

Bank of Scotland PMI®

BANK OF SCOTLAND

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The Bank of Scotland PMI® (*Purchasing Managers' Index*®) is produced by Markit.

The report features original survey data collected from a panel of around 500 companies based in Scotland and operating in both manufacturing and service sectors. The panel has been carefully selected in order to accurately reflect the true structure of the Scottish economy and therefore provide an accurate picture of business conditions in the region.

The Scotland survey forms part of a series of regional surveys and is derived from the highly regarded national PMI survey produced by Markit.

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July 11th 2016

Scotland's private sector grows marginally in June

Key findings:

- **Headline PMI rebounds to post above 50.0 no-change mark**
- **New business expands for third successive month**
- **Manufacturers add to payrolls while service providers further cut jobs**

June survey data pointed to a slight upturn in Scotland's private sector. The return to growth occurred after two months of stagnation. Driving the expansion was a slight rise in new business intakes, the third time this has been reported in as many months. However, total employment fell further amid another deterioration of incomplete work levels. Meanwhile, firms' operating margins continued to tighten as a sharp rise in input costs could not prevent firms from reducing their output charges further.

Output and demand

The seasonally adjusted headline Bank of Scotland PMI - a single-figure measure of the month-on-month change in combined manufacturing and services output - rose slightly to 50.5 in June, rebounding after posting 49.9 in May. The latest figure signalled slight upturn in Scotland's private sector, only the second time this has been the case during 2016 so far.

New business levels expanded for the third successive month during June. However, the rate of growth eased since May and was only slight. The rise in total new work was broad-based across both manufacturers and service providers. Price discounting was cited by Scottish goods producers as one of the main factors behind the increase in new orders during the month.

Employment and backlogs

Scotland's private sector firms continued to reduce their payroll numbers in June, extending the current trend of job shedding to seven successive months. However, the rate of reduction was only slight and softened to the joint-weakest in the aforementioned period. Although manufacturers added to their employee numbers, service providers reduced their headcounts further.

Backlogs of work continued to deteriorate in June. Scotland's private sector companies have now reported falling levels of incomplete work in each of the past 18 months.

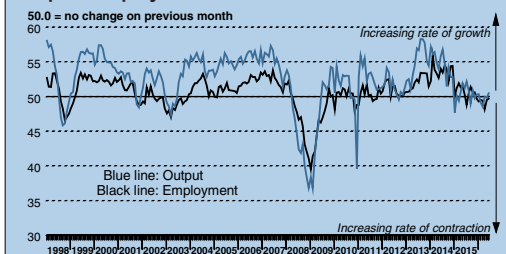
Input and output prices

Input prices faced by private sector companies operating in Scotland rose further in June. The rate of inflation was below the long-run series average and the weakest in three months. According to anecdotal evidence, the rise in input costs reflected unfavourable exchange rate movements throughout the month.

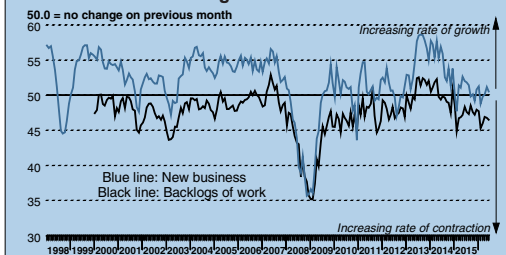
Meanwhile, firms lowered their output prices for the fourth time in the first half of 2016. However, the rate of decline was only marginal.

