PRESS RELEASE

BANK OF SCOTLAND

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: SHARPEST RISE IN PRIVATE SECTOR ACTIVITY FOR SEVEN MONTHS IN JANUARY

- **Growth of both output and new work accelerates at start of the year**
- **Further increase in employment**
- **Operating costs rise at slowest rate since June 2012**

January's *PMI* report from **Bank of Scotland** showed that growth of Scottish private sector activity gained momentum at the start of 2013, with both output and new work increasing at faster rates than in December. Improved business conditions and added pressure on operating capacity led firms to create extra jobs over the month. Meanwhile, input price inflation eased again, although remained sufficiently strong for businesses to raise output charges.

January saw the Bank of Scotland PMI rise to a seven-month high of 52.3, up from 51.2 in December, signalling a moderate and accelerated expansion of private sector **business activity** north of the border. Growth remained centred on the services sector, with a further (albeit slightly slower) decrease in goods production recorded. This latest expansion of Scotland's private sector economy was broadly in line with the rate of growth seen at the UK level.

Much of the improved trend in business activity in Scotland reflected an accelerated increase in **new work** placed with firms during January. Intakes of new business rose for the second month in row, and at the fastest pace since March 2012. A rise in demand within the domestic market was the principal factor behind the increase in intakes of new work, with a slight drop in **new export orders** recorded at manufacturers.

In January, the level of **outstanding business** at private sector firms in Scotland was unchanged from that registered one month before. This ended a 16-month sequence of depletion, and pointed to greater pressure on operating capacity than has been the case in recent months.

Accordingly, firms continued to add to their payroll numbers during January, raising **employment** levels for the seventh time in the past eight months. Although the sharpest since last July, the overall rate of net job creation was nonetheless still modest and slower than the UK average.

January data showed a further rise in **cost burdens** facing businesses north of the border, with higher fuel, labour and raw materials costs mentioned by panellists. However, the rate of inflation in operating costs eased to the slowest in seven months, and was down on the long-run series average.

Output prices meanwhile increased on average, with a rise in factory gate prices more than offsetting reduced tariffs in the tertiary sector.

Donald MacRae, Chief Economist at Bank of Scotland, said: "The Scottish economy gained momentum in January this year with the PMI reaching a seven month high of 52.3. Both the level of new business and employment rose in the month but were concentrated in the service sector. The rate of decline in manufacturing output was modest and has eased since the previous month but export demand remains weak. This result suggests the Scottish economy not only started the year in growth mode but has maintained moderate growth throughout January 2013."

Component Summary

Output / Business Activity

Business activity in Scotland's **service sector** expanded at a solid and accelerated rate at the start of 2013. January's increase in output was the most marked since April last year, and stretched the ongoing sequence of expansion in the tertiary sector to 25 months.

Scottish **manufacturing** output contracted again in January, marking the seventh consecutive monthly decrease in production levels in the sector. However, the rate of reduction remained only modest and was weaker than the average recorded over the current sequence of decline, having eased fractionally since the previous survey period.

New Business

January saw a fifth straight monthly increase in the volume of new business placed with **services** firms operating in Scotland. Furthermore, the pace of expansion was the sharpest since March 2012. As well as seeing a general improvement in demand, panellists mentioned that increased promotional activity and marketing had supported growth of new business over the month.

January data pointed to a fractional increase in the level of new orders placed at **manufacturers** operating north of the border, thereby ending a period of continuous contraction stretching back to April 2012. Although almost negligible, the rise in new work represented a marked turnaround from the rapid rate of decline registered in both August and September of last year.

Backlogs

Despite a rise in operating capacity over the month, **services** firms were generally unable to keep up with the pace of growth of new business in January, recording a rise in work-in-progress (but not yet completed) for the first time in three months. Moreover, the rate of accumulation was the sharpest for almost five-and-a-half years.

The amount of outstanding business at Scottish **factories** decreased substantially during January, indicating there remained a degree of spare capacity within the sector despite further job shedding. Although the slowest in seven months, the rate of depletion was nonetheless still faster than the long-run series average.

Input prices

Continuing the trend seen in three of the past four months, the rate of growth of operating costs facing Scottish **service providers** slowed in January. The latest rise in cost burdens was the least marked since June 2012, and substantially weaker than last September's recent record.

For the second month in succession, the rate of input price inflation facing Scottish **manufacturers** eased in January. The latest rise in average purchasing costs was only modest by the historical standards of the survey, and the slowest in five months.

Output prices

Although cost burdens facing **service providers** continued to increase (albeit more slowly), their charges fell on average for the second straight month in January. Albeit only marginal, the decrease in output prices was the greatest for a year.

After being virtual stable during the final month of 2012, Scottish **factory gate prices** increased in January. Moreover, the rate of charge inflation was the fastest for a year. Where a rise in output prices was noted, this was often linked to increased cost burdens.

Employment

In accordance with the trend in business activity, the pace of job creation at Scottish **service providers** picked up during January, to the fastest since last August. There were a number of reports from respondents linking recruitment activity to planned expansions in the year ahead.

Persistent fragility in new order inflows led Scottish **manufacturers** to make further reductions in payroll numbers during January. The net rate of job losses was the fastest since August last year, although still only modest overall.

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.

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Markit is a leading global financial information services company with over 2,800 employees. The company provides independent data, valuations and trade processing across all asset classes in order to enhance transparency, reduce risk and improve operational efficiency. Its client base includes the most significant institutional participants in the financial marketplace. For more information, see www.markit.com.

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