10 September 2024

Royal Bank of Scotland Growth Tracker

Private sector activity growth remains driven by services firms

Royal Bank of Scotland

PMI by S&P Global

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Key findings

August 2024

Rate of output growth unchanged since July

Upturn in new orders cools

Confidence levels strongest in 18 months

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

Private sector activity growth remains driven by services firms

Latest Regional Growth Tracker data from the Royal Bank of Scotland signalled sustained private sector growth.

The Scottish private sector signalled sustained and solid growth in activity midway through the third quarter. The economy was again, however, driven by the service sector, masking a downturn at manufacturers. Service firms also revealed a further improvement in demand trends, though data did indicate a slight cooling. As a result, overall growth in new orders eased on the month.

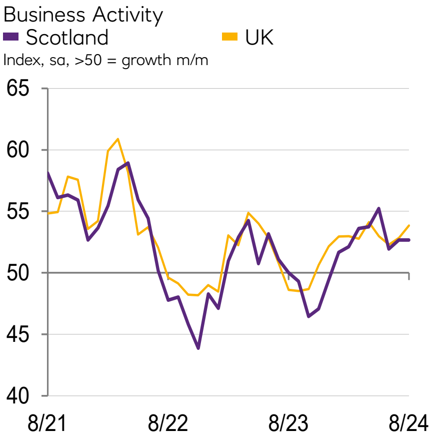
The headline Business Activity Index remained unchanged from the month prior and printed 52.7 in August. Expansions in activity across Scotland have now been noted in each month this year, with growth remaining skewed towards service providers. That said, companies in both sectors expect activity to rise in the coming 12 months, with overall sentiment the strongest in one-and-a-half years.

Royal Bank of Scotland Business Activity Index August 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 12-28 August



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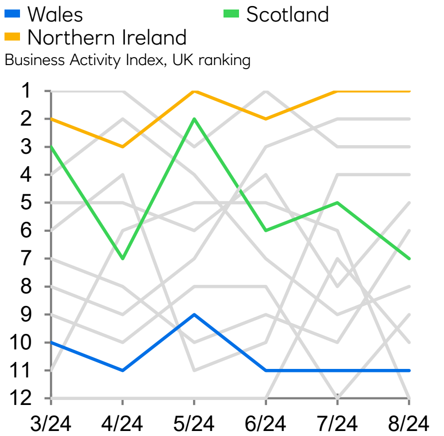

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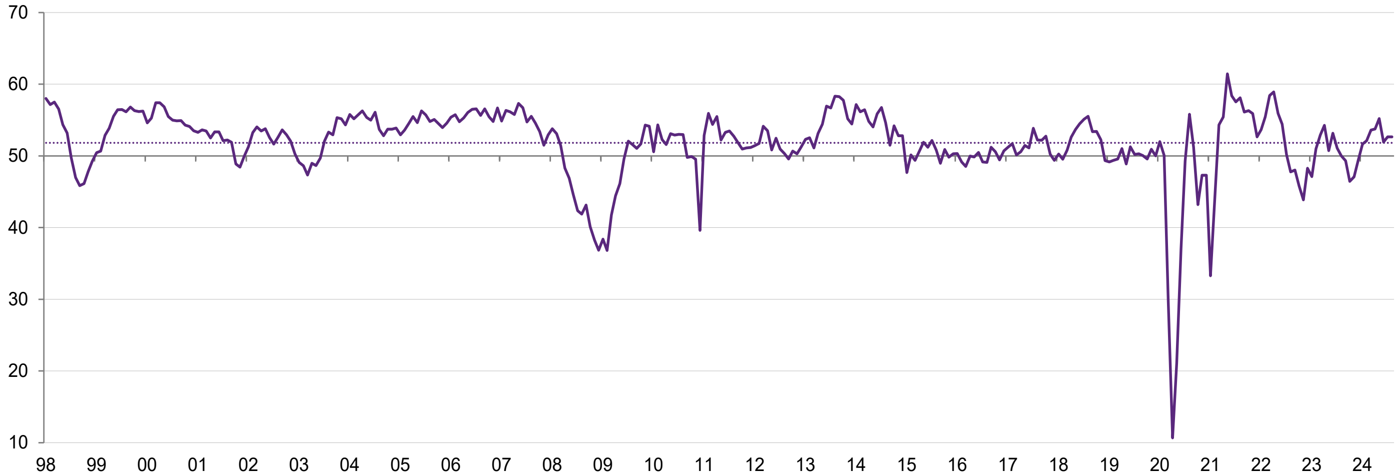
Comment

