

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

## Scottish private sector growth remains sharp in October

### Scotland Business Activity Index



### Key findings

#### Further and faster uplift in business activity

#### Accelerated expansion in new work

#### Input prices rise at record pace

Business activity across Scotland's private sector rose at a slightly faster pace in October, 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 56.1 in September to 56.3 in October to signal an eighth straight monthly upturn in activity and one that was sharp overall. Growth was driven by an accelerated expansion in new work during October, which rose at an historically sharp rate that matched that seen in August.

Inflationary pressures intensified, however. Supply constraints, logistical issues, fuel, wage bills, COVID-19 and Brexit were all linked through anecdotal evidence to a further round of input cost inflation, with the rate of increase the fastest on record. Subsequently average charges rose at a near-record pace.

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

*"October data pointed to a further solid performance for Scotland's private sector, with business activity rising steeply again amid an accelerated uplift in new business, attributed in part to the easing of COVID-19 measures earlier in the year."*

*"Headwinds came from inflationary pressures, as input costs rose at a record pace due to rising fuel, staff and utility costs, as well as supply issues, Brexit and COVID-19. Firms continued to pass greater costs through to clients in October, with the rate of charge inflation easing only slightly from September's peak."*

*"With growth remaining historically sharp as we enter the final quarter of the year, the Scottish economy is showing little signs of slowing. Price pressures and supply constraints remain a key concern, however, and may weigh on growth in the coming 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.

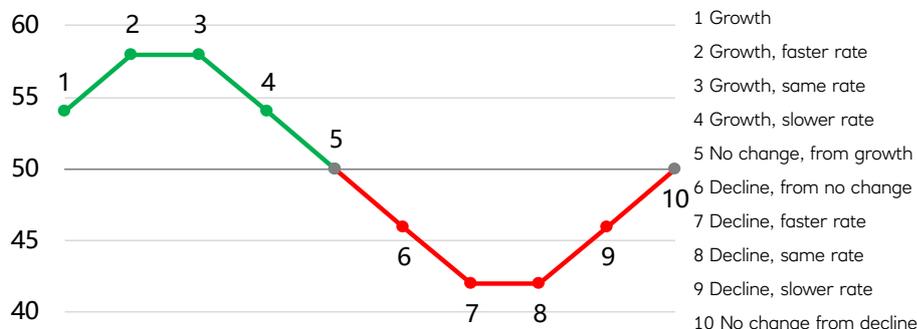
The headline figure is the Business Activity Index. This is a composite index calculated by weighting together the Manufacturing Output Index and the Services Business Activity Index. The Scotland Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

Inflows of new work to Scottish private sector firms rose again in October, stretching the current sequence of expansion to seven months. Client demand had improved, in part due to the easing of COVID-19 restrictions earlier in the year, according to panellists. The rate of growth regained momentum having slowed to a five-month low in September.

### Business expectations

Business confidence towards activity over the next 12 months remained historically elevated in October. In fact, the Future Activity Index ticked up slightly since September. Optimism was attributed through anecdotal evidence to stronger demand conditions and hopes of rebound in tourism and a sustained economic recovery. Sentiment remained among the weakest seen in 2021 so far, however.

### New Business Index

sa, >50 = growth since previous month

57.2

Oct '21



### Future Activity Index

>50 = growth expected over next 12 months

65.1

Oct '21

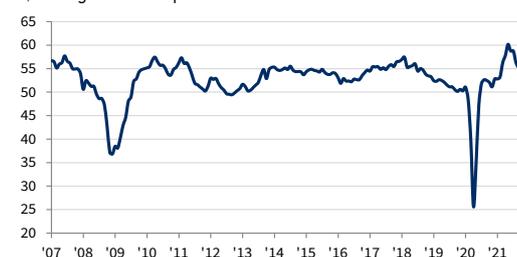


### Export Climate Index

sa, >50 = growth since previous month

55.4

Oct '21



### Top export markets, Scotland

Rank	Market	Weight	Output Index, Oct '21
1	Netherlands	18.3%	58.0
2	USA	10.8%	57.6
3	Germany	9.2%	52.0
4	China	6.6%	51.5
5	France	5.6%	54.7

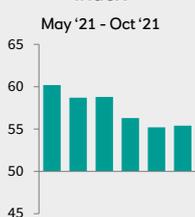
### New Business Index



### Future Activity Index



### Export Climate Index



## Exports

### Export conditions continue to improve in October

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 rose from 55.2 in September to 55.4 in October, signalling a further sharp improvement in conditions across Scotland's top export markets.

