

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.

NOT FOR BROADCAST OR PUBLICATION BEFORE 00:01, MONDAY 14 JULY 2014

## BANK OF SCOTLAND PMI: PRIVATE SECTOR GROWTH QUICKENS TO FASTEST IN THREE MONTHS

- PMI ticks up to 55.9, driven by upturns in manufacturing and services
- Rate of job creation second-fastest in survey history
- Input and output prices rise at faster rates

June saw a rebound in private sector growth, the latest **Bank of Scotland PMI** report showed. Business activity rose at the fastest pace in three months as manufacturers and services firms alike recorded accelerated expansions in output. There was further good news on the employment front, with firms upping their rate of job creation to accommodate stronger inflows of new work. Elsewhere, June's survey showed slight upticks in the rates of both input and output price inflation.

The headline seasonally adjusted headline Bank of Scotland PMI – a single-figure measure of the month-on-month change in combined manufacturing and services **business activity** – climbed to a three-month high of 55.9 in June, up solidly from May's 13-month low of 54.0. Rates of growth in service sector business activity and goods production were both the fastest since March.

Underlying growth was a stronger inflow of **new business** at Scottish private sector companies. Anecdotal evidence highlighted the success of increased marketing efforts in driving new business growth. Meanwhile, new export orders at manufacturers stabilised in June, a relative positive after four successive months of declining international sales.

Growth in business activity was further supported by progress on **backlogs of work**, the level of which decreased for the second straight month during June.

Reflective of growth having regained some of the momentum lost earlier in the quarter, **employment** in Scotland's private sector economy rose strongly during June, and at the second-fastest rate since the survey's inception in 1998. Driven by both the manufacturing and service sectors, the speed of job creation was the most marked since February's record high.

June data pointed to a pick-up in the rate of **input price inflation**, to the fastest since February. Salary increments was the main factor behind the increase in costs, according to panel member reports.

Businesses raised their **output prices** to cover at least part of the burden of higher costs. The degree to which output prices increased in June was slightly more marked than in May, though only moderate and slower than the rate of cost inflation. Overall, inflationary pressures in Scotland remained notably higher than across the UK as a whole.

**Donald MacRae, Chief Economist at Bank of Scotland, said:** "The PMI for June rebounded to 55.9 signalling the fastest pace of private sector growth for three months and extending the current run of expansion to 21 months. Growth was evident across both manufacturing and services with business services leading the way. After four months of decline, new export orders stabilised while levels of new business rose across the economy. Employment growth was accompanied by rising salaries providing further evidence of increasing business confidence. The recovery in the Scottish economy is now firmly embedded."

## Component Summary

### Output / Business Activity

The level of business activity in Scotland's **service sector** continued to rise in June, extending the current sequence of expansion to 42 months. Moreover, the degree to which business activity increased was marked and the fastest since March. **Factory output levels** north of the border expanded solidly in June, with the rate of growth having accelerated since the preceding survey period to the fastest in three months. This latest expansion in manufacturing output was the fourteenth in the past 15 months.

### New Business

Continuing the trend observed in each month since September 2012, the amount of new business placed with **services firms** increased in June. Furthermore, the rate of growth in new business rebounded from May's five-month low and was marked. Demand for Scottish **manufactured** goods continued to rise during June, as highlighted by a further increase in the level of new orders placed with businesses operating in the sector. The current sequence of growth in new work now stands at one-and-a-half years. Although the slowest in three months, the rate at which new orders increased remained solid in the context of historical survey data.

### Backlogs

Despite facing a sharp rise in new work, **services companies** were generally able to keep atop of workloads. The level of outstanding work in the sector fell marginally for the second month running. June saw a return to contraction in backlogs of work at **manufacturers** after the level of outstanding business had broadly stabilised during May. Work-in-hand (both in progress and not yet started) has now decreased in ten of the past 11 months, with the latest reduction moderate relative to the historical series trend.

### Input prices

June's survey indicated a strengthening of cost pressures faced by **services firms**. Overall cost burdens rose sharply on the month, and to the greatest extent since February. Where a rise in average costs was recorded, this was often attributed to salary increments amid efforts to retain or hire the best employees. Cost pressures faced by **manufacturers** remained mild in June. Average purchase prices increased on the month, but the rate of inflation was only slightly faster than May's 22-month low and well below the long-run series average.

### Output prices

Adding to inflationary pressures in Scotland, average prices charged by **service providers** increased at a faster rate in June. Output price inflation was the highest in four months. **Manufacturers** sought to protect their margins in June by raising factory gate prices in line with higher costs burdens. The rate at which output prices increased was slightly faster than May's six-month low and broadly matched the pace of input price inflation.

### Employment

In accordance with a faster increase in business activity in the **tertiary sector**, the rate of job creation among services firms reaccelerated in June, reaching the strongest in three months. **Manufacturers** continued to make a positive contribution to employment growth during June, raising staffing levels for the seventeenth successive month. Furthermore, the rate of job shedding was the second-fastest recorded since the start of the survey in 1998, just below April's series record.

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).

### **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 Markit**

Markit is a leading global diversified provider of financial information services. We provide products that enhance transparency, reduce risk and improve operational efficiency. Our customers include banks, hedge funds, asset managers, central banks, regulators, auditors, fund administrators and insurance companies. Founded in 2003, we employ over 3,000 people in 11 countries. For more information, please see [www.markit.com](http://www.markit.com)

### **For further information, contact:**

Zoe Redhead, Bank of Scotland Press Office  
Tel: 0131 655 5405 / 07809 551491  
Email: [zoeredhead@bankofscotland.co.uk](mailto:zoeredhead@bankofscotland.co.uk)  
Web: [www.lloydsbankinggroup.com/media.asp](http://www.lloydsbankinggroup.com/media.asp)

### **For technical enquiries, contact:**

Phil Smith,  
Markit  
Economist  
Tel: 01491 461 009  
Email: [phil.smith@markit.com](mailto:phil.smith@markit.com)

The intellectual property rights to the Bank of Scotland PMI provided herein are owned by or licensed to Markit Economics Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Purchasing Managers' Index<sup>®</sup> and PMI<sup>®</sup> are either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited. Bank of Scotland use the above marks under license. Markit is a registered trade mark of Markit Group Limited.