

11 March 2025

Royal Bank of Scotland Growth Tracker

Activity declines only marginally and
outlook improves



Royal Bank of Scotland

PMI[®]

by **S&P Global**

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Key findings

February 2025

Output falls for third month running, but only fractionally

Year-ahead outlook strengthens

Charges rise at sharpest rate in ten 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





Activity declines only marginally and outlook improves

The Scotland Growth Tracker – a seasonally adjusted index that measures the month-on-month change in the combined output of the region’s manufacturing and service sectors – noted a third consecutive monthly decline in Scottish private sector output in February. At 49.0, down slightly from 49.6, the index indicated only a marginal decline, and masked a slight rise in services business activity.

Companies continued to face challenges in obtaining new

business, with inflows of new work falling for the fifth consecutive month and at the steepest rate since November 2023.

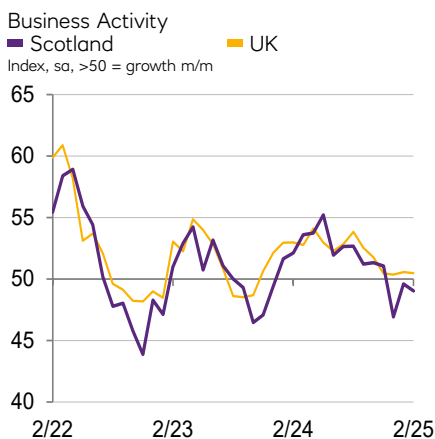
Despite lower new work, the latest survey data revealed growing optimism among Scottish firms. The 12-month outlook improved to a three-month high, suggesting that firms expect the current downturn in activity to end in the coming months.

Royal Bank of Scotland Business Activity Index February 2025

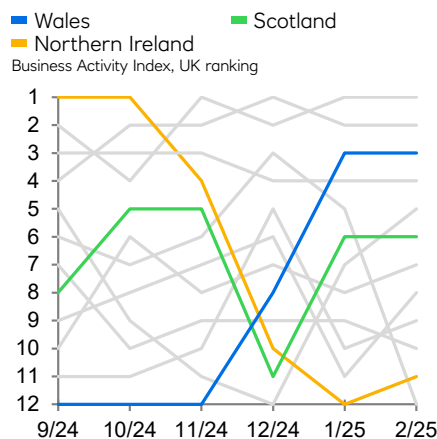
49.0

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 10-26 February



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



Comment

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

"The downturn in activity that began at the end of last year continued in February, but remained mild. Firms reduced output slightly, in line with decreasing inflows of new work. Concerns surrounding upcoming employment costs and policy changes, as well as growing economic and geopolitical uncertainty, were blamed for the

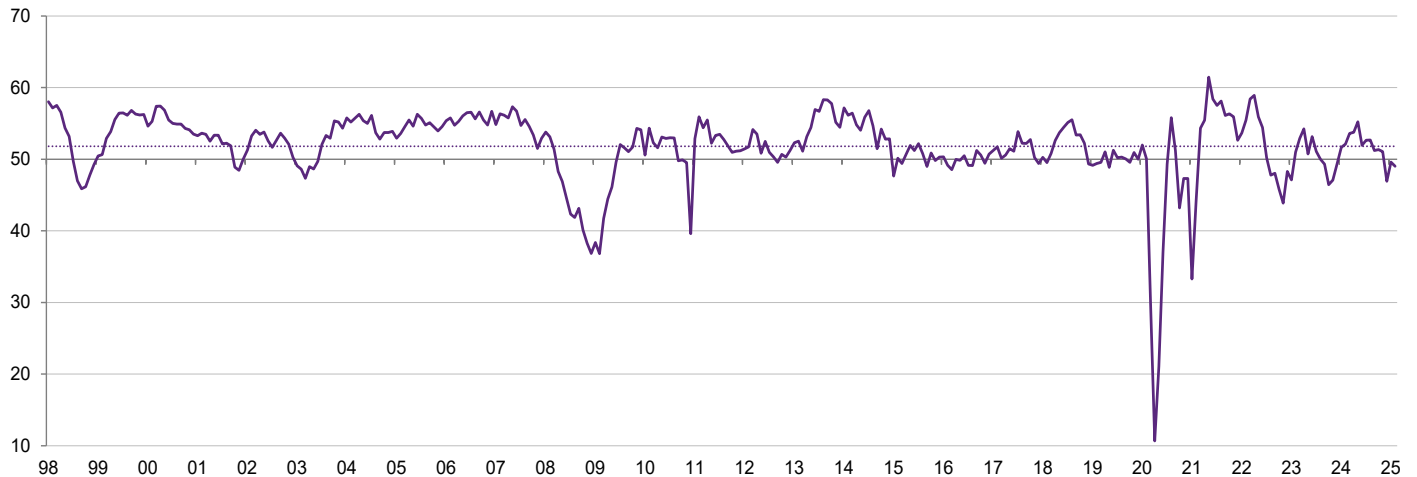
recent lacklustre performance.

