

# Royal Bank of Scotland PMI<sup>®</sup>

## Scottish economy sees further growth in April

### Scotland Business Activity Index



### Key findings

Further upturn in activity, with rate of growth quickening since March

New business rises for first time since August 2020

Firms begin hiring amid growing capacity pressures

The Scottish economy continued on its recovery path in April, according to the latest Royal Bank of Scotland PMI<sup>®</sup>. The seasonally adjusted headline Royal Bank of Scotland Business Activity Index - a measure of combined manufacturing and service sector output - rose from 54.3 March to 55.4 in April to signal a back-to-back upturn, with the rate of growth the quickest for eight months. Central to the expansion was a renewed rise in new work, with the rate of increase the fastest for nearly three years and solid. According to panellists, client demand had improved noticeably amid looser lockdown restrictions. Subsequently, capacity pressures built in April as backlogs of work rose for the first time in over two-and-a-half years. In response, firms took on additional staff for the first time since January 2020.

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

*"April data highlighted further gains for the Scottish private sector as it continues on its recovery path. Business activity rose for the second month in a row, with the latest upturn the strongest for eight months. Key to growth was a renewed rise in new work and one that was the strongest for nearly three years."*

*"Further positive news came from employment, with companies adding to staff numbers for the first time in over a year - a clear sign that firms are confident of a recovery. Indeed, the year-ahead outlook for activity remained historically elevated."*

*"Overall the data are very encouraging and suggest the private sector has turned a corner towards recovery. With lockdown measures set to ease further, we should see a sustained rebound in the months to come."*

Scotland Business Activity Index

sa, >50 = growth since previous month



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## About the Scotland PMI® report

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.

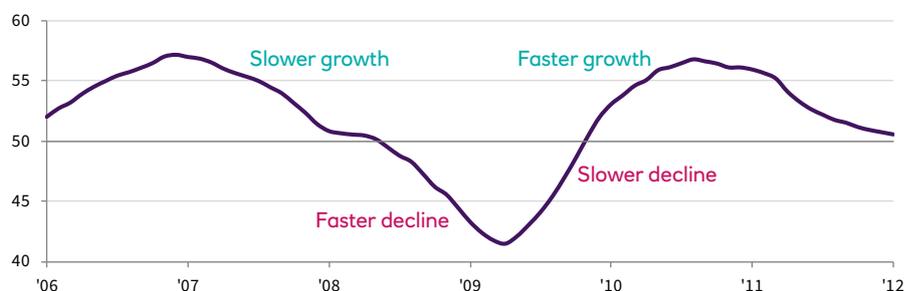
The headline figure is the Business Activity Index. This is a composite index calculated by weighting together the Manufacturing Output Index and the Services Business Activity Index. The Scotland Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the '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](mailto:economics@ihsmarkit.com).

### Index interpretation

50.0 = no change since previous month



## Demand and outlook

### New business

April data highlighted the first increase in new business at Scottish private sector firms for eight months. Panellists linked the rise to improved client demand, driven in part by the easing of lockdown measures. Moreover, the upturn in new work was the strongest since August 2018, with both manufacturers and services firms registering an increase.

Nonetheless, the rate of growth in Scotland lagged behind the UK average in April. Of the 12 monitored areas, only the North East of England saw a slower expansion of new business than Scotland.

### Business expectations

Scottish companies remained optimistic with regards to output over the next year in April, with the Future Activity Index falling only slightly from March's record high. Anecdotal evidence attributed confidence to improved sales, easing lockdown restrictions and hopes of strong growth alongside an economic recovery.

Goods producers recorded the strongest level of sentiment on record in April, although they were still less optimistic than services firms.

### Exports

#### Strongest upturn in export conditions since mid-2006

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 Scotland Export Climate Index posted 57.8 in April, up from 56.3 in March, and pointed to the strongest improvement in export conditions for nearly 15 years.

Rates of growth followed the relative importance of export markets, with the Netherlands and the USA seeing by far the quickest expansions. Growth slowed slightly in Germany, but remained solid overall, while both China and France saw stronger upturns.

