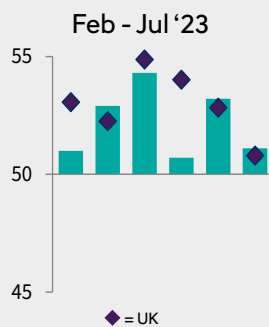


Royal Bank of Scotland PMI®

Business activity growth softens as manufacturing output contracts sharply

Scotland Business Activity Index



Key findings

Growth in activity driven by the service sector...

...as manufacturers signal a sharp reduction in output

Cost inflation cools further but remains historically elevated

According to the latest Royal Bank of Scotland PMI® survey, Scottish private sector companies expanded their output for the sixth successive month in July. That said, the rate of increase slowed since June as the seasonally adjusted Composite Output Index fell to 51.1 from 53.2. Trends diverged on a sector level with service providers continuing to report modest, albeit slightly softer growth in business activity. Goods producers, however, signalled a renewed and sharp contraction in output amid reports of demand shortfalls.

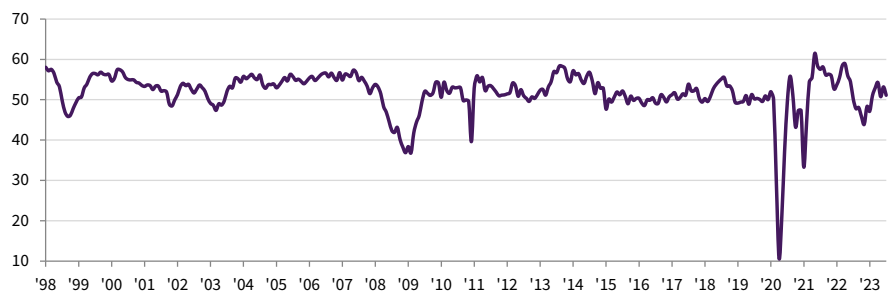
Judith Cruickshank, Chair, Scotland Board, Royal Bank of Scotland, commented:

"The start of the second half of the year saw a slowdown across the Scottish private sector amid a softer expansion in output, while new business remained broadly unchanged from June. Data split by sector highlighted that growth was skewed towards the service sector. Goods producers, meanwhile, pointed to a continual and accelerated drop in factory orders which then fed into a fresh contraction in manufacturing production."

"The overall cooling in business activity growth meant that employment levels were raised only fractionally in July. Moreover, the rate of job creation was the weakest seen in the current six-month spell of employment growth. With the level of outstanding business falling for the third month straight, there's less incentive for firms to raise workforce numbers in the coming months. Additionally, the outlook for business activity remained historically muted, with confidence printing the weakest since January."

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.

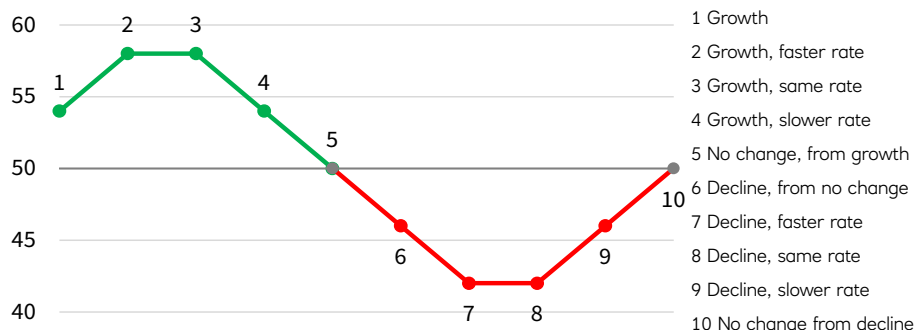
The headline figure is the Business Activity Index. This is a composite index calculated by weighting together the Manufacturing Output Index and the Services Business Activity Index. The Scotland Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

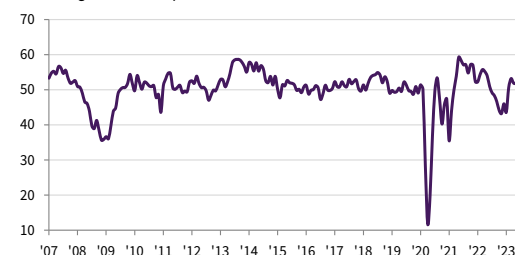
New business received across Scottish private sector firms remained broadly unchanged at the start of the third quarter. Albeit only fractionally, the seasonally adjusted index dipped below the crucial 50.0 mark for the first time in six months, led by a deepening contraction at manufacturers amid reports of reduced demand from clients and market inactivity. Meanwhile, service providers signalled a slowdown in new business growth.

