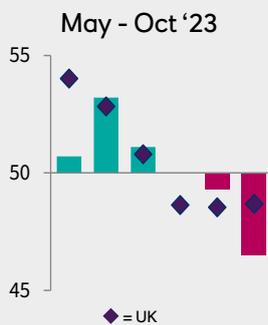


# Royal Bank of Scotland PMI<sup>®</sup>

## Scottish private sector downturn worsens in October

### Scotland Business Activity Index



### Key findings

Strongest fall in business activity in 11 months

Sustained decline in new orders

Employment growth remains resilient

The latest Royal Bank of Scotland PMI<sup>®</sup> survey signalled a second monthly deterioration in private sector activity during October. Moreover, the headline Scotland Business Activity Index - a measure of combined manufacturing and service sector output - fell to 46.5 from 49.3 in September, indicating the sharpest decline since November last year. Worsening underlying demand conditions and the cost-of-living crisis were said to have contributed towards the latest fall in output. Additionally, the downturn across Scotland was more pronounced than that recorded for the UK as a whole.

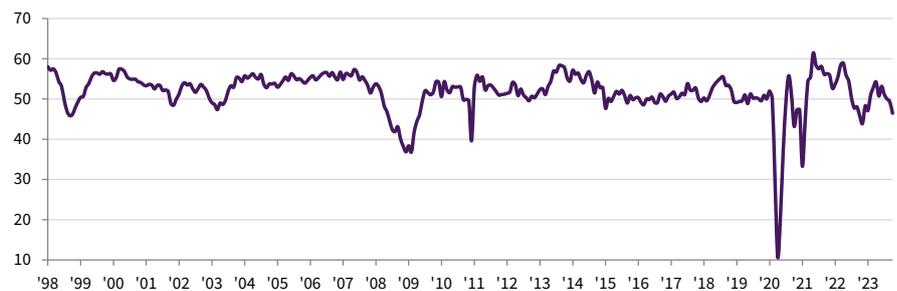
Despite souring business conditions, Scottish private sector firms increased their workforce numbers in October. The rate of job creation was the fastest in five months, and the quickest seen of all the UK nations and regions.

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

*"With demand taking a step back over the last couple of months, the Scottish private sector displayed further weakness at the start of the final quarter. Spurred by sharper declines across both the manufacturing and services sector, business activity dropped at an accelerated pace in October. The downturn was the most pronounced in 11 months. Nonetheless, waning demand helped to assuage inflationary pressures, which were much weaker than this time last year. That said, rising costs for raw materials and renewed pressure from rising global prices meant that cost burdens, and in turn selling prices, still rose at historically elevated rates. However, employment trends remained resilient, with workforce numbers rising at the quickest pace in five months."*

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.

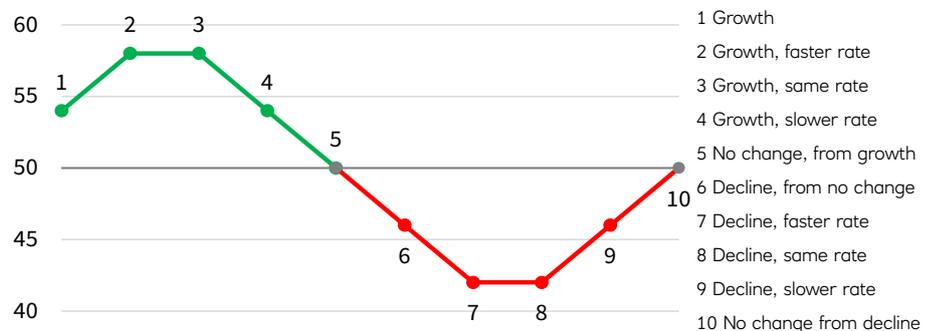
The headline figure is the Business Activity Index. This is a composite index calculated by weighting together the Manufacturing Output Index and the Services Business Activity Index. The Scotland Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

### Index interpretation

50.0 = no change since previous month



## Demand and outlook

### New business

A solid decline in new orders was reported across the Scottish private sector in October. The rate of contraction quickened from September and was broadly in line with the UK trend. A high interest rate environment and rising economic uncertainty were said to have contributed towards the downtick in sales.

**New Business Index** 48.2  
sa, >50 = growth since previous month Oct '23



### Business expectations

While the Future Activity Index posted above the neutral 50.0 mark to indicate confidence surrounding output expectations over the year-ahead across Scotland's private sector in October, the degree of optimism remained historically subdued and even weakened fractionally since September. Brexit, the ongoing war in Ukraine, rising energy prices and the current slowdown in the economy all heavily weighed on expectations.

**Future Activity Index** 58.9  
>50 = growth expected over next 12 months Oct '23



Of the 12 monitored regions and nations, only Northern Ireland and the North East recorded a weaker outlook than Scotland.

## Exports

### Fastest deterioration in export conditions for nearly a year

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.

