

Royal Bank of Scotland PMI[®]

Renewed growth in Scottish private sector activity

Scotland Business Activity Index



Key findings

Headline Business Activity Index at 51.0 in February, up from 47.1

Recovery in growth of new orders as firms cite greater demand

Price pressures continue to cool

The Scottish private sector registered the first rise in private sector activity for seven months February according to the latest Royal Bank of Scotland PMI[®] data. The Business Activity Index - a measure of combined manufacturing and service sector output - moved back within the expansion territory, printing 51.0, up from 47.1 in January, as growth resumed across both the manufacturing and service sectors, with the former leading the expansion. Panel members reported an improvement in demand conditions and growth in new clients helped boost activity. New orders also rose, following seven consecutive months of decline. The upturn in new orders helped with the first rise in workforce numbers in three months. Furthermore, despite remaining stubbornly high, cost pressures continued to diminish. All in all, the positive performance of the Scottish private sector fed into higher levels of confidence.

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

"Private sector output registered growth mid-way through the first quarter of 2023. The headline index signalled a mild expansion in output and marked the first month of increase since July 2022. Firms reported that a revival in customer demand and growth in new clients helped boost sales and activity. Growth in business requirements resulted in higher intakes of staff across both goods producers and service providers, while backlogs fell for the ninth month running.

"Furthermore, with inflationary pressures continuing to cool off, the Scottish private sector reported a modest performance overall, a change from the contractions seen since last August. Additionally, with confidence strengthening to an 11-month high, we hope that the upturn across Scotland will continue in the coming months."

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.

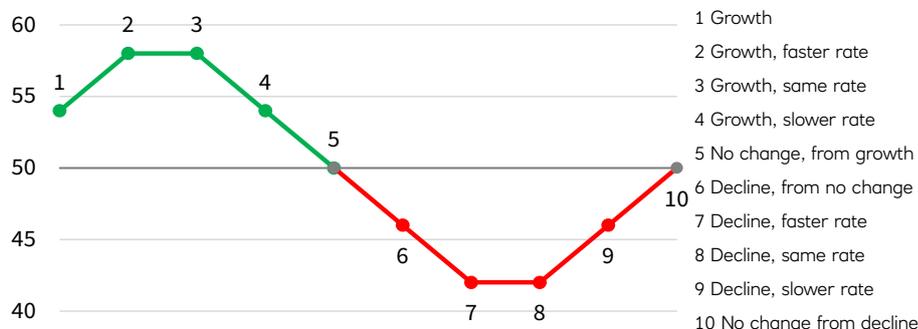
The headline figure is the Business Activity Index. This is a composite index calculated by weighting together the Manufacturing Output Index and the Services Business Activity Index. The Scotland Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

Inflows of new business rose across Scotland in February, ending a seven-month period of decline. Upturns were similar across the two sub-sectors. Panel members noted growth in sales and new projects and clients helped revive growth.

New orders also rose at the UK level. However, the pace of increase was stronger than that observed for Scotland.

New Business Index
sa, >50 = growth since previous month
50.6
Feb '23



Business expectations

Sentiment was firmly positive and improved further from December's recent low across Scotland in February. Expectations were largely pinned on new product launches, increased marketing and projected growth in customers and sales.

That said, optimism across Scotland remained muted when compared to the UK as a whole.

Future Activity Index
>50 = growth expected over next 12 months
65.7
Feb '23



Exports

Exports conditions improve further in February

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.

Export conditions improved for the second month running, with the index ticking up to 51.9 in February from 50.2 in January.

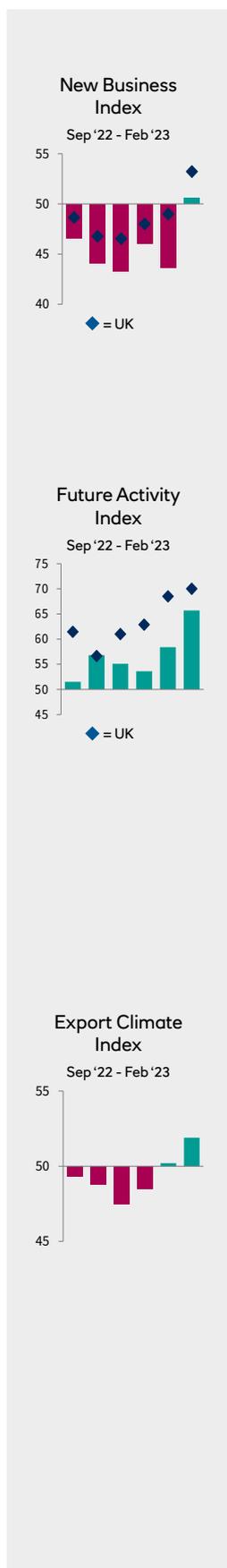
Expansions in output were noted across all top five export markets for the first time since June 2022, with Ireland registering the fastest growth in production.

Export Climate Index
sa, >50 = growth since previous month
51.9
Feb '23



Top export markets, Scotland

Rank	Market	Weight	Output Index, Feb '23
1	Netherlands	19.4%	50.4
2	Ireland	13.5%	54.5
3	USA	13.2%	50.1
4	France	9.0%	51.7
5	Germany	8.9%	50.7



Business capacity

Employment

Employment rose across Scotland, following back-to-back months of decline. The respective seasonally adjusted index ticked up to a five-month high, signalling a rate of job creation that was firmer than the long-run average. According to anecdotal evidence, employment increased to meet order intakes and replace leavers.

