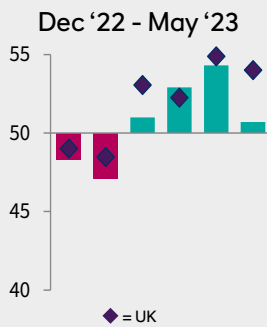


# Royal Bank of Scotland PMI<sup>®</sup>

## Private sector expansion slows amid fresh decline in manufacturing output

### Scotland Business Activity Index



### Key findings

First decline in manufacturing production since January

Price pressures cool but remain historically elevated

Private sector employment rises further

The Scottish private sector signalled a mild expansion in activity midway through the second quarter, according to the latest Royal Bank of Scotland PMI<sup>®</sup> data. However, the seasonally adjusted Business Activity Index slipped from April's ten-month high of 54.3 to 50.7 in May - the weakest reading in the current four-month sequence of growth. Sector data highlighted that the rate of growth in services business activity moderated on the month, while a second successive month of reduction in manufacturing new orders resulted in a fresh reduction in goods output. Overall growth in new business remained modest as an accelerated expansion at service providers masked the downturn at manufacturers. Nonetheless, companies further expanded employment with both sub-sectors registering solid rates of job creation, albeit at slightly softer rates than seen in the previous survey period.

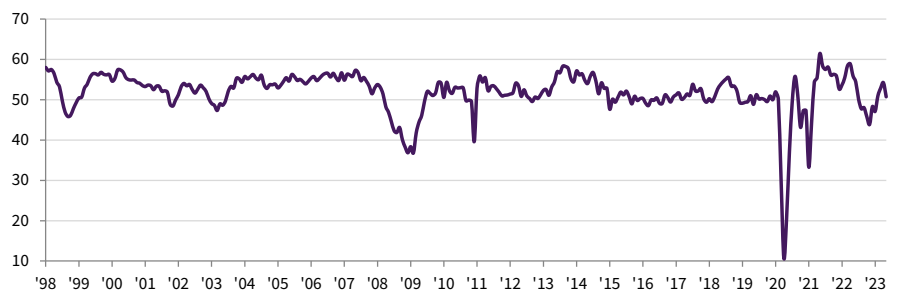
Judith Cruickshank, Chair, Scotland Board, Royal Bank of Scotland, commented:

*"Scotland's private sector started the second quarter with a solid rise in output in April, but May's data signal a loss of momentum as services growth slowed and manufacturing output fell for the first time in four months. The latest expansion in private sector output was the softest in the current sequence of expansion that began in February. Inflationary pressures cooled as cost burdens rose at the softest pace in two years. Nonetheless, both input price and output charge inflation remained stubbornly elevated, and much above their respective pre-pandemic trend levels.*

*"On a positive note, firms continued to expand workforce numbers. Moreover, solid hiring was reported across both sub-sectors. Additionally, optimism remained strong as private sector firms anticipated growth in the coming year".*

### 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.

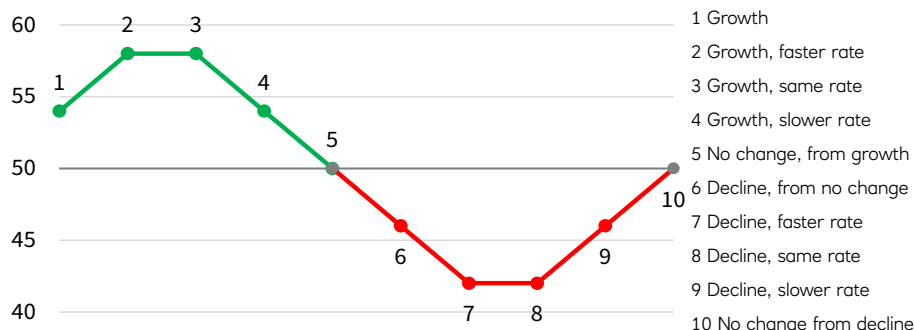
The headline figure is the Business Activity Index. This is a composite index calculated by weighting together the Manufacturing Output Index and the Services Business Activity Index. The Scotland Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

For the fourth consecutive month, Scottish private sector firms registered an expansion in new business during May. The rate of growth was close to that seen in April. Where an increase was reported, respondents linked this to new clients wins and the commencement of new projects. However, sector data indicated a growing divergence as quicker growth in new business at service firms helped offset a faster downturn at goods producers.

Moreover, the overall expansion across Scotland was weaker than seen across the UK as a whole.

