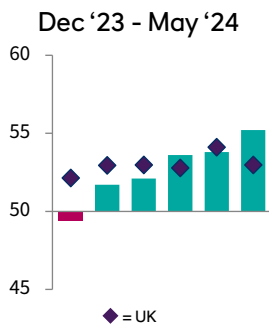




Royal Bank of Scotland PMI[®]

Private sector growth hits two-year high in May

Scotland Business Activity Index



Key findings

Fastest output growth since May 2022

Fresh rise in outstanding work

Inflationary pressures ease

The headline Royal Bank of Scotland Business Activity Index – a seasonally adjusted index that measures the month-on-month change in the combined output for Scotland’s manufacturing and service sectors – scored 55.2 in May, up from 53.8 in April, signalling that private sector activity expanded for the fifth month running and at the strongest pace in two years. Supporting growth in activity was a sustained upturn in inflows of new work. However, underlying data again showed that growth across Scotland’s private sector was achieved on the back of improving demand for services, which also helped mask the downturn observed in manufacturing.

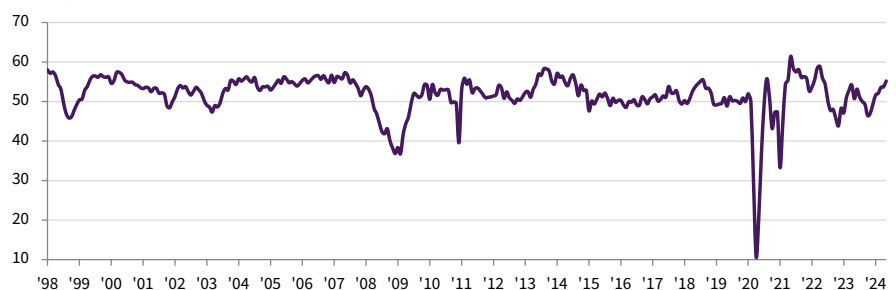
As a result, jobs growth and backlog accumulation was limited to service firms. In terms of prices, pressures eased in May after picking up notably in April.

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

"The Scottish private sector exhibited further gains midway through the second quarter. The upturn was contingent on the sustained rise in services activity which rose at a sharp and quicker rate and was vital in offsetting the shortfalls seen at manufacturers. Moreover, the divergence between the two sectors is set to persist as manufacturing new orders fell rapidly, while demand trends improved for services. May data also signalled a faster rate of job creation and a fresh rise in outstanding business. However, these upturns were again fuelled by the service sector. While the service sector looks set to expand in the coming months as expectations for future activity strengthens, the manufacturing sector will only hold back growth momentum, unless demand for goods picks up."

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.

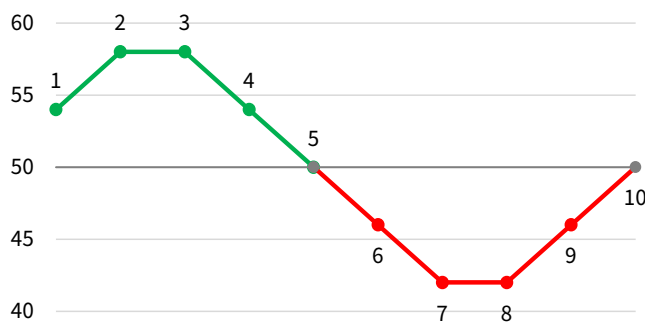
The headline figure is the Business Activity Index. This is a composite index calculated by weighting together the Manufacturing Output Index and the Services Business Activity Index. The Scotland Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

Index interpretation

50.0 = no change since previous month



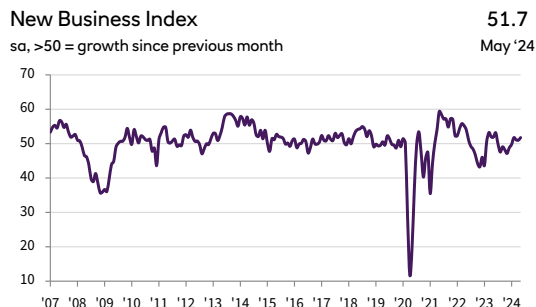
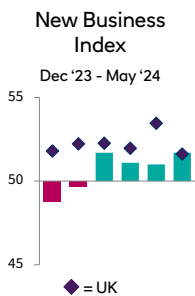
- 1 Growth
- 2 Growth, faster rate
- 3 Growth, same rate
- 4 Growth, slower rate
- 5 No change, from growth
- 6 Decline, from no change
- 7 Decline, faster rate
- 8 Decline, same rate
- 9 Decline, slower rate
- 10 No change from decline



