

9 October 2024

Royal Bank of Scotland Growth Tracker

Scotland sees slower activity growth, but
job creation accelerates



Royal Bank of Scotland

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by **S&P Global**

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Key findings

September 2024

Slowest rise in output in current nine-month upturn

Cost inflation eases to 43-month low

Fastest rate of job creation since May 2023

The Royal Bank of Scotland Growth Tracker provides a timely snapshot of regional economic performance.

The report tracks monthly changes in business activity, demand, employment, backlogs, prices and the year-ahead outlook. The data are compiled from local companies that participate in S&P Global's Scotland manufacturing and services PMI surveys.

For more reports on 12 UK nations and regions, visit www.natwest.com/business/insights/economics





Scotland sees slower activity growth, but job creation accelerates

The NatWest Growth Tracker signalled further expansion across the Scottish private sector in September.

Scotland recorded growth in activity for the ninth consecutive month during September. However, the headline Business Activity Index fell to 51.2, from 52.7 in August. The rate of increase was the weakest in the aforementioned sequence, owing to cooling growth in the services sector. However, the negative impact from manufacturing nearly disappeared, as output fell only fractionally. Modest growth in output

was supported by a sustained, albeit mild increase in new business.

Compared to the UK overall, Scotland lagged in both activity and new business growth.

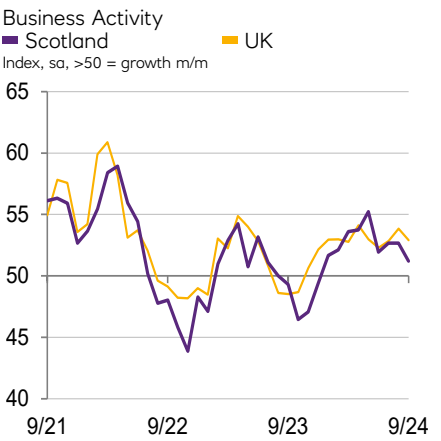
Nevertheless, the labour market remained a strong point for the Scottish private sector. Outstripping the UK-wide average, the rate of job creation hit a 16-month high and signalled a sharp rise in staffing levels. Growth was driven by services firms as manufacturing employment was broadly stable.

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Business Activity Index
September 2024

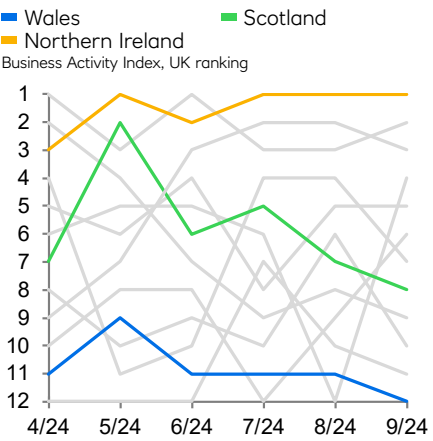
51.2

The Business Activity Index is a diffusion index calculated from companies' responses to a question on monthly changes in the volume of business activity. The index varies between 0 and 100 and is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. A reading above 50 indicates an increase compared to the previous month, and below 50 a decrease. The index is seasonally adjusted.

Data compiled 12-26 September



Sources: Royal Bank of Scotland, S&P Global PMI. ©2024 S&P Global.



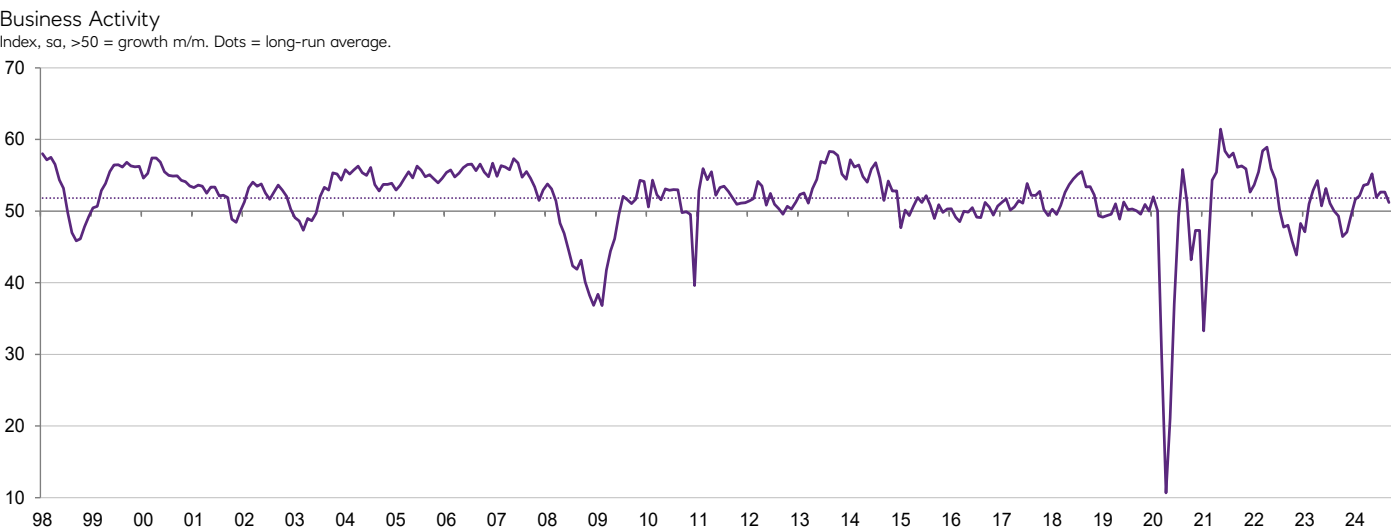
Sources: Royal Bank of Scotland, S&P Global PMI. ©2024 S&P Global.



