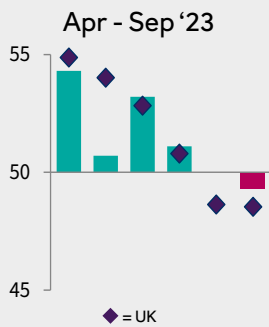
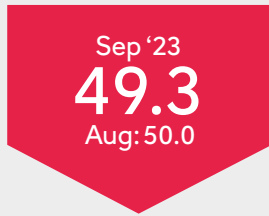


Royal Bank of Scotland PMI[®]

Fresh fall in private sector activity

Scotland Business Activity Index



Key findings

Output declines for first time since January

Continued downturn in new business

Cost burdens rise at weakest pace in over two-and-a-half years

The latest Royal Bank of Scotland PMI[®] survey signalled a fresh fall in output across Scotland's private sector during September, as the ongoing weakness in manufacturing production extended to services activity which fell for the first time in eight months. The headline Scotland Business Activity Index moved below the 50.0 no-change threshold separating growth from contraction for the first time since January. That said, at 49.3 in September, down from 50.0 in August, the latest reading signalled only a marginal reduction in business activity and was weaker than that seen across the UK as a whole (48.5).

The downturn across Scotland reflected weakening demand conditions. Inflows of new work fell for the third consecutive month in September. Firms noted that general uncertainty shrouding the economic outlook and increased borrowing costs and inflationary pressures had squeezed disposable incomes, discouraging customer activity.

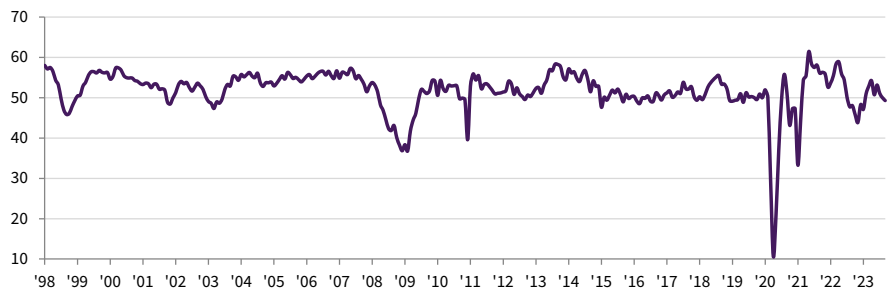
Judith Cruickshank, Chair, Scotland Board, Royal Bank of Scotland, commented:

"The third quarter ended with a fresh contraction in business activity across Scotland's private sector, thereby marking the first fall in output since the start of the year. The downturn in activity was unsurprising as indicated by falling demand for Scottish goods and services for the third successive month in September. This, coupled with historically muted expectations for the outlook for output, signals a weak fourth quarter. Whether the downturn will gain momentum or if demand trends can be reversed will be something to watch for in the coming months."

"In some positive news, cost burdens rose at the weakest pace in over two-and-a-half years. Cooler price pressures should eventually lead to renewed demand."

Scotland Business Activity Index

sa, >50 = growth since previous month



Contents

- [About the report](#)
- [Demand and outlook](#)
- [Exports](#)
- [Business capacity](#)
- [Prices](#)
- [UK Sector PMI](#)
- [UK Regional PMI](#)
- [Data summary](#)
- [Contact](#)

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.

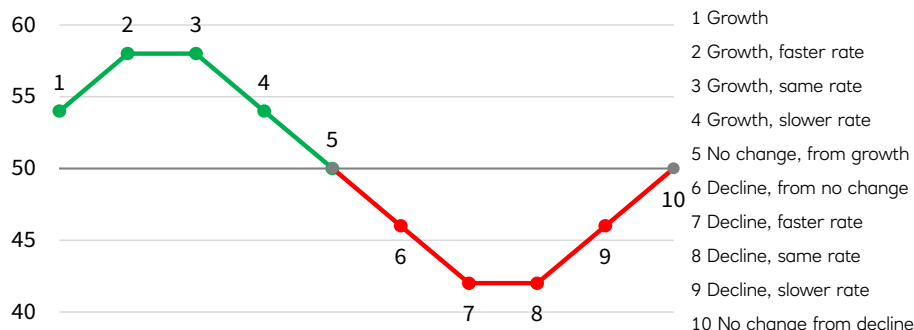
The headline figure is the Business Activity Index. This is a composite index calculated by weighting together the Manufacturing Output Index and the Services Business Activity Index. The Scotland Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

