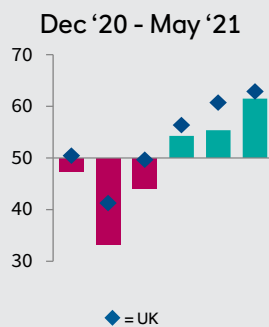


# Royal Bank of Scotland PMI<sup>®</sup>

## Record expansion in Scottish output during May

### Scotland Business Activity Index



### Key findings

Output, new orders and employment all rise at record rates

Services staffing levels increase for first time in 16 months

Sharp and accelerated inflation of input costs and output prices

The easing of COVID-19 restrictions led to a ramping up of output in the Scottish private sector during May, 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 - posted 61.5 in May, up from 55.4 in April and signalling a substantial monthly increase in activity. Moreover, the rate of growth was the steepest since the survey began in January 1998. Sharp expansions were recorded across both the manufacturing and service sectors. Respondents mainly linked higher activity to the loosening of lockdown restrictions, with new business also increasing at an unprecedented pace. In response to higher workloads, companies scaled up employment to an extent previously unseen in the survey's history. That said, inflationary pressures strengthened, with both input costs and output prices rising at sharper rates.

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

*"Growth in the Scottish private sector hit unprecedented levels in May amid a further loosening of lockdown restrictions and strong confidence in the year-ahead outlook. Business activity, new orders and employment all increased at the sharpest rates since the survey began in January 1998. Encouragingly, services employment rose for the first time in 16 months."*

*"The strong expansion in workloads was accompanied by an intensification of inflationary pressures, with sharper increases in both input costs and output prices. Inflation was particularly strong in the manufacturing sector amid soaring global commodity prices."*

### 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.

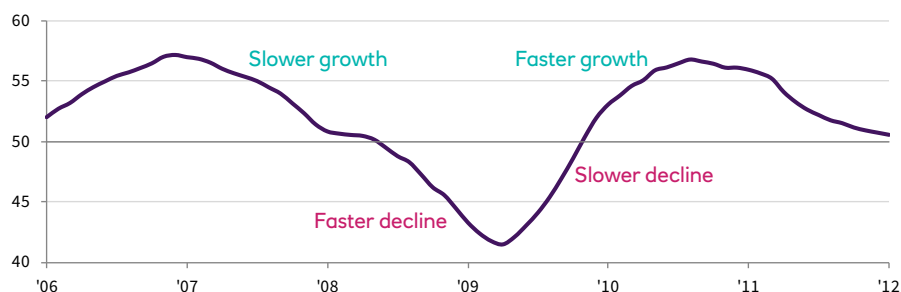
The headline figure is the Business Activity Index. This is a composite index calculated by weighting together the Manufacturing Output Index and the Services Business Activity Index. The Scotland Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

The easing of COVID-19 lockdown restrictions and associated improvements in customer demand and confidence supported a sharp and accelerated increase in new orders in Scotland during May. Moreover, the rate of growth surged to the strongest since the series began in January 1998. Both the manufacturing and service sectors posted accelerated increases in new business, with manufacturers continuing to lead the expansion.

Strong growth of new orders was recorded across the UK in May. In fact, the rise in Scotland was the second-slowest of the 12 UK regions covered, despite being at a record high.

### Business expectations

Business confidence in Scotland also improved to a new record high midway through the second quarter of the year, with optimism signalled at manufacturers and service providers alike. The further easing of COVID-19 restrictions over the coming months was behind confidence in the year ahead outlook.

Although elevated, sentiment among firms in Scotland remained just below the UK average.

### Exports

#### Export Climate Index at 21-year high

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 to 60.2 in May, up from 57.8 in April. The reading signalled a substantial improvement in demand conditions in export markets, and the strongest for 21 years.

The two largest export markets for Scottish firms - the Netherlands and the US - each posted unprecedented increases in business activity during May. Sharper rises were seen in Germany and France, but Mainland China posted a slight slowdown in growth.