"As a result, companies were cautious, adopting a more careful approach to hiring and slightly cutting back on payroll numbers ahead of changes to NICs.

"Looking ahead, still-elevated price pressures may pose headwinds to performance. Nonetheless, businesses recorded greater confidence for the year-ahead outlook."

Business Activity

Index, sa, >50 = growth m/m. Dots = long-run average.



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



Demand and outlook

Downturn in new business continues but firms raise forecasts

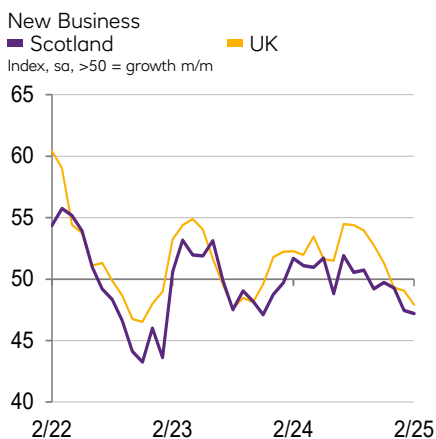
Scottish private sector firms recorded another decline in new business during February. The rate of contraction was the most marked in 15 months and outpaced the UK-wide average. Reduced demand and increased uncertainty were reasons cited for the latest downtick.

Nonetheless, firms anticipate activity to rise in the coming 12 months. In fact, the degree of confidence strengthened further from December's low, with underlying data showing that firms were

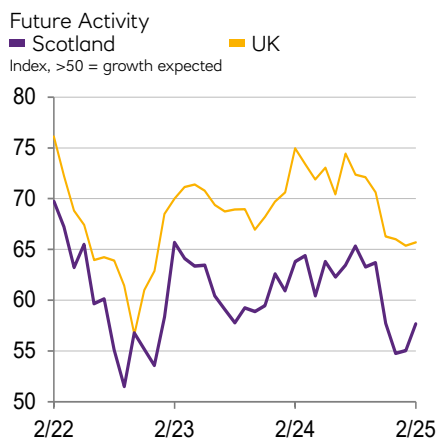
expectant of new contract wins and improved demand trends.

That said, the level of optimism across Scotland was less upbeat than the UK-wide average and historically subdued.

"Businesses recorded greater confidence for the year-ahead outlook"



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



Jobs and capacity

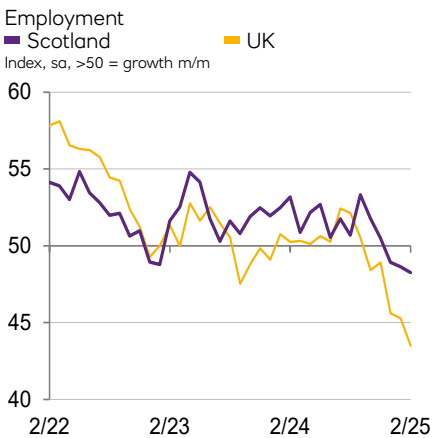
Companies continue to trim staffing and work through backlogs

Job losses were recorded for a third straight month across Scotland's private sector in February. Employment was reduced at the fastest rate in four years, although the decline was still modest overall and much slower than that observed at the UK level. Anecdotal evidence attributed the latest round of job shedding to redundancies and non-

