

EMBARGOED UNTIL 01:01 UK (00:01 UTC) 9 July 2018

Royal Bank of Scotland PMI[®]

Private sector business activity rises at quickest pace since August 2014

- **New work grows at sharpest pace in nearly four years**
- **Job creation quickest since February 2014**
- **Backlogs rise for first time in three-and-a-half years**

According to the June Royal Bank of Scotland PMI[®], Scottish private sector output rose at a strong pace at the end of the second quarter. Inflows of new work increased at the fastest pace in almost four years, prompting firms to expand employment markedly. Nonetheless, backlogs of work were accumulated for the first time in three-and-a-half years despite the larger headcount across the Scottish private sector. Increased labour costs were reported to have intensified cost pressures. That said, output prices were raised to a softer degree.

The seasonally adjusted headline Royal Bank of Scotland PMI increased to 54.5 in June, from 53.7 in May, to signal the strongest expansion in Scottish private sector output since August 2014. Furthermore, growth across both the manufacturing and service sectors accelerated.

Panellists linked the upturn in business activity to improved demand conditions. New business increased solidly during June, with the pace of growth quickening to a 47-month high. Increased new sales to both new and existing clients were reported by firms. That said, June's increase was weaker than that seen for the UK as a whole for the first time since March.

Strong demand pressures impacted operating capacity during June, as signalled by the first rise in backlogs of work since December 2014. Although the rate of accumulation was only mild, it was sharper than the UK average. The overall rise in outstanding business was driven by the service sector, with goods producers observing a sixteenth successive monthly decline.

In an effort to boost output capabilities, employment was expanded to the greatest degree in 52 months during June. In fact, the rate of job creation noticeably outpaced that for the UK as a whole.

Selling charges were increased for a twenty-third straight month in June, with inflation remaining broad-based across both the services and goods-

News Release

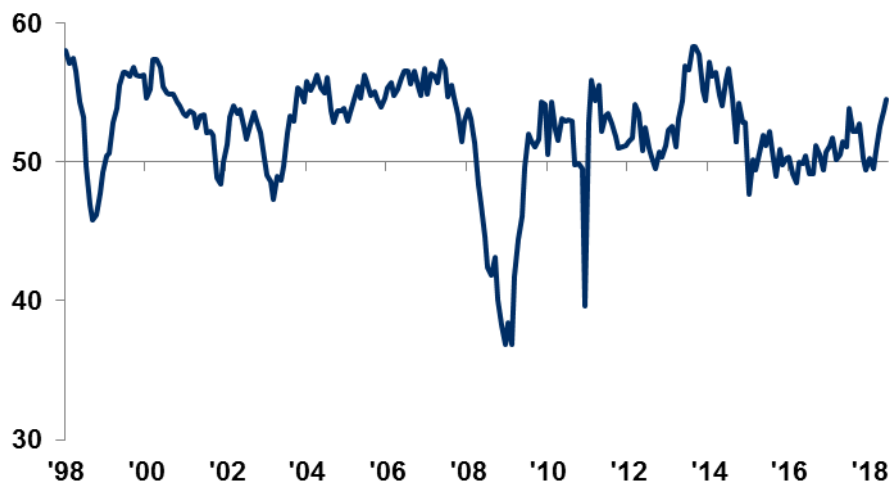
producing sectors. That said, the rate of increase eased to a five-month low amid reports by some panellists that competition had intensified.

Meanwhile, input prices increased steeply and to the greatest extent in 18 months, indicating profit margin erosion across the Scottish private sector.

An optimistic outlook towards output was sustained in the latest survey period. The level of positive sentiment was the strongest since January. Projections of improved demand and planned new marketing campaigns were linked to the upturn in business confidence.

Scotland Business Activity Index

sa, >50 = growth since previous month



Sources: Royal Bank of Scotland, IHS Markit.

News Release

COMMENT

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

“Private sector output growth continued to gather momentum as the second quarter ended, with the pace of expansion quickening for the third straight survey to reach a 46-month high.”

“Indeed, operating conditions remain robust, with strong new order inflows encouraging businesses to hire extra staff to the greatest extent in almost four-and-a-half years. At the same time, panellists indicated that higher employment had contributed to another month of sharp input cost inflation, adding strain to profit margins.”

ENDS

For more information

Royal Bank of Scotland

Jonathan Rennie
Regional PR Manager
07769 932 102
jonathan.rennie@rbs.co.uk

IHS Markit

Joseph Hayes
Economist
Telephone +44 1491 461 006
Email: joseph.hayes@ihsmarkit.com

Joanna Vickers
Corporate Communications
Telephone +44207 260 2234
Email joanna.vickers@ihsmarkit.com

News Release

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

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.

About IHS Markit

IHS Markit (Nasdaq: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions. IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates. All other company and product names may be trademarks of their respective owners © 2018 IHS Markit Ltd. All rights reserved.

Disclaimer

The intellectual property rights to the Royal Bank of Scotland PMI[®] provided herein are owned by or licensed to IHS Markit and/or its affiliates. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without IHS Markit's prior consent. IHS Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall IHS Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Purchasing Managers' Index[®] and PMI[®] are either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited. Royal Bank of Scotland uses the above marks under licence. IHS Markit is a registered trademark of IHS Markit Limited. and/or its affiliates.