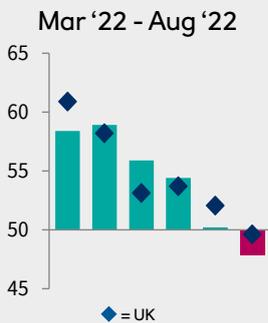


# Royal Bank of Scotland PMI<sup>®</sup>

## Scottish private sector suffers first contraction since February 2021

### Scotland Business Activity Index



### Key findings

Output contracts during August amid quicker fall in new orders

Growth in employment moderates

Business outlook dampens, as confidence hits 27-month low

Scottish private firms registered the first contraction in 18 months, according to the latest Royal Bank of Scotland PMI<sup>®</sup> data. The seasonally adjusted headline Royal Bank of Scotland Business Activity Index - a measure of combined manufacturing and service sector output - posted 47.8 in August, down from 50.2 in July. Below the neutral 50.0 threshold for the first time since February 2021, the latest reading indicated a modest decrease in private sector activity. At the same time, inflows of new work fell for the second consecutive month, and that too at a quickened pace. The drop in business requirements allowed firms to work through backlogs, resulting in capacity pressures easing for the third month running. Also, the rate of job creation measured the weakest in 16 months, signalling a slowdown in hiring activity. On the flipside, weakening demand gave a respite to inflationary pressures; input prices rose at the weakest pace in seven months, while firms raised their charges at the second-slowest rate since January.

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

*"August data signalled a deterioration across the Scottish private sector, as activity levels fell for the first time in 18 months. Moreover, weak client demand and rising economic uncertainty, with a threat of a recession looming, resulted in falling inflows of new business."*

*"The latest survey data did indicate some easing of upward pressure on input costs as a result of a reduction in client appetite. Nonetheless, inflation rates remained stubbornly strong."*

*"Moreover, the contraction across the sector impacted business confidence, which hit a 27-month low during August. Market uncertainties and the cost-of-living crisis heavily weighed on optimism and suggests a gloomy performance in the months ahead."*

### 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.

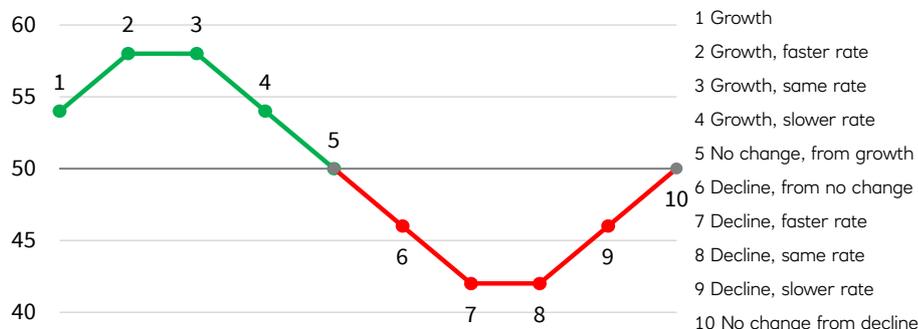
The headline figure is the Business Activity Index. This is a composite index calculated by weighting together the Manufacturing Output Index and the Services Business Activity Index. The Scotland Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

### Index interpretation

50.0 = no change since previous month



## Demand and outlook

### New business

For the second consecutive month, a contraction was recorded in new business received by the Scottish private sector during August. The rate of decrease quickened on the month as inflows of new orders received at service firms stagnated, while manufacturing companies noted a fourth running month of reduction. According to surveyed businesses, the downturn stemmed from weakening client demand, Brexit, the Ukraine-Russia war, and rising economic uncertainty.

Moreover, the pace of decrease registered across Scotland was stronger than that seen for the UK as a whole.

### Business expectations

Expectations towards future activity at Scottish companies moderated during August. The level of positive sentiment dropped to a 27-month low. Rising recession risks, the cost-of-living crisis and declining demand all dampened the 12-month outlook.

