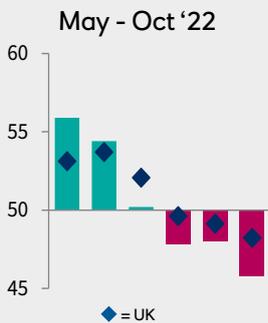


Royal Bank of Scotland PMI[®]

Downturn across Scotland deepens amid falling demand

Scotland Business Activity Index



Key findings

Business Activity Index falls to 45.8 in October from 48.0 in September

Contraction in new orders quickens

Growth in employment further weakens

The contraction across Scotland's private sector firms deepened during October, according to the latest Royal Bank of Scotland PMI[®] data. Adjusted for seasonality, the Business Activity Index posted below the neutral 50.0 threshold for the third month running, at 45.8, indicating a sharp decrease overall. Inflows of new business also went into further decline, the latest downturn being the most severe in 20 months. To further add weakness across the sector, inflationary pressures reaccelerated from September's recent low, as service providers reported quicker upturns in input costs and charges during October. The gloomy performance resulted to the softest intake of workers in 18 months, with goods producers reporting their first reduction in employment since January 2021.

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

"The Scottish private sector reported a third month of contraction during October. The downturn in activity quickened on the month, as stubbornly high inflationary pressures, the ongoing cost of living crisis and a threat of recession deterred growth. New orders received at firms also fell further."

"Employment trends across the sector indicated a slowdown in hiring activity over the recent months. The latest upturn was the joint-softest in the current 19-month sequence of expansion. At the same time, the level of outstanding business also fell at a much sharper rate. The data thus suggesting the further weakness in the labour market will not be surprising."

"As we proceed into the final quarter of the year, market conditions are set to become more challenging. The aggressive interest rate hikes, the decline in the value of sterling against the dollar and the rebound in post-COVID demand phasing out, all amidst the ongoing cost of living and energy crises, all point to an extremely difficult period for Scotland."

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.

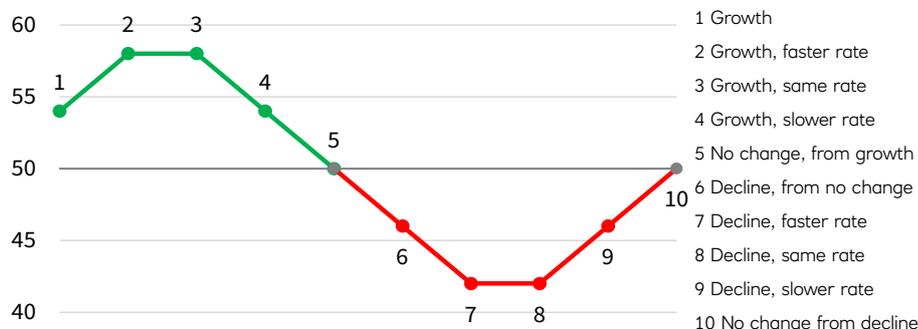
The headline figure is the Business Activity Index. This is a composite index calculated by weighting together the Manufacturing Output Index and the Services Business Activity Index. The Scotland Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

New business received at Scottish private sector firms fell sharply during October. The rate of decrease quickened from September to the fastest in the current fourth-month sequence of reduction. Of the two sub-sectors, manufacturing firms reported the steeper downturn. Companies noted that looming recession, economic uncertainty and the cost of living crisis weighed on client activity.

The downturn in incoming new business across Scotland outpaced the UK-wide average.

New Business Index

sa, >50 = growth since previous month

44.1

Oct '22



New Business Index

May - Oct '22



◆ = UK

Business expectations

Output expectations for the year ahead across private sector firms in Scotland strengthened in the three months to October. The increase in confidence was underpinned on planned expansions and investment, with firms also hopeful of future economic stability. That said, sentiment was relatively muted in context of historical data.

Business confidence across Scotland was broadly in line with that recorded for the UK as a whole.

Future Activity Index

>50 = growth expected over next 12 months

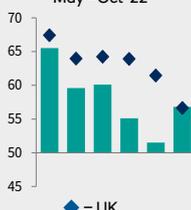
56.8

Oct '22



Future Activity Index

May - Oct '22



◆ = UK

Exports

Quicker deterioration in export climate conditions in October

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.

To the three months to October, the Export Climate Index remained below the neutral 50.0 threshold, with the latest decrease signalling a modest contraction in output activity across Scotland's top five export markets. Bar the exception of France, where growth was minimal, the Netherlands, the US, Germany and China all reported a decline in output during October.

Export Climate Index

sa, >50 = growth since previous month

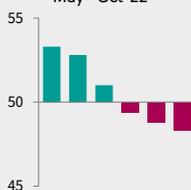
48.3

Oct '22



Export Climate Index

May - Oct '22



Top export markets, Scotland

Rank	Market	Weight	Output Index, Oct '22
1	Netherlands	18.3%	45.6
2	USA	10.8%	48.2
3	Germany	9.2%	45.1
4	China	6.6%	48.3
5	France	5.6%	50.2

Business capacity

Employment

Employment across the Scottish private sector expanded for the nineteenth month running in October. However, amid a cooldown in hiring activity at service providers, with goods producers reporting their first contraction since January 2021, the overall rate of growth ticked down to the joint-lowest in the aforementioned series.

The rate of job creation across Scotland remained softer than that seen at the UK level, which similarly also slowed in October.

