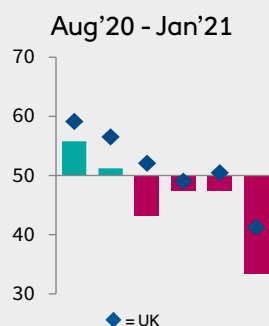


# Royal Bank of Scotland PMI<sup>®</sup>

## Stricter lockdown measures push Scottish private sector into steep downturn during January

### Scotland Business Activity Index



### Key findings

Business activity and new work drop at quickest rates since last May

Job cuts continue into 2021 amid rapid fall in backlogs

Sentiment climbs to near-seven year high as vaccine rollout continues

The Scottish private sector sunk deeper into a downturn during the opening month of 2021, as lockdown measures stifled client demand and led some businesses to close temporarily, according to the latest Royal Bank of Scotland PMI<sup>®</sup>. The seasonally adjusted headline Royal Bank of Scotland Business Activity Index - a measure of combined manufacturing and service sector output - posted 33.3 in January, down from 47.3 in December, to signal a rapid drop in private sector output. Moreover, excluding the March to May period of last year, the latest reading was the lowest on record (since 1998). New work fell at a similarly sharp pace, with the decline also the most marked for eight months. As a result, companies made further cuts to staff numbers.

Despite the challenging conditions, sentiment improved during January, with business confidence the highest since early-2014 on the back of the ongoing vaccine rollout, as well as hopes of looser restrictions and a timely economic recovery.

Malcolm Buchanan, Chair, Scotland Board, Royal Bank of Scotland, commented:

*"Stricter lockdown measures took a toll on the Scottish private sector during January, with the downturn worsening amid steep drops in both activity and new business. The falls remained slower than at the height of the first lockdown last spring, perhaps reflective of companies adapting to restrictions, but were still severe."*

*"Positive news again came from business confidence, which was the strongest since April 2014 amid hopes of an economic recovery once restrictions are lifted. Conditions will remain very challenging in the meantime, but there is a light at the end of the tunnel for Scotland's economy as the vaccine rollout progresses and measures are loosened."*

### Scotland Business Activity Index

sa, >50 = growth since previous month



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## About the Scotland PMI® report

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.

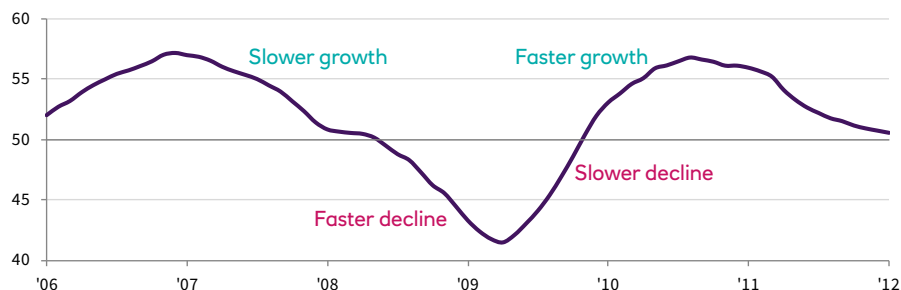
The headline figure is the Business Activity Index. This is a composite index calculated by weighting together the Manufacturing Output Index and the Services Business Activity Index. The Scotland Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the '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](mailto:economics@ihsmarkit.com).

### Index interpretation

50.0 = no change since previous month



## Demand and outlook

### New business

A fifth straight monthly reduction in inflows of new work was recorded during January. Respondents attributed the latest drop in new business to stricter COVID-19 related measures, which stymied client demand. Excluding the March to May period during the first lockdown last year, the rate of contraction was the quickest on record.

At the sector level, the fall was broad based, with services registering much the steeper rate of decline. Scotland also registered the quickest drop in new work across the 12 monitored UK areas.

### Business expectations

Scotland's private sector firms recorded the strongest level of confidence with regards to activity over the next 12 months since April 2014 during the opening month of the year. Despite the ongoing downturn, companies remained optimistic on the back of the vaccine rollout and amid hopes of looser restrictions and a solid economic recovery, according to anecdotal evidence.

