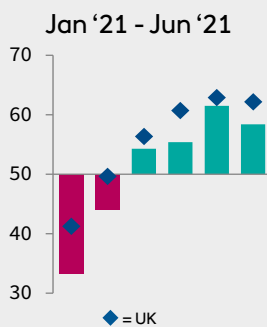


# Royal Bank of Scotland PMI<sup>®</sup>

## Scottish private sector ends second quarter with further rapid expansion

### Scotland Business Activity Index



### Key findings

Growth of business activity remains close to survey record pace

Further rapid upturn in new work

Inflationary pressures intensify again

Scottish private sector firms registered another solid performance during June, according to the latest Royal Bank of Scotland PMI<sup>®</sup>, as looser COVID-19 restrictions continued to spur growth. The seasonally adjusted headline Royal Bank of Scotland Business Activity Index - a measure of combined manufacturing and service sector output - posted 58.4 in June, falling from May's survey record of 61.5, to signal the second-quickest increase in output since data collection began in 1998. Inflows of new work rose steeply again, while sustained capacity pressures led firms to take on additional staff for the third month in a row. Inflationary woes worsened, however, with input prices rising at the quickest pace for over a decade and firms raising their selling prices at a record pace as a result.

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

*"June data showed some signs of optimism for the Scottish private sector, as the easing of lockdown restrictions and improved consumer confidence continued to invigorate growth. The rates of increase in both business activity and new work slowed only slightly from May's respective series records and remained marked."*

*"Inflationary pressures are a key concern, however, as material shortages and greater fuel and utilities fees continued to put severe upward pressure on input costs and, subsequently, selling prices."*

*"Nonetheless, the private sector remains in a good position as we enter the third quarter of the year. Growth showed little sign of slowing notably in June, and firms remained among the most confident on record of higher activity in the coming 12 months."*

### 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.

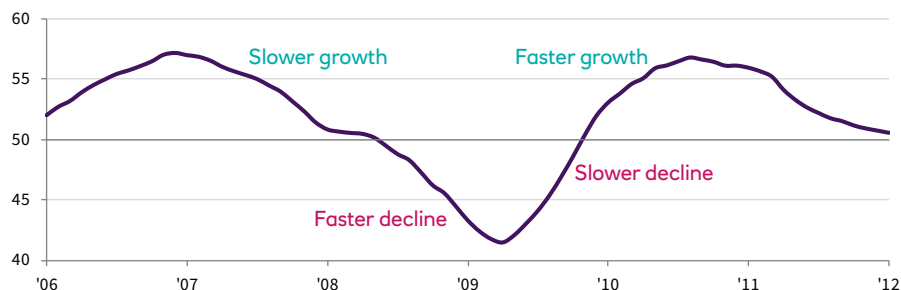
The headline figure is the Business Activity Index. This is a composite index calculated by weighting together the Manufacturing Output Index and the Services Business Activity Index. The Scotland Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the '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

A third straight monthly increase in the level of new business at Scottish companies was recorded during June. The relaxation of COVID-19 restrictions, improved client confidence and firmer demand conditions were all cited by panellists as drivers of the latest upturn. The rate of growth slowed from May's survey high, but was still the second-quickest since September 2013 and rapid.

The latest increase in new business was broad-based at the sector level and led by services, with goods producers seeing the rate of growth slow on the month.

### Business expectations

Scottish private sector companies maintained an optimistic outlook towards activity over the coming year in June. The Future Activity Index dipped from May's series high, but nonetheless signalled one of the strongest levels of sentiment on record. Panellists linked confidence to looser lockdown restrictions and the subsequent reopening of some sectors, surging inflows of new work and hopes of a strong economic recovery.

### Exports

#### Export climate continues to improve sharply in June

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 registered 58.7 in June, down only slightly from May's 21-year record of 60.2, to signal the second-quickest improvement in export conditions for over 15 years.

Growth remained rapid in Scotland's top export market, the Netherlands, as well as the USA, while both Germany and France saw stronger rates of expansion in June. China was the outlier, with growth here slowing noticeably on the month.

