

Royal Bank of Scotland PMI®

Business activity rises at weakest rate since March

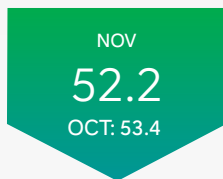
Key Findings

Demand conditions improve only modestly in November

Output growth moderates...

...but activity expectations strengthen

Scotland Business Activity Index



Last six months SC / UK



By sector	Nov-18
Manufacturing	51.2
Services	52.5

According to the latest Royal Bank of Scotland PMI®, Scottish output growth momentum faded in November. New order growth eased amid a combination of contraction at manufacturers and slower growth in the service sector. Nonetheless, firms continued to expand workforces, with improved operating capacities enabling a backlog reduction. Input costs continued to inflate, resulting in further output price increases. Looking ahead, confidence improved slightly, but remained weak relative to earlier in the year.

The seasonally adjusted headline Royal Bank of Scotland PMI decreased to 52.2 in November. This was down from 53.4 in October and signalled the slowest expansion in private sector output since March. That said, growth was stronger than that for the UK as a whole. Those companies reporting higher activity indicated that demand pressures were sufficiently strong warrant higher output.

Demand

As has been observed since March, total new orders received by Scottish private sector firms increased in November. The increase was reflective of an upturn in the service sector, as manufacturers registered a reduction in sales. New contract wins supported growth in the former, while weak underlying demand conditions impacted workloads at the latter. That said, the overall expansion was only moderate and weaker than in October.

Capacity

Latest survey data pointed to a further decline in outstanding business at privately-run firms in Scotland. The rate of depletion was marked and the sharpest in just over two years. Panellists mentioned that weaker growth in sales enabled them to clear unfinished orders. Relative to other monitored UK regions, only firms in the North East observed a stronger alleviation of capacity pressures.

Nonetheless, job creation was maintained in November. Despite employment growth weakening since October and being just slight overall, it was stronger than the long-run average.

Prices

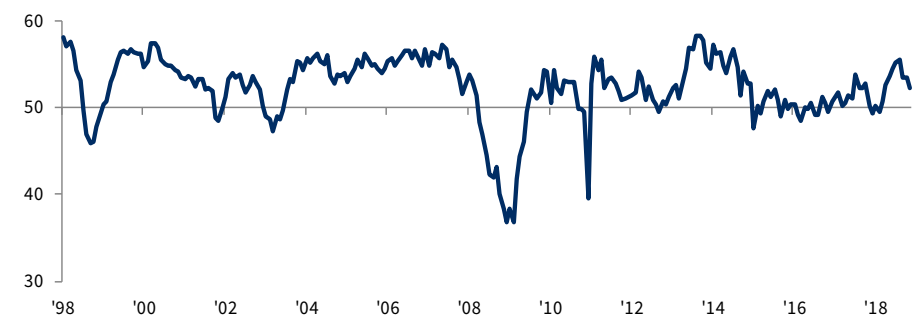
Pressures on profit margins were evidenced by further sharp monthly increases in cost burdens in November. A weak pound, raw material prices and greater labour and utility costs were mentioned as sources of inflation. In turn, charges were lifted to offset the rise in costs. The rate of increase was solid and faster than seen in October.

Outlook

Despite the loss in momentum, firms were more confident towards future growth prospects than in October. Planned company growth, new marketing strategies and stronger international competitiveness were all cited as reasons underpinning confidence.

Scotland Business Activity Index

sa, >50 = growth since previous month



New Business Index

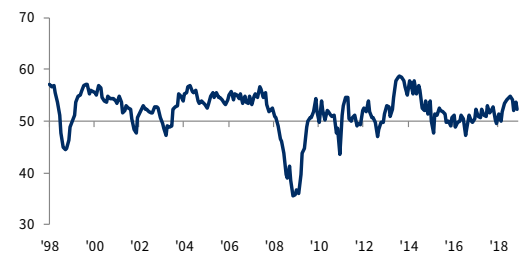


Demand conditions remain favourable

Latest survey data pointed to a ninth successive monthly increase of new work received by Scottish private sector companies. Panellists attributed order book growth to new contract wins and positive underlying demand conditions. However, the expansion was only modest and weaker than in October. The sector split indicated that service providers drove the upturn, with manufacturers observing a decline in sales.

