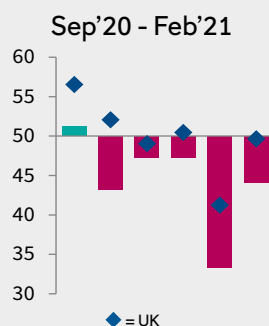


Royal Bank of Scotland PMI[®]

Scottish private sector downturn eases, but remains severe

Scotland Business Activity Index



Key findings

Activity and new work drop sharply in February, albeit at slower rates

Pace of cost inflation quickest for a year

Year ahead outlook for activity strongest on record

The Scottish economy remained stuck in a downturn during February, according to the latest Royal Bank of Scotland PMI[®]. This was highlighted by the seasonally adjusted headline Royal Bank of Scotland Business Activity Index - a measure of combined manufacturing and service sector output - remaining well below the 50.0 mark. Rising from 33.3 in January to 44.1 in February, the latest figure pointed to a slower pace of reduction, but one that was still sharp overall. At the sector level, the downturn was centred on services, which saw a further marked drop in activity, while manufacturing output returned to growth.

Meanwhile, inflows of new business declined further, amid reports that ongoing coronavirus disease 2019 (COVID-19) measures had stymied client demand. Positively, sentiment towards activity over the coming 12-months was the strongest on record, with hopes of looser restrictions and an economic recovery driving optimism.

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

"Lockdown measures continued to stifle the Scottish economy in February. Both business activity and inflows of new work fell steeply again, although the rates of decline eased notably since January. Ongoing logistical issues and price hikes at suppliers forced costs higher still but, with client demand constricted, firms increased their charges only modestly.

"Despite the challenging conditions, Scottish companies reported the strongest level of business confidence on record in February, with the lockdown roadmap prompting hopes of easing restrictions and a strong economic recovery in the coming year."

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.

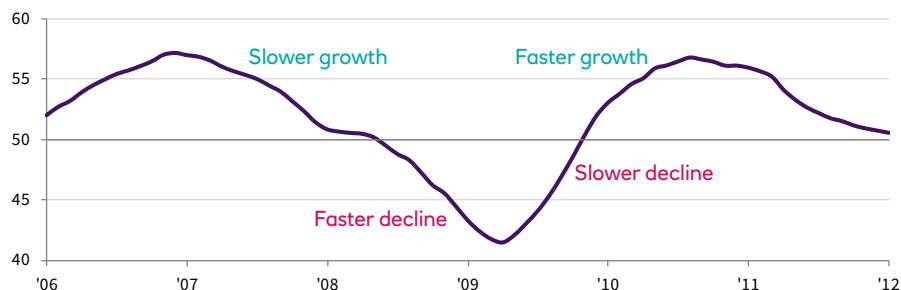
The headline figure is the Business Activity Index. This is a composite index calculated by weighting together the Manufacturing Output Index and the Services Business Activity Index. The Scotland Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the '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.

Index interpretation

50.0 = no change since previous month



Demand and outlook

New business

A sixth straight monthly reduction in the level of new business at Scottish private sector firms was recorded in February. Panellists linked the latest fall almost exclusively to lockdown restrictions. The rate of decline eased on the month, but was still sharp and much quicker than that at the UK level.

Scottish services firms registered a much faster decrease in new work than manufacturers.

Business expectations

Private sector firms in Scotland recorded improved confidence with regards to the year ahead outlook for activity in February. In fact, the level of positive sentiment was the highest on record (since 2012). Confidence was attributed by respondents to hopes of a timely end to COVID-19 restrictions and a subsequent economic recovery.

Exports

Strongest improvement in export climate since December 2018

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 53.2 in February, rising from 52.8 in January, and signalled the fastest improvement in export conditions since December 2018.

Across Scotland's top five export markets, growth was driven by sharp expansions in the US and the Netherlands, although sustained upturns in output were also registered in Germany and China. Elsewhere, France recorded a moderate contraction during February.

New Business Index
sa, >50 = growth since previous month
44.0
Feb '21



Future Activity Index
>50 = growth expected over next 12 months
72.6
Feb '21



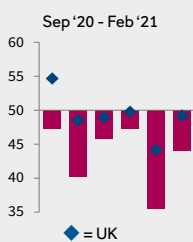
Export Climate Index
sa, >50 = growth since previous month
53.2
Feb '21



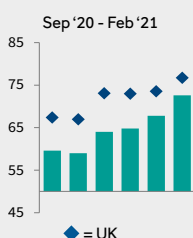
Top export markets, Scotland

Rank	Market	Weight	Output Index, Feb '21
1	Netherlands	18.3%	58.0
2	USA	10.8%	59.5
3	Germany	9.2%	51.1
4	China	6.6%	51.7
5	France	5.6%	47.0

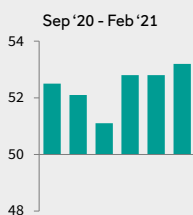
New Business Index
Sep '20 - Feb '21



Future Activity Index
Sep '20 - Feb '21



Export Climate Index
Sep '20 - Feb '21



Business capacity

Employment

Scottish private sector employment declined for the thirteenth straight month during February. Panellists noted that COVID-19 restrictions and temporary closures had led them to cut back on staffing, although there were also mentions of the government furlough scheme. Although still moderate, the rate of job shedding was the slowest for a year.

