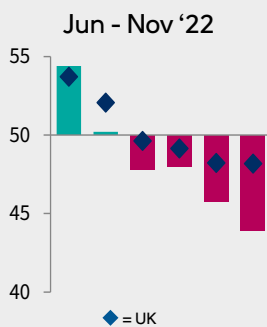
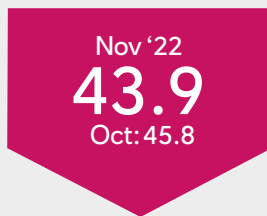


# Royal Bank of Scotland PMI®

## Contraction across Scotland's private sector gathers pace in November

### Scotland Business Activity Index



### Key findings

**Business Activity Index falls further below the neutral 50.0 threshold**

**Sharper decline in new orders**

**Business sentiment weakens in November**

According to the latest Royal Bank of Scotland PMI® data, the Scottish private sector reported a deepening contraction in private sector output during November. The Business Activity Index ticked down from 45.8 in October to 43.9 in November, signalling that fastest decrease in the current series of reduction that began in August. Hesitancy among clients amid economic uncertainty, the cost of living crisis and higher borrowing costs, stifled demand. Consequently, inflows of incoming new business continued to decline in November. Moreover, the pace of reduction steepened in November and extended the current run of contraction to five months. Looking ahead, expectations regarding the 12-month activity outlook across Scotland weakened from October's three-month high and was subdued in the context of historical data.

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

*"The latest survey data signalled a stronger contraction across the Scottish private sector during November, as demand waned amid market uncertainty and the cost of living crisis. As a result, both activity and incoming new business fell as sharpest rates in the current four- and five-month sequences of reductions."*

*"Adding further strain on the sector was the continued intensification of price pressures. After cooling over the summer, input price inflation again accelerated in the fourth and final quarter of the year. Additionally, rates charged by private sector firms also increased at a quicker rate during November as firms tried to recoup costs."*

*"Overall, the penultimate month of the year pointed to confidence among private sector firms registering less upbeat than that seen in October, as economic challenges and feeble demand weighed on exceptions."*

### 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.

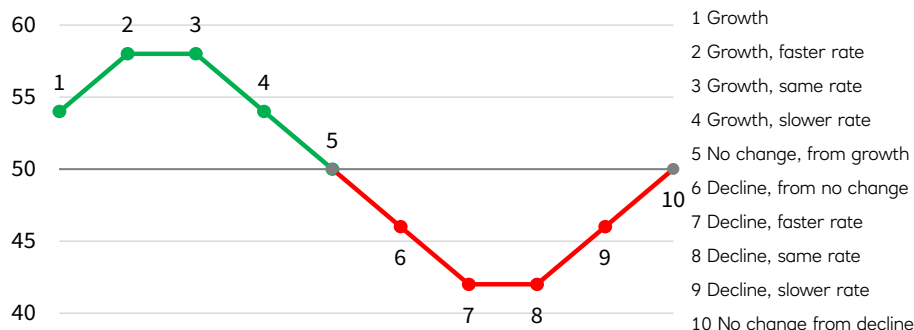
The headline figure is the Business Activity Index. This is a composite index calculated by weighting together the Manufacturing Output Index and the Services Business Activity Index. The Scotland Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

New business placed across Scotland's private sector decreased sharply in November. The downturn quickened from the preceding survey period to the fastest overall in the current five-month run of contraction. An array of reasons were linked to the latest reduction in sales, including lower market activity, the cost of living crises, rising borrowing costs, and growing economic uncertainty resulting to delayed-decision making.

All of the 12 monitored UK regions reported a decline in inflows of new business, with Scotland registering the third-fastest downturn behind Northern Ireland and the East Midlands.

### Business expectations

Latest survey data signalled muted expectations for the 12-month activity outlook across Scotland. Business confidence weakened from October's three-month high, posting well below the historical average. While there were hopes of growth in sales in the coming year, the ongoing downturn in activity weighed on sentiment.

