

12 November 2024

Royal Bank of Scotland Growth Tracker

Sustained activity growth in Scotland as services sector remains buoyant to year end



Royal Bank of Scotland

PMI[®]

by **S&P Global**

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Key findings

October 2024

NatWest Scotland Growth Tracker largely unchanged at 51.3

New orders record fresh decline

Inflationary pressures increase slightly

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.

For more reports on 12 UK nations and regions, visit www.natwest.com/business/insights/economics





Sustained activity growth in Scotland as services sector remains buoyant to year end

Strong performance in the services sector continues to support Scotland's private sector moving into final quarter

The Scotland Business Activity Index – a seasonally adjusted index that measures the month-on-month change in the combined output of the region’s manufacturing and service sectors – registered at 51.3 in October, broadly unchanged from September’s reading of 51.2, indicating a tenth consecutive month of activity expansion. However, this indicated the second-weakest

reading in this ongoing growth sequence. Growth continued to rely on the services sector, which helped to offset a significant decline in manufacturing. While services activity rose further due to reports of strengthened underlying demand trends, goods producers fell deeper into contraction territory, heavily impacted by uncertainty surrounding the Autumn Budget, recruitment challenges, and an overall subdued demand climate.

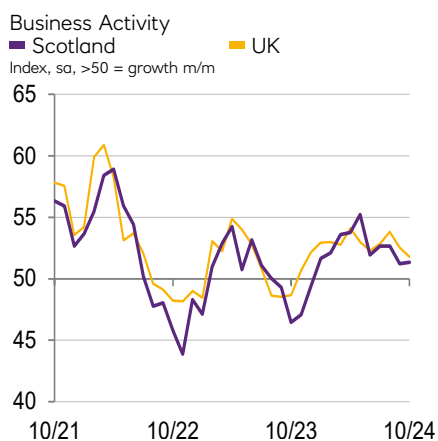
A slowdown in activity was also observed at the UK level. However, the rate of growth once again exceeded that of Scotland.

Royal Bank of Scotland Business Activity Index October 2024

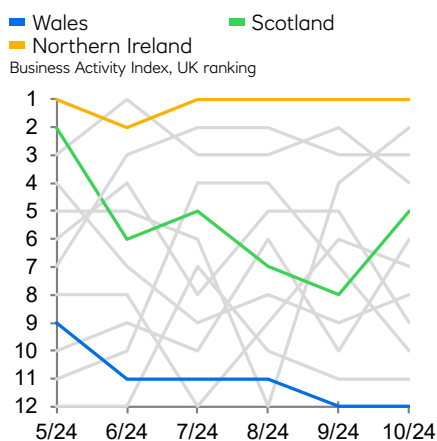
51.3

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 10-29 October



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:

