

11 March 2025

Royal Bank of Scotland Growth Tracker

Scottish business optimism reaches three-month high



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Key findings

February 2025

Outlook for year ahead at its most positive since December 2024

Slight rise in business activity in Scottish services sector

Marginal decline in growth overall

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





Scottish business optimism reaches three-month high

The Scotland Growth Tracker – a seasonally adjusted index that measures the month-on-month change in the combined output of the region’s manufacturing and service sectors – showed some reasons for optimism during the month of February.

The latest report noted that – whilst the country experienced its third consecutive monthly decline in private sector output - the headline index at 49.0 in February, down slightly from 49.6 in January, indicated only a marginal decline,

with the survey masking a slight rise in services business activity.

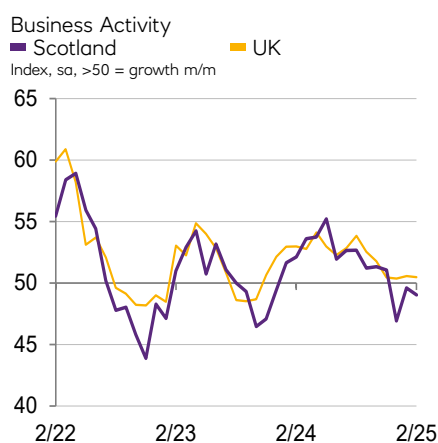
Despite lower new work, the latest survey data revealed growing optimism among Scottish firms. The 12-month outlook improved to a three-month high, suggesting that firms expect the current downturn in activity to end in the coming months.

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Business Activity Index
February 2025

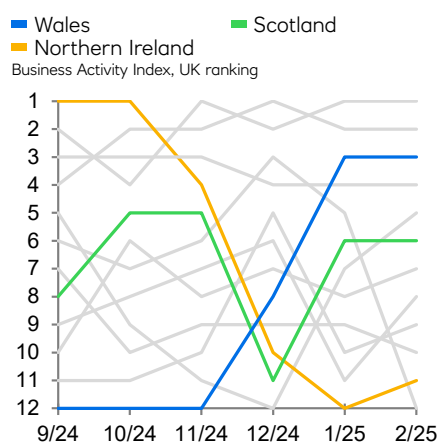
49.0

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 10-26 February



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Comment

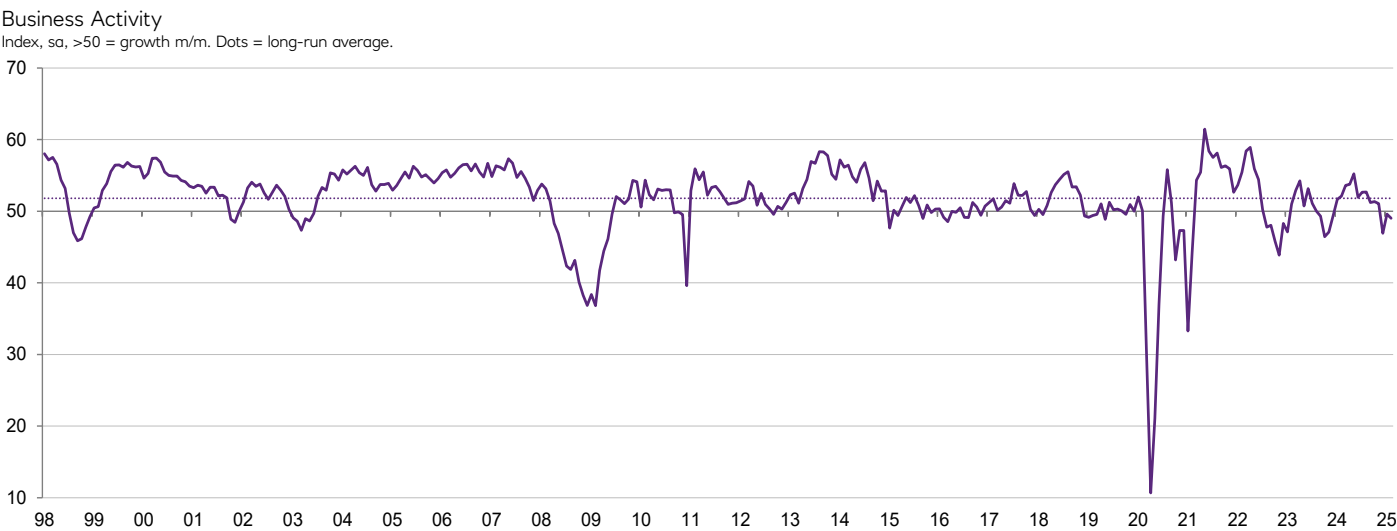
Judith Cruickshank, Chair, Scotland Board, Royal Bank of Scotland, commented:

"Scotland experienced another month of decline in February, however, there are encouraging signs in the latest Royal Bank Scotland Growth Tracker.