New Business Index

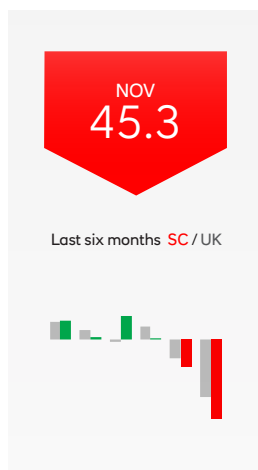
sa, >50 = growth since previous month



By sector

	Manufacturing	Services
Nov-18	49.7	53.0

Outstanding Business Index



Capacity pressures ease noticeably in November

Scottish private sector businesses cleared outstanding work in November to the greatest extent since October 2016. The rate of depletion was marked and faster than seen on average for the UK overall. Some companies reported weaker demand growth had enabled them to reduce backlogs, while others associated the fall to improved productivity.

Outstanding Business Index

sa, >50 = growth since previous month



By sector

	Manufacturing	Services
Nov-18	46.5	45.0

Employment Index



Broad-based rise in staffing levels across Scotland

Headcounts at Scottish private sector firms were raised during the latest survey period, as has been the case since March. Job creation was linked to company expansion and stronger levels of business activity. That said, the increase in employment eased to a slight pace and was among the weakest recorded across the monitored UK regions.

Employment Index

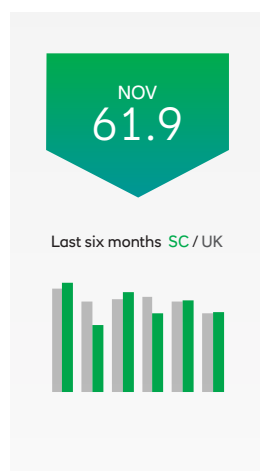
sa, >50 = growth since previous month



By sector

	Manufacturing	Services
Nov-18	50.8	51.5

Input Prices Index



Cost burdens continue to rise sharply

Cost pressures faced by private companies in Scotland continued to build during November. Detrimental exchange rate variance, rising raw material prices as well as higher utility and labour costs were all mentioned by panel members. That said, the rate of inflation was weaker than those seen earlier in the year. The latest increase was broadly in line with the UK average.

Input Prices Index

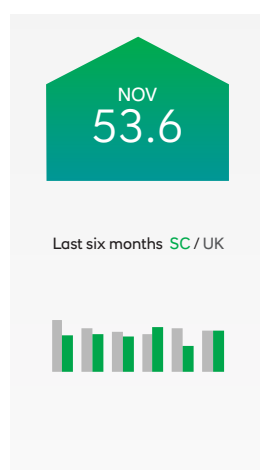
sa, >50 = inflation since previous month



By sector

	Manufacturing	Services
Nov-18	65.0	61.1

Prices Charged Index



Selling prices increase further in November

Efforts to alleviate profit margin pressures were evidenced by another monthly rise in selling charges during November. The rate of inflation was solid overall and accelerated from October. Sector data revealed that goods producers led the latest bout of increases, while service providers raised prices only moderately.

Prices Charged Index

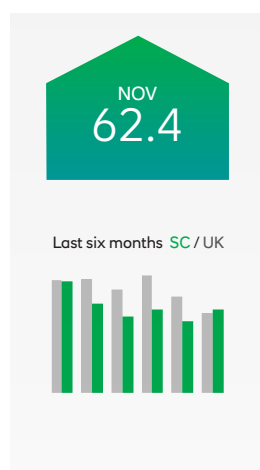
sa, >50 = inflation since previous month



By sector

	Manufacturing	Services
Nov-18	57.5	52.7

Future Output Index



Confidence strengthens across both monitored sectors

Having hit a one-year low in October, the level of positive sentiment in Scotland strengthened during the latest survey period. Furthermore, the improvement in optimism was broad-based across both manufacturers and service providers. Planned company growth, new marketing strategies and stronger international competitiveness were all cited as reasons underpinning confidence.

Future Output Index

>50 = growth expected over next 12 months



By sector

	Manufacturing	Services
Nov-18	65.0	61.7

Scotland Export Climate Index

Note: Export markets are defined as non-UK.



Last six months



Growth at key trade partners continues to soften

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 Export Climate Index fell in November to 53.3, from 53.5 in October, indicating a further loss of growth momentum at key markets for Scottish manufacturing trade. In fact, the improvement in export conditions was the slowest since September 2016.

Weaker growth was reflective of softer expansions in the US and Dutch manufacturing sectors, which account for around 27% of total goods exports. These offset improvements in China and France, while Germany also observed a weaker rise in manufacturing output in November.