Employment Index 50.6
 sa, >50 = growth since previous month Oct '22



Outstanding business

October's survey showed a sustained fall in levels of outstanding business across Scotland's private sector. The respective seasonally adjusted index posted below the neutral 50 threshold for the fifth consecutive month, the latest reading signalling the fastest depletion in work outstanding since January 2021. As per surveyed businesses, declines in new orders allowed firms to work through previous backlogs.

The rate of contraction in Scotland was the third-fastest across the UK, ahead of Northern Ireland and Wales.

Outstanding Business Index 45.3
 sa, >50 = growth since previous month Oct '22



Prices

Input prices

October data signalled a robust rise in input costs across Scotland's private sector, thereby extending the run of inflation to 29 months. Adjusted for seasonality, the latest reading increased from September's 13-month low as a result of a reacceleration in input price inflation reported at service firms. The uptick in average costs was attributed to higher wages and utilities, cost of living crisis and general inflation adding strain on costs.

Despite being severe, the pace of input price inflation was however, softer than the UK average.

Prices Charged

In line with the upturn in average cost burdens, charge levied by Scottish private sector firms also inclined from September's recent low at a quickened rate during October.

The rate of charge inflation across Scotland posted weaker than the UK-wide average which slowed during October.



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, Oct'22*
1	Food & Drink	1.91	48
2	Mechanical Engineering	1.17	49
3	Electrical & Optical	1.08	49
4	Textiles & Clothing	1.06	46
5	Timber & Paper	1.05	43
6	Chemicals & Plastics	0.86	43
7	Basic Metals	0.81	44
8	Other Manufacturing	0.63	49
9	Transport	0.31	46

Scotland specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Oct'22*
1	Hotels, Restaurants & Catering	1.27	46
2	Financial Intermediation	1.10	49
3	Transport & Communication	1.04	47
4	Personal & Community Services	1.03	47
5	Business-to-business Services	0.94	49
6	Computing & IT Services	0.71	54

UK sector focus

Transport

UK Transport manufacturers reported a steep and accelerated reduction in output levels in the three months to October, latest PMI data showed. The sector's performance was its worst since the initial COVID-related shutdowns in early-2020.

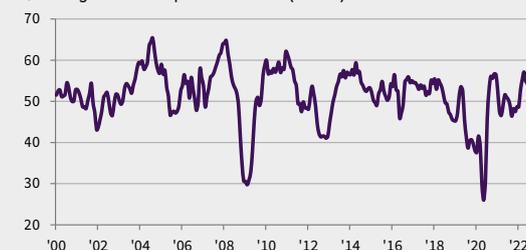
Alongside a softening of demand, which was evidenced by a fall in inflows of new orders, the reduction in production reflected shortages of materials and parts. Surveyed firms continued to report longer lead times on inputs, albeit with the incidence of delays having shown some improvement from the record levels a year earlier.

Cost pressures remained historically high, and even intensified slightly in the three months to October.

Despite these challenges, producers of Transport goods were more upbeat about the outlook for output than those in any other manufacturing sector. As such, they continued to add to workforce numbers.

Output Index

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



*3-month moving average.



UK Regional PMI overview

Business Activity

October saw a fall in business activity across all 12 monitored regions, the first time this has been the case since the third national lockdown in January 2021. The South West posted the steepest decline, followed by Northern Ireland* and the North East respectively. London's fall in activity was only marginal, but nonetheless its first for over a year-and-a-half.

Employment

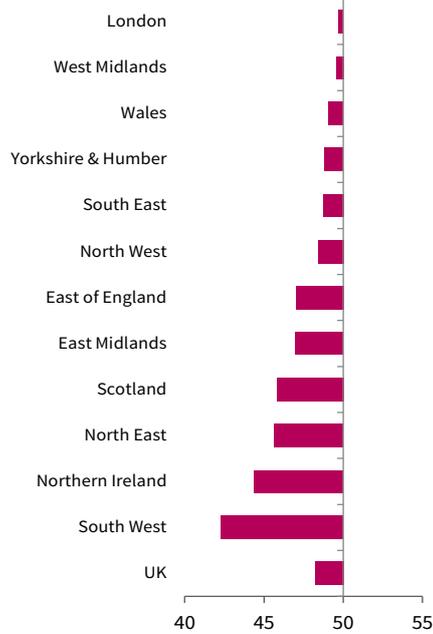
Employment continued to rise across almost every region during October, the only exception being the North East where workforce numbers fell for a fifth straight month. However, in most cases, rates of job creation slowed. This included the South East - the region at the top of the rankings for employment growth.

Future Activity

Business expectations, although often still positive, weakened in most cases in October. Firms in Northern Ireland and the North East even noted increased pessimism towards the outlook. Business confidence in the South West was unchanged from September's record low, while Scotland went against the broader trend and registered the strongest optimism for three months.

Business Activity Index

sa, >50 = growth since previous month, Oct '22



Employment Index

sa, >50 = growth since previous month, Oct '22



Future Activity Index

>50 = growth expected over next 12 months, Oct '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
May '22	55.9	53.9	53.3	65.5	54.8	53.4	82.1	67.3
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

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
Aug '22	44.1	40.9	57.1	54.0	40.7	80.2	68.5
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

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
Aug '22	48.6	50.0	54.7	51.5	49.9	76.3	61.1
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

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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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