"Panellists anticipate activity to rise in the coming 12 months. In fact, the degree of confidence strengthened further from December's low, with

underlying data showing that firms were expectant of new contract wins and improved demand trends.

"Looking ahead, still-elevated price pressures may pose headwinds to performance. Nonetheless, businesses recorded greater confidence for the year-ahead outlook and price pressures in Scotland continue to be milder than the rest of the UK."



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



Demand and outlook

Downturn in new business continues but firms raise forecasts

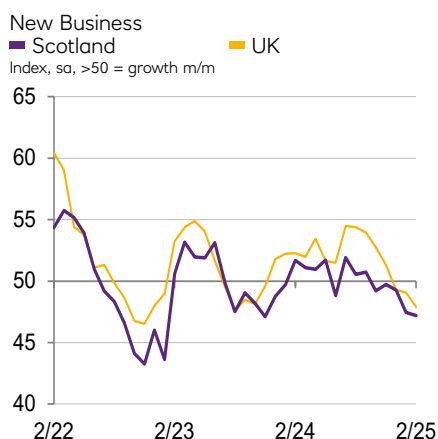
Scottish private sector firms recorded another decline in new business during February. The rate of contraction was the most marked in 15 months and outpaced the UK-wide average. Reduced demand and increased uncertainty were reasons cited for the latest downtick.

Nonetheless, firms anticipate activity to rise in the coming 12 months. In fact, the degree of confidence strengthened further from December's low, with underlying data showing that firms were

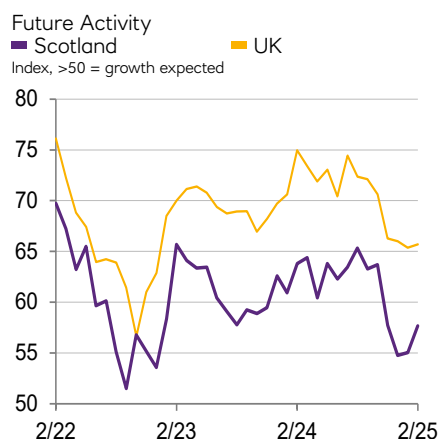
expectant of new contract wins and improved demand trends.

That said, the level of optimism across Scotland was less upbeat than the UK-wide average and historically subdued.

"Panellists anticipate activity to rise in the coming 12 months."



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



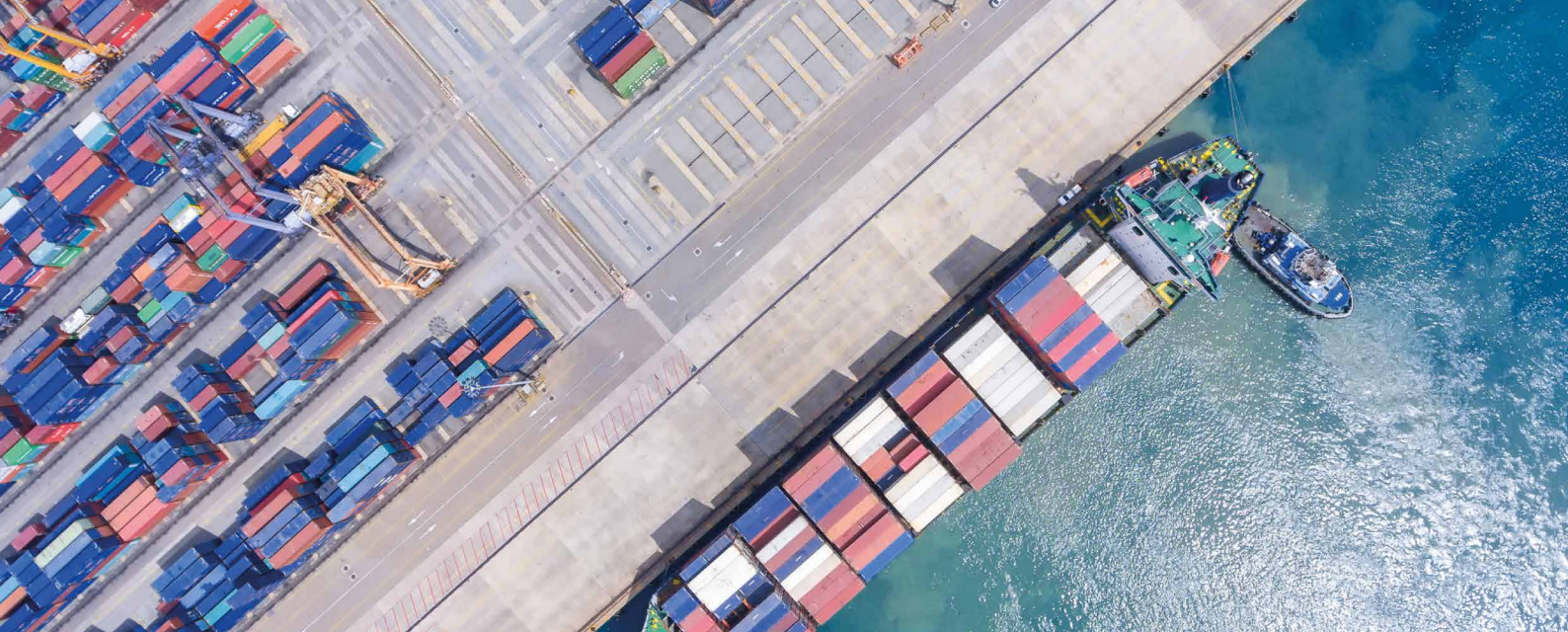
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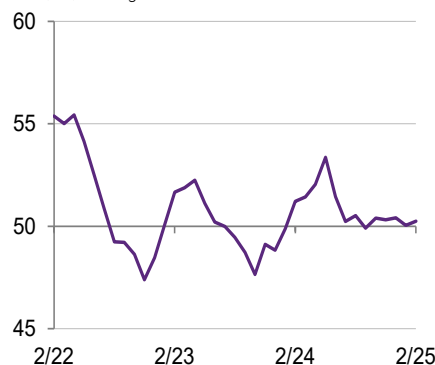
Export markets

