

Embargoed until 0001, Monday 9th August 2021

Royal Bank of Scotland PMI®

Scottish private sector sees further growth in July

- **Business activity rises sharply as demand continues to surge**
- **Intense cost pressures lead to record increase in average charges**
- **Private sector employment rises for fourth month in a row**

The Scottish private sector continued on its recovery path into 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 - posted 57.5 in July to signal a fifth straight monthly increase in private sector output and one that was sharp overall. The latest reading was down from 58.4 in June, however, as some momentum was lost due to a noticeable slowdown in manufacturing output growth. Demand continued to strengthen, however with new work rising at a near record pace, albeit one that eased slightly on the month.

Meanwhile, inflationary pressures intensified further, as costs rose at the sharpest rate since early-2011, reflecting supply constraints, rising utilities, staff and fuel bills, as well as greater Brexit-related costs. As a result, companies increased their average charges to the greatest degree in the series history.

Inflows of new work continued to rise in July, extending the current sequence of expansion to four months. The easing of lockdown measures, resumption of international travel, and stronger client confidence had boosted demand, according to survey respondents. The rate of growth in new work eased further from May's record, but was nonetheless among the quickest in the survey's history.

A stronger upturn in services was weighed on by a further easing of manufacturing order book growth.

Business confidence at Scottish private sector firms remained elevated in July. Sentiment improved on the month and was the seventh-strongest on record, albeit still weaker than in the February-May period of this year. Optimism stemmed from firmer demand conditions, the easing of COVID-19 restrictions and hopes of a sustained economic recovery, according to anecdotal evidence.

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In line with greater activity requirements, firms continued to bulk out their workforces in July. Private sector employment rose for the fourth month in a row, with panellists noting that additional staff were being hired to cope with rising workloads. The rate of job creation eased further but, excluding May and June, was still the fastest since February 2014 and sharp overall.

Service providers recorded a stronger rate of job creation than manufacturers in July.

Capacity pressures at Scottish firms continued to build in July. The level of outstanding business increased for the fourth time in as many months, with the rate of backlog accumulation the second fastest on record (behind May). Firms were struggling to keep up with strong sales, according to respondents. The increase in backlogs was broad based in July, although services firms registered more pronounced capacity pressures than their manufacturing counterparts.

July data highlighted a further surge in costs facing Scottish private sector firms, extending the current sequence of increase to over a year. Anecdotal evidence attributed the latest rise to greater utilities, fuel, staff and material costs, as well as shortages of inputs, COVID-19 and Brexit. The rate of input price inflation was the quickest since January 2011. Manufacturers again saw a far steeper rise in costs than their service sector counterparts.

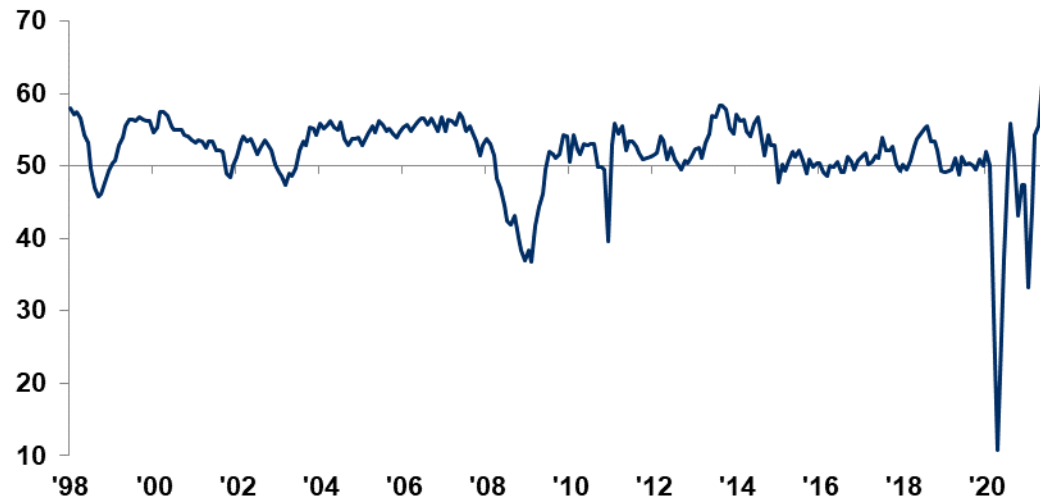
That said, Scotland recorded the second-weakest rate of cost inflation across the 12 monitored UK areas in July, ahead of only London.

Scottish firms continued to pass greater input costs through to clients where possible in July. Average charges levied rose for the ninth month running and at the steepest pace on record, with the rate of inflation in Scotland also slightly outpacing that at the UK level.

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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:

"The Scottish private sector recorded another strong performance in July. Business activity rose again, with the rate of increase close to the survey record, despite easing amid slower manufacturing growth. Inflows of new work too remain strong as looser COVID-19 restrictions continue to bolster demand.

"The continued recovery again bought with it intense inflationary pressures, however. Costs rose at the fastest pace for over a decade, with companies increasing their charges to a record degree as a result. Inflationary pressures will remain a key concern as the recovery progresses, but firms remain confident of a sustained rebound over the next year."

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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 July were collected 12-28 July 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](https://www.ihsmarkit.com/products/pmi.html).

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