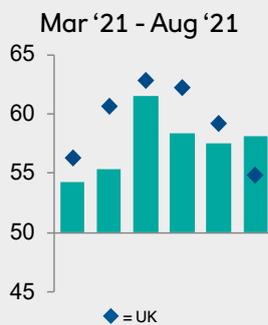


Royal Bank of Scotland PMI[®]

Scottish private sector sees further rapid growth during August

Scotland Business Activity Index



Key findings

Business activity rises steeply again amid further uplift in demand

Job creation extends into fifth month

Rate of cost inflation accelerates to highest since January 2011

Scotland's private sector recorded further rapid growth midway through 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 - rose from 57.5 in July to 58.1 in August, signalling a steep rise in activity amid a further sharp increase in new work, with the rates of growth remaining close to May's respective survey highs. Moreover, Scotland registered the fastest expansion in output across the 12 monitored UK areas in August.

As a result, companies continued to take on additional staff for the fifth month running, with the rate of job creation remaining sharp despite easing. Inflationary pressures were again severe, however, as costs rose at one of the steepest rates on record amid reports of higher material, fuel, transport and wage costs, with manufacturers particularly hard hit.

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

"August data pointed to a further rapid expansion of Scotland's private sector economy, with the rate of growth re-accelerating from July and outpacing the UK as a whole by a wide margin. Services continued to record a faster upturn than manufacturing, although the differential narrowed slightly."

"Inflows of new work increased sharply again, as looser lockdown measures continued to boost client demand and, as a result, firms took on staff for the fifth month running."

"Overall, the latest PMI data signals another strong performance for the Scottish private sector. Inflationary pressures remain a concern, but do not seem to be hindering the economic rebound as growth remains close to the survey record pace seen in May."

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.

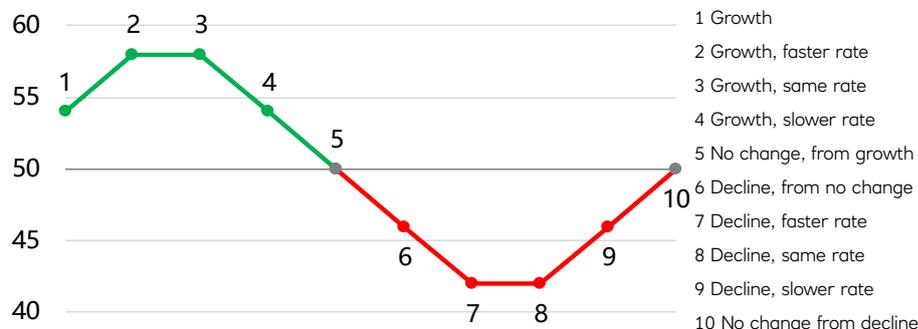
The headline figure is the Business Activity Index. This is a composite index calculated by weighting together the Manufacturing Output Index and the Services Business Activity Index. The Scotland Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

Index interpretation

50.0 = no change since previous month



Demand and outlook

New business

August pointed to a further uplift in client demand facing Scotland's private sector firms. New business expanded for the fifth time in as many months, amid reports of stronger sales due to the easing of lockdown restrictions and resumption of international travel. The rate of growth in new work picked up slightly on the month and remained close to May's high.

At the sector level, the upturn was broad based, with service providers again recording a much quicker increase in new business.

New Business Index

sa, >50 = growth since previous month

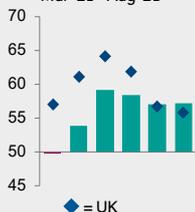
57.2

Aug '21



New Business Index

Mar '21 - Aug '21



Business expectations

Scottish private sector companies remained highly optimistic of greater business activity in 12 months' time during August. Confidence was attributed to looser lockdown restrictions, strong demand conditions and hopes of a robust economic recovery. Sentiment moderated to a seven-month low, but nonetheless remained elevated in the context of historical data.