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

"The Scottish private sector continued to expand on the back of solid growth in activity observed across its service firms. Meanwhile, the manufacturing sector remained suppressed as deteriorating underlying demand trends continued to weigh down on production. While the service sector has been pivotal in supporting growth in private sector activity since the start of the year, there were some signs of cooling demand during August. Growth in new orders softened, and services employment also ticked up at a softer pace. That said, firms remain optimistic that growth in business activity will be sustained in the coming 12 months, with expectations across the Scottish private sector hitting an 18-month high. Meanwhile, business expenses increased at one of the weakest paces since February 2021."

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

Growth in new business cools slightly on the month

A second monthly rise in new business received at Scottish private sector companies was recorded in August. Growth was again limited to service firms, who noted that introduction of new products, increased marketing and additional activity from existing clients supported the uptick. The rate of growth cooled on the month and signalled only a slight rise in activity, however.

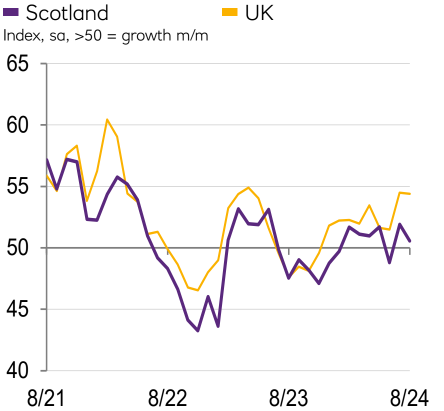
Moreover, of the 12 monitored English nations and regions, only the West Midlands recorded a softer uptick in new business than Scotland.

Expectations for the year ahead outlook for activity continued to strengthen across Scotland's private sector in August. The degree of confidence was the highest in one-and-a-half years and historically strong. Firms expect that market conditions and a lax borrowing climate will support growth in the year ahead.

However, compared to the UK-wide trend, growth forecasts across Scotland remained notably subdued.

> " There were some signs of cooling demand during August. Growth in new orders softened"

New Business



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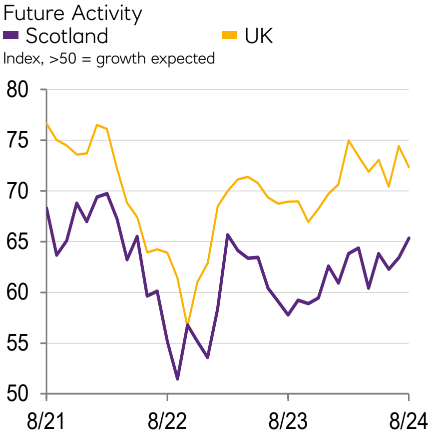
Future Activity



