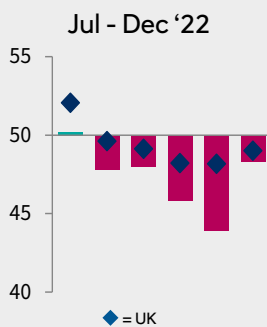


# Royal Bank of Scotland PMI<sup>®</sup>

## Private sector activity contracts at softer pace in December

### Scotland Business Activity Index



### Key findings

Private sector output falls for fifth month running

Contraction in new work remains solid

Employment falls for first time in 21 months

According to the latest Royal Bank of Scotland PMI<sup>®</sup> data, private sector activity fell solidly during December. The Business Activity Index - a measure of combined manufacturing and service sector output - improved from November's recent low of 43.9 to 48.3 in December, signalling the softest downturn in activity in the current five-month sequence of reduction. Similarly, while new work received fell strongly in December, the pace of decrease was softer than that recorded in the previous survey period. That said, the ongoing drop in business requirements amid challenging demand conditions resulted in the first fall in employment in 21 months. Moreover, as backlogs of work continued to decrease and expectations moderated further.

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

*"The Scottish private sector recorded another grim performance during December. Client appetite suffered as various economic headwinds continued to dominate the business environment. That said, the downturn across Scotland visibly eased from November, as both private sector output and new work received fell at softer paces.*

*"Moreover, the loss in demand helped to relieve price pressures, with slower rates of inflation seen for both input costs and output charges. Nonetheless, these remain well above their respective historical averages.*

*"As we move into 2023, it will be important as to how firms adjust to demand shortfalls. We have already noticed the first reduction in employment since March 2021. Moreover, amid a high inflation and interest rate environment, it will be difficult to revive demand and thus will be the primary concern for businesses."*

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.

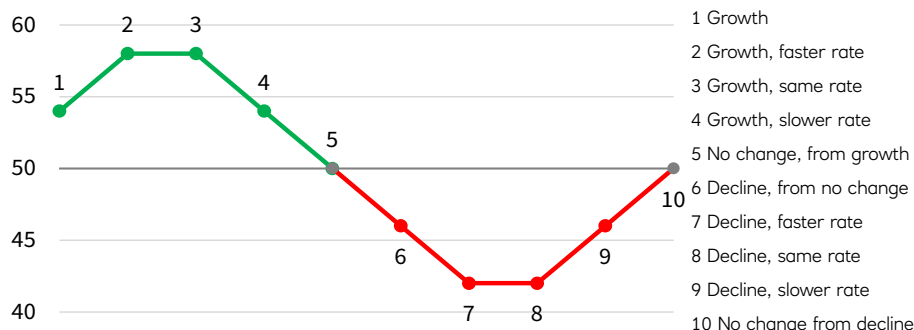
The headline figure is the Business Activity Index. This is a composite index calculated by weighting together the Manufacturing Output Index and the Services Business Activity Index. The Scotland Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

Demand shortfalls continued to lead a decrease in new work received across Scotland's private sector in December, thereby extending the run of contraction to six successive months. While the rate of decline eased from November's recent low, it was solid overall. The cost of living crisis, higher interest rates and growing economic uncertainty were all linked to the loss in client appetite.

Moreover, the downturn in incoming new business across Scotland was stronger than that recorded at the UK-level.

### Business expectations

Sentiment across the Scottish private sector ticked down for the second month running during December. The latest reading was the second weakest in 31 months and comfortably below the historical average. The war in Ukraine, a slowdown in the housing market and inflation weighed heavily on confidence.

Of the 12 monitored regions, Scotland had the third-lowest Future Activity Index reading, ahead of Northern Ireland and the North East.

### Exports

#### Export markets signal a softer, but solid decline in output

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.

At 48.2 in December, up from 47.3 in November, the Scotland Export Climate Index pointed to a fifth month of deterioration in output across Scotland's export markets, albeit at a softer pace.

Of the top five export markets, the US led the downturn, and was the only country where the pace of reduction gathered pace.