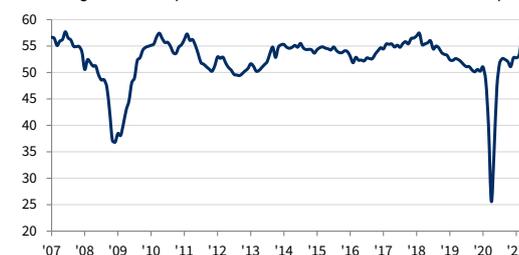
New Business Index  
sa, >50 = growth since previous month  
53.9  
Apr '21



Future Activity Index  
>50 = growth expected over next 12 months  
72.4  
Apr '21



Export Climate Index  
sa, >50 = growth since previous month  
57.8  
Apr '21



Top export markets, Scotland

Rank	Market	Weight	Output Index, Apr '21
1	Netherlands	18.3%	65.0
2	USA	10.8%	63.5
3	Germany	9.2%	55.8
4	China	6.6%	54.7
5	France	5.6%	51.6

New Business Index  
Nov '20 - Apr '21



Future Activity Index  
Nov '20 - Apr '21



Export Climate Index  
Nov '20 - Apr '21



## Business capacity

### Employment

Amid reports of surging demand and hopes of sustained growth, Scottish companies increased their workforce numbers during April. This marked the first round of job creation since January 2020, before the COVID-19 pandemic. The rate of increase in employment was marginal overall, but slightly above the series long-run average.

Sectoral data highlighted a notable divergence, however, with new jobs concentrated in manufacturing. Service sector employment meanwhile continued to decrease, although the rate of reduction slowed on the month.

### Outstanding business

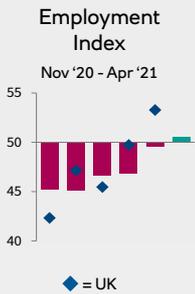
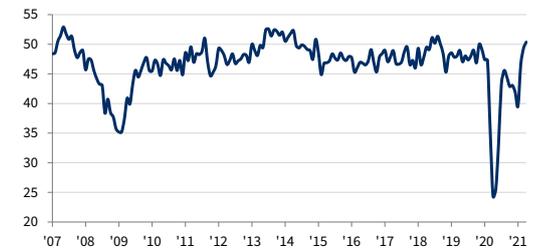
Adjusted for seasonal variation, the Outstanding Business Index posted above the neutral 50.0 mark during April. This signalled the first rise in backlogs of work at Scottish private sector firms for nearly three years, albeit one that was only mild. Respondents attributed backlogs to surging sales and the COVID-19 pandemic.

Capacity pressures were concentrated on the manufacturing sector, with outstanding business broadly stable at services firms.

Employment Index  
sa, >50 = growth since previous month  
50.6  
Apr '21



Outstanding Business Index  
sa, >50 = growth since previous month  
50.4  
Apr '21



## Prices

### Input prices

April data highlighted a further steep increase in cost burdens facing Scottish firms, with the rate of inflation unchanged since March and the fastest since August 2018. Price hikes at suppliers, greater utility, wage and material costs, as well as Brexit, were the primary drivers of inflation according to panellists.

At the sector level, both manufacturers and services firms saw a marked rise in costs, although the rate of inflation was noticeably quicker for the former.

### Prices Charged

Average charges levied by Scottish private sector firms rose further in April. According to anecdotal evidence, firms were passing higher costs on to clients where possible. Moreover, the latest rise in charges was the fastest since February 2011 and sharp.

As was the case for input prices, goods producers recorded a much steeper increase in charges than services firms.