Comment

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

"Scotland wrapped up the third quarter on a positive note. Sustained growth in new business inflows enabled firms to increase their activity levels, although the pace of growth slowed. Notably, hiring activity surged, with job creation reaching its highest level since May 2023. Expansions in new business, activity, and employment were driven by service firms, while manufacturers experienced broadly stable output and jobs but a sharp fall in new orders. The steeper decline in factory orders indicates more challenges for the Scottish manufacturing sector in the coming months. The uncertain political and economic landscape will also act as headwinds to growth, leading the Scottish private sector to increasingly depend on its service firms to drive the economy forward in the coming year. However, price pressures remained on an easing path, with cost burdens rising at the weakest pace in 43 months."



Sources: Royal Bank of Scotland, S&P Global PMI. ©2024 S&P Global.



Demand and outlook

Growth in new business sustained

Scottish private sector firms saw a rise in new business inflows in September, marking growth in each month of the third quarter. While the overall growth rate was mild and similar to August, a widening gap developed between service providers and manufacturers. Service providers saw stronger growth due to improved demand, whereas manufacturers faced a notable contraction.

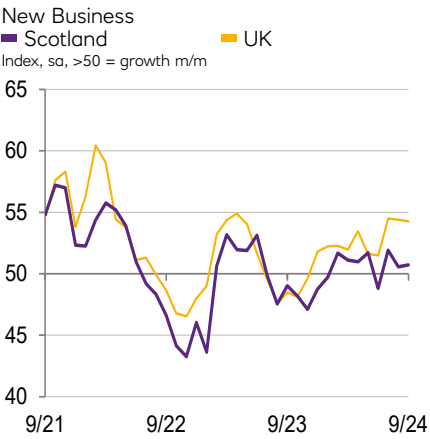
Additionally, among the 12 monitored UK regions and nations, Scotland recorded the joint-weakest

rise in new orders (with East of England).

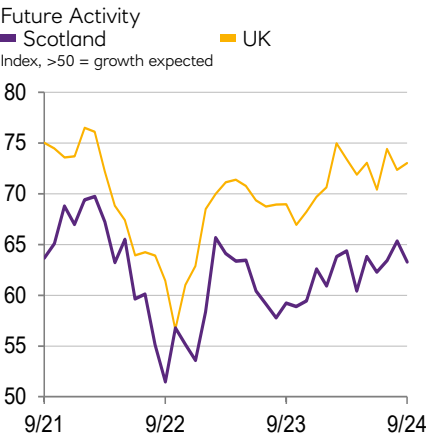
Despite easing to a three-month low, the 12-month outlook for activity was positive in September and historically strong. Anecdotal evidence indicated that firms anticipated improved demand trends and planned to boost investment, enhance marketing, and introduce new products.

However, confidence in Scotland posted among the lowest of the 12 monitored UK regions and nations, with only the North East and Northern Ireland registering weaker sentiment.