Export Climate Index

sa, >50 = improving export climate since previous month



Top export markets, Scotland

Rank	Market	Weight	Output Index, Nov-18
1	Netherlands	15.0%	54.6
2	USA	11.6%	54.7
3	Germany	9.7%	52.3
4	China	7.7%	51.9
5	France	6.3%	54.2

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, Nov-18 (3mma)
1	Food & Drink	1.97	55.0
2	Textiles & Clothing	1.22	50.0
3	Wood & Paper	1.03	50.0
4	Electrical & Electronic	1.00	50.0
5	Metals & Metal Products	0.95	50.0
6	Machinery & Equipment	0.88	50.0
7	Chemicals, Rubber & Plastics	0.88	50.0
8	Other Manufacturing	0.65	50.0
9	Transport Equipment	0.34	45.0

Services specialisation: Scotland

Rank	Sector	LQ	UK Business Activity Index, Nov-18 (3mma)
1	Hotels, Restaurants & Catering	1.25	50.0
2	Other Personal / Consumer Services	1.07	50.0
3	Financial Intermediation	1.03	50.0
4	Transport & Communication Services	1.03	50.0
5	Business-to-Business Services	0.95	50.0
6	Computing & IT Services	0.68	45.0

UK Sector Focus: Other Personal/Consumer Services

Output Index



Last six months*



*3mma

'Other' consumer services sector edges closer to stagnation

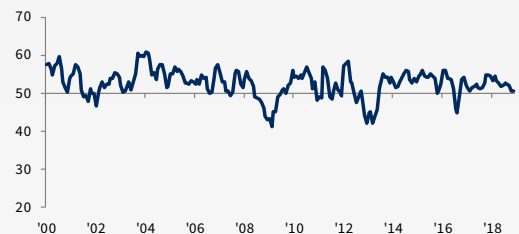
The UK's 'other' consumer service sector saw its slowest growth performance for more than two years in the three months to November, as weak confidence continued to undermine household demand.

Business activity across the sector – which includes recreation and sporting activities as well as personal care – rose only slightly, registering the smallest increase since the current upturn began in late-2016. The sector was the weakest performing across the UK services economy, closely followed by hotels & restaurants.

With activity barely rising and business confidence at an eight-year low, data revealed cutbacks to staffing numbers in the sector. With the exception of the months immediately after the Brexit vote, the job losses were the most marked in over five years.

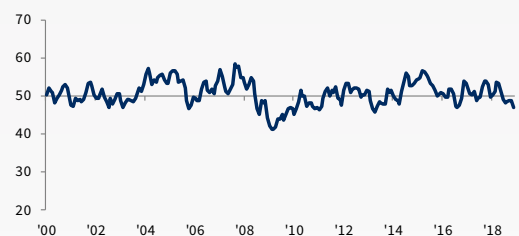
Output Index

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



Employment Index

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



UK Regional Rankings

Business Activity

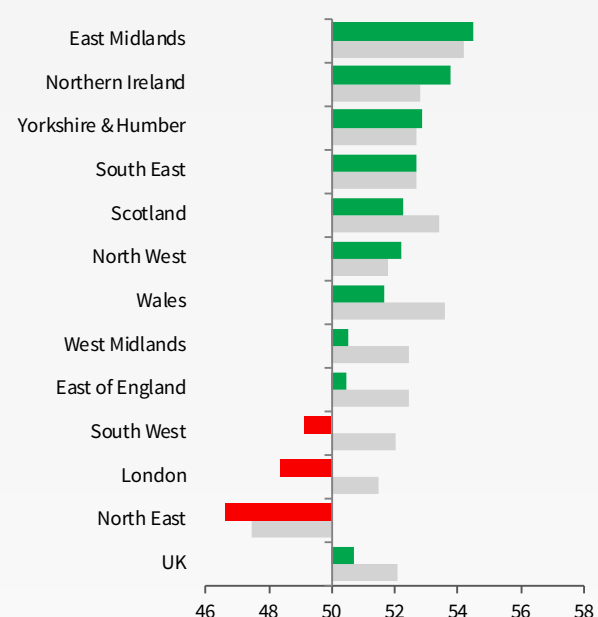
There were contrasting trends across UK regions in terms of business activity in November. The top three ranked regions – the East Midlands, Northern Ireland and Yorkshire & Humber – all saw faster growth, while in the South East (ranked fourth overall) the rate of expansion was unchanged. The remainder, however, most recorded either a loss of growth momentum or outright falls in output. The North East (46.6) – which saw output fall for the third month running and at a quicker pace – was joined in contraction by London (48.3) and the South West (49.1). In both cases, it was the first fall in output since July 2016.

Employment

The North West was the top-performing region for employment growth in November, having seen job creation re-accelerate to the second-quickest since February. Wales, which was ranked second overall, also enjoyed a pick-up in the pace of hiring, to the quickest in over a year. The North East saw the only decrease in private sector employment, though the rate of decline was the slowest since August.

Output Index by region

sa, >50 = growth since previous month, Nov-18 (Oct-18 ■) (Oct-18 ■)



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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.

About Royal Bank of Scotland

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

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IHS Markit (Nasdaq: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

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