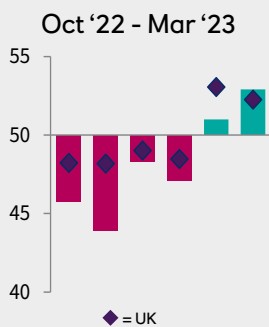


Royal Bank of Scotland PMI[®]

Private sector activity expands for the second month running

Scotland Business Activity Index



Key findings

Quickest rise in private sector activity since June 2022

Growth in new orders also picks up

Employment growth at eight-month high

According to the latest Royal Bank of Scotland PMI[®] data, the Scottish private sector saw a second successive monthly rise in business activity, with underlying data showing quicker growth across both the manufacturing and service sectors. The rate at which private sector output grew was the strongest in nine months, with the Scotland Business Activity Index rising from February's 51.0 to 52.9 in March. This compared favourably against the UK as a whole (52.2), where the rate of expansion slowed.

Furthermore, firms across Scotland noted a solid and accelerated rise in new business inflows in March. In turn, back-to-back expansions were noted in private workforce numbers, again the latest rate of job creation quickening on the month and signalling the strongest intake of staff since last July.

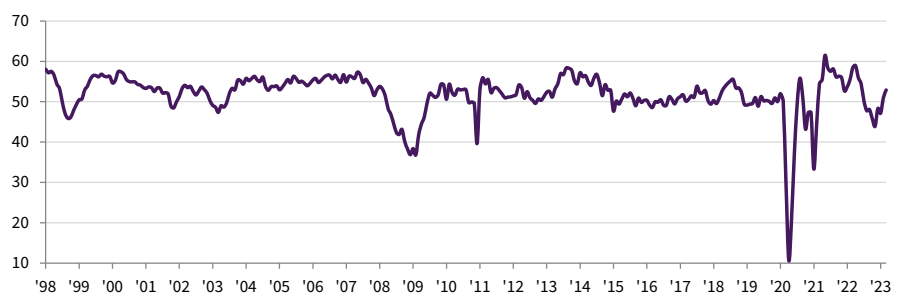
Judith Cruickshank, Chair, Scotland Board, Royal Bank of Scotland, commented:

"The rate of expansion in private sector activity across Scotland quickened at the end of the first quarter. Both manufacturing and services registered growth, with goods producers noting the stronger upturn. More so, improved investment and advertising has been fruitful, with order volumes picking up at a historically strong rate. The upturns in output and new business resulted in a further expansion in workforce numbers. In fact, despite levels of unfinished work falling at a modest pace, hiring activity across the Scottish private sector was at an eight-month high.

"Looking ahead, confidence across the private sector faltered slightly from the recent high seen in February. Nonetheless, private sector firms across Scotland were strongly confident in regards to longer term future output."

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.

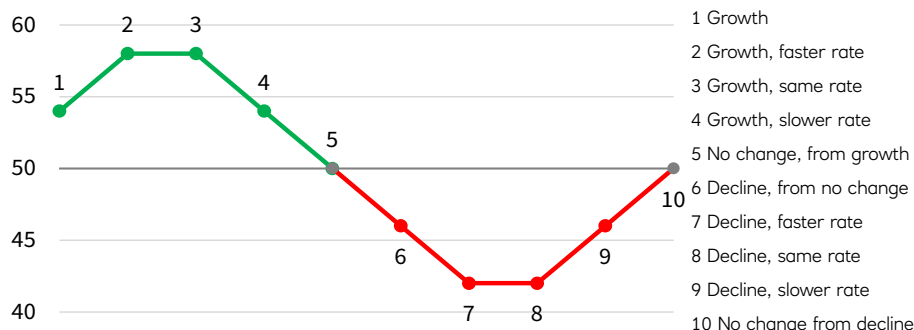
The headline figure is the Business Activity Index. This is a composite index calculated by weighting together the Manufacturing Output Index and the Services Business Activity Index. The Scotland Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

Private sector companies across Scotland signalled a second monthly rise in volumes of new business at the end of the first quarter. The upturn was quickest since last May and robust overall. The rise in business inflows was attributed to an array of reasons including increased advertising and investment, stronger sterling against the dollar and improved client demand.

Nonetheless, the uptick in new order inflows was weaker than that recorded for the UK as a whole.

Business expectations

While the degree of confidence weakened in March, due to a slight dip in optimism at service providers, business sentiment towards 12-month activity was highly positive and above the historical trend. Optimism stemmed from greater client enquires, new business development, higher marketing and new contracts in the pipeline.

Confidence across Scotland, however, posted the third-weakest of all the monitored UK regions, ahead of the North East of England and Northern Ireland.

Exports

Sustained improvement 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.

A sustained - albeit slightly softer - rise in export market conditions was reported across Scotland during March, as the Export Climate Index printed 51.6, fractionally down from 51.9 in February.