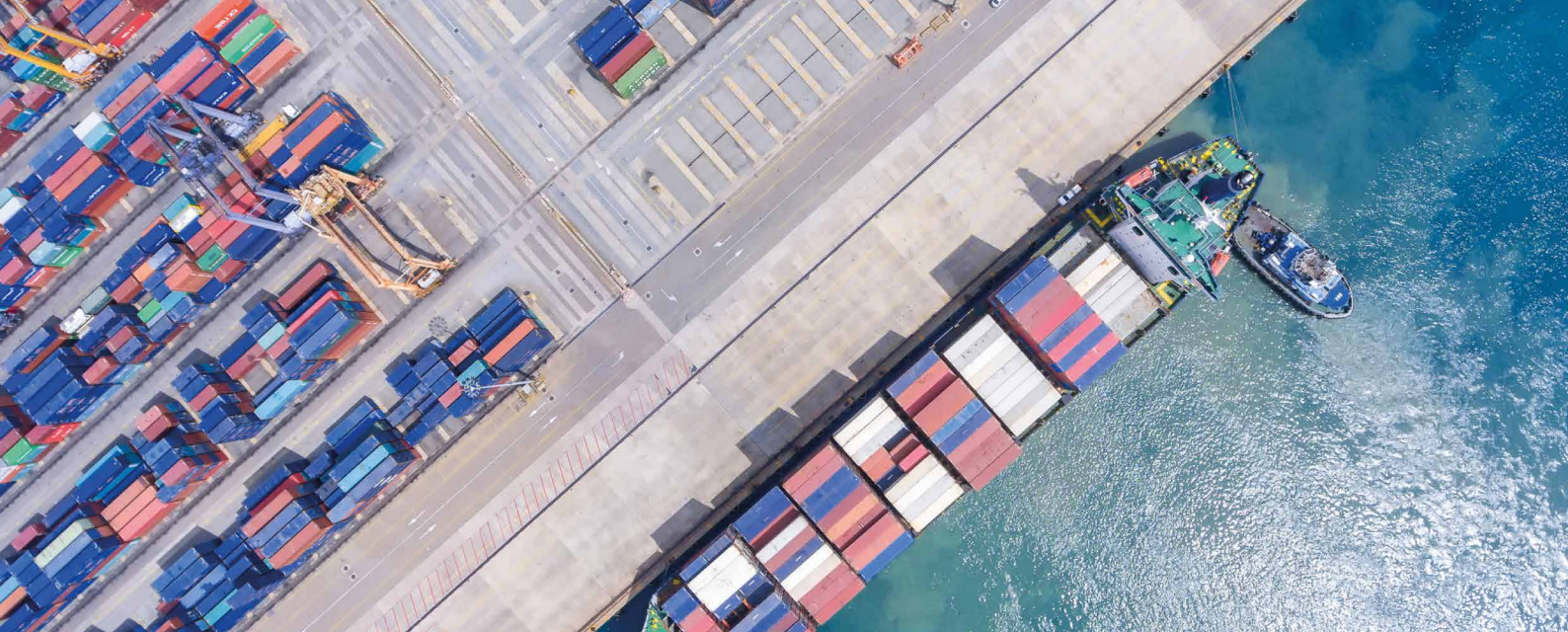
"Sustained growth in new business inflows enabled firms to increase their activity levels, although the pace of growth slowed"



Sources: Royal Bank of Scotland, S&P Global PMI. ©2024 S&P Global.



Sources: Royal Bank of Scotland, S&P Global PMI. ©2024 S&P Global.



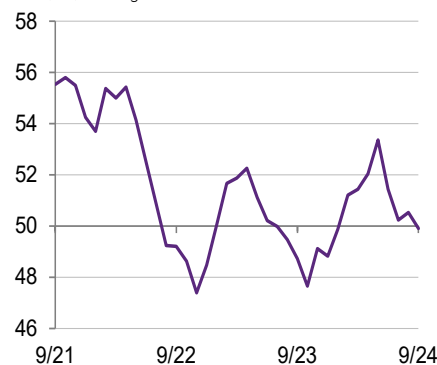
Export markets

Export conditions deteriorate

The ECI fell into contraction territory for the first time in eight months in September. Registering at 49.9, down from 50.5 in August, the respective seasonally adjusted index indicated only a marginal deterioration in export markets, however.

Three of Scotland's top five export markets — The Netherlands, Germany, and France — saw a drop in private sector output. However, expansions in the US and Ireland helped partially offset this decline.

Export Conditions
Index, sa, >50 = growth m/m

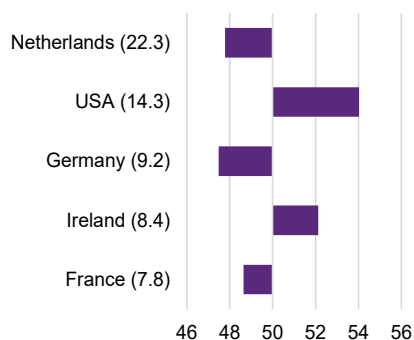


Sources: Royal Bank of Scotland, S&P Global PMI. ©2024 S&P Global.

The Scotland Export Climate Index (ECI) is an indicator for the economic health of the region's export markets. It is calculated by combining national PMI output data, weighted according to each nation's share of manufacturing exports of Scotland. A reading above 50 signals an improvement in export conditions, and below 50 a deterioration.

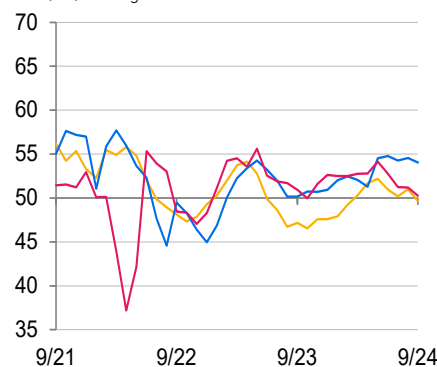
Top export markets, Scotland
% share of exports shown in brackets
Output Index, sa, >50 = growth m/m

Sep '24



Sources: Royal Bank of Scotland, S&P Global PMI. ©2024 S&P Global.

Output
Index, sa, >50 = growth m/m



Sources: Royal Bank of Scotland, S&P Global PMI. ©2024 S&P Global.



