

13 August 2024

Royal Bank of Scotland Growth Tracker

Service sector activity supports Scottish
growth



Royal Bank of Scotland

PMI[®]

by **S&P Global**

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Key findings

July 2024

Private sector activity rises solidly, driven by the service sector

Manufacturing output falls further

Renewed rise in inflows of new work

The Royal Bank of Scotland Growth Tracker provides a timely snapshot of regional economic performance.

The report tracks monthly changes in business activity, demand, employment, backlogs, prices and the year-ahead outlook. The data are compiled from local companies that participate in S&P Global's Scotland manufacturing and services PMI surveys.

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Service sector activity supports Scottish growth

Latest Regional Growth Tracker data from the Royal Bank of Scotland pointed to a solid rise in private sector activity.

Private sector firms across Scotland signalled a solid rise in activity at the start of the second half of the year. The rate of increase picked up from June, supported by a renewed expansion in the inflows of new work. In line with rising business requirements, firms also raised their employment figures at a quicker pace. Price pressures also intensified during July, as a sharper uptick in

input costs fed through to higher charges.

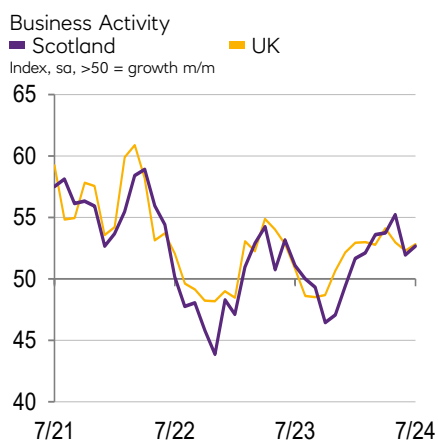
The headline Business Activity Index registered above the 50.0 no-change threshold for a seventh month running in July. Ticking up to 52.7, from 51.9 in June, the latest reading signalled a solid start to the third quarter. However, the uptick in private sector activity was again centred at service firms. Meanwhile, goods producers recorded a further drop in output.

Royal Bank of Scotland
Business Activity Index
July 2024

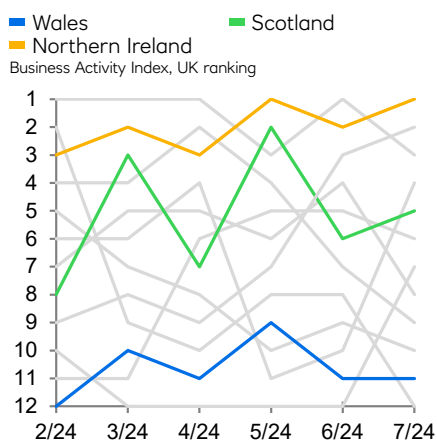
52.7

The Business Activity Index is a diffusion index calculated from companies' responses to a question on monthly changes in the volume of business activity. The index varies between 0 and 100 and is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. A reading above 50 indicates an increase compared to the previous month, and below 50 a decrease. The index is seasonally adjusted.

Data compiled 11-29 July



Sources: Royal Bank of Scotland, S&P Global PMI. ©2024 S&P Global.



Sources: Royal Bank of Scotland, S&P Global PMI. ©2024 S&P Global.