New Business Index  
sa, >50 = growth since previous month  
46.0  
Dec '22



Future Activity Index  
>50 = growth expected over next 12 months  
53.6  
Dec '22



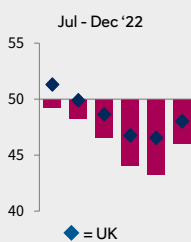
Export Climate Index  
sa, >50 = growth since previous month  
48.2  
Dec '22



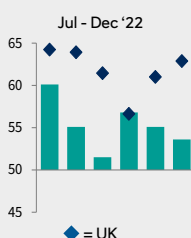
Top export markets, Scotland

Rank	Market	Weight	Output Index, Dec '22
1	Netherlands	18.3%	46.2
2	USA	10.8%	45.0
3	Germany	9.2%	49.0
4	China	6.6%	48.3
5	France	5.6%	49.1

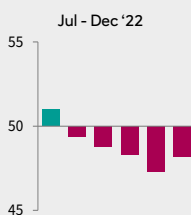
New Business Index  
Jul - Dec '22



Future Activity Index  
Jul - Dec '22



Export Climate Index  
Jul - Dec '22



## Business capacity

### Employment

Latest data signalled a fall in employment across Scotland during December, thereby ending the run of uninterrupted growth that began in April 2021. This was driven by lower staffing levels reported at service providers, as goods producers posted another slight rise in headcounts. The overall decline was only marginal. Where a fall was noted, firms were either actively reducing headcounts or delayed hiring despite reports of resignations.

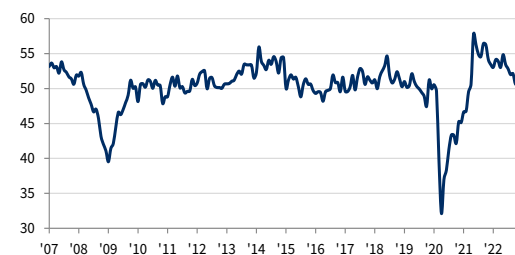
The pace of job shedding across Scotland was slightly faster than the UK average, which similarly reported a fall in payroll numbers for the first time in 22 months.

### Outstanding business

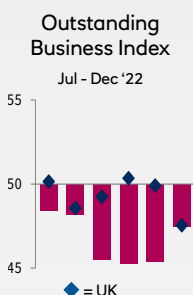
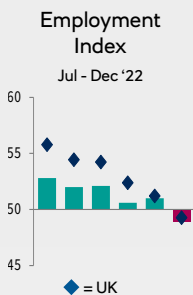
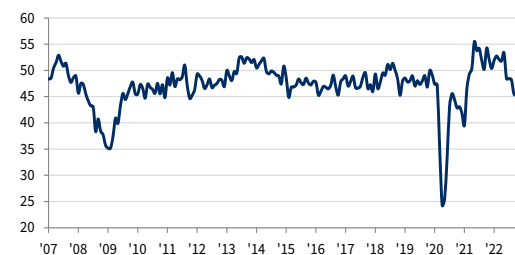
As has been the case since June, levels of unfinished work fell across Scotland during December. The rate of depletion eased on the month to the softest since August, but was solid overall. Surveyed businesses reported that as the pipeline of new work was eroded, they were able to work through backlogs.

The pace of contraction across Scotland was in line with that recorded for the UK as a whole.

Employment Index  
sa, >50 = growth since previous month  
48.9  
Dec '22



Outstanding Business Index  
sa, >50 = growth since previous month  
47.5  
Dec '22