### Input Prices Index

sa, >50 = inflation since previous month

64.4

Apr '21



### Prices Charged Index

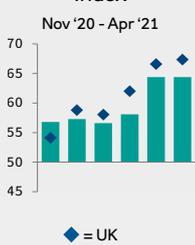
sa, >50 = inflation since previous month

56.0

Apr '21



Input Prices Index  
Nov '20 - Apr '21



Prices Charged Index  
Nov '20 - Apr '21



## Scotland Manufacturing PMI

### Manufacturing PMI hits record high in April

The seasonally adjusted Scotland Manufacturing PMI - a composite single-figure indicator of manufacturing performance - from 55.1 in March to 57.2 in April, and signalled the steepest improvement in manufacturing conditions since the survey began in 1998.

Key to the rapid growth of the sector was a third straight monthly rise in output volumes, amid reports of improved client demand, in part due to easing restrictions and stronger client confidence. Notably, the rate of increase in new orders was the sharpest since last December. Firmer demand came exclusively from the domestic market, however, as new export orders decreased further.

In response to higher sales, firms upped their purchasing activity at the fastest rate on record. Inventories continued to fall, however.

On the price front, greater raw material costs, shortages and Brexit were all attributed by respondents to another marked increase in cost burdens. Subsequently, the rate of charge inflation was among the fastest on record.

Looking ahead, business confidence was the strongest on record in April. Optimism was mainly attributed to looser COVID-19 restrictions.

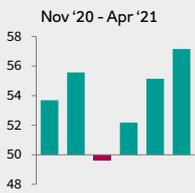
Manufacturing PMI  
sa, >50 = improvement since previous month  
57.2  
Apr '21



Output Index  
>50 = growth expected over next 12 months  
55.8  
Apr '21



Manufacturing PMI



Output Index



#### New Orders Index

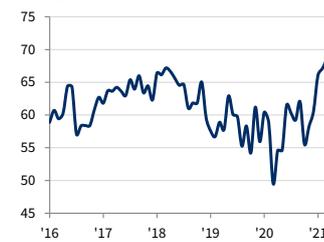
#### New Export Orders Index

sa, >50 = growth since previous month



#### Future Output Index

>50 = growth expected over next 12 months

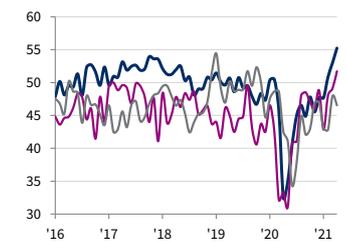


#### Employment Index

#### Backlogs of Work Index

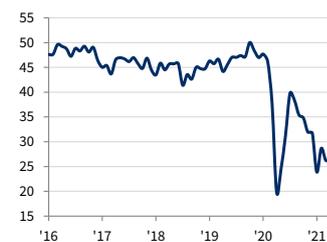
#### Stocks of Finished Goods Index

sa, >50 = growth since previous month



#### Suppliers' Delivery Times Index

sa, >50 = faster times since previous month



#### Quantity of Purchases Index

#### Stocks of Purchases Index

sa, >50 = growth since previous month



#### Input Prices Index

#### Output Prices Index

sa, >50 = inflation since previous month



## Scotland Services PMI

### Services growth strongest since August 2018

The seasonally adjusted Business Activity Index rose from 54.0 in March to 55.4 in April, to signal a back-to-back upturn in Scottish services output. Moreover, the rate of growth was the strongest since August 2018.

Central to the latest expansion was a renewed increase in the level of new business at Scottish service providers, with the uptick the fastest for two-and-a-half years and solid overall.

According to panellists, the easing of lockdown restrictions had boosted client demand.

Nonetheless, firms continued to trim their staffing levels during April, amid reports that staff who left were not being replaced. That said, the rate of job shedding was the slowest in the current 15-month sequence and only fractional. Backlogs of work were meanwhile broadly stable on the month.

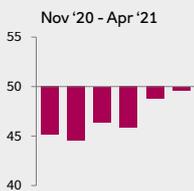
Turning to prices, service providers recorded the joint-steepest increase in costs since June 2019 during April. Panellists linked greater input prices to utilities, wages, and materials. As a result, average charges rose the most since May 2018.

Finally, business confidence remained historically elevated in April, despite moderating on the month.