Both manufacturers and service providers registered brighter outlooks during January.

### Exports

#### Export conditions improve marginally again

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 registered 52.8 in January, unchanged from December's reading, and signalled a further moderate improvement in conditions across the top five Scottish export markets.

At the national level, the steepest expansions were recorded in the Netherlands and USA, both of which saw growth quicken on the month. Growth was also seen in China and Germany, albeit at slower rates, while output in France declined again.

### New Business Index

sa, >50 = growth since previous month

35.5

Jan '21



### Future Activity Index

>50 = growth expected over next 12 months

67.8

Jan '21



### Export Climate Index

sa, >50 = growth since previous month

52.8

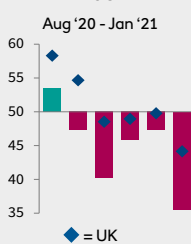
Jan '21



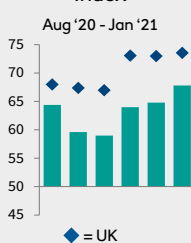
#### Top export markets, Scotland

Rank	Market	Weight	Output Index, Jan '21
1	Netherlands	18.3%	58.4
2	USA	10.8%	58.7
3	Germany	9.2%	50.8
4	China	6.6%	52.2
5	France	5.6%	47.7

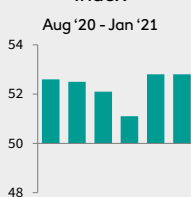
### New Business Index



### Future Activity Index



### Export Climate Index



## Business capacity

### Employment

Amid reports of redundancies, layoffs and use of the government furlough scheme, private sector employment in Scotland declined again during January. The rate of job shedding was the slowest since February 2020, the first month in the current sequence, but still sharp overall.

Scottish service providers again reported more widespread job cuts than manufacturers.

### Outstanding business

As has been the case throughout much of the past eight years, private sector firms in Scotland recorded a fall in the level of outstanding business during January. According to panellists, weak sales had allowed them to direct resources to unfulfilled orders. Moreover, the rate of backlog depletion was the most marked since last June, and the quickest recorded across the 12 monitored UK areas in January.

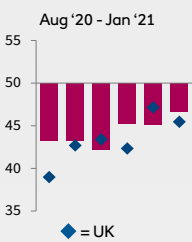
Employment Index 46.6  
sa, >50 = growth since previous month Jan '21



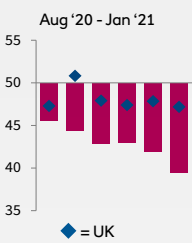
Outstanding Business Index 39.5  
sa, >50 = growth since previous month Jan '21



Employment Index



Outstanding Business Index



## Prices

### Input prices

January data highlighted another upturn in cost burdens facing Scottish companies, extending the current sequence of higher input prices to eight months. According to respondents, the latest rise was driven by greater raw material, fuel and transport costs, as well as higher wage bills and additional COVID-19 related expenditure.

Although still sharp, the rate of inflation eased from December. Scotland registered the second-slowest increase in costs across the 12 monitored UK areas, ahead of London.

### Prices Charged

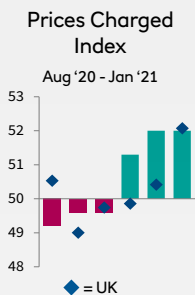
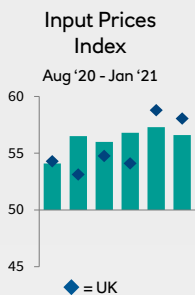
In response to greater input costs, Scottish private sector firms increased their average charges for the third straight month in January. The rate of output price inflation was unchanged from December and moderate overall.

Each of the two monitored sectors saw an upturn in charges during January. The rate of inflation was noticeably quicker at manufacturers.