Job cuts were concentrated on the services sector, as manufacturers registered a slight rise in staffing levels.

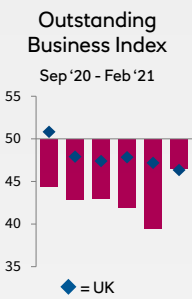
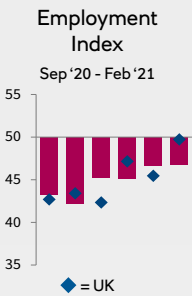
Outstanding business

As has been the case throughout much of the past seven years, the level of outstanding business at Scottish firms decreased during February. Anecdotal evidence linked the latest fall to weak activity requirements due to COVID-19 measures. The rate of backlog depletion was the slowest for a year, but still solid overall.

Employment Index 46.8
sa, >50 = growth since previous month Feb '21



Outstanding Business Index 46.5
sa, >50 = growth since previous month Feb '21



Prices

Input prices

February data marked a ninth successive monthly increase in cost burdens facing Scottish private sector firms. Moreover, the latest rise was the fastest for a year. Greater raw material costs, price hikes at suppliers, higher logistical expenses and fees associated with Brexit were the main drivers of inflation according to respondents.

Nonetheless, only London saw a slower uptick in input prices than Scotland across the 12 areas monitored during February.

Prices Charged

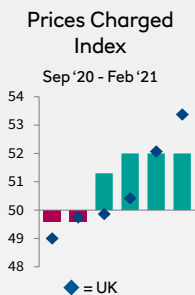
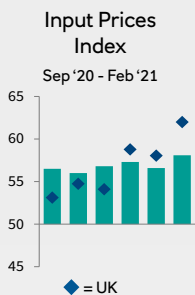
Average charges levied by Scottish private sector firms increased for the fourth straight month during February. Panellists attributed the latest rise to the pass-through of higher input costs to clients. The rate of inflation remained modest and was slightly weaker than that across the UK as a whole, however.

At the sector level, goods producers registered a much quicker increase in charges than their services counterparts, reflective of greater exposure to supply chain disruptions and raw material costs.

Input Prices Index 58.1
sa, >50 = inflation since previous month Feb '21



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



Scotland Manufacturing PMI

Renewed upturn in manufacturing conditions

The seasonally adjusted Scotland Manufacturing PMI - a composite single-figure indicator of manufacturing performance - rose from 49.6 in January to 52.2 in February, signalling a renewed improvement in Scottish manufacturing conditions, and one that was moderate overall.

Output returned to growth, although the uptick was only slight. Meanwhile, order book volumes fell for the second month running amid reports that lockdown measures had stifled client demand. New orders from abroad also declined in February, although the rate of reduction was the slowest in the current five-month sequence.

In line with falling sales, companies continued to pare back on their purchasing in February. As a result, pre-production inventories fell at the steepest pace since June last year.

Ongoing supply disruptions pushed costs up further, with the rate of inflation the most marked for four years. In response, firms increased their charges sharply.

Looking ahead, the 12-month outlook for output was the strongest since March 2018. Anecdotal evidence linked confidence to hopes of looser COVID-19 restrictions.

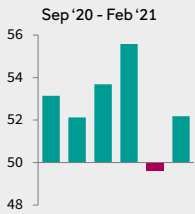
Manufacturing PMI
sa, >50 = improvement since previous month Feb '21



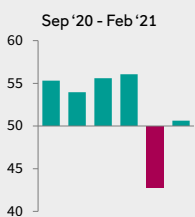
Output Index
>50 = growth expected over next 12 months Feb '21



Manufacturing PMI



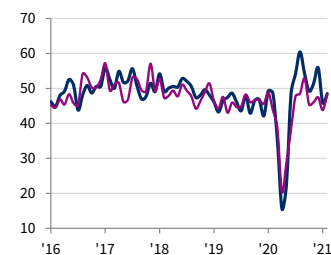
Output Index



New Orders Index

New Export Orders Index

sa, >50 = growth since previous month



Future Output Index

>50 = growth expected over next 12 months

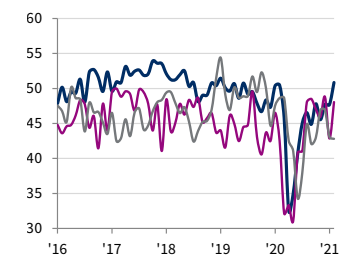


Employment Index

Backlogs of Work Index

Stocks of Finished Goods Index

sa, >50 = growth since previous month



Suppliers' Delivery Times Index

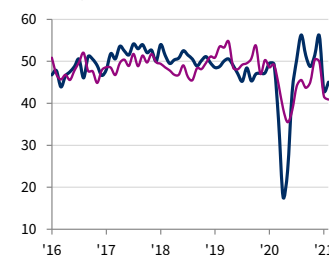
sa, >50 = faster times since previous month



Quantity of Purchases Index

Stocks of Purchases Index

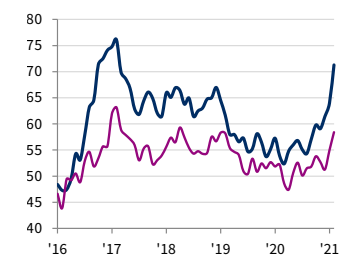
sa, >50 = growth since previous month



Input Prices Index

Output Prices Index

sa, >50 = inflation since previous month



Scotland Services PMI

Services activity falls sharply in February, but downturn eases

The seasonally adjusted Business Activity Index posted 42.7 in February to signal a fifth successive monthly contraction in Scottish services activity. Although rising from 31.2 in January to signal a slower rate of decline, the fall was still sharp overall.