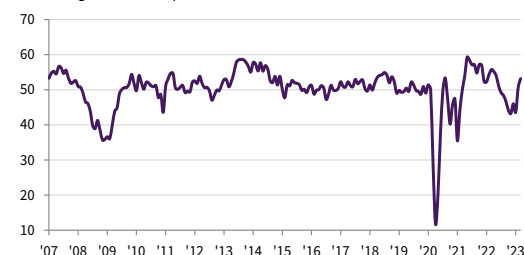
All of the top five export markets, bar the Netherlands, registered a rise in output during March. The strongest growth in output was seen in Ireland, followed closely by France and then Germany.

New Business Index

sa, >50 = growth since previous month

53.2

Mar '23

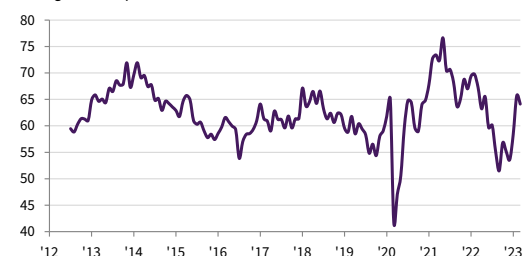


Future Activity Index

>50 = growth expected over next 12 months

64.1

Mar '23

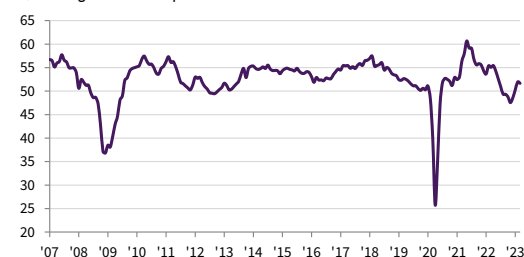


Export Climate Index

sa, >50 = growth since previous month

51.6

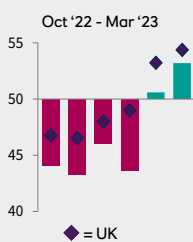
Mar '23



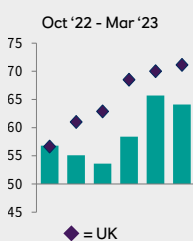
Top export markets, Scotland

Rank	Market	Weight	Output Index, Mar '23
1	Netherlands	19.4%	48.2
2	Ireland	13.5%	52.8
3	USA	13.2%	52.3
4	France	9.0%	52.7
5	Germany	8.9%	52.6

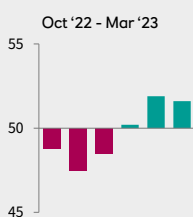
New Business Index



Future Activity Index



Export Climate Index



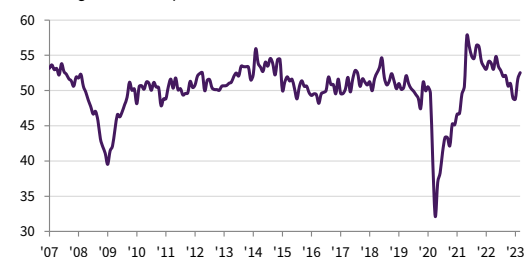
Business capacity

Employment

Firms across Scotland raised their payroll numbers for the second successive month in March. The rate of job creation was the fastest seen in eight months, with only Northern Ireland registering stronger growth across the UK. The positive performance of the sector supported a stronger intake of staff, suggested anecdotal evidence.

Underlying data pointed to quicker upturns in workforce numbers across both the manufacturing and service sectors.

Employment Index 52.5
sa, >50 = growth since previous month Mar '23

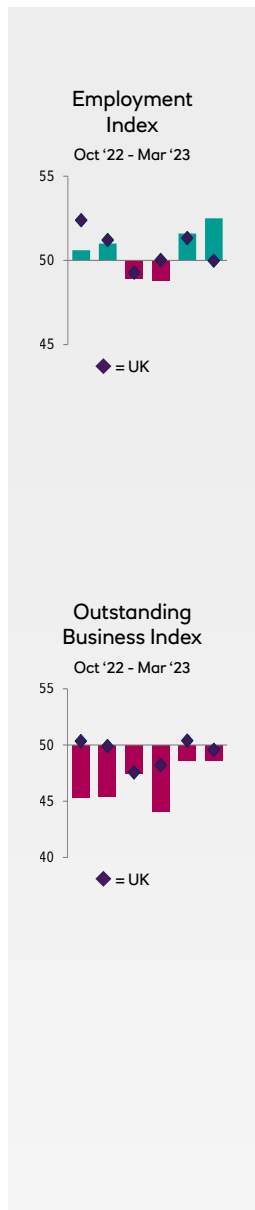
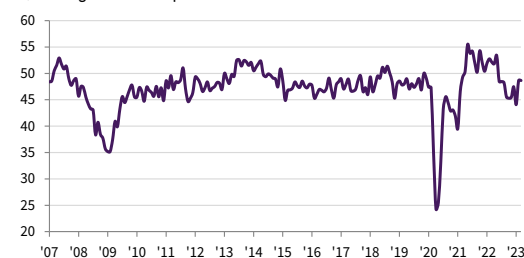


Outstanding business

Scottish firms were able to reduce their outstanding business during March, thereby stretching the current run of contraction to ten months. The rate of backlog depletion remained unchanged from the preceding survey period, the joint-softest decrease in unfinished work in the aforementioned sequence.

