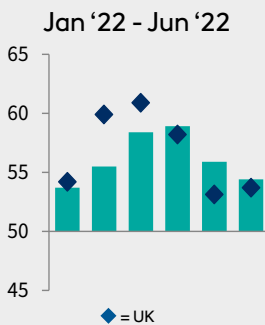


Royal Bank of Scotland PMI[®]

Private sector output increases at slowest rate for five months

Scotland Business Activity Index



Key findings

Business activity growth moderates further in June

Price pressures remain intense

Business confidence slumps to 20-month low

Scotland's private sector economy remained in expansion territory for the sixteenth month running during June, according to the latest Royal Bank of Scotland PMI[®] data, but growth momentum eased for the second straight month. The seasonally adjusted headline Royal Bank of Scotland Business Activity Index - a measure of combined manufacturing and service sector output - posted 54.4 in June, down from 55.9 in May, to signal the softest expansion in business activity across Scotland since January. In addition, new orders rose at a modest pace that was the weakest seen in the current 15-month sequence of expansion. While ongoing recovery from COVID-19 continued to boost activity, concerns over rising costs and an economic slowdown pushed business confidence down to a 20-month low.

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

"The Scottish private sector recorded another solid increase in output during June. That said, there were signs of a further slowdown in momentum, as activity and new orders increased at the weakest rates in five and 15 months, respectively. Moreover, the latest survey data signalled contractions in output and orders across the manufacturing sector.

"Nonetheless, the sustained upturn in business activity and efforts to build capacity led firms to bulk up their workforce numbers for the fifteenth successive month during June.

"However, ongoing shortages of materials, increased energy prices and higher wages all contributed to another surge in input costs during June. The rate of input price inflation eased only slightly from May and remained amongst the fastest on record.

"The softer expansions in activity and sales, surging prices and ongoing global uncertainty underscored an increasingly challenging environment for Scottish private sector firms, and led to a decline in business confidence to a 20-month low."

Scotland Business Activity Index

sa, >50 = growth since previous month



Contents

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

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.

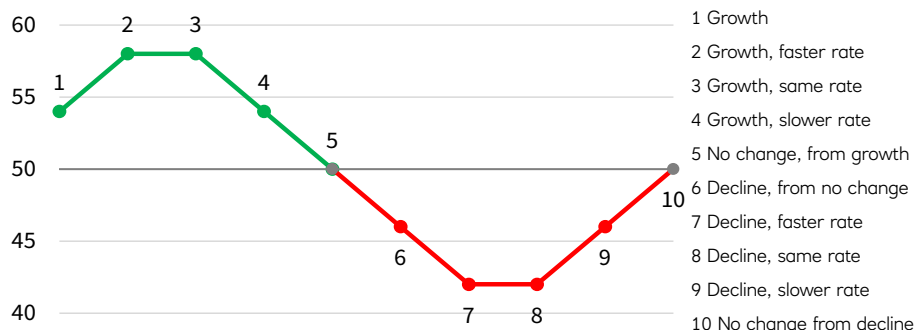
The headline figure is the Business Activity Index. This is a composite index calculated by weighting together the Manufacturing Output Index and the Services Business Activity Index. The Scotland Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

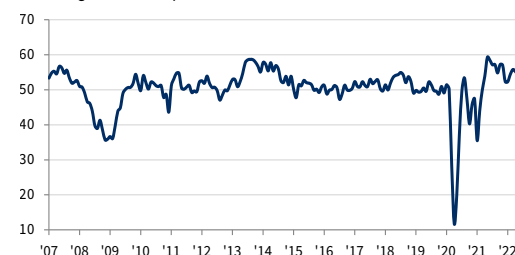
New orders continued to rise across Scotland's private sector during June. However, trends diverged at a sectoral level, with manufacturing firms reporting a faster reduction in factory orders, while service providers reported a modest expansion in sales. Overall, new business increased at the weakest rate for 15 months and only slightly. Anecdotal evidence indicated that continued recovery from COVID-19 and new client wins drove the latest increase, but there were also reports of market conditions starting to soften and some clients cutting back on expenditure due to rising costs.

New Business Index

sa, >50 = growth since previous month

51.0

Jun '22



Business expectations

Business confidence at Scottish private sector firms remained strong in June. Businesses anticipate that a robust post-COVID-19 recovery will boost market and economic conditions, allowing for further expansions of output in the coming 12 months. That said, the degree of optimism slipped to a 20-month low in June amid concerns over the cost of living, a possible slowdown in the economy and housing market, and weaker customer confidence.