Comment

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

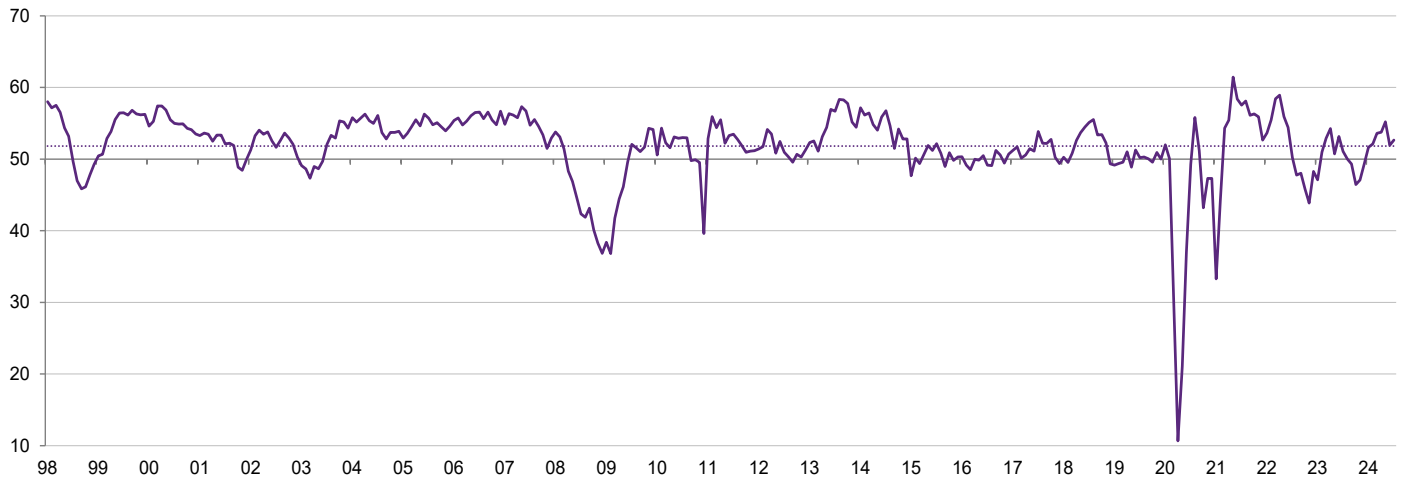
"The Scottish private sector signalled a solid start to the second half of the year, backed up by a strongly performing service sector. Growth in the service sector was again able to mask the downturn at manufacturers, with service firms noting improving underlying demand trends. Moreover, optimism towards the year ahead outlook was firmly optimistic, as confidence levels strengthened on the month. Private sector employment also ticked up in July, the rate of job creation quickening from June. Meanwhile, inflationary pressures intensified during the latest survey period and could pose a concern to firms in the coming months."

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Business Activity

Index, sa, >50 = growth m/m. Dots = long-run average.



Sources: Royal Bank of Scotland, S&P Global PMI. ©2024 S&P Global.



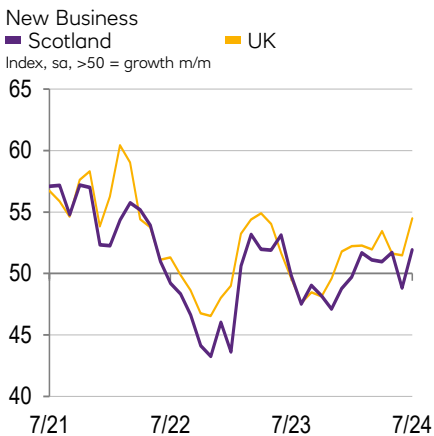
Demand and outlook

Renewed rise in inflows of new work rise

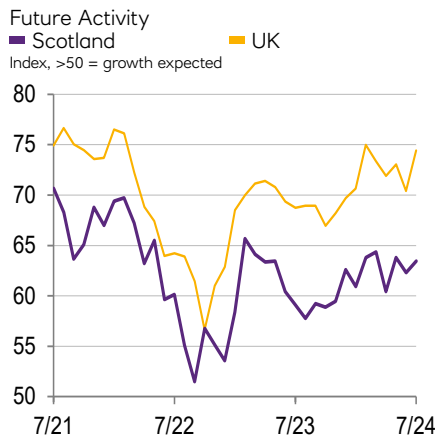
A fresh rise in new business was recorded across the Scottish private sector in July, with expansions now noted in five of the last six survey periods. However, in each case, growth was centred at the service sector, with businesses reporting stronger demand from existing clients. Meanwhile, goods producers posted a contraction for a sixteenth straight month.

Sentiment for the year-ahead outlook for activity remained strongly optimistic in July. Scottish surveyed businesses were more confident than in June, with both underlying sectors recording an uptick. Sentiment was driven by hopes of improving market conditions, growth in new customers, product diversification and plans of implementing new business processes.

