

# Royal Bank of Scotland PMI<sup>®</sup>

## Business activity falls for second month running amid sharper falls in new work

### Scotland Business Activity Index



### Key findings

Accelerated contraction in new work

Sentiment weakens further in September

Inflation remains elevated, but softens

Business activity across Scotland's private sector contracted again in September, according to the latest Royal Bank of Scotland PMI<sup>®</sup> data. The seasonally adjusted headline Royal Bank of Scotland Business Activity Index - a measure of combined manufacturing and service sector output - was little-changed from 47.8 in August at 48.0, signalling a second consecutive month of contraction. Despite easing, a high inflationary environment drove the latest decline in business activity and new orders, with the rate of contraction for the latter gaining momentum.

The challenging conditions meant that the degree of confidence further weakened during September. The latest reading registered a 28-month low, suggesting subdued performance as we progress into the final quarter of the year.

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

*"Business activity and new orders continued to decrease across the Scottish private sector during September, thereby stretching the current runs of contraction to two and three months respectively. The squeeze on customer disposable incomes amid a high inflation environment underpinned the latest downturn in output and new business."*

*"Despite falling business requirements, firms raised employment for the eighteenth successive month, albeit at a moderate pace. The combination of a drop in new work and expanding workforces allowed firms to work through their backlogs."*

*"The post-pandemic boom is clearly at an end, as the ongoing cost-of-living crisis plays an increasingly important role. Moreover, the 12-month outlook continues to weaken."*

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.

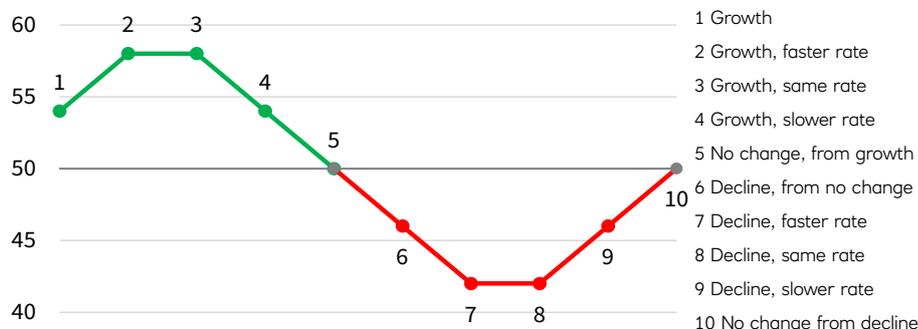
The headline figure is the Business Activity Index. This is a composite index calculated by weighting together the Manufacturing Output Index and the Services Business Activity Index. The Scotland Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the '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 received at Scottish private sector companies contracted for the third month running during September. The rate of reduction quickened on the month and was solid overall. Inflationary pressures and the cost-of-living crisis were primarily linked to the latest downturn.

At the sectoral level, manufacturing firms reported the softest decline in factory orders in three months, while services providers reported their first contraction since March 2021.

### New Business Index

sa, >50 = growth since previous month

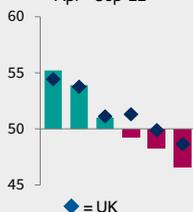
46.6

Sep '22



### New Business Index

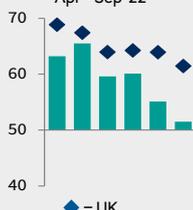
Apr - Sep '22



◆ = UK

### Future Activity Index

Apr - Sep '22



◆ = UK

### Business expectations

Amid soaring prices and recession fears, overall activity expectations weakened for the second consecutive month in Scotland's private sector in September. Business confidence hit a 28-month low, posting below the average recorded over the series history and much weaker than the UK-wide average.

### Future Activity Index

>50 = growth expected over next 12 months

51.5

Sep '22



## Exports

### Export climate worsens at quicker pace in September

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 Export Climate Index posted 48.8 in August, down from 49.4 in August, to signal a second month of contraction in the export climate for Scottish private sector firms.

Of Scotland's top five export markets, only France reported an increase in business activity during September, with the pace of growth accelerating. The US, Germany and the Netherlands all registered a loss of activity.

### Export Climate Index

sa, >50 = growth since previous month

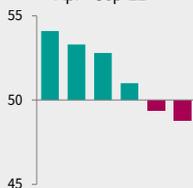
48.8

Sep '22



### Export Climate Index

Apr - Sep '22



### Top export markets, Scotland

Rank	Market	Weight	Output Index, Sept '22
1	Netherlands	18.3%	46.4
2	USA	10.8%	49.3*
3	Germany	9.2%	45.7
4	China	6.6%	53.0**
5	France	5.6%	51.2

\* September 'flash' data

\*\* August data. Due to a later release date, September data for China were not available for inclusion in the ECI.