Export conditions improve modestly

After signalling a stable export climate in January, the ECI figure rose to 50.3 in February to signal a marginal improvement.

Output expansions were registered in three of the top five export markets for Scottish goods and services: the US, Germany, and Ireland. In contrast, the Netherlands and France experienced declines.

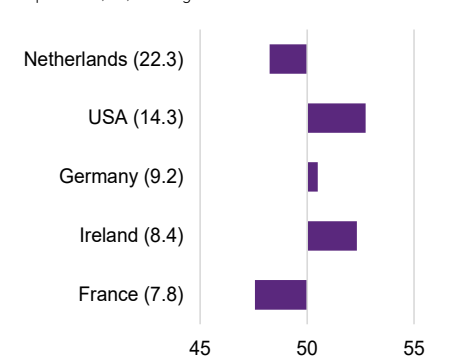
Export Conditions
Index, sa, >50 = growth m/m



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.

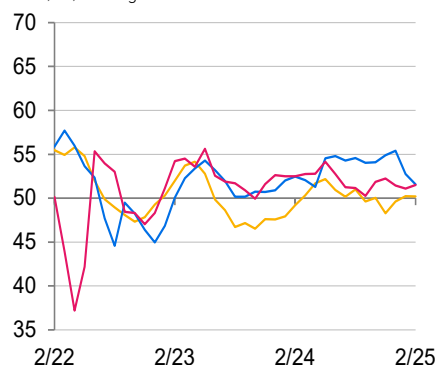
The Scotland Export Climate Index (ECI) is an indicator for the economic health of the region's export markets. It is calculated by combining national PMI output data, weighted according to each nation's share of manufacturing exports of Scotland. A reading above 50 signals an improvement in export conditions,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

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



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.

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



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



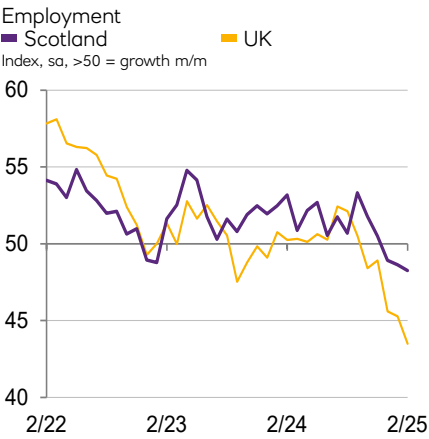
Jobs and capacity

Companies continue to trim staffing and work through backlogs

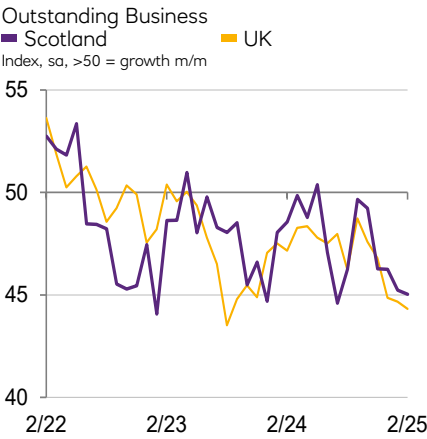
Job losses were recorded for a third straight month across Scotland's private sector in February. Employment was reduced at the fastest rate in four years, although the decline was still modest overall and much slower than that observed at the UK level. Anecdotal evidence attributed the latest round of job shedding to redundancies and non-

replacement of voluntary leavers.

