

Royal Bank of Scotland PMI®

Business activity rises at strongest rate in four years

Key Findings

Sharp new order growth supports higher output

Selling prices rise quicker despite weaker cost inflation

Business confidence dips but remains elevated

Scotland Business Activity Index



Last six months SC / UK



By sector	Jul-18
Manufacturing	52.1
Services	55.8

According to the July Royal Bank of Scotland PMI®, private sector companies in Scotland increased output to the greatest extent in four years during July. Business activity was boosted in line with strong inflows of new work. Demand improved markedly, driving up backlogs and encouraging further job hiring. Despite more upbeat market conditions, however, business confidence dipped to a seven-month low amid reported concerns regarding the ongoing Brexit process.

At 55.1 in July, compared to 54.5 in June, the seasonally adjusted headline Royal Bank of Scotland PMI indicated a strong rate of private sector output growth at the start of the third quarter. In fact, the rate of expansion was the greatest in four years and outpaced the UK average.

Demand

Improved sales spurred business activity higher during the latest survey. Matching the trend in output, the influx of new business was the greatest since July 2014 and was quicker than that for the UK overall. Panellists attributed stronger demand to new products and contract wins. Sector data indicated that the upturn was driven by the dominant service sector, while manufacturers observed a slower rise in order book volumes.

Capacity

Outstanding business across Scotland increased only marginally in July, despite

quicker growth in workloads. Service providers observed only a mild pick-up in outstanding business, while manufacturers were able to clear backlogs for a seventeenth straight month.

To cope with current business requirements, firms recruited extra staff during July. Although the rate of job creation slipped from June's 52-month peak, it was faster than the broader UK pace. Forecasts of further sales growth reportedly underpinned hiring decisions.

Prices

Input costs continued to increase sharply during July. Unfavourable exchange rate movements and greater prices for food, fuel and labour were mentioned by survey participants. However, the rate of inflation eased to a 22-month low and was the second-weakest of the 12 monitored UK regions.

Selling charges increased as part of efforts to offset rising cost burdens. The rate of increase was solid overall and marginally edged up from June.

Outlook

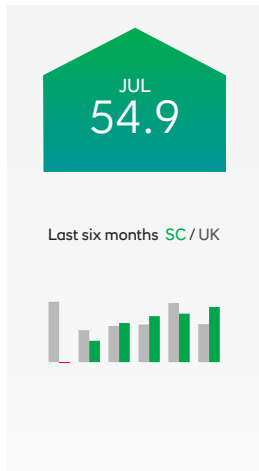
Future output prospects remained positive in the latest survey period. Planned expansion into new markets and increased advertising spend supported the confident outlook, however. Sentiment dipped to a seven-month low amid Brexit-related concerns.

Scotland Business Activity Index

sa, >50 = growth since previous month



New Business Index

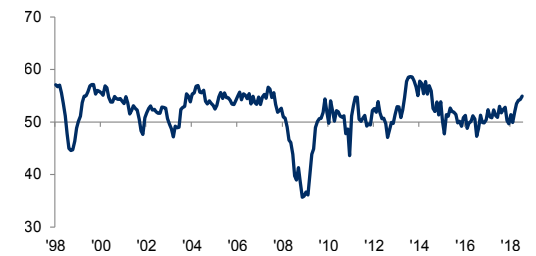


New order growth accelerates to four-year peak in July

New work inflows grew to the most marked extent since July 2014 during the latest survey period. Moreover, the rate of expansion outpaced that seen for the UK as a whole. The latest upturn was driven by stronger demand in the service sector, while goods producers observed a weaker increase in new orders. Anecdotal evidence indicated that new product introductions and successful contract tendering had supported positive sales performances.

New Business Index

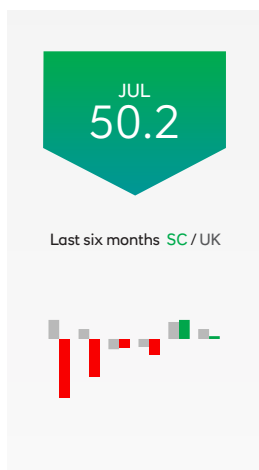
sa, >50 = growth since previous month



By sector

	Manufacturing	Services
Jul-18	52.0	55.6

Outstanding Business Index

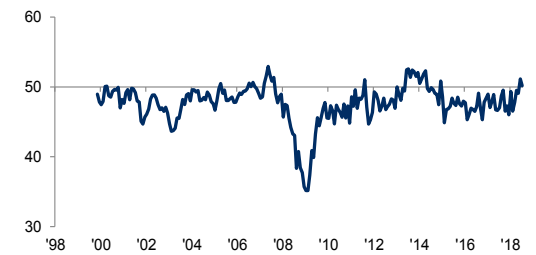


Incomplete work rises for a second successive month

Scottish private sector companies pointed to a rise in capacity pressures during July. Outstanding business increased for the second month in a row, although the rate of accumulation was only marginal and weaker than that for the UK as a whole, Sector data indicated the increase was led by service providers, with backlogs declining at manufacturing firms.