### Business expectations

Confidence levels remained unchanged from the previous survey period across Scotland during May. Firms were optimistic of growth in activity over the coming 12-months, with expectations pinned on increased client demand, introduction of new products and resilient markets.

Nonetheless, of the 12 monitored UK regions, optimism was the third-weakest in Scotland, ahead of Northern Ireland and the North East of England.

## Exports

### Modest improvement in export conditions 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.

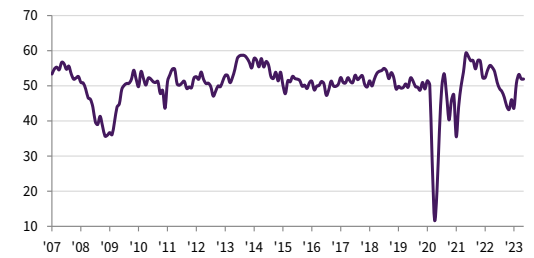
After accelerating in April, growth in production across Scotland's top five export markets eased in May. The respective seasonally adjusted index printed a four-month low of 51.1, down from 52.3. The US led growth in output during May, registering a quicker expansion. However, the rate of growth slowed across Germany, Ireland and France, while Netherland indicated a sharp contraction in output which was the strongest in the current three-month sequence of reduction.

### New Business Index

sa, >50 = growth since previous month

51.9

May '23

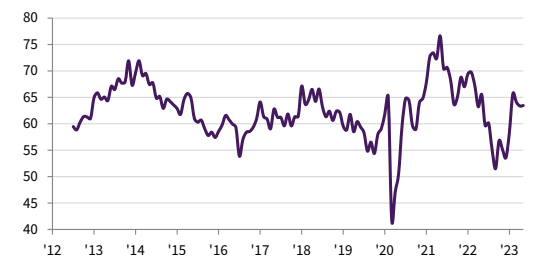


### Future Activity Index

>50 = growth expected over next 12 months

63.4

May '23

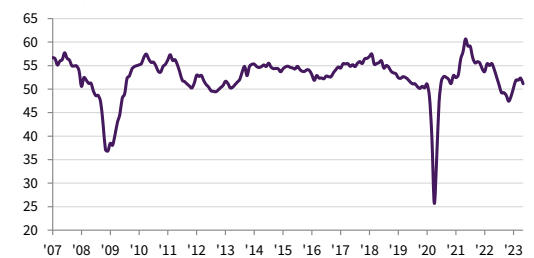


### Export Climate Index

sa, >50 = growth since previous month

51.1

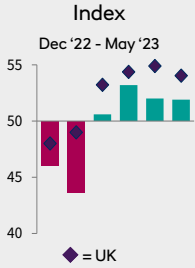
May '23



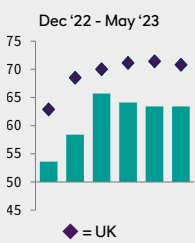
### Top export markets, Scotland

Rank	Market	Weight	Output Index, May '23
1	Netherlands	19.4%	44.2
2	Ireland	13.5%	51.9
3	USA	13.2%	54.3
4	France	9.0%	51.2
5	Germany	8.9%	53.9

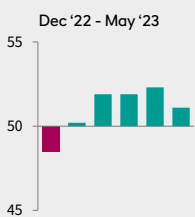
### New Business Index



### Future Activity Index



### Export Climate Index



## Business capacity

### Employment

Staffing levels across the Scottish private sector expanded for the fourth straight month in May. The respective seasonally adjusted index indicated a solid rate of job creation, albeit one that was slightly softer than in April. Firms attributed the increase in payroll numbers to successfully filling long-standing roles and increased recruitment to help with enhanced workload.

Moreover, the upturn in employment across Scotland was the fastest of the 12 monitored UK regions.

### Outstanding business

After a month of mild backlog accumulation, May data signalled a renewed fall in the level of outstanding business across Scotland. The rate of depletion was the strongest since January. Completion of previous contracts and increased workforce were linked to the latest reduction.

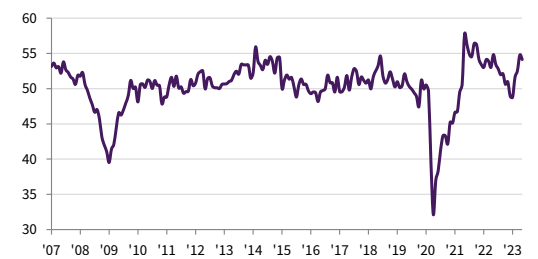
Overall volumes of incomplete business fell across Scotland at a slightly stronger rate than seen at the UK level.

