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Royal Bank of Scotland PMI[®]

Private sector output increases at slowest rate for five months

- **Business activity growth moderates further in June**
- **Price pressures remain intense**
- **Business confidence slumps to 20-month low**

Scotland's private sector economy remained in expansion territory for the sixteenth month running during June, according to the latest Royal Bank of Scotland PMI[®] data, but growth momentum eased for the second straight month. The seasonally adjusted headline Royal Bank of Scotland Business Activity Index - a measure of combined manufacturing and service sector output - posted 54.4 in June, down from 55.9 in May, to signal the softest expansion in business activity across Scotland since January. In addition, new orders rose at a modest pace that was the weakest seen in the current 15-month sequence of expansion. While ongoing recovery from COVID-19 continued to boost activity, concerns over rising costs and an economic slowdown pushed business confidence down to a 20-month low.

New orders continued to rise across Scotland's private sector during June. However, trends diverged at a sectoral level, with manufacturing firms reporting a faster reduction in factory orders, while service providers reported a modest expansion in sales. Overall, new business increased at the weakest rate for 15 months and only slightly. Anecdotal evidence indicated that continued recovery from COVID-19 and new client wins drove the latest increase, but there were also reports of market conditions starting to soften and some clients cutting back on expenditure due to rising costs.

Business confidence at Scottish private sector firms remained strong in June. Businesses anticipate that a robust post-COVID-19 recovery will boost market and economic conditions, allowing for further expansions of output in the coming 12 months. That said, the degree of optimism slipped to a 20-month low in June amid concerns over the cost of living, a possible slowdown in the economy and housing market, and weaker customer confidence.

Optimism across the Scottish private sector was also weaker than that seen across the UK as a whole.

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Private sector firms across Scotland continued to expand their workforce numbers during June. The rate of job creation eased from May's seven-month high but remained stronger than the series average. Firmer demand conditions and rising workloads supported additional staff hires, according to panel members.

Of the 12 monitored UK regions, Scotland registered the weakest expansion in employment, while the North East of England was the only region to report job losses.

June data indicated a modest contraction in outstanding business across private sector firms in Scotland, which thereby ended a 14-month run of expansion. Companies linked the decrease to softer increases in new orders, greater workforce numbers and having the capacity to work through backlogs.

In contrast, unfinished workloads increased across the UK as a whole, albeit only modestly.

A twenty-fifth monthly rise in average cost burdens was recorded across the Scottish private sector during June. While the rate of input price inflation eased for the second-month running from the survey high recorded in April, it remained amongst the steepest on record. Rising supplier, energy and raw material prices amid ongoing shortages were blamed for the latest surge in costs.

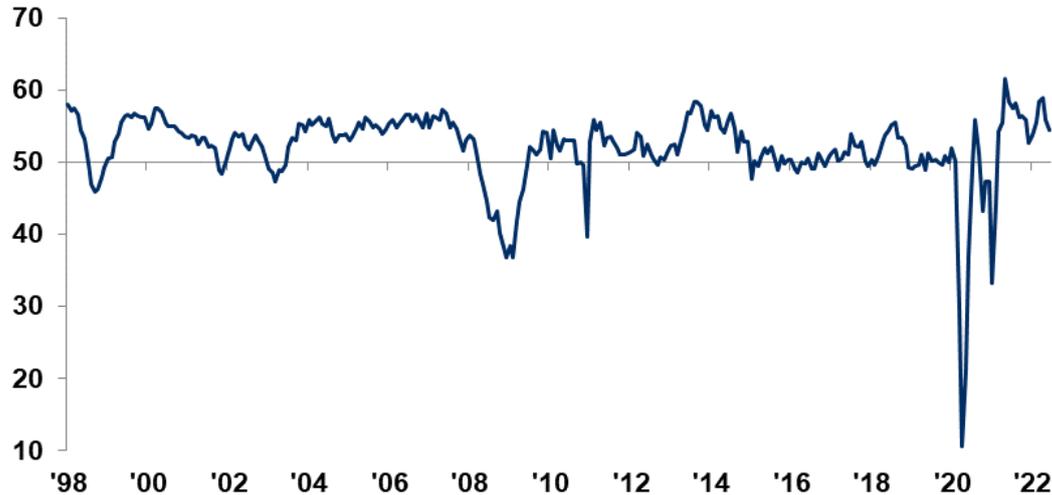
Though rapid, the increase in input prices across Scotland was the softest of all the 12 monitored UK regions.

Private companies across Scotland raised their charges during June, stretching the current bout of output price inflation to 20 months. The pace of inflation eased on the month to register the slowest since January. However, the respective seasonally adjusted index remained well above the historical average, indicating a sharp increase in charges levied.

On a regional basis, Scotland recorded the joint-weakest rate of output charge inflation across the 12 monitored UK areas in June, on a par with the East of England.

Scotland Business Activity Index

sa, >50 = growth since previous month



Source: Royal Bank of Scotland, S&P Global.

COMMENT

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

"The Scottish private sector recorded another solid increase in output during June. That said, there were signs of a further slowdown in momentum, as activity and new orders increased at the weakest rates in five and 15 months, respectively. Moreover, the latest survey data signalled contractions in output and orders across the manufacturing sector.

"Nonetheless, the sustained upturn in business activity and efforts to build capacity led firms to bulk up their workforce numbers for the fifteenth successive month during June.

"However, ongoing shortages of materials, increased energy prices and higher wages all contributed to another surge in input costs during June. The rate of input price inflation eased only slightly from May and remained amongst the fastest on record.

"The softer expansions in activity and sales, surging prices and ongoing global uncertainty underscored an increasingly challenging environment for Scottish private sector firms, and led to a decline in business confidence to a 20-month low."

ENDS

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Notes to Editors

Methodology

The Royal Bank of Scotland PMI[®] is compiled by S&P Global 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 June were collected 13-28 June 2022.

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

About PMI

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