### New Business Index

sa, >50 = growth since previous month

58.4

Jun '21



### Future Activity Index

>50 = growth expected over next 12 months

70.4

Jun '21



### Export Climate Index

sa, >50 = growth since previous month

58.7

Jun '21

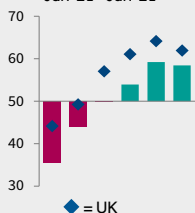


#### Top export markets, Scotland

Rank	Market	Weight	Output Index, Jun '21
1	Netherlands	18.3%	64.4
2	USA	10.8%	63.7
3	Germany	9.2%	60.1
4	China	6.6%	50.6
5	France	5.6%	57.4

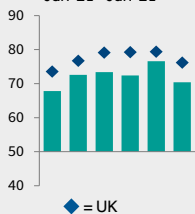
### New Business Index

Jan '21 - Jun '21



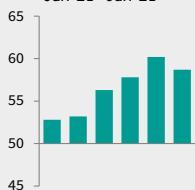
### Future Activity Index

Jan '21 - Jun '21



### Export Climate Index

Jan '21 - Jun '21



## Business capacity

### Employment

Private sector employment across Scotland continued to rise during June, extending the current sequence of increases to three months. The latest upturn in staffing levels was attributed by panellists to greater output requirements. The rate of job creation slowed from May's peak, but was still the second-quickest on record and sharp overall.

The increase in workforce numbers was broad-based across both monitored sectors during June. Services saw a slightly quicker rate of job creation than manufacturing.

### Outstanding business

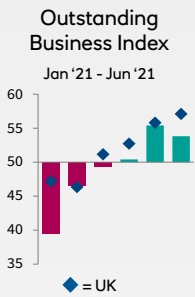
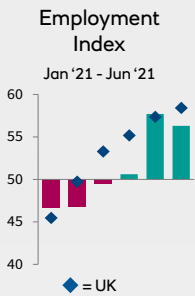
June data pointed to sustained capacity pressures at Scottish companies, as the level of outstanding business rose for the third month in a row. Surging sales due to looser COVID-19 restrictions, as well as supply disruptions and shortages, meant firms were unable to keep up with activity requirements, according to anecdotal evidence. The rate of increase in backlogs slowed only slightly from May's series record and was the second-fastest ever recorded.

That said, across the 12 monitored UK areas, Scotland tied with the North East in registering the slowest rate of backlog growth in June.

Employment Index 56.3  
sa, >50 = growth since previous month Jun '21



Outstanding Business Index 53.8  
sa, >50 = growth since previous month Jun '21



## Prices

### Input prices

Input prices faced by Scottish private sector firms continued to soar during June, with the rate of inflation the fastest since February 2011. Panellists attributed greater costs to material shortages, price hikes at suppliers, Brexit and higher fuel and utilities prices.

At the sector level, manufacturers recorded a series record rate of cost inflation during June, with the increase also much steeper than that at services firms.

### Prices Charged

In response to greater input costs, Scottish private sector firms increased their average charges for the eighth month running during June. Companies were passing through additional costs to clients where possible, according to respondents. The rate of inflation was the quickest since the series began in November 1999 and rapid overall.

As was the case for input costs, goods producers registered a much faster rise in average charges than service providers in June, with both seeing the rate of inflation quicken during the month.

### Input Prices Index

sa, >50 = inflation since previous month

69.8

Jun '21



### Prices Charged Index

sa, >50 = inflation since previous month

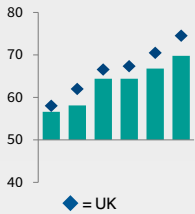
61.4

Jun '21



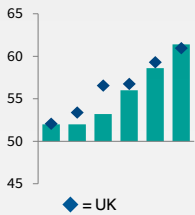
### Input Prices Index

Jan '21 - Jun '21



### Prices Charged Index

Jan '21 - Jun '21



## Scotland Manufacturing PMI

### Manufacturing growth remains close to record pace in June

The seasonally adjusted Scotland Manufacturing PMI - a composite single-figure indicator of manufacturing performance - remained close to May's record high of 62.0, posting 59.5 in June and signalling one of the quickest rates of improvement in the sector on record.

Central to growth in June were further steep rises in both output and new orders. Despite easing since May, the rates of expansion remained among the fastest on record and sharp overall. The easing of lockdown measures had led to stronger sales, according to respondents.

The headline figure was also bolstered by more intense supply disruptions in June. Average lead times for inputs lengthened to the second-greatest extent on record, amid widespread reports of material shortages. Only in April 2020 had more severe delays been registered. Capacity pressures also strengthened, with a further record increase in backlogs recorded.

Supply constraints were once again reflected in prices in June. Input costs rose to at an unprecedented pace, with manufacturers increasing selling prices the most on record as a result.