Outstanding Business Index

sa, >50 = growth since previous month



By sector

	Manufacturing	Services
Jul-18	47.4	50.8

Employment Index



Job creation eases from June's 52-month high

A fifth successive month of rising employment was recorded during July. Although the rate of job creation softened on June's near four-and-a-half year high, it was above that seen at the UK level. Projections of stronger demand were linked to the rise in workforce numbers. The rise in staff levels was broad-based, with growth being led by service providers.

Employment Index

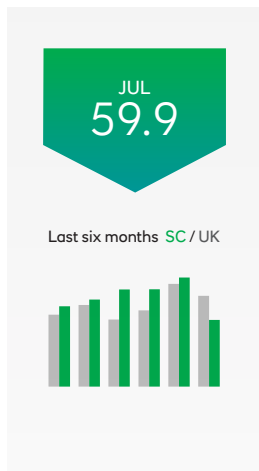
sa, >50 = growth since previous month



By sector

	Manufacturing	Services
Jul-18	50.9	52.1

Input Prices Index



Cost inflation slows to weakest since September 2016

Pressure on Scottish private sector profit margins was sustained in July, with input prices rising for a thirtieth straight month. The rate of inflation was sharp overall, but eased to a 22-month low. Higher operating expenses were associated with increased labour and fuel costs, as well as unfavourable exchange rate movements. Of all 12 monitored UK regions, the rate of increase in Scotland was weaker than all except London.

Input Prices Index

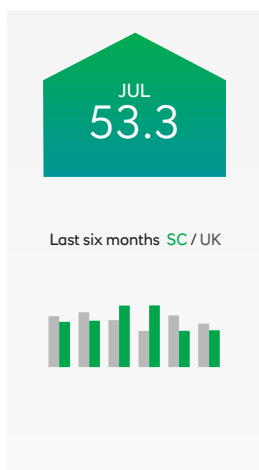
sa, >50 = inflation since previous month



By sector

	Manufacturing	Services
Jul-18	61.4	59.5

Prices Charged Index



Firms continue to raise output prices in July

In an effort to partly offset tightening profit margins, Scottish private sector companies increased selling prices during July. The rate of increase was solid overall and accelerated since June, but was slightly weaker than the UK average. With manufacturers observing a faster rise in costs than their service providing counterparts, output price inflation was also sharper in the former.

Prices Charged Index

sa, >50 = inflation since previous month



By sector

	Manufacturing	Services
Jul-18	54.3	53.0

Future Output Index

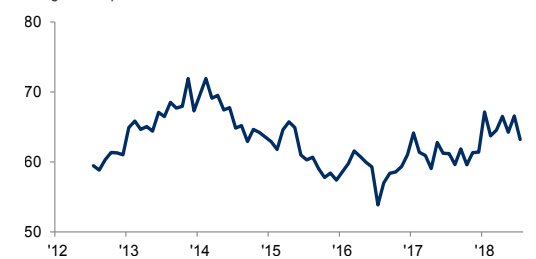


Business confidence eases to seven-month low

Confidence towards future output was sustained in July, with the overall degree of optimism remaining marked, despite easing to a seven-month low. Forecasts of new contract wins, planned expansion into new markets and increased advertising supported positive sentiment. According to the sector split, manufacturers were more upbeat than service sector firms.

Future Output Index

>50 = growth expected over next 12 months



By sector

	Manufacturing	Services
Jul-18	64.7	62.9

Scotland Export Climate Index

Note: Export markets are defined as non-UK.



Last six months



Scottish Export markets improve solidly during July

The Scotland Export Climate Index is calculated by weighting together national PMI output data according to their importance to the manufacturing exports of Scotland. This produces an indicator for the economic health of Scotland's export markets.

The Export Climate Index signalled solid rate of improvement in demand conditions faced by Scottish exporters, despite the index falling to 54.2 in July from 55.6 in June. Scotland's main trading partner, the Netherlands, observed the slowest rate of growth in manufacturing output for 22 months, while growth in the USA was slightly softer. Nonetheless, growth in both countries was robust overall. Production in other key sources of foreign demand such as France, Germany and China was solid, albeit slower than in June.

Export Climate Index

sa, >50 = improving export climate since previous month



Top export markets, Scotland

Rank	Market	Weight	Output Index, Jul-18
1	Netherlands	15.0%	55.3
2	USA	11.6%	55.7
3	Germany	9.7%	54.7
4	China	7.7%	52.3
5	France	6.3%	53.9

Scotland Industry Specialisation

Location quotients (LQs) are useful measures of regional economic specialisation and offer a means to identify industry clusters at a local level. They are ratios derived by comparing the share of sector output (or gross value added) in regions with the national share of output in the same sector.

