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Royal Bank of Scotland PMI[®]

Scottish private sector ends second quarter with further rapid expansion

- **Growth of business activity remains close to survey record pace**
- **Further rapid upturn in new work**
- **Inflationary pressures intensify again**

Scottish private sector firms registered another solid performance during June, according to the latest Royal Bank of Scotland PMI[®], as looser COVID-19 restrictions continued to spur growth. The seasonally adjusted headline Royal Bank of Scotland Business Activity Index - a measure of combined manufacturing and service sector output - posted 58.4 in June, falling from May's survey record of 61.5, to signal the second-quickest increase in output since data collection began in 1998. Inflows of new work rose steeply again, while sustained capacity pressures led firms to take on additional staff for the third month in a row. Inflationary woes worsened, however, with input prices rising at the quickest pace for over a decade and firms raising their selling prices at a record pace as a result.

A third straight monthly increase in the level of new business at Scottish companies was recorded during June. The relaxation of COVID-19 restrictions, improved client confidence and firmer demand conditions were all cited by panellists as drivers of the latest upturn. The rate of growth slowed from May's survey high, but was still the second-quickest since September 2013 and rapid.

The latest increase in new business was broad-based at the sector level and led by services, with goods producers seeing the rate of growth slow on the month.

Scottish private sector companies maintained an optimistic outlook towards activity over the coming year in June. The Future Activity Index dipped from May's series high, but nonetheless signalled one of the strongest levels of sentiment on record. Panellists linked confidence to looser lockdown restrictions and the subsequent reopening of some sectors, surging inflows of new work and hopes of a strong economic recovery.

Private sector employment across Scotland continued to rise during June, extending the current sequence of increases to three months. The latest upturn in staffing

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levels was attributed by panellists to greater output requirements. The rate of job creation slowed from May's peak, but was still the second-quickest on record and sharp overall.

The increase in workforce numbers was broad-based across both monitored sectors during June. Services saw a slightly quicker rate of job creation than manufacturing.

June data pointed to sustained capacity pressures at Scottish companies, as the level of outstanding business rose for the third month in a row. Surging sales due to looser COVID-19 restrictions, as well as supply disruptions and shortages, meant firms were unable to keep up with activity requirements, according to anecdotal evidence. The rate of increase in backlogs slowed only slightly from May's series record and was the second-fastest ever recorded.

That said, across the 12 monitored UK areas, Scotland tied with the North East in registering the slowest rate of backlog growth in June.

Input prices faced by Scottish private sector firms continued to soar during June, with the rate of inflation the fastest since February 2011. Panellists attributed greater costs to material shortages, price hikes at suppliers, Brexit and higher fuel and utilities prices.

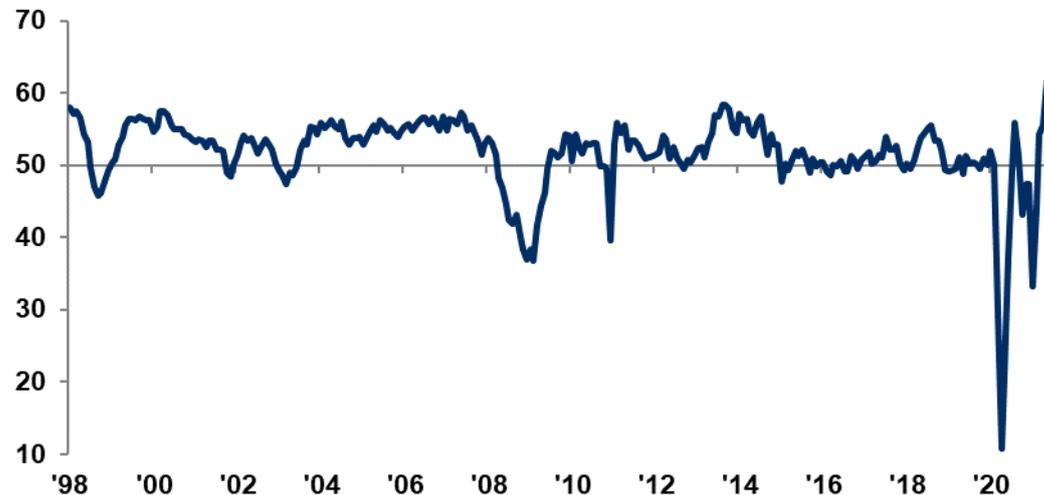
At the sector level, manufacturers recorded a series record rate of cost inflation during June, with the increase also much steeper than that at services firms.

In response to greater input costs, Scottish private sector firms increased their average charges for the eighth month running during June. Companies were passing through additional costs to clients where possible, according to respondents. The rate of inflation was the quickest since the series began in November 1999 and rapid overall.

As was the case for input costs, goods producers registered a much faster rise in average charges than service providers in June, with both seeing the rate of inflation quicken during the month.

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:

“June data showed some signs of optimism for the Scottish private sector, as the easing of lockdown restrictions and improved consumer confidence continued to invigorate growth. The rates of increase in both business activity and new work slowed only slightly from May’s respective series records and remained marked.

“Inflationary pressures are a key concern, however, as material shortages and greater fuel and utilities fees continued to put severe upward pressure on input costs and, subsequently, selling prices.

“Nonetheless, the private sector remains in a good position as we enter the third quarter of the year. Growth showed little sign of slowing notably in June, and firms remained among the most confident on record of higher activity in the coming 12 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 June were collected 11-28 June 2021.

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

About PMI

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