Index interpretation

50.0 = no change since previous month



Demand and outlook

New business

Scotland's private sector recorded a further reduction in inflows of new work during September. According to anecdotal evidence, uncertainty surrounding the UK economic outlook and increased cost of living and borrowing costs weighed on customer demand. That said, the rate of decrease eased from August, with both sectors recording softer downturns.

New orders also fell across the UK as a whole, and at a stronger pace than that seen for Scotland.

Business expectations

Business confidence at Scottish private sector companies remained strong in September. Sentiment improved to a three-month high, with firms expecting growth in activity stemming from hopes of improved demand conditions, launch of new products and general market growth. Nonetheless, fears of increased competition and inflationary pressures resulting in fewer sales meant confidence levels remained historically muted.

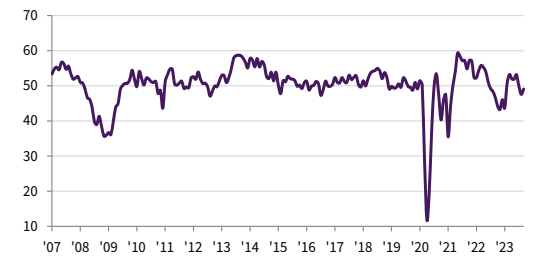
Of the 12 monitored areas, only the North East and Northern Ireland recorded weaker sentiment than Scotland.

New Business Index

sa, >50 = growth since previous month

49.0

Sep '23

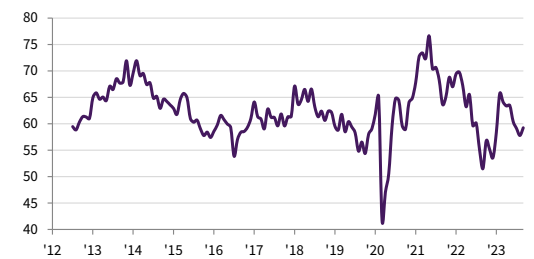


Future Activity Index

>50 = growth expected over next 12 months

59.2

Sep '23



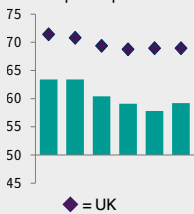
New Business Index

Apr - Sep '23



Future Activity Index

Apr - Sep '23



Business capacity

Employment

An eighth monthly expansion in employment was recorded across Scotland's private sector in September. Panellists mentioned raising payroll numbers to return to pre-COVID levels. However, underlying data showed that job creation was limited to the service sector and was marginal overall.

Nonetheless, Scotland went against the broader UK trend. Northern Ireland also registered growth in jobs, but Wales and all nine English regions posted declines.

Outstanding business

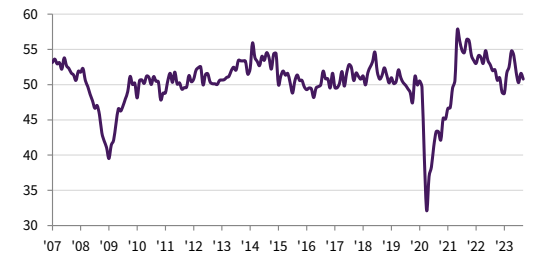
The level of unfinished work fell across Scotland's private sector during September, with a contraction noted for the fifth month running. Firms mentioned that reduced order volumes and falling demand allowed companies to work through backlogs. However, the rate of depletion was modest overall and was outpaced by the UK trend.

