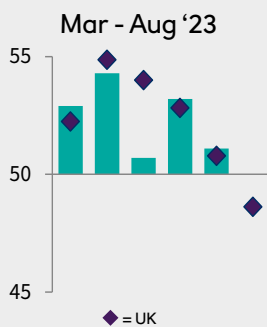


Royal Bank of Scotland PMI[®]

No change in private sector business activity in August

Scotland Business Activity Index



Key findings

Output fails to expand for first time in seven months

Firms record a modest fall in new business

Confidence levels dip to eight-month low

The latest Royal Bank of Scotland PMI[®] survey highlighted no change in business activity across the Scottish private sector midway through the third quarter. The headline Scotland Business Activity Index slipped to 50.0 in August, from 51.1 in July, thereby marking the end of a six-month period of growth. Moreover, new orders fell for the second consecutive month and at an accelerated pace as service providers joined their manufacturing counterparts in the downturn. Meanwhile, private sector companies still registered historically sharp increases in their cost burdens; as a result, charges for goods and services were also raised sharply. Moreover, business confidence slipped to an eight-month low.

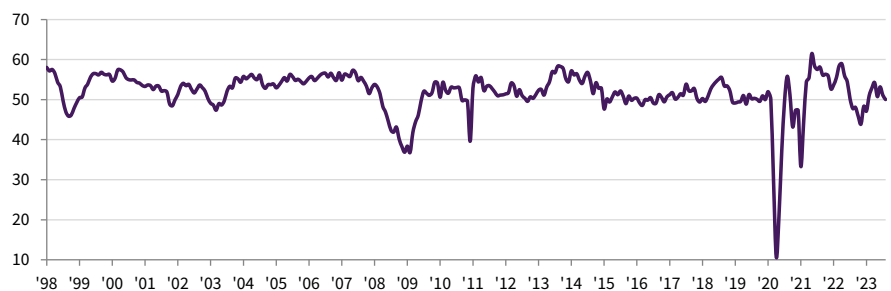
Judith Cruickshank, Chair, Scotland Board, Royal Bank of Scotland, commented:

"The latest PMI data for Scotland pointed to emerging weakness in the Scottish private sector, with firms signalling no change in private sector output and new orders contracting modestly amid reports of economic uncertainty and falling demand. Declining business requirements could result in a reduction in output unless the demand picture improves."

"Moreover, higher material, labour and energy costs meant that firms continued to struggle with rising cost burdens. In turn, companies raised their charges for the provision of goods and services. Lastly, business confidence around the year-ahead outlook remained historically subdued and weakened to an eight-month low, as frail demand conditions, higher interest rates and inflation all weighed on expectations."

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.

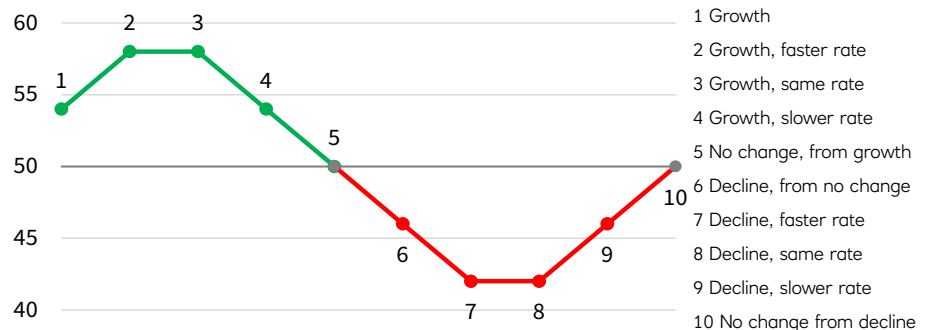
The headline figure is the Business Activity Index. This is a composite index calculated by weighting together the Manufacturing Output Index and the Services Business Activity Index. The Scotland Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

Following the broad stagnation in new business across Scottish private sector firms in July, August data revealed a modest contraction. Service providers posted the first decline in seven months, while manufacturing new orders fell for the fifth month running and at a marked pace. According to anecdotal evidence, the latest fall in new business was attributed to inflation, economic uncertainty and the cost of living all having pressed demand.

The rate of reduction in new orders across Scotland was largely in line with that recorded at the UK level.

Business expectations

Private sector firms across Scotland continued to predict growth in activity in the coming 12 months during August. Hopes of improved demand conditions and customer growth, as well as increased marketing fed into greater expectations. However, the degree of confidence ticked down to an eight-month low in August as the current economic climate, inflation and scarcity of suitable candidates resulted to historically subdued confidence levels.

Scottish firms held the third-weakest outlook in the UK, ahead of the North East and Northern Ireland.

Exports

August marks fresh deterioration in export market conditions

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.

After having ticked down for the fourth straight month, the Export Climate Index posted below the neutral 50.0 mark in August, signalling a fresh contraction in output across Scotland's export markets in the year to date.