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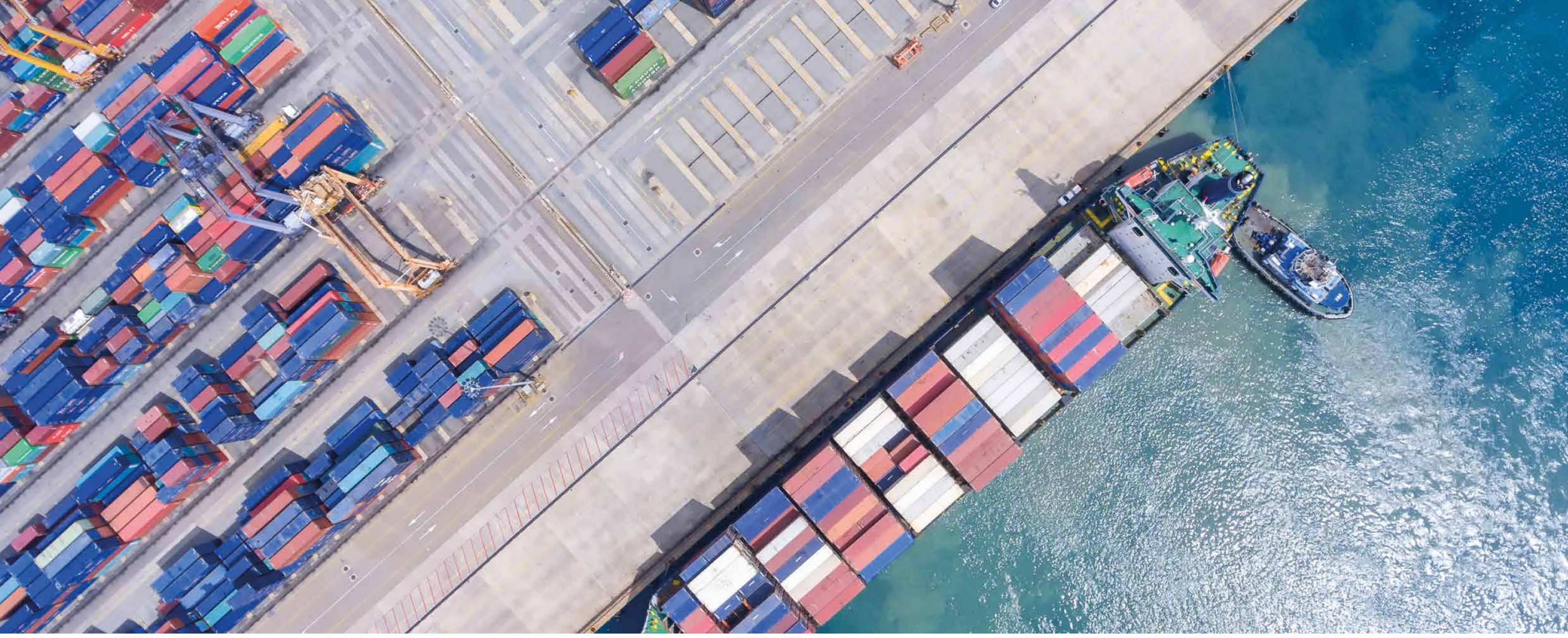


Export markets

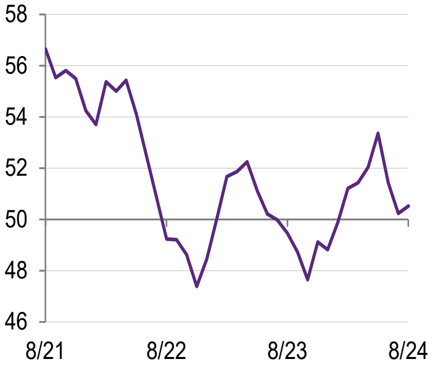
Slight improvement in export climate

The ECI ticked up from July's six-month low of 50.2, to 50.5 in August, though still only signalled a fractional improvement in the export climate and one which was the second-weakest in the current seven-month period of growth.

Mixed trends were noted within Scotland's major European markets, with contractions in the Netherlands and Germany contrasting with growth seen in France and Ireland. Meanwhile, the US continued to signal the strongest uptick in output.

Export Conditions

Index, sa, >50 = growth m/m



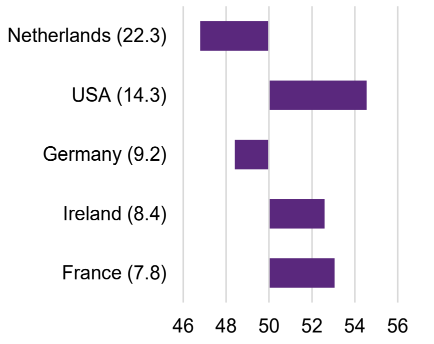
Sources: Royal Bank of Scotland, S&P Global PMI. ©2024 S&P Global.