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Jobs and capacity

Jobs growth quickens to 16-month high

Scottish private sector firms recorded a twentieth successive monthly rise in employment, and one which was the most pronounced since May 2023. Job creation remained centred at service firms, which reported that rising business demands and expectations of increased workloads prompted them to hire more staff. Furthermore, the ongoing downturn in manufacturing broadly stabilised.

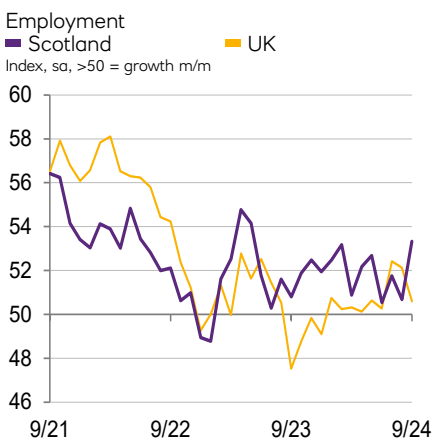
The rate of employment growth in Scotland exceeded that observed for

the UK as a whole.

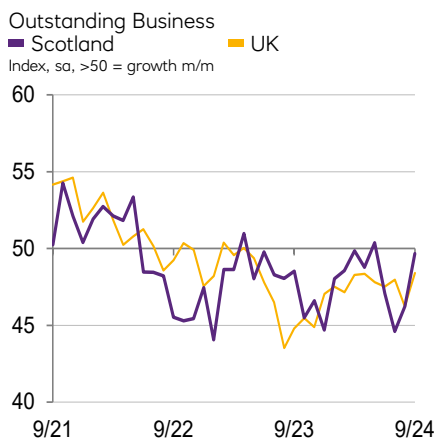
In September, Scottish firms continued to reduce their backlogs. The downturn was again focused at manufacturers, where decreasing workloads and improved efficiency enabled companies to address outstanding tasks. That said, the overall rate of depletion eased to the weakest in the current four-month sequence of decline, as service firms recorded renewed pressure on business capacity.

Compared to Scotland, the UK as a whole signalled a stronger fall in backlogs.

"Notably, hiring activity surged, with job creation reaching its highest level since May 2023"



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Sources: Royal Bank of Scotland, S&P Global PMI. ©2024 S&P Global.



Inflation

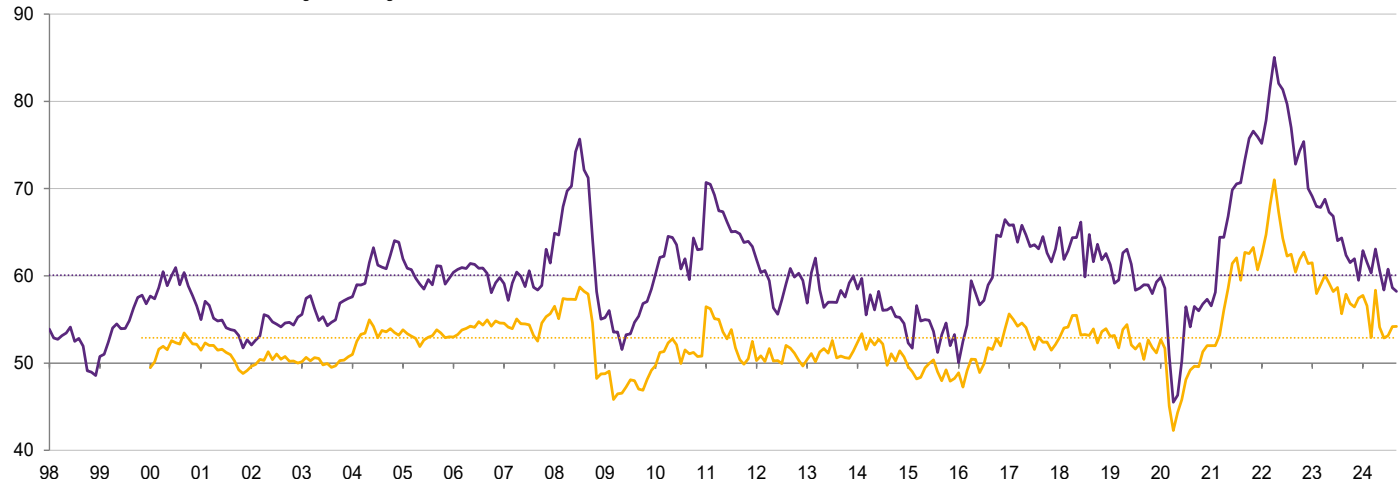
Cost inflation eases to 43-month low

Scottish private sector firms continued to face sharply rising cost burdens in September. Higher labour and material costs was said to have driven up prices. However, the rate of input price inflation eased for the second consecutive month, reaching its lowest level since February 2021 and was slower than that seen at the UK level.

The rate of charge inflation remained steady in September, indicating the joint-strongest rise in five months. Rising input costs were largely responsible for firms' decisions to raise their selling prices further. Firms across the UK also raised their charges at a broadly similar rate.