Bank of Scotland PMI summary

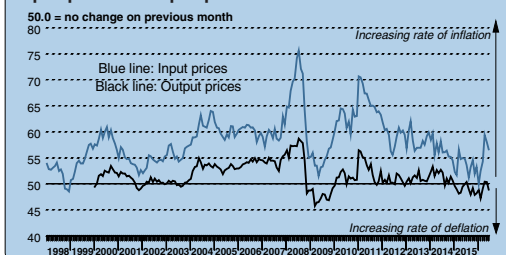
Output / employment



New business / backlogs of work



Input prices / output prices



Composite index summary

	Output		New Business		Backlogs of Work	
	Scotland	UK	Scotland	UK	Scotland	UK
Jan'16	50.3	56.2	51.2	56.1	47.7	48.3
Feb	49.2	52.7	48.8	53.5	45.3	49.8
Mar	48.5	53.6	49.8	52.9	46.0	49.7
Apr	50.0	51.9	50.1	53.2	46.9	48.7
May	49.9	53.0	51.2	51.5	46.8	47.8
Jun	50.5	52.4	50.6	53.0	46.5	48.3
	Employment		Input Prices		Output Prices	
	Scotland	UK	Scotland	UK	Scotland	UK
Jan'16	49.3	53.6	50.0	51.7	48.9	50.5
Feb	49.5	52.6	52.5	52.4	47.3	50.3
Mar	49.4	52.7	54.3	54.2	49.1	51.6
Apr	48.2	52.1	59.4	55.2	50.4	50.9
May	49.5	50.9	58.0	54.8	50.4	51.4
Jun	49.7	50.5	56.7	55.0	48.9	51.3

Services: Business Activity and Employment

Q. Compare your level of **business activity** (gross income, chargeable hours etc.) this month with the situation one month ago.

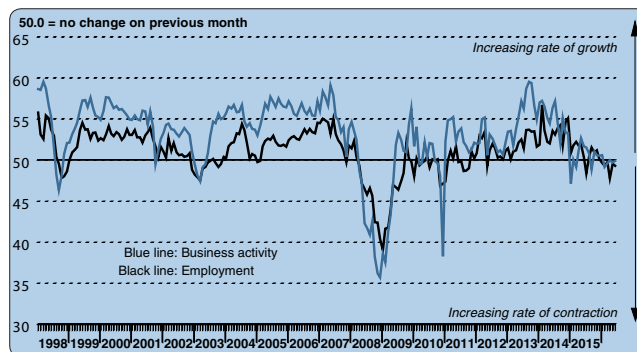
		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2016	Jan	20.8	51.7	27.5	-6.7	46.7	50.6
	Feb	23.4	56.6	20.0	+3.4	51.7	49.2
	Mar	26.0	55.4	18.6	+7.4	53.7	49.6
	Apr	26.6	53.6	19.8	+6.9	53.4	50.0
	May	25.2	52.9	21.9	+3.3	51.7	49.7
	Jun	22.5	60.8	16.7	+5.7	52.9	49.9

Output in Scotland's service sector remained broadly unchanged during June, as highlighted by the seasonally adjusted Business Activity Index posting almost exactly at the 50.0 neutral threshold. Service providers that reported a higher level of output attributed this to a rise in new business, while firms registering a decline reflected upon economic uncertainty resulting from the EU referendum.

Scottish service sector firms continued to cut jobs in June, extending the current sequence of decline to six successive months. Although the rate of reduction quickened since May, it remained slight. Sub-sector data pointed to a fall in employee numbers at financial services, travel and tourism & leisure companies, while business service providers added to their payrolls.

Q. Compare the **no. of people employed** this month with the situation one month ago (treat two part-time as one full-time & ignore temps).

		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2016	Jan	7.6	81.5	10.9	-3.4	48.3	49.7
	Feb	10.3	78.0	11.6	-1.3	49.4	49.4
	Mar	11.7	77.4	10.9	+0.8	50.4	49.8
	Apr	9.3	77.6	13.0	-3.7	48.2	47.8
	May	13.3	75.8	10.8	+2.5	51.3	49.6
	Jun	13.1	76.6	10.4	+2.7	51.4	49.3



Services: New Business and Business Outstanding

Q. Compare the amount of **new business** at your company (whether already fulfilled or not) this month with the situation one month ago.

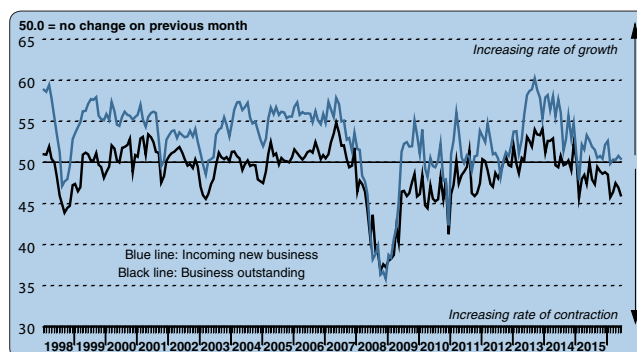
		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2016	Jan	24.9	52.0	23.1	+1.8	50.9	52.6
	Feb	22.6	58.4	19.0	+3.6	51.8	49.9
	Mar	26.6	55.0	18.3	+8.3	54.1	50.3
	Apr	25.7	54.0	20.3	+5.5	52.7	50.3
	May	25.9	54.7	19.4	+6.5	53.2	50.8
	Jun	23.3	56.7	20.0	+3.3	51.6	50.5

For the fourth time in as many months, Scotland's service providers received higher volumes of new business during June. However, the rate of growth was only slight and remained weak in the context of historical data. There was some evidence that higher new orders were linked to stronger demand conditions in the sector.