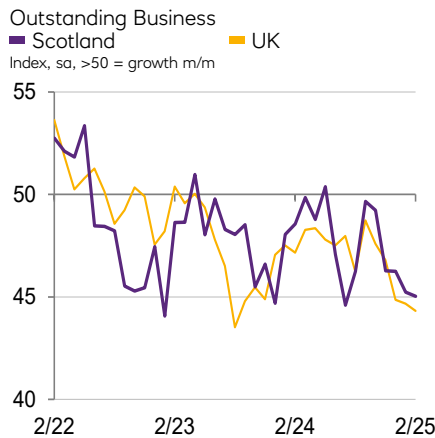
replacement of voluntary leavers.

Despite falling workforce numbers, firms were able to keep on top of their backlogs in February. The rate of depletion was sharp and the most pronounced in seven months. Scottish companies noted that less incoming work allowed them to manage their existing tasks more effectively.

"...companies were cautious, adopting a more careful approach to hiring and slightly cutting back on payroll numbers ahead of changes to NICs"



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



Inflation

Inflationary pressures remain historically strong

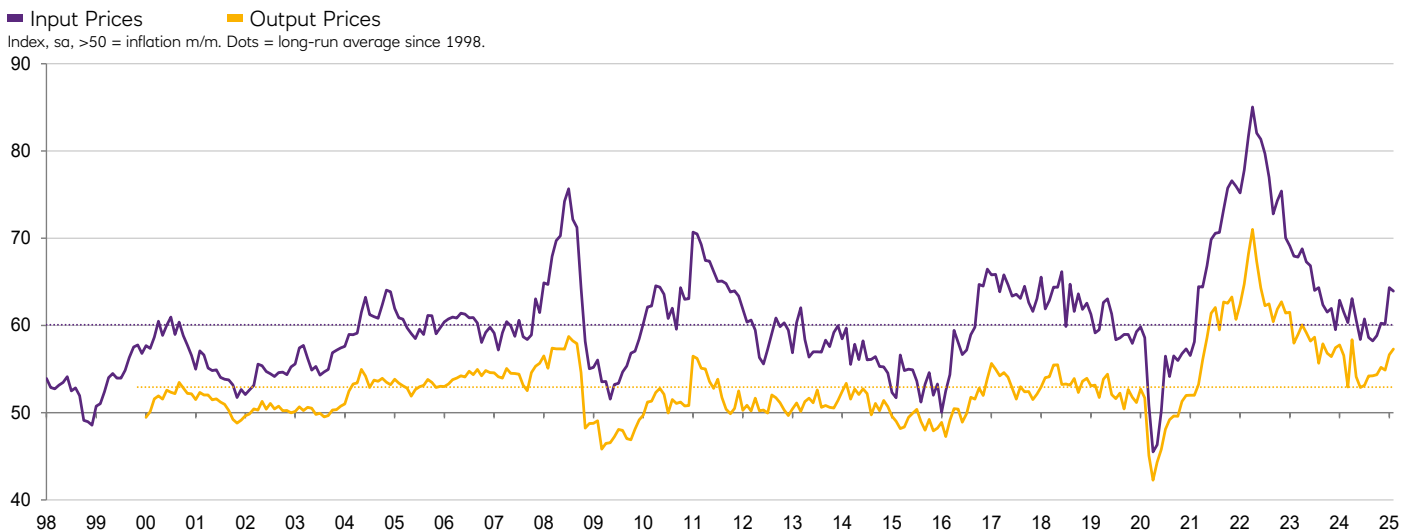
Average input prices rose strongly in February with the respective seasonally adjusted index remaining above its long-run trend level. Despite easing slightly, the rate of inflation held close to January's recent high. The uptick in costs was heavily linked to wage pressures and tax increases. Economic instability also contributed to rising costs.

Deviating from the trend seen for input prices, the latest survey data

signalled a stronger rise in average fees charged for the provision for Scottish goods and services. The pace of charge inflation was rapid and at a ten-month high. Charges were raised to cover cost burdens.

Nevertheless, price pressures in Scotland continued to be milder than the UK averages.