Future Activity Index

>50 = growth expected over next 12 months

59.6

Jun '22



Optimism across the Scottish private sector was also weaker than that seen across the UK as a whole.

Exports

Export climate improves solidly in June

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.

Export Climate Index

sa, >50 = growth since previous month

52.8

Jun '22



The Export Climate Index posted 52.8 in June, down from 53.3 during May, signalling the weakest growth in export demand conditions since January 2021.

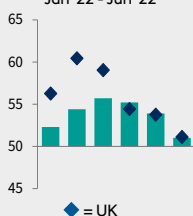
The fastest increase in output was seen in China during June, after three consecutive months of contraction. Modest increases in business activity were meanwhile noted across France, the Netherlands, Germany and the US, however, with all four countries noting softer expansions than in May.

Top export markets, Scotland

Rank	Market	Weight	Output Index, Jun '22
1	Netherlands	18.3%	52.1
2	USA	10.8%	52.3
3	Germany	9.2%	51.3
4	China	6.6%	55.3
5	France	5.6%	52.5

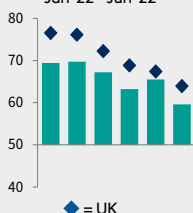
New Business Index

Jan '22 - Jun '22



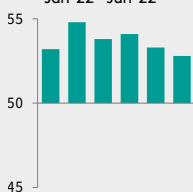
Future Activity Index

Jan '22 - Jun '22



Export Climate Index

Jan '22 - Jun '22



Business capacity

Employment

Private sector firms across Scotland continued to expand their workforce numbers during June. The rate of job creation eased from May's seven-month high but remained stronger than the series average. Firmer demand conditions and rising workloads supported additional staff hires, according to panel members.

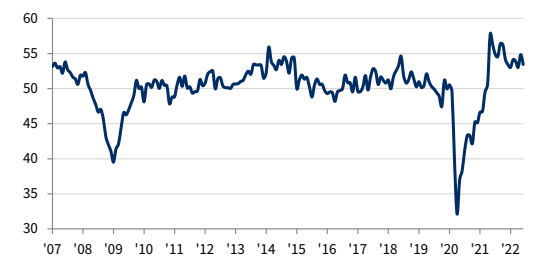
Of the 12 monitored UK regions, Scotland registered the weakest expansion in employment, while the North East of England was the only region to report job losses.

Outstanding business

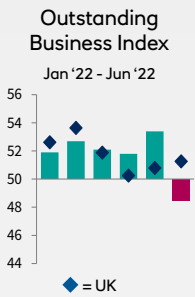
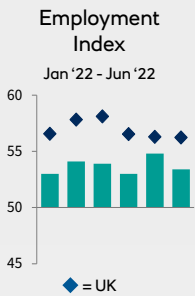
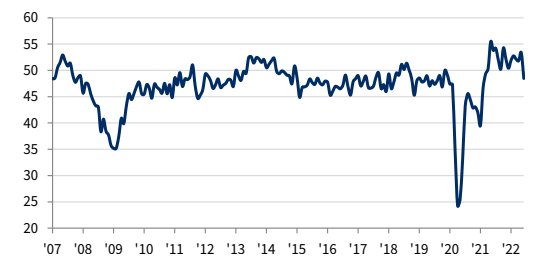
June data indicated a modest contraction in outstanding business across private sector firms in Scotland, which thereby ended a 14-month run of expansion. Companies linked the decrease to softer increases in new orders, greater workforce numbers and having the capacity to work through backlogs.

In contrast, unfinished workloads increased across the UK as a whole, albeit only modestly.

Employment Index 53.4
sa, >50 = growth since previous month Jun '22



Outstanding Business Index 48.5
sa, >50 = growth since previous month Jun '22



Prices

Input prices

A twenty-fifth monthly rise in average cost burdens was recorded across the Scottish private sector during June. While the rate of input price inflation eased for the second-month running from the survey high recorded in April, it remained amongst the steepest on record. Rising supplier, energy and raw material prices amid ongoing shortages were blamed for the latest surge in costs.

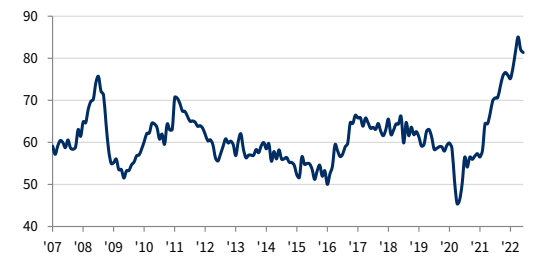
Though rapid, the increase in input prices across Scotland was the softest of all the 12 monitored UK regions.

