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Royal Bank of Scotland PMI[®]

Service sector lifts Scottish economy during April

- **Service sector growth offsets manufacturing weakness**
- **Broad-based increase in staffing levels**
- **Business confidence remains subdued**

According to the latest Royal Bank of Scotland PMI[®], private sector business activity rebounded in April, growing slightly. The expansion was driven by services, as manufacturing output declined. A similar trend was seen in new orders, although employment rose in both sectors in April. Overall, firms expect activity levels to increase over the coming year, but the degree of confidence slumped to its lowest in two-and-a-half years.

The seasonally adjusted headline Royal Bank of Scotland PMI increased to 51.0 in April, from 49.6 in March, signalling a return to expansion in private sector output. On closer inspection however, it was solely driven by a renewed upturn in the services sector, as manufacturing production declined. While service providers mentioned improvements in demand, manufacturers reported weakness in the global goods-producing market.

Nonetheless, the overall rate of private sector growth in Scotland was broadly in line with that recorded for the UK as a whole.

In line with the trend in business activity, service sector order books supported an overall increase in demand during April. The rise was only mild, however, as reduced manufacturing sales due to uncertainty restricted the expansion. While workloads increased in Scotland, UK-level data indicated a fourth successive monthly deterioration in demand.

Despite the divergent output and demand trends between manufacturers and service providers, both expanded employment in April. While the rise was stronger at service providers, manufacturers posted a revival to job creation following a decline in March. This led to the aggregate rate of employment growth strengthening to a six-month high.

Enhanced operating capabilities resulted in a further month of reduction in backlogs of work across Scotland's private sector. That said, the rate of depletion was only mild and the softest seen across the current seven-month sequence of declining outstanding business.

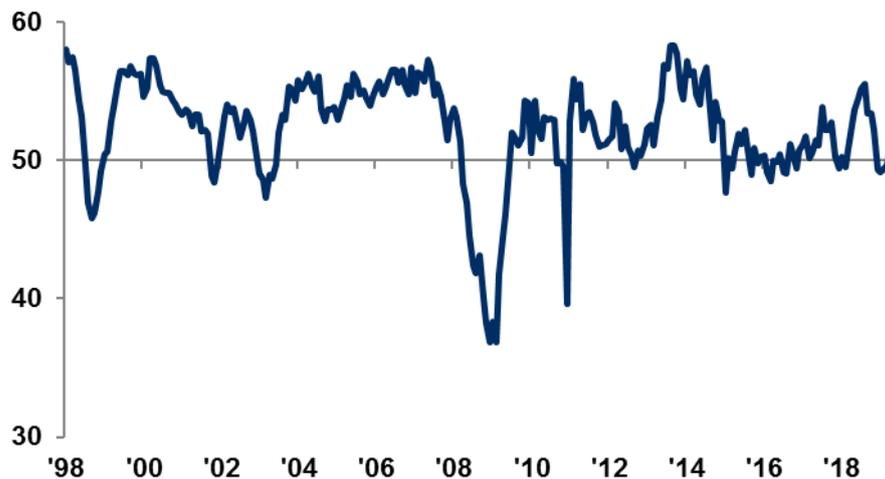
News Release

In line with reports of greater transport and staff costs, as well as price hikes from suppliers, overall input expenses increased in April. The rate of inflation quickened to a four-month high and was sharp overall. Of the 12 monitored UK areas, only Northern Ireland observed a faster rise in costs than Scotland. In response, selling charges were increased at a stronger pace.

Expectations towards future output were positive in April at both manufacturers and service providers. However, the degree of optimism eased to its weakest since October 2016. Some firms indicated that economic uncertainty, particularly surrounding Brexit, remained of concern.

Scotland Business Activity Index

sa, >50 = growth since previous month



Source: Royal Bank of Scotland, IHS Markit

News Release

COMMENT

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

“At first glance, latest survey data for Scotland revealed an improvement in economic conditions, but upon closer inspection, we see that the upturn in April was solely driven by the service sector, as manufacturing weakness continued into Q2.

“While service activity was given a boost by a small revival in demand, manufacturing output continued to lag as order book volumes shrank, with economic uncertainty and a sluggish global goods-producing market weighing on manufacturers.”

“Subsequently, firms recorded a cautious year-ahead outlook, with business confidence at a two-and-a-half-year low in April.”

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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