

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: UPTURN IN PRIVATE SECTOR ECONOMY CONTINUES, LEADING TO FURTHER JOB CREATION

- Solid rise in business activity despite slower growth in new business
- Employment increases at fastest rate in six months
- Average output prices fall slightly

August saw further solid growth of private sector business activity north of the border, according to the latest **Bank of Scotland PMI** report. This latest expansion in output was again broad-based across both manufacturing and services, and contributed to a further notable increase in employment. However, new business increased at a much slower rate, while a lack of pricing power led businesses to reduce output prices.

Business activity in Scotland's private sector economy rose solidly in August, although the rate of growth was the slowest since May. This was signalled by the seasonally adjusted headline Bank of Scotland PMI – a single-figure measure of the month-on-month change in combined manufacturing and services output – posting 54.6, down from July's six-month high of 56.8. Both the manufacturing and service sectors made appreciable contributions to overall growth, with the former recording the slightly faster increase in output.

Output growth remained robust despite a slower rate of increase in **incoming new business** in August – the least marked in 16 months. Behind this slowdown was a moderated rate of new business growth at services firms. Manufacturers recorded a further marked increase in overall new orders, although did see a fall in export sales.

Scottish private sector **employment** remained on the up as a result of growing workloads, stretching the ongoing spell of net job creation north of the border to 21 months. Furthermore, the extent of August's increase in staffing numbers was the most marked since February and in excess of the UK average.

The level of **outstanding business** at companies in Scotland meanwhile decreased for the fourth straight month. As has been the case throughout the current sequence of depletion, however, the rate of decline was only marginal.

August's survey showed a lack of pricing power among Scottish businesses, with **output charges** reduced for the first time in more than a year-and-a-half, albeit only marginally. In contrast, **average costs** rose at a solid rate that was unchanged from July, with higher staff pay reportedly the primary factor leading expenses to rise.

Donald MacRae, Chief Economist at Bank of Scotland, said: "August saw a broad based rise in business activity across both the services and manufacturing sectors. Employment rose at the fastest rate for six months confirming continuing high levels of business confidence. The Scottish economy continues to recover and grow in the second half of 2014."

Component Summary

Output / Business Activity

Services firms operating in Scotland recorded a further rise in the level of business activity at their units in August, extending the current sequence of expansion to 44 months. The rate of growth was solid, albeit the slowest in 16 months. Production at **factories** meanwhile increased sharply in August. The rate of expansion in output was the fastest since March, having accelerated for the third month in succession. That extended the current sequence of growth in the sector to nine months. A number of surveyed businesses attributed higher output to increasing inflows of new orders.

New Business

The rate of growth of new business in Scotland's **service sector** slowed sharply in August, to the weakest in almost a year-and-a-half. The degree to which new work rose was in fact only modest. In contrast, **manufacturers** recorded a sharper rise in new orders compared with July. In fact, the latest increase in new work at goods producers – the twentieth in consecutive months – was the fastest since January. Among the reasons companies provided for new order inflows being higher in August were increased marketing efforts and greater construction activity.

Backlogs

Outstanding business (both in progress and as yet not started) at **services firms** returned to contraction in August, falling for the third time in the past four months after growing in July. The rate at which work-in-hand fell was only marginal, however. August saw the level of outstanding business at **manufacturers** decrease for the third straight month. That said, the rate of decline was the slowest in this sequence and only marginal.

Input prices

August's survey showed a rise in operating costs faced by **services firms**, with the rate of inflation unchanged from the solid pace recorded in the preceding survey period. Where a rise in average costs was registered, this was primarily linked to growing staffing costs. Average purchase prices faced by **manufacturers** operating north of the border likewise increased in August, which anecdotal evidence suggested was a consequence of greater pricing power among suppliers and a lack of stock in supply chains. The rate at which average input costs increased quickened for the third straight month to the fastest since April, although remained notably slower than the long-run series average.

Output prices

Despite costs having increased during the month, **services firms** lowered their average prices charged amid reports of strong competitive pressures. The decrease, albeit only slight, ended a 16-month run of rising output prices – the longest in almost six years. **Manufacturers** on the other hand raised their charges during the month. The latest increase in average goods prices was the fourteenth in successive months, albeit the least marked since last November and only modest overall.

Employment

Scotland's **service sector** workforce continued to expand during August in line with the sustained growth in business activity. Furthermore, the rate of job creation was solid and the second-fastest seen in the past seven years (behind February's recent peak). **Goods producers** also sought to expand their staffing capacity in line with rising workloads and production requirements during August, continuing the upward trend in manufacturing employment seen every month since February 2013. Moreover, the degree to which manufacturing employment increased was just shy of April's survey-record high.

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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