Scotland's service sector businesses continued to report a lack of capacity pressures in June, as firms worked through their outstanding work. Moreover, falling backlogs have been registered in every survey for the past year, with the latest decline the sharpest since February.

Q. Compare the amount of **business outstanding** (i.e. work in hand but not yet completed) this month with the situation one month ago.

		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2016	Jan	9.1	74.6	16.2	-7.1	46.4	48.5
	Feb	13.8	67.2	19.0	-5.1	47.4	45.8
	Mar	11.9	72.3	15.8	-4.0	48.0	46.4
	Apr	11.7	73.8	14.6	-2.9	48.5	47.5
	May	11.5	72.1	16.3	-4.8	47.6	47.0
	Jun	8.3	77.1	14.6	-6.3	46.9	46.0



Services: Average Costs/Input Prices and Average Prices Charged

Q. Compare the **average prices paid** by your company for all purchases, wages/salaries etc. this month with the situation one month ago.

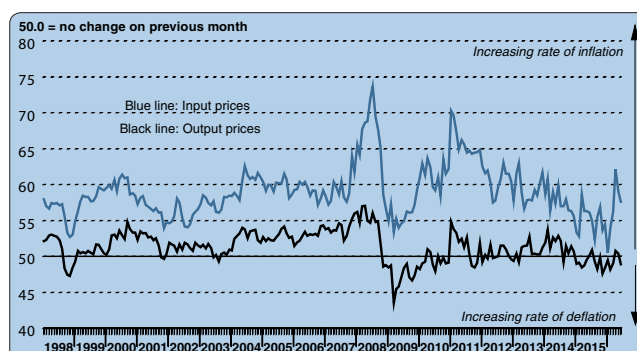
		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2016	Jan	12.2	78.5	9.3	+3.0	51.5	50.5
	Feb	15.2	80.4	4.3	+10.9	55.4	53.9
	Mar	16.3	80.4	3.3	+12.9	56.5	56.2
	Apr	30.2	67.3	2.4	+27.8	63.9	62.1
	May	22.9	74.6	2.5	+20.4	60.2	59.1
	Jun	17.5	80.3	2.2	+15.2	57.6	57.6

Cost pressures continued to grow in Scotland's service sector in June. Higher input prices have now been reported in every survey since data collection began in January 1998. However, the rate of inflation decelerated to a three-month low and was softer than the historical average. Companies cited a combination of higher wages and rising fuel costs as the main factors behind the increase in average cost burdens.

Despite the rise in input costs, businesses lowered their output charges during June. Moreover, the latest decline was the first reported since March. A number of companies cited competitive pressures in the sector as one of the causes behind the fall in output charges.

Q. Compare the **average prices charged** by your company (e.g. prices per service or unit of time) this month with the situation one month ago.

		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2016	Jan	7.2	86.1	6.8	+0.4	50.2	49.5
	Feb	4.7	88.8	6.5	-1.7	49.1	48.2
	Mar	8.7	83.0	8.3	+0.4	50.2	49.0
	Apr	11.8	81.6	6.5	+5.3	52.7	50.8
	May	8.8	84.9	6.3	+2.5	51.3	50.4
	Jun	5.4	87.8	6.8	-1.4	49.3	48.9