Business Activity Index



Employment Index



Business Activity Index

sa, >50 = growth since previous month

55.4

Apr '21



Employment Index

sa, >50 = growth since previous month

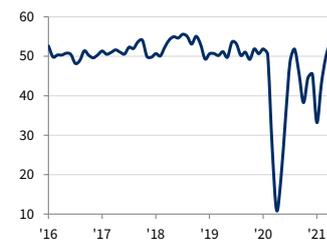
49.6

Apr '21



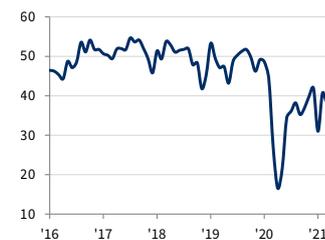
New Business Index

sa, >50 = growth since previous month



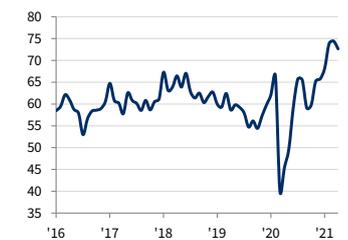
New Export Business Index

sa, >50 = growth since previous month



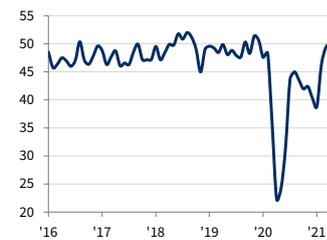
Future Activity Index

>50 = growth expected over next 12 months



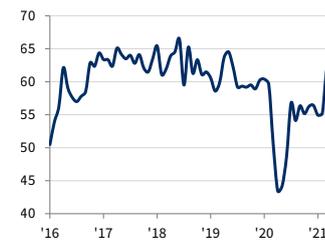
Outstanding Business Index

sa, >50 = growth since previous month



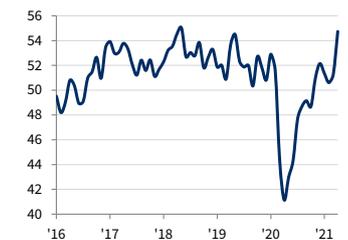
Input Prices Index

sa, >50 = inflation since previous month



Prices Charged Index

sa, >50 = inflation since previous month



## UK Sector PMI

### Sector specialisation: Scotland

Location quotients (LQs) are useful measures of regional economic specialisation and can 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. The UK Output Index for each sub-sector is also displayed.

#### Scotland specialisation: Manufacturing

Rank	Sector	LQ	UK Output Index, Apr '21*
1	Food & Drink	1.90	
2	Textiles & Clothing	1.21	
3	Wood & Paper	1.19	
4	Electrical & Electronic	1.10	
5	Chemicals, Rubber & Plastics	0.90	
6	Metals & Metal Products	0.87	
7	Machinery & Equipment	0.85	
8	Other Manufacturing	0.68	
9	Transport Equipment	0.32	

#### Scotland specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Apr '21*
1	Hotels, Restaurants & Catering	1.29	
2	Financial Intermediation	1.08	
3	Transport & Communication	1.05	
4	Other Services	1.03	
5	Business-to-business Services	0.94	
6	Computing & IT Services	0.73	

## UK sector focus

### Timber & Paper Manufacturing

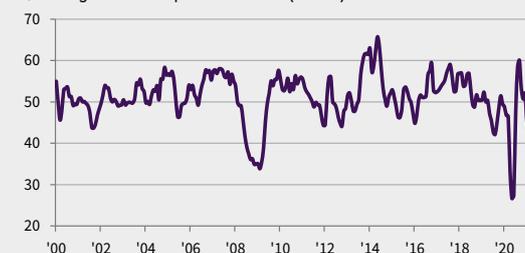
PMI data for the three months to April showed strong output growth at manufacturers of timber & paper products. This marked a rebound from a downturn at the turn of the year, when the sector was hit by a combination of a resurgence in COVID-19 infections, tightened lockdown measures, post-Brexit disruption and supply-chain issues.

