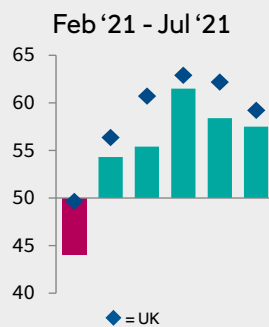


# Royal Bank of Scotland PMI®

## Scottish private sector sees further growth in July

### Scotland Business Activity Index



### Key findings

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.

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."*

#### Scotland Business Activity Index

sa, >50 = growth since previous month



## Contents

- [About the report](#)
- [Demand and outlook](#)
- [Exports](#)
- [Business capacity](#)
- [Prices](#)
- [Scotland Manufacturing PMI](#)
- [Scotland Services PMI](#)
- [UK Sector PMI](#)
- [UK Regional PMI](#)
- [Data summary](#)
- [Contact](#)

## 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.

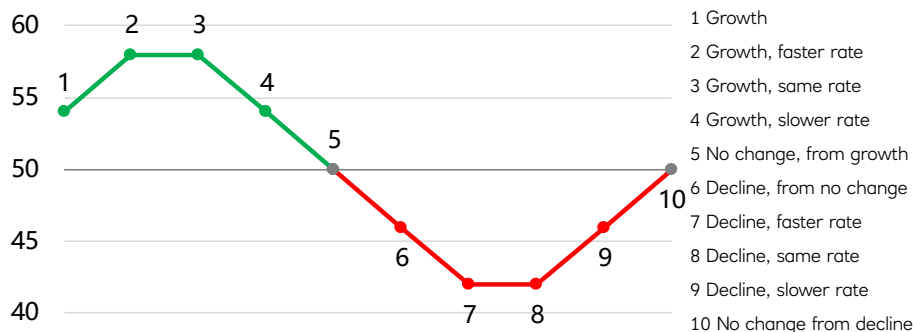
The headline figure is the Business Activity Index. This is a composite index calculated by weighting together the Manufacturing Output Index and the Services Business Activity Index. The Scotland Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

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.

New Business Index 57.1  
sa, >50 = growth since previous month Jul '21



### Business expectations

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.

Future Activity Index 70.7  
>50 = growth expected over next 12 months Jul '21



## Exports

### Export conditions improve sharply again in 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 Scotland Export Climate Index posted 58.8 in July, up slightly from 58.7 in June to signal a thirteenth straight monthly improvement in conditions across Scotland's top export markets, and one that was sharp overall.

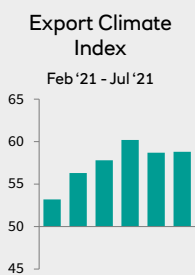
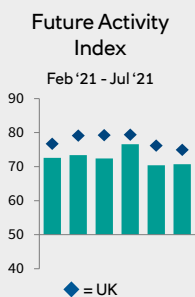
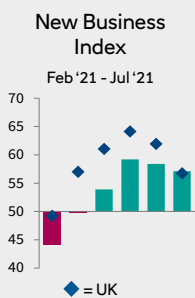
Among Scotland's top export markets, The Netherlands saw the strongest rate of expansion in July, followed by Germany where growth was the fastest on record. Elsewhere France saw a sharp, albeit slower, upturn, while output in China rebounded at a moderate pace following a slowdown in June.

Export Climate Index 58.8  
sa, >50 = growth since previous month Jul '21



Top export markets, Scotland

Rank	Market	Weight	Output Index, Jul '21
1	Netherlands	18.3%	64.2
2	USA	10.8%	59.9
3	Germany	9.2%	62.4
4	China	6.6%	53.1
5	France	5.6%	56.6



## Business capacity

### Employment

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.

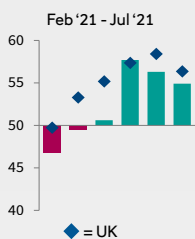
Service providers recorded a stronger rate of job creation than manufacturers in July.

### Outstanding business

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.

Employment Index



Employment Index

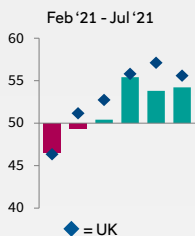
sa, >50 = growth since previous month

54.9

Jul '21



Outstanding Business Index

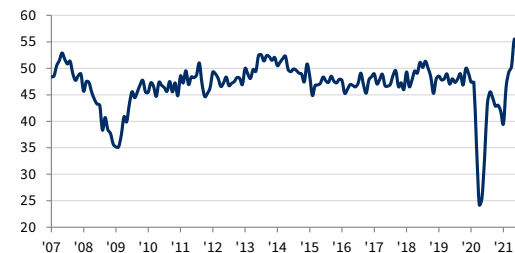


Outstanding Business Index

sa, >50 = growth since previous month

54.2

Jul '21



## Prices

### Input prices

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.