The pace of job creation across Scotland was faster than the UK-wide average, which also recorded a rise in employment for the first time in three months.

Employment Index

sa, >50 = growth since previous month

51.6

Feb '23



Outstanding business

Private sector companies across Scotland continued to reduce their backlogs during February, stretching the current sequence of reduction to nine months. Improved efficiency and previous months of fewer orders allowed firms to complete unfinished orders. That said, the pace of depletion was the weakest in the aforementioned sequence, reflecting only a fractional decline at service providers.

In contrast, backlogs of work rose across the UK as a whole for the first time in four months.

Outstanding Business Index

sa, >50 = growth since previous month

48.6

Feb '23



Employment Index



Outstanding Business Index



Prices

Input prices

A rapid rise in input costs was registered across Scotland in February. Respondents blamed the latest increase in private sector expenses on energy prices, higher costs from suppliers and inflation generally. While historically elevated, the rate of input price inflation was the softest in 21 months and weaker than the UK-wide average.

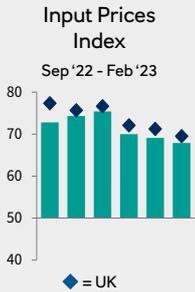
Scotland registered one of the slowest increases in input prices among the 12 UK regions, ahead of the North West and East of England.

Input Prices Index

sa, >50 = inflation since previous month

67.9

Feb '23



Prices Charged

Charges levied for the provision of Scottish goods and services rose sharply in February. Inflation, Brexit and higher costs from suppliers continued to push charges up, according to anecdotal evidence. However, the pace of increase slowed notably to the weakest since April 2021.

Of the 12 monitored regions, Scotland reported the weakest incline in output charges.

Prices Charged Index

sa, >50 = inflation since previous month

58.0

Feb '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, Feb'23*
1	Food & Drink	1.91	55
2	Mechanical Engineering	1.17	52
3	Electrical & Optical	1.08	50
4	Textiles & Clothing	1.06	45
5	Timber & Paper	1.05	40
6	Chemicals & Plastics	0.86	45
7	Basic Metals	0.81	50
8	Other Manufacturing	0.63	52
9	Transport	0.31	48

Scotland specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Feb'23*
1	Hotels, Restaurants & Catering	1.27	55
2	Financial Intermediation	1.10	52
3	Transport & Communication	1.04	48
4	Personal & Community Services	1.03	50
5	Business-to-business Services	0.94	52
6	Computing & IT Services	0.71	52

UK sector focus

Other Manufacturing

The UK's 'Other Manufacturing' sector - which comprises mainly consumer goods such as furniture, jewellery, sports items and household ceramics - saw a rise in production levels in the three months to February, following several months of declining output. Production was supported by easing supply constraints - the incidence of delivery delays having fallen sharply compared to the situation a year ago - which enabled businesses to catch up on backlogs of work.

Underlying demand continued to exhibit a weak trend, however, as underscored by a sustained decrease in new orders. That said, the rate of decline slowed in the three months to February and firms became more optimistic about the outlook.

Cost pressures in the sector meanwhile eased from the record high levels observed over the previous two years. Selling price inflation nevertheless remained historically elevated.

Output Index

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



*3-month moving average.



UK Regional PMI overview

Business Activity

February saw a rise in business activity across all but one of the regions and nations monitored by the survey. The North East was the only exception, although output there did at least stabilise after a seven-month sequence of contraction. London recorded by far the strongest activity growth, registering its best performance since last July, with the South East a distant second place.

Employment

The number of areas recording an increase in employment rose from seven in January to ten in February, with the South West, East of England and Scotland each seeing renewed job creation. Northern Ireland was at the top of the rankings for workforce growth for a second straight month. Further decreases in employment were meanwhile recorded in both Wales and the North East.

Future Activity

There was an improvement in business confidence in two-thirds of areas in February. The most marked upswings in sentiment were in Northern Ireland and Scotland, although these two remained towards the bottom end of the scale for overall levels of optimism. Expectations were highest in the West Midlands, as was the case in January, and lowest in the North East, which saw confidence wane slightly.

Business Activity Index

sa, >50 = growth since previous month, Feb '23



Employment Index

sa, >50 = growth since previous month, Feb '23



Future Activity Index

>50 = growth expected over next 12 months, Feb '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
Sep '22	48.0	46.6	49.3	51.5	52.1	45.5	72.8	60.4
Oct '22	45.8	44.1	48.8	56.8	50.6	45.3	74.3	61.9
Nov '22	43.9	43.3	47.5	55.1	51.0	45.4	75.4	62.7
Dec '22	48.3	46.0	48.5	53.6	48.9	47.5	70.0	61.4
Jan '23	47.1	43.6	50.2	58.4	48.8	44.1	69.1	61.5
Feb '23	51.0	50.6	51.9	65.7	51.6	48.6	67.9	58.0

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
Dec '22	49.2	46.1	51.8	50.6	44.7	71.9	63.7
Jan '23	49.9	47.1	58.2	50.1	47.3	67.1	63.8
Feb '23	53.5	50.7	65.3	52.3	44.3	64.9	60.1

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
Dec '22	48.1	46.0	54.0	48.6	48.1	69.6	60.9
Jan '23	46.5	42.8	58.4	48.5	43.3	69.6	61.0
Feb '23	50.4	50.6	65.8	51.5	49.6	68.6	57.5

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The bank has commitment to retain its close connections with the Scottish communities it serves.

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