"...still-elevated price pressures may pose headwinds to performance."



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.

UK Regional Growth Tracker

Business Activity

London topped the rankings for business activity growth in February, having enjoyed another robust expansion, ahead of the North East, Wales and South West, respectively. Lower output was seen in several nations and regions, however. The steepest falls were registered in the East Midlands and Northern Ireland*.

Employment

Workforces numbers were streamlined across each of the 12 UK nations and regions monitored by the survey in February, the first time this has happened for a little over four years. Employment fell only slightly in the likes of the North East and Scotland, however. The most marked decreases were seen in the East of England and West Midlands.

Future Activity

Year-ahead growth expectations improved in the majority of areas in February. Firms in the West Midlands were the most optimistic about future activity, while those in the North East reported the greatest upswing in confidence since January. At the other end of the scale, Northern Ireland recorded the weakest business sentiment, although it did pick up somewhat from the low seen at the start of the year.

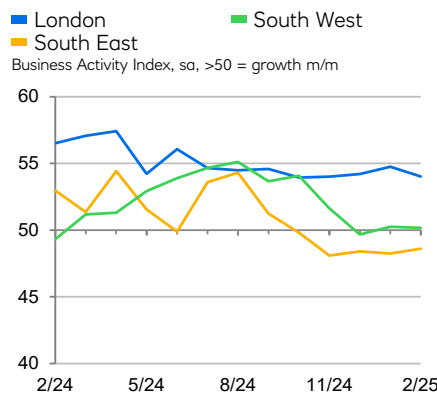
*As well as manufacturing and services, coverage in Northern Ireland also includes construction and retail.



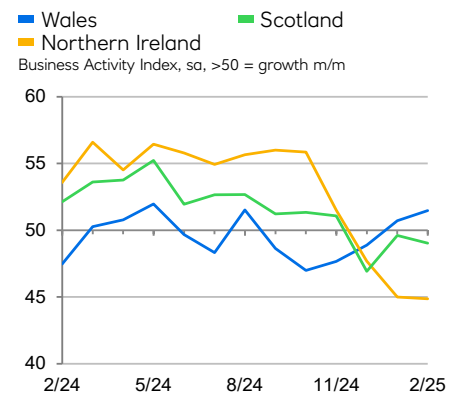
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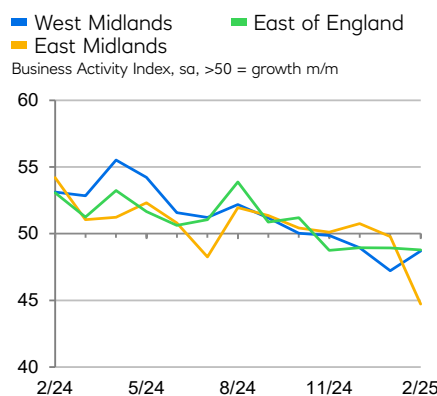
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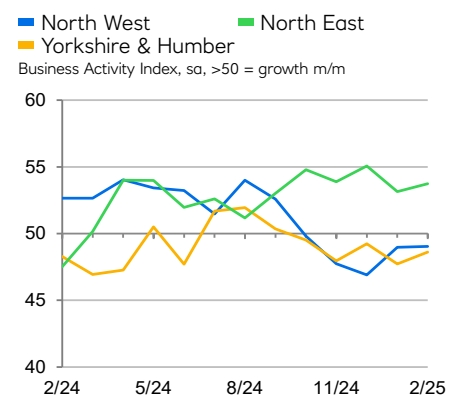
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Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.