Manufacturing: Output and Employment

Q. Compare your level of **output/production** this month with the situation one month ago.

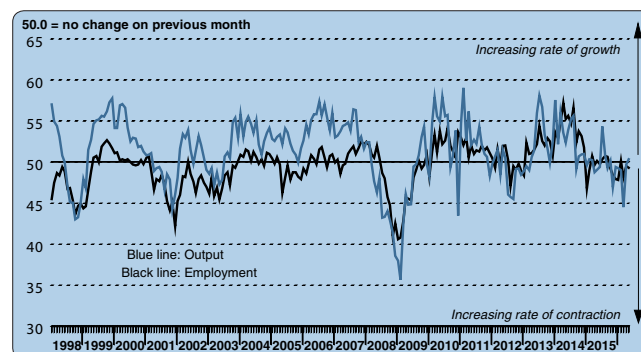
		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2016	Jan	16.2	50.7	33.1	-16.9	41.5	49.3
	Feb	18.1	63.0	18.9	-0.8	49.6	49.0
	Mar	20.3	57.7	22.0	-1.6	49.2	44.6
	Apr	24.0	55.8	20.2	+3.9	51.9	49.7
	May	23.6	55.9	20.5	+3.1	51.6	50.4
	Jun	27.3	59.4	13.3	+14.1	57.0	52.5

Growth in manufacturing output was signalled by survey data in June, the second month that production has risen in 2016 so far. Moreover, several Scottish goods producers linked this to efforts to satisfy order books. The rate of expansion was the sharpest in just under one year and strong in comparison to the long-run series average.

Scotland's manufacturers added to their payroll numbers during June, ending a three-month trend of declining headcounts. The rate of job creation, though marginal, was the best recorded since December 2014 as companies took on staff to help support a rise in workloads.

Q. Compare the **no. of people employed** this month with the situation one month ago (treat two part-time as one full-time & ignore temps).

		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2016	Jan	5.8	76.1	18.1	-12.3	43.8	47.9
	Feb	8.5	82.9	8.5	+0.0	50.0	50.2
	Mar	9.7	79.0	11.3	-1.6	49.2	48.1
	Apr	10.0	79.2	10.8	-0.8	49.6	49.5
	May	10.9	78.3	10.9	+0.0	50.0	49.3
	Jun	14.0	77.5	8.5	+5.4	52.7	51.3



Manufacturing: New Orders and New Export Orders

Q. Compare the level of **new orders** received (UK and export) this month with the situation one month ago.

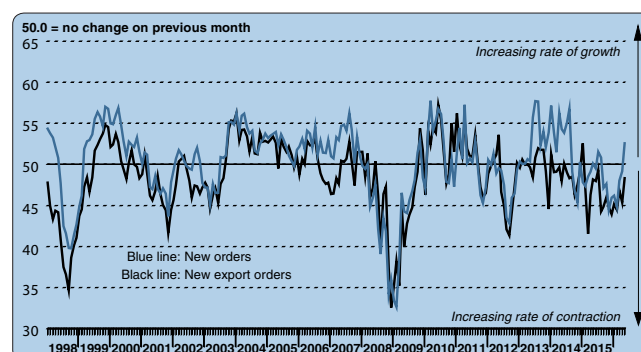
		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2016	Jan	17.4	42.8	39.9	-22.5	38.8	46.2
	Feb	19.5	52.3	28.1	-8.6	45.7	44.8
	Mar	28.2	50.0	21.8	+6.5	53.2	48.0
	Apr	20.8	60.0	19.2	+1.5	50.8	49.2
	May	31.0	51.9	17.1	+14.0	57.0	52.6
	Jun	26.4	52.7	20.9	+5.4	52.7	50.9

Survey data collected in June pointed to a further, albeit marginal, rise in new order intakes, the second time this has been the case in as many months. However, the rate at which new business grew eased since May. Higher levels of new orders were linked to lower prices for Scottish goods, according to anecdotal evidence.

The rise in total work was driven by the domestic market only, as new export orders contracted for the seventeenth consecutive month. The rate of decline was solid as nearly 24% of panel members recorded lower volumes of new business from foreign clients, compared to under 18% that recorded a rise.

Q. Compare the level of **new export orders** received this month with the situation one month ago.

		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2016	Jan	15.6	57.8	26.7	-11.1	44.4	45.2
	Feb	11.9	67.9	20.2	-8.3	45.8	44.5
	Mar	15.2	70.9	13.9	+1.3	50.6	46.8
	Apr	14.5	66.3	19.3	-4.8	47.6	45.4
	May	17.5	62.5	20.0	-2.5	48.8	48.3
	Jun	17.6	58.8	23.5	-5.9	47.1	45.7



