

EMBARGOED UNTIL 01:01 UK (01:01 UTC) 14 January 2019

Royal Bank of Scotland PMI[®]

Private sector business activity falls for first time in ten months

- Renewed declines in activity and sales
- Employment grows only marginally
- Inflationary pressures intensify

According to the latest Royal Bank of Scotland PMI[®], private sector businesses in Scotland observed a renewed drop in activity during December. This coincided with a fresh decline in new sales, while backlogs of work also fell. Nonetheless, firms continued to hire extra staff, albeit at just a marginal pace. Cost burdens continued to rise sharply, prompting firms to raise selling prices to offset margin pressures.

The seasonally adjusted headline Royal Bank of Scotland PMI fell to 49.3 in December, from 52.2 in November, pointing to the first drop in private sector business activity since last February. Panellists attributed the decline to competitive pressures and a weaker underlying economic environment. Sector data indicated a broad-based fall in output, with both goods producers and service providers recording renewed decreases.

This contrasted with the overall UK level, where output increased moderately. Scotland was only one of two areas to record a contraction in December, the other being the North East.

Also weighing on business activity was weaker demand. New orders placed with privately-run firms in Scotland fell during December. Both manufacturers and service providers recorded lower new sales, with the former observing a more pronounced reduction. As was the case with output, the trend diverged from that seen at the UK level, where new business receipts increased.

With inflows of new work dropping, firms were able to allocate resources to clearing backlogs. Outstanding business declined for a third successive month in December. That said, the rate of depletion eased from November's 25-month record.

Nonetheless, firms continued to hire additional staff, extending the current run of job creation to ten months. However, the rate of recruitment recorded in December was the weakest observed over the current sequence of rising workforce numbers. Efforts to reduce costs reportedly hampered the expansion in payroll numbers.

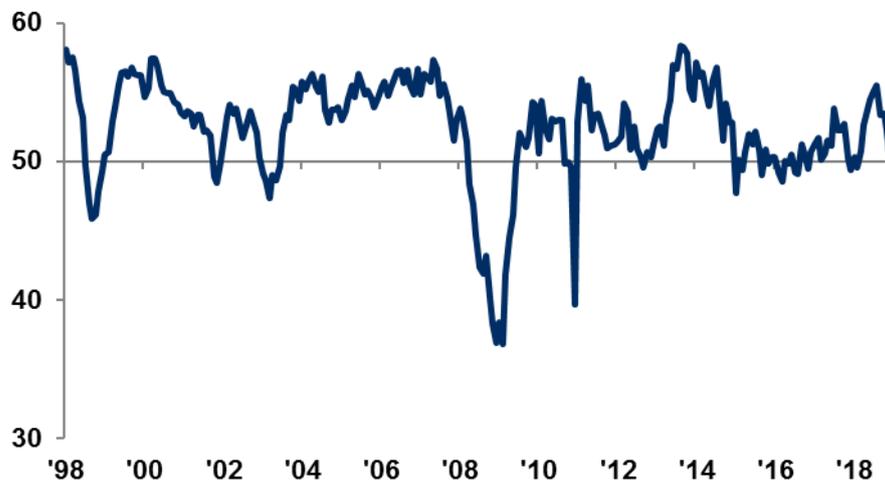
News Release

Scottish private sector firms continued to feel the squeeze on their margins, with costs rising sharply in December. Increased utility prices, unfavourable exchange rate variation and greater labour expenses reportedly drove inflation. In response, selling charges were raised. The increase was solid overall and the fastest since September.

Despite the downturns in activity and demand, firms remained upbeat on their growth prospects for the coming year. New business wins from abroad, and planned company expansion were cited as reasons underpinning confidence.

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:

“Scotland’s private sector finished 2018 as one of only two (out of 12) UK areas which registered a reduction in business activity during December, while modest growth was seen on average for the UK. Forward-looking indicators also look less encouraging, with new sales declining for the first time in ten months and employment increasing only marginally. Competitive pressures and weak underlying business conditions were both mentioned by panellists as factors hampering performance in December.”

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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