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## Royal Bank of Scotland PMI<sup>®</sup>

### Scottish Private Sector sees improved manufacturing growth as challenging 2020 draws to a close

- **Business Activity Index posts 47.3 to signal moderate decline in output**
- **Further, but slower, reduction in inflows of new work**
- **Optimism highest since February following vaccine roll out**

The Scottish private sector remained in a downturn during the final month of 2020, according to the latest Royal Bank of Scotland PMI<sup>®</sup>, with further drop in services activity outweighing a strong improvement in manufacturing growth. The seasonally adjusted headline Royal Bank of Scotland Business Activity Index - a measure of combined manufacturing and service sector output - posted 47.3 in December, unchanged from November's reading, and signalled a further moderate contraction in private sector output as ongoing lockdown measures continued to stifle client demand.

Nonetheless, firms held an optimistic outlook for activity during 2021, with sentiment hitting a ten-month high. Panellists linked confidence to hopes of a timely end to the pandemic amid vaccine rollouts, and a swift economic recovery.

December data signalled a further fall in inflows of new work to Scottish private sector firms, extending the current sequence of reduction to four months. According to respondents, lockdown measures had continued to stifle client demand. The rate of decline was the joint-slowest in the aforementioned sequence, but still solid overall.

At the sector level, a further sharp contraction in services new business outweighed a quicker upturn in manufacturing order book volumes.

The Future Output Index registered above the 50.0 mark in December to signal a robust level of confidence among Scottish companies with regards to activity over the coming year. Moreover, the level of positive sentiment was the highest since February and elevated in the context of the series history. Hopes of a timely end to the COVID-19 pandemic amid positive news of a vaccine rollout and subsequent economic recovery were cited by panellists as reasons to be confident.

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An eleventh successive monthly reduction in staffing levels at Scottish private sector firms was recorded in December. Respondents attributed the latest job cuts to the COVID-19 pandemic. There were also mentions of redundancies and use of the government furlough scheme in anecdotal evidence.

The rate of job shedding was little changed from November and solid overall, with Scotland also registering the fastest decline in employment across the 12 monitored UK areas.

Amid ongoing weakness in client demand and further reductions in new orders and business activity, Scottish companies continued to work through outstanding business in December. Moreover, the rate of backlog depletion was the most marked since June.

Across the 12 monitored UK areas, Scotland recorded the quickest reduction in outstanding business.

Scottish private sector firms signalled a further rise in cost burdens during December, with the rate of increase the most marked since February. The latest round of cost inflation was attributed by panellists to price hikes at suppliers and expenditure on Brexit preparation.

At the sector level, the rise in input prices was broad-based, with manufacturers recording the sharper rate of inflation.

A back-to-back increase in average charges levied by Scottish private sector firms was recorded in December. Panellists linked the latest uptick with the partial pass-through of greater costs to clients. The rate of charge inflation was only modest, albeit faster than that at the UK level.

## Scotland Business Activity Index

sa, >50 = growth since previous month



Source: Royal Bank of Scotland, IHS Markit.

### COMMENT

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

*“Scotland’s economy continued to face challenges in December as demand faced further pressure from COVID-19 related measures. Ongoing weakness in services outweighed accelerated manufacturing growth and led to a moderate drop in activity across the private sector as a whole at year end.*

*“The reduction in new orders eased, however, with some firms reporting an upturn in orders due to higher confidence.*

*“Companies themselves registered the strongest level of optimism with regards to activity over the next year since February, as positive vaccine news buoyed expectations. But, with new restrictions in place to curb rising case numbers, the economy is likely to face further pressure before we experience marked improvement.”*

**ENDS**

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## For more information

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## Notes to Editors

### Methodology

The Royal Bank of Scotland PMI<sup>®</sup> 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.

The survey data for December data were collected 04 – 21 December 2020.

For further information on the PMI survey methodology, please contact [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com).

### About PMI

Purchasing Managers' Index<sup>®</sup> (PMI<sup>®</sup>) 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](https://ihsmarkit.com/products/pmi.html).

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