"However, price pressures remained on an easing path, with cost burdens rising at the weakest pace in 43 months."

■ Input Prices ■ Output Prices
Index, sa, >50 = inflation m/m. Dots = long-run average since 1998.



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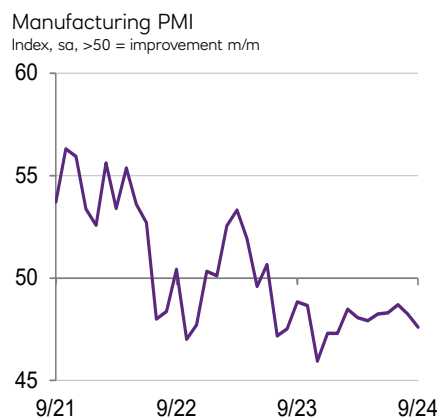
Scotland Manufacturing PMI

Sharper decline in new orders weighs on manufacturing performance

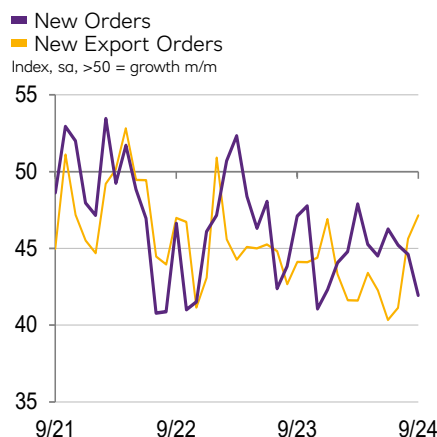
The seasonally adjusted Scotland Manufacturing PMI – a composite single-figure indicator of manufacturing performance – continued to post below the neutral 50.0 mark for a fifteenth successive month in September. With a reading of 47.6, down from 48.2 in August, it indicated the steepest decline in operating conditions since the beginning of the year.

This sharper downturn was driven by a significant fall in new factory orders, with goods producers experiencing the largest decline in nearly a year. Meanwhile, the downturns in output and employment broadly stabilised.

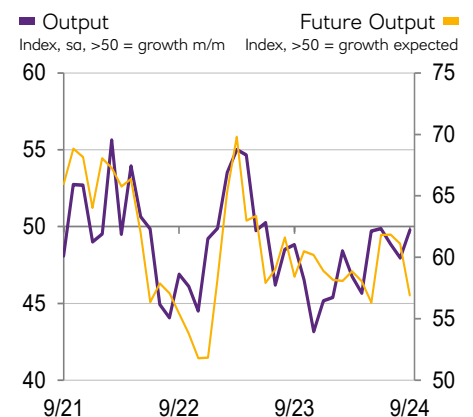
Growth expectations were slightly affected, as confidence levels fell to a four-month low and registered below the long-term average. Current market slowdown fed through to future uncertainty.



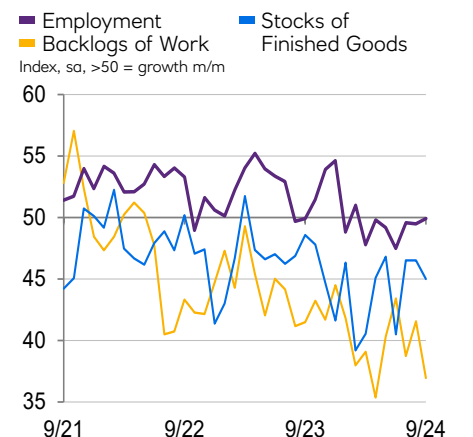
Sources: Royal Bank of Scotland, S&P Global PMI. ©2024 S&P Global.



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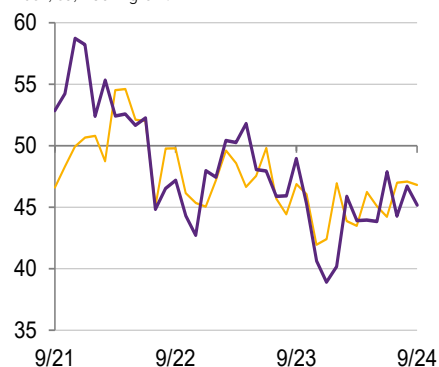


Sources: Royal Bank of Scotland, S&P Global PMI. ©2024 S&P Global.