The rate of decrease in backlogs across Scotland was quicker than that seen at the UK level.

Outstanding Business Index 48.6
sa, >50 = growth since previous month Mar '23



Prices

Input prices

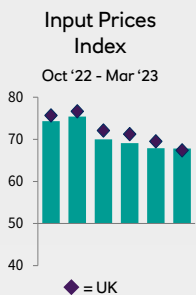
Continuing the trend observed since December 2022, private sector firms noted a further cooling in input cost inflation during March. The rate of growth was the weakest in 22 months and only marginally faster than the UK-wide average. Nonetheless, the pace of inflation was comfortably above the long run average, with respondents blaming wage, food and energy costs.

Input Prices Index

sa, >50 = inflation since previous month

67.8

Mar '23



Prices Charged

In line with the strong growth in prices, Private sector firms across Scotland raised their charges sharply. That said, the pace of charge inflation was the second-softest in 22 months, behind February's reading.

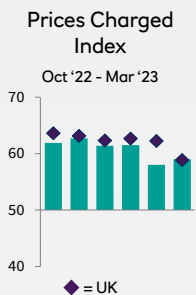
Charges levied for the provision of goods and services across Scotland rose at a similar pace to that seen across the UK as a whole.

Prices Charged Index

sa, >50 = inflation since previous month

59.0

Mar '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, Mar'23*
1	Food & Drink	1.91	55
2	Mechanical Engineering	1.17	52
3	Electrical & Optical	1.08	51
4	Textiles & Clothing	1.06	48
5	Timber & Paper	1.05	40
6	Chemicals & Plastics	0.86	48
7	Basic Metals	0.81	51
8	Other Manufacturing	0.63	55
9	Transport	0.31	50

Scotland specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Mar'23*
1	Hotels, Restaurants & Catering	1.27	60
2	Financial Intermediation	1.10	55
3	Transport & Communication	1.04	50
4	Personal & Community Services	1.03	51
5	Business-to-business Services	0.94	55
6	Computing & IT Services	0.71	55

UK sector focus

Hotels, Restaurants & Catering

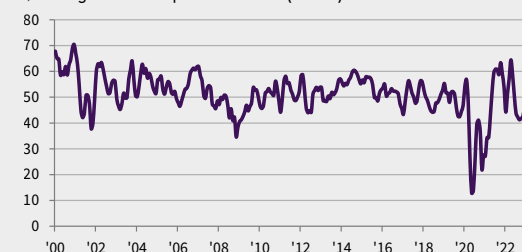
Latest data showed a sharp rebound in business activity across the UK's Hotels, Restaurants & Catering sector in the opening quarter, following a sustained downturn in the second half of last year. The rise in activity was the steepest among the services sub-sectors monitored by the survey and supported by a robust rise in new business.

Prices pressures in the sector meanwhile remained elevated. Although input cost inflation was down from its record peak in 2022, it remained higher than at any time before the pandemic and drove a sustained sharp (and even slightly accelerated) rise in output prices.

Business confidence among Hotels, Restaurants & Catering firms perked up in the three months to March, reaching its highest for almost a year. Nevertheless, data showed a continued fall in sector workforce numbers, in line with the trend since the middle of last year.

Output Index

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



*3-month moving average.



UK Regional PMI overview

Business Activity

Nearly all areas of the UK recorded a rise in business activity in March, the only exception being the East of England where output was unchanged. However, growth slowed in the majority of cases, including the top-ranked region, London. The most notable upswing in momentum was in Northern Ireland*, where business activity rose at the quickest rate for a year.

Employment

March data showed divergent trends in regional employment. Northern Ireland saw a steep and accelerated rise in workforce numbers and was one of only two areas where the pace of job creation quickened, alongside Scotland. At the other end of the scale, the North East and Wales both saw deepening declines in staffing levels. In most other areas, employment was little-changed.

Future Activity

Business expectations were optimistic across the board in March. Furthermore, confidence improved in just over half of the monitored areas, rising sharpest in the North East (although it remained at the foot of the rankings). Firms in the West Midlands were the most upbeat about the outlook, as was the case in both January and February, followed by those in Yorkshire & Humber.

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



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



Future Activity Index
>50 = growth expected over next 12 months, Mar '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
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
Mar '23	52.9	53.2	51.6	64.1	52.5	48.6	67.8	59.0

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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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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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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