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Royal Bank of Scotland PMI[®]

Business activity growth weakens to 17-month low in July

- Output expands fractionally amid renewed drop in sales
- Softest increase in employment since April 2021
- Price pressures cool, but remain rapid

Business activity across the Scottish private sector increased at only a fractional pace during July, according to the latest Royal Bank of Scotland PMI[®] data. The seasonally adjusted headline Royal Bank of Scotland Business Activity Index - a measure of combined manufacturing and service sector output - registered 50.2 in July, down from 54.4 in June, signalling the weakest rate of growth in the current 17-month run of expansion. Moreover, new business at Scottish private sector firms fell for the first time since March 2021. Sector data showed that weakness generally emanated from the manufacturing sector, though service providers in the region saw rates of growth for both output and new orders weaken since June.

Private sector firms across Scotland signalled a renewed fall in new orders during July. While the rate of reduction was only mild, it marked the first contraction since March 2021. The respective seasonally adjusted index was pulled down by a sharp reduction in factory orders across the region, while a weaker upturn in sales was seen at service providers. Panellists linked the decline to reduced customer spending amid the cost of living crisis and rising economic uncertainty.

In contrast to the contraction observed in Scotland, the UK as a whole reported a modest expansion in new orders.

Business confidence strengthened marginally across Scottish private sector firms in July. Surveyed companies hoped that new customers and improvements in client spending will lead to expansions in activity in the coming 12 months. Nevertheless, the overall degree of optimism was the second-lowest in 21 months, with a number of firms concerned about the challenging economic climate, the cost-of-living crises and potential recessionary risks.

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Additionally, Scottish private firms were less upbeat than the average UK business.

As has been the case since April 2021, Scottish private sector firms raised their employment levels in July. Although the rate of job creation was the slowest in 15 months, it remained stronger than the series average (50.5). Companies that raised their workforce numbers attributed this to higher business requirements, but firms also highlighted difficulties finding staff amid labour and skill shortages and a competitive labour market.

Of the 12 monitored UK regions, Scotland reported the softest increase in staffing levels in July, while the North East of England was the only region to register job losses.

Levels of outstanding business fell across Scottish private sector firms for the second consecutive month in July. The rate of depletion was broadly unchanged from June and modest, as the quickest decline in manufacturing backlogs in over two years was largely offset by a renewed rise in unfinished business at services companies. Firms primarily stated that lower sales drove the latest reduction in outstanding orders.

Nine out of the 12 monitored UK regions, including Scotland, posted a decrease in work-in-hand, with data signalling easing pressures on capacity across the UK as a whole.

Input costs rose sharply across Scottish private sector firms during July, thereby stretching the current bout of input price inflation to 26 months. The rate of increase eased to a five-month low, but remained amongst the fastest on record. According to surveyed businesses, higher commodity prices, Brexit, and the war in Ukraine had all placed upwards pressure on costs.

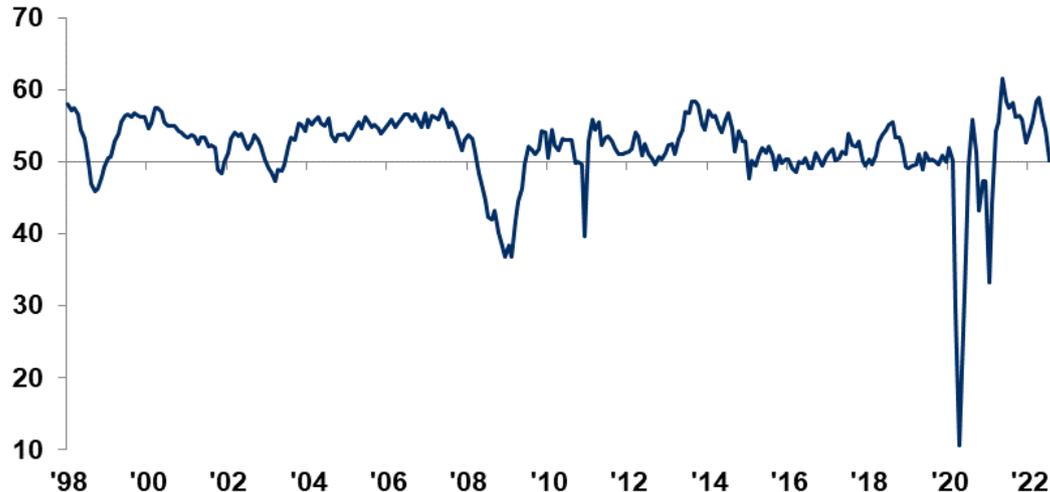
The pace of cost inflation in Scotland was slightly faster than that observed across the UK as a whole.

For the twenty-first successive month, private sector firms in Scotland raised their charges for goods and services in July. While the pace of increase softened to a seven-month low, it remained sharp overall and was quicker than the historical average. Firms often mentioned raising their prices in line with higher costs of raw materials and energy.

Of the 12 monitored UK regions, only the East of England saw a softer increase in charges than Scotland.

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 lost growth momentum for the third month running during July. Activity levels were broadly unchanged as the post-pandemic rebound continued to fade and firms faced intense cost pressures and greater economic uncertainty. Manufacturing firms in the region noted sharp declines in production and new orders, while service providers reported only mild expansions in activity and sales.

"Encouragingly, employment continued to rise, extending the current period of job creation to 16 months. That said, the rate of payroll growth was the softest seen since April 2021.

"While there were signs that price pressures have peaked, costs continued to rise sharply overall. Along with signs of weakening demand, an uncertain economic outlook and the cost of living crisis, a number of firms expressed concerns around the outlook and fears of a recession in the year ahead."

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 July were collected 12-27 July 2022.

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

About PMI

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