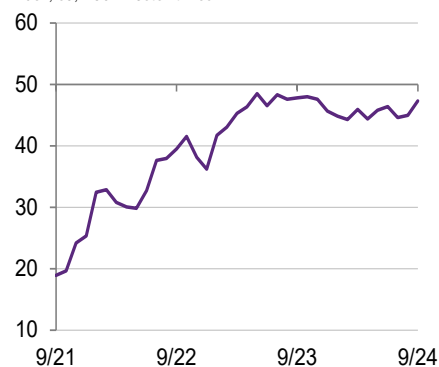


■ Quantity of Purchases ■ Stocks of Purchases
Index, sa, >50 = growth m/m



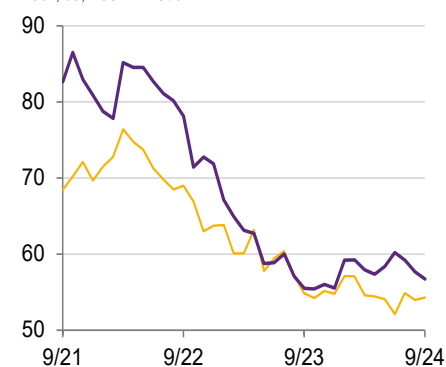
Sources: Royal Bank of Scotland, S&P Global PMI. ©2024 S&P Global.

Suppliers' Delivery Times
Index, sa, >50 = faster times m/m



Sources: Royal Bank of Scotland, S&P Global PMI. ©2024 S&P Global.

■ Input Prices ■ Output Prices
Index, sa, >50 = inflation m/m



Sources: Royal Bank of Scotland, S&P Global PMI. ©2024 S&P Global.

Scotland manufacturing

Index, 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	Stocks Of Purchases	Suppliers' Delivery Times	Input Prices	Output Prices
4/24	47.9	45.7	58.1	45.3	43.4	49.8	35.4	45.1	43.9	46.2	44.4	57.3	54.4
5/24	48.2	49.7	56.3	44.5	42.3	49.2	40.3	46.8	43.8	45.1	45.8	58.4	54.1
6/24	48.3	49.9	61.8	46.2	40.3	47.5	43.4	40.5	47.9	44.2	46.4	60.2	52.1
7/24	48.7	48.9	61.9	45.2	41.1	49.6	38.7	46.5	44.3	47.0	44.6	59.2	54.9
8/24	48.2	48.0	61.1	44.6	45.6	49.5	41.6	46.5	46.7	47.1	45.0	57.7	54.0
9/24	47.6	49.8	56.9	41.9	47.1	49.9	37.0	45.0	45.2	46.8	47.3	56.7	54.3





Scotland Services PMI

Services sector remains resilient

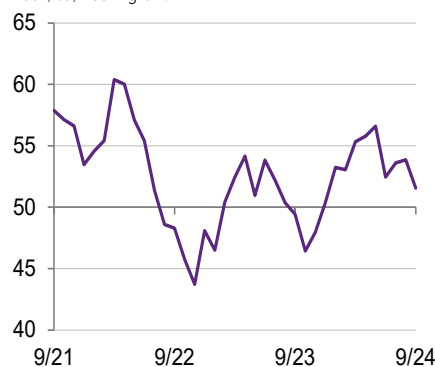
The seasonally adjusted Scotland Services Business Activity Index indicated modest growth in September, despite falling from 53.8 in August to 51.6, and marking the second-weakest expansion in the current ten-month upturn.

That said, new business inflows increased robustly, allowing firms to expand their staffing levels, with job creation reaching the highest rate in the past 16 months.

Regarding prices, cost burdens continued to rise sharply and at a pace similar to August, while the rate of charge inflation remained unchanged.

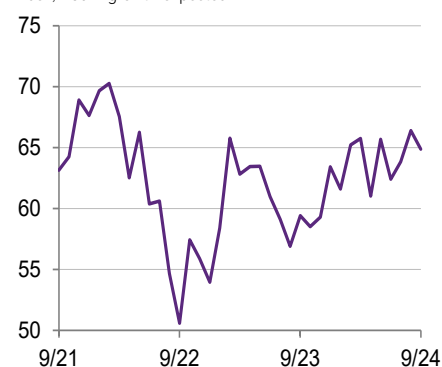
Lastly, the outlook for the year ahead activity remained strongly optimistic, with services firms hopeful that improving demand trends would underpin further expansions.

Business Activity
Index, sa, >50 = growth m/m



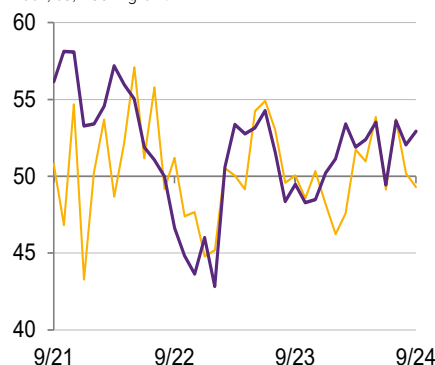
Sources: Royal Bank of Scotland, S&P Global PMI. ©2024 S&P Global.

Future Activity
Index, >50 = growth expected



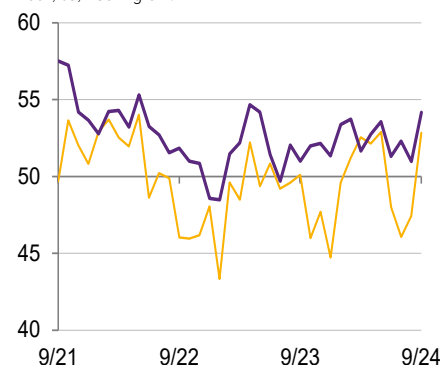
Sources: Royal Bank of Scotland, S&P Global PMI. ©2024 S&P Global.

