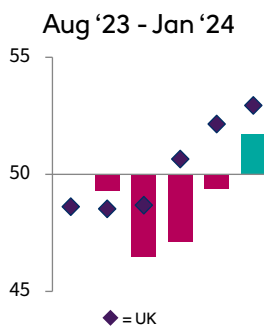




Royal Bank of Scotland PMI[®]

Scottish private sector activity rises for first time in six months

Scotland Business Activity Index



Key findings

Growth in services activity outweighs manufacturing downturn

Weakest decline in new orders since last July

Solid, albeit skewed growth in staffing levels

The latest Royal Bank of Scotland PMI[®] revealed a renewed rise in business activity across the Scottish private sector at the start of the year. At 51.7, up from 49.4 in December, the index signalled that private sector output expanded for the first time in six months. The upturn was solely reliant on the gains made in the service sector, while manufacturers reported a further sharp reduction in production volumes. The service sector benefited from improved demand conditions, and reported a second consecutive monthly rise in new orders. However, manufacturing firms struggled to drive sales in the latest survey period. The opposing pull of the sectors meant only a fractional fall in overall new orders.

Reflective of activity and new order growth, only the service sector raised its staffing levels in January, and that too at an accelerated pace. Employment levels fell at manufacturers for the first time in four months.

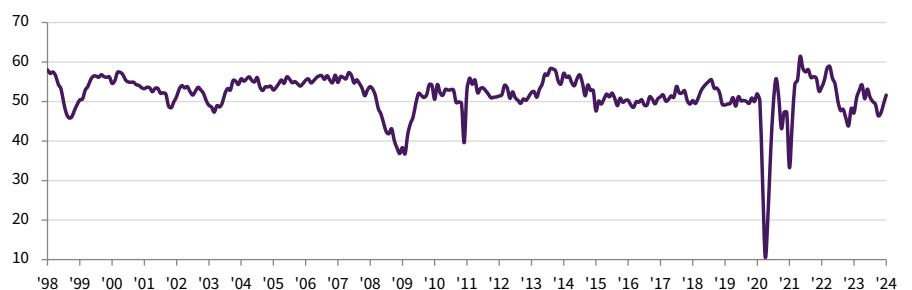
Judith Cruickshank, Chair, Scotland Board, Royal Bank of Scotland, commented:

"The Scottish private sector recorded an uplift in activity at the start of the year. The upturn was the first seen in six months and solid overall. However, growth was imbalanced, centred solely at service providers who have shown resilience amid a subdued economic climate. Meanwhile, the manufacturing sector reported a further sharp deterioration."

"Going forward, Scotland's private sector maintains a healthy outlook for output in the coming 12 months. However, elevated inflation and interest rates as well as lingering economic uncertainty could undermine growth prospects."

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.

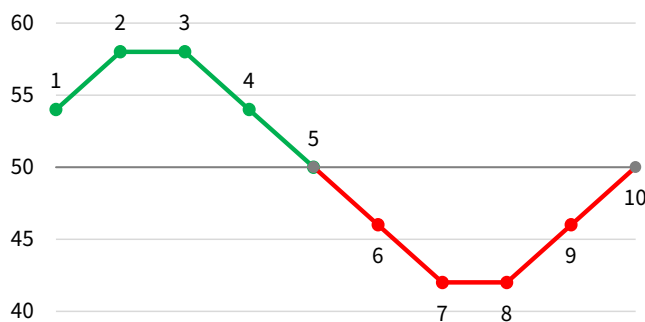
The headline figure is the Business Activity Index. This is a composite index calculated by weighting together the Manufacturing Output Index and the Services Business Activity Index. The Scotland Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

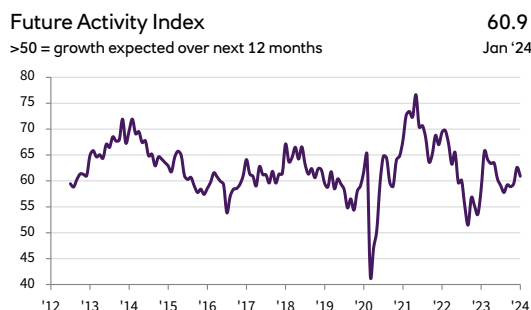
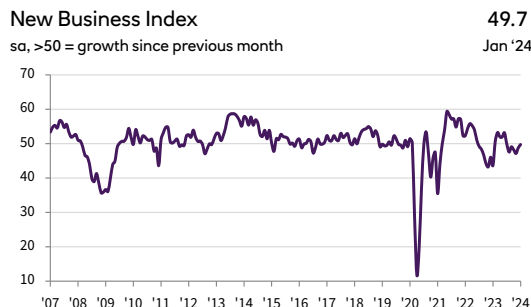
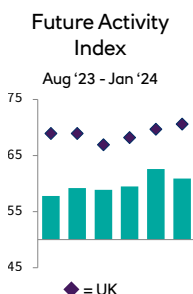
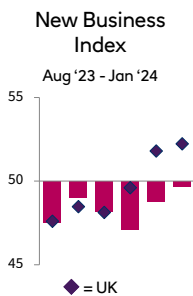
New business

