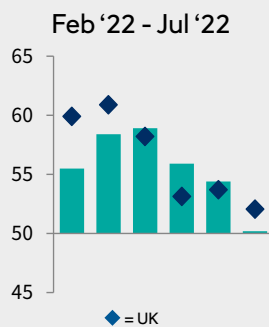


Royal Bank of Scotland PMI[®]

Business activity growth weakens to 17-month low in July

Scotland Business Activity Index



Key findings

Output expands fractionally amid renewed drop in sales

Softest increase in employment since April 2021

Price pressures cool, but remain rapid

Business activity across the Scottish private sector increased at only a fractional pace during July, according to the latest Royal Bank of Scotland PMI[®] data. The seasonally adjusted headline Royal Bank of Scotland Business Activity Index - a measure of combined manufacturing and service sector output - registered 50.2 in July, down from 54.4 in June, signalling the weakest rate of growth in the current 17-month run of expansion. Moreover, new business at Scottish private sector firms fell for the first time since March 2021. Sector data showed that weakness generally emanated from the manufacturing sector, though service providers in the region saw rates of growth for both output and new orders weaken since June.

Malcolm Buchanan, Chair, Scotland Board, Royal Bank of Scotland, commented:

"The Scottish private sector lost growth momentum for the third month running during July. Activity levels were broadly unchanged as the post-pandemic rebound continued to fade and firms faced intense cost pressures and greater economic uncertainty. Manufacturing firms in the region noted sharp declines in production and new orders, while service providers reported only mild expansions in activity and sales."

"Encouragingly, employment continued to rise, extending the current period of job creation to 16 months. That said, the rate of payroll growth was the softest seen since April 2021."

"While there were signs that price pressures have peaked, costs continued to rise sharply overall. Along with signs of weakening demand, an uncertain economic outlook and the cost of living crisis, a number of firms expressed concerns around the outlook and fears of a recession in the year ahead."

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.

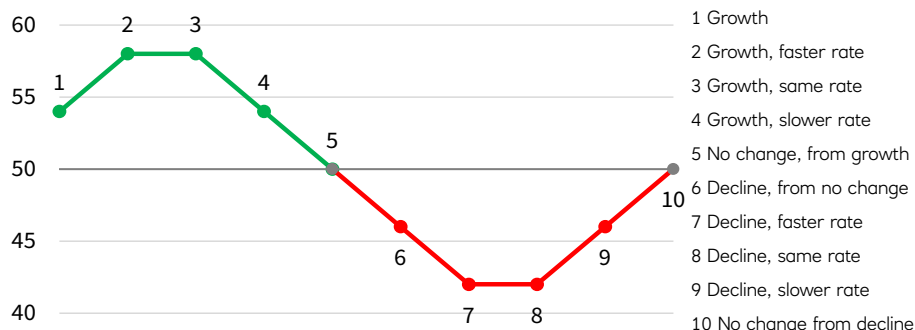
The headline figure is the Business Activity Index. This is a composite index calculated by weighting together the Manufacturing Output Index and the Services Business Activity Index. The Scotland Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

Index interpretation

50.0 = no change since previous month



Demand and outlook

New business

Private sector firms across Scotland signalled a renewed fall in new orders during July. While the rate of reduction was only mild, it marked the first contraction since March 2021. The respective seasonally adjusted index was pulled down by a sharp reduction in factory orders across the region, while a weaker upturn in sales was seen at service providers. Panellists linked the decline to reduced customer spending amid the cost of living crisis and rising economic uncertainty.

In contrast to the contraction observed in Scotland, the UK as a whole reported a modest expansion in new orders.

Business expectations

Business confidence strengthened marginally across Scottish private sector firms in July. Surveyed companies hoped that new customers and improvements in client spending will lead to expansions in activity in the coming 12 months. Nevertheless, the overall degree of optimism was the second-lowest in 21 months, with a number of firms concerned about the challenging economic climate, the cost-of-living crises and potential recessionary risks.

Additionally, Scottish private firms were less upbeat than the average UK business.

Exports

Softest improvement in export climate in 25 months

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.

The Export Climate Index fell from 52.8 in June to 51.0 in July to signal a marginal improvement in export demand conditions. Notably, the latest reading was the lowest seen in 25 months.

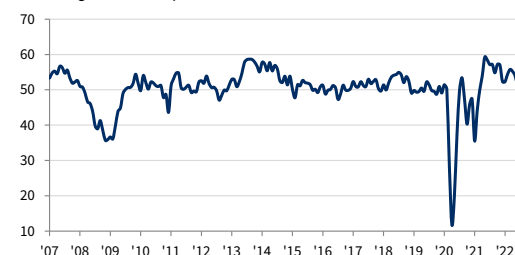
Slower upticks in output were seen across China, the Netherlands and France. Meanwhile, Germany and the US* posted their first reductions in business activity since December 2021 and June 2020, respectively.

