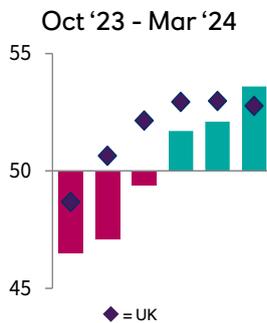




Royal Bank of Scotland PMI®

Private sector growth remains skewed towards the service sector

Scotland Business Activity Index



Key findings

Service providers signal a sharp and faster expansion in activity...

...while the downturn in manufacturing production deepens

Price pressures ease and almost align with historical average

The headline Scotland Business Activity Index – a seasonally adjusted index that measures the month-on-month change in the combined output of the region’s manufacturing and service sectors – signalled a third consecutive monthly expansion in private sector output during March. The index rose from 52.1 in February to 53.6, indicating the most pronounced expansion in 11 months. The latest upturn across Scotland surpassed that seen for the UK as a whole, with only London and Northern Ireland recording stronger rates of growth.

However, underlying data noted a continued divergence between the two sub-sectors. While business activity rose across service providers at the sharpest pace since June 2022, the downturn in manufacturing production entered its ninth successive month and deepened since February.

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

"The health of the Scottish private sector continued to improve as the first quarter drew to a close. However, the growth recorded was solely garnered on the back of the fast-expanding service sector. Meanwhile, the production segment of the economy remained a challenge. The lopsided nature of the expansion injects some concern over future growth. Divergent trends were also seen in terms of employment, which increased in services but decreased solidly across manufacturing."

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.

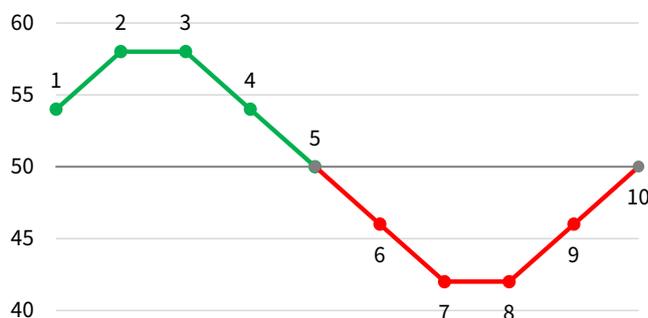
The headline figure is the Business Activity Index. This is a composite index calculated by weighting together the Manufacturing Output Index and the Services Business Activity Index. The Scotland Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

Index interpretation

50.0 = no change since previous month



- 1 Growth
- 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



Demand and outlook

New business

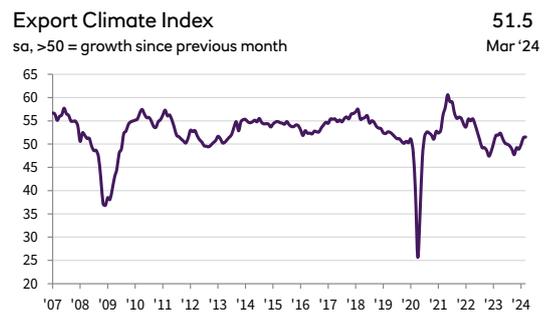
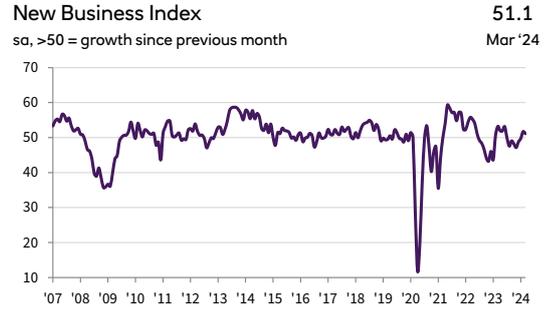
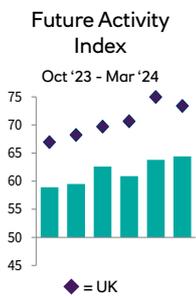
Scotland's private sector signalled a second consecutive monthly rise in new business during March. This was again driven by service firms, according to sub-sector data, while the downturn in manufacturing new orders entered its twelfth successive month. Survey respondents noted that new client wins and contracts, increased marketing and the closure of competitive firms supported the latest uptick.

The rate of growth across Scotland moderated and lagged behind the UK-wide average, however.

Business expectations

Latest data indicated a further improvement in confidence levels at Scottish private sector companies. The respective index ticked up for the second straight month to a 13-month high. The positive year-ahead outlook was spurred by plans of increased investment and advertising, as well as hopes of improving underlying demand conditions.