Despite falling workforce numbers, firms were able to keep on top of their backlogs in February. The rate of depletion was sharp and the most pronounced in seven months. Scottish companies noted that less incoming work allowed them to manage their existing tasks more effectively.



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Inflation

Inflationary pressures remain historically strong

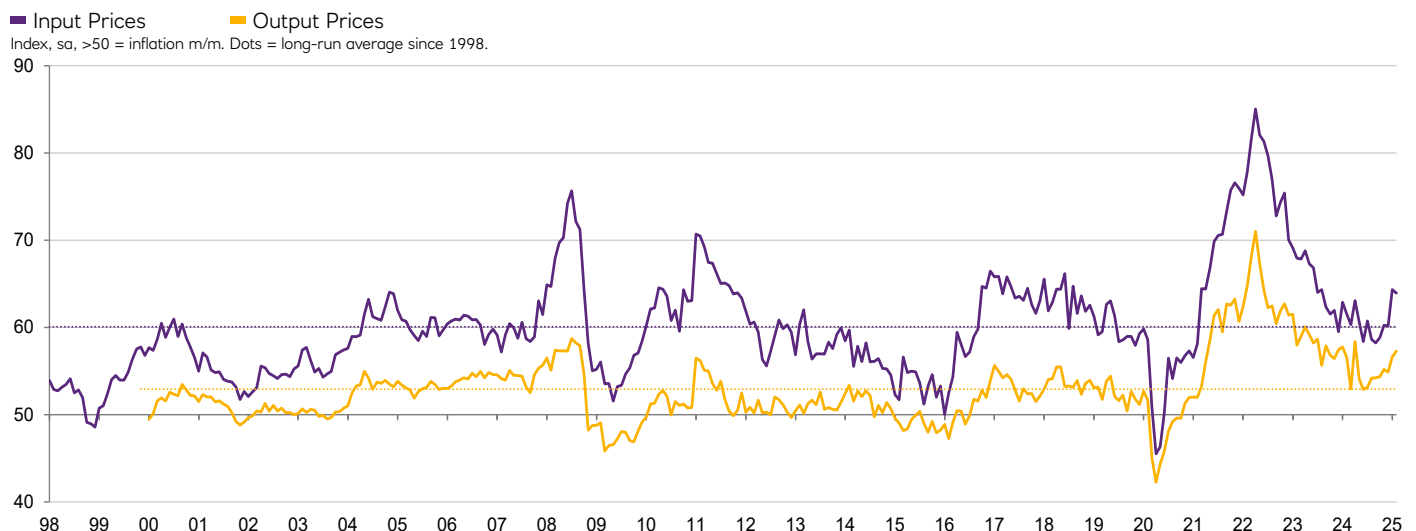
Average input prices rose strongly in February with the respective seasonally adjusted index remaining above its long-run trend level. Despite easing slightly, the rate of inflation held close to January's recent high. The uptick in costs was heavily linked to wage pressures and tax increases. Economic instability also contributed to rising costs.

Deviating from the trend seen for input prices, the latest survey data

signalled a stronger rise in average fees charged for the provision for Scottish goods and services. The pace of charge inflation was rapid and at a ten-month high. Charges were raised to cover cost burdens.

Nevertheless, price pressures in Scotland continued to be milder than the UK averages.

"...price pressures in Scotland continue to be milder than the rest of the UK."



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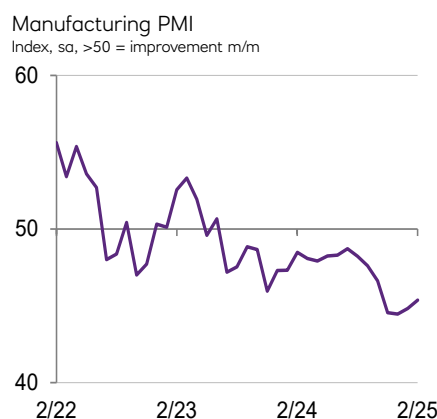
Scotland Manufacturing PMI

Operating conditions deteriorate sharply in February

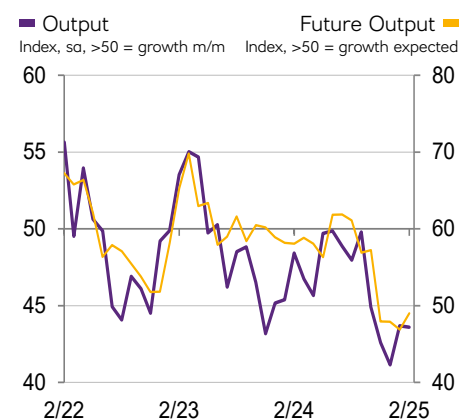
The seasonally adjusted Scotland Manufacturing PMI, a composite indicator of manufacturing performance, rose to a four-month high of 45.4 in February, up from 44.8 in January. However, the latest index still indicated a sharp deterioration in the health of the Scottish manufacturing sector, which has declined on a monthly basis for the past 20 months.