Input Prices Index 56.6  
sa, >50 = inflation since previous month Jan '21



Prices Charged Index 52.0  
sa, >50 = inflation since previous month Jan '21



## Scotland Manufacturing PMI

### Manufacturing conditions deteriorate slightly at start of 2021

The seasonally adjusted Scotland Manufacturing PMI - a composite single-figure indicator of manufacturing performance - fell sharply from 55.6 in December and dipped below the 50.0 mark at 49.6 in January, signalling the first deterioration in the health of the Scottish goods-producing sector since last June.

Renewed falls in output and new orders drove the downturn, with the rates of reduction in both indicators the steepest since May last year. According to respondents, stricter lockdown measures had stymied client demand and led some companies to close temporarily.

Subsequently, Scottish goods producers pared back sharply on purchasing during January, whilst both pre- and post-production inventories decreased at quicker rates. Nonetheless, lead times for inputs lengthened to the greatest extent since last April, as lockdown measures continued to disrupt global supply chains. Firms also recorded another round of job cuts at the start of 2021.

On the price front, cost burdens increased at the steepest rate for two years, with output charges rising solidly as a result.

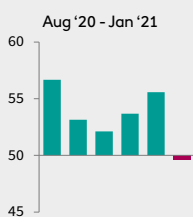
Manufacturing PMI  
sa, >50 = improvement since previous month  
49.6  
Jan '21



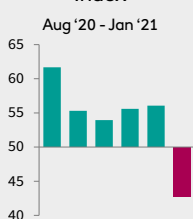
Output Index  
>50 = growth expected over next 12 months  
42.8  
Jan '21



Manufacturing PMI



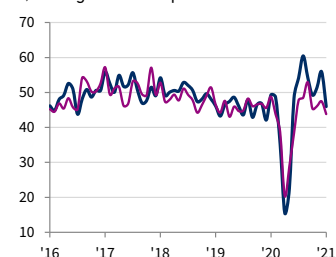
Output Index



New Orders Index

New Export Orders Index

sa, >50 = growth since previous month



Future Output Index

>50 = growth expected over next 12 months

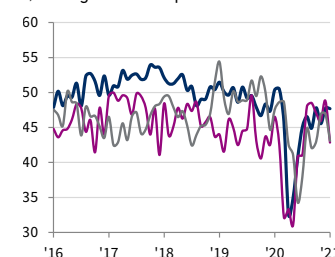


Employment Index

Backlogs of Work Index

Stocks of Finished Goods Index

sa, >50 = growth since previous month



Suppliers' Delivery Times Index

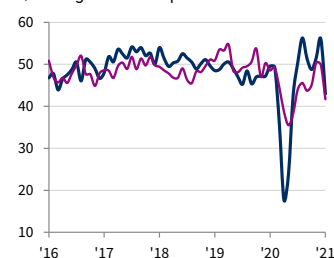
sa, >50 = faster times since previous month



Quantity of Purchases Index

Stocks of Purchases Index

sa, >50 = growth since previous month



Input Prices Index

Output Prices Index

sa, >50 = inflation since previous month



## Scotland Services PMI

### Services activity plummets in January amid new lockdown

The seasonally adjusted Business Activity Index fell steeply from 45.4 in December to 31.2 in January, signalling the most marked reduction in service sector output since last May.

Central to the downturn was a steep drop in new work at the start of 2021. The rate of reduction in new business was also the fastest for eight months. Panellists overwhelmingly attributed the falls in activity and new work to stricter COVID-19 lockdown measures.

Subsequently, Scottish service providers made further cuts to their staffing levels during January, although the rate of job shedding was the weakest since February 2020.

Meanwhile, cost burdens rose further, with greater fuel and wage costs as well as higher prices at suppliers the main drivers of inflation, according to panellists. In response, firms upped their charges marginally.

Despite the severe drop in activity, services firms remained confident of higher output over the next 12 months. Sentiment was the highest since June 2014, with respondents linking confidence to hopes of looser restrictions and a subsequent economic recovery.