New Business
New Export Business
Index, sa, >50 = growth m/m



Sources: Royal Bank of Scotland, S&P Global PMI. ©2024 S&P Global.

Employment
Outstanding Business
Index, sa, >50 = growth m/m



Sources: Royal Bank of Scotland, S&P Global PMI. ©2024 S&P Global.





UK Regional Growth Tracker

Business Activity

A renewed – albeit only slight – decrease in business activity in Wales in September prevented a second successive month of universal growth across the UK. Notably, rates of expansion generally eased compared to those seen in August. Northern Ireland was one of the exceptions, cementing its position at the top of the growth rankings with its fastest rise in output since May.

Employment

Employment growth in September was also led by Northern Ireland, as was the case throughout the third quarter. Only half of the 12 UK nations and regions monitored reported a rise in workforce numbers, down from ten in August. Wales saw the steepest drop in staffing levels, although the decline was only modest overall.

Future Activity

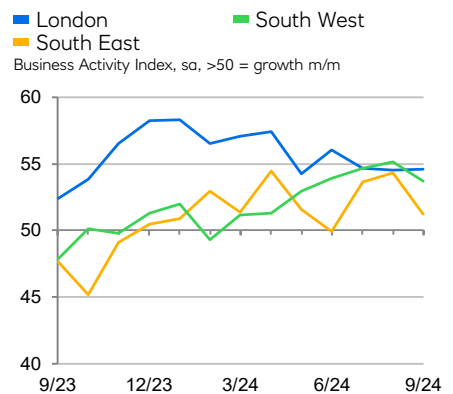
Trends in business expectations varied in September. Just over half of the monitored nations and regions reported a reduction in business confidence, but sentiment nevertheless remained positive across the board. Firms in the South East recorded not only the strongest overall growth expectation, but also the biggest upswing in optimism.



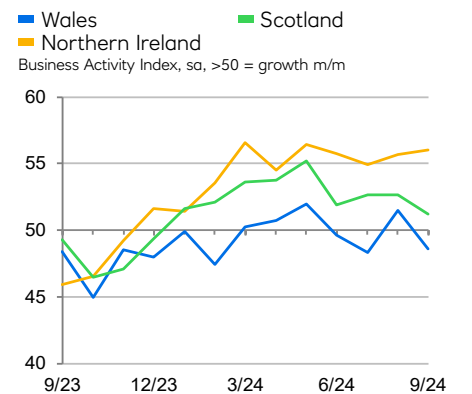
Sources: Royal Bank of Scotland, S&P Global PMI. ©2024 S&P Global.



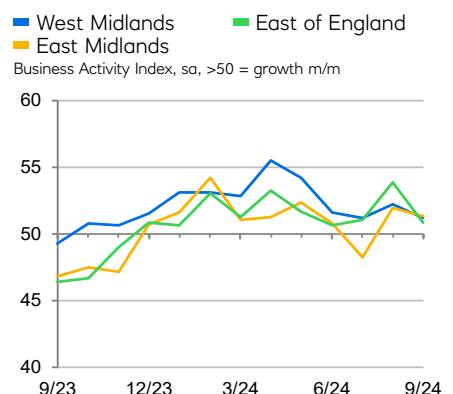
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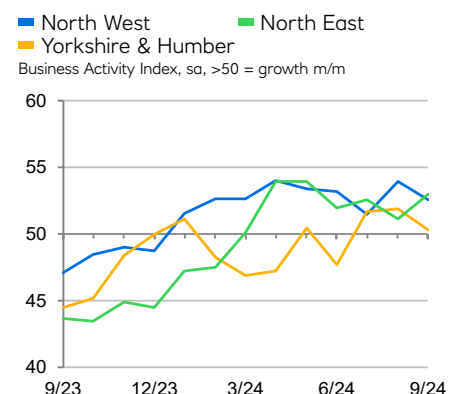
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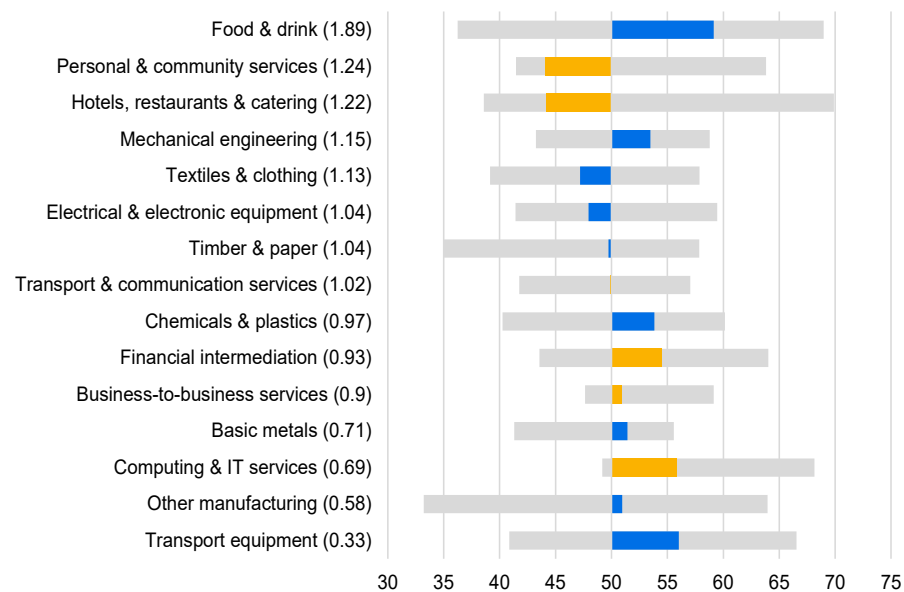
UK sectors

