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Royal Bank of Scotland PMI®

Scottish private sector sees further rapid growth during August

- **Business activity rises steeply again amid further uplift in demand**
- **Job creation extends into fifth month**
- **Rate of cost inflation accelerates to highest since January 2011**

Scotland's private sector recorded further rapid growth midway through the third quarter, 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 57.5 in July to 58.1 in August, signalling a steep rise in activity amid a further sharp increase in new work, with the rates of growth remaining close to May's respective survey highs. Moreover, Scotland registered the fastest expansion in output across the 12 monitored UK areas in August.

As a result, companies continued to take on additional staff for the fifth month running, with the rate of job creation remaining sharp despite easing. Inflationary pressures were again severe, however, as costs rose at one of the steepest rates on record amid reports of higher material, fuel, transport and wage costs, with manufacturers particularly hard hit.

August pointed to a further uplift in client demand facing Scotland's private sector firms. New business expanded for the fifth time in as many months, amid reports of stronger sales due to the easing of lockdown restrictions and resumption of international travel. The rate of growth in new work picked up slightly on the month and remained close to May's high.

At the sector level, the upturn was broad based, with service providers again recording a much quicker increase in new business.

Scottish private sector companies remained highly optimistic of greater business activity in 12 months' time during August. Confidence was attributed to looser lockdown restrictions, strong demand conditions and hopes of a robust economic recovery. Sentiment moderated to a seven-month low, but nonetheless remained elevated in the context of historical data.

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A fifth successive monthly rise in workforce numbers at Scottish private sector firms was recorded in August, amid reports that companies were expanding their staffing levels to keep up with demand. The rate of job creation slowed further from May's peak, but was still among the fastest on record and sharp overall.

Across the monitored sectors, services firms recorded a quicker upturn in employment for the fourth month running.

August data highlighted further signs of capacity pressures at Scottish private sector firms, as the level of outstanding business increased again. Logistical problems, material shortages, and a lack of staff were attributed through anecdotal evidence to the latest rise. The rate of accumulation was the slowest since April, when the current sequence of rising backlogs began.

Moreover, Scotland registered the slowest rate of backlog accumulation across the 12 monitored UK areas during August.

Private sector firms across Scotland recorded further intense cost pressures during August. Input prices rose for the fifteenth straight month and at steepest pace since January 2011. Material shortages, price hikes at suppliers, greater fuel and wage costs, Brexit and COVID-19 were all cited by respondents as drivers of inflation. Goods producers continued to record a far steeper rate of increase than services firms during August.

That said, across the 12 monitored UK areas, only London saw a slower pace of input price inflation than Scotland in August.

In response to greater input costs, Scottish private sector firms continued to raise their average charges during August. The rate of inflation slowed from July's peak, but was still the third-quickest on record and rapid overall.

Average charges also rose across the UK as a whole during August. The rate of increase was broadly similar to that in Scotland.

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:

“August data pointed to a further rapid expansion of Scotland's private sector economy, with the rate of growth re-accelerating from July and outpacing the UK as a whole by a wide margin. Services continued to record a faster upturn than manufacturing, although the differential narrowed slightly.

“Inflows of new work increased sharply again, as looser lockdown measures continued to boost client demand and, as a result, firms took on staff for the fifth month running.

“Overall, the latest PMI data signals another strong performance for the Scottish private sector. Inflationary pressures remain a concern, but do not seem to be hindering the economic rebound as growth remains close to the survey record pace seen in May.”

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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 August were collected 12-26 August 2021.

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

About PMI

Purchasing Managers' Index[®] (PMI[®]) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to ihsmarkit.com/products/pmi.html.

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