Expectations towards future activity across Scotland were noticeably less upbeat than those recorded at the UK level.

### Exports

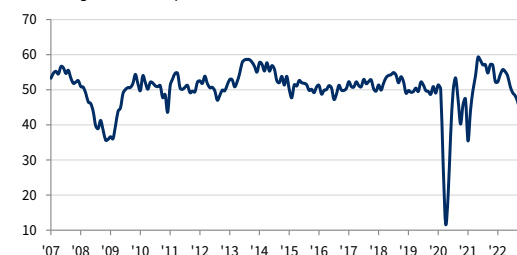
#### Export climate continues to deteriorate in November

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 Scotland Export Climate Index fell to 47.3 in November, signalling a stronger deterioration in export conditions.

For the first time since April 2020, all of Scotland's top five export markets reported a fall in output, with the Netherlands registering the sharpest downturn. France, the only country to report growth since September, succumbed to the overall trend and registered its first fall in output in 21 months.

New Business Index  
sa, >50 = growth since previous month  
43.3  
Nov '22



Future Activity Index  
>50 = growth expected over next 12 months  
55.1  
Nov '22

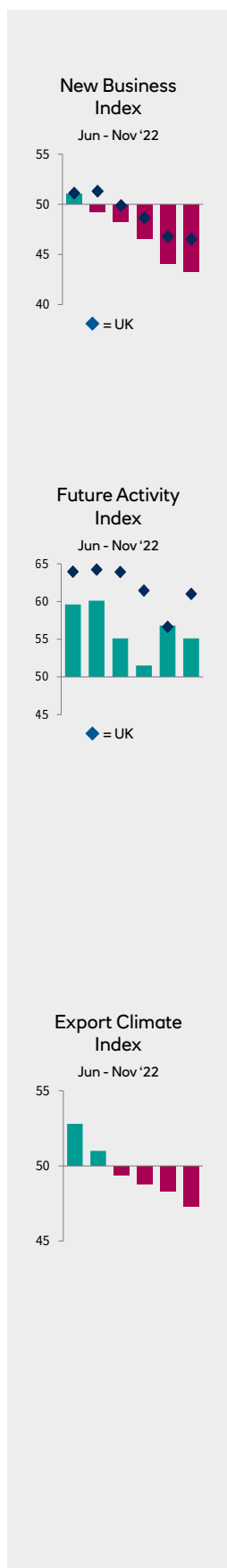


Export Climate Index  
sa, >50 = growth since previous month  
47.3  
Nov '22



Top export markets, Scotland

Rank	Market	Weight	Output Index, Nov '22
1	Netherlands	18.3%	43.2
2	USA	10.8%	46.4
3	Germany	9.2%	46.3
4	China	6.6%	47.0
5	France	5.6%	48.7



## Business capacity

### Employment

Payroll numbers across Scotland's private sector firms increased in November, extending the run of job growth to 20 months. The pace of job creation quickened slightly from October amid renewed growth in employment across the manufacturing sector. However, reports of resignations, rising uncertainty, reduced demand and job cuts resulted in only a marginal overall upturn in hiring activity.

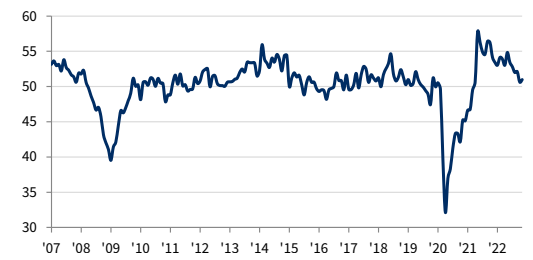
The latest uptick in employment across Scotland printed broadly in line with that at the UK level.