Demand and outlook

New business

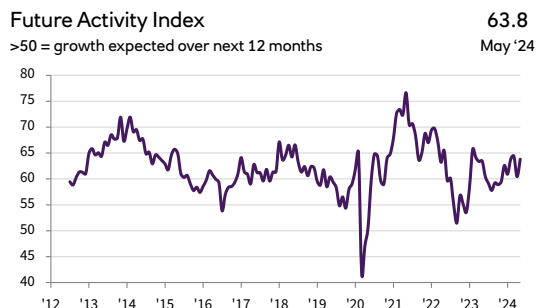
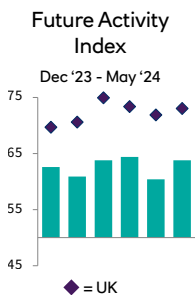
Scottish businesses registered a fourth successive monthly rise in inflows of new work in May. The respective seasonally adjusted index ticked up to a three-month high and was broadly in line with the UK-wide average. The upturn was again centred at service firms, where a quicker intake of new business helped offset a deepening downturn at manufacturers. Surveyed service providers noted that better marketing strategies, new client wins and increased customer activity supported the latest uptick.



Business expectations

Businesses in Scotland remained optimistic towards growth prospects in the coming year in May. In fact, the degree of confidence strengthened on the month, with respondents citing plans for digitalisation and marketing, and hopes of improving demand conditions. However, underlying data again highlighted that positive sentiment was largely driven by the service sector.

Despite the uptick in confidence, firms in Scotland were the least optimistic of the 12 monitored UK regions and nations for the second consecutive month.

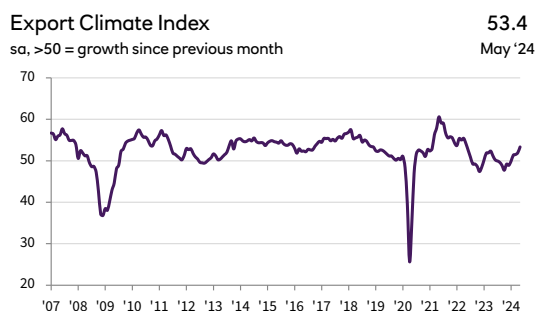
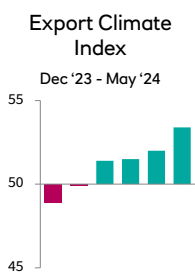


Exports

Further gains in export demand conditions

The Scotland Export Climate Index (ECI) 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 latest ECI reading of 53.4 in May, up from 52.0 in April, was the highest recorded for two years. Four of Scotland's top five export markets – accounting for more than 60% of Scotland's total exports – recorded stronger upticks in output in May.



Top export markets, Scotland

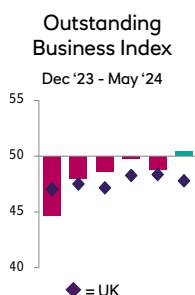
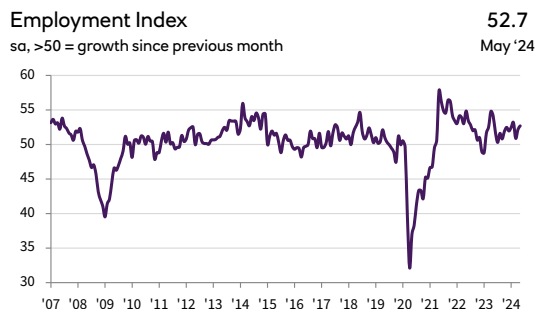
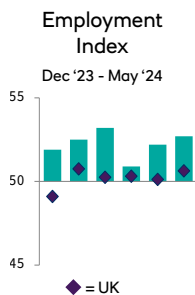
Rank	Market	Weight	Output Index, May '24
1	Netherlands	22.3%	55.1
2	USA	14.3%	54.5
3	Germany	9.2%	52.4
4	Ireland	8.4%	52.5
5	France	7.8%	48.9

Business capacity

Employment

A further acceleration in the rate of job creation across Scotland's private sector was noted in May. Hiring activity was the strongest recorded in three months, owing solely to the increase in service sector employment, where expansions in new business supported recruitment drives.

