

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: PRIVATE SECTOR ECONOMY CONTINUES TO GROW IN FEBRUARY

- **Solid growth in output and new business**
- **Further modest rise in employment**
- **Input cost inflation up from January's seven-month low**

The health of the Scottish private sector economy continued to improve in February, according to the latest **Bank of Scotland PMI** report. Data pointed to solid growth in both business activity and inflows of new work, which in turn contributed to further job creation north of the border. Costs pressures facing businesses rose, however, leading to a slight increase in average output prices over the month.

February saw the Bank of Scotland PMI climb to an eight-month high of 52.5, from 52.3 in January. This signalled a further solid (and slightly accelerated) expansion in private sector **business activity**, extending the current sequence of growth to five months. As was the case in January, Scotland registered a sharper increase in output than the UK as a whole.

The volume of **new work** placed with businesses operating north of the border increased for the third month running in February. Furthermore, the rate of growth was unchanged from the solid pace registered in the preceding survey period. Meanwhile, there was a slight rise in new export orders received by manufacturers over the month, offsetting January's marginal downturn.

Scottish private sector businesses continued to recruit additional staff during February, meaning that **employment** has now risen for three consecutive months. The rate of job creation was equal to that registered in the month before, and in line with the UK-wide average. In contrast to the trend seen in recent months, it was manufacturers rather than services firms who led the increase in employment in Scotland.

February data pointed to a renewed decline in the amount of **outstanding business** at Scottish firms, after levels stabilised in the opening month of the year. The rate of depletion was only modest, however, and slower than in each of the ten months leading up to January.

**Input price inflation** accelerated from January's seven-month low during the latest survey period, and was the fastest since last November. Where a rise in operating costs was recorded, this was in part linked by respondents to higher fuel and labour costs. Service providers again saw a more marked rise in cost burdens than manufacturers.

**Output prices** in Scotland's private sector economy rose on average for the sixth time in the past seven months, albeit only modestly.

**Donald MacRae, Chief Economist at Bank of Scotland, said:** "February's PMI rose to an eight-month high signalling continuing improvement in output and business activity during the month. The manufacturing sector recorded a modest rise in employment while services maintained job numbers. The increase in new orders both in the domestic economy and for exports is particularly welcome. These results provide further evidence that the Scottish economy is avoiding a "triple dip" and has started 2013 in growth mode."

## Component Summary

### Output / Business Activity

February data signalled a solid and slightly accelerated expansion of business activity within Scotland's **service sector**. The rate of growth was faster than the historical series trend and the sharpest since last April.

February saw a further decrease in Scottish **factory output**, extending the ongoing sequence of decline to eight months. However, the pace of contraction eased for a second straight month, to only a marginal rate. Anecdotal evidence suggested that the improving picture for manufacturing output in part reflected a stabilisation in new order inflows which, prior to January, had decreased for nine successive months.

### New Business

**Services firms** recorded rising new business levels for a sixth consecutive month in February. The rate of growth was unchanged from January's ten-month high, and faster than the average recorded over the survey's history. Greater marketing efforts and improved client confidence were among the factors reported by panellists to have led to a rise in new business wins.

The overall level of new orders received by **manufacturers** held steady in February, after having risen slightly in the opening month of the year. Where a rise in new business inflows was recorded, this was often linked by survey respondents to increased orders from foreign clients.

### Backlogs

The amount of work outstanding at **service providers** was virtually unchanged in February compared with situation one month before. The stagnation followed a moderate increase in work-in-hand at the start of the year.

In February, the rate of backlog depletion among **manufacturers** eased further from last December's three-and-a-half year record. The latest decrease in outstanding business was the slowest in eight months, although still solid overall.

### Input prices

Cost burdens for **services firms** rose markedly in February. The increase in operating costs was the sharpest since last September, and largely underpinned by a rise in fuel prices. There was also some mention from the survey panel of higher labour costs.

Input prices facing **manufacturers** increased on average during February, as has been the case in the each of the past eight months. Moreover, the rate of cost inflation accelerated from January's five-month low to the fastest since last November.

### Output prices

Prices charged by **services firms** north of the border increased for the first time in three months in February, following slight declines in each of the prior two months. The increase in output prices was only fractional, however.

**Manufacturers** continued to pass on part of the burden of higher input costs to clients in February, raising factory gate prices for the sixth time in the past seven months. Although fractionally slower than in the previous survey period, the overall rate of charge inflation nevertheless remained solid.

### Employment

Employment at **service providers** was broadly unchanged during February, following modest job creation in each of the previous two months. Business expansions and increased new work were mentioned by those firms that recruited additional staff over the month, while those that noted lower payroll numbers often attributed this to the non-replacement of voluntary leavers.

Employment at **manufacturers** increased during February, thereby ending a six-month spell of net staff shedding. Furthermore, the overall rate of job creation was solid, and the fastest in almost two years.

## **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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