

## News release: Royal Bank of Scotland Growth Tracker

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### Scottish private sector activity falters in December

- RBS Scotland Growth Tracker records renewed contraction in output
  - Staffing levels cut for first time in nearly two years
  - Confidence for year ahead outlook at 24-month low

Scotland's private sector ends the year with a renewed decrease in output. The Scotland Growth Tracker – a seasonally adjusted index that measures the month-on-month change in the combined output of the region's manufacturing and service sectors – fell below the neutral level of 50.0 for the first time in a year, recording 46.9 in December, down from 51.1 in November. The decline was sharp and marked the most significant drop in activity since October 2023, with both manufacturing and services sectors reporting a decrease in output.

After 22 consecutive months of growth, employment in Scotland's private sector declined in December. Contributing factors included reduced business activity, redundancies and the non-replacement of voluntary leavers.

The outlook for activity became more restrained in December. Although the respective index remained above the neutral level of 50.0, it fell to its lowest point in two years. Recent policy changes, particularly regarding employment, along with the current economic environment, contributed to this tempered outlook.

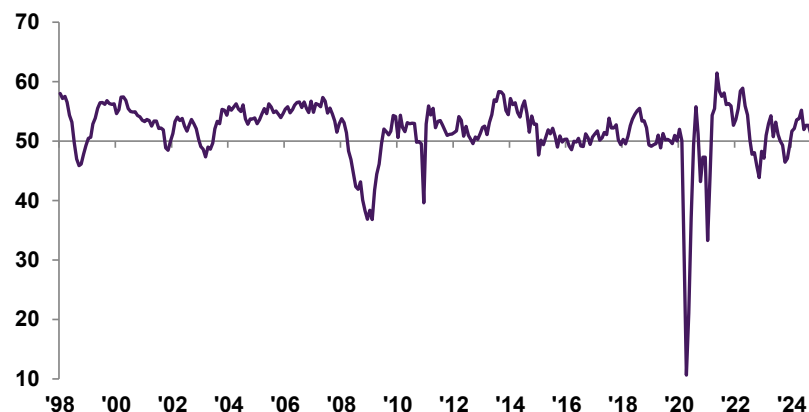
#### Judith Cruickshank, Chair, Scotland Board, Royal Bank of Scotland, commented:

*"Following an impressive 11-month growth period, during which the average Growth Tracker reading was 52.5, 2024 ended with a renewed decline in activity across Scotland's private sector experienced. New business decreased for the third consecutive month, prompting companies to adopt a more cautious outlook for 2025. Additionally, there has been a resurgence in job cuts, as firms align their staffing levels with reduced business demands. Whether this is a temporary fluctuation, time will tell.*

*"Price pressures have remained largely unchanged, with input price inflation in line with the long-run trend but output charges increasing at a historically high rate, indicating a persistent challenge regarding overall inflation."*

#### 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

The downturn in activity stood in contrast to the ongoing, albeit softening, growth trend observed across the UK as a whole. Notably, Scotland, along with the North West experienced the fastest declines in private sector activity among the 12 monitored regions and nations.

New business at Scottish private sector firms fell in each month of the final quarter of 2024, a shift from the growth seen in the third quarter. The rate of decrease was mild and broadly consistent during the final quarter. It was also in line with that recorded for the UK as a whole. Where new orders fell, firms cited a loss of major customers and the ongoing economic slowdown.

Regarding the business outlook for the upcoming year, Scotland ranked the lowest among the 12 nations and regions being

monitored.

The rate of decrease in employment was modest, primarily driven by a downturn in manufacturing. At the same time, job creation in service firms continued to cool. Contributing factors included reduced business activity, redundancies and the non-replacement of voluntary leavers. That said, the rate of job reduction at the UK level exceeded that recorded in Scotland.

Recent data indicated spare capacity among private sector firms in Scotland, highlighted by another month of declining backlogs. Backlog depletion has now been observed in each of the last seven months. The rate of depletion remained consistent on the month and was sharp overall. The primary factor contributing to this latest decrease was reduced new business. Backlog reduction was also noted at the UK level, and at a faster pace.

The rate of input price inflation remained stable compared to the previous month and was generally in line with the long-run average, indicating a sharp increase in costs. According to anecdotal evidence, the latest uptick was driven by wage increases, higher supplier prices, and rising material costs. However, the cost pressures observed in Scotland were weaker than the average across the UK.

The passing on of higher input costs to customers led in a further sharp rise in charges levied for Scottish services and goods in December. The rate of output charge inflation was sharp albeit losing slight momentum since November and weaker than that observed at the UK level.

ENDS

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## Notes to editors

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