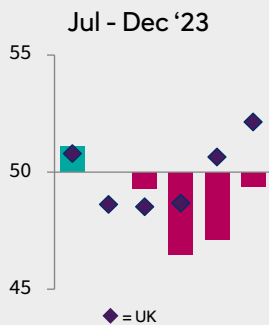


Royal Bank of Scotland PMI[®]

Downturn in private sector output eases in December

Scotland Business Activity Index



Key findings

Softest fall in private sector output in four months

Fresh expansion in service sector output

Strongest rise in employment in UK

The latest Royal Bank of Scotland PMI[®] indicated a further deterioration across the Scottish private sector at the end of 2023. That said, at 49.4 in December, up from 47.1 in November, the Output Index signalled that private sector activity fell at the slowest pace in the current four-month downturn. The latest decline was centred on the manufacturing sector, while services firms reported a fresh, albeit marginal, rise in activity.

Moreover, companies raised their staff intakes, with employment rising for the eleventh consecutive month in December. Successful replacement of leavers and expectations of growth allowed firms to increase their hiring activity. Moreover, the rate of job creation across Scotland was the strongest of all the 12 monitored UK regions and nations.

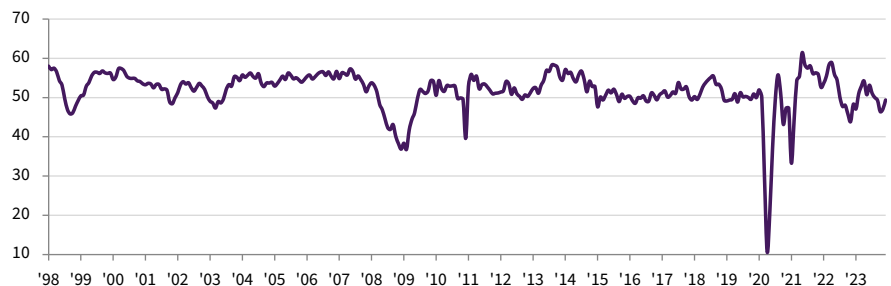
Judith Cruickshank, Chair, Scotland Board, Royal Bank of Scotland, commented:

"Firms in Scotland recorded a contraction in private sector output during December, with the manufacturing sector weighing heavily on overall performance. However, the latest downturn was modest overall and the weakest in four months, in part reflecting a fresh, albeit marginal, expansion in business activity across services firms."

"Employment levels continued to rise, indicating that companies anticipate higher business volumes in the coming months. Job creation was also the strongest in the UK. In terms of inflation, input prices rose at the slowest rate in nearly three years and one below the long-run average, although charge inflation remained historically high."

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.

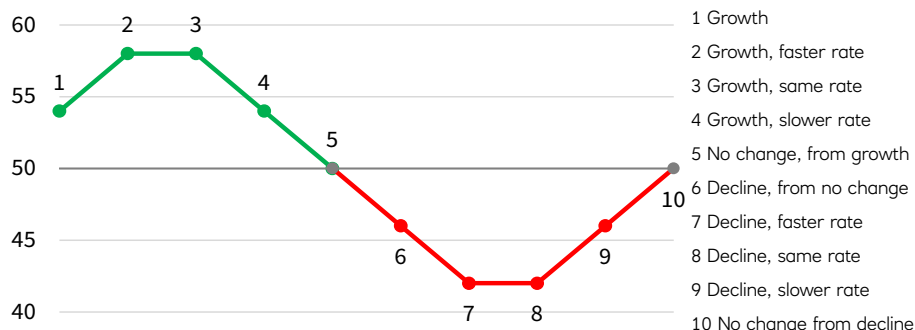
The headline figure is the Business Activity Index. This is a composite index calculated by weighting together the Manufacturing Output Index and the Services Business Activity Index. The Scotland Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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



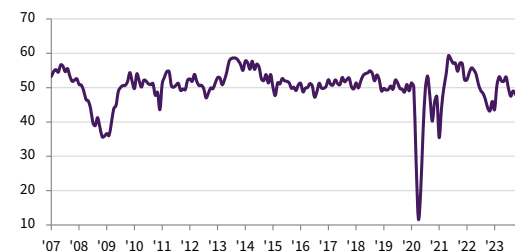
Demand and outlook

New business

The year ended with another monthly contraction in new business across Scotland, with new orders falling continuously since July. However, the downturn eased and was centred on the manufacturing sector, with respondents citing deteriorating market conditions and higher prices deterring customers. In contrast, a fresh rise in new work was noted at services providers.