A seventh consecutive monthly fall in new orders was recorded across Scotland in January. The decrease resulted from a sustained and sharp fall in new factory orders. However, the downturn moderated, with the rate of decrease the weakest since last July and fractional overall. The uptick in the respective seasonally adjusted index was driven by a stronger rise in inflows of new business at service providers. Firms attributed this to improvement in demand conditions, new client wins and increased advertising.

Meanwhile, new business rose for the second successive month and to a greater extent at the UK level.

Business expectations

Scottish private sector firms remained confident regarding the year-ahead outlook in January. Hopes for improvement in business conditions and increased marketing plans were said to have underpinned expectations. That said, the degree of confidence dimmed slightly from December's seven-month high, and was the weakest of the 12 monitored UK regions and nations.



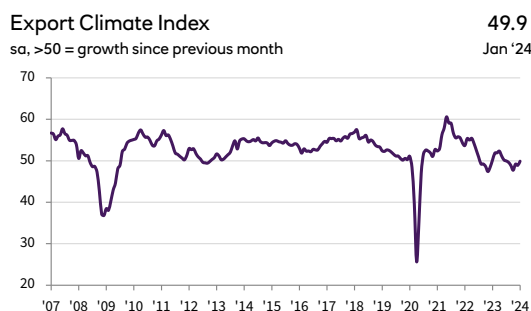
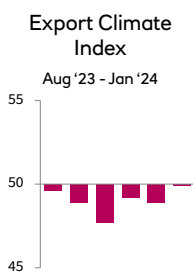
Exports

Export conditions stabilise

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.

Posting a six-month high of 49.9 in January, up from 48.9 in December, the ECI signalled broadly no change in export markets.

However, of Scotland's top five export economies, output growth was limited to the US and Ireland. Meanwhile, the Netherlands, Germany and France all reported a contraction in production volumes.



Top export markets, Scotland

Rank	Market	Weight	Output Index, Jan '24
1	Netherlands	19.4%	48.2
2	Ireland	13.5%	50.7
3	USA	13.2%	52.0
4	France	9.0%	44.6
5	Germany	8.9%	47.0

Business capacity

Employment

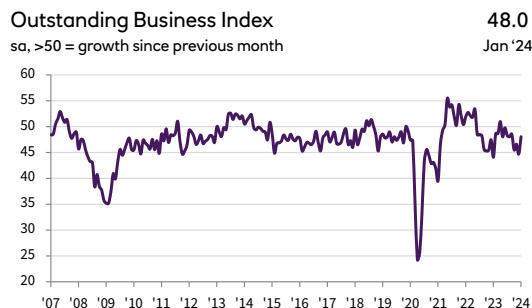
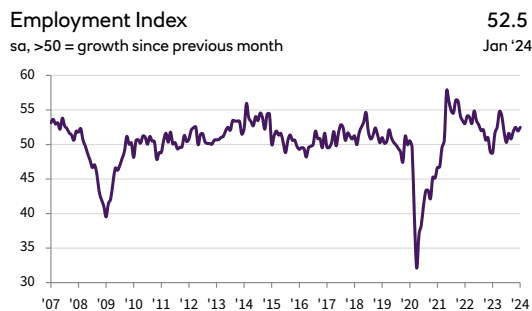
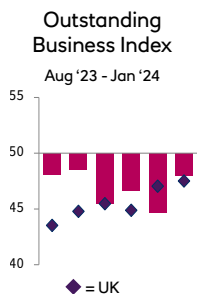
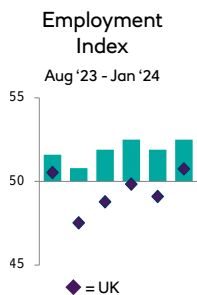
Despite continued weakness in new orders, the Scottish labour market remained resilient, with employment now rising for a year. However, job creation was limited to the service sector. Here, surveyed businesses noted that planned growth and anticipated orders led to stronger recruitment drives. Meanwhile, goods producers registered a fresh decline in staffing levels for the first time in four months.

Of all the monitored areas, only London surpassed Scotland by signalling the strongest uptick in employment during January.