### Prices Charged

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.

### Input Prices Index

sa, >50 = inflation since previous month

70.6

Jul '21



### Prices Charged Index

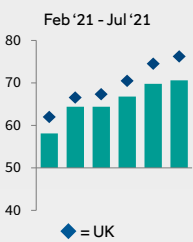
sa, >50 = inflation since previous month

62.1

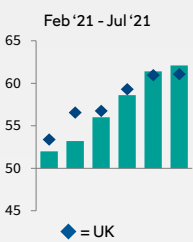
Jul '21



Input Prices Index  
Feb '21 - Jul '21



Prices Charged Index  
Feb '21 - Jul '21





## Scotland Manufacturing PMI

### Manufacturing conditions improve sharply, but upturn loses momentum

The seasonally adjusted Scotland Manufacturing PMI - a composite single-figure indicator of manufacturing performance - posted 55.6 in July. This was down from June's reading of 59.5 and the lowest for four months, but still signalled a sharp improvement in Scottish manufacturing conditions overall.

Slower rates of growth in July were also recorded with respect to output and new orders, with the latest expansions the slowest for five and four months, respectively. The weaker upturn in new work reflected, in part, a renewed fall in export order book volumes. Nonetheless, firms took on additional staff at a solid pace in July.

Supply chains remained under severe pressure, with average lead times for inputs lengthening to the third-greatest extent on record. Panellists blamed delays on COVID, material shortages, Brexit and a lack of freight drivers.

Shortages were also widely cited by respondents as a driver of the latest round of cost inflation, which was the steepest on record. Subsequently firms upped their average charges at a rapid pace, with the rate of increase slowing only slightly from June's peak.

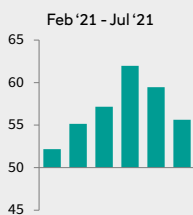
Manufacturing PMI  
sa, >50 = improvement since previous month Jul '21 55.6



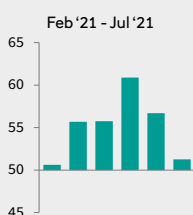
Output Index  
>50 = growth expected over next 12 months Jul '21 51.3



Manufacturing PMI



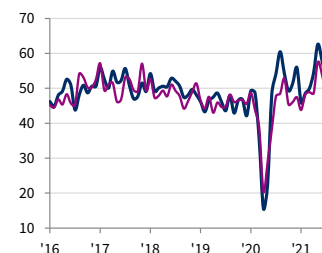
Output Index



#### New Orders Index

#### New Export Orders Index

sa, >50 = growth since previous month



#### Future Output Index

>50 = growth expected over next 12 months

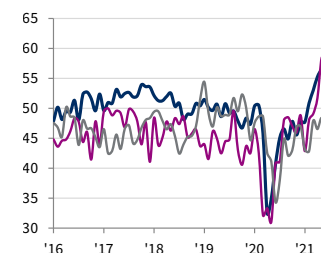


#### Employment Index

#### Backlogs of Work Index

#### Stocks of Finished Goods Index

sa, >50 = growth since previous month



#### Suppliers' Delivery Times Index

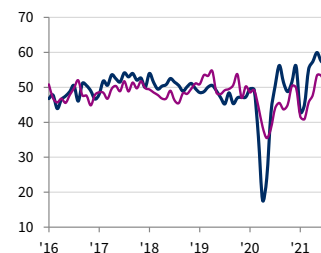
sa, >50 = faster times since previous month



#### Quantity of Purchases Index

#### Stocks of Purchases Index

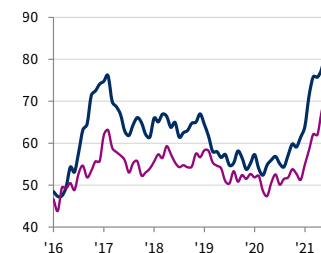
sa, >50 = growth since previous month



#### Input Prices Index

#### Output Prices Index

sa, >50 = inflation since previous month



## Scotland Services PMI

### Services output increases steeply again in July

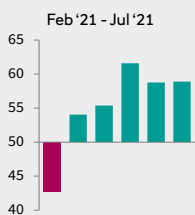
The seasonally adjusted Business Activity Index was largely unchanged on June's reading of 58.8, posting 58.9 in July. This signalled a steep upturn in Scottish services output and extended the current sequence of growth to five months.

