

EMBARGOED UNTIL 01:01 UK (00:01 UTC) 11 June 2018

Royal Bank of Scotland PMI[®]

Private sector output growth accelerates to ten-month high in May

- **New business rises at fastest pace since July 2014**
- **Job creation quickens to 41-month peak**
- **Business confidence remains elevated**

According to the latest Royal Bank of Scotland PMI[®], output across the Scottish private sector economy increased at the fastest pace since July 2017 during May. Business activity growth was underpinned by the sharpest expansion in order book volumes for 46 months. Subsequently, firms hired additional staff at a quicker rate. That said, higher labour costs were reported to have contributed to input cost inflation. In turn, output prices continued to be raised.

The seasonally adjusted headline Royal Bank of Scotland PMI rose to 53.7 during May, from 52.6 in April, to signal the strongest rate of private sector output growth in ten months. Furthermore, for the first time since October last year, the overall rise was broad-based, with both manufacturers and service providers observing greater business activity.

Panellists indicated that greater new business inflows had supported the upturn in output. May survey data pointed to the fastest expansion in new orders since July 2014. New product launches, stronger export sales and successful contract tendering were all linked to the improvement in demand. Sector data indicated that service providers recorded a faster rise than their manufacturing counterparts. Overall, the rate of growth in Scotland was stronger than that seen for the UK as a whole.

To cope with demand pressures, businesses recruited extra staff at a solid pace in May. In fact, the rate of job creation accelerated to a 41-month high. As was the case with new orders, employment growth was led by the service sector.

Amid greater workforce numbers, outstanding business was cleared in May. Scottish private sector companies have reduced incomplete work in every month since January 2015. However, despite stronger new work inflows, the rate of depletion remained marginal.

News Release

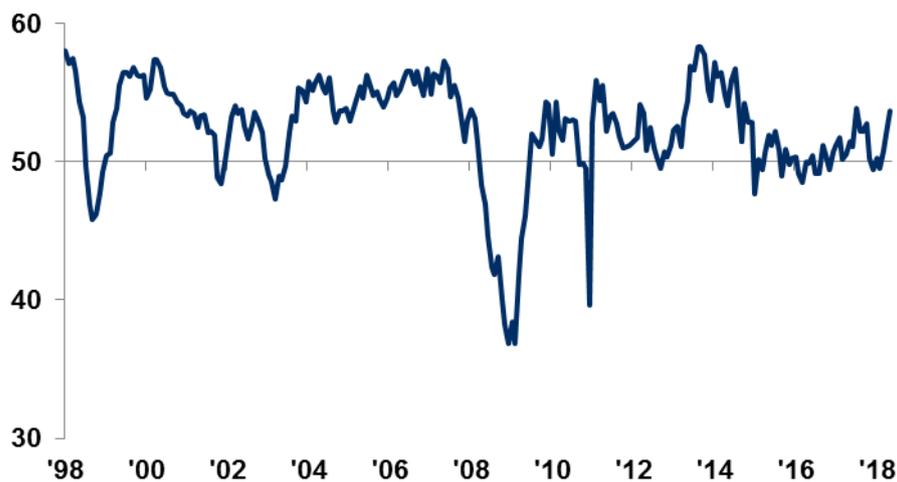
Profit margins remained under pressure during the latest survey period, with input prices rising at a substantial rate. Increased operating expenses were primarily linked to higher energy, food and labour costs. While inflation slowed in the manufacturing sector, service providers observed a faster rise.

Firms responded by raising output charges for the twenty-second consecutive month. The rate of increase remained unchanged from April's 15-month high.

Business confidence remained elevated during May. Forecasts of stronger demand, particularly from overseas markets, was cited by firms anticipating greater output over the coming 12 months.

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:

“Growth in the Scottish private sector economy gathered momentum during May. Positive business conditions were underpinned by healthy inflows of new work, encouraging firms to raise employment to the sharpest extent since December 2014.”

“Increased staff hiring added to pressure on operating costs, however, as input prices continued to increase at a steep rate. Businesses took advantage of the robust demand environment and passed on greater costs to their clients. That said, output price inflation was markedly weaker than that of cost burdens, indicating some degree of profit margin erosion.”

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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