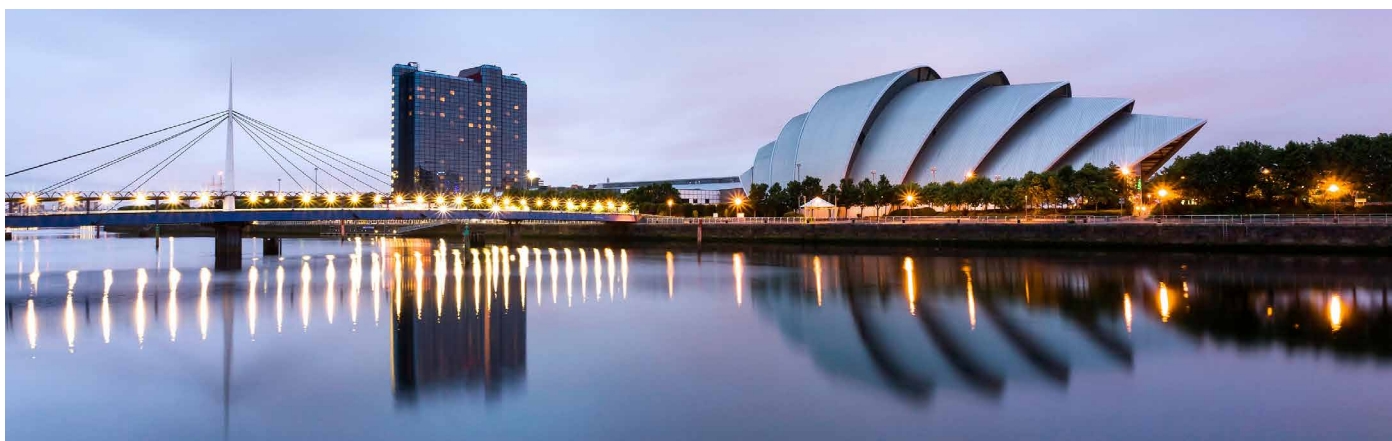
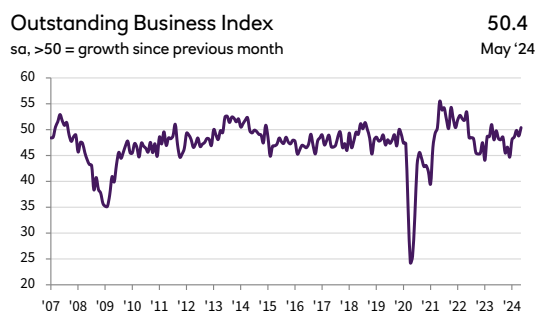
Of the 12 monitored nations and regions, only Northern Ireland and the North West recorded stronger increases in staffing levels than Scotland.



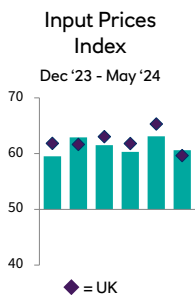
Outstanding business

After a year of continual decline, the level of order backlogs at companies in Scotland rose (albeit fractionally) in May. Underlying data highlighted pressures on capacity largely fed through from the service sector. Firms here linked the upturn to additional business from existing and new clients. Meanwhile, manufacturers depleted their backlogs rapidly.

Alongside Scotland, London was the only other area which recorded a rise in the level of outstanding business.



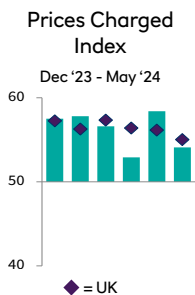
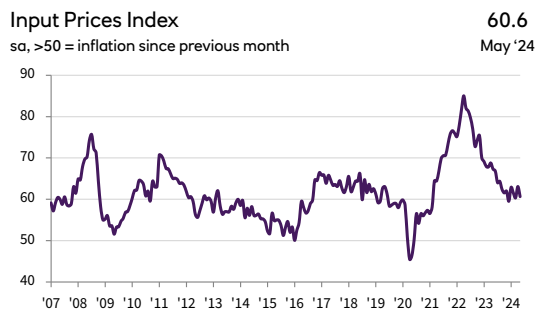
Prices