Focusing on the manufacturing and service sectors in isolation, a location quotient is calculated by taking a sector's proportion of regional output and comparing it with the UK-wide share of output in the sector. An LQ of 1.0 in a sector means that the region and the UK as a whole are equally specialised in that

sector. An LQ greater than 1.0 indicates that the sector has a greater economic footprint in the region than it does for the UK as a whole.

The tables below rank the location quotients for Scotland, broken down by manufacturing and services sub-sectors. The UK Output Index for each sub-sector is also displayed.

Manufacturing specialisation: Scotland

Rank	Sector	LQ	UK Output Index, Jul-18 (3mma)
1	Food & Drink	1.97	
2	Textiles & Clothing	1.22	
3	Wood & Paper	1.03	
4	Electrical & Electronic	1.00	
5	Metals & Metal Products	0.95	
6	Machinery & Equipment	0.88	
7	Chemicals, Rubber & Plastics	0.88	
8	Other Manufacturing	0.65	
9	Transport Equipment	0.34	

40 45 50 55 60 65 70

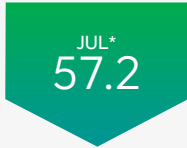
Services specialisation: Scotland

Rank	Sector	LQ	UK Business Activity Index, Jul-18 (3mma)
1	Hotels, Restaurants & Catering	1.25	
2	Other Personal / Consumer Services	1.07	
3	Financial Intermediation	1.03	
4	Transport & Communication Services	1.03	
5	Business-to-Business Services	0.95	
6	Computing & IT Services	0.68	

40 45 50 55 60

UK Sector Focus: Financial Intermediation

Output Index



Last six months*



*3mma

Financial intermediation leads UK service sector growth in the three months to July

One of the main bright spots in the UK economy in the three months to July was the financial intermediation sector, where strong underlying demand drove both an upturn in business activity and a robust pace of job creation.

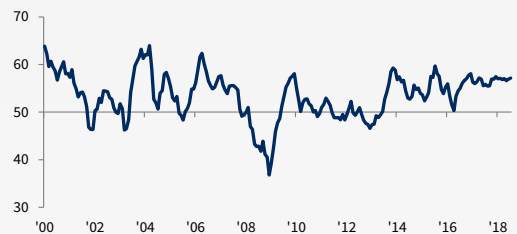
The extent of the increase in business activity in the latest three-month period was the greatest seen since the final quarter of 2017, with the pace of growth twice the average since the 2008-9 global financial crisis.

The sector meanwhile continued to see a far quicker rate of employment growth than anywhere else in the services economy, despite the pace of hiring moderating from the highs seen around the turn of the year.

Less positively, expectations towards future activity were the lowest for almost two years.

Output Index

sa, >50 = growth since previous month (3mma)



Employment Index

sa, >50 = growth since previous month (3mma)



UK Regional Rankings

Business Activity

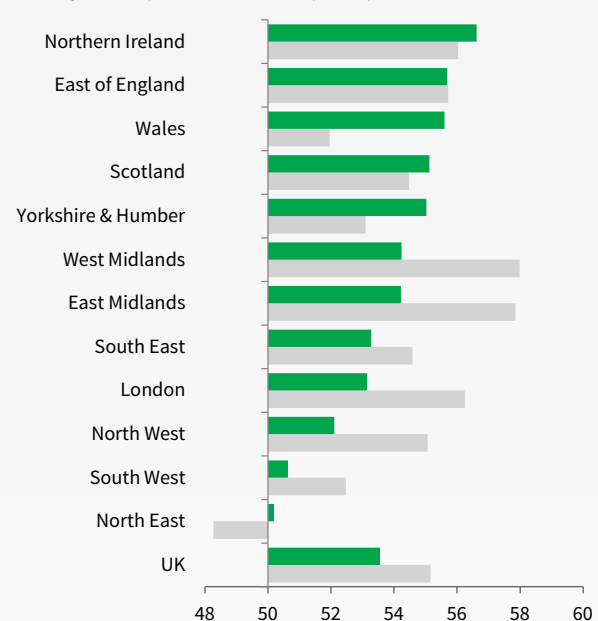
Northern Ireland led business activity growth in July, having seen the rate of expansion in output accelerate for the fourth time in as many months to the highest since January. The East of England and Wales were also among the strongest performers, with the latter regaining momentum after recording its weakest growth in almost two years during June. All areas in fact registered a rise in business activity, though in the case of the North East – the weakest performing region – the increase was only fractional.

Employment

On the employment front, the East Midlands recorded the joint-quickest rate of job creation in July alongside Yorkshire & Humber. Even in these two regions, however, the pace of hiring was relatively subdued. Elsewhere, last month's top performer, Scotland, saw workforce growth slow sharply to a four-month low. The North East recorded the only notable drop in employment, with the South East seeing a negligible decrease.

Output Index by region

sa, >50 = growth since previous month, Jul-18



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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

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.

About Royal Bank of Scotland

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The bank has commitment to retain its close connections with the Scottish communities it serves.

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