### Outstanding business

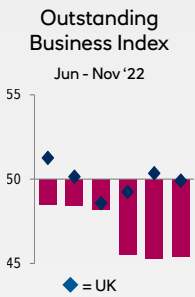
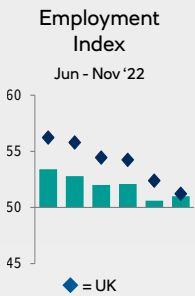
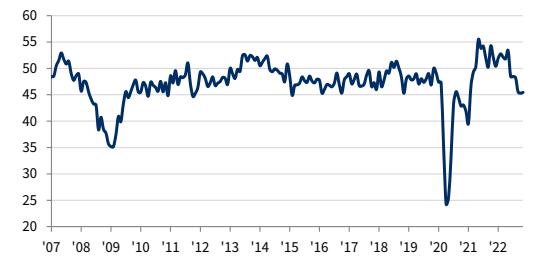
For the sixth time in as many months, levels of outstanding business fell across Scotland during November. The rate of depletion was broadly unchanged from October, indicating a sharp decrease in work-in-hand overall. According to anecdotal evidence, completion of contracts and a drop in sales was linked to fewer backlogs.

The rate of decrease across Scotland outstripped the UK-wide average and was the second most severe after Northern Ireland.

Employment Index  
sa, >50 = growth since previous month  
51.0  
Nov '22



Outstanding Business Index  
sa, >50 = growth since previous month  
45.4  
Nov '22



## Prices

### Input prices

Input prices across the Scottish private sector inclined rapidly during November, thereby extending the current run of inflation to two-and-a-half years. Adjusted for seasonality, the latest reading ticked-up to a three-month high. Firms blamed the latest increase in average cost burdens on energy prices, wages, higher shipping costs and the cost of living crisis.

However, the pace of input price inflation across Scotland was slightly slower than the UK-wide average.

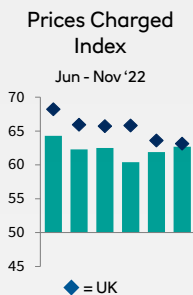
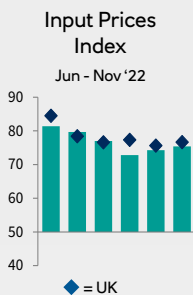
Input Prices Index 75.4  
sa, >50 = inflation since previous month Nov '22



### Prices Charged

Charge inflation entered its twenty-fifth month across Scotland during November. The pace of inflation further intensified from September's recent low, signalling the fastest rise in charges in five months, but was marginally weaker than that recorded for the UK as a whole. The latest increase in charges mirrored the upturn in average costs burdens.

Prices Charged Index 62.7  
sa, >50 = inflation since previous month Nov '22



## 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, Nov'22*
1	Food & Drink	1.91	52
2	Mechanical Engineering	1.17	50
3	Electrical & Optical	1.08	48
4	Textiles & Clothing	1.06	45
5	Timber & Paper	1.05	42
6	Chemicals & Plastics	0.86	45
7	Basic Metals	0.81	45
8	Other Manufacturing	0.63	48
9	Transport	0.31	45

#### Scotland specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Nov'22*
1	Hotels, Restaurants & Catering	1.27	45
2	Financial Intermediation	1.10	48
3	Transport & Communication	1.04	45
4	Personal & Community Services	1.03	45
5	Business-to-business Services	0.94	48
6	Computing & IT Services	0.71	52

### UK sector focus

#### Computing & IT Services

Computing & IT Services was the UK's top-performing sector by far in the three months to November. In fact, it was the only part of the services economy to see a rise in business activity.

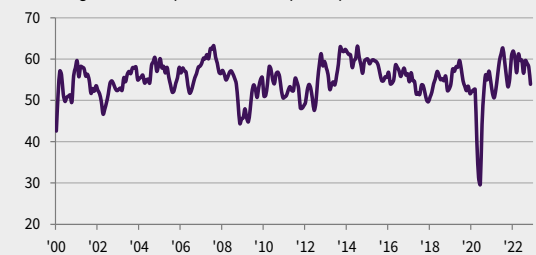
The sector did, however, exhibit a loss of momentum, with the rate of business activity growth slowing to its weakest since the opening quarter of 2021. This reflected a softening trend in new business.