Future Activity Index

>50 = growth expected over next 12 months

68.3

Aug '21



Future Activity Index

Mar '21 - Aug '21



Exports

Export conditions continue to strengthen in August

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 remained well above the 50.0 mark in August to signal a fourteenth straight monthly improvement in export conditions. The latest upturn was the slowest since March, but still sharp.

Across Scotland's top five export markets, growth in the Netherlands and Germany remained the strongest, despite easing on the month. Elsewhere, both the US and France registered sustained rises in output, with the respective rates of increase sharp overall. China was the only major market to see output fall during August.

Export Climate Index

sa, >50 = growth since previous month

56.3

Aug '21



Export Climate Index

Mar '21 - Aug '21



Top export markets, Scotland

Rank	Market	Weight	Output Index, Aug '21
1	Netherlands	18.3%	60.8
2	USA	10.8%	55.4
3	Germany	9.2%	60.0
4	China	6.6%	47.2
5	France	5.6%	55.9

Business capacity

Employment

A fifth successive monthly rise in workforce numbers at Scottish private sector firms was recorded in August, amid reports that companies were expanding their staffing levels to keep up with demand. The rate of job creation slowed further from May's peak, but was still among the fastest on record and sharp overall.

Across the monitored sectors, services firms recorded a quicker upturn in employment for the fourth month running.

Outstanding business

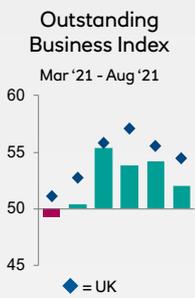
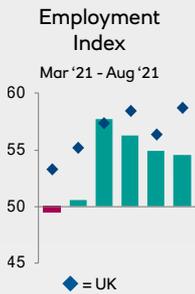
August data highlighted further signs of capacity pressures at Scottish private sector firms, as the level of outstanding business increased again. Logistical problems, material shortages, and a lack of staff were attributed through anecdotal evidence to the latest rise. The rate of accumulation was the slowest since April, when the current sequence of rising backlogs began.

Moreover, Scotland registered the slowest rate of backlog accumulation across the 12 monitored UK areas during August.

Employment Index
sa, >50 = growth since previous month
54.6
Aug '21



Outstanding Business Index
sa, >50 = growth since previous month
52.0
Aug '21



Prices

Input prices

Private sector firms across Scotland recorded further intense cost pressures during August. Input prices rose for the fifteenth straight month and at steepest pace since January 2011. Material shortages, price hikes at suppliers, greater fuel and wage costs, Brexit and COVID-19 were all cited by respondents as drivers of inflation. Goods producers continued to record a far steeper rate of increase than services firms during August.

That said, across the 12 monitored UK areas, only London saw a slower pace of input price inflation than Scotland in August.

Prices Charged

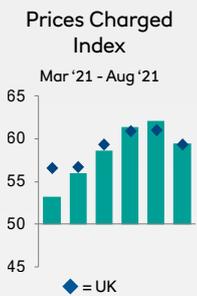
In response to greater input costs, Scottish private sector firms continued to raise their average charges during August. The rate of inflation slowed from July's peak, but was still the third-quickest on record and rapid overall.

Average charges also rose across the UK as a whole during August. The rate of increase was broadly similar to that in Scotland.

Input Prices Index 70.7
sa, >50 = inflation since previous month Aug '21



Prices Charged Index 59.5
sa, >50 = inflation since previous month Aug '21



Scotland Manufacturing PMI

Manufacturing growth picks up during August

The seasonally adjusted Scotland Manufacturing PMI - a composite single-figure indicator of manufacturing performance - posted 56.7 in August, rising from 55.6 in July, to signal another sharp improvement in Scottish manufacturing conditions.

Central to the sustained upturn was a further increase in factory production, with anecdotal evidence linking the latest rise to the easing of lockdown measures and strong demand conditions. The rate of growth accelerated to a two-month high and was robust overall.

