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Royal Bank of Scotland PMI[®]

Private sector activity growth accelerates to 11-month high in April

- **Renewed expansion in manufacturing output boosts overall activity**
- **Input price and output charge inflation rates hit new survey highs**
- **Business confidence falls to 18-month low**

Business activity improved for the fourteenth consecutive month in April, according to the latest Royal Bank of Scotland PMI[®], as the seasonally adjusted headline Royal Bank of Scotland Business Activity Index - a measure of combined manufacturing and service sector output - rose to 58.9 in April, up from 58.4 in March and indicating a faster increase in private sector output. The latest uptick was supported by a strong and renewed upturn in manufacturing production, although a sharp expansion in services activity was recorded once again. Moreover, the rate of growth across Scotland accelerated for the fourth consecutive month to the quickest since May 2021.

Scotland's private sector noted a rise in new business received during April. Posting above the 50.0 no-change threshold for the thirteenth successive month, the respective seasonally adjusted index slipped from March's four-month high but was nonetheless indicted a strong expansion in new orders. According to firms, greater client demand was mainly driven by reduced pandemic restrictions.

The increase in new business inflows across firms in Scotland was quicker than that seen at the UK level.

April data indicated strong optimism across Scottish private firms. Survey respondents were largely positive with regards to activity expectations over the coming 12 months amid hopes of a continued economic recovery as COVID-19 disruptions subside, encouraging higher client demand and investment.

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That said, the degree of optimism across Scotland hit an 18-month low and posted below the UK-wide average as firms grew concerned about the economic impact of inflation.

Workforce numbers across Scotland's private sector expanded for the thirteenth month running during April. The pace of job creation eased to the joint-softest in a year (level with that seen in January) but remained moderate overall. The latest rise in staffing levels reflected greater levels of business activity as firms hired to build capacity and cope with current and future demand.

However, employment growth across Scotland was firmly below the UK average and, when compared with the 11 other monitored UK areas, outperformed only Northern Ireland and the North East of England.

The latest survey period pointed to a further rise in work outstanding at private sector firms in Scotland, thereby extending the current run of backlog accumulation to 13 months. Capacity pressures continued to mount as firms blamed labour shortages, staff absences, supply-chain issues and greater orders for the increase in work-in-hand.

Though the rate of backlog accumulation for Scotland eased from March to the weakest in four months, it was the third-quickest of the 12 monitored parts of the UK.

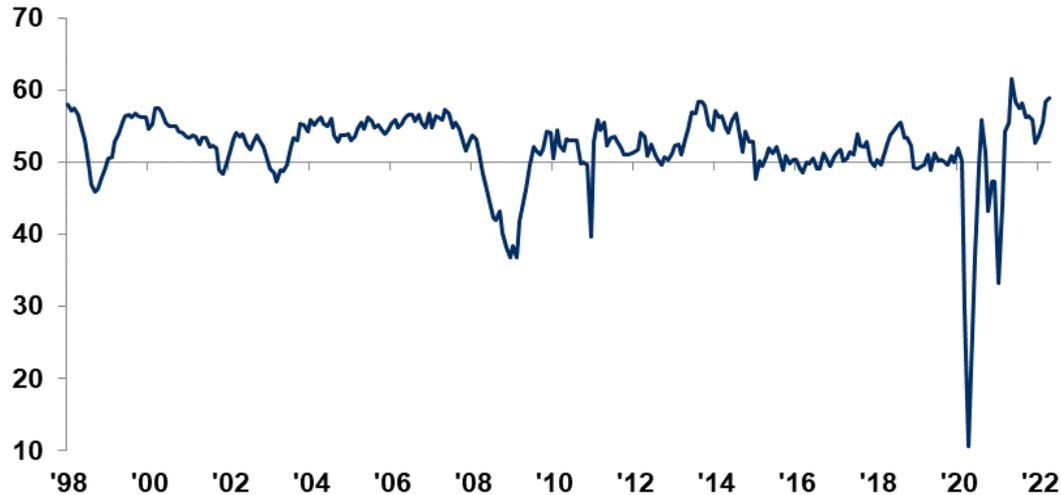
Average cost burdens spiked in April, according to private sector businesses across Scotland. The rate of input price inflation accelerated to a new record high for the third month running, with firms attributing this to higher labour costs, as well as greater raw material, fuel, food and energy prices. Brexit, COVID-19 and the war in Ukraine reportedly added further strain, according to some respondents.

The rate of input price inflation was stronger in Scotland than that recorded for the UK as a whole in April.

April data highlighted a steep increase in selling charges across Scotland's private sector. Outpacing the UK-wide average, the rate of output charge inflation quickened for the fourth month running to the sharpest on record. Firms stated that higher prices reflected efforts to offset the squeeze on their margins.

Scotland Business Activity Index

sa, >50 = growth since previous month



Source: Royal Bank of Scotland, S&P Global.

COMMENT

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

"Scotland's private sector improved strongly during April as business activity increased at the fastest rate for almost a year. Although growth momentum waned slightly across the service firms, the increase was sharp as firms continued to reap rewards from reduced COVID-19 restrictions. Meanwhile, goods producers saw an upturn in output and order book volumes after experiencing a downturn in March.

"Inflationary pressures continued to build and were further aggravated by ongoing supply chain issues. According to anecdotal evidence, higher raw material, fuel, energy and labour costs resulted in the steepest increase in input prices on record. Subsequently, charges were also raised to the greatest extent ever seen by the survey as firms sought to cover rapid cost inflation.

"The level of confidence slipped the lowest in 18 months as firms raised their concerns about the economic impact of inflation. Nevertheless, it still indicated a robust level of optimism as many firms were hopeful of activity growing in the coming 12 months."

ENDS

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Notes to Editors

Methodology

The Royal Bank of Scotland PMI[®] is compiled by S&P Global 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.

The survey data for April were collected 11-27 April 2022.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

About PMI

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