

Royal Bank of Scotland PMI®

Scottish private sector nears stagnation in February

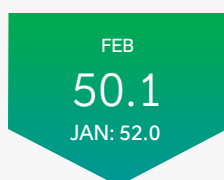
Key Findings

Renewed manufacturing growth largely offset by services decline

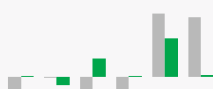
New business growth eases to fractional pace

First fall in employment since last October

Scotland Business Activity Index



Last six months SC / UK



By sector	Feb-20
Manufacturing	51.4
Services	49.8

According to the latest Royal Bank of Scotland PMI®, the Scottish private sector economy approached stagnation in February, growing only fractionally. At the sector level, a mild decline in services activity almost offset renewed growth in manufacturing production. Meanwhile, overall new business increased for the second month running, although the uptick eased to only a fractional pace. Amid softer demand conditions, firms cut workforce numbers for the first time in four months. That said, the reduction was only mild overall.

The seasonally adjusted headline Royal Bank of Scotland Business Activity Index - a measure of combined manufacturing and service sector output - posted 50.1 in February, down from 52.0 in January, to signal only a fractional rate of growth in private sector output in Scotland midway through the first quarter.

While a renewed uptick in production was registered at manufacturers, services activity declined for the first time since last May.

Demand

Latest survey data signalled a back-to-back increase in overall new business, although the rise softened to only a fractional pace. Some panellists reported that weak foreign demand and uncertainty had weighed on growth.

Moreover, of the 11 monitored UK areas to report an increase during February, Scotland recorded the joint-softest rise (with the North East).

Capacity

Scottish private sector firms reported the first reduction in workforce numbers since last October during February, with panellists linking the decline to the non-replacement of leavers and weaker client demand. That said, the decline was only mild overall.

Meanwhile, there was evidence of further spare capacity during February with outstanding business falling, as has been the case in 16 of the past 17 months. Moreover, the rate of backlog depletion was among the quickest over this sequence.

Prices

February data highlighted a further rise in cost burdens facing Scottish private sector firms, as has been the case in each month for four years. Greater raw material and wage costs were the main drivers of inflation during February, according to panellists. Albeit still sharp, the uptick was the softest for three months.

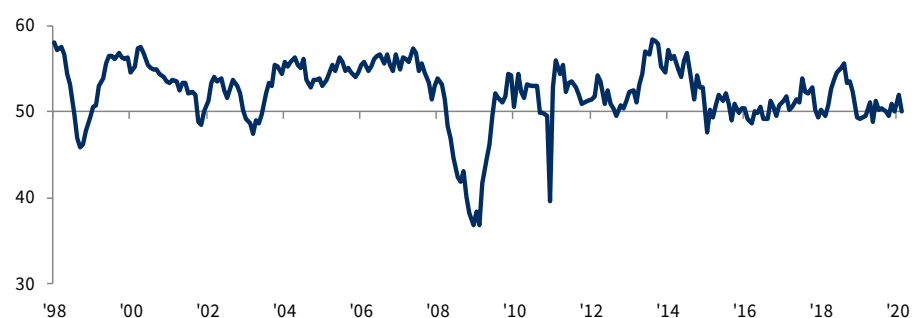
Concurrently, average selling prices rose during February, as has been the case in each month since August 2016. The rate of charge inflation softened from January and was only mild, however.

Outlook

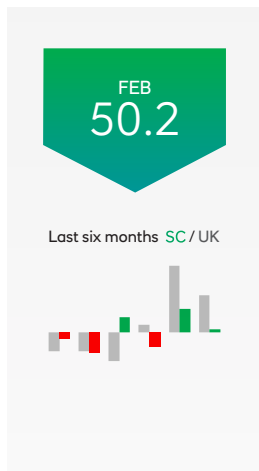
Firms remained confident activity would rise over the coming 12 months during February. Panellists linked optimism to hopes of improved demand conditions. Moreover, the sentiment strengthened to a 20-month high.