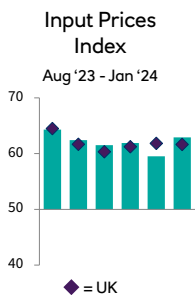
Outstanding business

January data revealed a ninth consecutive monthly decline in outstanding business across Scotland's private sector. The rate of depletion softened notably from December's recent record and was modest. Reduced business activity and sustained growth in employment allowed firms to work through any outstanding tasks.

Backlogs of work also fell at the UK-level. The rate of decrease however, was stronger than seen for Scotland.



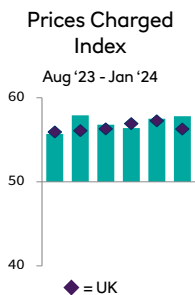
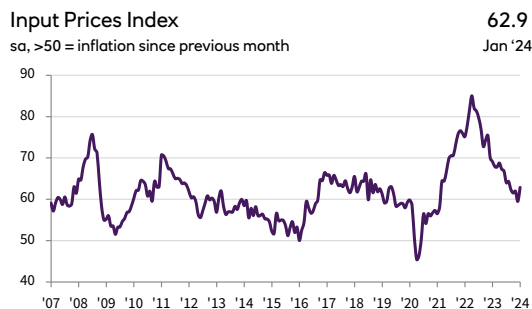
Prices



Input prices

Continuing the trend which began in June 2020, cost burdens rose across the Scottish private sector in January. The rate of inflation quickened from the recent low in December to a five-month high and was substantial overall. Rising fuel, energy and salary costs, as well as increased prices from the suppliers, were said to have pushed up input costs.

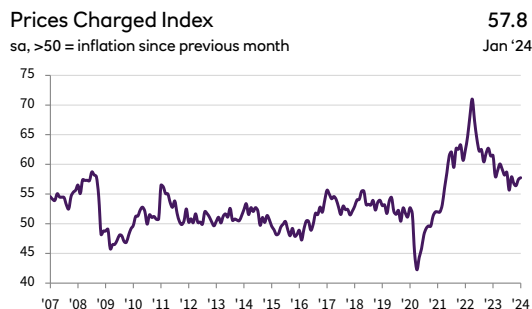
The rise in cost burdens across Scotland was also the third-strongest of the 12 monitored regions and nations, with only London and the East of England registering stronger increases.



Prices Charged

Prices charged by Scottish private sector companies rose at a historically sharp and slightly accelerated pace at the start of 2024. The latest rise in charges was widely attributed to the pass-through effects of growing cost burdens.

In fact, of the 12 monitored regions and nations, Scotland recorded the sharpest rise in charges levied for the provision of goods and services.



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, Jan'24*
1	Food & Drink	1.89	50
2	Mechanical Engineering	1.15	50
3	Textiles & Clothing	1.13	50
4	Electrical & Optical	1.04	50
5	Timber & Paper	1.04	50
6	Chemicals & Plastics	0.97	50
7	Basic Metals	0.71	50
8	Other Manufacturing	0.58	50
9	Transport	0.33	50

Scotland specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Jan'24*
1	Personal & Community Services	1.24	50
2	Hotels, Restaurants & Catering	1.22	50
3	Transport & Communication	1.02	50
4	Financial Intermediation	0.93	50
5	Business-to-business Services	0.90	50
6	Computing & IT Services	0.69	50

UK sector focus

Personal & Community Services

Activity across the UK's Personal & Community Services sector fell in the three months to January. It was in fact the only broad category within the UK service sector to record a reduction in activity over that period.

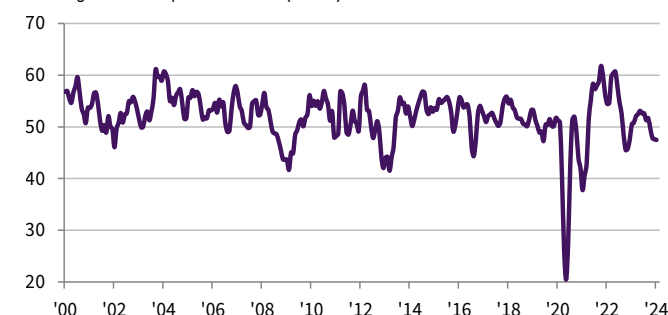
The downturn reflected falling demand, with the decline in new business that began in late-2023 extending into the new year. A lack of pressure on business capacity – as evidenced by falling backlogs of work – led firms in the sector to cut workforce numbers. It continued a run of job losses seen since the middle of last year.

Cost pressures among Personal & Community Services firms meanwhile remained elevated, due in large part to growing wages. Although below the averages in 2022 and 2023, the rate of input price inflation was still above its long-run trend. The increase in prices charged was more subdued by comparison, registering one of the slowest rises in the past two-and-a-half years.