Input prices

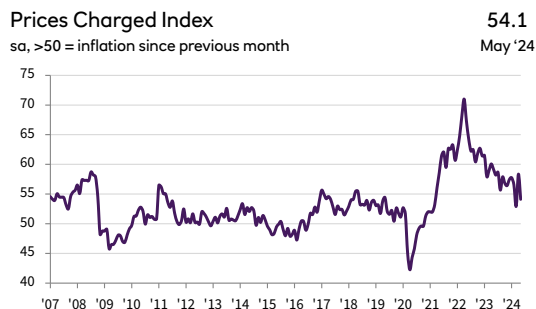
Pressures on cost burdens remained intense, with input prices again rising sharply across Scotland in May. According to anecdotal evidence, the uptick in prices was largely driven by rising labour, fuel and raw material costs. That said, the rate of inflation eased from April's eight-month high.

For the first time in four months, input price inflation in Scotland was stronger than that seen across the UK as a whole.



Prices Charged

Average prices charged by firms in Scotland rose solidly in May. Panellists noted that the upturn in charges was largely driven by rising cost burdens. In line with the softer rate of increase in input prices, output charges also rose at a moderated pace in May. The rate of inflation was the second-slowest in over three years and weaker than that recorded for the UK as a whole.



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'24 ⁺
1	Food & Drink	1.89	55
2	Mechanical Engineering	1.15	55
3	Textiles & Clothing	1.13	50
4	Electrical & Optical	1.04	45
5	Timber & Paper	1.04	50
6	Chemicals & Plastics	0.97	55
7	Basic Metals	0.71	45
8	Other Manufacturing	0.58	50
9	Transport	0.33	50

Scotland specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, May'24 ⁺
1	Personal & Community Services	1.24	50
2	Hotels, Restaurants & Catering	1.22	45
3	Transport & Communication	1.02	45
4	Financial Intermediation	0.93	55
5	Business-to-business Services	0.90	50
6	Computing & IT Services	0.69	55

UK sector focus

Transport & Communication

The UK's Transport & Communication services sector saw a fall in business activity in the three months to May. Over that period, it was the worst performing of the six broad services sub-sectors monitored by PMI data.

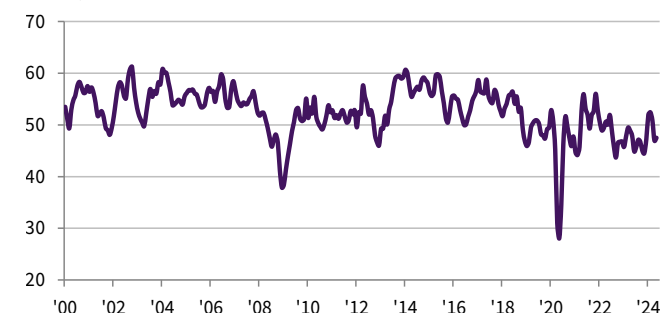
Amid a lack of incoming new work and shrinking backlogs, workforce numbers were scaled back. Employment has in fact fallen continuously in the sector since the end of 2022.

On the cost front, businesses reported pressures from shipping rates, fuel prices and wages. Input cost inflation in the three months to May was the fastest seen since last autumn. Prices charged also increased in the latest three-month period, though the rate of inflation ticked down due in part to competition for new work.

Looking ahead, Transport & Communication firms expected activity to pick up over the next 12 months. Expectations were close to the long-run average stretching back to 1996.

Output Index

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



UK Regional PMI overview

Business Activity

For the first time in more than a year, all 12 nations and regions monitored by the survey recorded a rise in business activity. Growth was led by Northern Ireland*, where output expanded at a sharp and accelerated rate, followed by Scotland. At the other end of the scale, Yorkshire & Humber saw activity increase for the first time since January, albeit marginally.

Employment

Labour market performances continued to vary across the UK, with just over half of the monitored nations and regions recording a rise in employment. Job creation was led by Northern Ireland for the third month in a row, with the North West and Scotland close behind. The South West meanwhile posted the steepest fall in workforce numbers – its largest for over three years.

Future Activity

The West Midlands recorded the highest overall degree of optimism towards future activity for the ninth time in the past 11 months. It was one of seven areas where sentiment strengthened since April. Despite also seeing confidence improve from the month before, Scotland registered at the bottom of the rankings for the second month running.