Scotland Business Activity Index

sa, >50 = growth since previous month



New Business Index



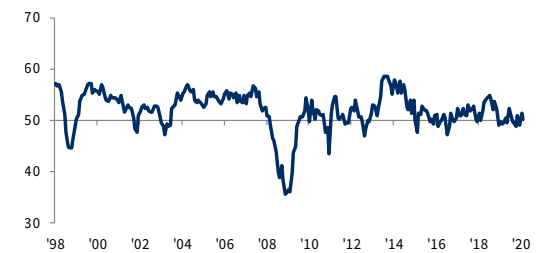
New business increases for second month running

The seasonally adjusted New Business Index posted above the 50.0 no-change mark in February, to signal a rise in order book volumes at Scottish private sector firms for the second consecutive month. That said, the expansion eased to only a fractional rate, with some panellists reporting that weak foreign demand and further uncertainty had weighed on growth.

At the sector level, services drove the increase, reporting a mild rise, whilst order books at manufacturers declined for the eighteenth consecutive month.

New Business Index

sa, >50 = growth since previous month



By sector

	Manufacturing	Services
Feb-20	48.7	50.5

Outstanding Business Index



Backlogs fall at joint-second quickest rate since November 2018

The level of outstanding business at Scottish private sector firms declined further during February, with panellists reporting that softer demand conditions had allowed them to direct resources to unfinished orders. Moreover, the rate of backlog depletion was the joint-second quickest since November 2018 and moderate overall.

Of the 11 monitored UK areas to report a reduction in outstanding business during February, the decline in Scotland was the joint-softest. London was the only area to note an increase.

Outstanding Business Index

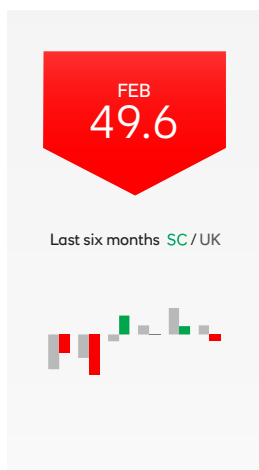
sa, >50 = growth since previous month



By sector

	Manufacturing	Services
Feb-20	42.5	48.4

Employment Index



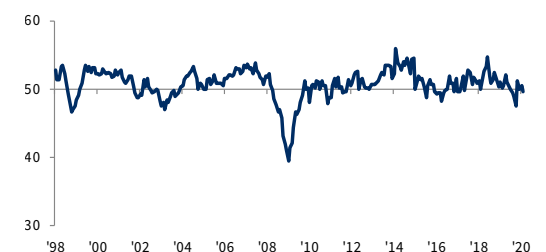
Workforce numbers fall for first time in four months

Scottish private sector firms recorded the first reduction in workforce numbers since October last year during February. Respondents commonly linked the fall to the non-replacement of leavers amid soft demand conditions. The rate of job shedding was only mild, however.

Sector data highlighted divergence, as Scottish manufacturers recorded a back-to-back increase in employment levels, whilst services firms cut jobs for the first time since last October.

Employment Index

sa, >50 = growth since previous month



By sector

	Manufacturing	Services
Feb-20	50.5	49.4

Input Prices Index



Sharp, but softer, rise in input costs

As has been the case in each month since February 2016, cost burdens facing Scottish private sector firms rose during February, with anecdotal evidence linking the latest uptick to greater raw material and wage costs. Albeit still sharp, the rise was the softest for three months.

By comparison, the rate of input price inflation also eased at the UK level during February and was broadly similar to that seen in Scotland.

Input Prices Index

sa, >50 = inflation since previous month



By sector

	Manufacturing	Services
Feb-20	53.9	59.6

Prices Charged Index



Selling prices rise only marginally in February

Average prices charged by Scottish private sector firms continued to increase during February, as has been the case in each month since August 2016. Panellists associated the increase with the pass through of higher input costs to clients. That said, the rate of charge inflation softened from January and was only marginal.

Moreover, the rate of charge inflation in Scotland was the softest of the 12 monitored UK areas.