Lastly, latest data showed business expectations in the sector slipping to the lowest for almost a year.

Output Index

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



UK Regional PMI overview

Business Activity

The majority of UK regions and nations saw a rise in business activity in January. London once again recorded the strongest growth, followed by the West Midlands. Output fell further in the North East, but the rate of contraction slowed notably to the weakest since last August. Activity in Wales was broadly unchanged, following a four-month sequence of decline.

Employment

January saw a general improvement in labour market trends, with employment either rising more quickly or falling at a reduced rate in almost all cases. London topped the rankings, recording its fastest rate of job creation for six months. Wales recorded the most marked drop in workforce numbers, but the pace of staff shedding did at least ease to the weakest since last October.

Future Activity

Eight of the 12 monitored regions and nations registered improved business expectations in January. Confidence was highest in the West Midlands, followed by the South East. The greatest upswing in sentiment was seen in Northern Ireland*. Scotland was one of the areas that went against the trend and recorded the lowest overall degree of optimism.

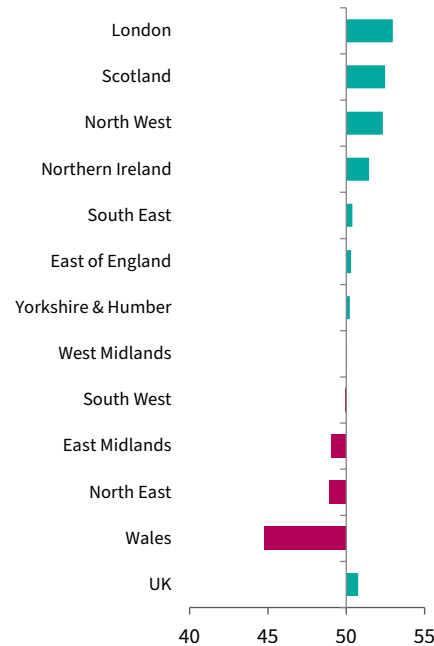
Business Activity Index

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



Employment Index

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

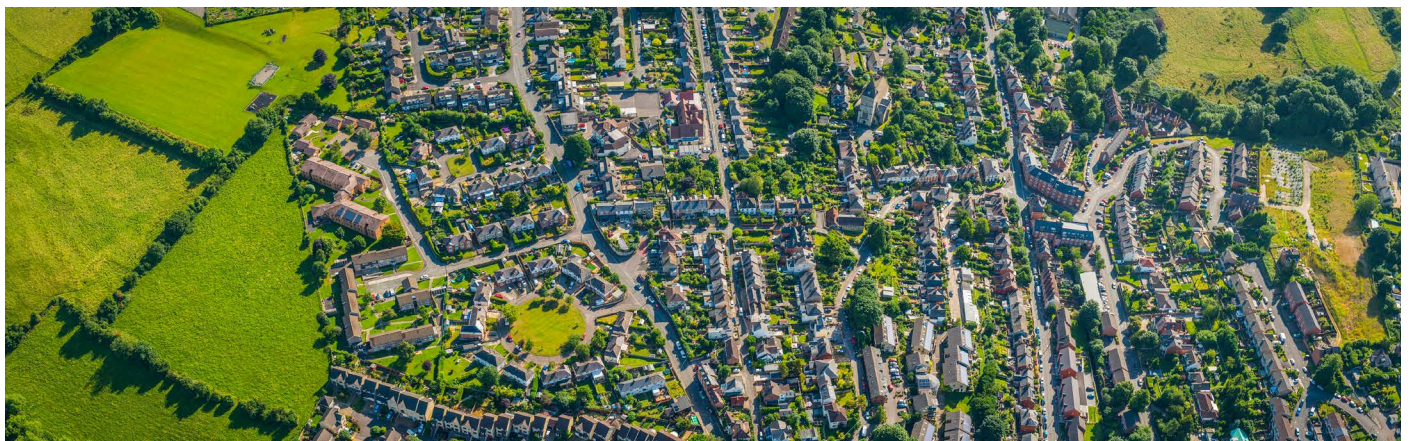


Future Activity Index

>50 = growth expected over next 12 months, Jan '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
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
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

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
Nov '23	43.2	41.1	60.2	53.9	41.7	56.0	55.1
Dec '23	45.2	42.3	58.9	54.6	44.5	55.5	54.8
Jan '24	45.4	44.1	58.2	48.8	41.8	59.2	57.1

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
Nov '23	48.0	48.5	59.3	52.1	47.7	63.3	56.7
Dec '23	50.4	50.2	63.4	51.3	44.7	60.4	58.1
Jan '24	53.2	51.1	61.6	53.4	49.6	63.8	57.9

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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.

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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.

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