## Business capacity

### Employment

As has been the case since April 2021, employment across Scotland's private sector increased in September. According to anecdotal evidence, successful hiring was in part linked to fresh graduates entering the workforce. While the respective seasonally adjusted index improved marginally from the that seen in August, it was the second-lowest reading in 17 months.

The pace of employment growth in Scotland was softer than the UK average.

### Employment Index

sa, >50 = growth since previous month

52.1

Sep '22



### Outstanding business

September data revealed a reduction in backlogs of work for the fourth consecutive month at private sector companies in Scotland. The rate of depletion quickened to the fastest in 20 months. Respondents frequently mentioned the fall in backlogs reflected fewer new orders.

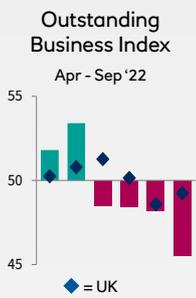
The rate of reduction at Scottish private sector companies was quicker than the UK-wide average which, in contrast to Scotland, softened during September.

### Outstanding Business Index

sa, >50 = growth since previous month

45.5

Sep '22



## Prices

### Input prices

For the twenty-eighth month running, average cost burdens rose across private sector firms in Scotland during September. The rise was largely blamed on inflationary pressures in labour market and supply chains. Despite the rate of input price inflation remaining historically high, the latest incline was the softest since August 2021 with both sectors noting slower rates of inflation.

Moreover, the pace of inflation in Scotland lagged behind that seen at the UK level, posting the second-softest of the 12 monitored regions ahead of the South West of England.

### Prices Charged

Scotland's private sector firms raised their charges during September, thereby stretching the current run of output price inflation to 23 months. According to panellists, prices were raised primarily to offset increasing costs. That said, the rate of output price inflation was the weakest in 13 months and the softest of the 12 monitored UK regions.

Input Prices Index 72.8  
sa, >50 = inflation since previous month Sep '22



Prices Charged Index 60.4  
sa, >50 = inflation since previous month Sep '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, Sept'22*
1	Food & Drink	1.91	48
2	Mechanical Engineering	1.17	48
3	Electrical & Optical	1.08	52
4	Textiles & Clothing	1.06	48
5	Timber & Paper	1.05	45
6	Chemicals & Plastics	0.86	45
7	Basic Metals	0.81	45
8	Other Manufacturing	0.63	50
9	Transport	0.31	48

#### Scotland specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Sept'22*
1	Hotels, Restaurants & Catering	1.27	48
2	Financial Intermediation	1.10	52
3	Transport & Communication	1.04	48
4	Personal & Community Services	1.03	48
5	Business-to-business Services	0.94	48
6	Computing & IT Services	0.71	58

## UK sector focus

### Business-to-Business Services

The UK's large Business-to-Business Services sector suffered a downturn in activity in the three months to September, latest PMI data showed. Output levels fell, albeit only slightly, for the first time since the third national lockdown at the start of 2021.

High inflation and waning confidence among customers acted as headwinds to growth, according to surveyed businesses. With rising interest rates forecast to further dampen demand, firms' expectations towards future activity fell to the lowest for almost two-and-a-half years.

Employment continued to rise across the sector. However, whilst still solid by historical standards, the pace of job creation slowed to the weakest since early-2021.

On the price front, rates of both input cost and output charge inflation remained elevated but maintained a steady decline from their recent record highs in Q2.

#### Output Index

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



\*3-month moving average.



## UK Regional PMI overview

### Business Activity

Nine of the 12 monitored regions recorded lower levels of business activity in September. The fastest rates of contraction were seen in Northern Ireland\* and the South West. London was the best-performing region, despite seeing growth slow to a 20-month low, ahead of Yorkshire & Humber. Business activity in the South East was unchanged on the month, after having fallen slightly in August.

### Employment

Although employment rose in most regions in September, rates of job creation slowed in the majority of cases. This included the East of England, which nevertheless topped the rankings ahead of the South East. Workforce numbers fell in the North East for the fourth month running, whilst the South West recorded its first decline since February 2021.

### Future Activity

Business confidence towards future output fell across three-quarters of the surveyed regions in September. Yorkshire & Humber recorded the strongest optimism, despite seeing the greatest reduction in expectations from the previous month. Business sentiment was generally positive, with the exception of Northern Ireland and the North East.

Business Activity Index

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



Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months, Sep '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
Apr '22	58.9	55.2	54.1	63.2	53.0	51.8	85.0	71.0
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

### 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
Jul '22	44.9	40.8	57.9	53.3	40.5	81.1	69.8
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

### 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
Jul '22	51.4	51.1	60.6	52.7	50.2	79.4	60.6
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

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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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