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Royal Bank of Scotland PMI®

Scottish private sector downturn continues through June

- **Slower, but still rapid, falls in business activity and new orders**
- **Job cuts continue at marked rate**
- **Sentiment improves again**

According to the latest Royal Bank of Scotland PMI®, private sector activity in Scotland continued to decline markedly during June, with ongoing coronavirus restrictions stifling demand and disrupting operations. The seasonally adjusted headline Royal Bank of Scotland Business Activity Index - a measure of combined manufacturing and service sector output - registered 37.1 in June to signal a much softer rate contraction when compared to May's figure of 21.1, but a marked drop nonetheless.

Private sector firms in Scotland reported a further reduction in total new orders during June, extending the current sequence of contraction to four months. According to panellists, client demand remained muted amid the COVID-19 pandemic. The respective seasonally adjusted index registered a record rise of 17 points on the month, however, to signal a notably softer rate of decline and indicate that the most severe phase of disruption had passed. That said, across the 12 monitored UK areas Scotland recorded the quickest decline.

The Future Output Index remained above the 50.0 mark for the second month in a row during June, to signal overall confidence at Scottish private sector firms with regards to activity over the year ahead. Moreover, the level of positive sentiment improved notably, with anecdotal evidence linking confidence to looser lockdown restrictions and hopes of an economic recovery once the pandemic is under control. Sentiment remained slightly subdued in the context of historical data, however.

Private sector firms in Scotland continued to cut workforces at a marked rate in June, amid reports of further redundancies and lay-offs as a result of the coronavirus pandemic, alongside frequent mentions of the government furlough scheme. The rate of job shedding was the softest for three months, however. Workforce numbers also dropped further at the UK level during June. The rate of reduction at the UK level was slightly softer than in Scotland.

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June data highlighted further evidence of spare capacity in the Scottish private sector. The level of outstanding business fell again, as has been the case in 20 of the past 21 months. The rate of backlog depletion was the softest for three months, although it was still quicker than the series pre-coronavirus record and marked. At the sector level, the reduction in overall workloads was broad-based in June. Services firms reported a notably sharper reduction than manufacturers, although both segments saw the rate of decline ease from May.

For the first time since March, private sector firms in Scotland recorded a rise in cost burdens during June. Higher prices at suppliers, greater raw material costs and the added expense of personal protective equipment (PPE) as a result of the coronavirus pandemic were the main drivers of inflation, according to respondents. The rate of increase was only slight, however. The rate of input price inflation in Scotland broadly matched that at the UK level during June.

As has been the case in each of the past four months, average prices charged by Scottish private sector firms declined during June. According to panellists, the latest fall was the result of further discounting efforts. The rate of decline was the softest in the aforementioned sequence, but still solid. At the sector level, the overall drop was driven by the services sector, where charges fell for the fourth month running. Meanwhile, selling prices at manufacturers increased.

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:

“Business activity across the Scottish private sector continued to decline markedly during June, with total new orders also falling sharply again. That said, the rates of decline eased significantly, with both indices recording record month-on-month rises from May, as looser restrictions allowed parts of the economy to restart.

“Scottish services firms were again worse-affected, with the reductions in both activity and new orders notably faster than those seen for their goods-producing counterparts. With both sectors struggling, private sector employment dropped markedly again amid reports of redundancies and lay-offs.

“The 12-month outlook for activity improved for the second month running in June, with the level of positive sentiment approaching the series average. Nonetheless, with client demand stifled, the short-term outlook for the Scottish private sector remains challenging.”

ENDS

For more information

Royal Bank of Scotland

Jonathan Rennie
Regional PR Manager
07769 932 102
jonathan.ennie@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

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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 June data were collected 12 – 24 June 2020.

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

About PMI

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