New Business Index

sa, >50 = growth since previous month

49.9

Jul '23



Business expectations

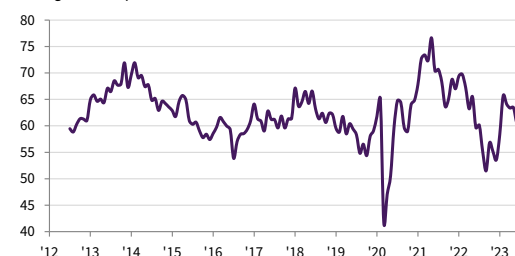
July saw the degree of sentiment towards activity in 12 months' time weaken to its lowest since January and move further below the long-run average. Companies recorded a drop in confidence as reports of a high interest rate environment, cooling demand and the cost of living weighed on the outlook. Moreover, Scotland was the least optimistic of the 12 monitored UK areas. Nonetheless, hopes of improved market conditions and the launch of new products allowed some firms to maintain a positive outlook.

Future Activity Index

>50 = growth expected over next 12 months

59.1

Jul '23



Exports

Health of export markets stagnates in July

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 to a seven-month low of 50.0 in July, down for 50.2 in June, thereby signalling no change in output across Scotland's export markets and ending a run of expansion that began in January.

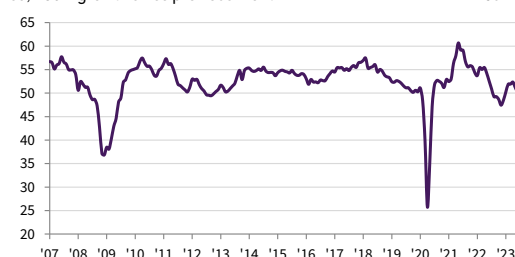
The US was the only one of Scotland's top-five goods export markets to register growth in output, while Germany, the Netherlands and France recorded contractions. Meanwhile, business activity was unchanged across Ireland.

Export Climate Index

sa, >50 = growth since previous month

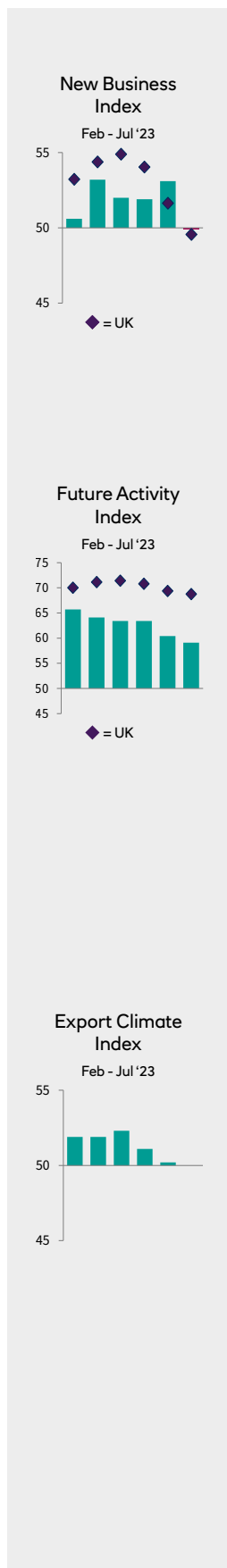
50.0

Jul '23



Top export markets, Scotland

Rank	Market	Weight	Output Index, Jul '23
1	Netherlands	19.4%	48.3
2	Ireland	13.5%	50.0
3	USA	13.2%	52.0
4	France	9.0%	46.6
5	Germany	8.9%	48.5



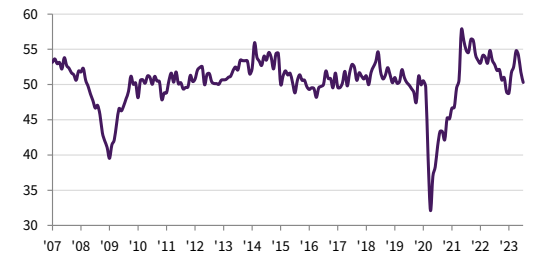
Business capacity

Employment

July data signalled a rise in employment across Scotland for the sixth consecutive month. Panellists reported success in filling long-standing vacancies and replacing voluntary leavers. However, the upturn was only fractional amid a fresh reduction in services employment, while manufacturers recorded the softest expansion in five months.

Moreover, the rate of job creation seen across Scotland was weaker than the UK-wide average.