Scotland registered weaker output expectations than Wales and all English regions except the North East, although it was more optimistic than Northern Ireland.

## Exports

### Softest improvement in export climate in 25 months

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 printed 49.4 in August, falling from 51.0 in July and signalling the first deterioration in export demand conditions since June 2020.

Across Scotland's top export markets, growth moderated across China and France. Meanwhile, the Netherlands reported its first contraction in 25 months, while Germany and the US registered faster rates of reduction.

### New Business Index

sa, >50 = growth since previous month

48.3

Aug '22



### Future Activity Index

>50 = growth expected over next 12 months

55.1

Aug '22



### Export Climate Index

sa, >50 = growth since previous month

49.4

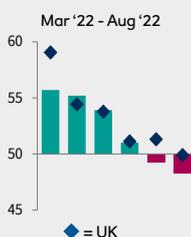
Aug '22



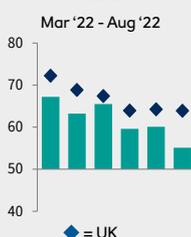
### Top export markets, Scotland

Rank	Market	Weight	Output Index, Aug '22
1	Netherlands	18.3%	49.4
2	USA	10.8%	44.6
3	Germany	9.2%	46.9
4	China	6.6%	53.0
5	France	5.6%	50.4

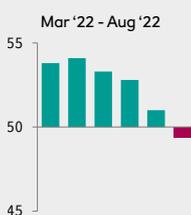
### New Business Index



### Future Activity Index



### Export Climate Index



## Business capacity

### Employment

Scotland's private sector firms raised employment for the seventeenth successive month in August. However, reduced business requirements resulted in a slowdown in hiring growth. The latest reading signalled the softest expansion in workforce numbers since April 2021. Firms also cited hiring difficulties amid a highly competitive jobs market.

The latest upturn across Scotland was softer than that at the UK level.

Employment Index 52.0  
sa, >50 = growth since previous month Aug '22

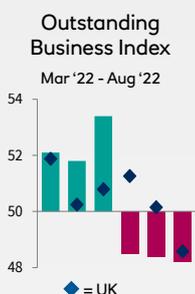


### Outstanding business

Backlogs of work at Scottish private sector firms fell in August for the third consecutive month. The rate of depletion quickened marginally on the month as the respective seasonally adjusted Outstanding Business Index was largely pulled down by a sharp drop seen across the manufacturing sector. Respondents noted that reduced order volumes and additional staff allowed them to clear away backlogs.

Overall, the rate of reduction was only marginally faster across Scotland than that seen across the UK as a whole.

Outstanding Business Index 48.2  
sa, >50 = growth since previous month Aug '22



## Prices

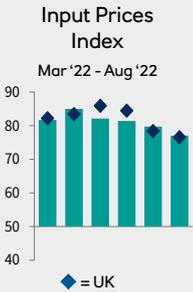
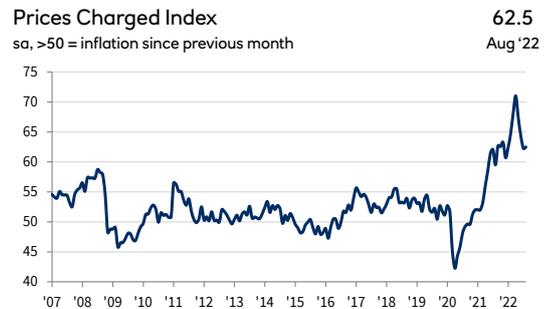
### Input prices

Average cost burdens facing private sector firms in Scotland increased during August, thereby extending the current run of inflation to 27 months. While the rate of input price inflation recorded the weakest in seven months, it remained strong in the context of historical data. COVID, Brexit, the war in Ukraine and rising energy and raw material prices were all in part blamed for the latest incline.



