



News release: Royal Bank of Scotland Growth Tracker

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Business activity declines as price pressures remain high in May

- Business activity falls at quickest pace in 14 months
 - Downturn in new orders deepens
- Price pressures ease only slightly since April

Business activity fell across Scotland’s private sector midway through the second quarter, the latest Royal Bank of Scotland Growth Tracker showed.

The headline Royal Bank of Scotland Business Activity Index – a seasonally adjusted index that measures the month-on-month change in the combined output of Scotland’s manufacturing and service sectors – edged down to 47.1 in May, from 48.0 in April, signalling a decrease in output that was the most pronounced in 14 months.

Scottish private sector companies posted a further reduction in new business during May, extending the current run of decline to 20 months. The pace of contraction was the fastest since January 2023. According to anecdotal evidence, increased market uncertainty and rising prices, which were both linked to the ongoing war in the Middle East, had dampened sales.

Inflationary pressures meanwhile remained substantial, despite easing for the first time in three months.

Commenting on the Tracker’s findings, Judith Cruickshank, Scotland Board Chair, Royal Bank of Scotland, said:

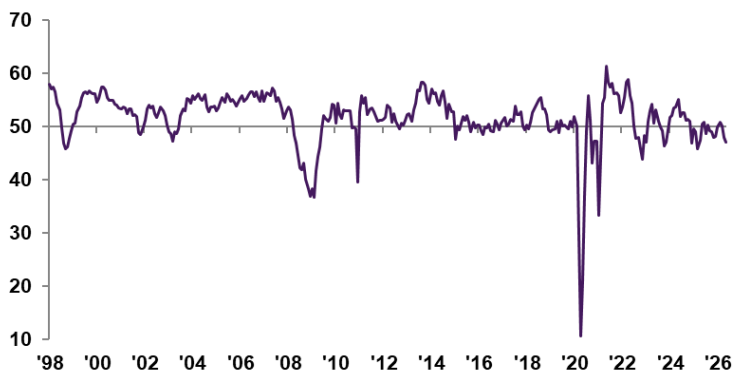
“Our Royal Bank of Scotland Growth Tracker shows that business activity across much of the UK contracted in May as high inflation remains a persistent drag on our economy.

“However, Scottish firms were noticeably less optimistic about bouncing back in the near future, with only those in Northern Ireland seeing new orders falling faster and having lower growth expectations in the next 12 months.

“Furthermore, the focus of this month’s report on the transport and communications sector shows the impact of high fuel prices that will be an even greater drag on businesses north of the Border, who have to move goods over longer distances.”

Scotland Business Activity Index

sa, >50 = growth since previous month



The headline figure is the Business Activity Index, calculated from a single question that asks for changes in the volume of business activity compared with one month previously. It is a diffusion index, which is the sum of the percentage of ‘higher’ responses and half the percentage of ‘unchanged’ responses. It varies between 0 and 100, with a reading above 50 indicating an overall increase in compared to the previous month, and below 50 an overall decrease. The higher above 50, the faster the rate of growth signalled.



Regional profile: Scotland

Location quotients (see pg 12) can be used to identify different types of services and manufacturing businesses that are clustered together – providing unique insight into life and work in that local area.

Scotland manufacturers are concentrated in:

- ✓ Food & Drink
- ✓ Textiles & Clothing
- ✓ Mechanical Engineering

Services businesses are concentrated in:

- ✓ Personal & Community Services
- ✓ Hotels, Restaurants & Catering
- ✓ Transport & Communication

Performance in relation to UK

The reduction in output across Scotland's private sector was often linked to fewer sales, growing market uncertainty and rising costs for goods and services.

Business activity also fell across the UK as a whole, as the respective seasonally adjusted index fell below the neutral 50.0 mark to 49.7, but signalled only a marginal decline.

Of the 12 monitored UK regions and nations, only Northern Ireland recorded a steeper fall in new orders than that seen in Scotland.

Despite the current muted demand conditions, private sector firms across Scotland signalled greater confidence regarding future output levels in May. Companies that were optimistic linked this to new project pipelines and forecasts of improved demand conditions.

While the degree of optimism ticked up for the first time in three months, it remained below both the survey's long-run average and the UK-wide trend.

Private sector employment across Scotland fell for a second month running in May. The rate at which jobs were cut was weaker than that seen across the UK as a whole. Survey respondents often linked the fall to rising costs, and was often achieved through the non-replacement of voluntary leavers.

Excluding marginal rises in the South East and Northern Ireland, all UK regions and nations monitored by the survey registered a decline in headcounts during the latest survey period.

Despite the sustained fall in employment, lower new orders meant that firms were able to make further inroads into outstanding business. The rate of backlog depletion quickened since April and was sharp overall. Backlogs have now fallen on a monthly basis since last August.

Across the UK as a whole, unfinished workloads continued to decline but at a slower pace than that seen in Scotland.

While the rate of cost inflation eased for the first time in three months across Scotland's private sector in May, the respective seasonally adjusted index still signalled a substantial rise in cost burdens. In fact, costs rose at the second-sharpest rate in three-and-a-half years. Survey respondents linked higher prices to greater energy, raw material and transport costs amid the war in the Middle East.

In line with the trend seen for costs, private sector firms across Scotland raised their prices at a slower pace during May. Nevertheless, the rate of price inflation remained close to April's 39-month high and marked overall. Companies often noted passing higher costs on to customers.

That said, Scotland recorded the slowest rates of both of cost and price inflation among the 12 UK nations and regions monitored by the survey.

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MEDIA CONTACTS:

NatWest: Elliot Roy, Regional Corporate Affairs Manager, 07483 184467, elliott.roy@natwest.com

S&P Global Market Intelligence: Hannah Brook, 07483 439812 hannah.brook@spglobal.com press.mi@spglobal.com



Notes to editors

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