Employment Index 50.3
sa, >50 = growth since previous month Jul '23

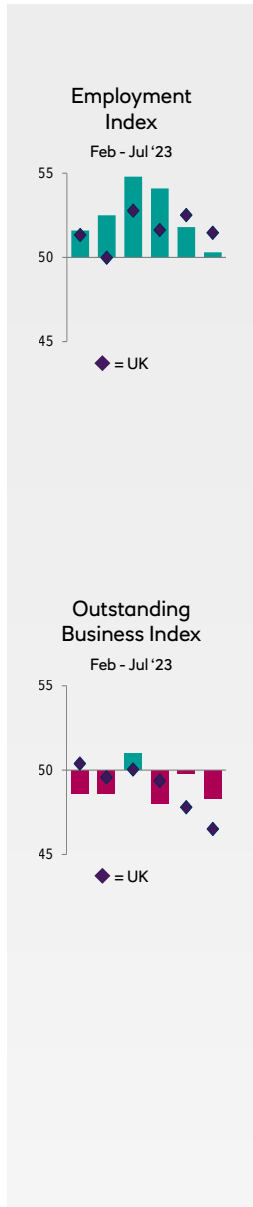
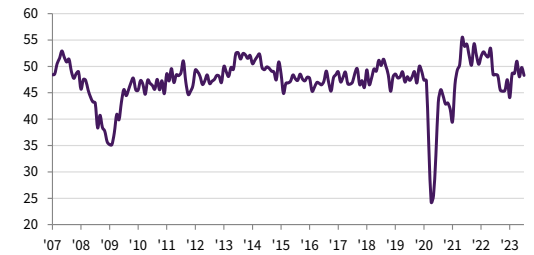


Outstanding business

The level of outstanding business at Scottish private sector firms fell for the third successive month in July. Though modest, the rate of backlog depletion quickened since June. Businesses linked the drop in outstanding work to fewer sales.

However, the pace of decrease across Scotland was the second-softest of the 12 monitored UK areas, behind London.

Outstanding Business Index 48.3
sa, >50 = growth since previous month Jul '23



Prices

Input prices

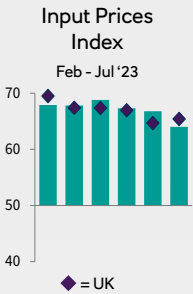
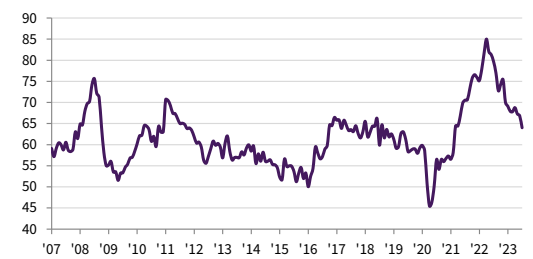
Companies in Scotland recorded a rise in cost burdens in July, thereby stretching the current run of inflation to 38 months. Though the rate of inflation was the softest since February 2021 and slower than the UK-wide average, it remained rapid overall and stronger than the historical average. According to surveyed businesses, wages, energy, food and rent exerted upward pressure on costs.

Input Prices Index

sa, >50 = inflation since previous month

64.0

Jul '23



Prices Charged

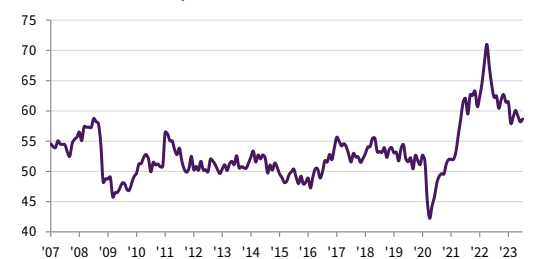
As has been the case in every month since November 2020, private sector firms in Scotland recorded a rise in output charges in July. According to anecdotal evidence, selling prices were raised in line with the continued increase in cost burdens. However, the upturn in output charges was among the weakest recorded over the last two years.