Firms again struggled to secure new orders, leading to a decrease in production. Staffing levels were reduced, and purchasing activity was scaled back. Companies faced rapidly rising costs, which they passed on to clients.

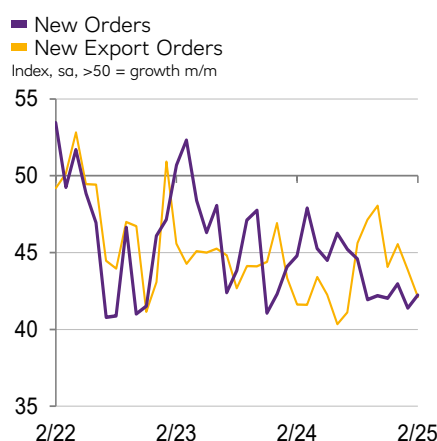
The lacklustre performance of the sector impacted output expectations, which remained downbeat in February. That said, companies were less pessimistic than they were during the prior three months.



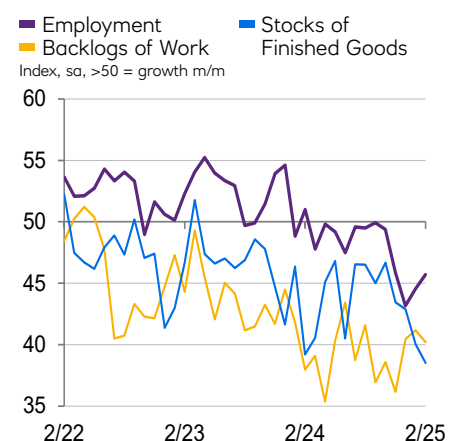
Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



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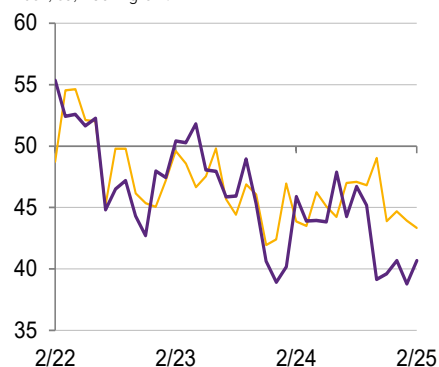


Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



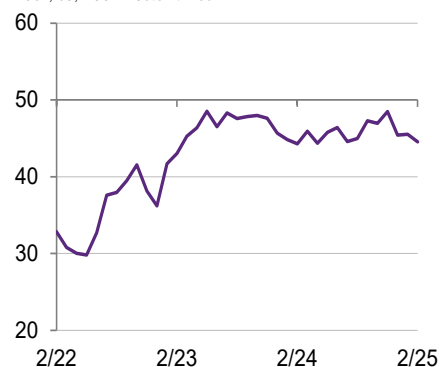


■ Quantity of Purchases ■ Stocks of Purchases
Index, sa, >50 = growth m/m



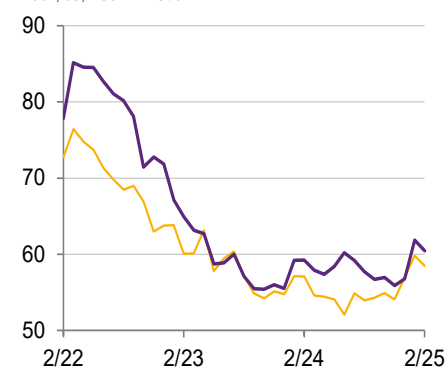
Sources: NatWest, S&P Global PMI. ©2025 S&P Global.

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



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.

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



Sources: NatWest, S&P Global PMI. ©2025 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
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
10/24	46.6	44.9	57.2	42.2	48.1	49.4	38.6	46.7	39.1	49.0	47.0	56.9	54.9
11/24	44.5	42.6	47.9	42.0	44.1	45.9	36.2	43.5	39.6	43.9	48.5	55.9	54.0
12/24	44.5	41.1	47.9	43.0	45.6	43.2	40.5	42.9	40.7	44.7	45.4	56.8	56.9
1/25	44.8	43.7	46.9	41.4	43.9	44.5	41.2	40.1	38.8	43.9	45.5	61.9	59.8
2/25	45.4	43.6	49.0	42.2	42.1	45.7	40.2	38.5	40.7	43.3	44.6	60.5	58.5