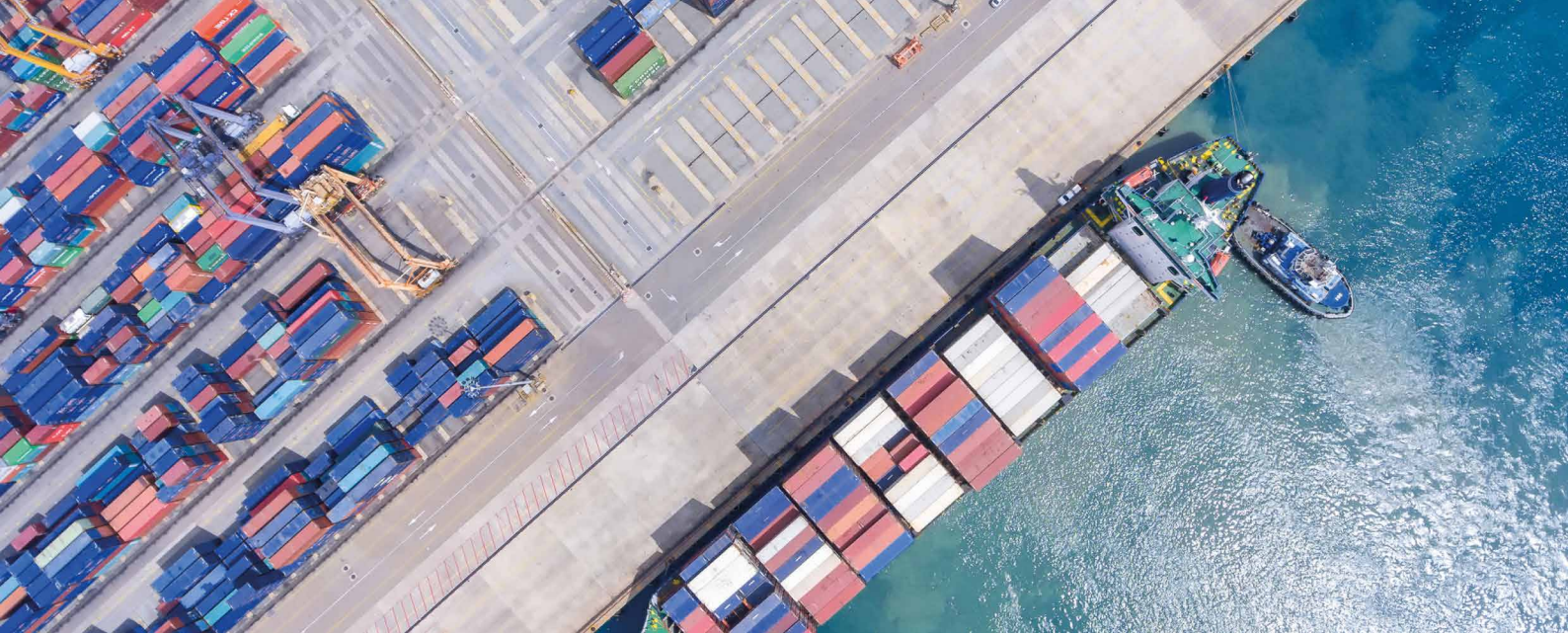
"Growth in the service sector was again able to mask the downturn at manufacturers, with service firms noting improving underlying demand trends"



Sources: Royal Bank of Scotland, S&P Global PMI. ©2024 S&P Global.



Sources: Royal Bank of Scotland, S&P Global PMI. ©2024 S&P Global.



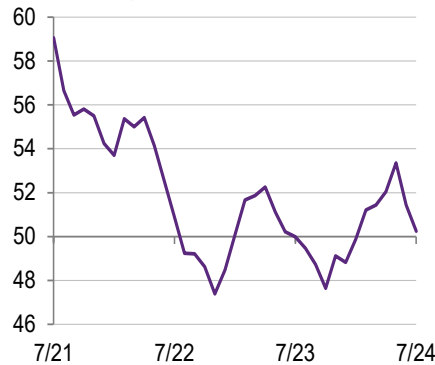
Export markets

Export market conditions improve only fractionally

The ECI posted only slightly above the neutral 50.0 mark in July, with the index falling to 50.2 from 51.4 in June - the lowest reading in the current six-month sequence of growth.