The latest expansion was driven by a further rapid upturn in inflows of new work. The rate of increase eased on the month, but was nonetheless among the quickest on record. According to panellists, looser COVID-19 restrictions had boosted client demand.

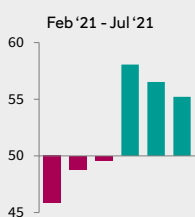
Strong sales placed further pressure on capacity at Scottish service providers in July, however, as the level of outstanding business rose and at the third-steepest pace on record. As a result, companies continued to increase their staffing levels. The rate of job creation was solid, despite easing since June.

At the same time, there was further evidence of robust inflationary pressures. Input costs rose for the thirteenth month running and rapidly, with inflation linked by panellists to higher utilities, fuel, wages and material costs. In response, average charges levied by service providers rose at a series-record pace, as companies passed higher costs through to clients where possible.

Business Activity Index



Employment Index



Business Activity Index

sa, >50 = growth since previous month

58.9

Jul '21



Employment Index

sa, >50 = growth since previous month

55.2

Jul '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, Jul '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	

45 50 55 60 65 70

#### Scotland specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Jul '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	

45 50 55 60 65

### UK sector focus

#### Financial Intermediation

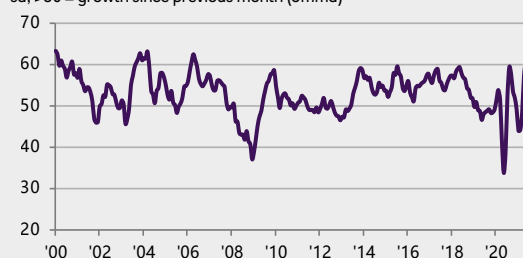
The UK's Financial Intermediation sector posted strong business activity growth in the three months to July, helped by recovering customer confidence and the easing of lockdown measures. It marked a continuation of the sector's best growth performance for 15 years.

With companies reporting a sustained build-up of backlogs of work, the rate of job creation accelerated to the quickest for over two decades and the second-fastest on record, as firms showed an increased urgency to expand staffing capacity. The upturn in employment was further supported by strong optimism towards the year-ahead outlook.

On the cost front, input prices rose sharply and at the quickest rate for more than one-and-a-half years, though the pace of inflation was the slowest among the services sub-sectors monitored by the survey data. This was also the case for prices charged.

#### Output Index

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





## UK Regional PMI overview

### Business Activity

July saw a sustained broad-based recovery in business activity across all regions and nations of the UK. Topping the growth rankings was the South West, which was one of only two regions, alongside the East Midlands (ranked sixth overall), to see a faster increase in output. Northern Ireland saw a loss of momentum and remained at the foot of the table.

### Employment

The South West was the best-performing region for employment growth in July, seeing the rate of job creation accelerate to a record high. The majority of areas, however, recorded slower increases in workforce numbers than in June. The North East and Northern Ireland were two other exceptions, though the pair still registered the slowest overall rises in staffing levels.

### Future Activity

Firms in all parts of the UK remained upbeat about the year-ahead outlook for activity in July. Those in the South East reported the strongest optimism, followed by Yorkshire & Humber. However, the latter, like two-thirds of the regions monitored, recorded lower expectations than in June. Sentiment was weakest in Northern Ireland, where it dipped to a five-month low.

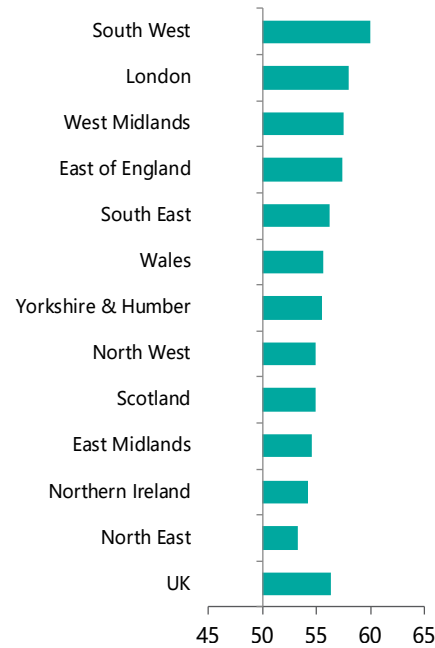
Business Activity Index

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



Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months, Jul '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
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
Jul '21	57.5	57.1	58.8	70.7	54.9	54.2	70.6	62.1

### 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
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
Jul '21	55.6	51.3	52.2	48.3	65.9	53.3	51.8	44.8	57.1	23.8	50.5	85.4	70.4

### 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
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
Jul '21	58.9	58.2	44.5	71.7	55.2	54.7	67.3	60.2

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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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