New Business Index  
sa, >50 = growth since previous month  
59.2  
May '21



Future Activity Index  
>50 = growth expected over next 12 months  
76.6  
May '21

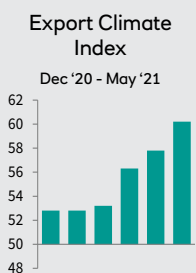
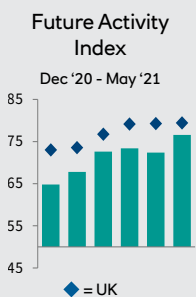
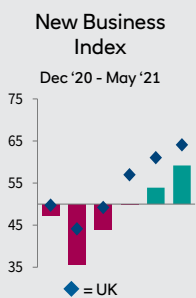


Export Climate Index  
sa, >50 = growth since previous month  
60.2  
May '21



Top export markets, Scotland

Rank	Market	Weight	Output Index, May '21
1	Netherlands	18.3%	68.3
2	USA	10.8%	68.7
3	Germany	9.2%	56.2
4	China	6.6%	53.8
5	France	5.6%	57.0



## Business capacity

### Employment

May data pointed to a hiring surge in the Scottish private sector as some businesses reopened and others responded to sharp increases in workloads. The rate of job creation accelerated markedly and was the fastest on record, surpassing the previous high from February 2014. The rise in Scotland was also slightly stronger than the UK average.

Sector data showed a resurgence in services staffing levels, which rose for the first time in 16 months and at a record pace. The rate of manufacturing job creation meanwhile hit a near seven-year high.

### Outstanding business

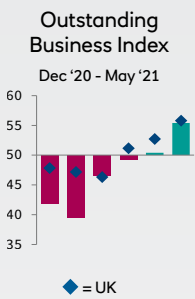
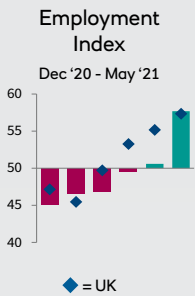
The ramping up of employment could not prevent a build-up of backlogs of work, however, given the strength of new order growth. A number of manufacturers indicated that supply shortages had also contributed to greater levels of work-in-hand.

Backlogs of work increased for the second month running, and at a marked pace that was the fastest since the series began in November 1999.

Employment Index 57.7  
sa, >50 = growth since previous month May '21



Outstanding Business Index 55.4  
sa, >50 = growth since previous month May '21



## Prices

### Input prices

Input costs continued to rise sharply during May, with the rate of inflation quickening to the fastest for a decade. Panellists reported higher costs for a range of raw materials, as well as increased shipping charges. Rising staff costs were mentioned at some companies.

Reflecting their greater exposure to widespread increases in raw material costs, manufacturers continued to register a faster increase in input prices than service providers. That said, both sectors saw inflationary pressures pick up in the latest survey period.

### Prices Charged

The passing on of higher input costs to customers resulted in a further increase in selling prices in the Scottish private sector - the seventh in as many months. Furthermore, the rate of inflation quickened for the third month running and was the sharpest since July 2008. In line with the pattern for input costs, manufacturers posted a steeper rise in selling prices than services companies.

The rate of charge inflation in Scotland was softer than the UK average.

### Input Prices Index

sa, >50 = inflation since previous month

66.8

May '21

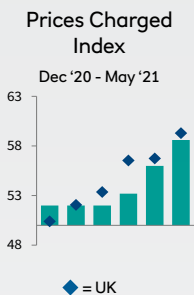
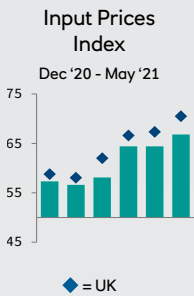


### Prices Charged Index

sa, >50 = inflation since previous month

58.6

May '21



## Scotland Manufacturing PMI

### Unprecedented rise in manufacturing new orders

The seasonally adjusted Scotland Manufacturing PMI - a composite single-figure indicator of manufacturing performance - posted 62.0 in May, up from 57.2 in April and signalling a record improvement in business conditions for the second month running.