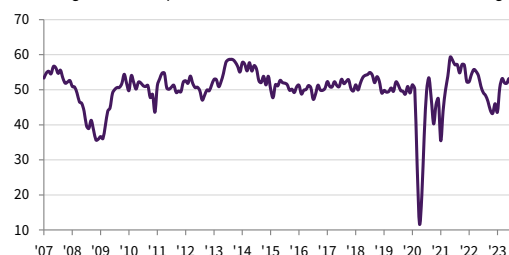
Of the five largest markets, Ireland and the US were the only two to register an increase in output. Meanwhile, the Netherlands, France and Germany all reported a decrease.

New Business Index

sa, >50 = growth since previous month

47.5

Aug '23

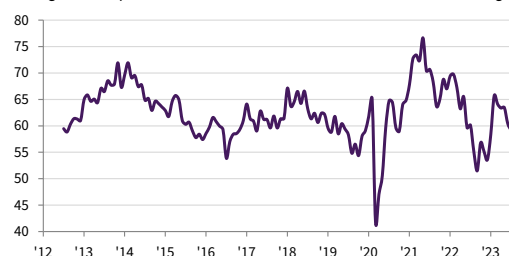


Future Activity Index

>50 = growth expected over next 12 months

57.8

Aug '23



Export Climate Index

sa, >50 = growth since previous month

49.6

Aug '23

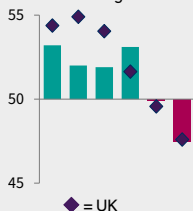


Top export markets, Scotland

Rank	Market	Weight	Output Index, Aug '23
1	Netherlands	19.4%	48.8
2	Ireland	13.5%	52.6
3	USA	13.2%	50.2
4	France	9.0%	46.0
5	Germany	8.9%	44.6

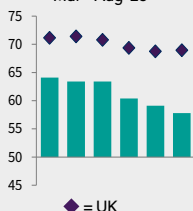
New Business Index

Mar - Aug '23



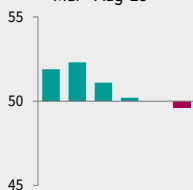
Future Activity Index

Mar - Aug '23



Export Climate Index

Mar - Aug '23



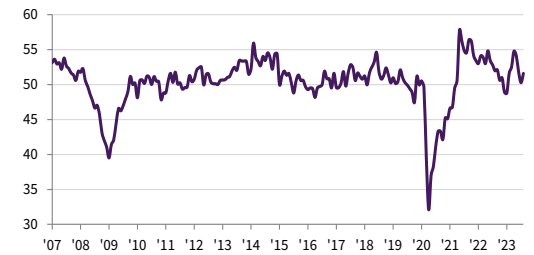
Business capacity

Employment

Despite the drop in business requirements, August data revealed a seventh monthly expansion in employment across Scotland. The rate of job creation quickened after easing to a six-month low in July, suggesting that firms remained keen to bulk up their workforce numbers.

Moreover, the rate of expansion in payroll numbers across Scotland was stronger than the UK-wide average.

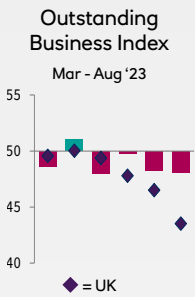
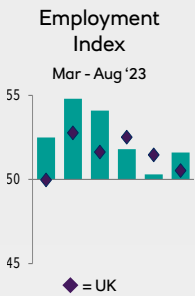
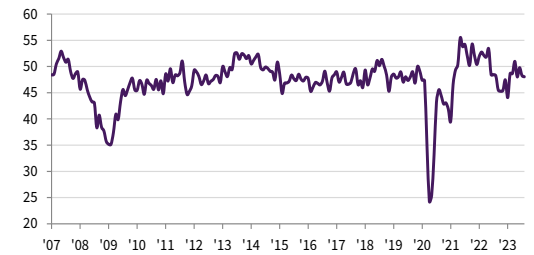
Employment Index 51.6
sa, >50 = growth since previous month Aug '23



Outstanding business

August's survey signalled a fourth successive monthly decrease in backlogs of work across Scotland's private sector. A number of surveyed firms commented that reduced workload allowed firms to clear backlogs. Though the rate of backlog depletion was the fastest in three-months, it was weaker than the series average and the slowest of the 12 monitored UK areas.

Outstanding Business Index 48.1
sa, >50 = growth since previous month Aug '23



Prices

Input prices

Cost burdens continued to rise across Scotland midway through the third quarter. While the upward pressure on input costs has moderated considerably since the highs seen in the previous two years, the rate of growth remained historically strong largely due to the stickiness of prices across the service sector. Wages, suppliers, materials and fuel were all cited as reasons for the latest bout of inflation.

