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Royal Bank of Scotland PMI®

Business activity grows robustly, but at weakest pace in five months

- Private sector growth slips below UK average
- Rate of job creation picks up from August's low
- Business confidence strengthens

According to the latest Royal Bank of Scotland PMI®, Scottish private sector output expanded solidly in September. However, the pace of growth eased to a five-month low amid a slower rise in workloads. That said, in line with positive future output projections, employment was raised.

The seasonally adjusted headline Royal Bank of Scotland PMI fell to 53.4 in September, down from August's recent peak of 55.5. Although this signalled a weaker increase, the pace of expansion was robust and above the survey average. That said, latest data ended a five-month sequence of accelerating growth rates.

Sector data revealed the latest expansion was not broad-based, however, with manufacturers observing a slight drop in production levels, compared to solid growth among service providers. Furthermore, for the first time since June, growth at the UK level was stronger than that in Scotland.

Volumes of new work continued to rise during the latest survey period. New contract wins and stronger demand from existing clients supported the upturn in sales, according to panellists. That said, the rate of growth in new orders was only modest and below the UK average. Service sector firms recorded higher new business inflows, while the intake of new work at goods producers declined.

Employment was raised in the Scottish private sector during September. The rate of job creation, albeit only modest, was quicker than August's six-month low. Expectations of stronger demand pressures motivated survey respondents to expand recruitment. That said, workforce numbers rose at a comparatively quicker pace across the UK as a whole.

Survey data signalled that Scottish private sector companies were able to cope with current business demands. Overall, outstanding workloads were unchanged since August.

News Release

Operating expenses continued to rise in September. Higher labour costs, unfavourable exchange rate movements, and higher food and transport costs were all mentioned as sources of inflationary pressure. Although cost burdens increased sharply overall, the increase was the softest of all 12 monitored UK regions. To guard against eroding margins, output charges were lifted in September and to the greatest extent in four months.

Optimism towards business activity in the year ahead was sustained in September. The degree of confidence strengthened amid forecasts of firmer demand and planned expansion into new markets.

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:

“Scotland’s private sector economy continued to expand at a solid pace as the third quarter came to a close. However, growth momentum was lost, with the rate of expansion slowing for the first time in five months. This renewed slowdown particularly reflected a weaker rise in new business.

“The sector drilldown revealed a contrasting state of affairs, with output, new orders and employment all contracting in the manufacturing economy, but rising at service providing businesses. Indeed, growth in the service sector has been well anchored in recent months, and looks set to continue to support the overall Scottish business environment.”

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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