The loosening of COVID-19 restrictions helped lead to the sharpest rise in new orders since the series began in January 1998, while new business from abroad increased for the first time in eight months.

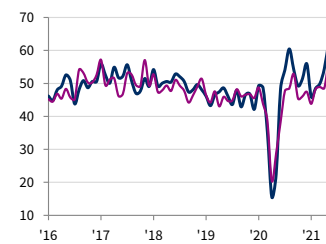
In turn, firms increased their production volumes at a sharp and accelerated pace. They also ramped up employment and purchasing activity, the latter at an unprecedented pace.

Severe supply-chain delays were recorded again, however, with difficulties securing materials contributing to the fastest rise in input costs since July 2008. Manufacturers responded to higher input costs by raising their output prices accordingly, and to the greatest extent on record.

The prospect of COVID-19 restrictions easing further led to strong confidence in the 12-month outlook for output. Sentiment hit a record high as more than half of respondents predicted growth.

#### New Orders Index New Export Orders Index

sa, >50 = growth since previous month



#### Future Output Index

>50 = growth expected over next 12 months

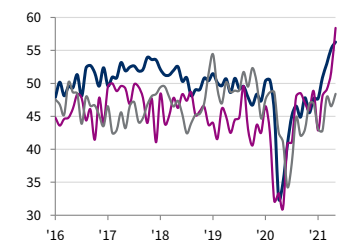


#### Employment Index

#### Backlogs of Work Index

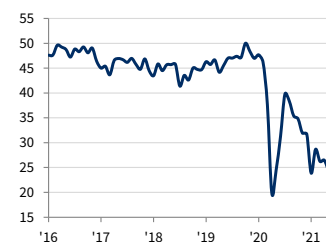
#### Stocks of Finished Goods Index

sa, >50 = growth since previous month



#### Suppliers' Delivery Times Index

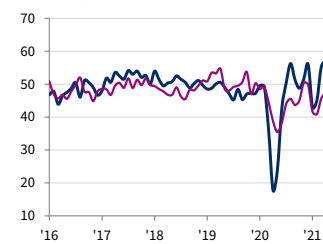
sa, >50 = faster times since previous month



#### 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



#### Manufacturing PMI

sa, >50 = improvement since previous month

62.0

May '21

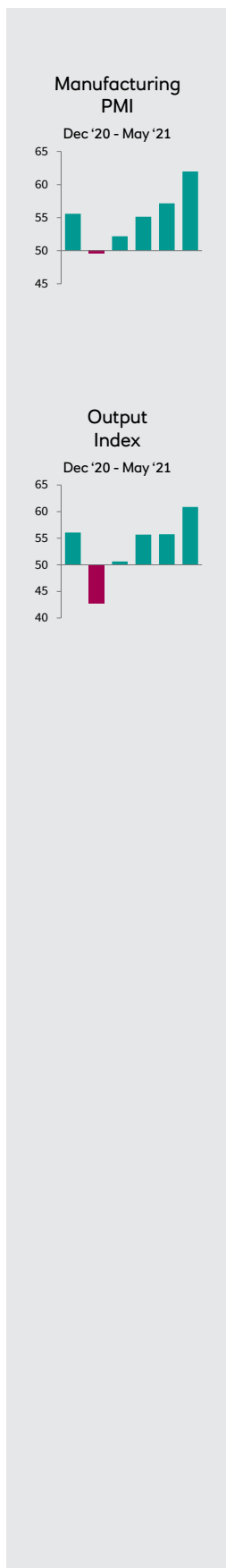


#### Output Index

>50 = growth expected over next 12 months

60.9

May '21



## Scotland Services PMI

### Record expansion of services business activity

The seasonally adjusted Business Activity Index hit a new record high of 61.6 in May, up from 55.4 in April and above the 50.0 no-change mark for the third month running as restrictions on operations continued to ease.

