

Embargoed until 0001 UK time, Monday 12th October 2020

Royal Bank of Scotland PMI®

Private sector recovery loses momentum in September

- **Growth in business activity slows from August's six-year high**
- **Renewed decline in inflows of new work**
- **Sentiment dips to four-month low amid lockdown uncertainty**

The Scottish private sector continued to recover from the impact of the coronavirus disease 2019 (COVID-19) pandemic in September, according to the latest Royal Bank of Scotland PMI®. Growth of business activity lost momentum, however, with the latest increase only marginal overall, amid a renewed decline in new business. Nonetheless, firms remained confident that output would rise over the coming year amid hopes of a further recovery in demand. Expectations were the weakest for four-months, however, reflecting heightened uncertainty about how long lockdown measures will last and the timeliness of any recovery.

September data highlighted a renewed fall in the level of new business at Scottish private sector firms, following a solid uptick in the previous survey period. Panellists linked the decline, which was moderate, to muted demand conditions amid COVID-19 related measures and heightened uncertainty. Furthermore, Scotland was one of only two monitored UK areas to record a reduction in new business during September, alongside Northern Ireland.

The Future Activity Index posted above the 50.0 threshold for the fifth consecutive month during September, to signal overall optimism among Scottish firms with regards to output over the year ahead. Anecdotal evidence linked confidence to hopes of improved client demand and an economic recovery. That said, the level of positive sentiment dipped to a four-month low, reflecting concerns about the introduction of more stringent lockdown measures and the timeliness of any recovery.

September data highlighted a further fall in workforce numbers across Scotland, extending the current sequence of job cuts to eight months. Anecdotal evidence linked the latest reduction to COVID-19 related redundancies and the non-replacement of voluntary leavers. The rate of job shedding was unchanged from August and marked overall.

News Release

Adjusted for seasonal factors, the Outstanding Business Index registered below the 50.0 no-change mark in September, to signal a tenth consecutive monthly reduction in backlogs at Scottish private sector firms. Respondents noted that the renewed fall in order book volumes had allowed them to direct resources to outstanding business. The rate of backlog depletion quickened slightly on the month, but was still much slower than the average for 2020 to date.

Of the five UK areas to record lower backlogs during September, Scotland saw the sharpest rate of decline.

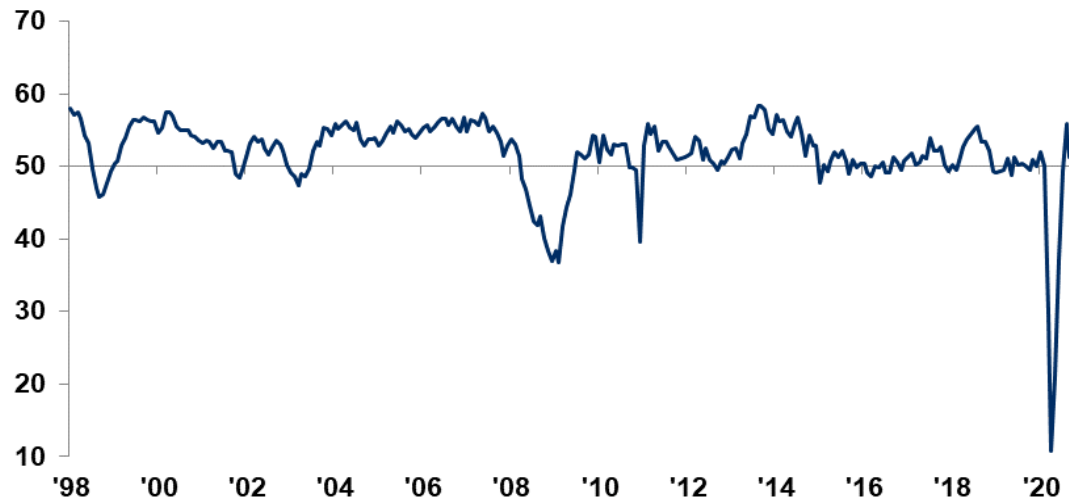
A fourth successive monthly increase in cost burdens facing Scottish private sector firms was recorded in September. Higher prices at suppliers, greater staff costs and additional COVID-19 related expenditure were the main drivers of inflation, according to panellists. Moreover, the rate of increase accelerated from August and was sharp overall.

Average charges levied by private sector firms in Scotland fell for the seventh consecutive month in September. According to panellists, firms had offered discounts in order to attract new business. The rate of reduction was the softest in the aforementioned sequence and only fractional, however, as charge levels neared stabilisation.

There was a renewed fall in average charges at the UK level during September, with the rate of charge deflation slightly quicker than in Scotland.

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:

“The latest PMI data highlighted slower growth of the Scottish economy, with business activity rising only marginally overall. Meanwhile, inflows of new work fell following an uptick in August, with survey respondents citing weak client demand due to stricter lockdown measures.

“These measures also dented firms’ confidence during September. Sentiment was still positive overall, but slipped to a four-month low. Meanwhile, job cutting continued, with the rate of reduction remaining marked.

“Nonetheless, data highlighted a good performance in the context of the rapid contractions seen in the spring. Weak client demand is a concern, but unsurprising with lockdown measures tightening. Hopefully, as in August, once the pent-up demand is released, the sector will move full throttle towards a recovery.”

ENDS

News Release

For more information

Royal Bank of Scotland

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

IHS Markit

Lewis Cooper
Economist
+44 1491 461 019
lewis.cooper@ihsmarkit.com

Katherine Smith
Public Relations
+1 781 301 9311
katherine.smith@ihsmarkit.com

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.

The survey data for September data were collected 11 – 28 September 2020.

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](https://www.ihsmarkit.com/products/pmi.html).

News Release

About IHS Markit

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions. IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates. All other company and product names may be trademarks of their respective owners © 2019 IHS Markit Ltd. All rights reserved.

Disclaimer

The intellectual property rights to the Royal Bank of Scotland PMI[®] provided herein are owned by or licensed to IHS Markit and/or its affiliates. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without IHS Markit's prior consent. IHS Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall IHS Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Purchasing Managers' Index[®] and PMI[®] are either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited. Royal Bank of Scotland uses the above marks under licence. IHS Markit is a registered trademark of IHS Markit Limited. and/or its affiliates.