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Royal Bank of Scotland PMI®

Scottish private sector output stagnates in September

- **Manufacturing downturn cancels out service sector growth**
- **Quickest fall in new orders since March**
- **Job shedding at fastest pace in 41 months**

According to the latest Royal Bank of Scotland PMI®, business activity was unchanged in September, following three months of growth. Weighing on business performance was the quickest fall in new orders since March, and the third successive monthly reduction in workforce numbers, which declined at the fastest rate for nearly three-and-a-half years. Anecdotal evidence linked falls in new business and activity to continued economic and political uncertainty. Despite improving from August, business confidence in September was the second-lowest since July 2016 - the month following the EU referendum.

The seasonally adjusted headline Royal Bank of Scotland Business Activity Index - a measure of combined manufacturing and service sector output - slipped from 50.3 in August to post at the 50.0 neutral mark in September, signalling a stagnation of private sector business activity. Sectors diverged, as a marginal expansion in the service sector was undermined by a sharp fall in manufacturing output, the joint-quickest since December 2010.

September data signalled a back-to-back reduction in order book volumes, with the fall quickening to the fastest since March. Panellists associated the marginal decline to weak demand conditions and Brexit uncertainty. Manufacturers reported lower order book volumes for the thirteenth month in a row, with the latest fall marked overall. Meanwhile, service-providing firms saw a marginal increase in new business.

Lower levels of new business led firms to reduce workforce numbers in September. The fall in employment stretched the current sequence of reduction to three months, with the rate of job shedding accelerating to the fastest since April 2016.

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Elsewhere, subdued demand pressures allowed businesses to focus resources on clearing backlogs, as the level of outstanding business fell marginally in September. That said, the rate of backlog depletion eased to the joint-softest in the past year.

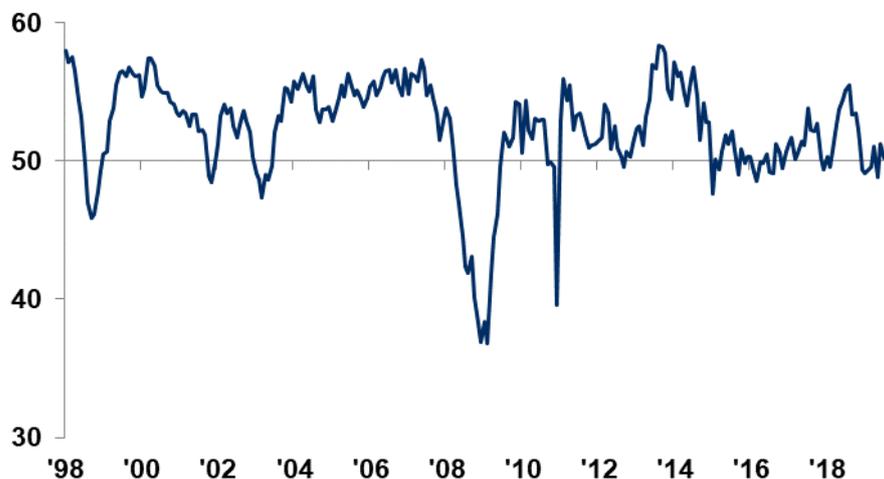
Input prices increased sharply according to the latest survey data, with the rate of input price inflation the fastest seen in three months. Respondents associated rising cost burdens with unfavourable exchange rates.

Meanwhile, average prices charged by private sector firms in Scotland rose only marginally in September, with price inflation easing to the slowest rate in the current 38-month sequence of rising charges.

Finally, September data indicated a historically subdued level of business confidence towards the coming 12 months. The level of positive sentiment was the second-lowest in over three years, despite strengthening from August.

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:

“Scottish private sector output stagnated in September, following three months of relatively weak growth in business activity. Goods-producing firms drove the slowdown, recording a sharp deterioration in output. Moreover, the manufacturing downturn deepened from August, undermining the fastest growth in the service sector for three months.

“Meanwhile, new orders fell at the quickest pace for six months, signalling weaker demand conditions. With order books declining, firms further reduced workforce numbers. Employment across the Scottish private sector fell at the fastest pace for nearly three-and-a-half years.

“Brexit uncertainty continues to weigh heavily on Scottish firms, with business confidence at its second-lowest since July 2016 - the month following the EU referendum. The level of positive sentiment in Scotland was one of the lowest across the UK, despite strengthening slightly from August. For the second month running, Northern Ireland was the only UK area (of the 12 monitored) to hold a weaker outlook than Scotland.”

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

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