Employment Index

sa, >50 = growth since previous month

50.8

Sep '23

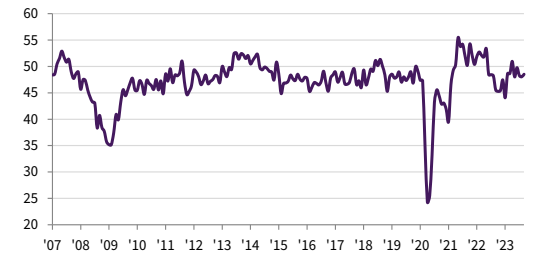


Outstanding Business Index

sa, >50 = growth since previous month

48.5

Sep '23



Prices

Input prices

Input prices continued to rise across Scottish private sector markets during September. Surveyed businesses often blamed growing cost burdens on wage inflation and material cost increases. Though marked and strong in context of the historical data, the rate of input price inflation moderated to a 31-month low, with both sectors reporting easing cost pressures.

The pace of input price inflation across Scotland was stronger than the UK average.

Prices Charged

Average prices charged for the provision of private sector goods and services rose in Scotland during September. The respective seasonally adjusted index ticked up from August's recent low and signalled a sharp increase in output charges. Higher cost burdens fed through to greater charges, panellists noted.

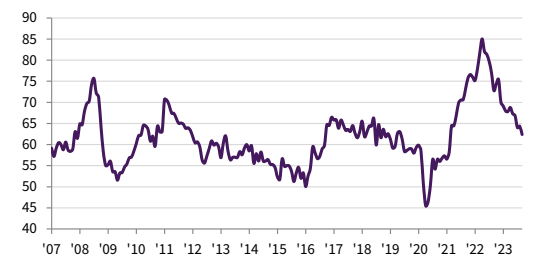
Furthermore, the output charge inflation across Scotland was sharper than the UK trend.

Input Prices Index

sa, >50 = inflation since previous month

62.4

Sep '23

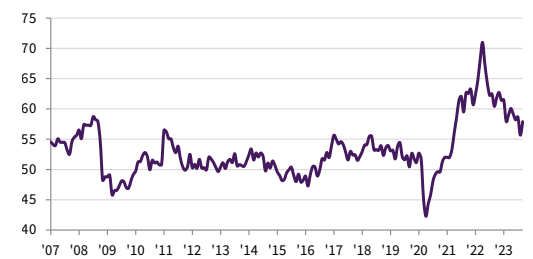


Prices Charged Index

sa, >50 = inflation since previous month

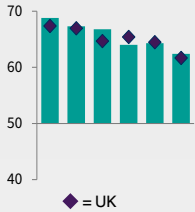
57.9

Sep '23



Input Prices Index

Apr - Sep '23



Prices Charged Index

Apr - Sep '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, Sep'23 ⁺ |
|------|------------------------|------|--------------------------------------|
| 1 | Food & Drink | 1.91 | 50 |
| 2 | Mechanical Engineering | 1.17 | 50 |
| 3 | Electrical & Optical | 1.08 | 45 |
| 4 | Textiles & Clothing | 1.06 | 50 |
| 5 | Timber & Paper | 1.05 | 45 |
| 6 | Chemicals & Plastics | 0.86 | 50 |
| 7 | Basic Metals | 0.81 | 50 |
| 8 | Other Manufacturing | 0.63 | 50 |
| 9 | Transport | 0.31 | 50 |

Scotland specialisation: Services

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

UK sector focus

Business-to-business services

The UK's large Business-to-business services sector contracted during the third quarter. Activity fell at a solid rate that was the fastest for over three years.

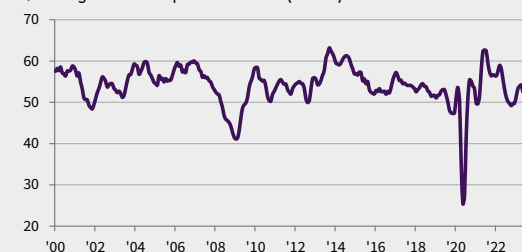
The downturn reflected a softening of demand across the sector, with firms recording a notable decline in inflows of new work in the three months to September. Business confidence towards the outlook was at its lowest since the start of the year and subdued by historical standards.

