

EMBARGOED UNTIL 01:01 UK (00:01 UTC) 12 August 2019

Royal Bank of Scotland PMI[®]

Scottish private sector nears stagnation in July

- **Manufacturing downturn deepens, almost offsetting service sector growth**
- **Demand for services drives growth in total order books**
- **Employment falls for first time in over two years**

According to the latest Royal Bank of Scotland PMI[®], the private sector economy in Scotland approached stagnation in July, growing only fractionally. Order books increased for a second month running, however growth here was driven entirely by demand for services as manufacturing sales dropped sharply. Challenging conditions were also highlighted by employment declining for the first time since May 2017, while business confidence dipped to a 35-month low.

The seasonally adjusted headline Royal Bank of Scotland Business Activity Index - a measure of combined manufacturing and service sector output - posted 50.2 in July, down from 51.3 in June, signalling a fractional rate of growth in private sector output in Scotland at the start of the third quarter.

While a mild and slower expansion in business activity was registered at service providers, manufacturers reported a solid and quicker fall in production.

Latest survey data signalled back-to-back gains in new business at Scottish private sector firms in July. The pick-up in sales was driven by services, as manufacturing order books contracted sharply and at a quicker rate. New client wins reportedly lifted sales at service providers, but manufacturers mentioned uncertainty and softer underlying demand conditions as factors restricting new work inflows. Overall, aggregate order book volumes increased modestly, but at a slower rate than seen on average.

Relatively subdued demand conditions filtered through to hiring in July, with employment levels falling for the first time in over two years. The trend in Scotland diverged from the UK overall, where job creation was sustained. The drop in staffing levels was driven by goods producers, as workforce numbers were held broadly stable in the service sector. Meanwhile, a tenth successive monthly reduction in backlogs of work was recorded in Scotland, indicating spare capacity.

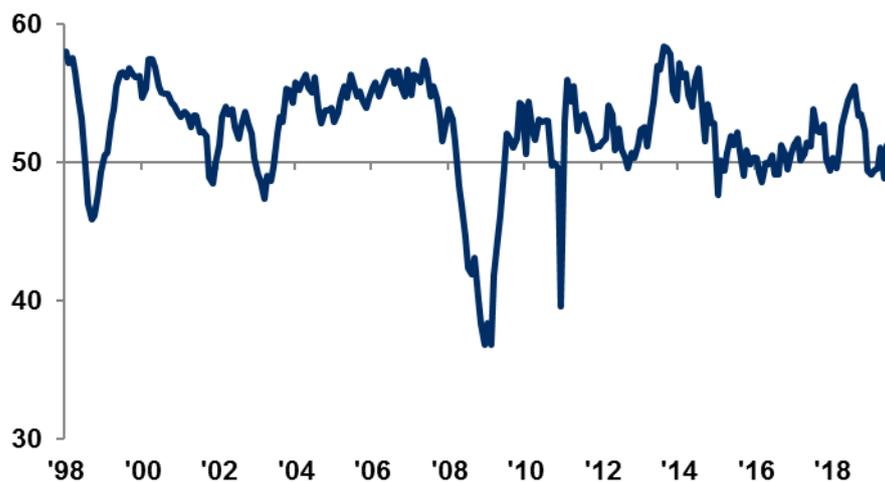
News Release

A broad-based softening of inflationary pressures was signalled by the survey data in July, with manufacturers and service providers both reporting slower rises to input costs and prices charged. According to anecdotal evidence, competitive pressures had reduced businesses' flexibility to pass on higher cost burdens to their clients.

Looking ahead, private sector companies in Scotland expect output volumes to be higher than present levels in 12 months' time. That said, the degree of confidence was the lowest in nearly three years. Brexit uncertainty, slower global growth and concerns regarding the UK economy reportedly weighed on sentiment in July.

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:

“Having been one of the top-performing areas of the UK in June, Scotland’s private sector approached stagnation at the start of the third quarter, growing only fractionally. The main source of weakness remained manufacturing, where production was cut back at a sharper rate amid a deeper downturn in demand. Slowing global growth remained a key factor that panellists attributed challenging manufacturing conditions to.

“That said, the recent bout of sterling depreciation may act as a temporary boost to sales for Scottish manufacturers, although this will come at a price of greater imported costs.

“Scotland’s private sector remains dependent on services and sustained appetite from the domestic market. Whether services growth can continue to offset the manufacturing sector’s plight remains key, although the drop in business confidence to a 35-month low in July was underpinned by concerns towards the UK economy, raising question marks as to whether the positive growth trend in services can 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

News Release

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.

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. IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates. All other company and product names may be trademarks of their respective owners © 2019 IHS Markit Ltd. All rights reserved.

Disclaimer

The intellectual property rights to the Royal Bank of Scotland PMI[®] provided herein are owned by or licensed to IHS Markit and/or its affiliates. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without IHS Markit's prior consent. IHS Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall IHS Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Purchasing Managers' Index[®] and PMI[®] are either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited. Royal Bank of Scotland uses the above marks under licence. IHS Markit is a registered trademark of IHS Markit Limited. and/or its affiliates.