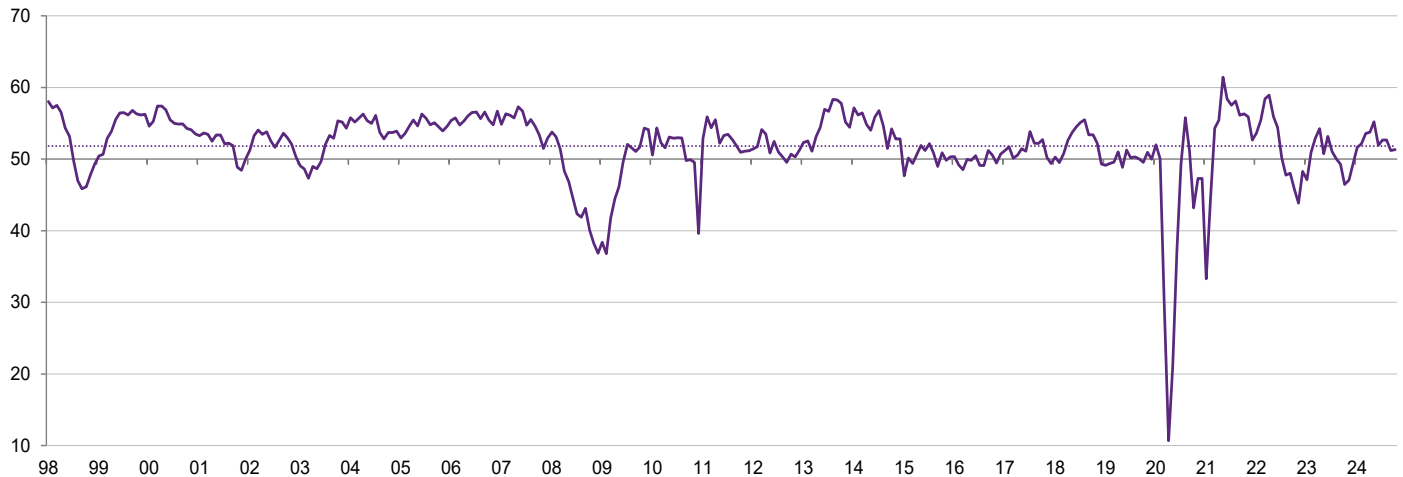
"The picture for Scotland remained broadly unchanged in October. Again, growth in private sector activity was shouldered by service providers, meanwhile the manufacturing sector suffered heavily. A notable difference was a fresh decline in new business, however. A slowdown in new business within services was unable to offset a steep decline experienced in manufacturing. This recent drop

in demand may be attributed to heightened uncertainty surrounding the Autumn Budget, which had not yet been announced at the time of the survey collection; therefore, it may be premature to draw conclusions for future months.

"On a positive note, employment rose solidly again. Meanwhile, inflationary pressures while intensifying slightly on the month, remained historically subdued. Lastly, businesses put more stock into their outlook, with confidence levels improving."

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

Demand environment falters at start of final quarter

After three consecutive months of modest growth, the Scottish private sector saw a fresh fall in new orders in October. A cooldown in demand among service providers was unable to offset a significant deterioration seen at manufacturers, where anecdotal evidence indicated reduced customer activity and increased uncertainty surrounding the Budget.

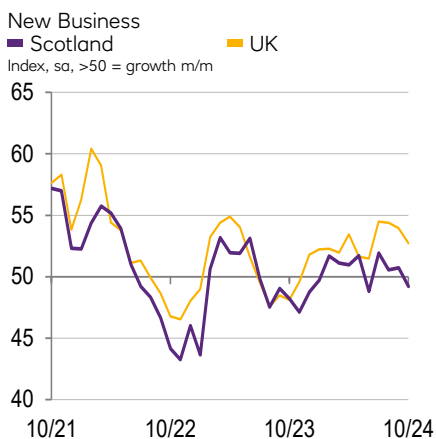
Although the rate of contraction was marginal overall, Scotland was one of only three areas, alongside the East

of England and East Midlands, to report a drop in new orders, thereby diverging from the UK-wide trend.

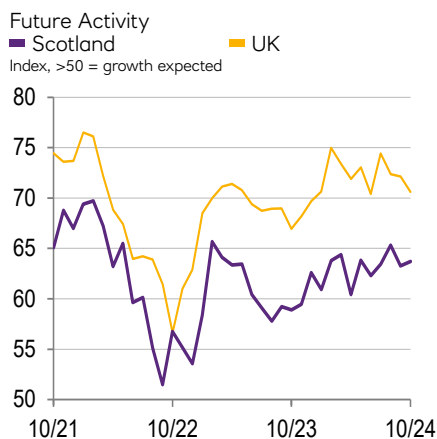
The activity outlook across Scotland's private sector was historically strong in October. Sentiment improved compared to the previous month, with both underlying sectors displaying increased confidence. Companies were optimistic about a revival in demand and planned to enter new markets by launching new products.

However, as has typically been the case, confidence levels among Scottish firms remained lower than their counterparts across the UK.

