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Royal Bank of Scotland PMI®

Private sector output growth strongest in over four years in August

- **Business activity growth accelerates further**
- **Employment rises, but only slightly**
- **Business confidence dips further**

According to the latest Royal Bank of Scotland PMI®, private sector businesses expanded activity sharply in August. New order receipts remained favourable, leading to a third monthly rise in backlogs of work. Firms continued to hire additional staff, but the rate of increase slowed to a mild pace. Higher workforce numbers in conjunction with sterling weakness contributed to a further sharp rise in operating costs. Subsequently, output charges rose.

The seasonally adjusted headline Royal Bank of Scotland PMI picked up further in August, registering at 55.5, from 55.1 in July. Growth has accelerated in each of the past five months, and the latest figure was indicative of the strongest pace of expansion for just over four years.

Panellists suggested that successful contract tendering and new customer wins supported the upturn in August. That said, the sector breakdown signalled that the services economy was the key growth driver, with manufacturing sector output rising only mildly and at the weakest pace in three months.

Scottish private sector firms recorded positive sales performances in August. New business expanded solidly and at a faster rate than the UK average, despite growth easing to a three-month low. Demand conditions were notably more favourable in the crucial service sector, however, while order book volumes in the manufacturing sector rose only mildly.

The backlog of work at Scottish private sector companies rose midway through the third quarter. The rate of accumulation, albeit only modest, was the second-strongest of all 12 monitored UK regions.

As part of efforts to alleviate capacity pressures, private sector employment was increased. Workforce numbers have been boosted in each of the past six months, but the latest rate of job creation was the weakest seen over this

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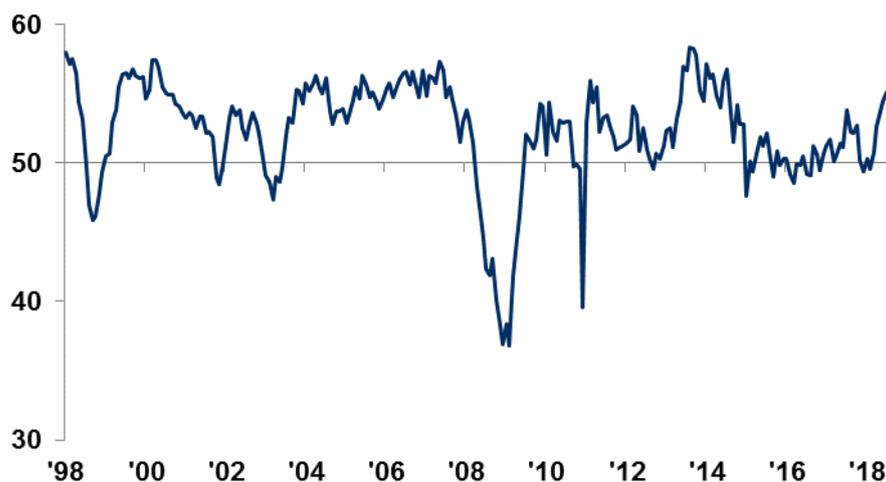
period. Sector data revealed the first monthly decline in manufacturing staffing levels since January 2017.

Staffing costs were reportedly a factor driving input costs higher in August. Panellists also attributed increased expenses to sterling weakness, as well as greater food and fuel prices. The rate of inflation was sharp overall and accelerated since July. In response, output charges were increased. Manufacturers raised selling prices to a stronger degree than their service-providing counterparts.

Businesses continued to anticipate greater activity over the coming year. However, the degree of confidence eased to a nine-month low. The strength of sentiment was broadly equal across services and manufacturing.

Scotland Business Activity Index

sa, >50 = growth since previous month



Sources: Royal Bank of Scotland, IHS Markit.

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COMMENT

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

“Momentum in Scotland’s private sector economy has been building since the start of the second quarter and latest data continued this trend. Business activity increased at the strongest rate for over four years in August. The upturn was supported by favourable inflows of new work, which increased at a faster pace than that for the UK as a whole.

“Downside risks still remain however, as panellists report that recent sterling weakness has pushed up costs. Although input price inflation accelerated, output charges were raised to a weaker extent. At the same time, business confidence edged lower to a nine-month low amid ongoing Brexit uncertainty.”

ENDS

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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.

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

About PMI

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