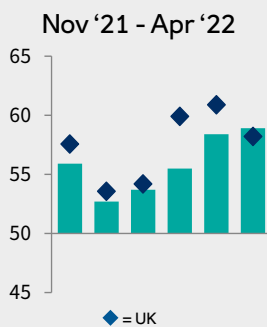


Royal Bank of Scotland PMI[®]

Private sector activity growth accelerates to 11-month high in April

Scotland Business Activity Index



Key findings

Renewed expansion in manufacturing output boosts overall activity

Input price and output charge inflation rates hits new survey highs

Business confidence falls to 18-month low

Business activity improved for the fourteenth consecutive month in April, according to the latest Royal Bank of Scotland PMI[®], as the seasonally adjusted headline Royal Bank of Scotland Business Activity Index - a measure of combined manufacturing and service sector output - rose to 58.9 in April, up from 58.4 in March and indicating a faster increase in private sector output. The latest uptick was supported by a strong and renewed upturn in manufacturing production, although a sharp expansion in services activity was recorded once again. Moreover, the rate of growth across Scotland accelerated for the fourth consecutive month to the quickest since May 2021.

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

"Scotland's private sector improved strongly during April as business activity increased at the fastest rate for almost a year. Although growth momentum waned slightly across the service firms, the increase was sharp as firms continued to reap rewards from reduced COVID-19 restrictions. Meanwhile, goods producers saw an upturn in output and order book volumes after experiencing a downturn in March."

"Inflationary pressures continued to build and were further aggravated by ongoing supply chain issues. According to anecdotal evidence, higher raw material, fuel, energy and labour costs resulted in the steepest increase in input prices on record. Subsequently, charges were also raised to the greatest extent ever seen by the survey as firms sought to cover rapid cost inflation."

"The level of confidence slipped the lowest in 18 months as firms raised their concerns about the economic impact of inflation. Nevertheless, it still indicated a robust level of optimism as many firms were hopeful of activity growing 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 S&P Global 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.

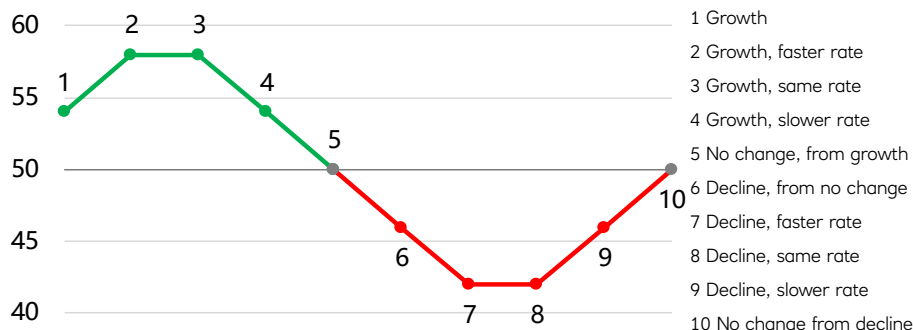
The headline figure is the Business Activity Index. This is a composite index calculated by weighting together the Manufacturing Output Index and the Services Business Activity Index. The Scotland Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

Scotland's private sector noted a rise in new business received during April. Posting above the 50.0 no-change threshold for the thirteenth successive month, the respective seasonally adjusted index slipped from March's four-month high but was nonetheless indicted a strong expansion in new orders. According to firms, greater client demand was mainly driven by reduced pandemic restrictions.

The increase in new business inflows across firms in Scotland was quicker than that seen at the UK level.

New Business Index

sa, >50 = growth since previous month

55.2

Apr '22



Business expectations

April data indicated strong optimism across Scottish private firms. Survey respondents were largely positive with regards to activity expectations over the coming 12 months amid hopes of a continued economic recovery as COVID-19 disruptions subside, encouraging higher client demand and investment.

That said, the degree of optimism across Scotland hit an 18-month low and posted below the UK-wide average as firms grew concerned about the economic impact of inflation.

Future Activity Index

>50 = growth expected over next 12 months

63.2

Apr '22



Exports

Export climate improves strongly in February

The Scotland Export Climate Index is calculated by weighing together national PMI output data according to their importance to manufacturing exports of Scotland. This produces an indicator for the economic health of Scotland's export markets.

The Export Climate Index rose from 53.8 in March to 54.1 in April, indicating a stronger improvement in export conditions for Scottish businesses.

Across Scotland's top five export markets, France recorded the strongest uptick, followed by the US and the Netherlands. Elsewhere, output growth across Germany eased to a three-month low during April, while business activity across China declined further.