## Prices

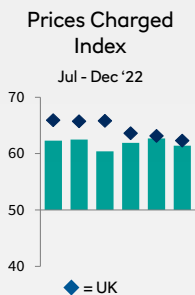
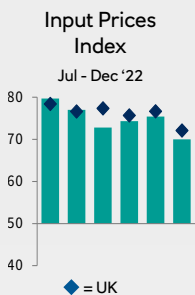
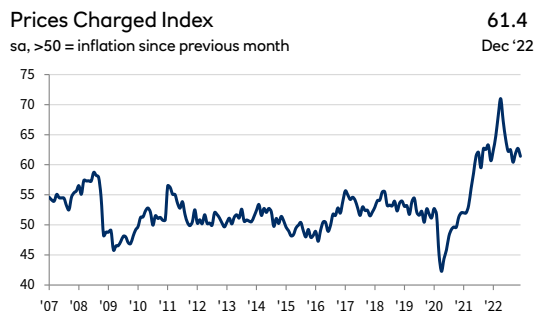
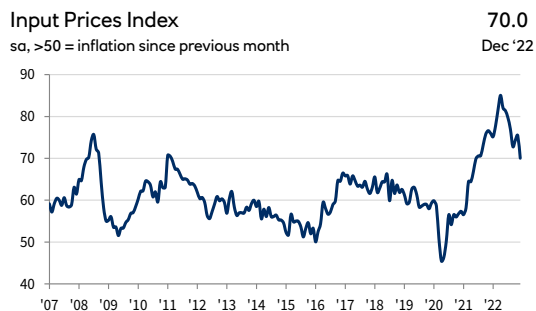
### Input prices

Companies in Scotland registered another substantial incline in average cost burdens during December, thereby stretching the current run of inflation to 31 months. While the pace of incline was the softest in 18 months, it registered well above the pre-COVID average. An array of reasons was attributed to the latest incline, which included higher wages, inflation, the ongoing energy crisis and Brexit.

Price pressures, while elevated, were still weaker across Scotland than that seen across the UK as a whole.

### Prices Charged

Prices charged for the provision of goods and services rose for the twenty-sixth successive month during December. Scottish firms were keen to share cost burdens with clients. The pace of charge inflation eased from November to the softest in three months but was still among the highest on record.





## Scotland Manufacturing PMI

### Operating conditions improve as downturn in output eases

The seasonally adjusted Scotland Manufacturing PMI - a composite single-figure indicator of manufacturing performance - posted 50.3 in December, up from 47.7 in November. While operating conditions improved only fractionally, it marked the first month of growth in three months.

That said, output and factory orders contracted for the seventh and eighth consecutive months, respectively. However, the rates of reduction eased on the month, indicating a slowdown in the downturn. While employment grew for the second month running, the pace of job creation slowed from November. Excluding the month of decline in October, the latest rise in payroll numbers was the weakest in 23 months.

However, price pressures continued to moderate as the year concluded. Input price inflation has now eased in eight of the last nine survey periods. Nonetheless the pace of inflation remained rapid. Simultaneously, growth prospects measured among the weakest on record.

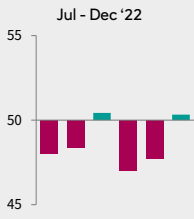
Manufacturing PMI  
sa, >50 = improvement since previous month  
50.3  
Dec '22



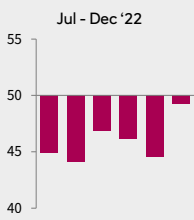
Output Index  
>50 = growth expected over next 12 months  
49.2  
Dec '22



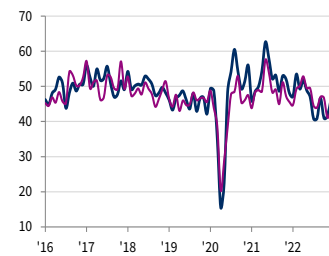
Manufacturing PMI  
Jul - Dec '22



Output Index  
Jul - Dec '22



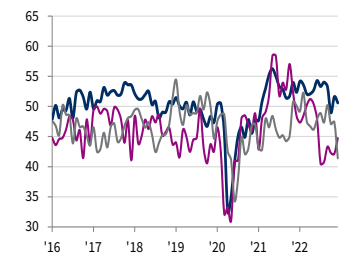
New Orders Index  
New Export Orders Index  
sa, >50 = growth since previous month



Future Output Index  
>50 = growth expected over next 12 months



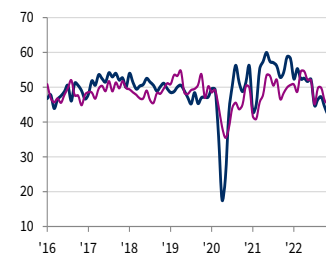
Employment Index  
Backlogs of Work Index  
Stocks of Finished Goods Index  
sa, >50 = growth since previous month



