

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 SUSTAINED IN JUNE

- Divergence apparent at sector level as services expands, but manufacturing contracts
- Little change in employment signalled
- Input price inflation broadly steady; competitive pressures weigh on pricing power

Growth of Scotland's private sector was sustained during June, extending the current run to three months.

The headline index – the seasonally adjusted Bank of Scotland PMI, a single-figure measure of the month-on-month change in combined manufacturing and services output – fell slightly in June but signalled continued growth. The PMI posted 51.2, down from May's 51.9.

The service sector was again the primary driver of expansion, recording an increase in activity in line with higher levels of incoming new business. Several panellists commented on a pick-up in demand and also used promotional activities to stimulate growth.

In contrast, marginal concurrent falls in manufacturing output and new orders were both registered in June. There were reports that weakness in the oil and gas sector, plus unfavourable exchange rates, had weighed on total demand (domestic and foreign) during the month.

Staffing levels were little changed in June, although marginal growth meant that net increases in employment have now been recorded for five months in succession. Services remained the primary source of job creation, in line with sustained increases in new business.

In contrast, manufacturers registered a slight fall in job numbers, reflective of excess capacity in the sector. Work outstanding in manufacturing declined at a marked and accelerated rate during June. Backlogs were unchanged in services.

On the price front, average input prices increased at a marked pace. Service providers recorded a much steeper increase in their operating expenses relative to manufacturers, reported to be the result of higher salary costs.

In contrast, manufacturers reported only a slight rise in their input prices, reflective of competitive pressures. For similar reasons, average output prices charged by Scottish private sector companies were little changed in June.

Donald MacRae, Chief Economist at Bank of Scotland, said: “June was another month of growth continuing the pickup in activity starting in April. But the growth appears confined to the services sector. In contrast manufacturing showed declining output, employment and new orders. New export orders showed a fifth consecutive monthly fall, illustrating the challenge of exporting with a strong pound sterling. The Scottish economy continues to make a moderate recovery from the slowdown of the first quarter.”

Component Summary

Output / Business Activity

A third consecutive month of **service sector activity growth** was signalled during June, with around 25% of the survey panel recording an increase in their output compared to a month earlier. Growth was led by the Business and Financial Services categories, where solid increases in activity were registered in line with higher levels of incoming new business. **Manufacturing output** was marginally lower for a third month in a row during June, in line with a further drop in new orders received. June's data marked the fourth time of the year so far that production has fallen, and a number of manufacturers continued to blame difficulties in the oil industry as a reason for the continued underwhelming performance of production.

New Business

Higher volumes of **service sector incoming new business** were recorded for a fourth month in a row during June. There were reports from the survey panel of success in securing new contracts in line with a pick-up in demand. Promotional activities were also reported to have supported growth. Although marginal, **manufacturing new orders** fell for the eighth time in the past ten months, with panellists blaming the latest contraction on a lack of activity in other industries such as construction and oil. On the export front, there was a fifth consecutive monthly fall in manufacturing new orders from abroad.

Backlogs

Volumes of **outstanding business held by Scotland's service sector** companies were unchanged during June, putting to an end four months of contraction. Where growth was recorded, this was linked to higher volumes of new business. **Backlogs of work held by Scottish manufacturers** were reduced for a thirteenth successive month during June. Moreover, the rate of contraction was sharp, accelerating markedly since May.

Input prices

There was an increase in **average costs faced by Scottish service providers** during June. Moreover, the rate of inflation remained marked, being little changed on the increases recorded in April and May. There were reports from the survey panel that operating expenses had risen in part due to higher salary costs.

Average input prices for manufacturers rose during June, marking the first time in the year so far that inflation has been registered. However, the rate at which purchase prices rose was marginal and considerably slower than the average for the series history. Manufacturers reported that suppliers were increasing their prices, especially for small quantities.

Output prices

Passing on higher operating costs remained challenging for **service providers, as signalled by little change in average prices charged** during June. Pressure from clients and market competition placed a limit on the degree to which companies were able to raise their charges.

Meanwhile, a fifth successive monthly decline in **manufacturers' output charges** was recorded in June. There were reports of discounts being offered to clients based in the eurozone due to the relative strength of sterling against the euro.

Employment

Staffing levels in the services industry were raised for a thirty-seventh month in succession during June. However, growth was marginal. Where a rise in staffing numbers was recorded, this was linked to increased workloads and efforts to increase sales.

Latest data also marked the fourth drop in **manufacturing staffing numbers** of 2015 so far. However, the rate of decline was marginal as nearly 78% of the survey panel recorded no change in employment. Where a reduction in staffing numbers was recorded this was linked to efforts to improve operational efficiency.

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.

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