Sector specialisation: Scotland

The chart shows UK output indices by sector, ranked by location quotients for Scotland. Location quotients (LQs) 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.

UK sectors ranked by importance to the Scottish economy
■ Manufacturing ■ Services ■ 3-year range
UK Output Index, sa, >50 = growth m/m Sep '24



Sources: Royal Bank of Scotland, S&P Global PMI. ©2024 S&P Global.
Location quotients for Scotland are shown in brackets. Latest data are smoothed as three-month moving averages (3mma).

Sector in focus: Business-to-business services

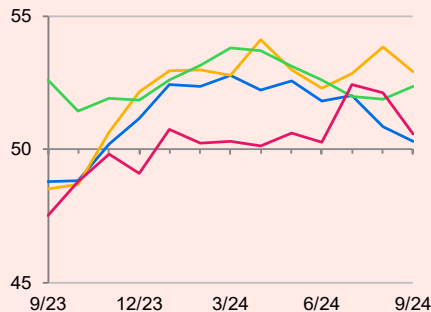
Growth in the UK's Business-to-business services sector came close to stalling in the third quarter. Activity rose only marginally and at the weakest rate for almost a year, with the lack of growth momentum reflecting only modest gains in new business in recent months. Firms in the sector increasingly turned to backlogged work to support growth, with outstanding business falling at a faster rate in the three months to September.

Latest data nevertheless showed sustained job creation across

business-to-business services, continuing a sequence of rising employment that stretches back to early 2021. The rate at which staffing levels rose even ticked up slightly and exceeded the average across the UK private sector as a whole.

As for prices, rates of inflation in both input costs and output charges remained among the lowest seen over the past three-and-a-half years, although they were still above their respective pre-pandemic long-run averages.

Output / Employment
■/■ Business-to-business services*
■/■ Manufacturing & services
Index, sa, >50 = growth m/m



Sources: Royal Bank of Scotland, S&P Global PMI. ©2024
*Data are smoothed as three-month moving average

Methodology

The Royal Bank of Scotland Growth Tracker is compiled by S&P Global from responses to questionnaires sent to Scottish companies that participate in S&P Global's Scotland manufacturing and services PMI surveys.

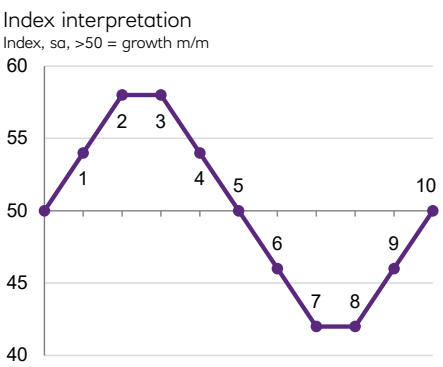
Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. 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.

The headline figure is the Business Activity Index. This is a diffusion index calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The Scotland Business Activity Index is comparable to the UK Composite Output Index.

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 survey methodology, please contact economics@spglobal.com.



Sources: Royal Bank of Scotland, S&P Global PMI. ©2024 S&P Global.

- Key
- 1 Growth, from no change
 - 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

Data

Scotland manufacturing and services
Index, sa, 50 = no change over previous month. *50 = no change over next 12 months.

	Business Activity	New Business	Export Climate Index	Employment	Outstanding Business	Future Activity*	Input Prices	Output Prices
4/24	53.8	51.0	52.0	52.2	48.8	60.4	63.1	58.4
5/24	55.2	51.7	53.4	52.7	50.4	63.8	60.6	54.1
6/24	51.9	48.8	51.4	50.5	47.1	62.3	58.4	52.9
7/24	52.7	51.9	50.2	51.8	44.6	63.4	60.8	53.1
8/24	52.7	50.6	50.5	50.7	46.2	65.3	58.6	54.2
9/24	51.2	50.7	49.9	53.3	49.7	63.3	58.2	54.2

Further information

Royal Bank of Scotland

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Alongside a wide range of banking services, Royal Bank of Scotland offers businesses specialist sector knowledge in areas such as manufacturing and technology, as well as access to specialist

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