Growth in export demand was broad-based in October. Both the Netherlands and USA registered quicker upturns that were sharp overall, while rates of growth in Germany and France eased, most notably in the former. Elsewhere, China saw a back-to-back expansion, although the rate of increase was only modest overall.

## Business capacity

### Employment

As has been the case in each month since April, Scottish private sector employment rose during October. Companies were taking on additional staff due to greater activity requirements and a strong sales pipeline, according to respondents. The rate of job creation was among the fastest on record, despite easing since September.

A further uplift in employment was also recorded for the UK during October. The rate of increase at the UK level was quicker than in Scotland.

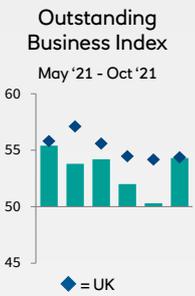
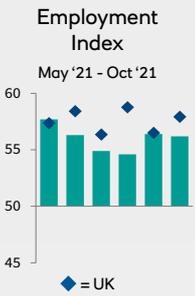
### Outstanding business

A seventh straight monthly rise in the level of outstanding business at Scottish private sector companies was recorded in October. Greater production requirements, staffing issues and material shortages were all linked to the latest increase. Moreover, the rate of backlog accumulation accelerated sharply since September to a five-month high and was solid overall.

Employment Index  
sa, >50 = growth since previous month  
56.2  
Oct '21



Outstanding Business Index  
sa, >50 = growth since previous month  
54.3  
Oct '21



## Prices

### Input prices

Scottish private sector firms recorded a further rise in average cost burdens during October, stretching the current sequence of inflation that began in June 2020. Greater fuel and material costs, shortages, Brexit, COVID-19 and rising wage bills were all cited by respondents as drivers of inflation in October. Moreover, the rate of increase was the steepest on record.

Nonetheless, only London saw a slower rate of input price inflation than Scotland across the 12 monitored UK areas in October.

### Input Prices Index

sa, >50 = inflation since previous month

75.8  
Oct '21



### Prices Charged

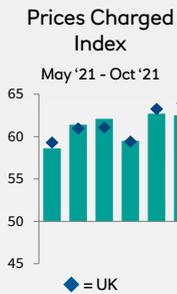
Scottish companies raised their average charges for the twelfth month in a row during October. According to panellists, firms were increasing prices in line with greater input costs. The rate of inflation eased slightly from September's peak, but was still the second-fastest in the series history and rapid overall.

That said, the rate of charge inflation in Scotland was weaker than across the UK as a whole during October.

### Prices Charged Index

sa, >50 = inflation since previous month

62.5  
Oct '21



## Scotland Manufacturing PMI

### Manufacturing conditions improve at quicker rate

The seasonally adjusted Scotland Manufacturing PMI - a composite single-figure indicator of manufacturing performance - signalled a ninth successive monthly improvement in conditions during October. Moreover, at 56.3, rising from 53.7 in September, the latest figure was indicative of a faster upturn and one that was sharp overall.

Driving growth in October were renewed expansions of both output and new work at Scottish manufacturers, attributed through anecdotal evidence to improved demand. The rates of increase were moderate overall, however.

Goods producers continued to take on additional staff in October, in part due to a further steep rise in backlogs of work. The rate of job creation picked up, but was still weaker than the trend for 2021 so far.

October data also pointed to further severe inflationary pressures. Average costs rose further, with panellists linking the latest rise to shortages, greater material costs, Brexit, COVID-19 and logistical issues. Notably, the rate of cost inflation was the quickest on record. Subsequently, firms raised their charges again, with the rise the third-fastest in the series history.

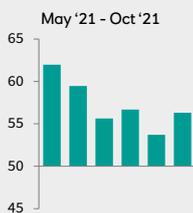
Manufacturing PMI  
sa, >50 = improvement since previous month  
56.3  
Oct '21



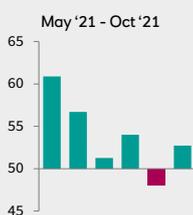
Output Index  
>50 = growth expected over next 12 months  
52.7  
Oct '21



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 activity increases sharply in October

The seasonally adjusted Business Activity Index posted 57.1 in October, down from 57.9 in September, to signal an eighth straight monthly expansion in Scottish services activity. The rate of growth was the slowest since April, but nonetheless sharp overall.

Inflows of new business rose for the seventh time in as many months, with the rate of increase the quickest since July and sharp. Panellists attributed the latest uplift to stronger client demand, in part due to the easing of COVID-19 restrictions earlier in the year.