In contrast to Scotland, new business rose across the UK as a whole for the first time in six months.

New Business Index 48.8
sa, >50 = growth since previous month Dec '23

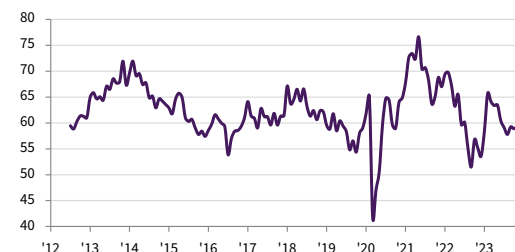


Business expectations

Expectations strengthened in December, with private sector companies across Scotland anticipating a rise in output in 2024. The degree of confidence was the strongest in seven months and broadly in line with the historical average since 2012. Optimism largely stemmed from hopes that improvements in markets, as well as increased advertising, new contracts and products would bolster growth in activity.

That said, the level of positive sentiment across Scotland was again weaker than the UK-wide average.

Future Activity Index 62.6
>50 = growth expected over next 12 months Dec '23



Exports

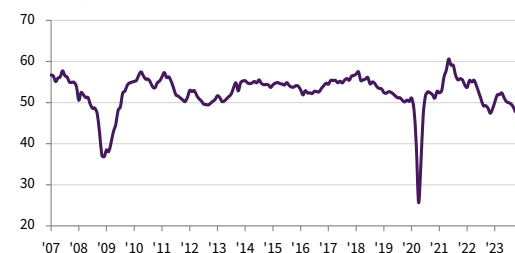
Export climate deteriorates further in December

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.

As has been the case for the past five months, the ECI posted below the neutral 50.0 mark in December. The index was little-changed at 48.9, from 49.2 in November, indicating another modest contraction.

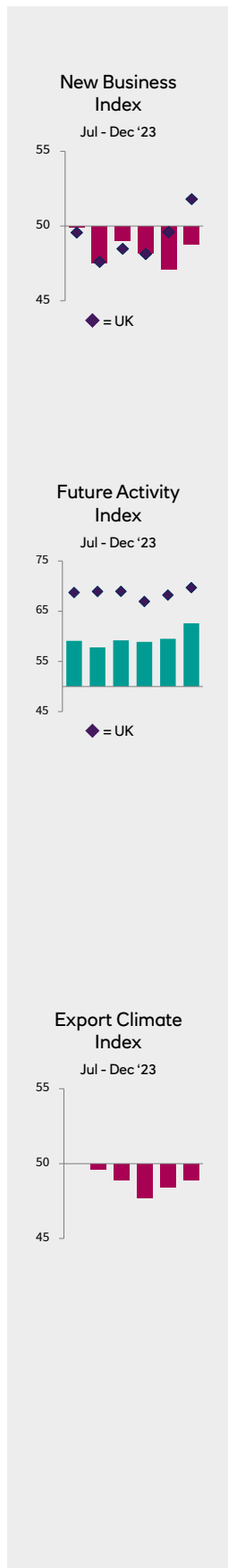
The Netherlands – Scotland's largest export market - recorded the strongest fall in output among the top five export markets during December. Of these, only Ireland and the US registered growth.

Export Climate Index 48.9
sa, >50 = growth since previous month Dec '23



Top export markets, Scotland

Rank	Market	Weight	Output Index, Dec '23
1	Netherlands	19.4%	44.7
2	Ireland	13.5%	51.5
3	USA	13.2%	50.9
4	France	9.0%	44.8
5	Germany	8.9%	47.4



Business capacity

Employment

December data revealed a rise in employment across Scotland, thereby stretching the current run of growth to 11 months. Scottish businesses were keen to fill vacant positions and replace leavers. Moreover, hopes of improved demand conditions encouraged some firms to raise their current staffing levels.

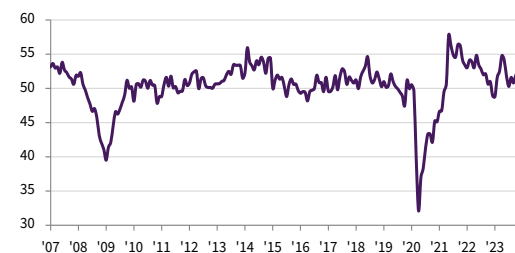
Though the rate of increase eased slightly from November and was modest overall, it was the strongest of all 12 UK nations and regions. London and Northern Ireland were the only other UK areas to record higher employment in December.