New Business Index

sa, >50 = growth since previous month

49.2

Jul '22



Future Activity Index

>50 = growth expected over next 12 months

60.1

Jul '22



Export Climate Index

sa, >50 = growth since previous month

51.0

Jul '22

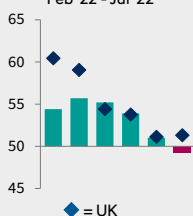


Top export markets, Scotland

| Rank | Market | Weight | Output Index, Jul '22 |
|------|-------------|--------|-----------------------|
| 1 | Netherlands | 18.3% | 51.7 |
| 2 | USA | 10.8% | 47.7 |
| 3 | Germany | 9.2% | 48.1 |
| 4 | China | 6.6% | 54.0 |
| 5 | France | 5.6% | 51.7 |

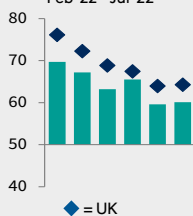
New Business Index

Feb '22 - Jul '22



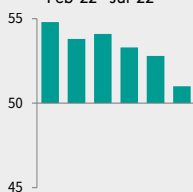
Future Activity Index

Feb '22 - Jul '22



Export Climate Index

Feb '22 - Jul '22



Business capacity

Employment

As has been the case since April 2021, Scottish private sector firms raised their employment levels in July. Although the rate of job creation was the slowest in 15 months, it remained stronger than the series average (50.5). Companies that raised their workforce numbers attributed this to higher business requirements, but firms also highlighted difficulties finding staff amid labour and skill shortages and a competitive labour market.

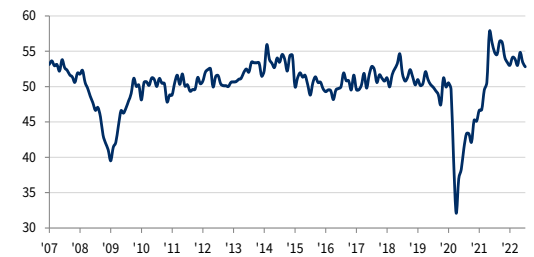
Of the 12 monitored UK regions, Scotland reported the softest increase in staffing levels in July, while the North East of England was the only region to register job losses.

Outstanding business

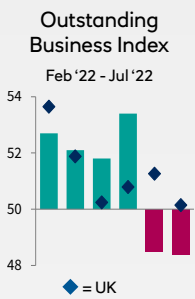
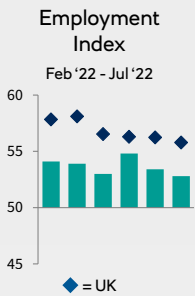
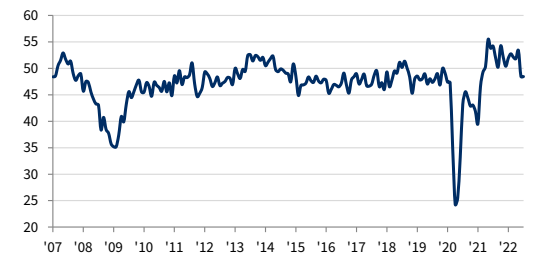
Levels of outstanding business fell across Scottish private sector firms for the second consecutive month in July. The rate of depletion was broadly unchanged from June and modest, as the quickest decline in manufacturing backlogs in over two years was largely offset by a renewed rise in unfinished business at services companies. Firms primarily stated that lower sales drove the latest reduction in outstanding orders.

Nine out of the 12 monitored UK regions, including Scotland, posted a decrease in work-in-hand, with data signalling easing pressures on capacity across the UK as a whole.

Employment Index 52.8
 sa, >50 = growth since previous month Jul '22



Outstanding Business Index 48.4
 sa, >50 = growth since previous month Jul '22



Prices

Input prices

Input costs rose sharply across Scottish private sector firms during July, thereby stretching the current bout of input price inflation to 26 months. The rate of increase eased to a five-month low, but remained amongst the fastest on record. According to surveyed businesses, higher commodity prices, Brexit, and the war in Ukraine had all placed upwards pressure on costs.

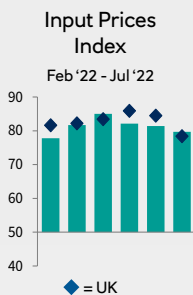
The pace of cost inflation in Scotland was slightly faster than that observed across the UK as a whole.

Input Prices Index

sa, >50 = inflation since previous month

79.7

Jul '22



Prices Charged

For the twenty-first successive month, private sector firms in Scotland raised their charges for goods and services in July. While the pace of increase softened to a seven-month low, it remained sharp overall and was quicker than the historical average. Firms often mentioned raising their prices in line with higher costs of raw materials and energy.

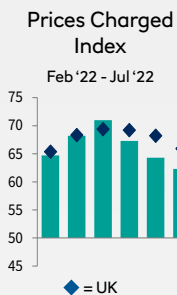
Of the 12 monitored UK regions, only the East of England saw a softer increase in charges than Scotland.