Computing & IT Services firms remained optimistic about the year-ahead outlook, and more so than any other services sector, which in turn helped drive a sustained rise in employment. That said, both expectations and the pace of job creation eased to the lowest since late-2020.

Cost pressures remained much higher than normal, according to latest data. However, they were relatively subdued compared to other parts of the services economy, with the rate of input cost inflation the lowest among the six monitored sectors.

#### Output Index

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



\*3-month moving average.



## UK Regional PMI overview

### Business Activity

All 12 monitored regions recorded a further fall in business activity in November. However, rates of contraction slowed in just over half of cases, including Wales and the North East, the two top-ranked areas, where activity came close to stabilising. Scotland recorded the most marked fall in output, followed by the South West.

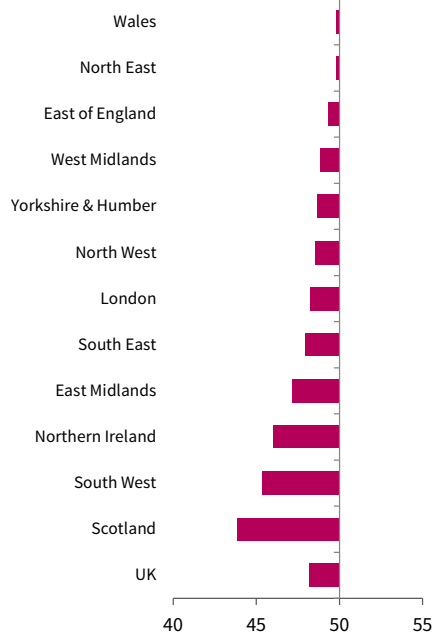
### Employment

Workforce numbers rose across the majority of regions and nations in November, albeit more slowly in most instances. The West Midlands saw the fastest pace of job creation, moving ahead of the South East in the rankings. The East Midlands and North East went against the trend and recorded lower employment.

### Future Activity

Business expectations improved almost universally in November. Yorkshire & Humber was the most optimistic region and saw the joint-sharpest increase in sentiment from the previous month, with Wales. Firms in Northern Ireland and the North East remained pessimistic, albeit less so than in October.

**Business Activity Index**  
sa, >50 = growth since previous month, Nov '22



**Employment Index**  
sa, >50 = growth since previous month, Nov '22



**Future Activity Index**  
>50 = growth expected over next 12 months, Nov '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
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
Sep '22	48.0	46.6	48.8	51.5	52.1	45.5	72.8	60.4
Oct '22	45.8	44.1	48.3	56.8	50.6	45.3	74.3	61.9
Nov '22	43.9	43.3	47.3	55.1	51.0	45.4	75.4	62.7

### 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
Sep '22	46.9	46.6	55.4	53.3	43.3	78.1	69.0
Oct '22	46.1	41.0	53.8	49.0	42.3	71.4	66.9
Nov '22	44.5	41.5	51.8	51.6	42.2	72.8	63.0

### 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
Sep '22	48.3	46.6	50.6	51.8	46.0	71.6	58.5
Oct '22	45.7	44.8	57.4	51.0	46.0	75.0	60.8
Nov '22	43.7	43.6	55.9	50.8	46.2	76.0	62.7

## Contact

Vonnie Sandlan  
Regional Media & Campaigns Manager  
Royal Bank of Scotland  
+44 740 127 8778  
[vonnie.sandlan@natwest.com](mailto:vonnie.sandlan@natwest.com)

Maryam Baluch  
Economist  
S&P Global Market Intelligence  
+44 134 432 7213  
[maryam.baluch@spglobal.com](mailto:maryam.baluch@spglobal.com)

Sabrina Mayeen  
Corporate Communications  
S&P Global Market Intelligence  
+44 796 744 7030  
[sabrina.mayeen@spglobal.com](mailto:sabrina.mayeen@spglobal.com)

### 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.

### 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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