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Royal Bank of Scotland PMI®

Renewed private sector downturn in October

- **Headline Business Activity Index drops to 43.2**
- **Marked reduction in inflows of new work**
- **Lockdown uncertainty pushes business confidence to five-month low**

October saw a renewed downturn in the Scottish private sector, amid fresh restrictions to tackle the coronavirus disease 2019 (COVID-19) pandemic, according to the latest Royal Bank of Scotland PMI®. The seasonally adjusted headline Royal Bank of Scotland Business Activity Index - a measure of combined manufacturing and service sector output - fell from 51.2 in September to below the 50.0 threshold at 43.2 in October. The latest figure signalled a sharp contraction in private sector activity, albeit one less rapid than those in the spring. A marked drop in new business was central to the decline, while weak demand conditions, concerns surrounding the pandemic and Brexit weighed on firms' confidence.

Adjusted for seasonal factors, the New Business Index registered below the crucial 50.0 mark again during October to signal a back-to-back reduction in inflows of new work across Scotland. Moreover, the rate of decline quickened noticeably on the month and was marked, albeit still not as severe as those seen in the spring. Panellists attributed the latest drop in new orders to weak client demand due to the COVID-19 pandemic.

Furthermore, Scotland registered the most severe reduction in new business across the 12 monitored UK areas during October.

The 12-month outlook for activity moderated for the third month in a row during October. Although Scottish firms remain confident that output will increase over the coming year, sentiment was the weakest since May. Concerns surrounding the longevity of the pandemic and timeliness the economic recovery – alongside Brexit uncertainty – weighed on sentiment. Where firms were optimistic, this hinged on hopes that the COVID-19 pandemic will be brought under control.

Scottish private sector firms signalled a further reduction in their staffing levels during October, extending the current sequence of decline to nine months. Moreover, the rate of job shedding was the sharpest since July, amid widespread reports of redundancies and layoffs due to lower inflows of new work.

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Across the 12 monitored UK areas, only the West Midlands recorded a quicker reduction in employment than Scotland.

Latest data provided further evidence of weak capacity pressures in the Scottish private sector, as the level of outstanding business declined at the fastest pace since June. Companies noted that weak sales meant they were able to direct resources to unfinished orders.

The reduction was broad-based at the sector level. Service providers signalled a noticeably quicker reduction in outstanding business than their manufacturing counterparts.

Cost burdens facing Scottish private sector firms continued to rise during October, extending the current sequence of inflation to five months. Price hikes at suppliers, unfavourable exchange rates and greater wage costs were all attributed to the latest increase in input prices. The rate of cost inflation eased since September, but was still sharp.

An eighth successive monthly reduction in average charges levied by Scottish private sector firms was recorded in October. According to panellists, companies were discounting their selling prices amid weak client demand. That said, the rate of deflation was unchanged on the month and only fractional overall.

Sector data highlighted significant divergence, however, with a moderate reduction in prices charged for services outweighing a further increase in factory gate charges.

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:

“Renewed lockdown restrictions seem to have staved off the recovery in the Scottish private sector during October. Output declined sharply amid a marked contraction in the level of new business, although the falls were still less sharp than in the spring.

“Unsurprisingly, the service sector bore the brunt of the impact, registering a rapid drop in activity that outweighed a further uptick in manufacturing output, and a much more marked reduction in order book volumes than goods producers.

“Concerns surrounding the pandemic also weighed on confidence, with the level of positive sentiment the lowest for five months. All in all, the data make it clear that there is an uncertain and bumpy road ahead.”

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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.

The survey data for October data were collected 12 – 28 October 2020.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

About PMI

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