### Employment Index

sa, >50 = growth since previous month

54.1

May '23

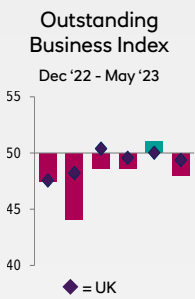
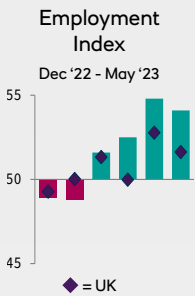
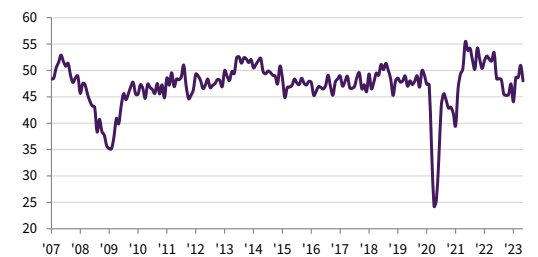


### Outstanding Business Index

sa, >50 = growth since previous month

48.0

May '23



## Prices

### Input prices

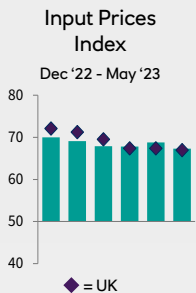
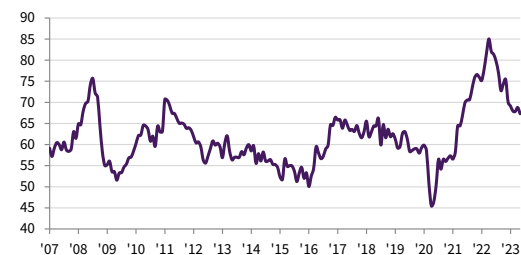
Input costs faced by firms in Scotland continued to increase further in May, thereby stretching the current run of inflation to three years. Respondents noted that higher wages, increased shipping costs, Brexit and general inflation all fed into greater cost burdens. That said, though historically strong, the rate of growth was the soft in 24 months and only slightly above the UK average.

### Input Prices Index

sa, >50 = inflation since previous month

67.3

May '23



### Prices Charged

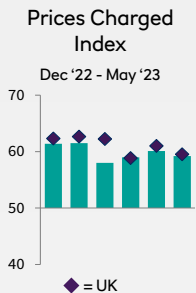
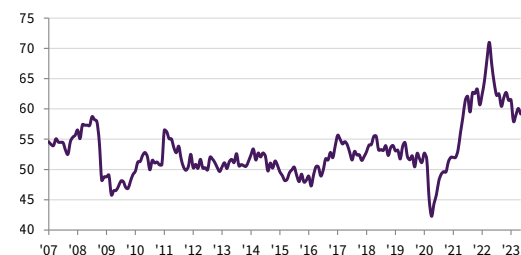
Scottish firms raised their prices charged for goods and services in line with higher costs during May. The rate of inflation ticked down from April as a result of cooling charges for manufactured goods, but remained historically strong.

### Prices Charged Index

sa, >50 = inflation since previous month

59.2

May '23



## 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'23*
1	Food & Drink	1.91	50
2	Mechanical Engineering	1.17	50
3	Electrical & Optical	1.08	50
4	Textiles & Clothing	1.06	50
5	Timber & Paper	1.05	40
6	Chemicals & Plastics	0.86	50
7	Basic Metals	0.81	50
8	Other Manufacturing	0.63	50
9	Transport	0.31	55

#### Scotland specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, May'23*
1	Hotels, Restaurants & Catering	1.27	55
2	Financial Intermediation	1.10	60
3	Transport & Communication	1.04	50
4	Personal & Community Services	1.03	50
5	Business-to-business Services	0.94	50
6	Computing & IT Services	0.71	60

## UK sector focus

### Transport & Communication

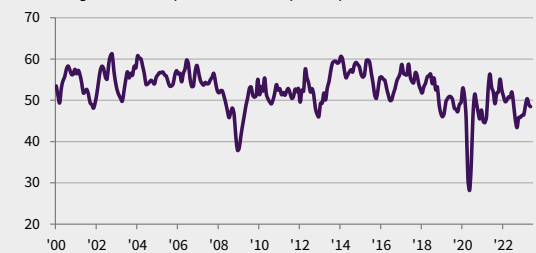
Almost all areas of the UK services economy saw growth in business activity in the three months to May, the only exception being the Transport & Communications sector. Here, activity fell - albeit only slightly - in the latest three-month period, thereby resuming a downward trend after a brief return to growth in Q1.