Order book volumes also rose at a faster pace during August, and one that was solid, albeit still much slower than May's recent peak. According to panellists, stockpiling at customers due to material shortages had also boosted sales.

Goods producers registered a sharp increase in purchasing activity during August. Subsequently, suppliers' delivery times lengthened to a near-record extent.

Inflationary pressures remained severe, as input prices rose at the fastest rate on record amid widespread reports of material shortages. Average charges rose at the third-fastest pace in the series history and steeply as a result.

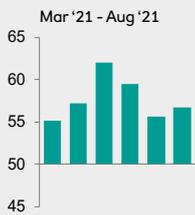
Manufacturing PMI
sa, >50 = improvement since previous month
56.7
Aug '21



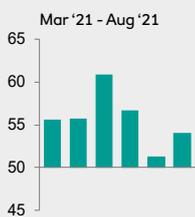
Output Index
>50 = growth expected over next 12 months
54.0
Aug '21



Manufacturing PMI



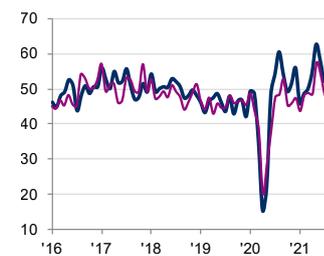
Output Index



New Orders Index

New Export Orders Index

sa, >50 = growth since previous month



Future Output Index

>50 = growth expected over next 12 months

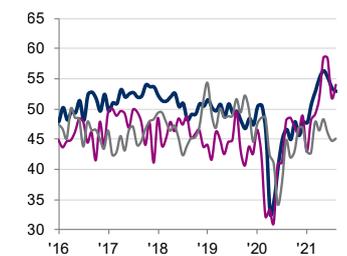


Employment Index

Backlogs of Work Index

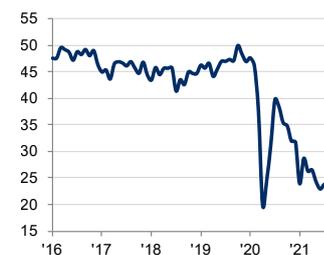
Stocks of Finished Goods Index

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

Fastest increase in services activity since May

The seasonally adjusted Business Activity Index rose from 58.9 in July to 59.0 in August, to signal a sixth consecutive monthly increase in Scottish services output and the strongest since May. Panellists attributed the latest upturn to the easing of COVID-19 restrictions and stronger sales.

Indeed, inflows of new work continued to rise during August. The rate of growth was sharp, albeit the slowest since April, the first month of the current sequence of expansion.

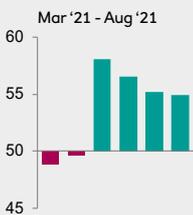
As a result, Scottish services providers took on staff for the fourth month running in August, with the rate of job creation solid, despite easing. The rise in workforce numbers was driven, in part, by stronger capacity pressures during August. Backlogs rose for the fifth straight month - the longest sequence of successive rises since 2014 - although the rate of accumulation slowed to a modest pace.

Price pressures meanwhile remained severe. Input costs increased at the steepest rate since March 2011, amid reports of greater material, transport, fuel and wage costs, as well as mentions of Brexit and COVID-19. Subsequently, firms upped their average charges sharply again.

Business Activity Index



Employment Index



Business Activity Index

sa, >50 = growth since previous month

59.0

Aug '21



Employment Index

sa, >50 = growth since previous month

54.9

Aug '21



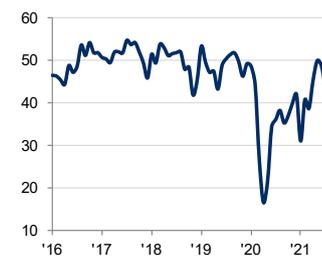
New Business Index

sa, >50 = growth since previous month



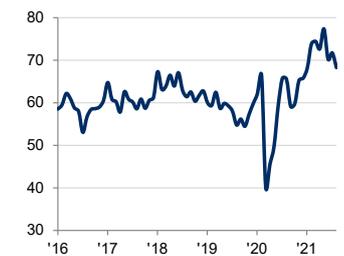
New Export Business Index

sa, >50 = growth since previous month



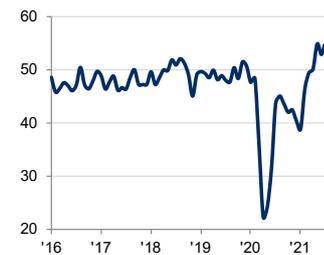
Future Activity Index

>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, Aug '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, Aug '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