Nonetheless, sentiment across Scotland was the second-weakest of all the monitored UK regions and nations, with only the North East anticipating softer growth in activity.



Exports

Sustained improvement in the export climate

The Scotland Export Climate Index (ECI) 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.

Following a return to expansion territory for the first time in eight months during February, the ECI remained broadly unchanged at 51.5 in March, up from 51.4, and thereby signalled a modest improvement in export conditions.

Scotland's top three trading partners all recorded expansions in output during March. However, France and Germany recorded a fall in production.



Top export markets, Scotland

Rank	Market	Weight	Output Index, Mar '24
1	Netherlands	19.4%	50.3
2	Ireland	13.5%	53.2
3	USA	13.2%	52.1
4	France	9.0%	48.3
5	Germany	8.9%	47.7

Business capacity

Employment

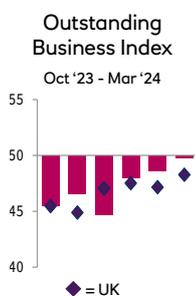
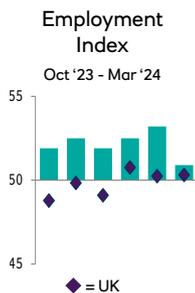
The seasonally adjusted Employment Index was above the 50.0 neutral mark for the fourteenth month running in March, pointing to a rise in employment at Scottish firms. Where staffing levels were raised, anecdotal evidence pointed to growing business requirements and the successful replacements of leavers. That said, the rate of job creation was among the weakest in the aforementioned sequence, amid a softer rise in services employment and a fresh and solid decline at manufacturers.

Despite the slowdown in hiring activity across Scotland, the rate of growth managed to outpace that seen at the UK level.

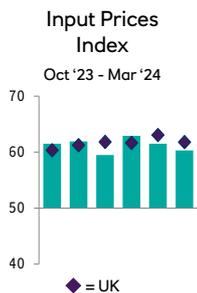
Outstanding business

Outstanding work across Scotland's private sector fell in March, with a drop now recorded in 21 of the last 22 survey periods. That said, the rate of decrease was the weakest in nine months and fractional overall, as a solid and stronger rise in outstanding business at service firms was able to largely offset the contraction seen at manufacturers. Manufacturers often noted that fewer orders and material shortages drove the latest downturn.

Similarly, the UK registered a softer decrease in outstanding business during March. However, the rate of contraction exceeded that observed for Scotland for the third successive month.



Prices



Input prices

Cost burdens rose across Scotland during March. The rate of inflation, despite easing to a three-month low, was steep overall. Higher prices from suppliers, in part linked to the Red Sea crisis, and rising energy, material and labour costs were attributed to the latest rise in cost burdens.

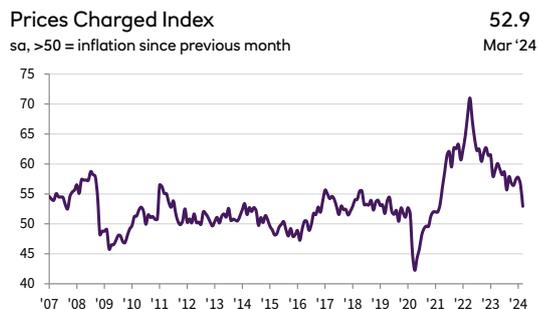
However, the rate of input price inflation across Scotland was one of the weakest of the 12-monitored UK regions and nations. Wales was the only area to record a softer rise in input prices.



Prices Charged

Scottish private sector firms raised their selling prices in March. According to panellists, output charges were increased as a result of higher input costs. However, the rate of output price inflation moderated notably to the weakest in just over three years and was modest overall.

Moreover, Scotland recorded the softest rise in charges of the 12 monitored UK regions and nations.



Scotland Manufacturing PMI

Manufacturing downturn stretches to nine consecutive months

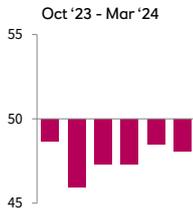
The seasonally adjusted Scotland Manufacturing PMI - a composite single-figure indicator of manufacturing performance - fell to 48.1 in March from 48.5 in February, thereby signalling a more pronounced deterioration in operating conditions. Moreover, the latest reading extended the current run of decrease to nine consecutive months, the longest seen since early-2008 to late-2009.

The downturn in production deepened. New orders also fell in March, though at the weakest rate in nine months. Given falling production requirements, staffing levels were cut back, with job shedding noted in two of the last three survey periods. Moreover, the pace of decrease was the most marked in 38 months. Additionally, firms were able to keep on top of their workloads, as March data revealed a rapid decline in backlogs.

