

Compiled by Markit for Bank of Scotland, this report is based on data compiled from monthly replies to questionnaires sent to purchasing executives in around 600 private manufacturing and service sector companies. The panel is carefully selected to accurately replicate the true structure of the Scottish economy.

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## BANK OF SCOTLAND PMI: SCOTTISH PRIVATE SECTOR ACTIVITY RISES SLIGHTLY AT START OF Q4

- **Weak growth reflects upturn in service sector**
- **New orders and employment unchanged over the month**
- **Cost pressures remain elevated**

Overall business conditions across the Scottish private sector economy changed very little at the start of the fourth quarter, according to the latest **Bank of Scotland PMI** report. Employment was virtually unchanged, though there was modest growth in activity as a result of progress on backlogs. Meanwhile, inflationary pressures were strong, but largely absorbed by firms that continued to compete for new work.

The Bank of Scotland PMI rose from September's reading of 49.6 to 50.7 in October, signalling a return to weak growth in **private sector activity** north of the border at the start of the fourth quarter. The slight expansion reflected higher activity at services providers as manufacturing output continued to decline, albeit at a much slower pace than one month before. Meanwhile, there was a slight decrease in combined manufacturing and services output across the UK private sector economy as a whole.

Data showed that growth of output in Scotland was largely supported through work on outstanding business, as the volume of **new work** received was broadly unchanged in October following three straight months of decline. Manufacturers meanwhile recorded a further substantial decrease in new export orders, citing reduced demand in European markets in particular.

**Employment** within Scotland's private sector economy remained virtually unchanged for a second month running. Stagnation masked diverging trends at the sector levels, however, with further (albeit marginal) recruitment at service providers contrasting with more job losses in manufacturing.

Overall **backlogs of work** decreased for the fourteenth month running during October, though the rate decline slowed in part due to a slight build-up of outstanding business at firms in the service sector – the first since February.

**Cost pressures** facing businesses in Scotland remained strong during the latest survey period, with average input prices rising at a rate that was only slightly weaker than September's eight-month high. Items reported as up in price by surveyed businesses included most notably energy, fuel and food.

Competition and subdued demand meanwhile dampened firms' pricing power, with **charges** rising on average at the weakest rate in the current three-month sequence.

**Donald MacRae, Chief Economist at Bank of Scotland, said:** "October's PMI showed a welcome return to weak growth in the private sector of the Scottish economy driven by a rise in services activity. Manufacturing output fell in the month but at a much slower pace than in September indicating a recovery from the dip in output felt from July to September. The deterioration in the Scottish economy identified in the summer months has been arrested but there are few signs yet of a sustained recovery."

## Component Summary

### **Output / Business Activity**

Scotland's **service sector** continued to expand at a relatively subdued pace at the start of the fourth quarter. The seasonally adjusted Business Activity Index ticked up only marginally from September's reading and remained below the average recorded over the current 22-month sequence of growth.

**Manufacturing** output north of the border decreased at a much slower pace in October. The seasonally adjusted index climbed notably from September's 21-month low and was at a level consistent with only a marginal decrease in total production. Firms that noted a decrease in output (24%) generally linked this to further losses in new order levels.

### **New Business**

The volume of new business received by Scottish **service** providers increased at a slightly faster pace in October. The seasonally adjusted index was the highest since June, although still only at a level indicative of modest growth. Anecdotal evidence indicated that the rise in new work inflows was in part due to efforts being made by companies to win business, as well as improved underlying demand.

October saw a further decrease in the amount of new orders placed with **manufacturers** operating in Scotland, extending the current sequence of decline to seven months. The pace of contraction was marked, albeit the weakest since July.

### **Backlogs**

Reflective of growth in incoming new work, the amount of outstanding business in the **service** sector increased during the latest survey period. That was the first rise in the level of work-in-progress (but not yet completed) since February, following no change one month before.

Backlogs of work at Scottish **manufacturers** decreased for the twenty-first month running during October. Firms widely indicated that more of their resources had been freed up as a result of another decrease in new work, enabling further inroads to be made into outstanding business. The pace of decline eased only slightly from September's 39-month record.

### **Input prices**

Scottish **service** providers reported a marked rise in their average costs in October. The rate of inflation eased slightly from September's nine-month high, but remained above the long-run series average. Respondent to the latest survey highlighted a number of sources of inflationary pressure over the month, including energy, food, fuel and staff costs.

Input price inflation facing Scottish **manufacturers** accelerated for the fourth time in as many months in October, and was the strongest since April. Cost pressures rose on the back of increases in the prices of raw materials and a number of foodstuffs, according to anecdotal evidence.

### **Output prices**

Prices charged by Scottish **service** providers increased only marginally in October. The seasonally adjusted index slipped from September's mark to the lowest since July. Businesses indicated that competition had prevented them from passing on a greater proportion of the burden of higher costs to clients.

In accordance with a further rise in purchasing costs facing **manufacturers** in Scotland, October saw a third successive month-on-month increase in factory gate prices north of the border. The rate of charge inflation was only modest and the weakest in that sequence, however.

### **Employment**

Scottish **services** firms expanded their workforces for the fifth month running in October amid growing workloads. That said, the overall rate of job creation remained only slight, having improved very little since September.

Reflecting the ongoing downturn in activity in the sector, the size of Scotland's **manufacturing** workforce decreased for the third month in succession during October. There were reports from the survey panel of both redundancies and the non-replacement of voluntary leavers over the month.

## **Notes to editors**

The Bank of Scotland *PMI* is compiled by Markit for Bank of Scotland and is based on data compiled from monthly replies to questionnaires sent to purchasing executives in around 600 private manufacturing and service sector companies. The panel has been carefully selected to accurately replicate the true structure of the Scottish economy.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact [economics@markit.com](mailto:economics@markit.com).

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