Other Manufacturing

The UK's 'Other Manufacturing' sector - which comprises mostly consumer goods categories, including jewellery, sports equipment, toys and games - recorded a sharp slowdown in production growth in the three months to August, following a near-record performance in Q2. New order growth also eased, but far less so than output, with firms reporting an additional drag on production from material and staff shortages.

Latest data pointed to the greatest lengthening of supplier delivery times in more than 25 years of data collection. The severe pressure on supply chains was further underscored by a record increase in average purchase prices for inputs.

Firms in the sector showed urgent efforts to expand capacity, with the rate of job creation staying close to an all-time high in the three months to August. The increase in employment was the steepest of the nine manufacturing categories monitored.

Output Index

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



UK Regional PMI overview

Business Activity

Business activity growth eased across the majority of regions for the third month in a row in August. Only Scotland, which topped the rankings narrowly ahead of Wales, saw a faster rate of expansion than in July. The weakest increases in output were recorded in the North East, East Midlands and Northern Ireland respectively.

Employment

Rates of job creation accelerated in eight of the 12 monitored regions in August. This included London, which recorded its steepest rise in workforce numbers on record and led employment growth for the first time since the pandemic began. Firms in the North East recorded the slowest rate of hiring, and one that was unchanged from the previous month.

Future Activity

Most areas in August saw an improvement in firms' expectations towards future activity. The strongest increases in confidence were recorded in Wales and the South West respectively. Yorkshire & Humber also saw a notable improvement and regained the top spot in the rankings from the South East, which was second overall.

Business Activity Index

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



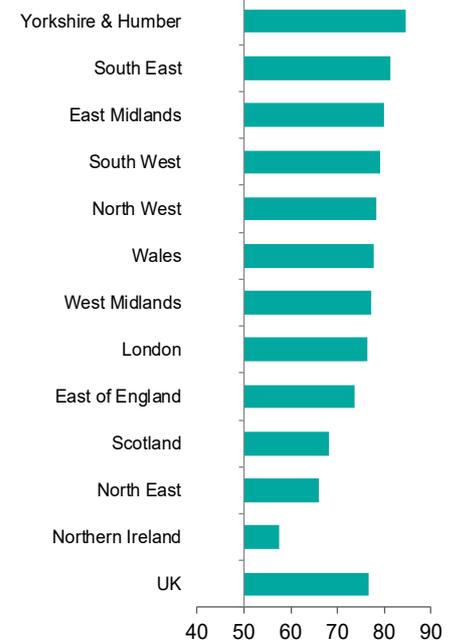
Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months, Aug '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
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
Aug '21	58.1	57.2	56.3	68.3	54.6	52.0	70.7	59.5

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
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
Aug '21	56.7	54.0	53.1	49.1	68.4	52.9	53.9	45.2	56.1	23.7	52.2	85.4	67.8

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
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
Aug '21	59.0	58.0	49.7	68.3	54.9	51.5	67.4	57.7

Contact

Jonathan Rennie
Regional PR Manager
Royal Bank of Scotland
07769 932 102
jonathan.ennie@rbs.co.uk

Lewis Cooper
Economist
IHS Markit
+44 1491 461 019
lewis.cooper@ihsmarkit.com

Joanna Vickers
Corporate Communications
IHS Markit
+44 207 260 2234
joanna.vickers@ihsmarkit.com

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.

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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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