Manufacturing: Backlogs of Work and Stocks of Finished Goods

Q. Compare the level of **outstanding business** in your company this month with the situation one month ago.

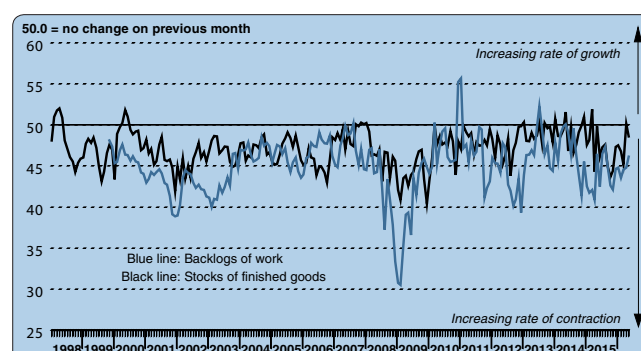
		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2016	Jan	9.6	61.6	28.8	-19.2	40.4	44.8
	Feb	7.8	67.0	25.2	-17.4	41.3	43.6
	Mar	14.4	66.7	18.9	-4.5	47.7	44.6
	Apr	12.9	65.5	21.6	-8.6	45.7	44.8
	May	16.4	61.2	22.4	-6.0	47.0	46.2
	Jun	13.9	69.6	16.5	-2.6	48.7	48.4

Outstanding business levels continued to decline in June. After adjusting for seasonal factors, the Backlogs of Work Index posted below the crucial 50.0 no-change mark. Falling volumes of incomplete work have now been reported in every month for just over two years. However, the latest decline was the least marked since August 2014.

Inventories of finished goods held by Scottish goods producers were cut again in June, the fourteenth time this has been the case in the past 15 months. A number of panellists linked the decline to a requirement to satisfy the increase in new orders. Moreover, the rate of decrease was little-changed from that seen in May.

Q. Compare your **stocks of finished goods** in units this month with the situation one month ago.

		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2016	Jan	8.5	68.6	22.9	-14.4	42.8	47.6
	Feb	11.7	70.3	18.0	-6.3	46.8	46.8
	Mar	10.5	69.5	20.0	-9.5	45.2	45.2
	Apr	16.5	68.8	14.7	+1.8	50.9	50.2
	May	11.9	73.4	14.7	-2.8	48.6	48.6
	Jun	16.2	66.7	17.1	-0.9	49.5	48.5



Manufacturing: Quantity of Purchases and Suppliers' Delivery Times

Q. Compare the **quantity of items purchased** (in units) this month with the situation one month ago.

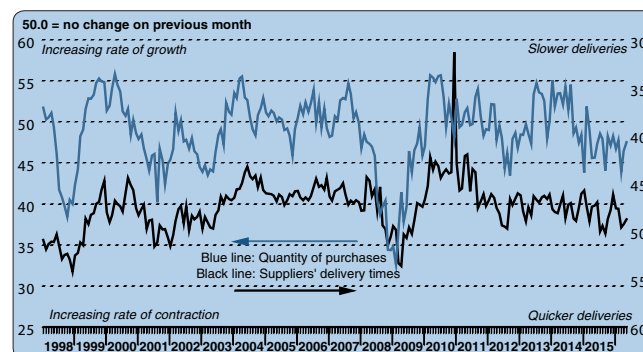
		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2016	Jan	11.6	58.0	30.4	-18.8	40.6	46.8
	Feb	16.5	63.0	20.5	-3.9	48.0	47.8
	Mar	21.0	53.2	25.8	-4.8	47.6	43.9
	Apr	18.8	59.4	21.9	-3.1	48.4	46.5
	May	19.5	58.6	21.9	-2.3	48.8	47.5
	Jun	18.8	64.8	16.4	+2.3	51.2	48.8

Scottish goods producers reduced their purchasing activity in June. The trend of falling buying activity has now characterised the past 16 months, however the latest decline was the softest since March of last year. Some firms that reduced their purchasing activity associated this with efforts to fulfil the rise in new orders with existing stock.

Longer average lead times were registered by Scotland's manufacturing sector in June. The rate at which vendor performance deteriorated was the sharpest in six months but broadly in-line with the historical average. Anecdotal evidence linked longer supplier delivery times to a rise in demand for goods.