Prices Charged Index

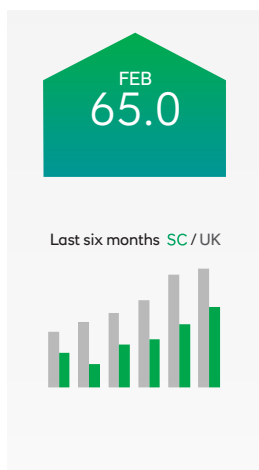
sa, >50 = inflation since previous month



By sector

	Manufacturing	Services
Feb-20	52.2	51.6

Future Output Index



Business confidence climbs to 20-month high

Scottish private sector firms remained confident that output would increase over the coming 12 months in February, with panellists linking optimism to expectations of stronger demand conditions, positive growth forecasts and subsiding political uncertainty. Moreover, the level of positive sentiment was the highest since June 2018.

Nonetheless, of the 12 monitored UK areas, only Northern Ireland reported a softer outlook than in Scotland.

Future Output Index

>50 = growth expected over next 12 months



By sector

	Manufacturing	Services
Feb-20	58.8	66.4

Scotland Export Climate Index

Note: Export markets are defined as non-UK.



Last six months



Export climate index falls to more than ten-year low

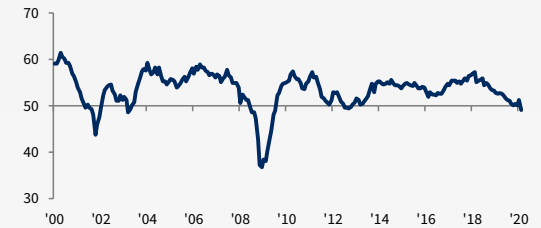
The Scotland Export Climate Index is calculated by weighting together national PMI output data according to their importance to the manufacturing exports of Scotland. This produces an indicator for the economic health of Scotland's export markets.

The Scotland Export Climate Index posted 49.1 in February, down from 51.2 in January, to signal a deterioration in economic conditions at Scotland's key export markets for the first time since late-2012. Moreover, the figure was the lowest since July 2009.

Output contracted for the first time since October 2013 in the USA to weigh heavily on the index, while growth softened to only a mild pace in Germany. Elsewhere, production increased for the first time in five months in the Netherlands, whilst Italy reported a quicker uptick, albeit only slight. Meanwhile, growth in France accelerated to a modest rate, while Ireland recorded the sharpest expansion since September 2018.

Export Climate Index

sa, >50 = improving export climate since previous month



Top export markets, Scotland

Rank	Market	Weight	Output Index, Feb-20
1	Netherlands	19.5%	51.4
2	USA	12.4%	49.6*
3	Germany	8.6%	50.7
4	France	5.3%	52.0
5	Ireland	5.1%	56.7

*Flash PMI figure

Scotland Industry Specialisation

Location quotients (LQs) are useful measures of regional economic specialisation and offer a means to identify industry clusters at a local level. They are ratios derived by comparing the share of sector output (or gross value added) in regions with the national share of output in the same sector.

Focusing on the manufacturing and service sectors in isolation, a location quotient is calculated by taking a sector's proportion of regional output and comparing it with the UK-wide share of output in the sector. An LQ of 1.0 in a sector means that the region and the UK as a whole are equally specialised in that

sector. An LQ greater than 1.0 indicates that the sector has a greater economic footprint in the region than it does for the UK as a whole.

The tables below rank the location quotients for Scotland, broken down by manufacturing and services sub-sectors. The UK Output Index for each sub-sector is also displayed.

Manufacturing specialisation: Scotland

Rank	Sector	LQ	UK Output Index, Feb-20 (3mma)
1	Food & Drink	1.90	
2	Textiles & Clothing	1.21	
3	Wood & Paper	1.19	
4	Electrical & Electronic	1.10	
5	Chemicals, Rubber & Plastics	0.90	
6	Metals & Metal Products	0.87	
7	Machinery & Equipment	0.85	
8	Other Manufacturing	0.68	
9	Transport Equipment	0.32	

35 40 45 50 55 60

Services specialisation: Scotland

Rank	Sector	LQ	UK Business Activity Index, Feb-20 (3mma)
1	Hotels, Restaurants & Catering	1.29	
2	Financial Intermediation	1.08	
3	Transport & Communication Services	1.05	
4	Other personal/consumer Services	1.03	
5	Business-to-business Services	0.94	
6	Computing & IT Services	0.73	

