

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: APRIL SEES SOLID EXPANSION IN SCOTLAND'S PRIVATE SECTOR ECONOMY

- Growth driven by the service sector
- Job creation continues at robust pace
- Cost pressures weakest since December 2009

April's Bank of Scotland *PMI* report signalled further solid increases in Scottish private sector output and employment. Growth was concentrated in the service sector, however, and the expansion of total activity was slightly slower than March's recent high. Cost inflation meanwhile eased again and, although still stronger than at the UK level, was the weakest for 28 months.

At 53.5 in April, down from 54.1 one month previously, the Bank of Scotland PMI – a seasonally adjusted index monitoring activity across Scotland's manufacturing and service industries – showed a further solid expansion in private sector output that was only slightly slower than March's 11-month high. Behind the sixteenth straight monthly increase was a marked rise in service sector activity, with goods production falling slightly.

April also saw a further rise in new work placed at companies across Scotland, though the rate of increase was notably slower than in March. Service providers reported a weaker expansion in new business and, despite seeing a rise in their new export orders, manufacturers recorded a slight overall fall.

Job creation was maintained in April at a broadly similar rate to that registered in the previous survey period, with the past two months seeing the sharpest rise in employment in almost five years. Mirroring the trends recorded for both output and new orders, rising staffing numbers at service providers more than offset a marginal fall in headcounts at Scottish manufacturers.

Backlogs of work were meanwhile reduced at a solid and accelerated rate in April, and one that was the sharpest in four months. Work-in-hand decreased across both monitored sectors.

Input price inflation in Scotland subsided slightly during April to the weakest since December 2009. That said, average purchasing costs still increased at a marked rate overall, and more quickly than at the UK level. Respondents suggested that the rising prices of oil and related products were the main factors driving input costs higher.

Passing on a larger proportion of the burden of higher costs to clients, Scottish firms raised output prices at the sharpest rate for four months during April. Both factory gate prices and service sector tariffs increased, the latter following two months of virtual stagnation.

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**Donald MacRae, Chief Economist at Bank of Scotland, said:** "April saw the PMI reach its second highest level in nine months with the sixteenth consecutive month of expansion. Growth was concentrated in the services sector with manufacturing output declining in April after two monthly periods of growth. New export orders grew for the second month in a row while employment grew in the month with the rate of job creation maintained. This result indicates the Scottish economy has negotiated the downturn at the end of last year with a minimum fall in output and encourages hopes for a return to growth in 2012."

## **Component Summary**

### **Business Activity:**

Scotland's private sector economy expanded solidly during April, extending the current sequence of growth to 16 months. The increase was slightly weaker than March's 11-month record, however, as goods production north of the border contracted for the first time since January. Services activity, in contrast, rose at the sharpest rate for 12 months. The UK as a whole also saw a slower expansion in private sector activity than during the previous survey period, and growth was slightly weaker than that registered in Scotland.

### **New Business:**

Latest data pointed to a slower increase in new work received by private sector companies in Scotland during April. Growth was also slightly weaker than that recorded at the UK level. Scottish manufacturers registered the first (albeit marginal) decrease in new orders for four months, while their service sector counterparts saw new business levels rise at a reduced rate compared with one month previously. Nevertheless, incoming new work across Scotland's private sector as a whole has now increased continuously over the past five months.

### **Backlogs:**

Companies operating in Scotland reduced business outstanding at an accelerated rate in April, and one that was the sharpest since last December. The decrease was the eighth in as many months. Service providers and manufacturers both reported faster contractions in backlogs of work than in the previous survey period, with the rates of decline in each case the steepest in four months. Data at the UK level meanwhile showed a contrasting trend in backlog clearance, as the rate of decline eased to the slowest since last May.

### **Input prices:**

April saw a further reduction in input price pressures facing Scotland's firms. Cost inflation slowed for the sixth time in the past eight months to the weakest since December 2009, but nevertheless remained stronger than at the UK level. Firms that reported higher average purchasing costs than one month previous widely attributed this to the rising price of oil and associated products. By sector, a decrease in cost inflation faced by service providers, to the slowest in 19 months, was sufficient to offset a slight rise in the rate of inflation recorded by manufacturers.

### **Output prices:**

Prices charged by businesses operating in Scotland increased at a faster pace during April, with the overall rate of output price inflation the strongest in four months, and marginally quicker than that registered across the UK economy as a whole. Nonetheless, the increase was still only modest overall, and weaker than the average recorded throughout the series history. Both factory gate prices and service sector tariffs north of the border increased on average since March, the former at the slightly sharper rate and for the twenty-ninth month in succession.

### **Employment:**

Scottish businesses increased staffing levels for the sixth month in succession during April. Broadly unchanged since the previous survey period, the overall rate of job creation over the past two months has been the strongest in almost five years. The overall increase in employment reflected a marked and accelerated rise in headcounts in the service sector, with marginal job shedding reported by Scottish goods producers for the second time in three months. Employment growth north of the border was again sharper than that registered across the UK as a whole.

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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.

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