

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: OUTPUT GROWTH CONTINUES AT RECORD PACE

- Rates of growth in output and new work unchanged from August's survey records
- Pace of job creation remains solid
- Fastest rise in input prices in five months

Scotland's private sector economy continued to expand rapidly in September, with **Bank of Scotland's** latest *PMI* survey showing survey-record equalling rates of growth in both output and new business. The pace of job creation was also unchanged since August, remaining solid and well above the long-run average. Higher cost pressures emerged, but prices charged across the private sector economy rose only marginally on the month.

Unchanged from its survey-record high of 58.3 in August, September's Bank of Scotland PMI – a composite indicator designed to gauge month-on-month changes in combined manufacturing and services output – signalled sustained strong growth in **business activity**. The increase was a reflection of both higher service sector activity and greater goods production but, whereas the former rose at the joint-fastest rate in the series history, the latter expanded at a slower pace than in August.

As was the case with output, the latest increase in the level of **new business** at Scottish firms also matched August's series record. September's rise was the tenth in successive months, and supported by further growth in **new export orders** at manufacturers. A strong housing market was another factor driving the upturn, according to panel member reports.

**Employment** in Scotland's private sector economy rose during September, at a solid rate that was unchanged from that recorded in the preceding survey period. The degree to which staffing levels rose was also in line with the UK average. Although the service sector led the increase in staffing numbers north of the border, Scottish manufacturers likewise posted a notable rise.

**Backlogs of work** were accumulated at businesses during the latest survey period, continuing the trend observed in each of the past four months. Moreover, the latest increase was more marked than in August.

Higher food, fuel and labour costs meanwhile helped lift the rate of **input price inflation** in Scotland to the fastest in five months, and one that was well above the UK average. That said, businesses largely refrained from passing on increased cost burdens to clients, recording (on average) only a marginal increase in **output prices** due to a competitive market environment.

**Donald MacRae, Chief Economist at Bank of Scotland, said:** "September's PMI showed the private sector of the Scottish economy continuing to expand across both manufacturing and service sectors providing further evidence of the strengthening of the recovery. Output and new business rose at survey-record equalling rates accompanied by growing employment and rising new export orders. The PMIs of the last six months suggest the Scottish economy not only grew in quarter two this year but saw that growth accelerate in quarter three. The recovery is gaining momentum."

## Component Summary

### Output / Business Activity

Growth in the private **service sector** economy gained further momentum at the end of the third quarter. September saw the level of business activity rise at the joint-fastest rate in the series history, matching that recorded in March 1998. Lifting activity higher during the month was a surge in new business intakes. September data meanwhile signalled a further dip in the rate of growth of **manufacturing** output north of the border, to the slowest since May.

### New Business

September's survey pointed to a sharp and accelerated increase in new business at **service providers**, the fastest since data collection commenced at the start of 1998. Exactly 32% of surveyed businesses recorded a rise in new work intakes since August, compared with 12% that registered a reduction. New order intakes at **manufacturers** rose for the ninth successive month in September. However, the rate of growth eased sharply from the marked pace observed in July and August, to the slowest since May. Where new order inflows did increase on the month, this was sometimes attributed to marketing activities.

### Backlogs

Higher intakes of new work at **services firms** contributed to further increase in outstanding business in the sector, extending the current sequence of growth to six months. Furthermore, up notably since the previous survey period, the rate of accumulation was the sharpest since May 2007, and the second-fastest in the series history. Despite the level of new orders at **manufacturers** rising on the month, September saw a second straight monthly decrease in their backlogs of work. Furthermore, having accelerated sharply from the modest pace of decline recorded in the preceding survey period, the rate of reduction in outstanding business was solid and the fastest since May

### Input prices

Cost burdens in the **service sector** rose markedly in September, which panel member reports suggested was a reflection of growth in food, fuel and labour costs. There was also some mention of increased software prices. The rate of input price inflation was the fastest since March, and broadly in line with the historical series trend. In line with the trend recorded by services firms, input price inflation in Scotland's **manufacturing sector** increased in September. Rising for the second straight month, the rate of inflation was the fastest in four months, albeit one that was still below its long-run series average. Panellists mentioned a range of raw materials and imported items as up in price since the month before.

### Output prices

Profit margins in the **tertiary sector** remained under substantial pressure, with firms raising charges only marginally on the month and at a much slower rate than the concurrent increase in input costs. The rate of increase was indeed unchanged from August's five-month low. Strong competition was again highlighted by panel members as the principal factor restraining pricing power. September's survey also indicated a rise in **factory gate prices**, extending the current period of inflation to three months. The increase was the most marked in this sequence, in part a reflection of stronger cost pressures faced by manufacturers.

### Employment

September's increase in business activity at **services firms** helped to support job creation in the sector. In fact, the rate of growth in employment was unchanged from the solid pace observed in August, when it reached a six-year peak. **Manufacturers** raised staffing levels in September, continuing the trend observed in each month since February. The rate of job creation was solid, albeit the weakest in four months. Leading goods producers to recruit additional employees was not only a rise in sales, but also a strong degree of business confidence and higher expected workloads in coming months.

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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.

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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