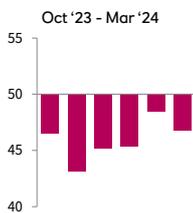
Price pressures eased from that seen in the previous month. The rate of input and output price inflation weakened to a three- and five-month low, respectively.

Sentiment surrounding the outlook also remained historically muted. Nonetheless, manufacturers expect production to rise over the coming 12 months.

Manufacturing PMI



Output Index



Manufacturing PMI

sa, >50 = improvement since previous month

48.1

Mar '24

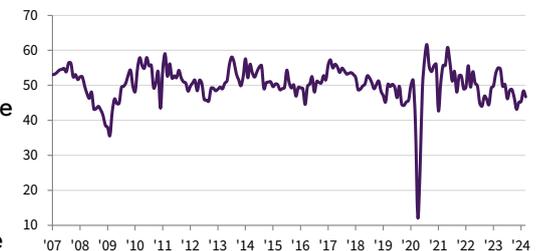


Output Index

>50 = growth expected over next 12 months

46.7

Mar '24



New Orders Index

New Export Orders Index

sa, >50 = growth since previous month



Future Output Index

>50 = growth expected over next 12 months



Employment Index

Backlogs of Work Index

Stocks of Finished Goods Index

sa, >50 = growth since previous month



Suppliers' Delivery Times Index

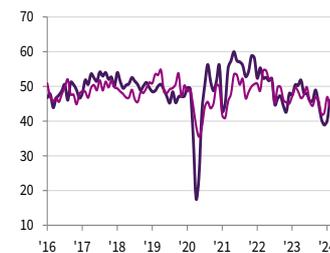
sa, >50 = faster times since previous month



Quantity of Purchases Index

Stocks of Purchases Index

sa, >50 = growth since previous month



Input Prices Index

Output Prices Index

sa, >50 = inflation since previous month



Scotland Services PMI

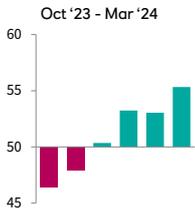
Growth in service sector activity at its strongest in 21 months

The seasonally adjusted Scotland Services Business Activity Index picked up to 55.3 in March from 53.0 in February, indicating the sharpest expansion in activity since mid-2022.

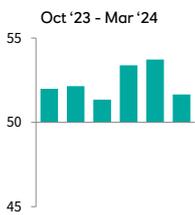
Demand trends improved as inflows of new business expanded for the fourth consecutive month in March. That said, the rate of growth moderated and was broadly in line with the long-run trend. Staffing levels were also raised in March, thereby extending the current run of expansion to eight months. Similarly though, the pace of job creation softened and was the weakest in the year-to-date. Turning to prices, cost burdens rose sharply and at a historically elevated rate, albeit to a weaker degree than seen in February. However, the rate of output charge inflation moderated notably to the least pronounced in just over three years, amid reports that some firms missed out on profits to price competitively instead.

Looking ahead, service providers across Scotland remained optimistic, as the degree of confidence rose to the joint-strongest in 22 months.

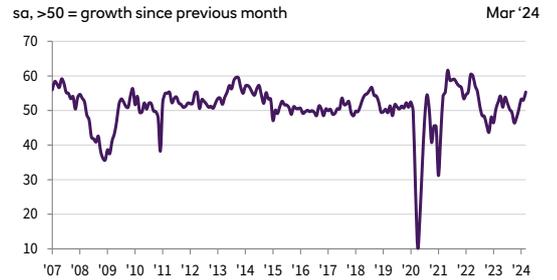
Business Activity Index



Employment Index



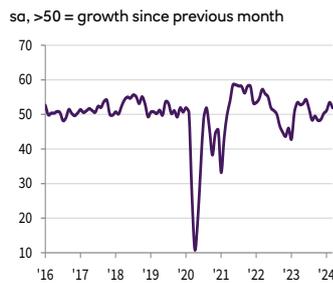
Business Activity Index



Employment Index



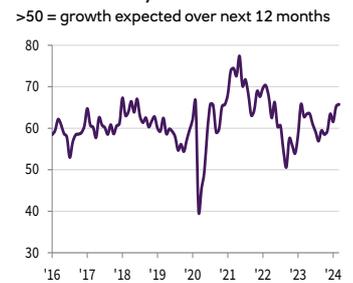
New Business Index



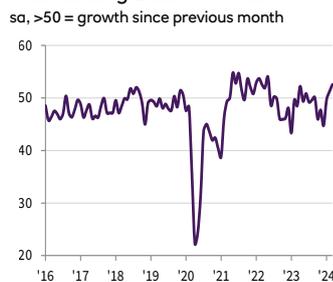
New Export Business Index



Future Activity Index



Outstanding Business Index



Input Prices Index



Prices Charged Index



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, Mar'24*
1	Food & Drink	1.89	
2	Mechanical Engineering	1.15	
3	Textiles & Clothing	1.13	
4	Electrical & Optical	1.04	
5	Timber & Paper	1.04	
6	Chemicals & Plastics	0.97	
7	Basic Metals	0.71	
8	Other Manufacturing	0.58	
9	Transport	0.33	