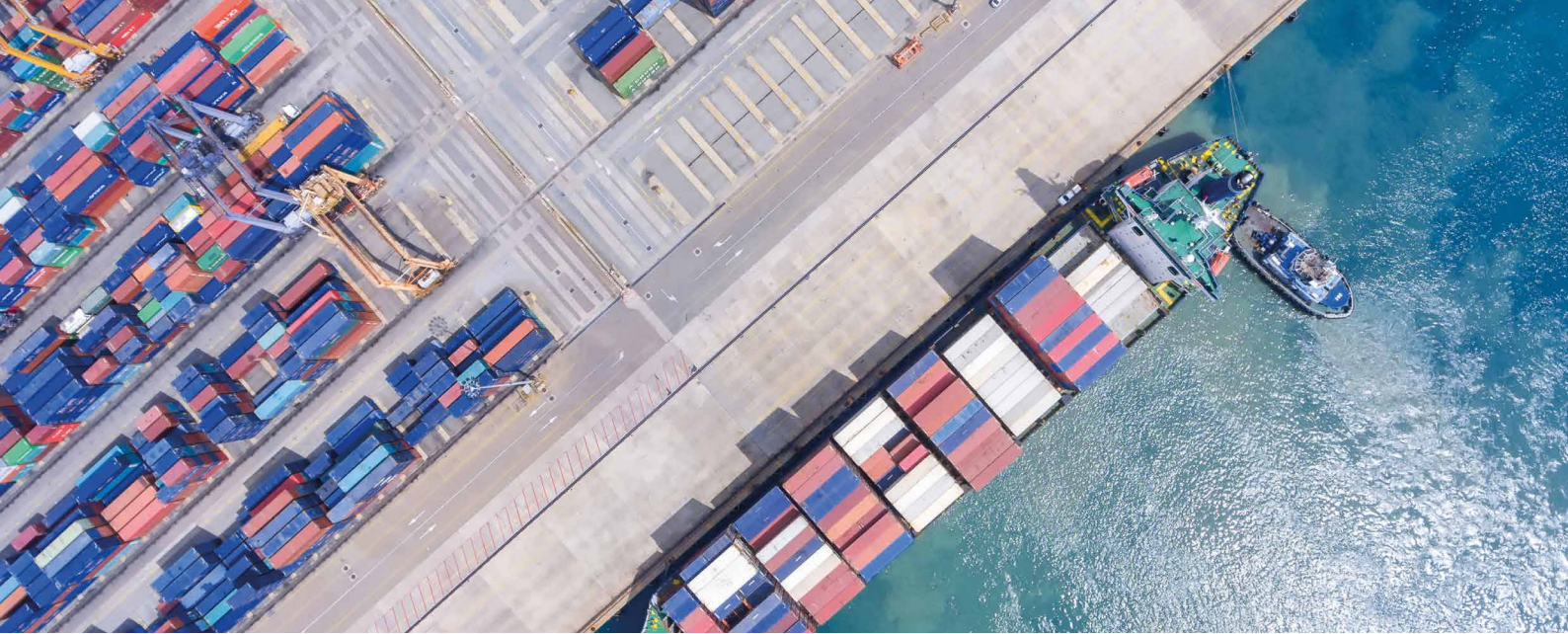
"A notable difference was a fresh decline in new business, however. A slowdown in new business within services was unable to offset a steep decline experienced in manufacturing."



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



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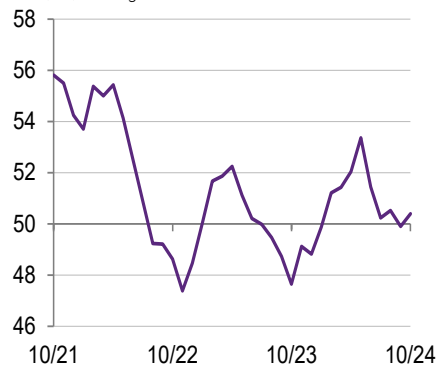
Export markets

Renewed rise in trade opportunities

After a month of mild deterioration, the ECI returned to expansion territory, registering 50.4 in October, up from 49.9 in September. However, this latest reading indicated only a slight improvement in export market conditions.