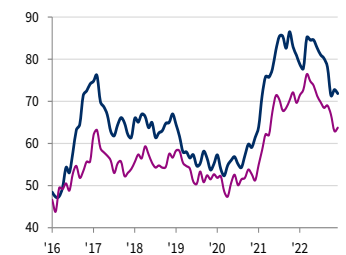
Suppliers' Delivery Times Index  
sa, >50 = faster times since previous month



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

### Business activity continues to decline in December

The seasonally adjusted Business Activity Index printed in sub 50.0 territory for the fifth month running in December. However, at 48.1, up from 43.7 in November, it indicated a softer reduction in business activity. New business received during this period also contracted at a softer pace but registered a solid drop overall.

The ongoing reduction in business requirements resulted to the first round of job cuts seen across service providers in 20 months. Meanwhile, backlogs of work fell for the fifth month running.

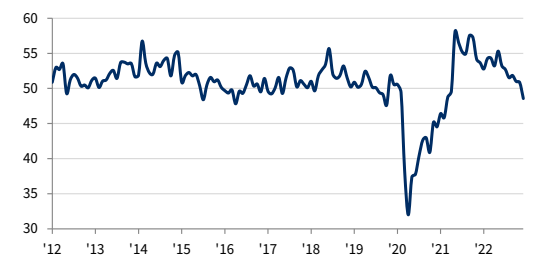
The loss in client activity did help alleviate some pressure on prices. Cost burdens continued to rise sharply, however the pace of growth cooled notably from November. As a result, the upturn in charges also eased.

Overall, sentiment weakened for the second successive month in December. Furthermore, as has been the case since April, confidence across Scottish service providers remained weak in context of the historical average.

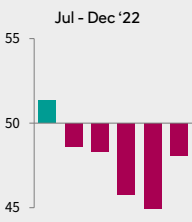
Business Activity Index  
sa, >50 = growth since previous month  
48.1  
Dec '22



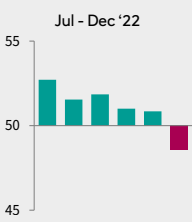
Employment Index  
sa, >50 = growth since previous month  
48.6  
Dec '22



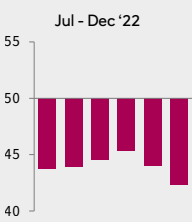
Business Activity Index  
Jul - Dec '22



Employment Index  
Jul - Dec '22



Supplier Performance Index  
Jul - Dec '22



42.3  
Dec '22

New Business Index  
sa, >50 = growth since previous month



New Export Business Index  
sa, >50 = growth since previous month



Future Activity Index  
>50 = growth expected over next 12 months



Outstanding Business Index  
sa, >50 = growth since previous month



Input Prices Index  
sa, >50 = inflation since previous month



Prices Charged Index  
sa, >50 = inflation since previous month



## 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, Dec'22*
1	Food & Drink	1.91	52
2	Mechanical Engineering	1.17	51
3	Electrical & Optical	1.08	49
4	Textiles & Clothing	1.06	46
5	Timber & Paper	1.05	41
6	Chemicals & Plastics	0.86	46
7	Basic Metals	0.81	46
8	Other Manufacturing	0.63	48
9	Transport	0.31	48

#### Scotland specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Dec'22*
1	Hotels, Restaurants & Catering	1.27	48
2	Financial Intermediation	1.10	48
3	Transport & Communication	1.04	48
4	Personal & Community Services	1.03	48
5	Business-to-business Services	0.94	49
6	Computing & IT Services	0.71	51

### UK sector focus

#### Chemicals & Plastics

Chemicals & Plastics manufacturing saw a sharp drop in output in the three months to December, making it one of the UK's worst-performing sectors in the final quarter of 2022.