Scotland specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Mar'24*
1	Personal & Community Services	1.24	
2	Hotels, Restaurants & Catering	1.22	
3	Transport & Communication	1.02	
4	Financial Intermediation	0.93	
5	Business-to-business Services	0.90	
6	Computing & IT Services	0.69	

UK sector focus

Hotels, Restaurants & Catering

The Hotels, Restaurants & Catering sector was one of the UK economy's strongest growth areas in the opening quarter of 2024. Business activity rose sharply, building on a solid end to 2023 and marking a reversal of fortunes following a sharp decline in activity last summer.

Furthermore, businesses in the sector looked to the future with increasing optimism, with confidence towards the 12-month outlook for activity reaching the highest for nearly two years. It did however remain just below the long-run series average.

Input prices continued to rise sharply across the Hotels, Restaurants & Catering sector in the three months March, linked to wage pressures and increased fuel and transportation costs. The rate of inflation was faster than in any other broad services sub-sector monitored by the survey, albeit below the averages in 2022 and 2023. Firms raised their output prices accordingly, although the increase was likewise among the weakest in the past three years.

Output Index

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



UK Regional PMI overview

Business Activity

Business activity rose almost universally across the UK in March. Growth was recorded in 11 of the 12 monitored nations and regions, led by London. Close behind was Northern Ireland*, which gathered considerable momentum to post its steepest rise in output for over two years. Yorkshire & Humber went against the trend and saw a second straight monthly contraction.

Employment

The fastest rate of job creation in March was recorded in Northern Ireland where it reached the quickest since August last year. Six other nations and regions saw staffing levels rise during the month, although employment growth was generally only modest. The West Midlands meanwhile registered the most marked drop in workforce numbers, the fastest there in over three years.

Future Activity

Business expectations remained positive in all areas in March, with confidence levels generally exceeding their long-run series averages. The West Midlands returned to the top of the rankings as the degree of optimism in the region reached the strongest since the start of 2022. In the majority of cases, however, sentiment slipped from the highs seen in February.

Business Activity Index

sa, >50 = growth since previous month, Mar '24



Employment Index

sa, >50 = growth since previous month, Mar '24



Future Activity Index

>50 = growth expected over next 12 months, Mar '24



* 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
Oct '23	46.5	48.2	47.7	58.9	51.9	45.5	61.5	56.8
Nov '23	47.1	47.1	49.2	59.5	52.5	46.6	61.9	56.4
Dec '23	49.4	48.8	48.9	62.6	51.9	44.7	59.5	57.5
Jan '24	51.7	49.7	49.9	60.9	52.5	48.0	62.9	57.8
Feb '24	52.1	51.7	51.4	63.8	53.2	48.6	61.5	56.6
Mar '24	53.6	51.1	51.5	64.4	50.9	49.8	60.3	52.9

Manufacturing

sa, 50 = no change over previous month. *50 = no change over next 12 months.

	PMI	Output	New Orders	New Export Orders	Future Output*	Employment	Backlogs of Work	Stocks of Finished Goods	Quantity of Purchases	Suppliers' Delivery Times	Stocks of Purchases	Input Prices	Output Prices
Jan '24	47.3	45.4	44.1	43.3	58.2	48.8	41.8	46.3	40.2	44.9	47.0	59.2	57.1
Feb '24	48.5	48.4	44.8	41.6	58.1	51.0	38.0	39.2	45.9	44.3	43.9	59.2	57.1
Mar '24	48.1	46.7	47.9	41.6	58.9	47.8	39.1	40.6	43.9	45.9	43.5	57.9	54.6

Services

sa, 50 = no change over previous month. *50 = no change over next 12 months.

	Business Activity	New Business	New Export Business	Future Activity*	Employment	Outstanding Business	Input Prices	Prices Charged
Jan '24	53.2	51.1	46.2	61.6	53.4	49.6	63.8	57.9
Feb '24	53.0	53.4	47.6	65.2	53.7	51.2	62.1	56.4
Mar '24	55.3	51.9	51.7	65.8	51.7	52.5	60.9	52.5

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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.

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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