Prices Charged Index

sa, >50 = inflation since previous month

58.7

Jul '23



Prices Charged Index

Feb - Jul '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, Jul'23 ⁺
1	Food & Drink	1.91	55
2	Mechanical Engineering	1.17	50
3	Electrical & Optical	1.08	45
4	Textiles & Clothing	1.06	55
5	Timber & Paper	1.05	50
6	Chemicals & Plastics	0.86	50
7	Basic Metals	0.81	50
8	Other Manufacturing	0.63	55
9	Transport	0.31	55

Scotland specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Jul'23 ⁺
1	Hotels, Restaurants & Catering	1.27	50
2	Financial Intermediation	1.10	60
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	55

UK sector focus

Financial Intermediation

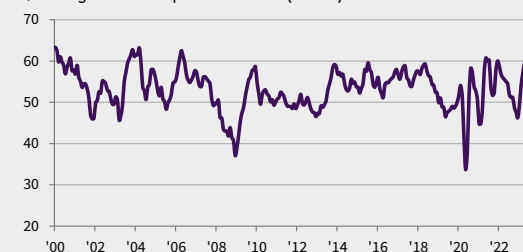
The UK's Financial Intermediation sector displayed strong growth in the three months to July, recording one of the fastest rates of increase in business activity since the global financial crisis. The upturn in performance followed a notable slowdown in the second half of 2022.

Growth was the strongest among the six services sub-sectors monitored by the survey and fuelled by a steep increase in inflows of new business in recent months. With firms' backlogs of work increasing, they continued to take on staff at a historically strong rate and were optimistic about the year-ahead outlook for activity.

Input costs in the sector continued to rise steeply, however, growing at the fastest rate in 2023 so far. This in turn led to a sharp and accelerated increase in prices charged. The rate of output price inflation was surpassed only by that seen in the Hotels, Restaurants and Catering sector.

Output Index

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



sa, >50 = growth since previous month (3-month moving average)



UK Regional PMI overview

Business Activity

Only half of the 12 monitored regions and nations recorded growth in business activity in July. London posted the strongest rate of expansion but saw a notable loss of momentum as growth slowed to a six-month low. The South East and Northern Ireland* fell the joint-most places in the rankings as both returned to contraction territory, though the steepest overall decline in activity was recorded in the North East.

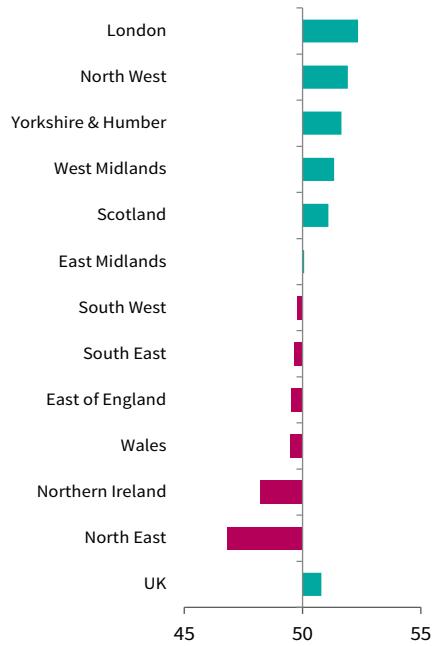
Employment

The strongest rate of job creation in July was seen in the South West, followed by the East of England and then London. Northern Ireland also posted a solid rise in workforce numbers. At the other end of the scale, there were renewed declines in staffing levels in both the East Midlands and North East, while no change in employment in the West Midlands ended a 28-month sequence of growth in the region.

Future Activity

Trends in business confidence were mixed, with half of the 12 monitored areas registering an improvement in sentiment and the rest seeing a decline. The West Midlands, South East and Yorkshire & Humber topped the rankings and were among those that saw expectations rise since June. Firms in Scotland were the least optimistic about the year-ahead outlook, with sentiment there hitting a six-month low.

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



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



Future Activity Index
>50 = growth expected over next 12 months, Jul '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
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
Jun '23	53.2	53.1	50.2	60.4	51.8	49.8	66.8	58.2
Jul '23	51.1	49.9	50.0	59.1	50.3	48.3	64.0	58.7

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
May '23	49.7	46.3	63.4	54.0	42.1	58.7	57.8
Jun '23	50.3	48.1	57.9	53.4	45.0	58.9	59.4
Jul '23	46.2	42.4	59.0	52.9	44.2	60.0	60.4

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
May '23	51.0	53.1	63.5	54.2	49.4	69.2	59.5
Jun '23	53.8	54.3	61.0	51.4	50.8	68.6	57.9
Jul '23	52.2	51.5	59.1	49.7	49.2	64.9	58.3

Contact

Jonathan Rennie
Regional Media & Campaigns Manager
Royal Bank of Scotland
+44 7769 932 102
jonathan.ennie@natwest.com

Maryam Baluch
Economist
S&P Global Market Intelligence
+44 134 432 7213
maryam.baluch@spglobal.com

Sabrina Mayeen
Corporate Communications
S&P Global Market Intelligence
+44 796 744 7030
sabrina.mayeen@spglobal.com

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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