Export Climate Index

sa, >50 = growth since previous month

54.1

Apr '22

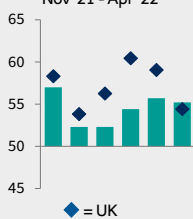


Top export markets, Scotland

Rank	Market	Weight	Output Index, Apr '22
1	Netherlands	18.3%	55.7
2	USA	10.8%	56.0
3	Germany	9.2%	55.1
4	China	6.6%	37.2
5	France	5.6%	57.6

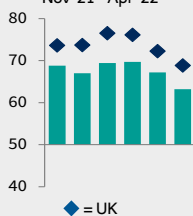
New Business Index

Nov '21 - Apr '22



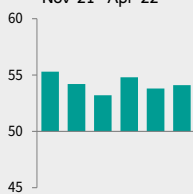
Future Activity Index

Nov '21 - Apr '22



Export Climate Index

Nov '21 - Apr '22



Business capacity

Employment

Workforce numbers across Scotland's private sector expanded for the thirteenth month running during April. The pace of job creation eased to the joint-softest in a year (level with that seen in January) but remained moderate overall. The latest rise in staffing levels reflected greater levels of business activity as firms hired to build capacity and cope with current and future demand.

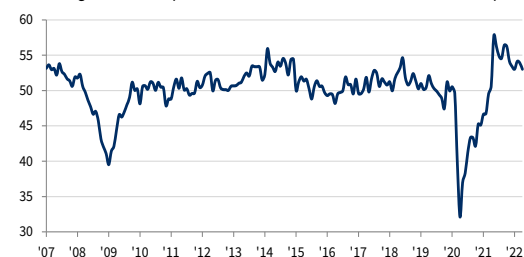
However, employment growth across Scotland was firmly below the UK average and, when compared with the 11 other monitored UK areas, outperformed only Northern Ireland and the North East of England.

Outstanding business

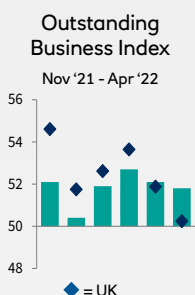
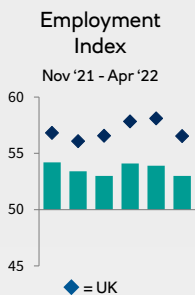
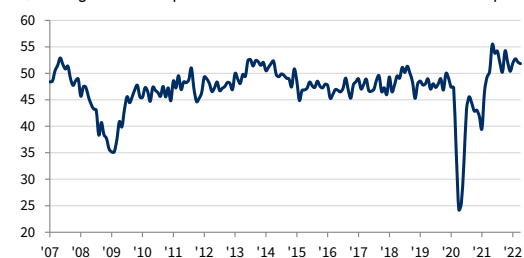
The latest survey period pointed to a further rise in work outstanding at private sector firms in Scotland, thereby extending the current run of backlog accumulation to 13 months. Capacity pressures continued to mount as firms blamed labour shortages, staff absences, supply-chain issues and greater orders for the increase in work-in-hand.

Though the rate of backlog accumulation for Scotland eased from March to the weakest in four months, it was the third-quickest of the 12 monitored parts of the UK.

Employment Index
sa, >50 = growth since previous month
53.0
Apr '22



Outstanding Business Index
sa, >50 = growth since previous month
51.8
Apr '22



Prices

Input prices

Average cost burdens spiked in April, according to private sector businesses across Scotland. The rate of input price inflation accelerated to a new record high for the third month running, with firms attributing this to higher labour costs, as well as greater raw material, fuel, food and energy prices. Brexit, COVID-19 and the war in Ukraine reportedly added further strain, according to some respondents.

The rate of input price inflation was stronger in Scotland than that recorded for the UK as a whole in April.

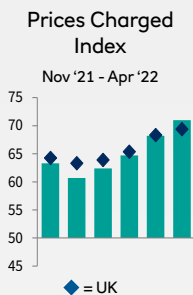
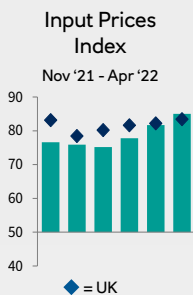
Prices Charged

April data highlighted a steep increase in selling charges across Scotland's private sector. Outpacing the UK-wide average, the rate of output charge inflation quickened for the fourth month running to the sharpest on record. Firms stated that higher prices reflected efforts to offset the squeeze on their margins.