Across the top five key export markets, solid output growth was recorded for the US and Ireland. However, Germany and the Netherlands joined France in contraction territory.

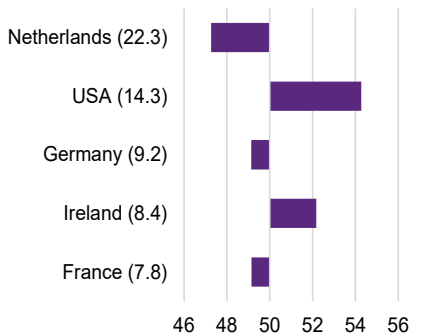
Export Conditions
Index, sa, >50 = growth m/m



Sources: Royal Bank of Scotland, S&P Global PMI. ©2024 S&P Global.

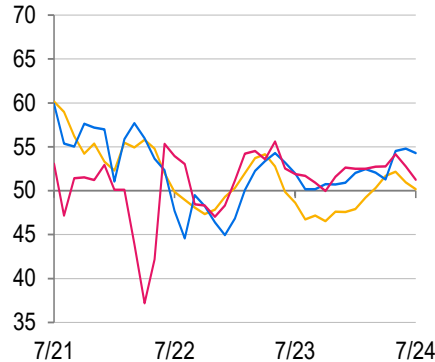
The Scotland Export Climate Index (ECI) is an indicator for the economic health of the region's export markets. It is calculated by combining national PMI output data, weighted according to each nation's share of manufacturing exports of Scotland. A reading above 50 signals an improvement in export conditions, and below 50 a deterioration.

Top export markets, Scotland
% share of exports shown in brackets
Output Index, sa, >50 = growth m/m



Sources: Royal Bank of Scotland, S&P Global PMI. ©2024 S&P Global.

Output
Index, sa, >50 = growth m/m



Sources: Royal Bank of Scotland, S&P Global PMI. ©2024 S&P Global.



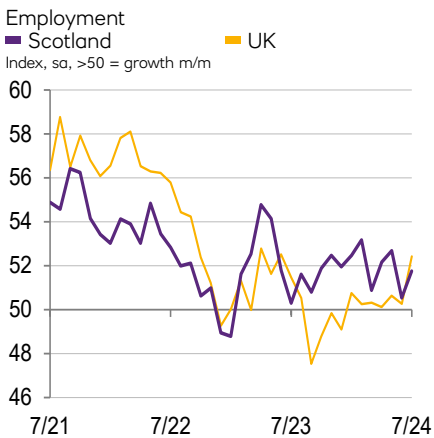
Jobs and capacity

Solid rise in workforce numbers

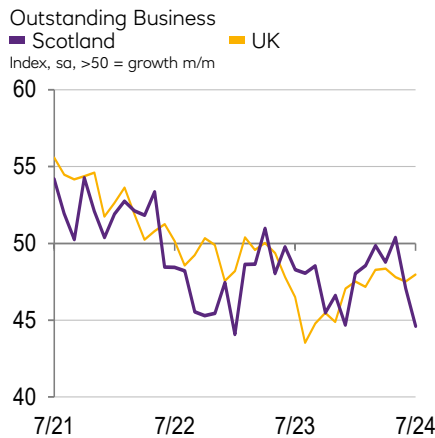
July data signalled an eighteenth consecutive monthly rise in staffing levels across the Scottish private sector in July. The rate of growth picked up from June's 11-month low to signal a modest uptick. However, as has been the case since March, job creation was limited to service providers where strong demand trends was said to have supported hiring activity.

The uptick in service sector employment and falling factory orders meant that both service providers and manufacturers were able to keep on top of their workloads during July. Backlogs depleted sharply overall and to the greatest extent in one-and-half years.

"Private sector employment also ticked up in July, the rate of job creation quickening from June."



Sources: Royal Bank of Scotland, S&P Global PMI. ©2024 S&P Global.



Sources: Royal Bank of Scotland, S&P Global PMI. ©2024 S&P Global.