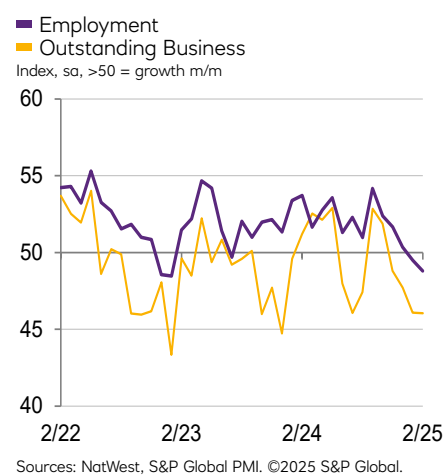
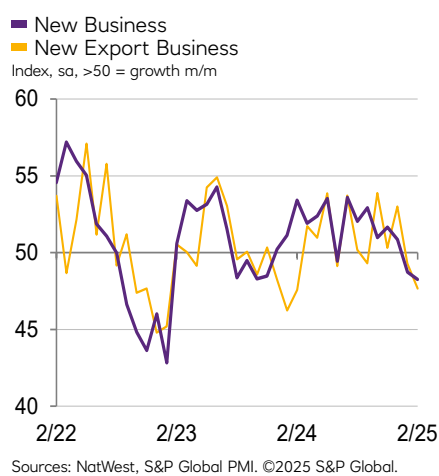
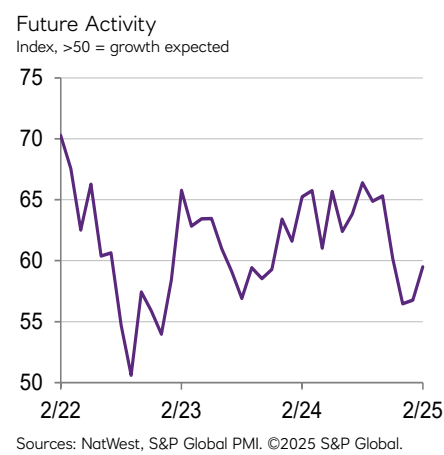
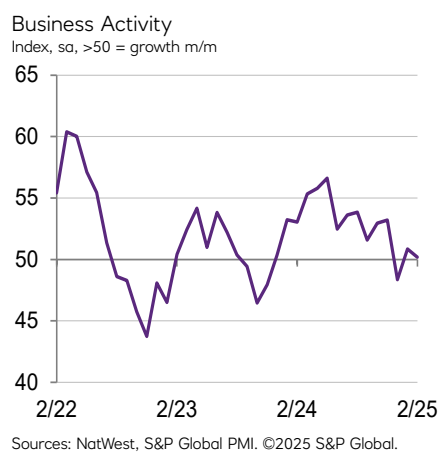
Scotland Services PMI

Slight rise in business activity

The seasonally adjusted Scotland Services Business Activity Index remained above the neutral 50.0 threshold for the second consecutive month in February. However, with a reading of 50.2, down from 50.9 in January, business activity increased only slightly.

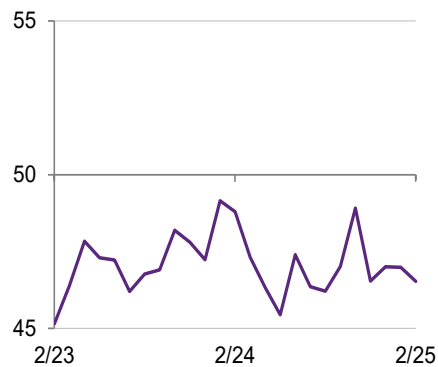
The slowdown in growth was attributed to an ongoing modest decline in new business, which also partly contributed to a reduction in payroll numbers. Meanwhile, price pressures rose at historically strong rates, adding to further challenges.

Nonetheless, service providers across Scotland anticipate an improvement over the coming 12 months, as confidence in the outlook for activity strengthened to a three-month high.



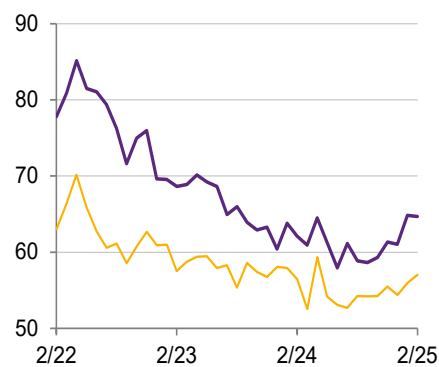


Supplier Performance
Index, sa, >50 = faster times m/m



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.

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



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.