### Prices Charged

As has been the case for the last 22 months, Scottish private sector firms continued to raise their charges during August. Though the respective seasonally adjusted index posted the second-lowest in seven months, it remained comfortably above the long-run series average. According to panellists, the rise in charges reflected higher input costs. Scotland registered the weakest increase in charges across all 12 UK areas monitored in August.



## 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, Aug'22*
1	Food & Drink	1.91	55
2	Mechanical Engineering	1.17	50
3	Electrical & Optical	1.08	55
4	Textiles & Clothing	1.06	50
5	Timber & Paper	1.05	50
6	Chemicals & Plastics	0.86	50
7	Basic Metals	0.81	50
8	Other Manufacturing	0.63	50
9	Transport	0.31	50

#### Scotland specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Aug'22*
1	Hotels, Restaurants & Catering	1.27	50
2	Financial Intermediation	1.10	50
3	Transport & Communication	1.04	50
4	Personal & Community Services	1.03	50
5	Business-to-business Services	0.94	50
6	Computing & IT Services	0.71	50

### UK sector focus

#### Timber & Paper

Latest UK PMI data showed a sustained downturn in activity across the Timber & Paper sector. Output levels fell sharply in the three months to August, maintaining a period of contraction stretching back a year.

Inflows of new orders decreased at an even faster rate, thereby leading to markedly reduced levels of outstanding business and a near-record build-up of finished goods. By contrast, pre-production inventories returned to contraction.

Positively, delays in the receipt of inputs were the lowest in almost two-and-a-half years. The easing of supply-chain pressures was further reflected in a moderation in the rate of input price inflation, down the lowest since the start of 2021, although it still remained elevated by historical standards. Similarly, there was a further sharp, albeit notably slower, rise in output prices across the sector.

#### Output Index

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



\*3-month moving average.



## UK Regional PMI overview

### Business Activity

Just three out of the 12 monitored UK regions recorded a rise in business activity in August. Growth in London was solid but eased notably since July, whilst both the North West and Yorkshire & Humber recorded only modest rates of expansion. Activity fell elsewhere, with the steepest declines registered in the North East and East of England.

### Employment

Despite signs of weakness in activity and demand, almost all regions recorded a rise in employment in August. The only exception was the North East, where workforce numbers fell for the third month running. Rates of job creation not only slowed, however, but they varied widely, with a further steep rise in workforce numbers in London contrasting with only marginal growth in the South West.

### Future Activity

The majority of regions recorded a drop in business confidence towards the outlook in August. The three highest-ranked areas, Yorkshire & Humber, the South East and London, went against the broader trend and recorded improved sentiment, as did the East Midlands (ranked eighth). Expectations turned negative in the North East, while firms in Northern Ireland\* grew more pessimistic.

Business Activity Index

sa, >50 = growth since previous month, Aug '22



Employment Index

sa, >50 = growth since previous month, Aug '22



Future Activity Index

>50 = growth expected over next 12 months, Aug '22



\* 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
Mar '22	58.4	55.7	53.8	67.2	53.9	52.1	81.7	68.2
Apr '22	58.9	55.2	54.1	63.2	53.0	51.8	85.0	71.0
May '22	55.9	53.9	53.3	65.5	54.8	53.4	82.1	67.3
Jun '22	54.4	51.0	52.8	59.6	53.4	48.5	81.4	64.3
Jul '22	50.2	49.2	51.0	60.1	52.8	48.4	79.7	62.3
Aug '22	47.8	48.3	49.4	55.1	52.0	48.2	77.0	62.5

### 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
Jun '22	49.9	46.9	56.4	54.3	47.8	82.7	71.3
Jul '22	44.9	40.8	57.9	53.3	40.5	81.1	69.8
Aug '22	44.1	40.9	57.1	54.0	40.7	80.2	68.5

### 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
Jun '22	55.4	51.9	60.4	53.3	48.6	81.1	62.8
Jul '22	51.4	51.1	60.6	52.7	50.2	79.4	60.6
Aug '22	48.6	50.0	54.7	51.5	49.9	76.3	61.1

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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 S&P Global

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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.

### 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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