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 Aug '24



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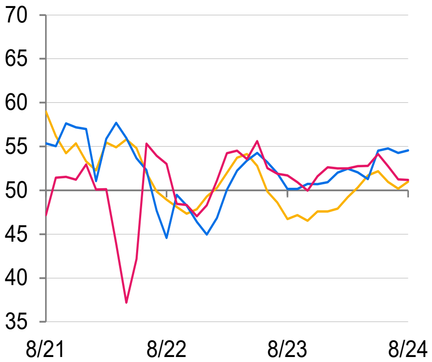
Output

Eurozone US China

Index, sa, >50 = growth m/m



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

Jobs and capacity

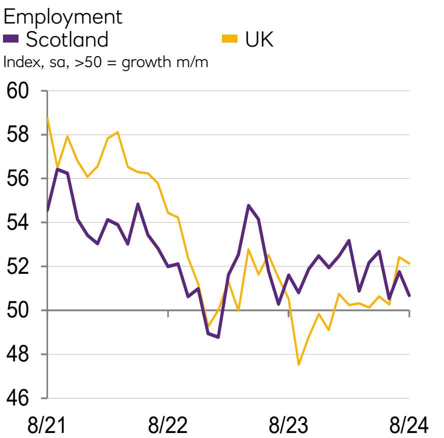
Employment growth eases in August

While private sector companies across Scotland continued to raise their staffing levels for a nineteenth successive month in August, the latest uptick was the third-weakest in the current sequence of growth. Again, job creation was driven by an uptick at service providers where improving demand trends encouraged the intake of additional staff. Meanwhile, manufacturers continued to pare back their payroll numbers.

Excluding the West Midlands and East Midlands, where contractions were again noted, Scotland registered the softest rise in workforce numbers of the remaining monitored UK regions and nations.

Firms based in Scotland reduced their backlogs during August. Extra staffing capacity at service providers, and falling new order intake at manufactures, underpinned the latest downtick. The rate of depletion was weaker than that seen in July and matched that observed for the UK as a whole.

"Services employment also ticked up at a softer pace"



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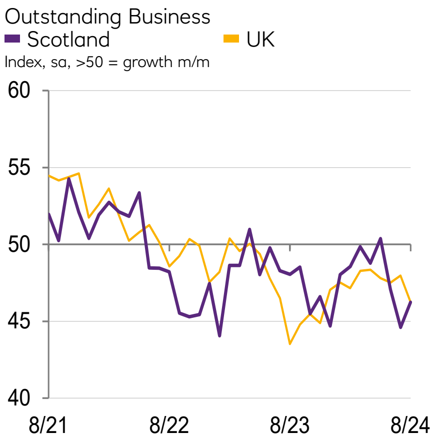