The recent improved performance has been driven largely by increasing domestic demand, with new export orders falling in the three months to April. Employment levels in the sector have meanwhile stabilised, having been in almost continuous decline since mid-2019.

Supply-side conditions, on the other hand, remain challenging, with latest data showing the continuation of the sector's worst spell of input delivery delays in almost three decades of data collection. In turn, cost pressures have reached a record high.

#### Output Index

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



## UK Regional PMI overview

### Business Activity

A return to growth in Northern Ireland meant that higher output was recorded across all 12 regions of the UK for the first time in seven months in April. Overall, growth was led by the West Midlands, closely followed by Yorkshire & Humber. The weakest performances were seen in the North East and Scotland, though even here the rates of expansion were historically strong.

### Employment

There was a general improvement in labour market trends in April, with 11 out of the 12 monitored regions recorded higher employment, up from ten in March. Furthermore, almost all areas saw a faster rate of job creation, including the two standout performers, the North West and Yorkshire & Humber. Staffing numbers fell in Wales, albeit only marginally.

### Future Activity

Businesses across all parts of the UK were strongly confident about the outlook for activity over the next 12 months in April. Firms in Yorkshire & Humber showed the greatest optimism for the fourth month running, with the South East and London close behind. Expectations in Northern Ireland were the highest for 14 months, but still lower than in any other region.

**Business Activity Index**  
sa, >50 = growth since previous month, Apr '21



**Employment Index**  
sa, >50 = growth since previous month, Apr '21



**Future Activity Index**  
>50 = growth expected over next 12 months, Apr '21



\* Coverage in Northern Ireland also includes retail and construction, alongside manufacturing and services.



## Index summary

### Composite

sa, 50 = no change over previous month. \*50 = no change over next 12 months.

	Business Activity	New Business	Export Climate	Future Activity*	Employment	Outstanding Business	Input Prices	Prices Charged
Nov '20	47.3	45.8	51.1	64.0	45.2	43.0	56.8	51.3
Dec '20	47.3	47.3	52.8	64.8	45.1	41.9	57.3	52.0
Jan '21	33.3	35.5	52.8	67.8	46.6	39.5	56.6	52.0
Feb '21	44.1	44.0	53.2	72.6	46.8	46.5	58.1	52.0
Mar '21	54.3	49.8	56.3	73.4	49.5	49.3	64.4	53.2
Apr '21	55.4	53.9	57.8	72.4	50.6	50.4	64.4	56.0

### Manufacturing

sa, 50 = no change over previous month. \*50 = no change over next 12 months.

	PMI	Output	New Orders	New Export Orders	Future Output*	Employment	Backlogs of Work	Stocks of Finished Goods	Quantity of Purchases	Suppliers' Delivery Times	Stocks of Purchases	Input Prices	Output Prices
Feb '21	52.2	50.6	48.5	48.3	67.1	50.9	48.1	42.8	45.0	28.7	40.9	71.3	58.4
Mar '21	55.1	55.7	50.0	48.9	68.6	53.0	49.1	47.9	55.2	26.3	45.7	75.8	62.2
Apr '21	57.2	55.8	54.5	48.6	71.0	55.2	51.7	46.5	57.4	26.5	47.9	75.8	62.0

### Services

sa, 50 = no change over previous month. \*50 = no change over next 12 months.

	Business Activity	New Business	New Export Business	Future Activity*	Employment	Outstanding Business	Input Prices	Prices Charged
Feb '21	42.7	43.0	40.7	73.9	45.9	46.2	55.2	50.6
Mar '21	54.0	49.8	38.6	74.4	48.8	49.4	61.9	51.3
Apr '21	55.4	53.7	45.3	72.7	49.6	50.1	61.9	54.7

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### About Royal Bank of Scotland

Royal Bank of Scotland has paved the way in banking ever since it was established in 1727. From the world's first overdraft, and the first house purchase loan by a UK bank, to the first fully-fledged internet banking service and mobile banking app the bank has a history of making life easier for its customers.

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

### About IHS Markit

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

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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.

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