Outstanding business

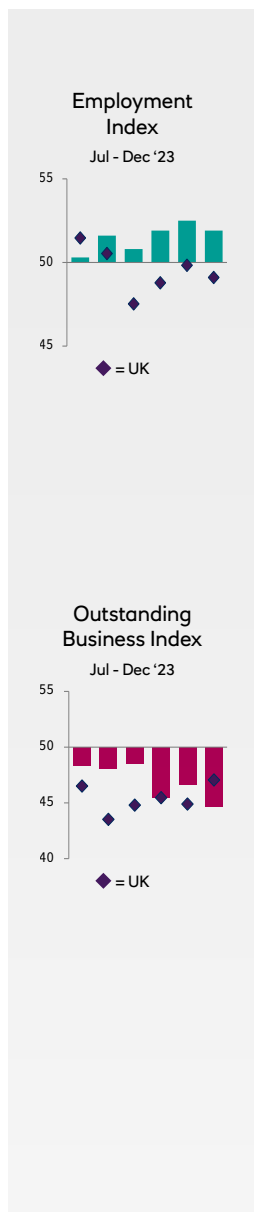
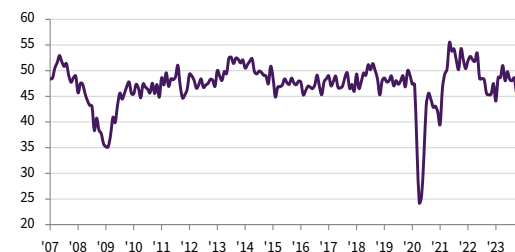
Reduced levels of work and sustained growth in employment meant that outstanding business declined for an eighth consecutive month across Scotland's private sector in December. The downturn was the most marked since January 2023 and sharp overall. Some firms also noted that improved availability of materials helped companies to work through backlogs.

The rate of depletion across Scotland outpaced the UK-wide average.

Employment Index
sa, >50 = growth since previous month
45.9
Dec '23



Outstanding Business Index
sa, >50 = growth since previous month
44.7
Dec '23



Prices

Input prices

Average cost burdens faced by private sector companies in Scotland rose sharply in December. Surveyed businesses often attributed this to higher labour, shipping and fuel costs. That said, the rate of input price inflation eased to the slowest since February 2021, with both monitored sectors recording softer rates of inflation than in November.

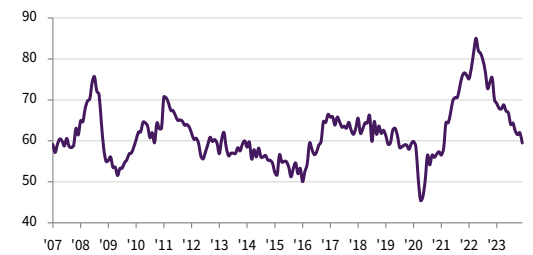
Cost burdens also rose at the UK level, and at a quicker pace than in Scotland.

Input Prices Index

sa, >50 = inflation since previous month

59.5

Dec '23



Prices Charged

Adjusted for seasonal variance, the Output Prices Index registered above the neutral 50.0 threshold in December to indicate an increase in selling prices. The rate of growth ticked up to a three-month high and was historically strong. Firms attributed higher charges to rising cost burdens, with some firms also looking to increase their margins.

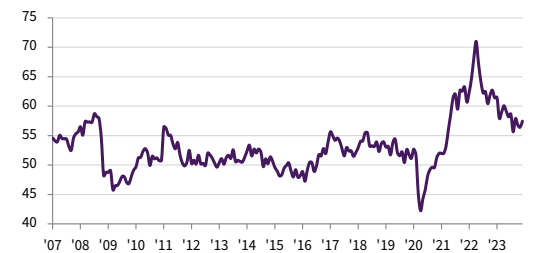
Charges levied by firms across Scotland rose at a broadly similar rate to that seen for the UK as a whole.