Growth Tracker heat map

February 2025

Darker colour = higher business growth

Scotland

Business Activity Index
sa, >50 = growth m/m

49.0



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



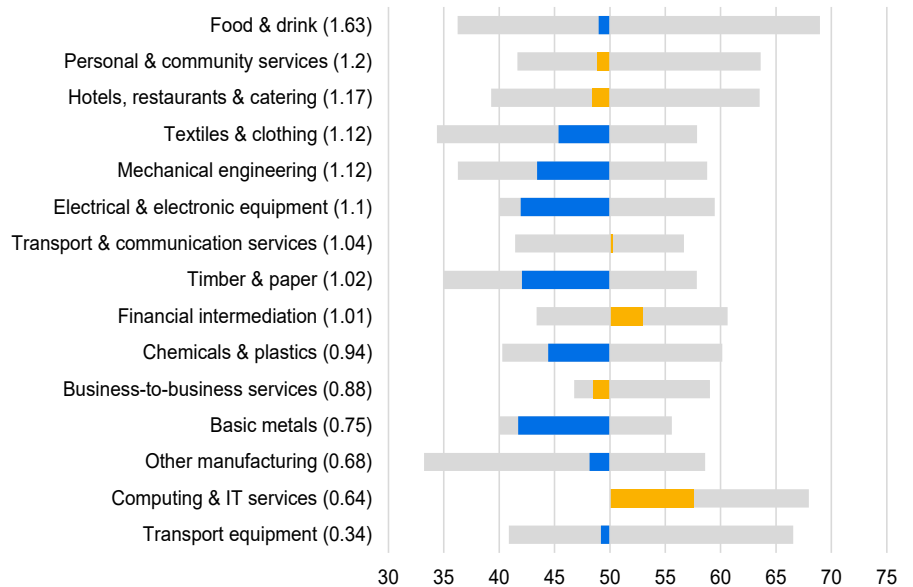
UK sectors

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 Feb '25



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.
 Location quotients for Scotland are shown in brackets. Latest data are smoothed as three-month moving averages (3mma).

Sector in focus: Mechanical engineering

Output in the UK's mechanical engineering sector contracted in the three months to February, according to underlying PMI data. The decline was steep and followed growth throughout most of 2024. A lack of new orders, particularly from abroad, was the defining factor behind the sector's recent downturn.

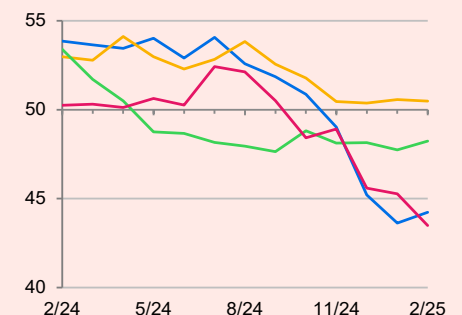
Shrinking backlogs of work at mechanical engineering companies led to further job losses. This extended the current sequence of job shedding seen since spring last year. Inventories were also scaled

back, especially stocks of inputs.

Prices paid for purchases rose at a steady rate that was below the long-run series average. Firms managed to pass on a sizeable proportion of the cost increases they faced, with the pace of output price inflation ticking up to its highest for almost a year and running above its historic trend level.

Looking ahead, firms in the sector were optimistic about growth prospects in the coming year, though less so than at almost any time since the pandemic.

Output / Employment
 ■/■ Mechanical engineering*
 ■/■ Manufacturing & services
 Index, sa, >50 = growth m/m



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.
 *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

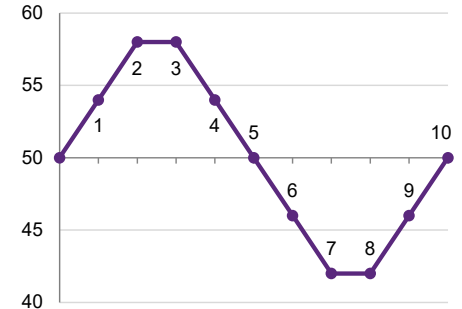
overall decrease. The indices are then seasonally adjusted.

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: NatWest, S&P Global PMI. ©2025 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
9/24	51.2	50.7	49.9	53.3	49.7	63.3	58.2	54.2
10/24	51.3	49.2	50.4	51.8	49.2	63.7	58.8	54.4
11/24	51.1	49.7	50.3	50.5	46.3	57.7	60.2	55.2
12/24	46.9	49.3	50.4	48.9	46.3	54.7	60.2	54.9
1/25	49.6	47.5	50.0	48.6	45.2	55.0	64.3	56.6
2/25	49.0	47.2		48.3	45.0	57.7	63.9	57.3

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