Inflation

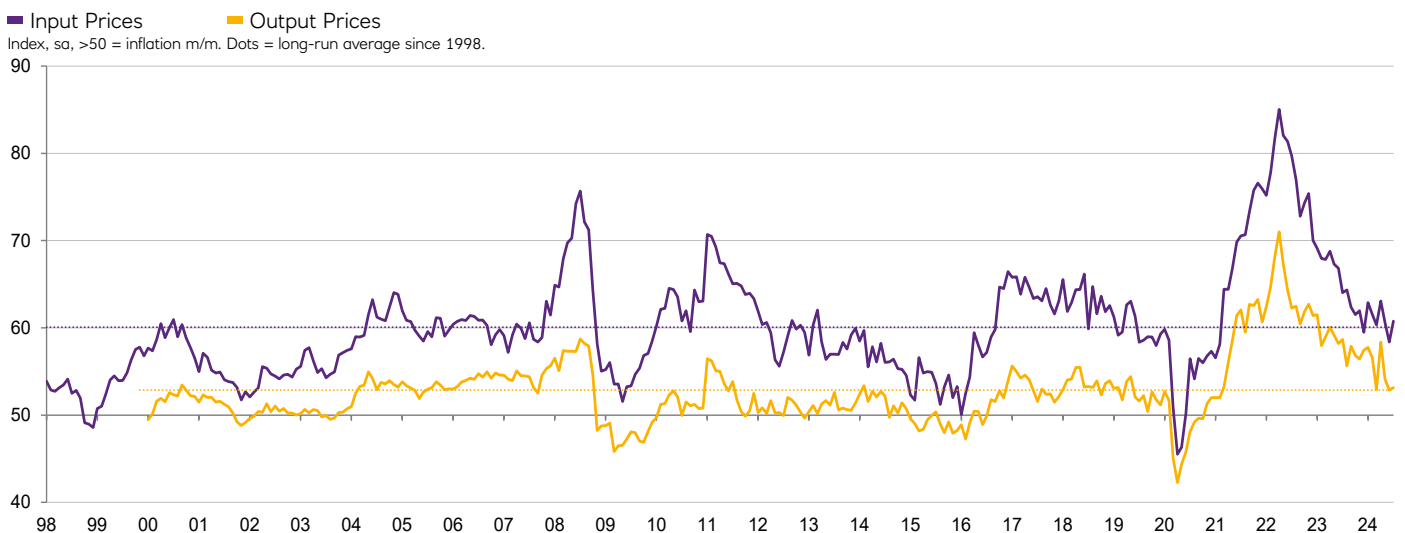
Price pressures elevated by historical standards

Scottish private sector firms noted increasing pressures stemming from inputs in July. In fact, the rate of inflation ticked up after hitting a 40-month low in June. Higher supplier and freight charges, plus wages and material prices were all

said to have underpinned the uptick in costs.

Similarly, charges levied for Scottish goods and services were also raised at a slightly stronger pace in July. Higher input costs were highlighted as the primary driver of increased output charges.

"Inflationary pressures intensified during the latest survey period and could pose a concern to firms in the coming months"



Sources: Royal Bank of Scotland, S&P Global PMI. ©2024 S&P Global.

UK Regional Growth Tracker

Business Activity

Business activity growth was led by Northern Ireland for the second time in the past three months in July. Just behind was the South West, which continued to gain momentum and recorded its steepest rise in output for more than two years. At the other end of the scale, Wales and the East Midlands both recorded modest reductions in business activity.

Employment

Northern Ireland also topped the rankings for employment growth at the start of the third quarter, recording its fastest rate of job creation since April 2023. The North East posted the next-steepest rise in employment, followed by Wales. As was the case for business activity, the East Midlands was one of just two areas to see a decrease in employment, this time alongside the West Midlands.

Future Activity

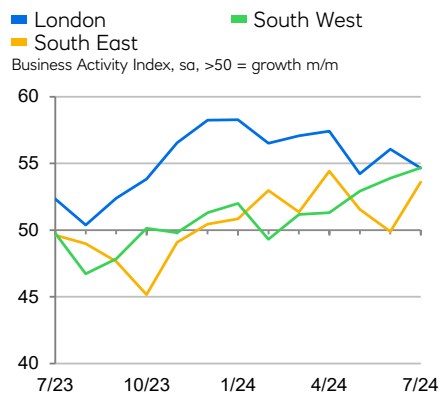
Growth expectations generally improved across the UK in July. The only exception was Northern Ireland, which saw business confidence slip to a six-month low. Firms in the South East were the most upbeat about the outlook, as has been the case in three of the past four months, followed by those in South West. The biggest upswing in optimism was recorded in Yorkshire & Humber.



