

**Embargoed until 0001, Monday 12<sup>th</sup> April 2021**

## Royal Bank of Scotland PMI®

### Scottish economy returns to growth in March

- **First rise in activity since last September, as new work stabilises**
- **Looser restrictions push business confidence to record high**
- **Inflationary pressures mount**

Scotland's economy returned to growth during March, 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 to 54.3 in March, up sharply from 44.1 in February to signal the first upturn in output since last September and one that was solid overall. Meanwhile, inflows of new work were broadly stable on the month as looser restrictions buoyed demand in some sectors, while hopes of a swift economic recovery pushed business confidence to the highest on record (since mid-2012). March also saw further signs of inflationary pressures, however. Input costs rose at the most marked rate since August 2018, amid reports of supplier shortages as well as additional Brexit and coronavirus disease 2019 (COVID-19) related costs. As a result, Scottish companies increased their charges at the quickest pace for nearly two years.

Following six straight monthly declines, inflows of new work to Scottish private sector firms were broadly stable in March, with the respective seasonally adjusted index posting only just below the neutral 50.0 mark. Where an increase was recorded, this was linked to looser lockdown measures and improved demand, although some panellists noted that the remaining measures were still stifling sales in several sectors.

Across the 12 monitored UK areas, all nine English regions and Wales posted growth, while Northern Ireland registered a modest decline.

The 12-month outlook for activity among Scottish private sector companies improved for the fifth month in a row during March, with sentiment the strongest on record (since July 2012). Anecdotal evidence linked optimism to the planned easing of COVID-19 restrictions amid the ongoing vaccine rollout, hopes of improved client demand and a solid economic recovery.

Scottish service providers registered a much more robust level of confidence than manufacturers in March.

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March data highlighted a further decrease in staffing levels at Scottish firms. Panellists attributed the latest fall mainly to the non-replacement of voluntary leavers due to the pandemic, although there were some mentions of layoffs and redundancies. That said, the rate of job shedding was the slowest since February last year and only fractional overall.

Sector data highlighted a further divergence in March. Goods producers took on additional staff at a quicker rate, while services firms continued to trim workforce numbers.

The level of outstanding business at Scottish companies continued to fall during March, amid reports that COVID-19 regulations and muted sales had allowed firms to direct resources to unfulfilled orders. The rate of backlog depletion was the slowest in the current 16-month sequence of falls and only marginal, however.

A tenth straight monthly increase in average input prices was recorded in March. According to panellists, greater raw material costs, higher prices at suppliers, Brexit and COVID-19 were the main drivers of inflation. Moreover, the latest increase was the steepest since August 2018.

At the sector level, goods producers recorded a much quicker upturn in costs than services firms.

Cost burdens also rose across the UK as a whole in March, with the rate of inflation quicker than in Scotland.

In line with greater cost burdens, Scottish private sector firms increased their average charges again in March. The rate of inflation was the quickest since May 2019.

As was the case for input costs, manufacturers registered a much steeper increase in charges than service providers.

Nonetheless, Scotland recorded the second-slowest rate of charge inflation across the 12 monitored UK areas in March, ahead of London.

## 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:

*“The end of the first quarter saw a return to growth for the Scottish private sector economy. Output rose for the first time in six months, and solidly, while inflows of new work neared stability as looser lockdown measures provided a boost to many firms.*

*“Supply chain issues, shortages, Brexit and the pandemic were all attributed to greater inflationary pressures, however, highlighting that the recovery may well bring with it higher prices due to ongoing logistical constraints.*

*“Nonetheless, business confidence hit a fresh record high in March, with companies confident of a robust economic recovery as measures ease.”*

**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.

The survey data for March were collected 12-29 March 2021.

For further information on the PMI survey methodology, please contact [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com).

### About PMI

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