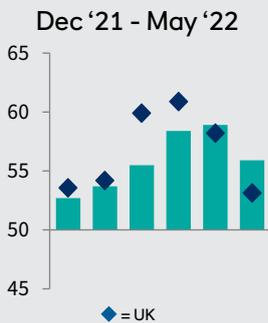


# Royal Bank of Scotland PMI<sup>®</sup>

## Scottish private sector output expands at softer pace during May

### Scotland Business Activity Index



### Key findings

Business activity growth eases to three-month low

Steeper upturn in employment amid quicker rise in backlogs

Near-record increases in input costs and output charges

The latest Royal Bank of Scotland PMI<sup>®</sup> data indicated a softer expansion of private sector output across Scotland in May, with the seasonally adjusted headline Royal Bank of Scotland Business Activity Index - a measure of combined manufacturing and service sector output - falling from 58.9 in April to a three-month low of 55.9 in May. Slower increases in output were seen across both manufacturing and service sectors, with the former noting the slower rate of growth overall. Meanwhile, total new work increased at the softest pace for four months, which was partly due to a renewed fall in new business at goods producers. On a more positive note, overall employment rose at the fastest pace since October 2021 amid a stronger upturn in backlogs of work.

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

*"May data showed a further expansion of output across the Scottish private sector, but growth softened from the 11-month high seen in April. The loss of momentum was reflective of slower increases in activity across both the manufacturing and service sectors, with the former seeing only a marginal upturn in output. Nonetheless, respondents continued to report improving market conditions and strengthening demand, which in turn boosted activity. Moreover, the sustained uptick in new orders and efforts to expand capacity helped to drive the fastest increase in employment for seven months."*

*"Ongoing shortages of materials and supply bottlenecks contributed to a further rise in work outstanding, and also drove up prices. Overall inflationary pressure remained intense, with both input costs and output prices rising at near-record rates in May."*

*"Downside risks to the economy loom large, with increased global economic uncertainty and surging costs among key headwinds. Although companies generally anticipate economic activity to continue to recover over the next 12 months, overall sentiment remained weaker than that seen across the UK as a whole."*

### 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.

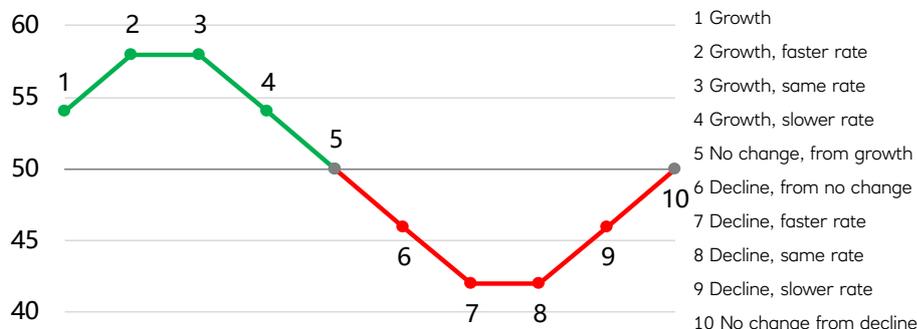
The headline figure is the Business Activity Index. This is a composite index calculated by weighting together the Manufacturing Output Index and the Services Business Activity Index. The Scotland Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the '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](mailto:economics@ihsmarkit.com).

### Index interpretation

50.0 = no change since previous month



## Demand and outlook

### New business

May data signalled a rise in total new orders placed with private sector firms in Scotland. The upturn was driven by a strong increase in sales at service providers, as manufacturers noted a renewed fall in new business. As a result, composite new orders expanded at the softest rate for four months, albeit one that was solid overall. Where a rise was seen, firms often noted improved market conditions and an ongoing recovery from the pandemic, which had helped to lift customer demand and support new client wins.

The increase in new business in Scotland was broadly in line with that seen across the UK as a whole in May.

### Business expectations

Business confidence remained upbeat regarding the year-ahead outlook for activity in May. The overall degree of confidence strengthened from the 18-month low in April but remained among the weakest seen over this period. Respondents were generally hopeful of a strong economic recovery and greater sales activity in the coming 12 months.

While business optimism slipped for the fourth month running at the UK-level, it was nonetheless stronger than that seen in Scotland.

### Exports

#### Export climate improves strongly in May

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 fell from 54.1 in April to 53.3 in May, to signal a solid improvement in export conditions across Scotland. That said, the rate of growth eased to a four-month low.

Of the region's top five export markets, France recorded the steepest expansion in output. Strong increases in activity were also seen across Germany, the US, and the Netherlands. Meanwhile, China signalled a reduction in business activity for the third consecutive month.

New Business Index  
sa, >50 = growth since previous month  
53.9  
May '22



Future Activity Index  
>50 = growth expected over next 12 months  
65.5  
May '22



Export Climate Index  
sa, >50 = growth since previous month  
53.3  
May '22



Top export markets, Scotland

Rank	Market	Weight	Output Index, May '22
1	Netherlands	18.3%	53.1
2	USA	10.8%	53.6
3	Germany	9.2%	53.7
4	China	6.6%	42.2
5	France	5.6%	57.0



## Business capacity

### Employment

Workforce numbers rose across Scotland's private sector again in May, thereby extending the current run of expansion to 14 months. Moreover, the rate of job creation quickened from April to the sharpest since last October. According to panellists, higher customer demand and greater business requirements led companies to increase their headcounts, with both manufacturers and service providers noting increased staffing levels.