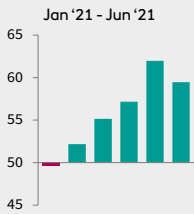
Manufacturing PMI  
sa, >50 = improvement since previous month  
59.5  
Jun '21



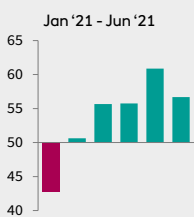
Output Index  
>50 = growth expected over next 12 months  
56.7  
Jun '21



Manufacturing PMI



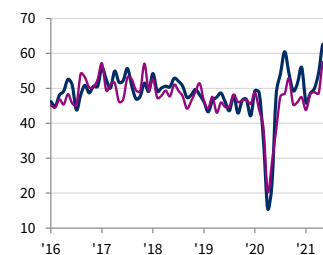
Output Index



#### New Orders Index

#### New Export Orders Index

sa, >50 = growth since previous month



#### Future Output Index

>50 = growth expected over next 12 months

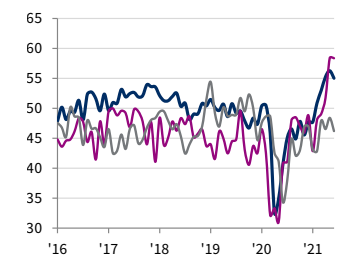


#### Employment Index

#### Backlogs of Work Index

#### Stocks of Finished Goods Index

sa, >50 = growth since previous month



#### Suppliers' Delivery Times Index

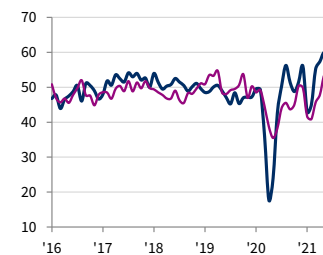
sa, >50 = faster times since previous month



#### Quantity of Purchases Index

#### Stocks of Purchases Index

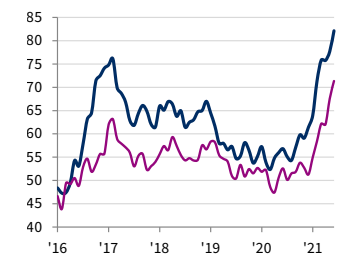
sa, >50 = growth since previous month



#### Input Prices Index

#### Output Prices Index

sa, >50 = inflation since previous month



## Scotland Services PMI

### Further rapid upturn in services output during June

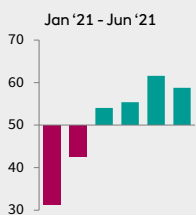
The seasonally adjusted Business Activity Index posted 58.8 during June. Although down from May's series record of 61.6, the latest reading still signalled a rapid increase in Scottish services output.

The sustained upturn was driven by a further sharp increase in inflows of new work during June, with the rate of growth unchanged from May and the joint-quickest since October 2013. According to panellists, looser COVID-19 restrictions had boosted client demand.

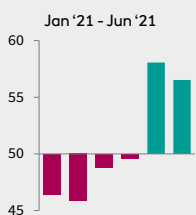
As a result, service providers took on additional staff for the second month in a row. The rate of job creation eased slightly from May's peak, but was still the third-quickest in the series history and sharp. Firms were increasing their capacity to keep up with demand, according to anecdotal evidence. Indeed, the level of outstanding business at services firms rose for the third successive month and at a solid pace.

Input prices rose steeply again in June amid reports of shortages and greater fuel, utility and material costs. The rate of inflation was the quickest for over a decade. In response to greater costs, Scottish service providers raised their average charges at the steepest rate since data collection began in January 1998.

Business Activity Index



Employment Index



Business Activity Index

sa, >50 = growth since previous month

58.8

Jun '21



Employment Index

sa, >50 = growth since previous month

56.5

Jun '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, Jun '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, Jun '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

### Chemicals, Rubber & Plastics

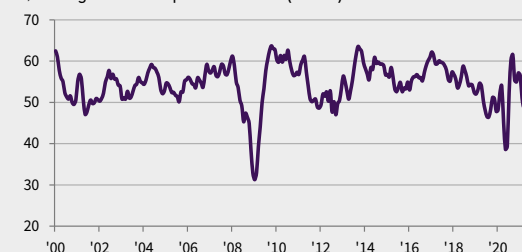
The second quarter saw a strong rebound in output levels across the UK's Chemicals, Rubber and Plastics sector following a slowdown at the start of the year. The pace of growth was the quickest for more than four years, supported by rising domestic demand and recovering export sales.