**Export Climate Index** 47.7  
sa, >50 = growth since previous month Oct '23



At 47.7 in October, down from 48.9 in September, the ECI signalled a thirdly consecutive monthly deterioration in export market conditions. Moreover, the rate of contraction was the most pronounced since November last year.

Bar the US, which recorded a fractional expansion in output, all of Scotland's top five export markets saw a drop in output.

Top export markets, Scotland

| Rank | Market      | Weight | Output Index, Oct '23 |
|------|-------------|--------|-----------------------|
| 1    | Netherlands | 19.4%  | 42.3                  |
| 2    | Ireland     | 13.5%  | 49.7                  |
| 3    | USA         | 13.2%  | 50.7                  |
| 4    | France      | 9.0%   | 44.6                  |
| 5    | Germany     | 8.9%   | 45.9                  |

**New Business Index**  
May - Oct '23

**Future Activity Index**  
May - Oct '23

**Export Climate Index**  
May - Oct '23

## Business capacity

### Employment

Despite deteriorating business conditions, employment growth remained resilient across Scotland, thereby extending the current run of expansion to nine successive months. Moreover, the rate of job creation quickened to a five-month high. The uptick was spurred by stronger growth in services employment and a fresh rise in across manufacturers. Firms reported successful recruitment of suitably skilled staff and the replacement of voluntary leavers.

Scotland registered the strongest job creation across all 12 monitored regions and nations.

### Outstanding business

Sustained falls in new business and growing staffing levels meant that backlogs across Scottish firms declined in October. The rate of depletion was the fastest since January and stronger than that seen historically. Respondents also noted that shorter lead times allowed firms to complete outstanding work.

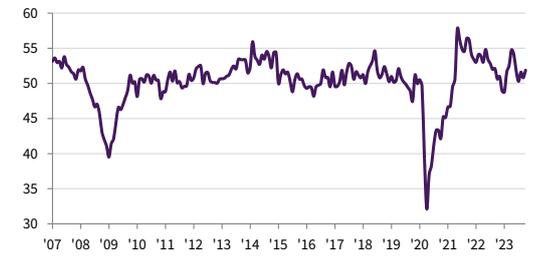
The downturn recorded across Scotland was in line with that observed at the UK level.

### Employment Index

sa, >50 = growth since previous month

51.9

Oct '23

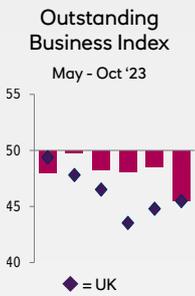
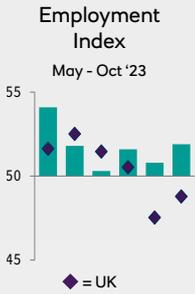


### Outstanding Business Index

sa, >50 = growth since previous month

45.5

Oct '23



## Prices

### Input prices

Cost burdens grew rapidly across Scotland during October. Firms noted that higher wages and energy prices contributed towards greater input prices. That said, inflationary pressures moderated for the eighth time in 2023 so far, to the weakest since February 2021.

Nonetheless, the rate of input price inflation across Scotland surpassed the UK average.

### Input Prices Index

sa, >50 = inflation since previous month

61.5  
Oct '23



### Input Prices Index

May - Oct '23



### Prices Charged

As has been the case in each month over the last three years, average prices charged by Scottish private sector firms increased during October. Despite being the second-weakest in 30 months, the rate of growth was sharp overall and stronger than the pre-COVID average. Rising material, energy and labour prices led firms to pass on cost burdens to customers.

### Prices Charged Index

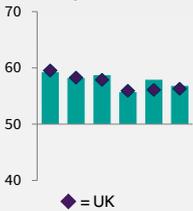
sa, >50 = inflation since previous month

56.8  
Oct '23



### Prices Charged Index

May - Oct '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, Oct'23* |
|------|------------------------|------|--------------------------|
| 1    | Food & Drink           | 1.91 | 55                       |
| 2    | Mechanical Engineering | 1.17 | 48                       |
| 3    | Electrical & Optical   | 1.08 | 45                       |
| 4    | Textiles & Clothing    | 1.06 | 48                       |
| 5    | Timber & Paper         | 1.05 | 40                       |
| 6    | Chemicals & Plastics   | 0.86 | 48                       |
| 7    | Basic Metals           | 0.81 | 48                       |
| 8    | Other Manufacturing    | 0.63 | 48                       |
| 9    | Transport              | 0.31 | 48                       |

#### Scotland specialisation: Services

| Rank | Sector                         | LQ   | UK Business Activity Index, Oct'23* |
|------|--------------------------------|------|-------------------------------------|
| 1    | Hotels, Restaurants & Catering | 1.27 | 48                                  |
| 2    | Financial Intermediation       | 1.10 | 50                                  |
| 3    | Transport & Communication      | 1.04 | 45                                  |
| 4    | Personal & Community Services  | 1.03 | 48                                  |
| 5    | Business-to-business Services  | 0.94 | 48                                  |
| 6    | Computing & IT Services        | 0.71 | 55                                  |

## UK sector focus

### Mechanical Engineering

The trend in production across the UK's Mechanical Engineering sector was one of broad stagnation in the three months to October. This was closely aligned with the sector's performance throughout the year so far, which has seen only marginal growth on average.