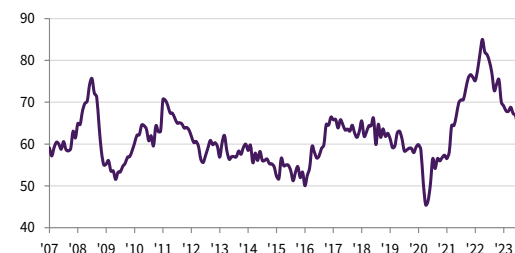
Cost inflation across Scotland was broadly in line with the UK average.

Input Prices Index

sa, >50 = inflation since previous month

64.3

Aug '23



Prices Charged

Charges were raised sharply across Scottish private sector firms in August, thereby stretching the current run of inflation to 34 months. Firms raised their charges in efforts to pass on their costs. That said, the pace of inflation softened from July, to signal the weakest increase in nearly two-and-a-half years and one that was broadly in line with the UK trend.

Prices Charged Index

sa, >50 = inflation since previous month

55.7

Aug '23



Input Prices Index

Mar - Aug '23



Prices Charged Index

Mar - Aug '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, Aug'23 ⁺
1	Food & Drink	1.91	52
2	Mechanical Engineering	1.17	51
3	Electrical & Optical	1.08	46
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'23 ⁺
1	Hotels, Restaurants & Catering	1.27	46
2	Financial Intermediation	1.10	53
3	Transport & Communication	1.04	50
4	Personal & Community Services	1.03	51
5	Business-to-business Services	0.94	50
6	Computing & IT Services	0.71	51

UK sector focus

Electrical & Optical

There was a sharp decrease in output across the UK's Electrical & Optical sector in the three months to August. The rate of contraction was the quickest seen since the initial pandemic-related shutdowns in spring 2020 and by far the fastest among the nine manufacturing sectors monitored.

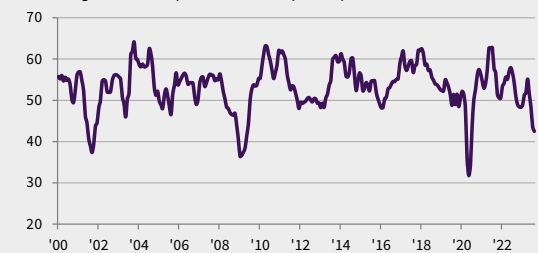
The downturn was driven by a deepening decline in new orders, with export sales falling particularly sharply. With firms reporting a rapid depletion of backlogs of work, job creation in the sector eased to the slowest for over two-and-a-half years.

On the supply side, firms faced a sustained shortening of delivery times on purchases, albeit with the rate of improvement easing. Input cost inflation meanwhile ticked up slightly, but it remained close to its recent three-year low. Output price inflation exhibited an almost identical trend.

Expectations towards future output remained subdued by historical standards despite inching up.

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

Of the 12 monitored regions and nations, only Wales and London recorded growth in business activity in August. Even here, however, the rates of expansion were marginal. Output was unchanged in Scotland and the West Midlands, while all remaining areas recorded contractions. The steepest decline in activity was seen in Northern Ireland*, followed by the South West.

Employment

The majority of areas recorded a rise in employment in August, although rates of job creation often slowed. Northern Ireland recorded the most marked rise in workforce numbers despite the pace of hiring there slowing to a seven-month low. The North East saw a notable drop in staffing levels, while there were more modest declines in the East Midlands, Wales and West Midlands.

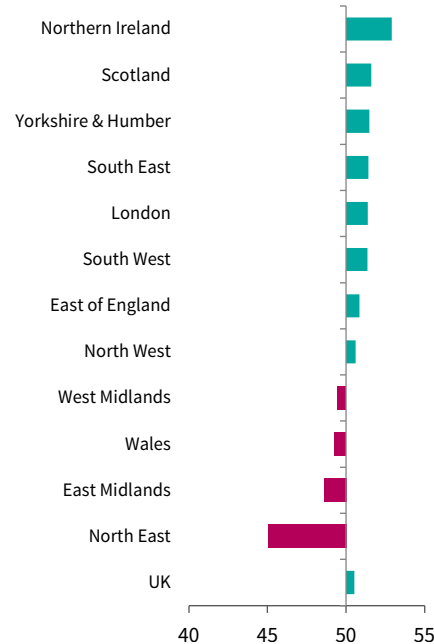
Future Activity

There were varying trends in business expectations, with confidence towards future activity rising in just under half of cases in August. The West Midlands topped the rankings for a second month running and saw sentiment improve to the joint-highest since January 2022. By contrast, the North East recorded the greatest loss of confidence as well as the lowest overall degree of optimism.

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



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



Future Activity Index
>50 = growth expected over next 12 months, Aug '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
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
Aug '23	50.0	47.5	49.6	57.8	51.6	48.1	64.3	55.7

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
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
Aug '23	48.5	43.8	61.6	49.7	41.2	57.1	57.1

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 '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
Aug '23	50.4	48.4	56.9	52.0	49.6	66.0	55.3

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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.

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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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