Among Scotland's top five export markets, stronger output growth in both the US and Ireland helped offset the downturns observed in Germany, France, and the Netherlands.

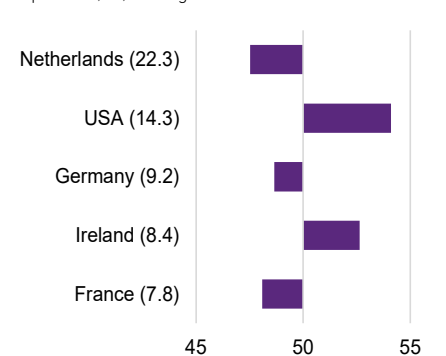
Export Conditions
Index, sa, >50 = growth m/m



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

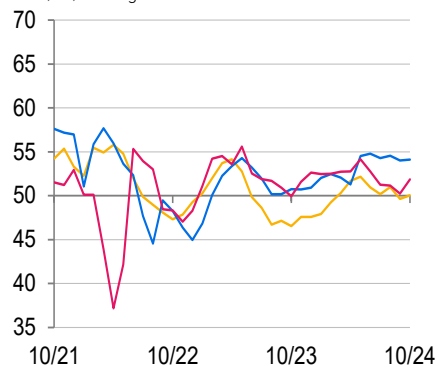
The Scotland Export Climate Index (ECI) is an indicator for the economic health of the region's export markets. It is calculated by combining national PMI output data, weighted according to each nation's share of manufacturing exports of Scotland. A reading above 50 signals an improvement in export conditions,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

Job creations cools

October data indicated a twenty-first consecutive monthly increase in payroll numbers within Scotland's private sector. Growth was again limited to service providers where rising business requirements encouraged further intakes of staff. Although the pace of expansion was only modest, it built upon a robust expansion in September, which saw the strongest rise since May 2023.

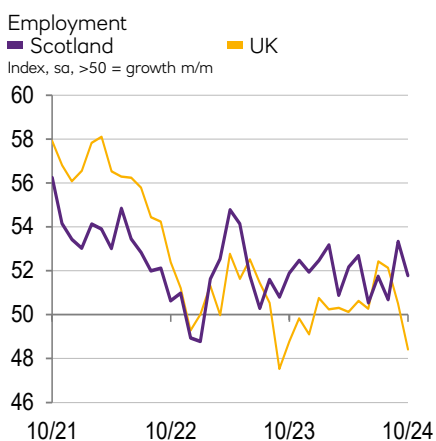
Moreover, Scotland was among only four UK nations and regions

to report an increase in workforce numbers, with the rate of growth second only to that of Northern Ireland.

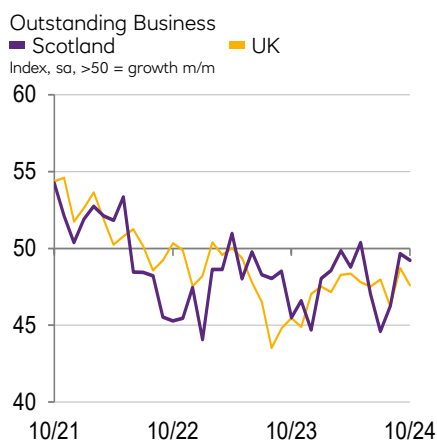
The ongoing hiring of workers enabled Scottish firms to manage their workloads effectively, with backlogs decreasing in 27 of the last 29 survey periods in October.

Although the rate of backlog reduction accelerated slightly for Scotland, it was notably weaker than that observed for the UK as a whole.

"On a positive note, employment rose solidly again."