Q. Compare your **suppliers' delivery times** (volume weighted) this month with the situation one month ago.

		Faster %	Same %	Slower %	Net %	Index	S.Adj Index
2016	Jan	5.9	86.8	7.4	-1.5	49.3	47.6
	Feb	3.2	90.5	6.3	-3.2	48.4	47.6
	Mar	3.3	94.3	2.5	+0.8	50.4	49.6
	Apr	3.1	92.2	4.7	-1.6	49.2	49.2
	May	1.6	93.0	5.4	-3.9	48.1	48.7
	Jun	0.8	91.4	7.8	-7.0	46.5	47.2



Manufacturing: Input Prices and Output Prices

Q. Compare the **average price of your purchases** (volume weighted) this month with the situation one month ago.

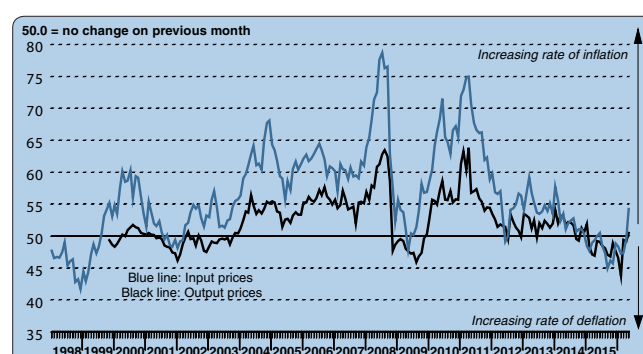
		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2016	Jan	7.4	82.4	10.3	-2.9	48.5	48.4
	Feb	8.5	77.5	14.0	-5.4	47.3	47.3
	Mar	6.5	82.9	10.6	-4.1	48.0	47.4
	Apr	10.0	83.1	6.9	+3.1	51.5	49.5
	May	12.6	84.3	3.1	+9.4	54.7	54.3
	Jun	11.7	82.8	5.5	+6.3	53.1	53.1

June survey data pointed to a further rise in input costs for Scottish goods producers. The increase was the second reported in the first half of 2016. The rate of inflation eased since May and was weak in comparison to the long-run series trend. The rise in costs was attributed to unfavourable exchange rate movements throughout the month.

A fall in output charges occurred in Scotland's manufacturing sector in June, after a slight rise was reported in May. However, the rate at which selling prices were reduced was only marginal as the vast majority of panel members (exactly 90%) maintained the same tariffs as in the previous month. The drop in average charges reflected downward pressures in the sector, according to several panellists.

Q. Compare the **average price charged** for your goods (volume weighted) this month with the situation one month ago.

		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2016	Jan	5.0	84.2	10.8	-5.8	47.1	46.6
	Feb	3.1	81.5	15.4	-12.3	43.8	43.8
	Mar	9.8	81.3	8.9	+0.8	50.4	49.4
	Apr	6.9	85.5	7.6	-0.8	49.6	49.2
	May	7.8	85.9	6.3	+1.6	50.8	50.5
	Jun	4.6	90.0	5.4	-0.8	49.6	48.8



Bank of Scotland PMI: Notes and Methodology

PMI surveys

Purchasing Managers' Index[®] (*PMI*[®]) surveys are monthly surveys of carefully selected companies which provide an advance indication of what is really happening in the private sector economy by tracking variables such as output, new orders, employment and prices across both manufacturing and service sectors. The *PMI* surveys are based on fact, not opinion, and are the first indicators of economic conditions each month. The data are collected using identical methods in all countries and regions so that accurate comparisons may be made.

Questionnaires are completed in the latter half of each month and are collected and processed by economists at Markit Economics. Respondents are asked to state whether business conditions for a number of variables have improved, deteriorated or stayed the same compared with the previous month.

Index numbers

Index numbers are calculated from the percentages of respondents reporting an improvement, no change or decline. These indices vary

between 0 and 100 with readings of exactly 50.0 signalling no change on the previous month. Readings above 50.0 signal an increase or improvement; readings below 50.0 signal a decline or deterioration.

Reasons given by survey respondents for any changes are analysed to provide insight into the causes of movements in the indices and are also used to adjust for expected seasonal variations. The indexes are seasonally adjusted to take into consideration expected variations for the time of year, such as summer holiday shutdowns and national holidays such as Christmas.

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.

Purchasing Managers' Index[®] (*PMI*[®]) surveys are now available for over 30 countries and also for key regions including the eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to www.markit.com/

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