Prices Charged

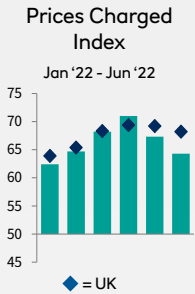
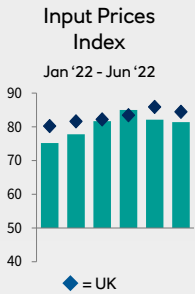
Private companies across Scotland raised their charges during June, stretching the current bout of output price inflation to 20 months. The pace of inflation eased on the month to register the slowest since January. However, the respective seasonally adjusted index remained well above the historical average, indicating a sharp increase in charges levied.

On a regional basis, Scotland recorded the joint-weakest rate of output charge inflation across the 12 monitored UK areas in June, on a par with the East of England.

Input Prices Index
sa, >50 = inflation since previous month
81.4
Jun '22



Prices Charged Index
sa, >50 = inflation since previous month
64.3
Jun '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, Jun '22*
1	Food & Drink	1.91	50
2	Mechanical Engineering	1.17	55
3	Electrical & Optical	1.08	55
4	Textiles & Clothing	1.06	50
5	Timber & Paper	1.05	50
6	Chemicals & Plastics	0.86	50
7	Basic Metals	0.81	55
8	Other Manufacturing	0.63	50
9	Transport	0.31	50

Scotland specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Jun '22*
1	Hotels, Restaurants & Catering	1.27	50
2	Financial Intermediation	1.10	55
3	Transport & Communication	1.04	50
4	Personal & Community Services	1.03	55
5	Business-to-business Services	0.94	50
6	Computing & IT Services	0.71	50

UK sector focus

Textiles & Clothing

Latest data showed a decline in production levels across the UK's Textiles & Clothing sector during the second quarter. It was one of three manufacturing categories (out of nine monitored) to record lower output, alongside Timber & Paper and Food & Drink.

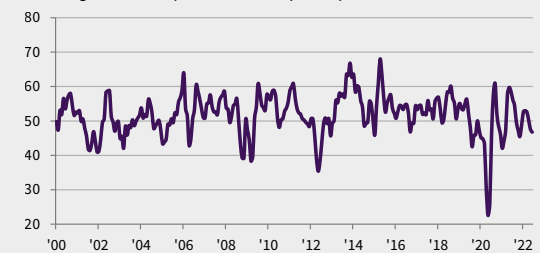
Weaker underlying demand was a driving factor, with inflows of new work falling in the three months to June. This was despite a slight upturn in export sales over the same period.

Cost pressures continued to build across the Textiles & Clothing sector during the second quarter, reaching a near-record high. With many firms looking to pass on at least part of the burden to customers, output price inflation quickened to a rate unseen for over two decades.

Positively, and despite waning business confidence, employment in the sector continued to rise, with the rate of job creation quickening to a 12-month high.

Output Index

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



*3-month moving average.



UK Regional PMI overview

Business Activity

Regional performances varied markedly in terms of business activity in June. London led the growth rankings by some margin with a steep and accelerated rise in output. However, three areas recorded lower business activity, one being Northern Ireland*, where output fell for the second month running and at the quickest rate since February 2021.

Employment

Employment rose in almost every region in June, the only exception being the North East. Here, staffing numbers fell - albeit fractionally - for the second time in the past three months. London recorded the strongest rate of job creation, as has been the case in each month since February. Five areas recorded a slower rate of employment growth than the month before, however.

Future Activity

Firms' expectations for activity in the year ahead generally worsened in June. Of the 12 monitored areas, only the West Midlands and Wales recorded stronger business confidence. Despite seeing sentiment weaken, Yorkshire & Humber remained the most optimistic region. Expectations were lowest in Northern Ireland, where they turned more pessimistic.

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



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



Future Activity Index
>50 = growth expected over next 12 months, Jun '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
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
May '22	55.9	53.9	53.3	65.5	54.8	53.4	82.1	67.3
Jun '22	54.4	51.0	52.8	59.6	53.4	48.5	81.4	64.3

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
Apr '22	54.0	51.7	66.4	52.1	51.2	84.6	74.8
May '22	50.6	48.8	62.0	52.7	50.4	84.5	73.7
Jun '22	49.9	46.9	56.4	54.3	47.8	82.7	71.3

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
Apr '22	60.0	56.0	62.5	53.2	52.0	85.1	70.2
May '22	57.1	55.0	66.3	55.3	54.0	81.5	65.9
Jun '22	55.4	51.9	60.4	53.3	48.6	81.1	62.8

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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.

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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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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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