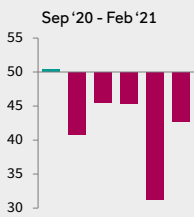
A similar trend was recorded for new business in February, which dropped sharply, albeit at a much slower pace than in January. Panellists attributed the latest falls in both activity and new work to COVID-19 restrictions.

Meanwhile, Scottish service providers cut their staffing levels for the thirteenth straight month in February. Anecdotal evidence cited lockdown measures and use of the government furlough scheme. The rate of job shedding quickened on the month and was solid.

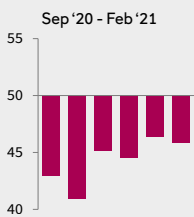
Turning to prices, cost burdens increased at a faster pace, with the rate of inflation sharp overall. As a result, firms upped their average charges for the fourth month in a row, albeit at the weakest pace in this sequence.

Finally, the 12-month outlook for output was the strongest since November 2013. Companies linked confidence to hopes of a strong economic recovery from the pandemic.

Business Activity Index



Employment Index



Business Activity Index

sa, >50 = growth since previous month

42.7

Feb '21



Employment Index

sa, >50 = growth since previous month

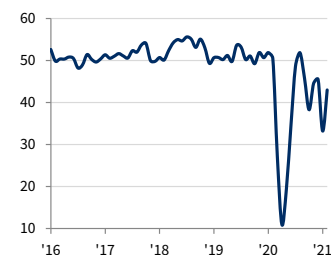
45.9

Feb '21



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, Feb '21*
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	

40 45 50 55 60

Scotland specialisation: Services

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

30 40 50 60

UK sector focus

Transport Equipment

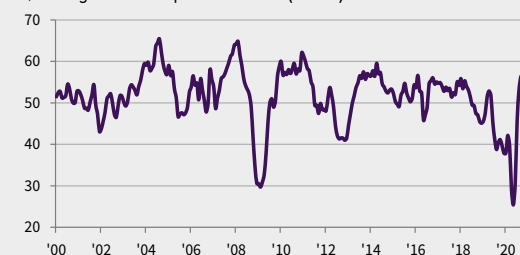
Latest PMI data showed a renewed downturn in production across the UK's Transport Equipment sector in the three months to February. Output slipped back into contraction after rising in the second half of 2020 as the sector recovered some of the ground lost during the initial COVID-19 shutdowns last spring.

In some cases, firms attributed the slowdown to a drop in demand, following a surge in orders from clients in Europe in the lead up to the end of the Brexit transition period late last year. Another factor weighing on production was a lack of availability of components, linked to delays at UK borders and increasing pressure on global supply chains.

These supply bottleneck pushed up input costs at the fastest rate for almost a decade. Still, there was strong optimism for the year ahead and firms reported a sustained upturn in employment as they looked to expand capacity.

Output Index

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



UK Regional PMI overview

Business Activity

Following sharp decreases in business activity across the board in January, just four regions recorded a rise in February: London, Yorkshire & Humber, the West Midlands and North West. Downturns slowed in all other areas, with the North East close to stabilisation and the East of England and South East seeing only modest declines. Northern Ireland recorded the sharpest drop in output, followed by Wales, Scotland and the South West, respectively.

Employment

Three out of the 12 monitored regions recorded higher employment in February, the most for a year. The strongest rate of job creation was in Yorkshire & Humber, with the East of England and East Midlands also recording increases. As was the case for business activity, the steepest decline in payroll numbers was in Northern Ireland. It was also the only area where the pace of job losses quickened since January.

Future Activity

Firms in all regions and nations were optimistic about the year-ahead outlook in February. Moreover, confidence improved since January in most cases. This included Yorkshire & Humber, which saw the highest overall expectations, ahead of the South East and South West. Sentiment was weakest overall in Northern Ireland by some margin. That was despite the outlook being the brightest for 12 months.

Business Activity Index
sa, >50 = growth since previous month, Feb '21



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



Future Activity Index
>50 = growth expected over next 12 months, Feb '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
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
Feb '21	44.1	44.0	53.2	72.6	46.8	46.5	58.1	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
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
Feb '21	52.2	50.6	48.5	48.3	67.1	50.9	48.1	42.8	45.0	28.7	40.9	71.3	58.4

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
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
Feb '21	42.7	43.0	40.7	73.9	45.9	46.2	55.2	50.6

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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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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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