At the same time, firms recorded a fresh increase in outstanding business, amid reports that service providers were struggling to meet demand. The rate of backlog accumulation was solid overall. Subsequently, employment rose further, with the rate of job creation the third-quickest on record and rapid, despite easing since September.

Turning to prices, cost burdens rose at the second-fastest pace on record in October. Greater fuel and material costs, Brexit and COVID-19 were all cited as drivers of inflation. In response, companies raised their charges further. The rate of charge inflation was only just below September's record.

Business Activity Index



Employment Index



Business Activity Index

sa, >50 = growth since previous month

57.1

Oct '21



Employment Index

sa, >50 = growth since previous month

57.2

Oct '21



New Business Index

sa, >50 = growth since previous month



New Export Business Index

sa, >50 = growth since previous month



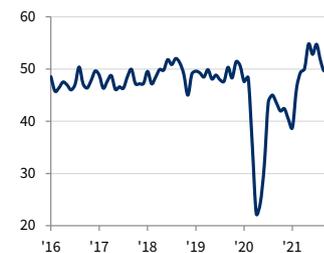
Future Activity Index

>50 = growth expected over next 12 months



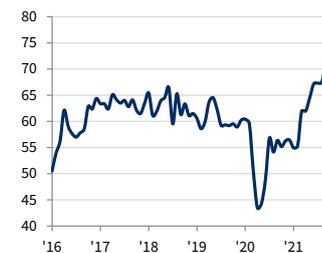
Outstanding Business Index

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, Oct '21*
1	Food & Drink	1.90	55
2	Textiles & Clothing	1.21	48
3	Wood & Paper	1.19	48
4	Electrical & Electronic	1.10	50
5	Chemicals, Rubber & Plastics	0.90	48
6	Metals & Metal Products	0.87	49
7	Machinery & Equipment	0.85	55
8	Other Manufacturing	0.68	50
9	Transport Equipment	0.32	48

#### Scotland specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Oct '21*
1	Hotels, Restaurants & Catering	1.29	65
2	Financial Intermediation	1.08	55
3	Transport & Communication	1.05	55
4	Other Services	1.03	60
5	Business-to-business Services	0.94	55
6	Computing & IT Services	0.73	55

## UK sector focus

### Food & Drink

The UK's Food & Drink manufacturers recorded a sustained strong upturn in new orders in the three months to October, following near-record growth in order books in the second quarter. Key to this was stronger domestic demand, with new export orders falling slightly over the period.

However, data pointed to an unprecedented build-up of backlogs across the sector as inflows of new work rose at a far quicker rate than production levels, which were constrained by a combination of staff shortages and supply bottlenecks.

Employment fell slightly in the three months to October owing to difficulties retaining and recruiting staff, while lead times on inputs lengthened to the greatest extent on record.

The tightness in supply chains was further reflected in a near-record increase in input costs. In turn, this pushed output price inflation to an all-time high.

#### Output Index

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



## UK Regional PMI overview

### Business Activity

Business activity rose across all regions and nations monitored by the survey in October. Moreover, rates of growth accelerated in the majority of cases. This included Wales, which topped the rankings for the second month running ahead of London. The North East recorded only a marginal rate of expansion and was once again the weakest-performing area.

### Employment

Latest data showed another broad-based rise in employment in October. Rates of job creation were fastest overall in the North West and London respectively, and even reached a series-record high in the case of the former. Most areas in fact recorded faster increases in employment than in September, including the lowest ranked region, the North East.

### Future Activity

Businesses all across the UK remained upbeat about the outlook for activity over the coming year. The strongest optimism was recorded in Yorkshire & Humber, where confidence even picked up slightly in October. In most areas, however, growth expectations moderated from the previous month, falling sharpest in the North West and Northern Ireland.

Business Activity Index

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



Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months, Oct '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
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
Sep '21	56.1	54.8	55.2	63.7	56.4	50.3	73.3	62.7
Oct '21	56.3	57.2	55.4	65.1	56.2	54.3	75.8	62.5

### 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
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
Sep '21	53.7	48.1	48.6	45.0	66.0	51.4	52.8	44.2	52.9	18.9	46.6	82.6	68.4
Oct '21	56.3	52.7	52.9	51.1	68.9	51.7	57.0	45.1	54.2	19.6	48.3	86.5	70.2

### 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
Aug '21	59.0	58.0	49.7	68.3	54.9	51.5	67.4	57.7
Sep '21	57.9	56.2	50.8	63.2	57.5	49.7	71.2	61.4
Oct '21	57.1	58.1	46.8	64.3	57.2	53.7	73.4	60.9

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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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