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Royal Bank of Scotland PMI®

Confidence dips to 28-month low amid further demand slowdown

- **Output falls as new orders decline**
- **Employment growth below long-run average**
- **Business confidence at lowest since October 2016**

According to the latest Royal Bank of Scotland PMI®, the overall condition of Scotland's private sector economy was subdued, with key gauges of business health such as output and new orders falling, while employment approached near-stagnation. Brexit-related uncertainty and concerns regarding client confidence led optimism to ease to a 28-month low. Meanwhile, survey data signalled a sharp but weaker rate of input cost inflation in February. Consequently, output charges were lifted.

The seasonally adjusted headline Royal Bank of Scotland PMI registered below the 50.0 no-change threshold in February, signalling a further decline in private sector business activity. At 49.4, the headline figure was slightly up from January's 49.2, but signalled a notable divergence from the overall UK picture, where output increased.

Of the 12 monitored parts of the UK, only three recorded contraction, the other two being the North East and London. Scotland's downturn was primarily driven by the manufacturing sector, where production fell strongly. Service sector activity increased fractionally.

Latest survey data signalled a third successive monthly decline in Scottish order book volumes, with the fall gathering pace since January. Matching the trend in output, the decrease centred on the manufacturing sector. Although service providers reported demand growth, it was notably slower than those seen across most of 2018. Where a slowdown was recorded, this was attributed to underlying weakness in some industries. Some firms also indicated that Brexit-related uncertainty had weighed on sales performances.

The sustained easing in demand meant firms were able to channel more resources to completing outstanding workloads. Backlogs were reduced for a fifth straight month and to a quicker extent. Overall, the rate of depletion was broadly in line with the UK as a whole.

News Release

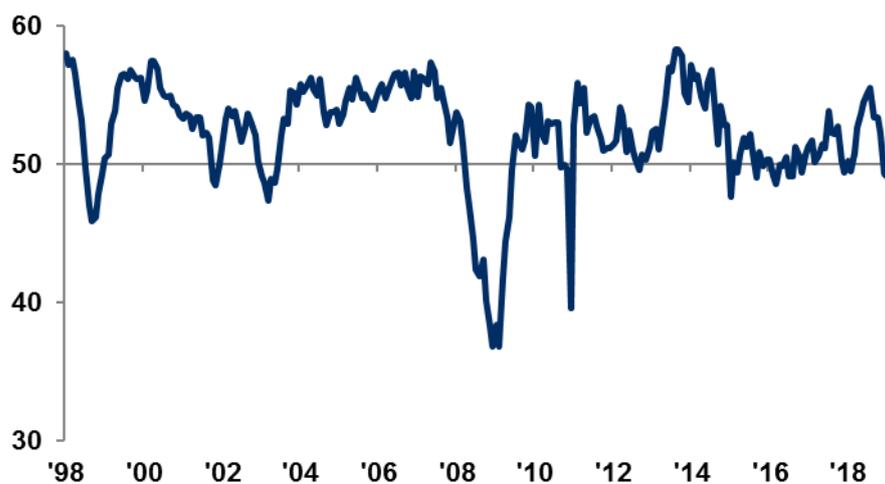
With business activity and new orders falling, employment growth eased in February. In fact, the increase in staffing levels was fractional, with cost-cutting efforts at some firms almost offsetting new hires at others.

Input prices increased at the slowest pace since August 2016. However, the rate of inflation was sharp overall, which firms attributed to higher food, fuel, labour and transport costs. As a result, output charges were raised at a pace broadly in line with the 12-month average.

Business confidence dipped for a third straight month in February, reaching the lowest since October 2016. Furthermore, optimism in Scotland was the second-weakest of all 12 monitored UK areas. Brexit and concerns towards the domestic economy were commonly cited factors which weighed on sentiment.

Scotland Business Activity Index

sa, >50 = growth since previous month



Source: Royal Bank of Scotland, IHS Markit

News Release

COMMENT

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

“Latest PMI data for Scotland portrayed a further downbeat assessment of the economy north of the border, with the two key business health gauges of output and new orders both in contraction territory. Indeed, relative to the other 11 monitored areas of the UK, Scotland was among the underperformers.

Weighing on the economic climate in Scotland was uncertainty, particularly relating to Brexit and the knock-on effects this will have on client confidence. Business optimism subsequently dwindled to a 28-month low in February. Caution was also signalled by employment data, which showed just a rate of growth below the long-run trend.”

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

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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