That said, the upturn in workforce numbers in Scotland remained weaker than the UK-wide average.

### Outstanding business

Latest survey data signalled a rise in work outstanding at Scottish firms during May. The respective seasonally adjusted index posted above the 50.0 no-change threshold for the fourteenth month running, pointing to growing pressure on operating capacities. Moreover, the rate of accumulation was the fastest since October 2021 and solid. Survey respondents stated that rising amounts of new work, staff absences and supply-chain disruption had driven the latest increase in backlogs.

Notably, the rate of backlog accumulation in Scotland was the second-quickest across the 12 monitored UK areas in May, with only the South West recording a stronger rate of growth.

Employment Index  
sa, >50 = growth since previous month  
54.8  
May '22



Outstanding Business Index  
sa, >50 = growth since previous month  
53.4  
May '22



## Prices

### Input prices

Scottish firms signalled the second-quickest rise in average cost burdens on record during May, with the rate of inflation easing only slightly from April's all-time high. A combination of rising wages, supply bottlenecks, material scarcity, Brexit, and the war in Ukraine were blamed for the latest surge in prices. That said, the increase in operating expenses was the slowest seen across the 12 monitored UK regions.

### Input Prices Index

sa, >50 = inflation since previous month

82.1

May '22



### Prices Charged

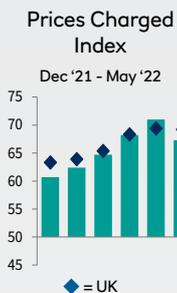
Charges levied by private sector companies in Scotland rose for the nineteenth consecutive month in May. Firms often mentioned raising their prices due to the recent surge in input costs. The rate of output charge inflation eased slightly to a three-month low, but remained rapid overall.

### Prices Charged Index

sa, >50 = inflation since previous month

67.3

May '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, May '22*
1	Food & Drink	1.91	52
2	Mechanical Engineering	1.17	55
3	Electrical & Optical	1.08	57
4	Textiles & Clothing	1.06	48
5	Timber & Paper	1.05	48
6	Chemicals & Plastics	0.86	52
7	Basic Metals	0.81	55
8	Other Manufacturing	0.63	52
9	Transport	0.31	52

#### Scotland specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, May '22*
1	Hotels, Restaurants & Catering	1.27	58
2	Financial Intermediation	1.10	55
3	Transport & Communication	1.04	48
4	Personal & Community Services	1.03	57
5	Business-to-business Services	0.94	52
6	Computing & IT Services	0.71	55

## UK sector focus

### Transport & Communication

The UK's Transport & Communication sector saw only a modest rise in business activity in the three months to May. Although the rate of growth was the fastest seen since the three months to January, it was the slowest among the six services-related sectors monitored by the survey.

Businesses in the Transport & Communication sector faced subdued demand conditions, with latest data showing a slight decline in inflows of new work, in line with the trend seen throughout most of 2022 so far. A marginal drop in employment in the three months to May contrasted with jobs growth elsewhere across the service sector and partly reflected comparatively low business confidence.

Cost pressures meanwhile remained elevated, with the rate of input price inflation staying close to its recent peak. Businesses looked to offset some of the burden via an unprecedented rise in output prices.

#### Output Index

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



\*3-month moving average.



## UK Regional PMI overview

### Business Activity

Latest data showed a general slowdown in growth across the UK regions in May, with nine out of the 12 monitored areas recording a weaker rise in business activity. London once again topped the rankings in terms of business activity growth, ahead of Wales and Scotland. Elsewhere, output declined in the West Midlands, Northern Ireland\* and the North East.

### Employment

London led a broad-based rise in employment in May. The rate of job creation in the capital even ticked up slightly, as was the case in four other areas (namely the South East, West Midlands, Scotland and Northern Ireland). The North East remained at the bottom of the rankings, although it did see a fractional increase in workforce numbers, following a decline in April.

### Future Activity

Firms in Yorkshire & Humber recorded the strongest optimism towards future activity. Here, business confidence recovered somewhat since April, as was also the case for the North West, which ranked second overall. Seven of the 12 monitored areas saw a decline in expectations, however, including Northern Ireland where sentiment turned negative for the first time since October 2020.

Business Activity Index

sa, >50 = growth since previous month, May '22



Employment Index

sa, >50 = growth since previous month, May '22



Future Activity Index

>50 = growth expected over next 12 months, May '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
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
May '22	55.9	53.9	53.3	65.5	54.8	53.4	82.1	67.3

### 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
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
May '22	50.6	48.8	62.0	52.7	50.4	84.5	73.7

### 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
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
May '22	57.1	55.0	66.3	55.3	54.0	81.5	65.9

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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.

### About PMI

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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