The survey data pointed to weakness in underlying demand, with inflows of new work in decline. Businesses in the sector reacted to falling workloads by reducing workforce numbers, in line with the trend seen since the end of last year. That said, the latest round of job cuts was only marginal as firms showed greater confidence towards the outlook.

Cost pressures remained historically elevated, although they did at least ease further from the record highs seen in 2022. This was reflected in a slower rise in prices charged, the weakest for almost two-and-a-half years.

#### Output Index

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



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



## UK Regional PMI overview

### Business Activity

Almost all UK nations and regions saw a rise in business activity in May, the only exception being Wales where output fell marginally and for the first time in four months. London once again recorded by far the strongest growth rate, albeit one that was slightly slower than in April. In fact, only the West Midlands saw an acceleration in the rate of expansion in business activity.

### Employment

The vast majority of areas monitored by the survey recorded an increase in private sector employment in May. Scotland topped the rankings for job creation for the first time since June 2018, pushing Northern Ireland\* into second position. Only the North East and Wales saw decreases in staffing levels, and even there the declines were modest and marginal respectively.

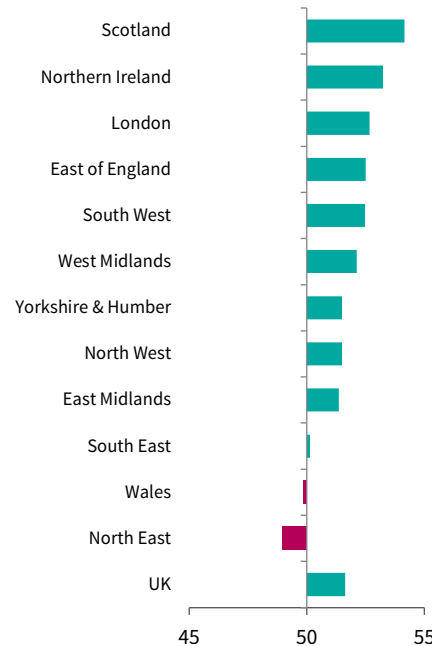
### Future Activity

Business expectations remained positive across the board in May, although they weakened in three-quarters of the areas monitored. The West Midlands went against the trend and recorded the strongest overall optimism for the fifth month running. At the other end of the scale, firms in Northern Ireland were the least upbeat towards the outlook.

**Business Activity Index**  
sa, >50 = growth since previous month, May '23



**Employment Index**  
sa, >50 = growth since previous month, May '23



**Future Activity Index**  
>50 = growth expected over next 12 months, May '23



\* 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 '22	48.3	46.0	48.5	53.6	48.9	47.5	70.0	61.4
Jan '23	47.1	43.6	50.2	58.4	48.8	44.1	69.1	61.5
Feb '23	51.0	50.6	51.9	65.7	51.6	48.6	67.9	58.0
Mar '23	52.9	53.2	51.9	64.1	52.5	48.6	67.8	59.0
Apr '23	54.3	52.0	52.3	63.4	54.8	51.0	68.8	60.1
May '23	50.7	51.9	51.1	63.4	54.1	48.0	67.3	59.2

### 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 '23	55.0	52.3	69.8	54.0	49.3	63.1	60.1
Apr '23	54.7	48.4	63.0	55.2	45.4	62.7	63.2
May '23	49.7	46.3	63.4	54.0	42.1	58.7	57.8

### 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
Mar '23	52.4	53.4	62.8	52.2	48.5	68.9	58.7
Apr '23	54.2	52.8	63.4	54.7	52.2	70.2	59.4
May '23	51.0	53.1	63.5	54.2	49.4	69.2	59.5

## Contact

Vonnie Sandlan  
Regional Media & Campaigns Manager  
Royal Bank of Scotland  
+44 740 127 8778  
[vonnie.sandlan@natwest.com](mailto:vonnie.sandlan@natwest.com)

Maryam Baluch  
Economist  
S&P Global Market Intelligence  
+44 134 432 7213  
[maryam.baluch@spglobal.com](mailto:maryam.baluch@spglobal.com)

Sabrina Mayeen  
Corporate Communications  
S&P Global Market Intelligence  
+44 796 744 7030  
[sabrina.mayeen@spglobal.com](mailto:sabrina.mayeen@spglobal.com)

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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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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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