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

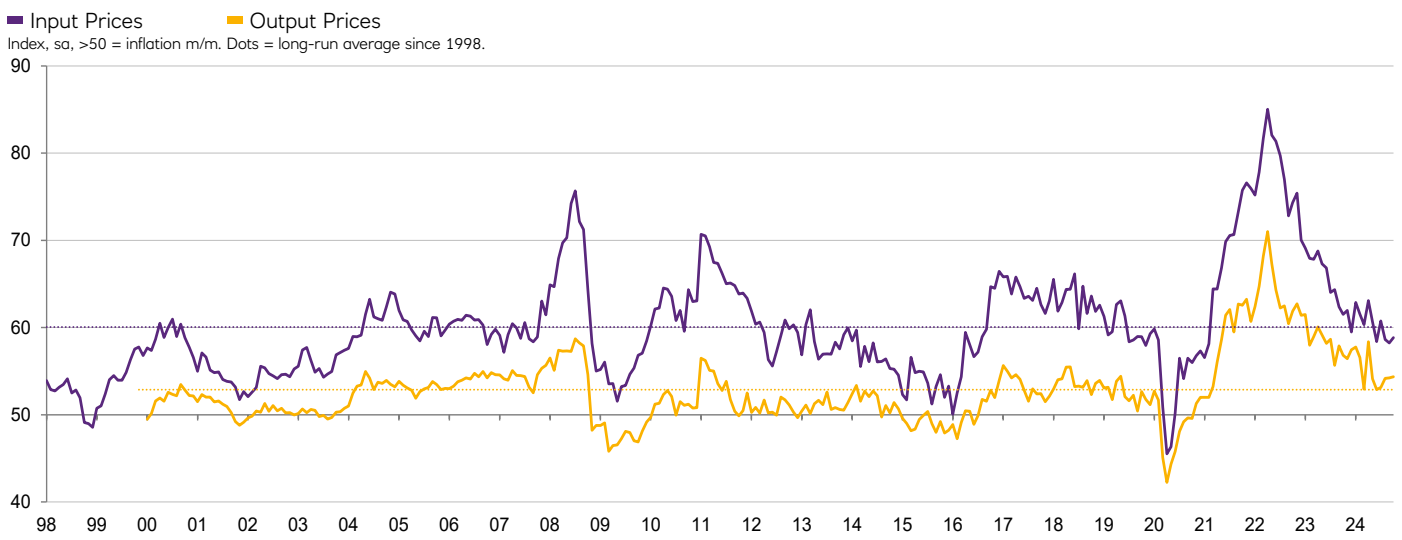
Cost faced by businesses rise sharply

Private sector firms based in Scotland noted a steep rise in expenses during October. The rate of input price inflation quickened to a three-month high and surpassed the rate seen for the UK. Anecdotal evidence often highlighted greater freight costs and commodity prices and shortages of some inputs. Higher wages was also a contributing factor widely cited by

services firms.

Companies partly transferred their cost burdens to clients, as prices charged for goods and services rose to the greatest extent since April. Output price inflation in Scotland remained at a historically strong rate, and closely matched the UK-wide average. Firms also cited increased taxes and insurance rates as driving factors behind the latest uptick.

"...inflationary pressures while intensifying slightly on the month, remained historically subdued."



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

UK Regional Growth Tracker

Business Activity

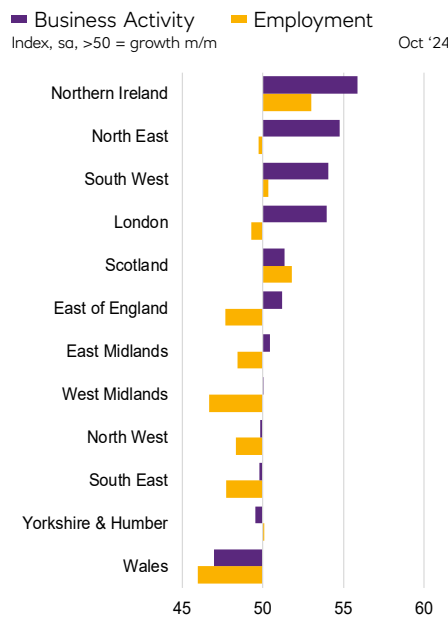
Just over half of the 12 UK nations and regions saw a rise in business activity in October, down from 11 in September. Northern Ireland continued to see the strongest growth, while there were also solid increases in output across the North East, South West and London. Wales recorded the steepest drop in activity and was joined in contraction by Yorkshire & Humber, the South East and North West.

