland PMI posted 49.2 in January, a fraction below December's print of 49.3. Although this signalled only a mild reduction in private sector output in Scotland, it was the strongest in almost two-and-a-half years. As was the case in December, the downturn was broad-based across both manufacturing and service sectors. Anecdotal evidence indicated that heightened uncertainty and faltering consumer confidence had contributed to lower activity levels.

Of the 12 monitored UK areas, four recorded lower output in January and only London observed a faster decrease than Scotland.

Latest survey data signalled falling demand in Scotland, but the sector split revealed the drop was driven by manufacturers, as service providers recorded mild growth. According to goods producers, order intakes fell as a result of diminished client demand. Uncertainty was also mentioned by panellists as a factor impacting order book volumes. At the UK level, private sector new order intakes decreased modestly and at a quicker rate than observed across Scotland.

A solid decrease in manufacturing orders and just a mild rise in demand for services coincided with a further monthly decline in outstanding workloads in January. Both sectors reported reduced backlogs, but the rate of depletion was softer than in December in both cases.

Some panellists attributed lower volumes of incomplete work to increased staffing levels. Survey data pointed to further job creation in Scotland during January,

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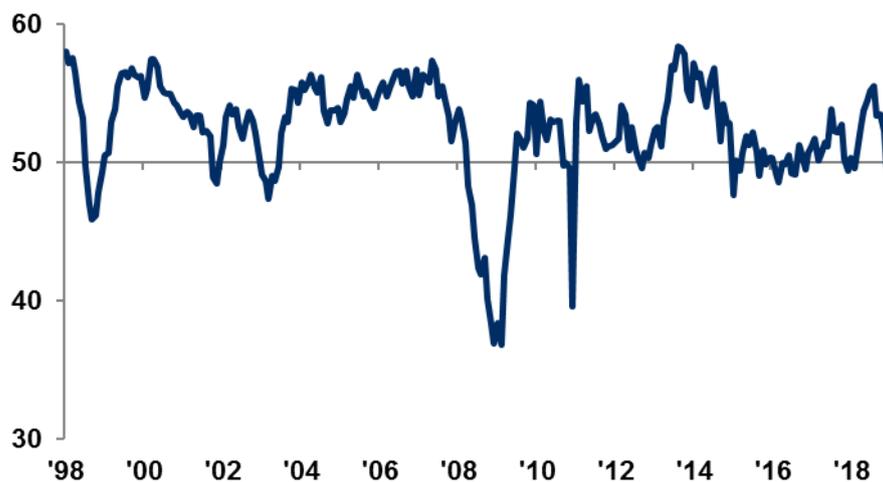
extending the current upturn in recruitment to 11 months. This contrasted with the overall UK trend, where workforces were reduced.

Inflationary pressures eased across Scotland in January, with both input costs and output prices increasing at slower rates. That said, operating expenses rose sharply amid reports of sterling weakness and increased raw material costs.

Lastly, business confidence dipped to a 21-month low in January, with economic uncertainty weighing on sentiment. That said, strategic changes, new product offerings and planned efficiency improvements were all cited as reasons to be optimistic overall.

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:

“While the UK as a whole approached near-stagnation in January, Scotland was one of four UK areas where output declined. In fact, the contraction north of the border was only outpaced by that seen in the capital. Scotland’s manufacturing sector drove the downturn, with economic uncertainty and weak consumer confidence cited by surveyed businesses. The knock-on effect was a paring back of business optimism, as expectations hit their weakest in almost two years.”

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For more information

Royal Bank of Scotland

Jonathan Rennie
Regional PR Manager
07769 932 102
jonathan.ennie@rbs.co.uk

IHS Markit

Joe Hayes
Economist
Telephone +44 1491 461 006
Email: joseph.hayes@ihsmarkit.com

Joanna Vickers
Corporate Communications
Telephone +44207 260 2234
Email joanna.vickers@ihsmarkit.com

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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

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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