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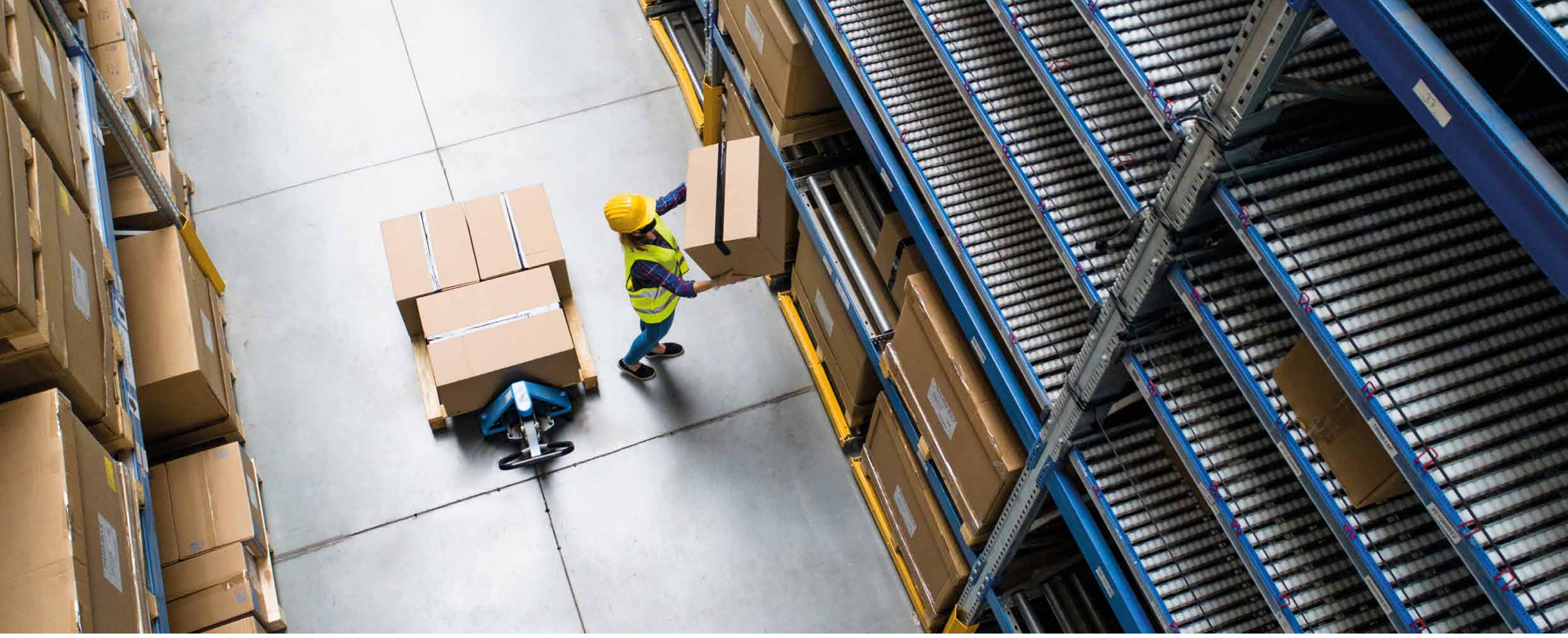


Inflation

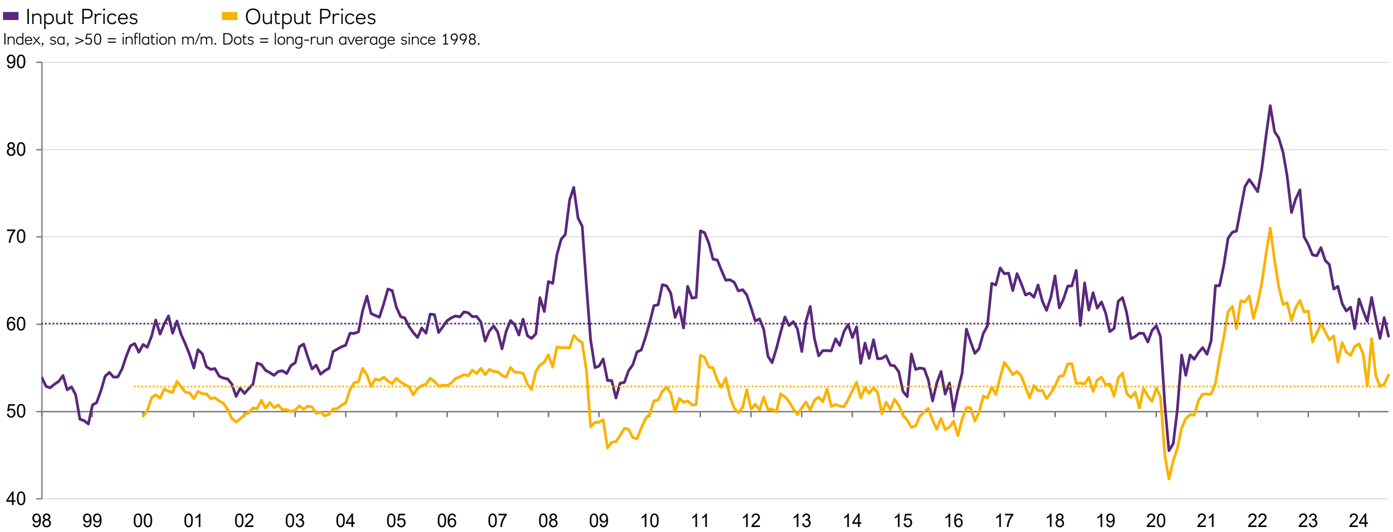
Cost pressures slip back below long-run survey average