Scotland services

Index, 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	Supplier Performance	Input Prices	Prices Charged
9/24	51.6	64.9	52.9	49.3	54.2	52.8	47.0	58.6	54.2
10/24	52.9	65.3	51.0	53.9	52.4	51.9	48.9	59.3	54.2
11/24	53.2	60.2	51.7	50.3	51.7	48.8	46.5	61.3	55.5
12/24	48.4	56.5	50.8	53.0	50.4	47.7	47.0	61.0	54.4
1/25	50.9	56.8	48.7	49.3	49.5	46.1	47.0	64.8	56.0
2/25	50.2	59.5	48.3	47.7	48.8	46.0	46.5	64.7	57.0



UK Regional Growth Tracker

Business Activity

London topped the rankings for business activity growth in February, having enjoyed another robust expansion, ahead of the North East, Wales and South West, respectively. Lower output was seen in several nations and regions, however. The steepest falls were registered in the East Midlands and Northern Ireland*.

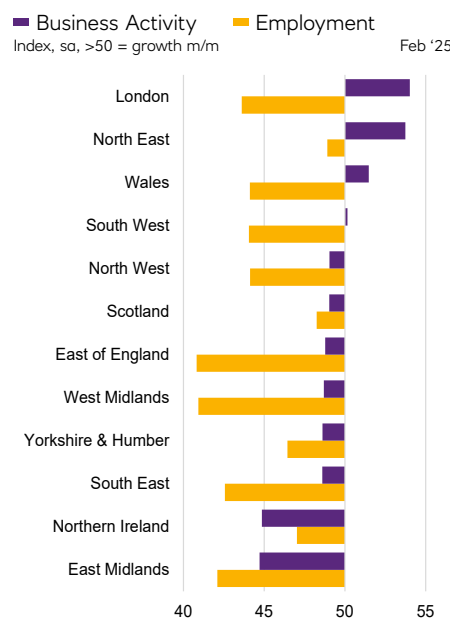
Employment

Workforces numbers were streamlined across each of the 12 UK nations and regions monitored by the survey in February, the first time this has happened for a little over four years. Employment fell only slightly in the likes of the North East and Scotland, however. The most marked decreases were seen in the East of England and West Midlands.

Future Activity

Year-ahead growth expectations improved in the majority of areas in February. Firms in the West Midlands were the most optimistic about future activity, while those in the North East reported the greatest upswing in confidence since January. At the other end of the scale, Northern Ireland recorded the weakest business sentiment, although it did pick up somewhat from the low seen at the start of the year.

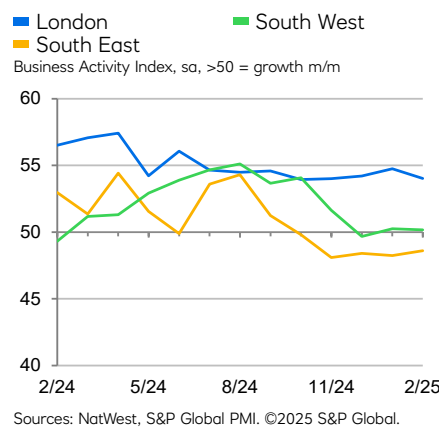
*As well as manufacturing and services, coverage in Northern Ireland also includes construction and retail.



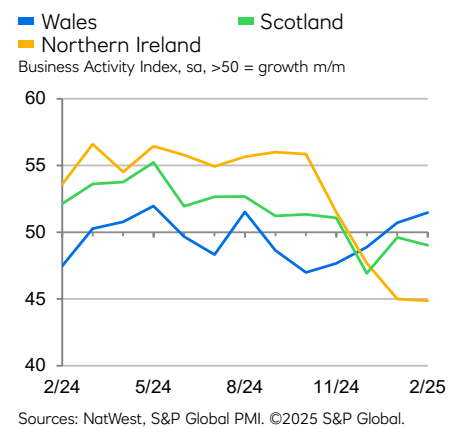
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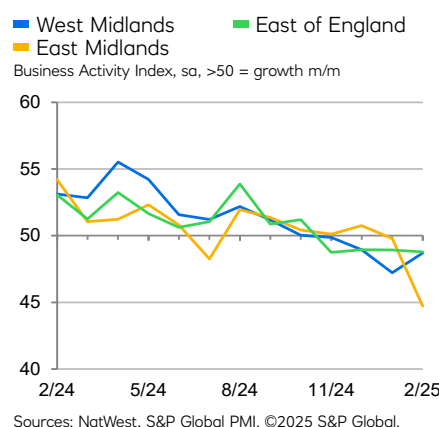
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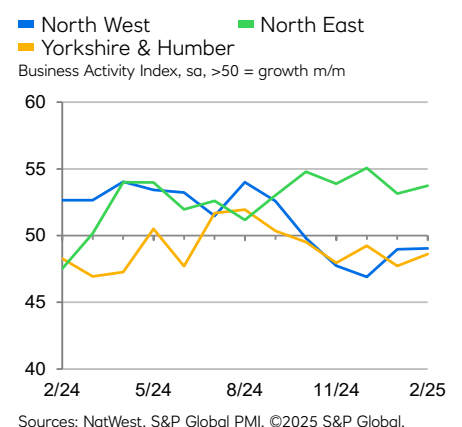
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Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.

