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Royal Bank of Scotland PMI[®]

Private sector output growth moderates, but remains sharp

- **Expansion in private sector business activity slows to five-month low...**
- **... as services growth contrasts with fresh fall in manufacturing output**
- **Rate of input price inflation fastest for 13 years**

Scottish private sector firms registered a further sharp uplift in business activity during September, 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 - posted 56.1 in September to signal a seventh straight monthly expansion in output, and one that was sharp overall.

The latest figure was down from 58.1 in August, however, and indicative of the slowest rate of increase for five months, as a sustained upturn in services was slightly offset by a renewed fall in manufacturing output. Overall new business continued to increase, but saw a similar moderation in the rate of expansion. Meanwhile, cost burdens rose at the fastest pace for over 13 years, while the rate of charge inflation hit a record high.

For the sixth time in as many months, inflows of new work to Scottish private sector firms rose during September. Panellists linked the latest uplift in new orders with strong client demand, in part due to the relaxation of lockdown restrictions. Although still sharp overall, the rate of expansion eased to the slowest since April, as sustained growth at services firms was partially offset by a fresh decline in manufacturing order book volumes.

The pace of expansion in new business across Scotland was broadly in line with the UK average.

Private sector firms across Scotland maintained an optimistic outlook towards business activity over the coming 12 months during September. Confidence was attributed through anecdotal evidence to strong demand conditions, the easing of COVID-19 measures and hopes of a sustained economic recovery.

That said, sentiment dipped to an 11-month low, with only Northern Ireland registering a weaker level of optimism than Scotland, across the 12 monitored UK areas.

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September data highlighted a sustained rise in Scottish private sector employment, stretching the current sequence of increases to six months. Panellists linked the latest upturn in staffing levels to higher workloads. Furthermore, the rate of job creation accelerated to a four-month high and was sharp overall.

Scotland also registered the third-quickest increase in employment across the 12 monitored UK areas in September, behind only London and Wales.

As has been the case in each month since April, the level of outstanding business at Scottish companies rose during September. Material shortages and a lack of available staff were cited by respondents as reasons for the latest increase. That said, the rate of backlog accumulation slowed noticeably on the month, nearing stagnation, with the respective seasonally adjusted index posting only just above the 50.0 mark.

Sector data highlighted divergent trends in September. Backlogs at goods producers rose further, while service firms recorded the first decrease in outstanding business since March.

A sixteenth consecutive monthly rise in costs facing Scottish private sector firms was recorded in September. Greater material, fuel and wage costs, logistical issues, COVID-19 and Brexit were all cited as drivers of cost inflation. Moreover, the rate of increase was the fastest since July 2008 and rapid.

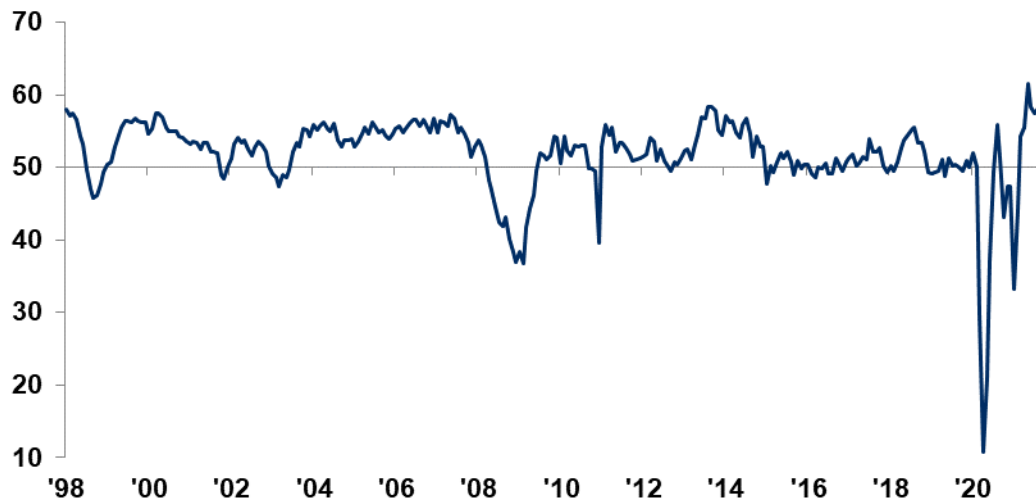
At the sector level, goods producers continued to see a far stronger rise in input prices than service provider, although the rate of inflation at the latter still hit a 13-year high.

Scottish private sector firms subsequently raised their average charges for the eleventh month in a row during September. Panellists attributed the latest uptick to the partial pass-through of greater costs to clients. The rate of charge inflation was the fastest in the series history (since November 1999).

Both monitored sectors recorded a faster increase in prices charged during September, with manufacturing continuing to record the steeper rate of inflation.

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:

“Scotland's private sector remained on a growth footing in September, with business activity rising further amid a sustained uplift in inflows of new work. The rates of expansion slowed to a five-month low, however, as some momentum was lost due to fresh reductions in both output and order book volumes at goods producers.

“At the same time, companies registered severe inflationary pressures, with cost burdens increasing at the quickest rate since 2008 amid reports of greater fuel, material and staff costs, as well as shortages and logistical issues. As a result, firms raised their average charges to a degree unseen since this series began in late-1999.

“Although the latest data does indicate a slight slowdown in growth, the third quarter as a whole nonetheless saw to one of the quickest expansions of the private sector on record and it remains in a strong position as we enter the closing months of the year.”

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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 September were collected 13-28 September 2021.

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

About PMI

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