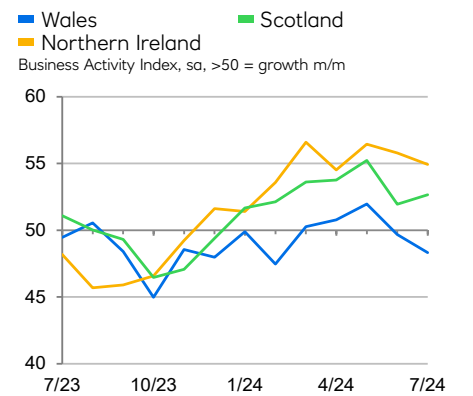
Sources: Royal Bank of Scotland, S&P Global PMI. ©2024 S&P Global.



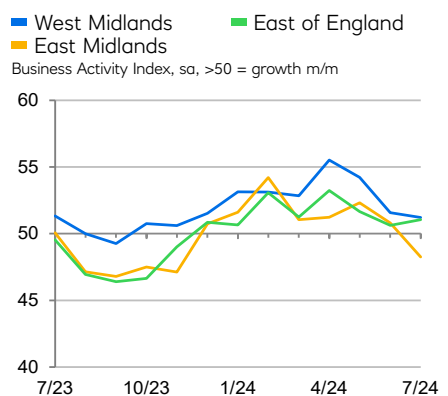
Sources: Royal Bank of Scotland, S&P Global PMI. ©2024 S&P Global.



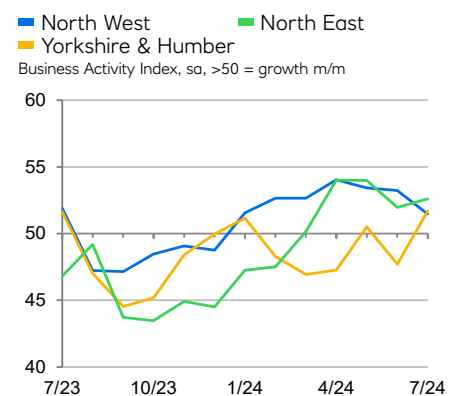
Sources: Royal Bank of Scotland, S&P Global PMI. ©2024 S&P Global.



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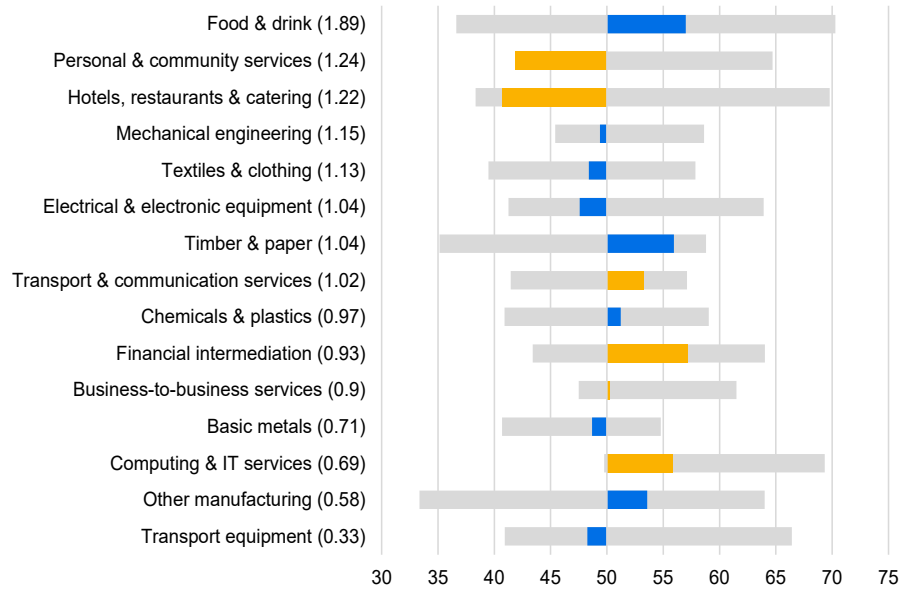
UK sectors

Sector specialisation: Scotland

The chart shows UK output indices by sector, ranked by location quotients for Scotland. Location quotients (LQs) 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.