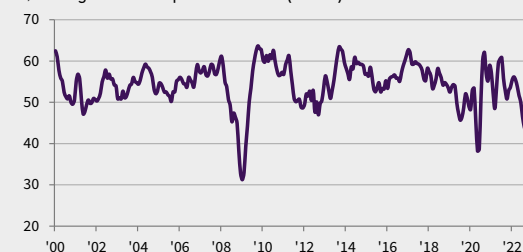
The result reflected a deepening decline in new orders, led by rapidly falling international demand. The trend in new export orders was in fact the weakest in the entire series history stretching back to 1996.

Accordingly, businesses across the sector were firmly in retrenchment mode, scaling down not only workforce numbers but also purchasing activity and inventories. Amid easing supply bottlenecks, input price inflation was at its lowest in over two years.

Looking ahead, expectations among Chemicals & Plastics firms towards future activity were historically subdued.

#### Output Index

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



\*3-month moving average.





## UK Regional PMI overview

### Business Activity

Of the 12 UK regions and nations monitored, only Wales and London recorded a rise in business activity in December, while the North West saw no change. This nevertheless represented an improvement from the broad-based decline seen in November. Northern Ireland\* meanwhile moved to the bottom of the rankings, having seen a sharp and accelerated fall in output.

### Employment

The number of areas of the UK reporting falling employment levels increased from just two in November to seven in December. The steepest reduction in headcounts was in the North East. By contrast, the North West saw the fastest rate of job creation, with the South East, West Midlands and Wales also posting further, albeit marginal, rises in workforce numbers.

### Future Activity

Business sentiment towards future activity generally remained subdued in December, with expectations in all regions and nations remaining below their respective historical series averages. That said, confidence improved in most areas. This included the South East, which topped the rankings ahead of Yorkshire & Humber. Only in Northern Ireland did pessimists outnumber optimists.

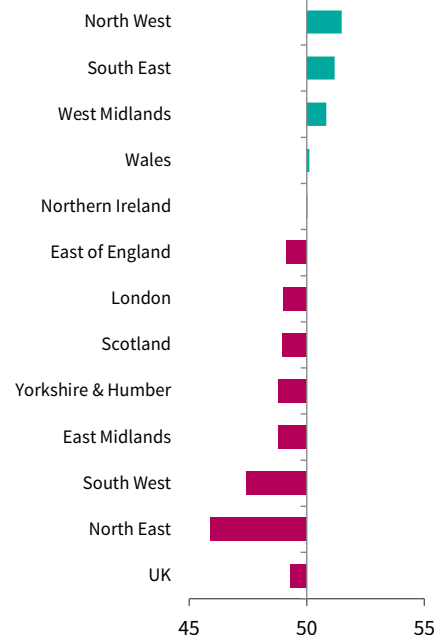
Business Activity Index

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



Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months, Dec '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
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
Dec '22	48.3	46.0	48.2	53.6	48.9	47.5	70.0	61.4

### 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
Oct '22	47.0	46.1	41.0	46.7	53.8	49.0	42.3	47.1	44.3	41.5	46.2	71.4	66.9
Nov '22	47.7	44.5	41.5	41.1	51.8	51.6	42.2	47.4	42.7	38.2	45.3	72.8	63.0
Dec '22	50.3	49.2	46.1	43.1	51.8	50.6	44.7	41.4	48.0	36.2	45.0	71.9	63.7

### 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
Oct '22	45.7	44.8	47.4	57.4	51.0	46.0	75.0	60.8
Nov '22	43.7	43.6	47.7	55.9	50.8	46.2	76.0	62.7
Dec '22	48.1	46.0	44.8	54.0	48.6	48.1	69.6	60.9

## 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.

### About S&P Global

S&P Global (NYSE: SPGI) S&P Global provides essential intelligence. We enable governments, businesses and individuals with the right data, expertise and connected technology so that they can make decisions with conviction. From helping our customers assess new investments to guiding them through ESG and energy transition across supply chains, we unlock new opportunities, solve challenges and accelerate progress for the world.

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.

[ihsmarkit.com/products/pmi.html](https://ihsmarkit.com/products/pmi.html)

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