Press Release

BANK OF SCOTLAND

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BANK OF SCOTLAND PMI: NEW BUSINESS FALLS AT SHARPEST PACE FOR NEARLY FOUR YEARS

- Most marked decline in new order intakes since August 2012
- Marginal contraction in Scottish private sector output in July
- Employment levels stabilise, ending seven months of job cuts

Scotland's private sector experienced a downturn at the start of the third quarter, with output returning to contraction territory. The fall stemmed from a drop in new business intakes, the sharpest reported for 47 months. Despite backlogs of work continuing to deteriorate, workforce numbers stabilised during the month, ending a seven-month sequence of job shedding.

The seasonally adjusted headline Bank of Scotland PMI - a single-figure measure of the month-on-month change in combined manufacturing and services output - fell to a four-month low of 49.2 during July (down from 50.5 in June). The return to contraction territory was broad-based across manufacturers and service providers, after both recorded declines in their business activity.

Demand for Scottish goods and services deteriorated at the sharpest pace for nearly four years during July. Moreover, the decline ended a three-month period of growth. Although new business levels were lowered at a muted pace in Scotland's service sector, new order volumes at goods producers contracted at the sharpest rate since September 2012.

Meanwhile, employee numbers stabilised in July, ending a seven-month sequence of decline. According to anecdotal evidence, manufacturers linked the decline to improved production efficiency.

Scotland's private sector companies left their selling prices broadly unchanged during July, having lowered them marginally in June. Meanwhile, latest survey data highlighted a further increase in average cost burdens in Scotland's private sector economy. The rise continues a trend which has been observed since February.

Graham Blair, Regional Director, SME Banking Scotland said, "The start of the third quarter was challenging for Scottish private sector firms, as declining demand conditions knocked the economy back into contraction during July. New business levels fell at the sharpest pace for nearly four years, with the decrease across both manufacturers and service providers.

"However, it is encouraging to see employment levels stabilise.

"Following the outcome of the EU Referendum it is still too early to understand the full impact for businesses across Scotland but we are ready to support them so that they are well positioned to meet any challenges ahead".

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Component summary

Output / Business activity
Scottish service sector output remained in contraction territory during July, the third time this has been the case in as many months. The trend was mirrored at **manufacturers,** where production contracted for the first time in three months during July. The decline was driven by weak underlying demand for Scottish goods (new orders fell sharply), with panellists also blaming slower export demand.

New business
July survey data pointed to a decline in new business intakes at **Scottish service providers**, ending a four-month sequence of growth. The rate of contraction was the second-sharpest reported since September 2012. Moreover, **Scottish goods producers** also recorded a fall in new orders, with the latest decline the sharpest in nearly four years (46 months). According to anecdotal evidence, the fall in demand for Scottish goods was partly attributed to the recent EU referendum.

Backlogs
Scotland's service sector reported a decline in their outstanding business in July. The latest deterioration was the thirteenth reported in as many months. Poor weather conditions were one of the factors that panellists linked to the decline in their backlogs of work. Moreover, the volume of unfinished business held by **Scottish goods producers** continued to deteriorate during July, lengthening the current sequence to 26 successive months.

Input prices
Scottish service sector firms faced a further increase in their input prices during July. That said, the rise remained weaker than the long-run average and was the softest for four months. Meanwhile, purchase price inflation surged to a 40-month high in **Scotland's manufacturing sector** during July. Survey participants linked higher input costs to unfavourable exchange rate movements, resulting from the recent EU referendum result.

Output prices
A decline in output charges set by **Scotland's service providers** was reported for the second successive month in July. Firms which lowered their selling prices reflected on a combination of increased market competition and a requirement to stimulate client demand. On the other hand, **Scotland's manufacturers** increased their output charges at the sharpest pace for 27 months in July.

Employment
Employee numbers grew in **Scotland's service sector** during July, ending a period of job cutting which has characterised 2016 so far. According to some firms, rising staffing levels reflected company expansion strategies. Meanwhile ,workforce numbers in **Scotland's goods-producing sector** contracted during July. The decline in staffing levels was the fifth reported in 2016 and the joint-strongest since January. There was some evidence that lower employment reflected increased production efficiency.

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The Bank of Scotland *PMI* is compiled by IHS 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.

IHS 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 IHS Markit. Please contact **economics@markit.com**.

About Bank of Scotland

Bank of Scotland is part of Lloyds Banking Group, the UK's largest retail bank and Scotland's largest financial services employer. Established in 1695, Bank of Scotland is the UK's oldest surviving clearing bank. Our goal is to be the best financial services provider in Scotland. We believe this means we must build a leadership position not on the basis of scale but on the foundations of reputation and recommendation.

About IHS Markit (www.ihsmarkit.com)

IHS Markit (Nasdaq: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 key business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions. Headquartered in London, IHS Markit is committed to sustainable, profitable growth.

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