Prices Charged Index

sa, >50 = inflation since previous month

62.3

Jul '22



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, Jul '22* |
|------|------------------------|------|---------------------------|
| 1 | Food & Drink | 1.91 | 50 |
| 2 | Mechanical Engineering | 1.17 | 55 |
| 3 | Electrical & Optical | 1.08 | 55 |
| 4 | Textiles & Clothing | 1.06 | 50 |
| 5 | Timber & Paper | 1.05 | 45 |
| 6 | Chemicals & Plastics | 0.86 | 50 |
| 7 | Basic Metals | 0.81 | 50 |
| 8 | Other Manufacturing | 0.63 | 50 |
| 9 | Transport | 0.31 | 50 |

Scotland specialisation: Services

| Rank | Sector | LQ | UK Business Activity Index, Jul '22* |
|------|--------------------------------|------|--------------------------------------|
| 1 | Hotels, Restaurants & Catering | 1.27 | 45 |
| 2 | Financial Intermediation | 1.10 | 50 |
| 3 | Transport & Communication | 1.04 | 50 |
| 4 | Personal & Community Services | 1.03 | 55 |
| 5 | Business-to-business Services | 0.94 | 50 |
| 6 | Computing & IT Services | 0.71 | 55 |

UK sector focus

Financial Intermediation

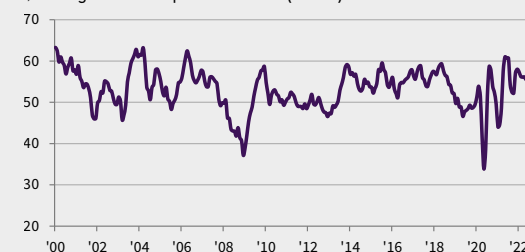
The UK's Financial Intermediation sector saw an increase in business activity in the three months to July. However, having been solid throughout the opening half of the year, the rate of growth slowed sharply and was among the softest seen since the current sequence of expansion began in the spring of last year.

The loss of momentum reflected a deepening decline in inflows of new work across the sector, with reports from surveyed firms highlighting the influence market and economic uncertainty, high inflation and rising interest rates. Expectations towards future activity deteriorated accordingly, dropping to their lowest in over two years.

On the price front, Financial Intermediation firms raised charges at a near-record rate in the three months to July, with underlying cost pressures close to the highest seen in over 25 years of data collection.

Output Index

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



*3-month moving average.



UK Regional PMI overview

Business Activity

Eight of the 12 monitored UK regions recorded higher business activity in July, the lowest number since February 2021 (four). London saw by far the strongest growth, but even here the rate of expansion slowed, as was the case in six other areas. Northern Ireland* remained at the bottom of the rankings, while lower output was also seen in the North East, East of England and East Midlands.

Employment

Rates of job creation generally remained robust across the UK in July. In fact, four regions even saw slightly faster increases in employment than the month before, including the South East which moved to the top of the rankings. The North East once again went against the broader trend, registering another marginal decline in workforce numbers, its third in the past four months.

Future Activity

Firms' expectations for future activity remained positive for the most part in July, with only those in Northern Ireland anticipating a decline in output over the next 12 months. Businesses in Yorkshire & Humber were the most optimistic about the outlook, despite confidence in the region have weakened from the previous month. Expectations also fell in the West Midlands, South East, East Midlands and South West.

Business Activity Index

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



Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months, Jul '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 |
|---------|-------------------|--------------|----------------|------------------|------------|----------------------|--------------|----------------|
| Feb '22 | 55.5 | 54.4 | 54.8 | 69.7 | 54.1 | 52.7 | 77.8 | 64.7 |
| Mar '22 | 58.4 | 55.7 | 53.8 | 67.2 | 53.9 | 52.1 | 81.7 | 68.2 |
| Apr '22 | 58.9 | 55.2 | 54.1 | 63.2 | 53.0 | 51.8 | 85.0 | 71.0 |
| May '22 | 55.9 | 53.9 | 53.3 | 65.5 | 54.8 | 53.4 | 82.1 | 67.3 |
| Jun '22 | 54.4 | 51.0 | 52.8 | 59.6 | 53.4 | 48.5 | 81.4 | 64.3 |
| Jul '22 | 50.2 | 49.2 | 51.0 | 60.1 | 52.8 | 48.4 | 79.7 | 62.3 |

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 |
|---------|--------|------------|----------------|------------|------------------|--------------|---------------|
| May '22 | 50.6 | 48.8 | 62.0 | 52.7 | 50.4 | 84.5 | 73.7 |
| Jun '22 | 49.9 | 46.9 | 56.4 | 54.3 | 47.8 | 82.7 | 71.3 |
| Jul '22 | 44.9 | 40.8 | 57.9 | 53.3 | 40.5 | 81.1 | 69.8 |

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 |
|---------|-------------------|--------------|------------------|------------|----------------------|--------------|----------------|
| May '22 | 57.1 | 55.0 | 66.3 | 55.3 | 54.0 | 81.5 | 65.9 |
| Jun '22 | 55.4 | 51.9 | 60.4 | 53.3 | 48.6 | 81.1 | 62.8 |
| Jul '22 | 51.4 | 51.1 | 60.6 | 52.7 | 50.2 | 79.4 | 60.6 |

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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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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.

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