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Royal Bank of Scotland PMI[®]

Downturn across Scotland deepens amid falling demand

- **Business Activity Index falls to 45.8 in October from 48.0 in September**
- **Contraction in new orders quickens**
- **Growth in employment further weakens**

The contraction across Scotland's private sector firms deepened during October, according to the latest Royal Bank of Scotland PMI[®] data. Adjusted for seasonality, the Business Activity Index posted below the neutral 50.0 threshold for the third month running, at 45.8, indicating a sharp decrease overall. Inflows of new business also went into further decline, the latest downturn being the most severe in 20 months. To further add weakness across the sector, inflationary pressures reaccelerated from September's recent low, as service providers reported quicker upturns in input costs and charges during October. The gloomy performance resulted to the softest intake of workers in 18 months, with goods producers reporting their first reduction in employment since January 2021.

New business received at Scottish private sector firms fell sharply during October. The rate of decrease quickened from September to the fastest in the current fourth-month sequence of reduction. Of the two sub-sectors, manufacturing firms reported the steeper downturn. Companies noted that looming recession, economic uncertainty and the cost of living crisis weighed on client activity.

The downturn in incoming new business across Scotland outpaced the UK-wide average.

Output expectations for the year ahead across private sector firms in Scotland strengthened in the three months to October. The increase in confidence was underpinned on planned expansions and investment, with firms also hopeful of future economic stability. That said, sentiment was relatively muted in context of historical data.

Business confidence across Scotland was broadly in line with that recorded for the UK as a whole.

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Employment across the Scottish private sector expanded for the nineteenth month running in October. However, amid a cooldown in hiring activity at service providers, with goods producers reporting their first contraction since January 2021, the overall rate of growth ticked down to the joint-lowest in the aforementioned series.

The rate of job creation across Scotland remained softer than that seen at the UK level, which similarly also slowed in October.

October's survey showed a sustained fall in levels of outstanding business across Scotland's private sector. The respective seasonally adjusted index posted below the neutral 50 threshold for the fifth consecutive month, the latest reading signalling the fastest depletion in work outstanding since January 2021. As per surveyed businesses, declines in new orders allowed firms to work through previous backlogs.

The rate of contraction in Scotland was the third-fastest across the UK, ahead of Northern Ireland and Wales.

October data signalled a robust rise in input costs across Scotland's private sector, thereby extending the run of inflation to 29 months. Adjusted for seasonality, the latest reading increased from September's 13-month low as a result of a reacceleration in input price inflation reported at service firms. The uptick in average costs was attributed to higher wages and utilities, cost of living crisis and general inflation adding strain on costs.

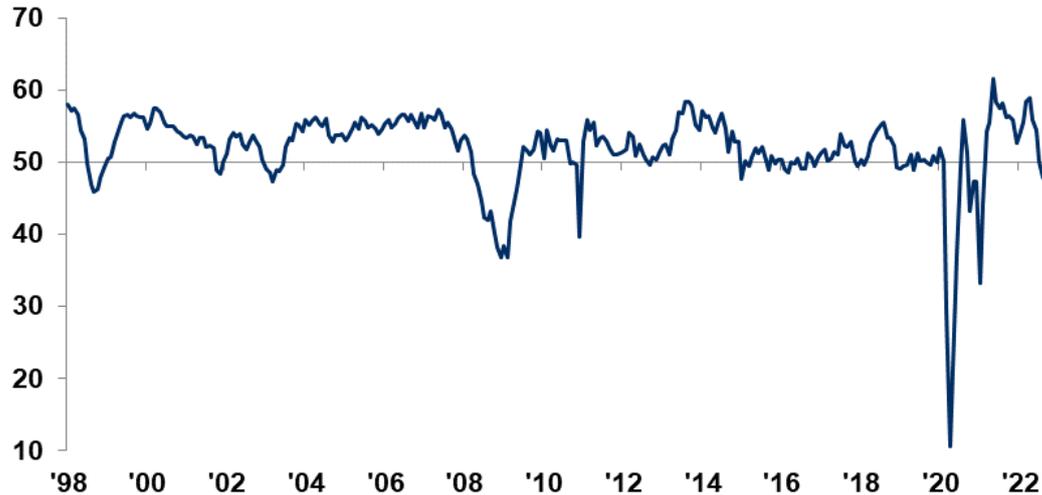
Despite being severe, the pace of input price inflation was however, softer than the UK average.

In line with the upturn in average cost burdens, charge levied by Scottish private sector firms also inclined from September's recent low at a quickened rate during October.

The rate of charge inflation across Scotland posted weaker than the UK-wide average which slowed during October.

Scotland Business Activity Index

sa, >50 = growth since previous month



Source: Royal Bank of Scotland, S&P Global.

COMMENT

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

"The Scottish private sector reported a third month of contraction during October. The downturn in activity quickened on the month, as stubbornly high inflationary pressures, the ongoing cost of living crisis and a threat of recession deterred growth. New orders received at firms also fell further.

"Employment trends across the sector indicated a slowdown in hiring activity over the recent months. The latest upturn was the joint-softest in the current 19-month sequence of expansion. At the same time, the level of outstanding business also fell at a much sharper rate. The data thus suggesting the further weakness in the labour market will not be surprising.

"As we proceed into the final quarter of the year, market conditions are set to become more challenging. The aggressive interest rate hikes, the decline in the value of sterling against the dollar and the rebound in post-COVID demand phasing out, all amidst the ongoing cost of living and energy crises, all point to an extremely difficult period for Scotland."

ENDS

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Notes to Editors

Methodology

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.

The survey data for October were collected 12-27 October 2022.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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. To learn more go to ihsmarkit.com/products/pmi.html.

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