Employment

Most areas of the UK recorded a reduction in employment as the final quarter of the year got underway. As was the case with business activity, Wales recorded the most marked decline – its sharpest for nine months. Other notable decreases were seen in the West Midlands, East of England and South East. For the fourth month running, the strongest rate of job creation was registered in Northern Ireland.

Future Activity

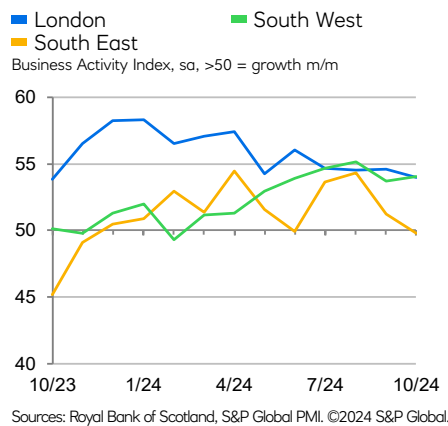
Business expectations remained positive across the board, but in just over half of cases there was a decrease in optimism from the month before. This included Northern Ireland, which saw sentiment weaken to a ten-month low and recorded the lowest degree of business confidence UK-wide. At the other end of the scale, the North West saw expectations improve notably to the highest since July.



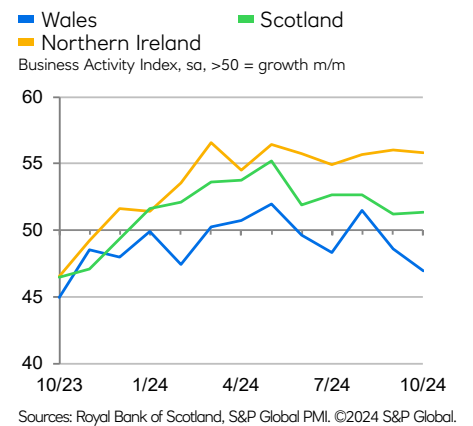
Sources: Royal Bank of Scotland, S&P Global PMI. ©2024 S&P Global.



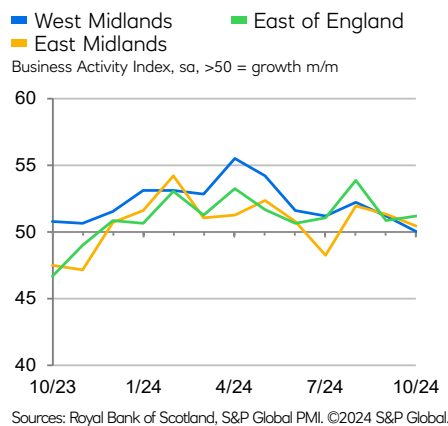
Sources: Royal Bank of Scotland, S&P Global PMI. ©2024 S&P Global.



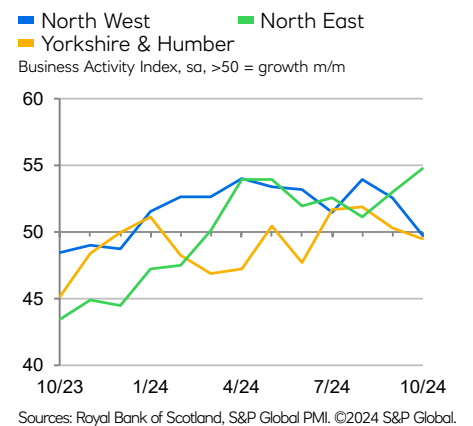
Sources: Royal Bank of Scotland, S&P Global PMI. ©2024 S&P Global.



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

Growth Tracker heat map

October 2024

Darker colour = higher business growth



Scotland

Business Activity Index
sa, >50 = growth m/m

51.3



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.

