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Royal Bank of Scotland PMI[®]

Scottish private sector growth remains sharp in October

- **Further and faster uplift in business activity**
- **Accelerated expansion in new work**
- **Input prices rise at record pace**

Business activity across Scotland's private sector rose at a slightly faster pace in October, according to the latest Royal Bank of Scotland PMI[®]. The seasonally adjusted headline Royal Bank of Scotland Business Activity Index - a measure of combined manufacturing and service sector output - rose from 56.1 in September to 56.3 in October to signal an eighth straight monthly upturn in activity and one that was sharp overall. Growth was driven by an accelerated expansion in new work during October, which rose at an historically sharp rate that matched that seen in August.

Inflationary pressures intensified, however. Supply constraints, logistical issues, fuel, wage bills, COVID-19 and Brexit were all linked through anecdotal evidence to a further round of input cost inflation, with the rate of increase the fastest on record. Subsequently average charges rose at a near-record pace.

Inflows of new work to Scottish private sector firms rose again in October, stretching the current sequence of expansion to seven months. Client demand had improved, in part due to the easing of COVID-19 restrictions earlier in the year, according to panellists. The rate of growth regained momentum having slowed to a five-month low in September.

Business confidence towards activity over the next 12 months remained historically elevated in October. In fact, the Future Activity Index ticked up slightly since September. Optimism was attributed through anecdotal evidence to stronger demand conditions and hopes of rebound in tourism and a sustained economic recovery. Sentiment remained among the weakest seen in 2021 so far, however.

As has been the case in each month since April, Scottish private sector employment rose during October. Companies were taking on additional staff due to greater activity requirements and a strong sales pipeline, according to respondents. The rate of job creation was among the fastest on record, despite easing since September.

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A further uplift in employment was also recorded for the UK during October. The rate of increase at the UK level was quicker than in Scotland.

A seventh straight monthly rise in the level of outstanding business at Scottish private sector companies was recorded in October. Greater production requirements, staffing issues and material shortages were all linked to the latest increase. Moreover, the rate of backlog accumulation accelerated sharply since September to a five-month high and was solid overall.

Scottish private sector firms recorded a further rise in average cost burdens during October, stretching the current sequence of inflation that began in June 2020. Greater fuel and material costs, shortages, Brexit, COVID-19 and rising wage bills were all cited by respondents as drivers of inflation in October. Moreover, the rate of increase was the steepest on record.

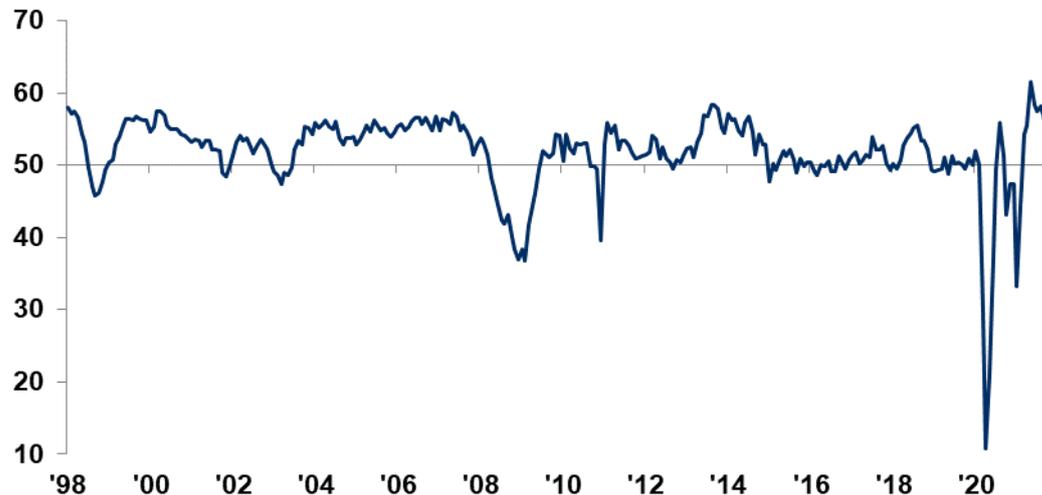
Nonetheless, only London saw a slower rate of input price inflation than Scotland across the 12 monitored UK areas in October.

Scottish companies raised their average charges for the twelfth month in a row during October. According to panellists, firms were increasing prices in line with greater input costs. The rate of inflation eased slightly from September's peak, but was still the second-fastest in the series history and rapid overall.

That said, the rate of charge inflation in Scotland was weaker than across the UK as a whole during October.

Scotland Business Activity Index

sa, >50 = growth since previous month



Source: Royal Bank of Scotland, IHS Markit.

COMMENT

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

“October data pointed to a further solid performance for Scotland's private sector, with business activity rising steeply again amid an accelerated uplift in new business, attributed in part to the easing of COVID-19 measures earlier in the year.

“Headwinds came from inflationary pressures, as input costs rose at a record pace due to rising fuel, staff and utility costs, as well as supply issues, Brexit and COVID-19. Firms continued to pass greater costs through to clients in October, with the rate of charge inflation easing only slightly from September's peak.

“With growth remaining historically sharp as we enter the final quarter of the year, the Scottish economy is showing little signs of slowing. Price pressures and supply constraints remain a key concern, however, and may weigh on growth in the coming months.”

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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.

The survey data for October were collected 12-27 October 2021.

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

About PMI

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