Growth Tracker heat map

February 2025

Darker colour = higher business growth

Scotland

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

49.0



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



Royal Bank of Scotland

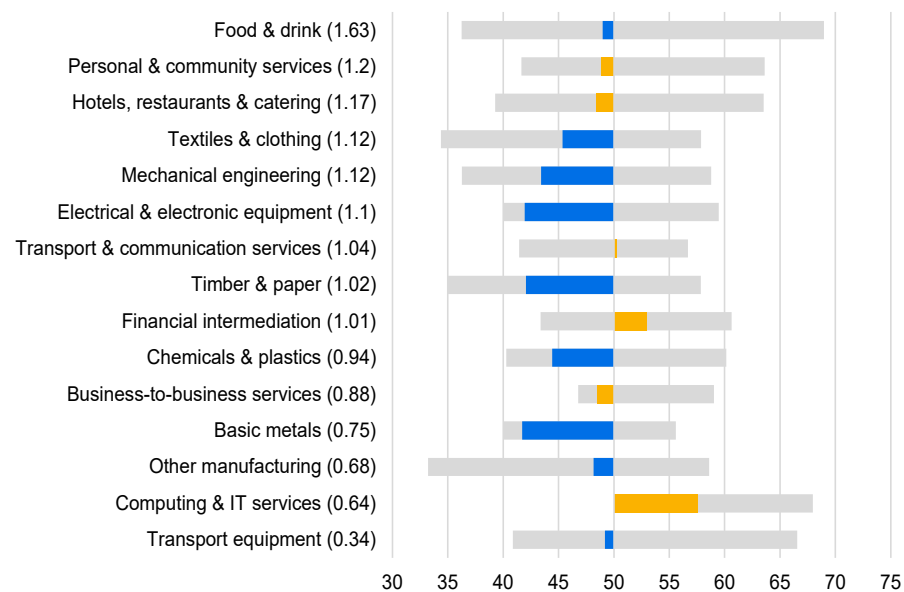
UK sectors

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 Feb '25

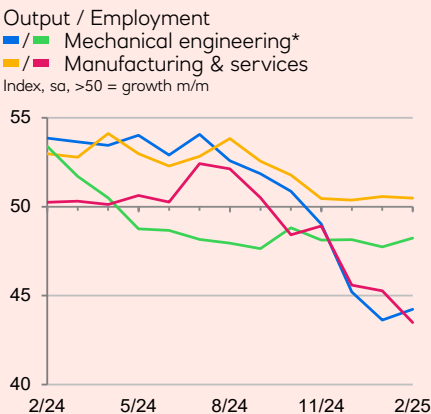


Sources: NatWest, S&P Global PMI. ©2025 S&P Global.
Location quotients for Scotland are shown in brackets. Latest data are smoothed as three-month moving averages (3mma).

Sector in focus: Mechanical engineering

Output in the UK's mechanical engineering sector contracted in the three months to February, according to underlying PMI data. The decline was steep and followed growth throughout most of 2024. A lack of new orders, particularly from abroad, was the defining factor behind the sector's recent downturn. Shrinking backlogs of work at mechanical engineering companies led to further job losses. This extended the current sequence of job shedding seen since spring last year. Inventories were also scaled

back, especially stocks of inputs. Prices paid for purchases rose at a steady rate that was below the long-run series average. Firms managed to pass on a sizeable proportion of the cost increases they faced, with the pace of output price inflation ticking up to its highest for almost a year and running above its historic trend level. Looking ahead, firms in the sector were optimistic about growth prospects in the coming year, though less so than at almost any time since the pandemic.



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.
*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.

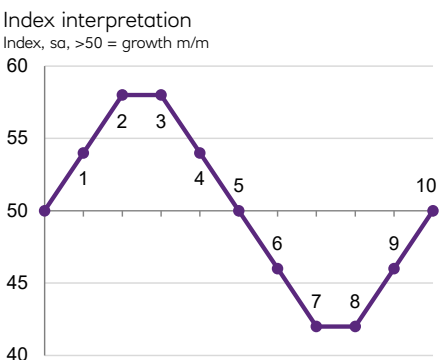
Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. 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: NatWest, S&P Global PMI. ©2025 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
9/24	51.2	50.7	49.9	53.3	49.7	63.3	58.2	54.2
10/24	51.3	49.2	50.4	51.8	49.2	63.7	58.8	54.4
11/24	51.1	49.7	50.3	50.5	46.3	57.7	60.2	55.2
12/24	46.9	49.3	50.4	48.9	46.3	54.7	60.2	54.9
1/25	49.6	47.5	50.0	48.6	45.2	55.0	64.3	56.6
2/25	49.0	47.2	50.3	48.3	45.0	57.7	63.9	57.3

Further information

Royal Bank of Scotland

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