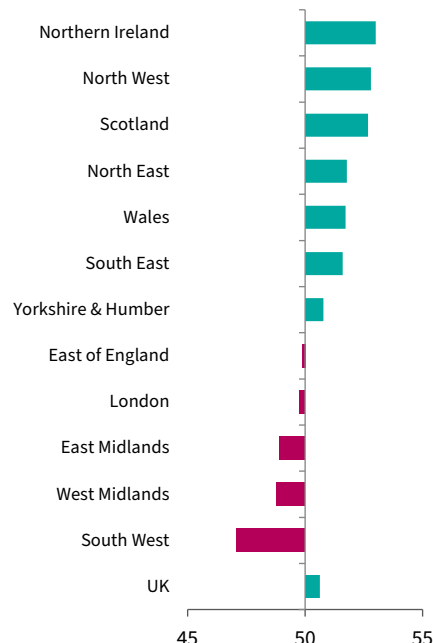
Business Activity Index

sa, >50 = growth since previous month, May '24



Employment Index

sa, >50 = growth since previous month, May '24

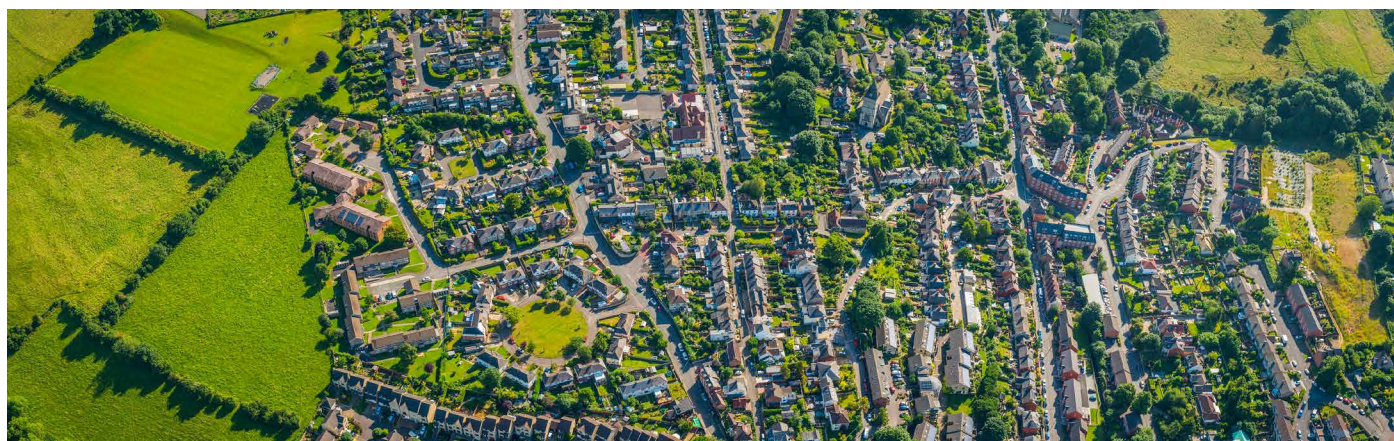


Future Activity Index

>50 = growth expected over next 12 months, May '24



* 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 '23	49.4	48.8	48.9	62.6	51.9	44.7	59.5	57.5
Jan '24	51.7	49.7	49.9	60.9	52.5	48.0	62.9	57.8
Feb '24	52.1	51.7	51.4	63.8	53.2	48.6	61.5	56.6
Mar '24	53.6	51.1	51.5	64.4	50.9	49.8	60.3	52.9
Apr '24	53.8	51.0	52.0	60.4	52.2	48.8	63.1	58.4
May '24	55.2	51.7	53.4	63.8	52.7	50.4	60.6	54.1

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 '24	46.7	47.9	58.9	47.8	39.1	57.9	54.6
Apr '24	45.7	45.3	58.1	49.8	35.4	57.3	54.4
May '24	49.7	44.5	56.3	49.2	40.3	58.4	54.1

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 '24	55.3	51.9	65.8	51.7	52.5	60.9	52.5
Apr '24	55.8	52.4	61.0	52.8	52.1	64.5	59.3
May '24	56.6	53.5	65.7	53.6	52.9	61.2	54.1

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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 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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