Lengthening input lead times remained a key feature, with latest data showing the continuation of the worse spell of supplier delivery delays in almost three decades of data collection. Severe material shortages were in turn reflected in record increases in input costs and factory gate charges.

More positively, manufacturers of Chemicals, Rubber and Plastics recorded an unprecedented rate of job creation in the three months to June, amid rising backlogs of work and strong growth expectations for the coming year.

#### Output Index

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





## UK Regional PMI overview

### Business Activity

As has been the case throughout the second quarter, all regions and nations of the UK saw a rise in business activity in June. Rates of growth remained strong across the board but eased in the majority of cases. The North West topped the rankings ahead of Wales, while Northern Ireland and Scotland were at the foot of the table.

### Employment

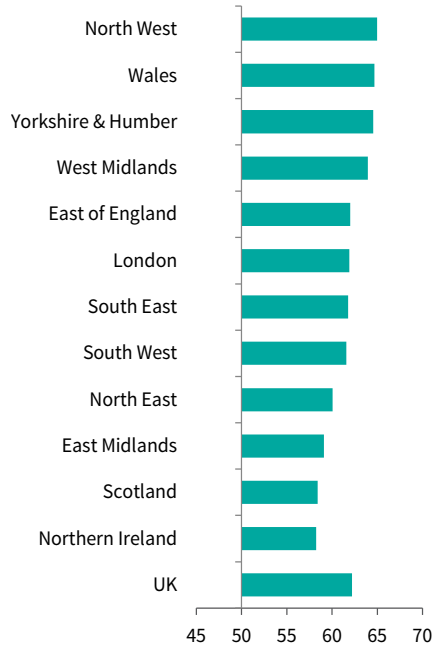
The West Midlands led a broad-based rise in regional employment in June. Rates of job creation accelerated in five out of 12 cases and were unchanged in three others. Wales saw the greatest acceleration in the pace of workforce growth, although still ranked only ninth overall, ahead of Scotland, Northern Ireland and the North East.

### Future Activity

Sentiment towards future activity was generally positive in June. However, only Wales (ranked third overall) and the South West (fifth) saw expectations improve since May. Firms in Yorkshire & Humber recorded the highest degree of optimism, as has been the case in five of the past six months, while those in Northern Ireland were the least upbeat.

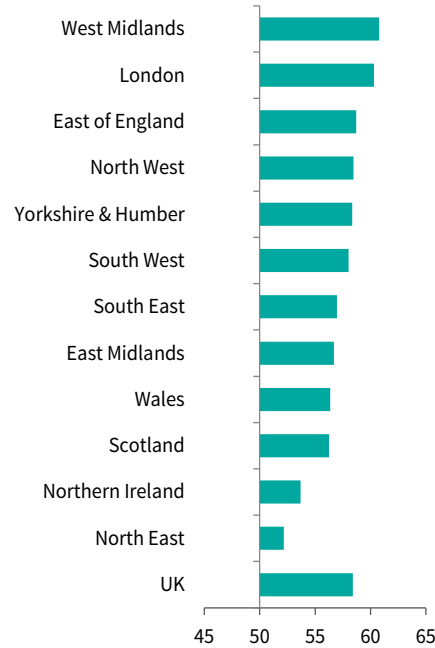
Business Activity Index

sa, >50 = growth since previous month, Jun '21



Employment Index

sa, >50 = growth since previous month, Jun '21



Future Activity Index

>50 = growth expected over next 12 months, Jun '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
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
May '21	61.5	59.2	60.2	76.6	57.7	55.4	66.8	58.6
Jun '21	58.4	58.4	58.7	70.4	56.3	53.8	69.8	61.4

### 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
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
May '21	62.0	60.9	62.6	57.5	73.1	56.3	58.4	48.4	60.0	24.2	53.4	77.7	67.5
Jun '21	59.5	56.7	57.9	53.9	71.1	55.0	58.4	46.2	57.4	22.9	53.3	82.1	71.3

### 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
Apr '21	55.4	53.7	45.3	72.7	49.6	50.1	61.9	54.7
May '21	61.6	58.5	49.9	77.4	58.1	54.8	64.5	56.6
Jun '21	58.8	58.5	48.7	70.2	56.5	52.8	67.2	59.2

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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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### 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.

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