



## News release: Royal Bank of Scotland Growth Tracker

Embargoed until 0001 UK 9 October 2024

### Scotland sees slower activity growth, but job creation accelerates

- Slowest rise in output in current nine-month upturn
  - Cost inflation eases to 43-month low
  - Fastest rate of job creation since May 2023

Scotland recorded growth in activity for the ninth consecutive month during September. However, the headline Business Activity Index fell to 51.2, from 52.7 in August. The rate of increase was the weakest in the aforementioned sequence, owing to cooling growth in the services sector. However, the negative impact from manufacturing nearly disappeared, as output fell only fractionally. Modest growth in output was supported by a sustained, albeit mild increase in new business.

Scottish private sector firms continued to face sharply rising cost burdens in September. Higher labour and material costs was said to have driven up prices. However, the rate of input price inflation eased for the second consecutive month, reaching its lowest level since February 2021.

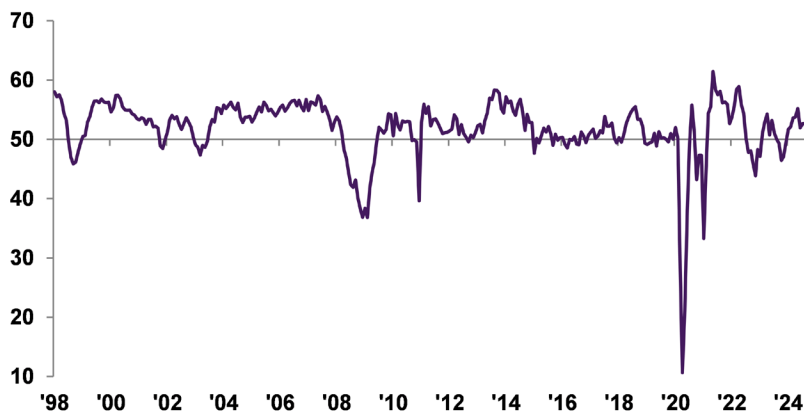
Nevertheless, the labour market remained a strong point for the Scottish private sector. Outstripping the UK-wide average, the rate of job creation hit a 16-month high and signalled a sharp rise in staffing levels. Growth was driven by services firms as manufacturing employment was broadly stable.

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

*"Scotland wrapped up the third quarter on a positive note. Sustained growth in new business inflows enabled firms to increase their activity levels, although the pace of growth slowed. Notably, hiring activity surged, with job creation reaching its highest level since May 2023. Expansions in new business, activity, and employment were driven by service firms, while manufacturers experienced broadly stable output and jobs but a sharp fall in new orders. The steeper decline in factory orders indicates more challenges for the Scottish manufacturing sector in the coming months. The uncertain political and economic landscape will also act as headwinds to growth, leading the Scottish private sector to increasingly depend on its service firms to drive the economy forward in the coming year. However, price pressures remained on an easing path, with cost burdens rising at the weakest pace in 43 months."*

#### 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 6) 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
- ✓ Mechanical Engineering
- ✓ Textiles & Clothing

Services businesses are concentrated in:

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

### Performance in relation to UK

Scottish private sector firms saw a rise in new business inflows in September, marking growth in each month of the third quarter. While the overall growth rate was mild and similar to August, a widening gap developed between service providers and manufacturers. Service providers saw stronger growth due to improved demand, whereas manufacturers faced a notable contraction.

Additionally, among the 12 monitored UK regions and nations, Scotland recorded the joint-weakest rise in new orders (with East of England).

Despite easing to a three-month low, the 12-month outlook for activity was positive in September and historically strong. Anecdotal evidence indicated that firms anticipated improved demand trends and planned to boost investment, enhance

marketing, and introduce new products. However, confidence in Scotland posted among the lowest of the 12 monitored UK regions and nations, with only the North East and Northern Ireland registering weaker sentiment.

Scottish private sector firms recorded a twentieth successive monthly rise in employment, and one which was the most pronounced since May 2023. Job creation remained centred at service firms, which reported that rising business demands and expectations of increased workloads prompted them to hire more staff. Furthermore, the ongoing downturn in manufacturing broadly stabilised. The rate of employment growth in Scotland exceeded that observed for the UK as a whole.

In September, Scottish firms continued to reduce their backlogs. The downturn was again focused at manufacturers, where decreasing workloads and improved efficiency enabled companies to address outstanding tasks. That said, the overall rate of depletion eased to the weakest in the current four-month sequence of decline, as service firms recorded renewed pressure on business capacity. Compared to Scotland, the UK as a whole signalled a stronger fall in backlogs.

The rate of charge inflation remained steady in September, indicating the joint-strongest rise in five months. Rising input costs were largely responsible for firms' decisions to raise their selling prices further. Firms across the UK also raised their charges at a broadly similar rate, while input price inflation in Scotland was slower than that seen at the UK level.

ENDS



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## Notes to editors

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