August data revealed a rapid rise (one that surpassed the UK-wide average) in business expenses across the Scottish private sector. Higher commodity prices and wages, the latter especially stemming from the service sector, was said to have pushed up cost burdens. That said, the respective seasonally adjusted index slipped back below the long-run average and was the second lowest reading in three-and-a-half years.

However, the rate of charge inflation trended above the historical average, with Scottish private sector firms raising their selling prices at a stronger pace. Firms often attributed higher charges to growing underlying cost burdens.

Compared to the UK as a whole, charges levied for Scottish goods and services rose at a slightly weaker pace.

> "Business expenses increased at one of the weakest paces since February 2021"



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

UK Regional Growth Tracker

Business Activity

Business activity rose across all 12 nations and regions for the first time in three months in August. Northern Ireland topped the growth rankings for the third time in the past four months. It was followed closely by the South West. The North East saw the slowest rise in output and was one of just two areas (alongside London) that saw a softer pace of expansion than in July.

Employment

The strongest rate of job creation in August was recorded again in Northern Ireland, where it reached the fastest since April 2023. The North East also recorded a solid and accelerated increase in employment. In a repeat of the situation in July, the only decreases in workforce numbers were seen in the East Midlands and West Midlands, although in the case of the latter the rate of decline remained marginal.

Future Activity

Although expectations towards activity growth remained universally positive in August, the degree of optimism weakened in most nations and regions compared to the month before. The greatest loss of confidence was in the North East, which also recorded the weakest overall sentiment. Firms in the South East remained the most upbeat about future activity.

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

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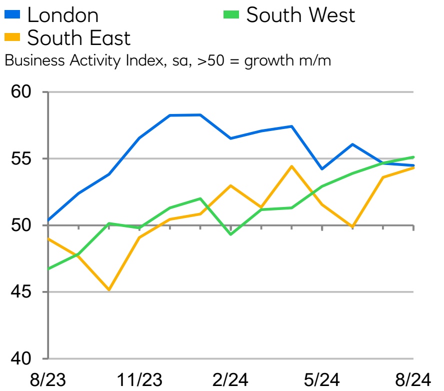

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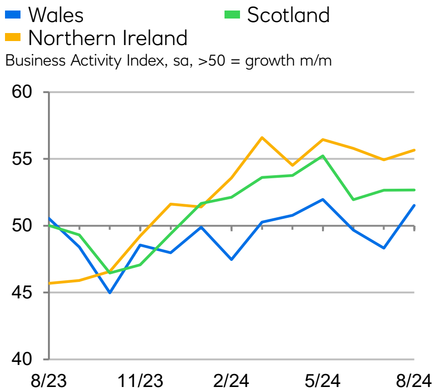

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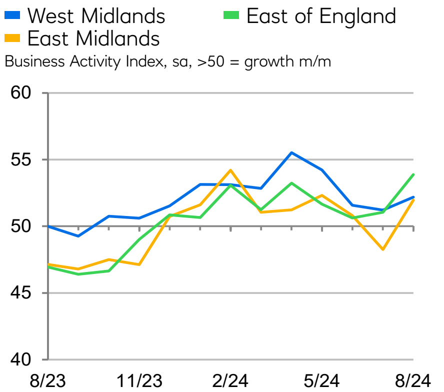

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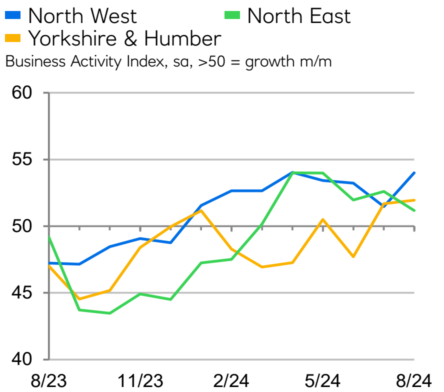