45 50 55

UK Sector Focus: Other Manufacturing

Output Index



Last six months*



*3mma

UK's 'Other Manufacturing' sector makes flying start to 2020, but supply chain disruptions emerge

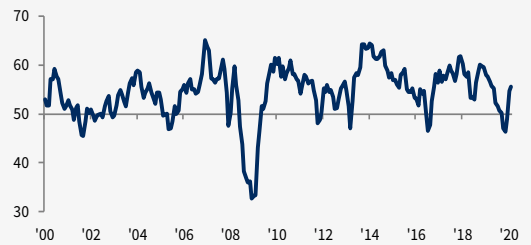
After contracting in the final quarter of 2019, the UK's 'Other Manufacturing' sector – which comprises mostly consumer goods categories, including jewellery, sports equipment, toys and games – has rebounded strongly at the start of 2020, recording marked growth in output, new orders and employment. The increase in production in the three months to February was second only to that seen in the Food & Drink sector.

Less positively, however, latest data showed the rapid emergence of heightened supply chain pressures, linked mainly to disruption in China caused by the coronavirus outbreak. Delays for raw materials and other inputs were the most widespread since mid-2018.

Worryingly for production in the coming months, firms' stocks of purchases have fallen sharply, decreasing at the fastest rate for over ten years in the three months to February.

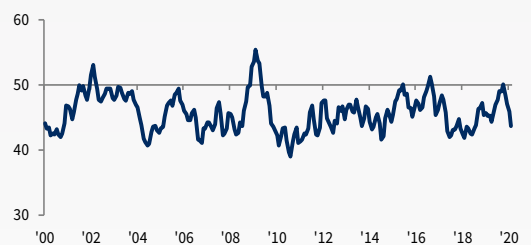
Output Index

sa, >50 = growth since previous month (3mma)



Suppliers' Delivery Times Index

'sa, >50 = improved times since previous month (3mma)



UK Regional Rankings

Business Activity

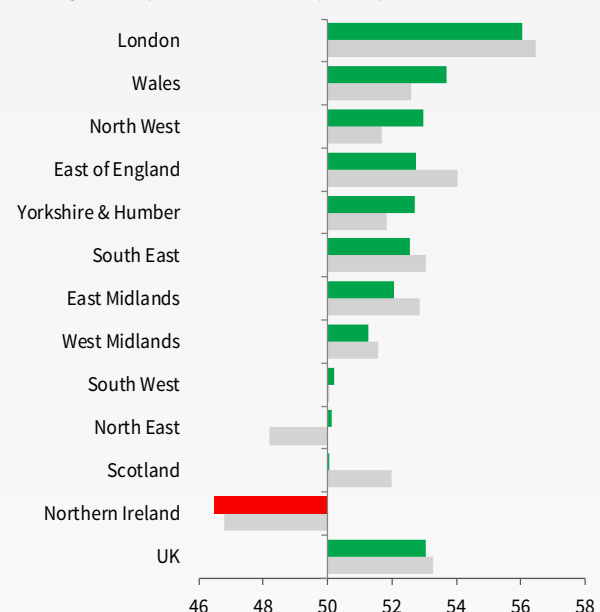
London remained by far the best-performing region for business activity growth in February, with the rate of expansion in the capital staying close to January's 33-month high. Wales and the North West rose to second and third in the rankings respectively, having each recorded a faster rise in output. Growth slowed in the East of England, South East, East Midlands and West Midlands. Business activity rose in the South West and North East – albeit only fractionally – for the first time in 12 and ten months respectively. Output in Scotland broadly stagnated, while Northern Ireland saw a further marked contraction.

Employment

London and Northern Ireland jointly led job creation in February, and were two of only six (out of 12) monitored areas to record a rise in employment. This was down from 11 in January, as the South East, West Midlands, East Midlands, North West and Scotland all recorded renewed declines in payrolls. The East of England and Wales both saw faster employment growth, while Yorkshire & Humber registered a slower rise. The decline in workforce numbers in the North East eased to the weakest for seven months and was only marginal.

Output Index by region

sa, >50 = growth since previous month, Feb-20



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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

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.

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The bank has commitment to retain its close connections with the Scottish communities it serves.

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