



News release: Royal Bank of Scotland Growth Tracker

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Sustained activity growth in Scotland as services sector remains buoyant to year end

- NatWest Scotland Growth Tracker largely unchanged at 51.3
 - New orders record fresh decline
 - Inflationary pressures increase slightly

Strong performance in the services sector continues to support Scotland's private sector moving into final quarter

The Scotland Business Activity Index – a seasonally adjusted index that measures the month-on-month change in the combined output of the region’s manufacturing and service sectors – registered at 51.3 in October, broadly unchanged from September's reading of 51.2, indicating a tenth consecutive month of activity expansion. However, this indicated the second-weakest reading in this ongoing growth sequence. Growth continued to rely on the services sector, which helped to offset a significant decline in manufacturing. While services activity rose further due to reports of strengthened underlying demand trends, goods producers fell deeper into contraction territory, heavily impacted by uncertainty surrounding the Autumn Budget, recruitment challenges, and an overall subdued demand climate.

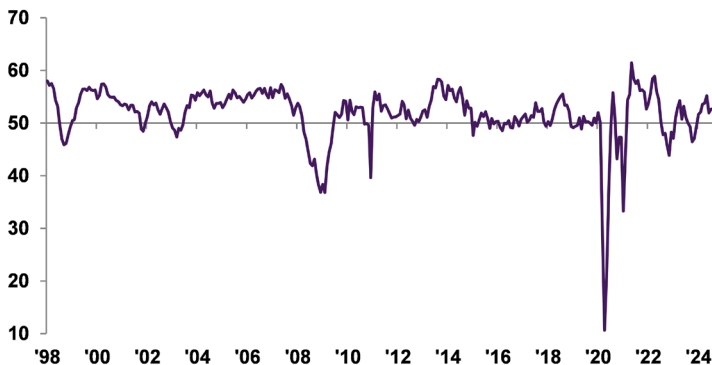
In fact, after three consecutive months of modest growth, the Scottish private sector saw a fresh fall in new orders in October. Meanwhile, private sector firms based in Scotland noted a steep rise in expenses during October.

Judith Cruickshank, Chair, Scotland Board, Royal Bank of Scotland, commented: "The picture for Scotland remained broadly unchanged in October. Again, growth in private sector activity was shouldered by service providers, meanwhile the manufacturing sector suffered heavily. A notable difference was a fresh decline in new business, however. A slowdown in new business within services was unable to offset a steep decline experienced in manufacturing. This recent drop in demand may be attributed to heightened uncertainty surrounding the Autumn Budget, which had not yet been announced at the time of the survey collection; therefore, it may be premature to draw conclusions for future months.

"On a positive note, employment rose solidly again. Meanwhile, inflationary pressures while intensifying slightly on the month, remained historically subdued. Lastly, businesses put more stock into their outlook, with confidence levels improving."

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

Similar to that seen for Scotland, a slowdown in activity was also observed at the UK level. However, the rate of growth once again exceeded that of Scotland.

A cooldown in demand among service providers was unable to offset a significant deterioration seen at manufacturers, where anecdotal evidence indicated reduced customer activity and increased uncertainty surrounding the Budget.

Although the rate of contraction in new business was marginal overall, Scotland was one of only three areas, alongside the East of England and East Midlands, to report a drop in new orders, thereby diverging from the UK-wide trend.

The activity outlook across Scotland's private sector was historically strong in October. Sentiment improved compared to

the previous month, with both underlying sectors displaying increased confidence. Companies were optimistic about a revival in demand and planned to enter new markets by launching new products.

However, as has typically been the case, confidence levels among Scottish firms remained lower than their counterparts across the UK.

Although the pace of expansion was only modest, it built upon a robust expansion in September, which saw the strongest rise since May 2023.

October data indicated a twenty-first consecutive monthly increase in payroll numbers within Scotland's private sector. Growth was again limited to service providers where rising business requirements encouraged further intakes of staff. Although the pace of expansion was only modest, it built upon a robust expansion in September, which saw the strongest rise since May 2023.

Moreover, Scotland was among only four UK nations and regions to report an increase in workforce numbers, with the rate of growth second only to that of Northern Ireland.

Although the rate of backlog reduction accelerated slightly for Scotland, it was notably weaker than that observed for the UK as a whole.

The rate of input price inflation across Scotland quickened to a three-month high and surpassed the rate seen for the UK. Anecdotal evidence often highlighted greater freight costs and commodity prices and shortages of some inputs. Higher wages was also a contributing factor widely cited by services firms.

Companies partly transferred their cost burdens to clients, as prices charged for goods and services rose to the greatest extent since April. Output price inflation in Scotland remained at a historically strong rate, and closely matched the UK-wide average. Firms also cited increased taxes and insurance rates as driving factors behind the latest uptick.

ENDS



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Notes to editors

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