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Royal Bank of Scotland PMI[®]

Private sector growth moderates further as Omicron concerns strike

- **Activity increases at weakest pace in current ten-month sequence**
- **Growth of new work eases to mild pace**
- **Inflationary pressures remain historically elevated**

The Scottish private sector recorded a further upturn in activity at the end of 2021, 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 - posted 52.7 in December, down sharply from 55.9 in November. This signalled a further uplift in activity, but one that was the weakest in the current ten-month sequence of growth. At the sector level, services saw a slower rate of expansion, while factory production declined for the first time since last September.

At the same time, growth of new work eased noticeably, with inflows of new business rising only mildly overall in December, as some survey respondents noted that COVID-19 concerns had weighed on client demand. Elsewhere, inflationary pressures remained elevated, although the rates of both cost and charge inflation slowed from November's recent peaks.

Inflows of new work to Scottish firms rose for the ninth month running in December, amid reports of improved client demand. The rate of growth eased noticeably to the weakest in the current sequence however, and was only mild overall.

A further uplift in new business at service providers was weighed on by a marginal decline in manufacturers order book volumes.

December data pointed to sustained confidence at Scottish companies with regards to activity over the coming 12 months. Optimism was attributed through anecdotal evidence to hopes that Brexit and COVID-19 related issues would diminish, and demand conditions would improve. The level of sentiment moderated slightly since November but remained historically strong.

For the ninth time in as many months, Scottish private sector companies recorded an increase in employment during December. Anecdotal evidence attributed the latest

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rise to efforts to alleviate capacity pressures and scale up operations in expectations of stronger sales in the coming months. The rate of job creation was strong, but nonetheless the slowest since last April.

Notably, Scotland recorded a much slower upturn in employment than the UK-wide average.

As has been the case in each month since last April, the level of outstanding business at Scottish firms rose during December. Strong sales in prior months, as well as supply issues, were the main causes of capacity pressures according to survey respondents. That said, the rate of backlog accumulation was the slowest since September and only fractional.

At the sector level, a fresh decline in backlogs of work at manufacturers contrasted with a slight upturn at services firms.

Input prices faced by Scottish private sector firms continued to rise in December. Greater fuel, transport, staff and material costs, as well as shortages, Brexit and COVID-19 were all cited by panellists as drivers of inflation. Notably, the rate of increase in cost burdens eased only slightly from November's peak and was rapid overall.

That said, across the 12 monitored UK areas, only London recorded a slower rate of cost inflation than Scotland in December.

In response to greater costs, Scottish firms again increased their charges in December, stretching the current sequence of rising output prices to 14 months. The rate of inflation slowed noticeably from November's peak to a four-month low, but was still amongst the fastest on record and marked.

As was the case for input prices, manufacturers recorded a far quicker rate of charge inflation than their service sector counterparts.

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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 private sector grew at the weakest rate for 10 months as Omicron concerns weighed on client demand and supply issues continued to hinder companies, particularly in the manufacturing sector.

“Inflationary pressures also remained severe in December, although the latest data pointed to a slight easing of pressure as both cost burdens and average charges increased at slightly reduced rates.

“Nonetheless, firms remained upbeat towards activity over the next 12 months, with Scottish companies expecting COVID-19 related issues to subside and demand to improve as we enter 2022.”

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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 December were collected 06-21 December 2021.

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

About PMI

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