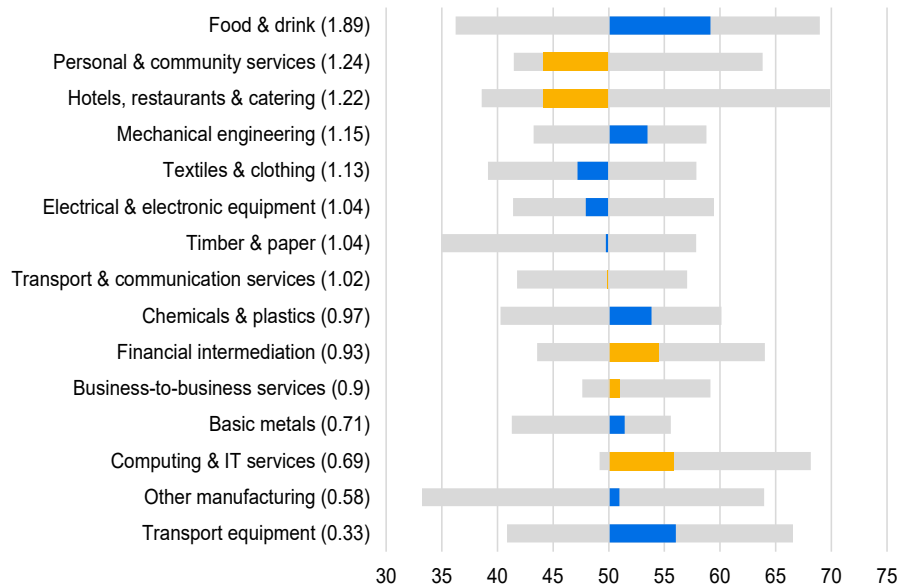
UK sectors

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 Oct '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: Basic metals

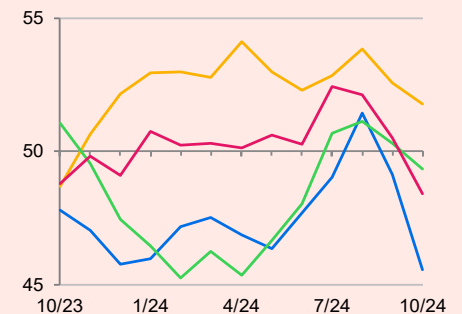
The basic metals sector acted as a notable drag on overall UK economic growth in the three months to October. It recorded the steepest drop in output since Q2 2023 and was the worst-performing sector of those monitored across manufacturing and services.

Basic metals producers reported persistent weakness in demand, with new orders having been in decline for almost two-and-a-half years. A lack of export sales was a contributing factor, underlying data showed.

Employment was also down in the three months to October, following a brief spell of job creation over the summer months. This reversal in recruitment activity coincided with a dip in optimism towards the outlook.

Turning to prices, the basic metals sector saw muted inflationary pressures, with both input costs and output prices rising at rates well below their respective historical averages. Supply-side conditions were relatively stable, as highlighted by only a fractional increase in average lead times on inputs.

Output / Employment
 ■/■ Basic metals*
 ■/■ 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

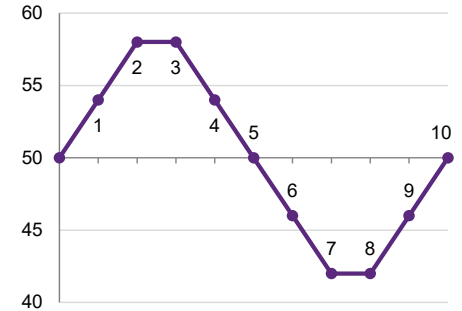
overall decrease. The indices are then seasonally adjusted.

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
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
8/24	52.7	50.6	50.5	50.7	46.2	65.3	58.6	54.2
9/24	51.2	50.7	49.9	53.3	49.7	63.3	58.2	54.2
10/24	51.3	49.2	50.4	51.8	49.2	63.7	58.8	54.4

Further information

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