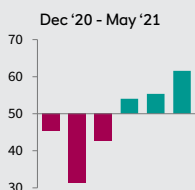
The expansion in activity coincided with a sharp and accelerated increase in new business, the second rise in a row. Moreover, the rate of growth was the fastest in just over seven-and-a-half years.

Rising new business and the ramping up of operations as restrictions were eased supported a return to growth of employment in May, ending a 15-month sequence of decline. In fact, the rate of job creation was the sharpest since the series began in January 1998.

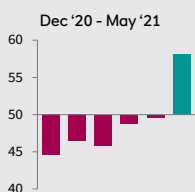
The rate of input cost inflation quickened to the fastest in two years, with service providers also raising their own selling prices in response. Charges increased for the seventh month running, and at the sharpest pace since April 2008.

Strong optimism in the year-ahead outlook for business activity was recorded again midway through the second quarter. Moreover, sentiment improved to the highest in more than 16 years.

Business Activity Index



Employment Index



Business Activity Index

sa, >50 = growth since previous month

61.6

May '21



Employment Index

sa, >50 = growth since previous month

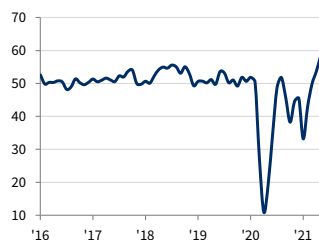
58.1

May '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



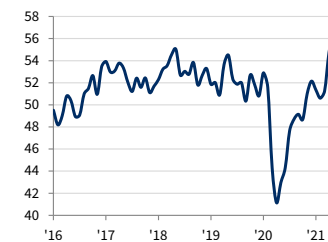
Input Prices Index

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, May '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, May '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

### Transport & Communication

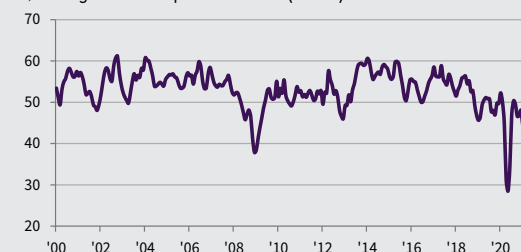
The UK's Transport & Communication Services sector saw robust growth in activity in the three months to May, helped by a pick-up in travel as domestic COVID-19 restrictions were eased. The increase was the strongest for four years, although it followed a sharp downturn in the opening quarter of the year and inflows of new business improved only modestly.

After more than a year of continuous job cuts, employment was unchanged on average over the latest three-month period. This compared with net increases in workforce numbers in four of the five other services sub-sectors.

The cost pressures faced by Transport & Communications firms were above average for the service sector, with input price inflation at a decade high and exceeded only by that faced by Hotels, Restaurants & Catering businesses.

#### Output Index

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





## UK Regional PMI overview

### Business Activity

All monitored regions and nations of the UK saw further recoveries in business activity in May. Growth was led by the North West, narrowly ahead of the West Midlands and Wales in joint-second place. Rates of expansion even accelerated in nine out of the 12 areas. Northern Ireland was at the bottom of the rankings but nevertheless saw output growth reach a 40-month high.

### Employment

May saw a broad-based rise in employment across the UK, the first time this has been the case since March 2018. Job creation was jointly led by the West Midlands and Yorkshire & Humber. Wales and the North East recorded only modest increases in workforce numbers, though in the case of the former it marked the first rise since February 2020.

### Future Activity

Expectations towards future activity were strongly positive across all parts of the UK in May. Firms in the South East were the most upbeat, followed by those in the North West. Optimism did, however, wane in five of the 12 monitored regions. Northern Ireland closed the gap with the rest of the areas, recording the highest business confidence for over three years.

Business Activity Index

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



Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months, May '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
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
May '21	61.5	59.2	60.2	76.6	57.7	55.4	66.8	58.6

### 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
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
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

### 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
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
May '21	61.6	58.5	49.9	77.4	58.1	54.8	64.5	56.6

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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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