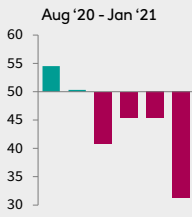
**Business Activity Index** 31.2  
sa, >50 = growth since previous month Jan '21



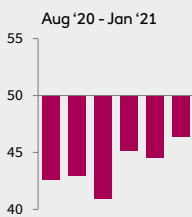
**Employment Index** 46.4  
sa, >50 = growth since previous month Jan '21



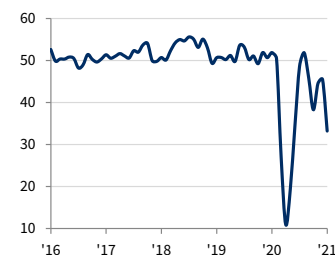
**Business Activity Index**



**Employment Index**



**New Business Index**  
sa, >50 = growth since previous month



**New Export Business Index**  
sa, >50 = growth since previous month



**Future Activity Index**  
>50 = growth expected over next 12 months



**Outstanding Business Index**  
sa, >50 = growth since previous month



**Input Prices Index**  
sa, >50 = inflation since previous month



**Prices Charged Index**  
sa, >50 = inflation since previous month



## UK Sector PMI

### Sector specialisation: Scotland

Location quotients (LQs) are useful measures of regional economic specialisation and can 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. The UK Output Index for each sub-sector is also displayed.

#### Scotland specialisation: Manufacturing

Rank	Sector	LQ	UK Output Index, Jan '21*
1	Food & Drink	1.90	50
2	Textiles & Clothing	1.21	45
3	Wood & Paper	1.19	45
4	Electrical & Electronic	1.10	55
5	Chemicals, Rubber & Plastics	0.90	55
6	Metals & Metal Products	0.87	55
7	Machinery & Equipment	0.85	55
8	Other Manufacturing	0.68	55
9	Transport Equipment	0.32	55

#### Scotland specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Jan '21*
1	Hotels, Restaurants & Catering	1.29	40
2	Financial Intermediation	1.08	45
3	Transport & Communication	1.05	45
4	Other Services	1.03	45
5	Business-to-business Services	0.94	45
6	Computing & IT Services	0.73	50

### UK sector focus

#### Personal & Community Services

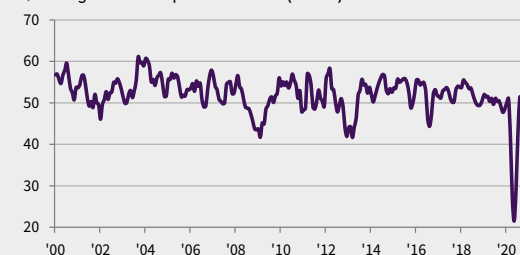
The UK's Personal & Community Services sector has been one of the hardest hit during the COVID-19 lockdowns. Latest PMI data showed activity falling sharply in the three months to January, and at a rate exceeded only by those seen during the initial shutdowns last spring. The renewed downturn followed only a modest recovery in activity over the summer, when many businesses were able to reopen but faced restrictions due to social distancing rules.

The crisis exacerbated an already downward trend in employment in the sector stretching back over two-and-a-half years. Latest data showed payroll numbers continuing to fall sharply, albeit at the slowest rate since the opening quarter of 2020.

Helping in this regard was stronger optimism among businesses that conditions would improve over the coming 12 months, with expectations at a near four-year high in the three months to January.

#### Output Index

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





## UK Regional PMI overview

### Business Activity

January saw a broad-based decrease in business activity across all regions and nations amid the reintroduction of lockdown measures. Scotland saw the steepest drop in output of goods and services, followed by the North West and Northern Ireland respectively. London and Yorkshire & Humber recorded the shallowest contractions, though in both cases the rates of decline were still the quickest since last May.

