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Royal Bank of Scotland PMI®

Scottish private sector output up marginally in August

- **Manufacturing downturn eases, but service sector growth slips**
- **New orders fall for first time since May**
- **Business confidence weakest since July 2016**

According to the latest Royal Bank of Scotland PMI®, the private sector economy in Scotland remained close to stagnation in August, growing only fractionally for the second month in a row. Order book volumes slipped into decline, whilst the fall in workforce numbers accelerated from July. Inflationary pressures remained strong overall, often reflecting currency weakness. Output expectations weakened further, with the level of positive sentiment in August the lowest in over three years.

The seasonally adjusted headline Royal Bank of Scotland Business Activity Index - a measure of combined manufacturing and service sector output - posted 50.3 in August, broadly unchanged from 50.2 in July. Data thereby signalled only a fractional rise in output for the second consecutive month.

The downturn in the manufacturing sector eased from July, with output falling only fractionally in August. Service-providing firms, however, reported a slowing rate of growth, and one that was subdued in the context of the series historical average.

August data signalled a fractional reduction in order book volumes, following two months of increases. Anecdotal evidence linked the decline to political uncertainty. The fall was driven by the manufacturing sector, which reported a moderate reduction in new orders. On the other hand, the service sector posted fractional growth in new business.

With demand pressures subdued, businesses were able to focus on clearing backlogs in August. The level of outstanding business declined modestly, and for the eleventh month running.

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Meanwhile, employment levels across Scotland's private sector fell for the second consecutive month, and at the fastest rate since April 2016. That said, the fall in workforce numbers was only marginal overall.

Input prices continued to rise sharply in August, with firms noting currency weakness as the main cause. The rate of input price inflation ticked up from that seen in July, and was broadly in line with the long-run series average.

Firms passed on part of their higher input costs in the form of increased selling prices in August. The rate of output price inflation accelerated to the fastest in three months, but was modest overall.

Political and economic uncertainty continued to cloud the year-ahead outlook. Business confidence weakened to the lowest in over three years and, among the 12 monitored UK areas, only Northern Ireland held a weaker outlook than Scotland. In fact, sentiment has only been lower in the month following the EU referendum since the series began in July 2012.

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:

“The Scottish private sector remained close to stagnation in August, with only fractional growth signalled by the headline Business Activity Index. The manufacturing sector remained the main source of weakness, although the downturn eased since July. Meanwhile, activity growth in the service sector slipped to a marginal pace.

“Latest data highlighted a fall in new orders following two months of growth, whilst further evidence spare capacity was reflected in employment as firms continued to shed jobs, with the fall in workforce numbers accelerating from July.

“Political uncertainty continued to weigh down expectations, with business confidence the weakest since July 2016. The level of positive sentiment in Scotland was the second-lowest across the 12 monitored UK areas, with only Northern Ireland holding a weaker outlook. Overall, the forward-looking components of the survey suggest firms are expecting further challenging times ahead.”

ENDS

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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.

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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