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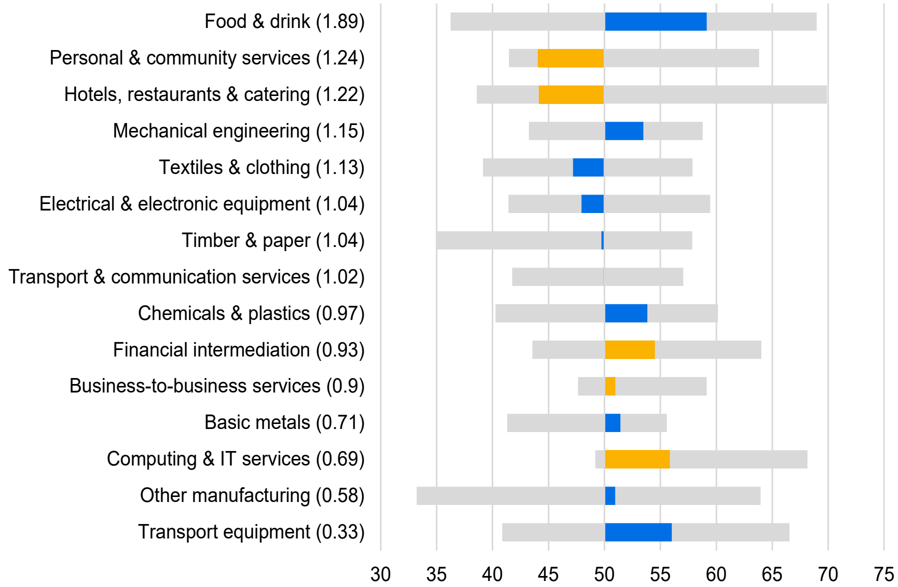
UK sectors

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 Aug '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).

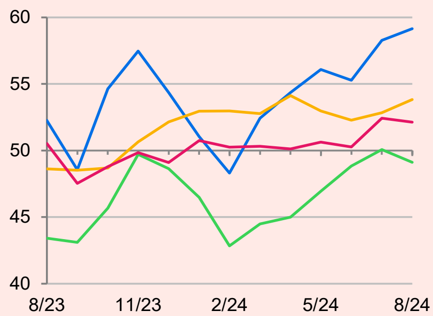
Sector in focus: Food & drink

Producers of food & drink recorded stronger output growth than any other manufacturing or service sub-sector in the three months to August. The performance was the best seen since Q2 2023 and driven by a sharp increase in inflows of new work. Data indicated the upturn in demand was domestic-led, with new export orders falling in the latest three-month period.

Output growth was achieved despite employment decreasing slightly. Firms in the sector were also able to navigate supply delays, which were the worst seen for more than two years, with stocks of inputs being utilised. Growth expectations for the coming year remained strong.

On the price front, latest data showed a solid and accelerated increase in factory gate charges across the food & drink sector. This partly reflected strong cost pressures, with input price inflation at its highest for almost a year-and-a-half.

Output / Employment
Food & drink*
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.

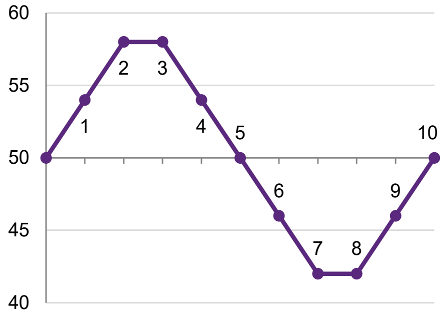
Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. 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
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
8/24	52.7	50.6	50.5	50.7	46.2	65.3	58.6	54.2

Further information

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Alongside a wide range of banking services, Royal Bank of Scotland offers businesses specialist sector knowledge in areas such as manufacturing and technology, as well as access to specialist

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