### Employment

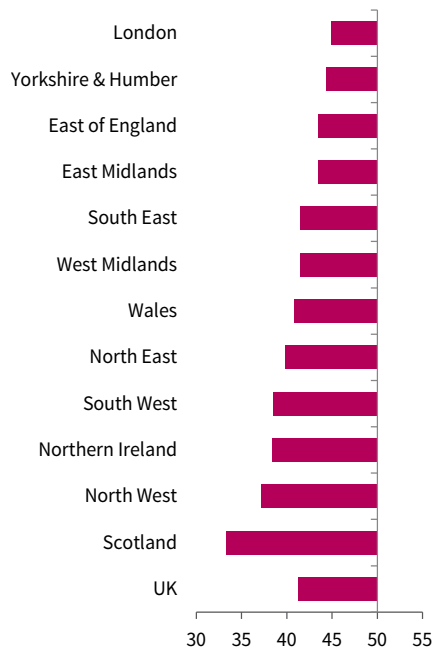
Employment fell across all 12 monitored areas of the UK in January. For the East of England and Yorkshire & Humber, this meant renewed declines in payroll numbers after slight increases in December. Rates of job shedding accelerated in all other cases except in Scotland, where the latest fall - though still notable by historical standards - was the least marked since last February.

### Future Activity

Regional business expectations towards future activity remained positive across the board in January. Firms in Yorkshire & Humber recorded the highest overall optimism, having also seen the biggest improvement since December. Next in the rankings were London and the West Midlands respectively. Sentiment in Northern Ireland retreated from a ten-month high in December and was only just inside positive territory.

Business Activity Index

sa, >50 = growth since previous month, Jan '21



Employment Index

sa, >50 = growth since previous month, Jan '21



Future Activity Index

>50 = growth expected over next 12 months, Jan '21



\* Coverage in Northern Ireland also includes retail and construction, alongside manufacturing and services.



## Index summary

### Composite

sa, 50 = no change over previous month. \*50 = no change over next 12 months.

	Business Activity	New Business	Export Climate	Future Activity*	Employment	Outstanding Business	Input Prices	Prices Charged
Aug '20	55.8	53.4	52.6	64.4	43.3	45.6	54.1	49.2
Sep '20	51.2	47.3	52.5	59.6	43.3	44.4	56.5	49.6
Oct '20	43.2	40.2	52.1	59.0	42.2	42.9	56.0	49.6
Nov '20	47.3	45.8	51.1	64.0	45.2	43.0	56.8	51.3
Dec '20	47.3	47.3	52.8	64.8	45.1	41.9	57.3	52.0
Jan '21	33.3	35.5	52.8	67.8	46.6	39.5	56.6	52.0

### Manufacturing

sa, 50 = no change over previous month. \*50 = no change over next 12 months.

	PMI	Output	New Orders	New Export Orders	Future Output*	Employment	Backlogs of Work	Stocks of Finished Goods	Quantity of Purchases	Suppliers' Delivery Times	Stocks of Purchases	Input Prices	Output Prices
Nov '20	53.7	55.6	51.4	46.1	58.3	45.5	46.0	46.9	51.5	31.9	50.4	59.1	52.7
Dec '20	55.6	56.1	55.9	47.4	60.5	47.7	48.8	46.9	56.1	31.7	49.9	61.4	51.3
Jan '21	49.6	42.8	46.0	43.8	66.1	47.7	42.9	43.1	43.0	23.9	41.7	64.0	54.9

### Services

sa, 50 = no change over previous month. \*50 = no change over next 12 months.

	Business Activity	New Business	New Export Business	Future Activity*	Employment	Outstanding Business	Input Prices	Prices Charged
Nov '20	45.5	44.5	39.8	65.2	45.2	42.4	56.3	51.0
Dec '20	45.4	45.5	41.9	65.7	44.5	40.3	56.4	52.1
Jan '21	31.2	33.2	31.0	68.1	46.4	38.8	54.9	51.4

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### About Royal Bank of Scotland

Royal Bank of Scotland has paved the way in banking ever since it was established in 1727. From the world's first overdraft, and the first house purchase loan by a UK bank, to the first fully-fledged internet banking service and mobile banking app the bank has a history of making life easier for its customers.

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

### About IHS Markit

IHS Markit (NYSE: 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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### 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.

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