Prices Charged Index

sa, >50 = inflation since previous month

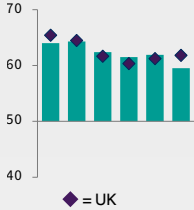
57.5

Dec '23



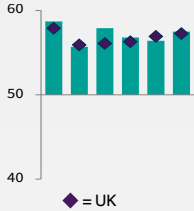
Input Prices Index

Jul - Dec '23



Prices Charged Index

Jul - Dec '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, Dec'23 ⁺
1	Food & Drink	1.91	55
2	Mechanical Engineering	1.17	50
3	Electrical & Optical	1.08	45
4	Textiles & Clothing	1.06	50
5	Timber & Paper	1.05	45
6	Chemicals & Plastics	0.86	45
7	Basic Metals	0.81	45
8	Other Manufacturing	0.63	40
9	Transport	0.31	55

Scotland specialisation: Services

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

UK sector focus

Textiles & Clothing

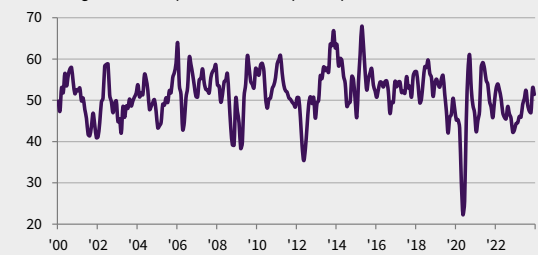
The UK's Textiles & Clothing sector saw a slight increase in production volumes in the three months to December. It was one of only three manufacturing sub-sectors monitored by PMI data to record growth, alongside Food & Drink and Transport. The result represented a marked turnaround from the solid rate of contraction seen in the opening quarter of 2023.

Driving the upturn was a strong increase in new orders, which in part reflected improved demand from abroad in recent months. Firms reacted by upping the pace of job creation to one of the quickest rates in the past five years. They also continued to build up stocks of both purchases and finished goods.

On the price front, latest data showed a sustained rebound in input costs following a decline during the middle part of 2023. Average factory gate charges meanwhile rose modestly, and at one of the slowest rates in the past three years.

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

Seven of the 12 monitored regions and nations recorded higher business activity in December, the most since last June. Growth was once again led by London, where output rose sharply during the month. At the other end of the scale, the North East recorded the most marked fall in output, followed by Wales.

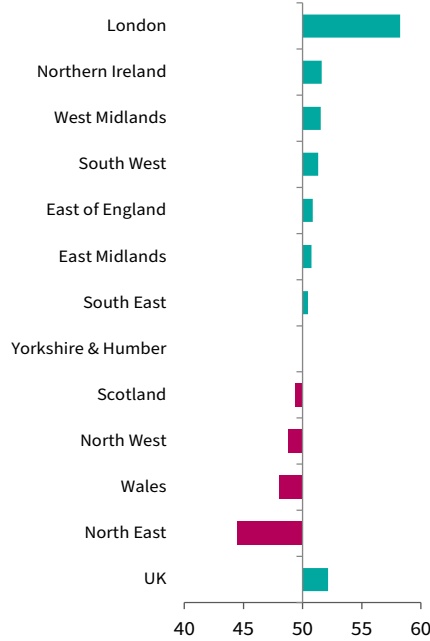
Employment

Labour market trends worsened in most cases in December. Just three areas saw employment rise, the fewest since last September, with rates of growth slowing in both Scotland and Northern Ireland*. For the second month running, Wales posted the sharpest drop in workforce numbers – its fastest since January 2021.

Future Activity

Business expectations improved in the majority of cases as 2023 drew to a close. This included the West Midlands, which topped the rankings ahead of the South East. The most marked upswing in confidence was in Wales, followed by the North East. Firms in Northern Ireland were the least optimistic about the year-ahead outlook.

Business Activity Index
sa, >50 = growth since previous month, Dec '23



Employment Index
sa, >50 = growth since previous month, Dec '23



Future Activity Index
>50 = growth expected over next 12 months, Dec '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
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
Oct '23	46.5	48.2	47.7	58.9	51.9	45.5	61.5	56.8
Nov '23	47.1	47.1	48.4	59.5	52.5	46.6	61.9	56.4

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
Oct '23	46.5	47.8	60.5	51.5	43.2	55.4	54.2
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

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
Oct '23	46.4	48.3	58.5	52.0	46.0	62.9	57.4
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

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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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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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