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Royal Bank of Scotland PMI®

Scotland posts fastest growth in seven months in June

- Private sector activity grows mildly across second quarter
- Demand improves in June, but job creation slows
- Business confidence remains historically subdued

According to the latest Royal Bank of Scotland PMI®, Scotland was among the top-performing parts of the UK during June, as activity growth was reinstated following a slight drop in May. Supporting the upturn were greater inflows of new business, however there were some signs of underlying fragility within the Scottish economy. Job creation slowed to a fractional pace, selling price inflation eased and business confidence remained historically weak.

The seasonally adjusted headline Royal Bank of Scotland Business Activity Index - a measure of combined manufacturing and service sector output - rose to 51.3 in June, up from 48.9 in May, signalling a renewed rise in private sector output. For the second quarter as a whole, the headline index averaged 50.4 and was indicative of slight growth as expansions in June and April offset May's mild contraction.

However, as has been the case across 2019 so far, manufacturing weakness carried on into June, with services activity being the driven force behind the latest upturn. Despite this, output growth in Scotland was the joint third-strongest of all 12 monitored areas of the UK, contrasting with a downturn for the UK overall.

New orders picked up at the end of the second quarter in Scotland amid reports of improved marketing and new project wins. Split by sector, survey data revealed that new business inflows were focused within the services economy, as manufacturing demand fell for a tenth successive month. Nevertheless, as was the case with output, overall sales growth in Scotland during June compared with reduced order book volumes at the UK level.

Despite June's up-tick in new work - which was the strongest in seven months - order book volumes have been stable on average across 2019 so far.

News Release

Scottish private sector firms were still able to clear outstanding business during the latest survey period, extending the current period of backlog depletion that commenced last October.

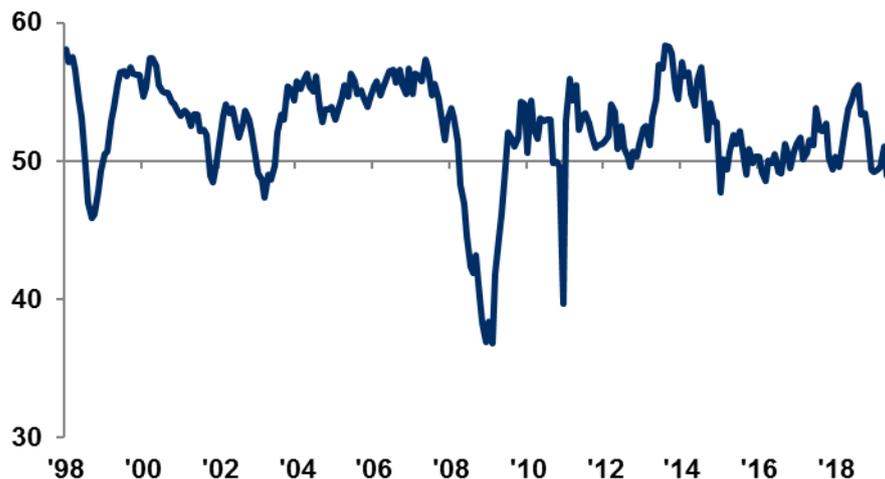
Meanwhile, the rate of job creation slowed for the second consecutive month in Scotland during June, but nonetheless rounded off a solid quarter of hiring on average.

Inflationary pressures softened during the latest survey period, but unfavourable exchange rate variation and rising staffing costs kept overall input costs rising above the long-run average rate. Nevertheless, selling price inflation eased across both manufacturing and service sectors during June. The overall rate of output charge inflation eased to a three-month low.

Lastly, evidence that political and economic uncertainty continued to weigh on sentiment was made apparent by business confidence in Scotland remaining historically subdued in June and below the UK average for a sixth successive month.

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:

“Scotland was a bright spot in an otherwise disappointing month for the UK overall in June. Out of the 12 monitored parts of the UK, Scotland was the fastest -growing area for new business and joint third-strongest for output.

“However, caution remains as growth was only modest in June, with the second quarter average of the headline Business Activity Index indicative of only mild expansion. Firms continued to clear backlogs of work, suggesting that current inflows of new work are yet to put a strain on capacities. Furthermore, the rate of employment growth also slowed for a second successive month.

“A murky outlook towards the future persisted as panel comments suggest political and economic uncertainty continue to weigh on sentiment. With business confidence remaining historically subdued in June, as well as employment growth diminishing, the forward-looking components of the survey suggests firms are expecting challenging conditions to continue.”

ENDS

For more information

Royal Bank of Scotland

Noel Davies
Regional PR Manager
07970 332 895
noel.davies@rbs.co.uk

IHS Markit

Joe Hayes
Economist
Telephone +44 1491 461 006
Email: joseph.hayes@ihsmarkit.com

Joanna Vickers
Corporate Communications
Telephone +44207 260 2234
Email joanna.vickers@ihsmarkit.com

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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