Output has in fact been largely supported by the clearing of backlogs of work as the supply of inputs has improved, with inflows of new work having been in decline for more than a year. Nevertheless, firms were optimistic about the 12-month outlook and maintained a trend of job creation that stretches back to the start of 2021.

Turning to prices, latest data showed only modest rises in both input costs and factory gate charges across the sector in the three months to October. Cost inflation was in fact at its joint-lowest since mid-2016, having surged throughout 2021 and 2022.

#### 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

London remained the UK's top-performing region for activity growth in October. It was one of just three areas (out of 12 monitored) where output rose during the month, alongside the West Midlands and South West. Firms in the North East recorded the most marked decline in business activity, followed by those in Wales.

### Employment

Seven out of the 12 monitored regions and nations posted lower employment in October. However, this was down from ten in September, and where workforce numbers fell, rates of job shedding often eased. Scotland topped the rankings with a modest rise in staffing levels, with the West Midlands, Northern Ireland\*, North West and East of England also seeing increases.

### Future Activity

Confidence towards future activity weakened across the vast majority of areas in October, with only the South West and Wales going against the trend. Nevertheless, expectations were optimistic across the board, and nowhere more so than in the West Midlands, which topped the rankings for a fourth straight month ahead of the South East.

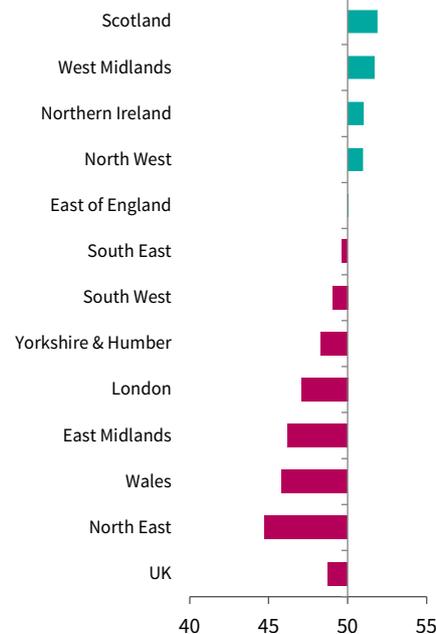
Business Activity Index

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



Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months, Oct '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 |
|---------|-------------------|--------------|----------------|------------------|------------|----------------------|--------------|----------------|
| May '23 | 50.7              | 51.9         | 51.2           | 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           |
| Sep '23 | 49.3              | 49.0         | 48.9           | 59.2             | 50.8       | 48.5                 | 62.4         | 57.9           |

### 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 |
|---------|--------|------------|----------------|------------|------------------|--------------|---------------|
| 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          |
| Oct '23 | 46.5   | 47.8       | 60.5           | 51.5       | 43.2             | 55.4         | 54.2          |

### 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 |
|---------|-------------------|--------------|------------------|------------|----------------------|--------------|----------------|
| 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           |
| Oct '23 | 46.4              | 48.3         | 58.5             | 52.0       | 46.0                 | 62.9         | 57.4           |

## Contact

Jonathan Rennie  
Regional Media & Campaigns Manager  
Royal Bank of Scotland  
+44 7769 932 102  
[jonathan.ennie@natwest.com](mailto:jonathan.ennie@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.

[spglobal.com/marketintelligence/en/mi/products/pmi](https://spglobal.com/marketintelligence/en/mi/products/pmi)

### Disclaimer

The intellectual property rights to the data provided herein are owned by or licensed to S&P Global and/or its affiliates. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without S&P Global's prior consent. S&P Global shall not have any liability, duty or obligation for or relating to the content or information ("Data") contained herein, any errors, inaccuracies, omissions or delays in the Data, or for any actions taken in reliance thereon. In no event shall S&P Global be liable for any special, incidental, or consequential damages, arising out of the use of the Data. Purchasing Managers' Index™ and PMI® are either trade marks or registered trade marks of S&P Global Inc or licensed to S&P Global Inc and/or its affiliates.

This Content was published by S&P Global Market Intelligence and not by S&P Global Ratings, which is a separately managed division of S&P Global. Reproduction of any information, data or material, including ratings ("Content") in any form is prohibited except with the prior written permission of the relevant party. Such party, its affiliates and suppliers ("Content Providers") do not guarantee the accuracy, adequacy, completeness, timeliness or availability of any Content and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such Content. In no event shall Content Providers be liable for any damages, costs, expenses, legal fees, or losses (including lost income or lost profit and opportunity costs) in connection with any use of the Content.