UK sectors ranked by importance to the Scottish economy
 ■ Manufacturing ■ Services ■ 3-year range
 UK Output Index, sa, >50 = growth m/m Jul '24



Sources: Royal Bank of Scotland, S&P Global PMI. ©2024 S&P Global.
 Location quotients for Scotland are shown in brackets. Latest data are smoothed as three-month moving averages (3mma).

Sector in focus: Financial intermediation

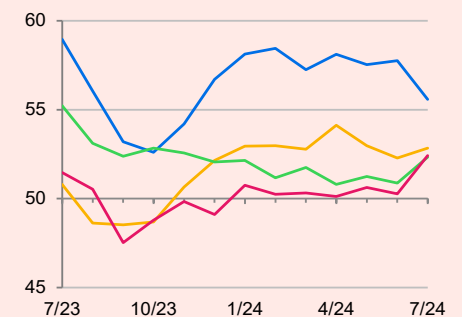
The Financial Intermediation sector was a key growth engine for the UK economy in the three months to July. Business activity rose markedly and at one of the quickest rates recorded among the detailed sectors covered by PMI data. This was despite a loss of momentum that saw growth ease to the weakest since late last year.

Buoyed by strong inflows of new work and high expectations for growth in the coming year, financial intermediation firms upped the rate of job creation in the three months

to July. Employment has risen continuously in the sector since early 2021.

Input prices faced by financial intermediation firms meanwhile rose at the slowest rate for just over three years. Cost pressures were still elevated by historical standards, however, which contributed to another steep rise in average prices charged by businesses in the sector. The rate of output price inflation remained well above the average over the series history stretching back to 1996.

Output / Employment
 ■/■ Financial intermediation*
 ■/■ Manufacturing & services
 Index, sa, >50 = growth m/m



Sources: Royal Bank of Scotland, S&P Global PMI. ©2024
 *Data are smoothed as three-month moving average

Methodology

The Royal Bank of Scotland Growth Tracker is compiled by S&P Global from responses to questionnaires sent to Scottish companies that participate in S&P Global's Scotland manufacturing and services PMI surveys.

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. 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

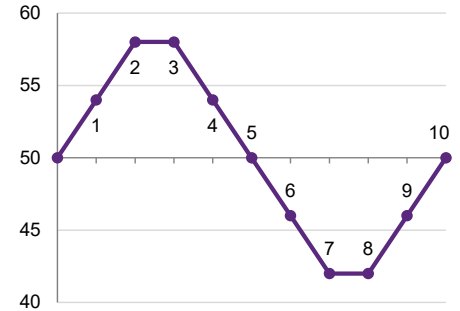
overall decrease. The indices are then seasonally adjusted.

The headline figure is the Business Activity Index. This is a diffusion index calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The Scotland Business Activity Index is comparable to the UK Composite Output Index.

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 survey methodology, please contact economics@spglobal.com.

Index interpretation
Index, sa, >50 = growth m/m



Sources: Royal Bank of Scotland, S&P Global PMI. ©2024 S&P Global.

Key

- 1 Growth, from no change
- 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

Data

Scotland manufacturing and services
Index, sa, 50 = no change over previous month. *50 = no change over next 12 months.

	Business Activity	New Business	Export Climate Index	Employment	Outstanding Business	Future Activity	Input Prices	Output Prices
2/24	52.1	51.7	51.2	53.2	48.6	63.8	61.5	56.6
3/24	53.6	51.1	51.4	50.9	49.8	64.4	60.3	52.9
4/24	53.8	51.0	52.0	52.2	48.8	60.4	63.1	58.4
5/24	55.2	51.7	53.4	52.7	50.4	63.8	60.6	54.1
6/24	51.9	48.8	51.4	50.5	47.1	62.3	58.4	52.9
7/24	52.7	51.9	50.2	51.8	44.6	63.4	60.8	53.1

Further information

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