Although employment in the sector continued to rise, the rate of job creation slowed to the weakest in the year-to-date as firms made increasingly rapid inroads into their backlogs of work.

On the price front, input cost inflation remained historically elevated, driven by rising salaries and fuel prices, but it slowed to a two-and-a-half year low. It was a similar story for prices charged.

Output Index

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



sa, >50 = growth since previous month (3-month moving average)



UK Regional PMI overview

Business Activity

Business activity fell across all but one of the 12 monitored UK regions and nations, the exception being London. Furthermore, output in the capital increased at an accelerated rate. The North East recorded the sharpest drop in business, its quickest for more than a year, followed by neighbouring Yorkshire & Humber.

Employment

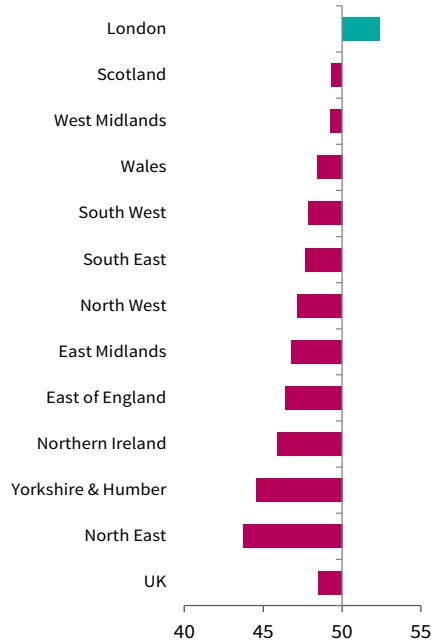
Employment growth was confined to just Northern Ireland* and Scotland in September, albeit with the rates of job creation there slowing to a crawl. Ten of the 12 monitored areas recorded a reduction in staffing levels, the highest number since January 2021. For the third month running, the deepest job cuts were seen in the North East.

Future Activity

As was the case throughout the third quarter, firms in the West Midlands were the most optimistic about future activity in September. Next in the rankings was the South East, which was one of seven regions where confidence improved. The most marked increase in sentiment was in the East of England. Expectations were lowest in the North East.

Business Activity Index

sa, >50 = growth since previous month, Sep '23



Employment Index

sa, >50 = growth since previous month, Sep '23



Future Activity Index

>50 = growth expected over next 12 months, Sep '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 |
|---------|-------------------|--------------|----------------|------------------|------------|----------------------|--------------|----------------|
| Apr '23 | 54.3 | 52.0 | 52.3 | 63.4 | 54.8 | 51.0 | 68.8 | 60.1 |
| May '23 | 50.7 | 51.9 | 51.1 | 63.4 | 54.1 | 48.0 | 67.3 | 59.2 |
| Jun '23 | 53.2 | 53.1 | 50.2 | 60.4 | 51.8 | 49.8 | 66.8 | 58.2 |
| Jul '23 | 51.1 | 49.9 | 50.0 | 59.1 | 50.3 | 48.3 | 64.0 | 58.7 |
| Aug '23 | 50.0 | 47.5 | 49.6 | 57.8 | 51.6 | 48.1 | 64.3 | 55.7 |

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 |
|---------|--------|------------|----------------|------------|------------------|--------------|---------------|
| Jul '23 | 46.2 | 42.4 | 59.0 | 52.9 | 44.2 | 60.0 | 60.4 |
| Aug '23 | 48.5 | 43.8 | 61.6 | 49.7 | 41.2 | 57.1 | 57.1 |
| Sep '23 | 48.8 | 47.1 | 58.4 | 49.9 | 41.5 | 55.5 | 54.9 |

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 |
|---------|-------------------|--------------|------------------|------------|----------------------|--------------|----------------|
| Jul '23 | 52.2 | 51.5 | 59.1 | 49.7 | 49.2 | 64.9 | 58.3 |
| Aug '23 | 50.4 | 48.4 | 56.9 | 52.0 | 49.6 | 66.0 | 55.3 |
| Sep '23 | 49.4 | 49.5 | 59.4 | 51.0 | 50.1 | 63.9 | 58.6 |

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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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