Input Prices Index
 sa, >50 = inflation since previous month
 85.0
 Apr '22



Prices Charged Index
 sa, >50 = inflation since previous month
 71.0
 Apr '22



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, Apr '22*
1	Food & Drink	1.91	
2	Mechanical Engineering	1.17	
3	Electrical & Optical	1.08	
4	Textiles & Clothing	1.06	
5	Timber & Paper	1.05	
6	Chemicals & Plastics	0.86	
7	Basic Metals	0.81	
8	Other Manufacturing	0.63	
9	Transport	0.31	

Scotland specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Apr '22*
1	Hotels, Restaurants & Catering	1.27	
2	Financial Intermediation	1.10	
3	Transport & Communication	1.04	
4	Personal & Community Services	1.03	
5	Business-to-business Services	0.94	
6	Computing & IT Services	0.71	

UK sector focus

Mechanical Engineering

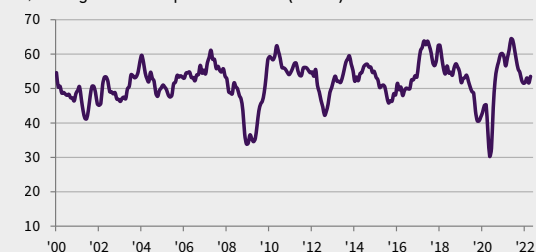
The UK's Mechanical Engineering sector saw sustained growth in output levels in the three months to April, albeit at a relatively subdued pace that was below the average for manufacturing as whole. The upturn was supported by rising inflows of new work.

Although easing from the record levels seen last year, supply chain bottlenecks remained a key issue facing businesses in the sector, leading to longer lead times on inputs, whilst also helping to fuel a continued surge in purchase prices. Higher costs were increasingly passed on to customers, with factory gate charge inflation reaching a survey-record high.

Still, Mechanical Engineering companies maintained a strongly positive outlook for output in the coming year and, as such, continued to add to workforce numbers at a rapid pace.

Output Index

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



*3-month moving average.



UK Regional PMI overview

Business Activity

In terms of business activity, April saw a general loss of momentum across the UK, with nine regions recording slower growth and the North East seeing a renewed contraction. London recorded the fastest overall rate of expansion, followed by the South West, while only the North West and Scotland registered quicker increases in business activity than the month before.

Employment

A rise in employment was recorded in 11 of the 12 regions monitored by the survey in April. The only exception was the North East, where workforce numbers fell for the first time in 14 months, albeit only slightly. Elsewhere, rates of job creation generally remained solid, although they eased in all cases bar the West Midlands. London recorded the strongest growth ahead of Yorkshire & Humber.

Future Activity

Although firms in all areas remained optimistic about the year-ahead outlook for activity in April, expectations eased in the majority of cases. Only Wales (ranked third out of 12), the South West (sixth), East of England (seventh) and Northern Ireland (twelfth and last) recorded improved confidence. Overall, businesses in the South East were the most upbeat, followed by those in Yorkshire & Humber.

Business Activity Index
sa, >50 = growth since previous month, Apr '22



Employment Index
sa, >50 = growth since previous month, Apr '22



Future Activity Index
>50 = growth expected over next 12 months, Apr '22



* 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
Nov '21	55.9	57.0	55.3	68.8	54.2	52.1	76.6	63.3
Dec '21	52.7	52.3	54.2	67.0	53.4	50.4	75.9	60.7
Jan '22	53.7	52.3	53.2	69.4	53.0	51.9	75.2	62.4
Feb '22	55.5	54.4	54.8	69.7	54.1	52.7	77.8	64.7
Mar '22	58.4	55.7	53.8	67.2	53.9	52.1	81.7	68.2
Apr '22	58.9	55.2	54.1	63.2	53.0	51.8	85.0	71.0

Manufacturing

sa, 50 = no change over previous month. *50 = no change over next 12 months.

	Output	New Orders	Future Output*	Employment	Backlogs of Work	Input Prices	Output Prices
Feb '22	55.6	53.4	67.3	53.6	48.4	77.8	72.8
Mar '22	49.5	49.3	65.8	52.1	50.2	85.2	76.4
Apr '22	54.0	51.7	66.4	52.1	51.2	84.6	74.8

Services

sa, 50 = no change over previous month. *50 = no change over next 12 months.

	Business Activity	New Business	Future Activity*	Employment	Outstanding Business	Input Prices	Prices Charged
Feb '22	55.4	54.6	70.3	54.2	53.7	77.8	63.0
Mar '22	60.4	57.2	67.6	54.3	52.5	80.9	66.3
Apr '22	60.0	56.0	62.5	53.2	52.0	85.1	70.2

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About Royal Bank of Scotland

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The bank has commitment to retain its close connections with the Scottish communities it serves.

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We are widely sought after by many of the world's leading organizations to provide credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity and automotive markets. With every one of our offerings, we help the world's leading organizations plan for tomorrow, today.

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